

SUN CHEMICAL LIMITED PENSION SCHEME

CHAIR'S STATEMENT YEAR ENDED 5 APRIL 2019

Defined Contribution Governance Statement for the Sun Chemical Limited Pension Scheme

The Trustees are required to publish an annual statement regarding governance of Defined Contribution ('DC') funds within the Scheme. These funds are the additional voluntary contributions ('AVCs') paid by members and transfers that have been paid into the Scheme's AVC arrangements with Equitable Life and Prudential. For simplicity, we refer to these funds as AVCs throughout this statement.

This statement covers the period 6 April 2018 to 5 April 2019 and describes how the Trustees of the Scheme have met the statutory governance and charge requirements in relation to:

- The default investment strategy,
- Processing of core financial transactions,
- Charges and transaction costs paid by members
- The extent to which the Scheme represents good Value for Members, and
- Trustee knowledge and understanding.

Default investment strategy

No contributions have been paid to our Scheme since before April 2015, therefore it does not have a default (as described by the Charges and Governance Regulations). The information provided in this section therefore relates to the investment strategy (and any default investments) in more general terms.

The Trustees are responsible for the governance of the Scheme's investments. The Scheme's Statement of Investment Principles governs decisions about investments and has been prepared in accordance with regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 (the "Statement of Investment Principles"). A copy of the Statement of Investment Principles is included in the Appendix.

The Scheme's Equitable Life and Prudential AVC arrangements that are held on a "bundled" basis i.e. Equitable Life and Prudential carry out the policy administration and investment, do not have a default investment strategy and members are expected to choose the funds in which their AVCs are invested. However, as the majority of assets in the Equitable Life AVC arrangement are invested in the Equitable Life With Profits Fund, this Fund may be considered to be a default investment strategy.

The Prudential With Profits Fund is the only Fund available through the Scheme's AVC arrangement that is administered by Equiniti. This Fund may therefore be considered to be a default investment strategy in general terms.

The Trustees review the performance of the unit-linked AVC funds on an annual basis and review the bonus rates declared on the With Profits Fund, and the underlying returns where available, on a triennial basis.

The Trustees carry out a formal investment review of the AVC arrangements every three years. This review considers the quality and suitability of the investment options available to members of the AVC arrangements. The last review was carried out in September 2017. The review concluded members are likely to value the guaranteed investment return on the Equitable Life With Profits Fund and the smoothed returns the Prudential With Profits Fund provides and acknowledged that the Trustees have no scope to change these Funds without loss of the guarantees they provide. It raised no concerns over the quality or suitability of the range of funds available to members but recommended the Trustees make a lifestyle strategy available where such a facility was offered by the provider. The Trustees are considering whether to introduce a lifestyle strategy, but no changes have as yet been made to the investment strategy for AVC arrangements as a result of the most recent review. The next review is due to take place in 2020.

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Processing of Core Financial Transactions

The Trustees have a specific duty to monitor that core financial transactions are processed promptly and accurately. Core financial transactions include, but are not limited to:

- Transferring assets relating to members out of the Scheme,
- Transferring assets relating to members between different investments within the Scheme, and
- Making payments from the Scheme to or on behalf of members.

Core financial transactions are undertaken on behalf of the Trustees by the AVC providers, Equitable Life, Prudential and Equiniti, and the Scheme administrator, Aon.

The Trustees have a Service Level Agreement ('SLA') in place with Aon in respect of the Scheme administration which covers transfers out, retirements and the settlement of benefits in the event of death or divorce as follows:

Core financial transaction	SLA is to achieve the following timescale at least 95% of the time
Transfer out	10 working days
Settlement of retirement benefits	5 working days
Settlement of death benefits	5 working days
Settlement of benefits on divorce	10 working days

Aon reports to the Trustees on a monthly basis and the Trustees consider these reports at each trustee meeting. Aon has confirmed that there are processes in place for each core financial transaction listed above to ensure that these transactions are processed in a timely manner and accurately. Aon also reconciles the Trustee bank account on a monthly basis.

The Trustees do not have service level agreements in place with the Scheme's AVC providers. Prudential quotes turnaround times for core financial transactions carried out by itself and for the administration tasks it outsources to Equiniti and Equitable Life quotes target turnaround times for core financial transactions and the last triennial review of the AVC arrangements reported that Equitable Life and Prudential typically operated within these timescales. Prudential and Equitable Life are required to comply with standards of conduct and financial security set by their regulators, the Financial Conduct Authority and the Prudential Regulation Authority.

Aon's reports include timescales for Aon dealing with AVC transactions. We would expect Aon to raise any issues it encounters with delays by the AVC providers with the Trustees, though these are not formally monitored. Considering the number of members with AVC funds, we would expect the number of core financial transactions for these funds to be relatively low but we will consider whether any more formal monitoring of the transactions carried out by the AVC providers is necessary.

We are confident that the processes and controls we have in place with Aon will ensure we can monitor that the AVC financial transactions which are important to members are dealt with properly. Aon's performance against the SLA for core financial transactions for the Scheme as a whole varied from 79% to 99% over the scheme year, and performance has improved over the year. I am pleased to report there have been no administration service issues impacting core financial transactions for the AVCs which need to be reported here.

Charges and transaction costs paid by members

The Trustees are required to set out:

- (i) the explicit charges, such as the Annual Management Charge and additional expenses that are disclosed by the fund manager as part of the Total Expense Ratio ('TER') and
- (ii) transaction costs (i.e. the costs of buying and selling investments in the fund) which are paid by members.

Where information about member charges and costs is not available, the Trustees have to make this clear, together with an explanation of what steps we are taking to obtain the missing information.

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Our advisers requested details of the explicit charges and transaction costs on each of the AVC funds available to members over the period covered by this Statement. Our providers calculate transaction costs on a quarterly basis. The transaction costs provided by Equitable Life are for the 12-month period to 31 March 2019. The transaction costs provided by Prudential are for the 12-month period to 31 December 2018 and are the most recent available. Our advisers are continuing to liaise with Prudential to ensure that this information is available in a more timely fashion in future.

These costs and charges are set out in the table below:

Provider / Fund	TER (% p.a.)	Transaction costs (%)	Total costs & charges (% p.a.)
Equitable Life Managed	0.75	0.126527	0.88
Equitable Life Pelican	0.75	0.3634	1.12
Equitable Life With Profits	1.5 ²	0.035608	1.54
Prudential Cash	0.55	0.0	0.55
Prudential Discretionary ¹	0.80	-0.07	0.73
Prudential Fixed Interest	0.75	-0.01	0.74
Prudential Global Equity	0.75	-0.09	0.66
Prudential International Equity	0.75	-0.04	0.71
Prudential Long-Term Gilt	0.65	-0.04	0.61
Prudential UK Equity	0.75	-0.07	0.68
Prudential UK Property ¹	1.31	0.53	1.84
Prudential With Profits Cash	1.04 ³	0.07	1.313
Prudential With Profits	0.65 ⁴	0.07	0.72

Notes

¹ The Prudential Discretionary and UK Property Funds have additional property expenses of 0.05% and 0.56% per annum respectively and these charges are included in the TER.

² This charge is made up of 1.0% p.a. for administering the Fund and 0.5% p.a. in respect of the cost of guarantees.

³ Charges on the Prudential With Profits Cash Accumulation Fund are not explicit. The costs of running the fund are taken into account when the annual bonus rate on the Fund is declared. Prudential provides an estimate of the charges, which are 0.8% p.a. assuming investment returns are 5% p.a. Prudential reports the additional expenses on the With Profits Cash Accumulation Fund are 0.24% p.a.

⁴ Charges on the Prudential With Profits Investment Account are not explicit. The costs of running the fund are taken into account when the annual bonus rate on the Fund is declared. Prudential estimates the charges on the Fund are 0.65% p.a. We believe this Fund is also subject to additional expenses however these have not been provided by Prudential in time for publication of this Statement.

The requirement to provide details of transaction costs calculated in a standard way is a relatively recent one. It is therefore difficult to carry out a market comparison to provide comfort around the reasonableness of the costs disclosed by our AVC providers.

The transaction costs reported for Prudential appear low, compared to those reported for Equitable Life funds but it is important to remember these costs relate to different 12-month periods. The difference in the level of transaction costs is likely to be partly due to the fact that the Prudential funds have money flowing in and out and this provides more opportunity for Prudential to minimise transaction costs whereas Equitable Life is closed and therefore its funds mostly have money being dis-invested so there is little opportunity for transaction costs to be minimised.

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Illustrations to show the cumulative effect of costs and charges

From 6 April 2018, the Trustees are required to illustrate the effect that the costs and charges paid by a member have on the value of their AVC fund over time (as a "pounds and pence figure"). The Regulations allow the Trustees to exercise their discretion with regards to the examples provided to show the effect of costs and charges over time, as long as they are realistic and representative of the Scheme's membership.

The Trustees have taken account of the statutory guidance when preparing the illustrations below.

We have decided to illustrate an example member from each of the AVC arrangements, showing the longest time over which funds are likely to be invested:

- Example member 1: a member of the Equitable Life AVC arrangement with 24 years to retirement age 65 and a current fund value of £2,500.
- Example member 2: a member of the Prudential AVC arrangement administered by Prudential with 19 years to retirement age 65 and a current fund value of £11,000.
- Example member 3: a member of the Prudential AVC arrangement administered by Equiniti with 34 years to retirement age 65 and a current fund value of £21,000.

We have provided illustrations for a number of funds, where relevant, in order to show the impact of different levels of charges and expected investment returns.

For the Equitable Life AVC arrangement we have illustrated the effect of costs and charges on the Managed Fund and the Pelican Fund. Although most members invest in the With Profits Fund, we have not illustrated the impact of the costs and charges on the With Profits Fund as we feel this would be misleading, given the expected closure of the Fund at the end of 2019.

For the Prudential AVC arrangement administered by Prudential, we have illustrated the effect of costs and charges on the Discretionary Fund as this is by far the most popular fund. We have also illustrated the effect of costs and charges on the Cash Fund to show a fund with different charges and expected investment return.

For the Prudential AVC arrangement administered by Equiniti, we have illustrated the effect of costs and charges on the With Profits Investment Account Fund, as all assets are invested in this Fund.

The tables below illustrate the effect of costs and charges at different ages on projected retirement pots (estimated fund value 'EFV') for the example members.

Notes and assumptions

Fund values shown are estimates and are not guaranteed;

Projected fund values are shown in today's terms, and do not need to be reduced further for the effect of future inflation;

Inflation is assumed to be 2.5% p.a.

The projected growth rates used have been provided by our advisers and are consistent with the statutory guidance for producing money purchase illustrations.

The growth rates and total charges used for the illustrations are shown in the table below:

Fund	Total charges (% p.a.)	Expected growth rate
Equitable Life Managed Fund	0.88	2.5% p.a. above inflation
Equitable Life Pelican Fund	1.11	4.0% p.a. above inflation
Prudential Cash Fund	0.55	1.3% p.a. below inflation
Prudential Discretionary Fund	0.73	2.5% p.a. above inflation
Prudential With Profits Investment Account Fund	0.72 ⁵	2.8% p.a. above inflation

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⁶We believe this Fund is also subject to additional expenses but we have not received clarification of this point from Prudential in time to include in this Statement. The illustrations below therefore assume there are no additional expenses on the Fund.

Example member 1:

A member of the Equitable Life AVC arrangement with 24 years to retirement and a current fund value of £2,500 invested in the Managed Fund and the Pelican Fund:

Number of years to retirement	Equitable Life Managed Fund			Equitable Life Pelican Fund		
	EFV (before charges)	EFV (after charges)	Effect of charges	EFV (before charges)	EFV (after charges)	Effect of charges
20	£2,753	£2,662	£91	£2,914	£2,794	£120
15	£3,105	£2,880	£226	£3,528	£3,210	£319
10	£3,503	£3,115	£388	£4,273	£3,688	£585
5	£3,952	£3,370	£582	£5,174	£4,237	£937
0	£4,458	£3,645	£812	£6,266	£4,869	£1,397

Example member 2:

A member of the bundled Prudential AVC arrangement with 19 years to retirement and a current fund value of £11,000 invested in the Discretionary Fund and the Cash Fund:

Number of years to retirement	Prudential Discretionary Fund			Prudential Cash Fund		
	EFV (before charges)	EFV (after charges)	Effect of charges	EFV (before charges)	EFV (after charges)	Effect of charges
15	£12,345	£12,007	£338	£10,452	£10,227	£225
10	£14,261	£13,397	£864	£9,806	£9,337	£469
5	£16,474	£14,948	£1,526	£9,200	£8,524	£676
0	£19,030	£16,678	£2,352	£8,631	£7,782	£849

Example member 3:

A member of the Prudential AVC arrangement administered by Equiniti with 34 years to retirement and a current fund value of £21,000 invested in the With Profits Investment Account Fund:

Number of years to retirement	Prudential With Profits Investment Account		
	EFV (before charges)	EFV (after charges)	Effect of charges
30	£22,688	£22,069	£619
25	£24,989	£23,482	£1,508
20	£27,524	£24,985	£2,539
15	£30,316	£26,584	£3,732
10	£33,392	£28,286	£5,105
5	£36,779	£30,097	£6,682
0	£40,510	£32,024	£8,486

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Value assessment

The Trustees have assessed the extent to which the charges and transaction costs, investment options and the benefits offered by the Scheme represent good value for members when compared to other options available in the market.

There is no legal definition of "good value" and so the process of determining good value for members is a subjective one. We have considered the costs borne by members on AVC funds, and the services and benefits members receive in return. The cost part of the analysis considers the costs and charges members pay. The benefit aspect of the analysis considers the quality of Scheme Governance and Management, Administration, Investments and Communications.

The Trustees carry out a formal review of the AVC arrangements every three years. This considers the financial strength of the providers, quality of administration, quality and suitability of investment options and the level of charges, compared to current market rates.

• Costs

Equitable Life now explicitly declares the charges on the With Profits Fund and we believe members are likely to value the guarantees this Fund currently provides. Although the charges on the Prudential With-Profits Funds are not explicit, Prudential does now provide an estimate of charges which has helped us assess value. We recognise that members may also value the smoothed investment returns the Prudential With-Profits Funds provide, as well as the guarantee that no market value reduction will be applied at normal retirement date.

• Scheme governance and management

- Scheme governance covers the time spent by the Trustees to ensure the Scheme is run in compliance with the law and regulation, including taking account of the interests of its members.
- The Trustees believe that good governance is key to ensuring that a framework exists and is actively in use to help deliver better member outcomes. The Trustees regularly review and update their governance processes and procedures to make sure that these meet industry best practice.
- Given the governance processes and procedures in place and the action taken by the Trustees, the governance arrangements for the Scheme are considered appropriate based on the assessment undertaken.

• Administration

- The Trustees have appointed Aon together with Equitable Life, Prudential and Equiniti where relevant, to provide administration services to the Scheme and are satisfied that these providers have sufficient checks in place to monitor and report on the standard of the administration service and to ensure that when administrative errors do occur, they are corrected in a timely manner so that members are not disadvantaged as a result of the errors..
- The Trustees conclude that the processes in place to monitor standards of administration and record-keeping for the AVC arrangements are adequate.

• Investments

- The Trustees have a process in place to review the investment strategy for the AVC arrangements on a triennial basis.
- Trustees assess the performance of unit-linked funds after charges on an annual basis to ensure the net returns achieved by members' funds are reasonable, compared to fund comparators (the relevant sector average or the fund's benchmark).

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- **Member communications**

- The Scheme provides effective communications that are accurate, clear, informative and timely.

Based upon our assessment framework, we conclude the AVC arrangements do provide value to members.

Trustee Knowledge and Understanding

The law requires Trustees to have sufficient knowledge and understanding to properly exercise their functions as Trustees and to run the Scheme effectively. These requirements are set out in Sections 247 and 248 of the Pensions Act 2004.

The Scheme is managed by a Trustee Board and has eight Trustees. The Chair of Trustees is HR Director for the Company, and other members of the Trustee Board have varying backgrounds including Company Secretary, Finance and Treasury and HR. The Trustees are also supported by a Secretary to the Trustees with significant pension experience. Most of the Trustees are long-serving and are very familiar with the governing documentation for the Scheme and its discretionary policies.

No new Trustees have been appointed during the year, but new Trustees are expected to complete the Pensions Regulator's Trustee Toolkit within 6 months of being appointed. The Trustee handbook is a comprehensive document that enables Trustees to familiarise themselves with the Scheme's trust deed and rules and processes and controls.

A training log is maintained for each Trustee by the Scheme Secretary. This is reviewed each year and used to formally assess Trustees' knowledge and understanding and to identify any gaps. This assessment is used by the Trustee Board to agree an appropriate training plan.

During the scheme year the Trustees:

- Held four Trustee meetings at which their professional advisers were present to provide input as required;
- Received training on the new investment regulations regarding environmental, social and governance factors
- Reviewed the Scheme's risk register (demonstrating a working knowledge of the documents setting out the Trustee's current policies).
- Reviewed monthly administration reports from Aon, to monitor service delivery against agreed service levels (demonstrating a working knowledge of the Trustee's governance processes)
- Ensured that an audit of the Trustee's Report and Accounts was carried out for the Scheme year ended 5 April 2018.

The Trustees receive advice from professional advisors regularly throughout the year to ensure that they run the Scheme and exercise their functions properly.

It should be noted that the comments in this section relate to the Trustees as a body in dealing with the whole Scheme and, unless specifically mentioned, are not restricted to the money purchase benefits of the Scheme.

As a result of the activities which have been completed by the Trustees individually and collectively as a board and taking into account the professional advice available to the Trustees, I am confident that the combined knowledge and understanding of the Trustees enables us to exercise our functions properly.

Signed on behalf of the Trustees of the Sun Chemical Limited Pension Scheme

Christopher Walkington

Date 31 October 2019