

The Sun Chemical Limited Pension Scheme

Defined Contribution Governance Statement

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 which are held with Prudential and Utmost Life and Pensions (following the transfer of Equitable Life policies to Utmost Life and Pensions on 1 January 2020). For simplicity, we refer to these funds as AVCs throughout this statement.

This statement covers the period 6 April 2019 to 5 April 2020 and describes how the Trustees of the Scheme have met the statutory governance and charge requirements in relation to:

1. The default investment strategy,
2. Processing of core financial transactions,
3. Charges and transaction costs paid by members and illustrations of the cumulative effect of costs and charges,
4. The extent to which the Scheme represents good Value for Members, and
5. Trustee knowledge and understanding.

1. Default investment strategy

Our Scheme is not used as a Qualifying Scheme for auto-enrolment purposes and no contributions have been paid to the Scheme since before April 2015. However, as members did not select where their funds from the Equitable Life With Profits Fund were invested when the With Profits Fund closed, the Utmost Life and Pensions Secure Cash Fund and the 'Investing by Age' strategy may be considered to be default arrangements. We have therefore treated these funds as default funds for the purposes of the disclosures in this Statement.

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 at the end of this Statement.

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

The Trustees carry out a formal investment review of the AVC arrangements every three years. Amongst other things, this review considers the quality and suitability of the investment options available to members of the AVC arrangements. The results of the most recent review were presented to the Trustees on 7 October 2020. It found that several funds had under-performed their benchmark, though returns were positive after charges over the longer term. The Trustees are considering what action, if any, to take in respect of this relative under-performance. The review also recommended the Trustees made a lifestyle strategy available to members of Prudential arrangement A609. The Trustees have decided to accept this recommendation and are taking further advice as to which lifestyle strategy will best meet the needs of the Scheme's members.

The Utmost Life and Pensions Secure Cash Fund is a short-term investment before members' funds are transitioned to the Investing by Age strategy. The review did not therefore recommend any changes to the Secure Cash Fund. The review found that the Utmost Life and Pension Investing by Age strategy has some limitations (it does not target a cash lump sum at retirement and it reduces investment risk based upon the members' age rather than the time left until their selected retirement date) but it concluded that overall, the Investing by Age strategy was likely to be suitable for members. The next investment review is due to take place by 7 October 2023.

2. 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 Scheme Administrators, Aon and the AVC administrators, Prudential, Equiniti (who carry out some administration on behalf of Prudential) and Utmost Life and Pensions.

In order to determine how well the administration is performing, 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.

Despite the disruption caused by the COVID-19 pandemic, Aon met the SLA set for core financial transactions for 97.39% of cases over the Scheme year.

The Trustees do not have SLAs in place with the Scheme's AVC providers. Our advisers have confirmed this is in line with many other schemes that are closed to contributions and that the AVC providers generally operate within the target timescales they set themselves for core financial transactions. The monthly reports produced by Aon also 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. We have previously considered whether more formal monitoring of the transactions carried out by the AVC providers is necessary and concluded it is not at the current time.

We are confident that the processes and controls we have in place with Aon ensure we can monitor that the core financial transactions which are important to members are dealt with properly.

The Trustees are satisfied that over the period:

- the Scheme Administrator was operating appropriate procedures, checks and controls and operating within the agreed SLA;
- there have been no material administration errors in relation to processing core financial transactions for AVC funds; and
- all core financial transactions for AVCs have been processed promptly and accurately during the Scheme year.

Charges and transaction costs paid by members

The Trustees are required to set out:

- 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
- 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.

The explicit charges and transaction costs on each of the AVC funds held by members over the period covered by this Statement are set out in the table below. We have been able to obtain all costs and charges information this year, there is no information missing.

Our providers calculate transaction costs on a quarterly basis therefore the transaction costs shown are for the 12-month period ending 31 March 2020, except for the Equitable Life With Profits Fund. The Equitable Life With Profits Fund closed on 1 January 2020, therefore the transaction costs shown below are for the 12-month period to 31 December 2019. Where transaction costs were reported as negative, we have set these to zero.

Members of the Scheme have only been able to invest in the new Utmost Life and Pensions funds (the Multi-Asset Moderate Fund, the Multi-Asset Cautious Fund and the Investing by Age strategy) since 1 January 2020.

Provider / Fund	TER (% p.a.)	Transaction costs (%)	Total costs & charges (% p.a.)
Prudential Deposit	Not applicable ¹	0.00	0.00
Prudential Discretionary ²	0.78	0.15	0.93
Prudential Fixed Interest	0.75	0.00	0.75
Prudential Global Equity	0.75	0.04	0.79
Prudential International Equity	0.75	0.16	0.91
Prudential Long-Term Gilt Passive	0.65	0.00	0.65
Prudential UK Equity	0.75	0.03	0.78
Prudential UK Property ²	1.28	0.00	1.28
Prudential With Profits Cash Accumulation	0.98 ³	0.11	1.09
Equitable Life With Profits	1.50	1.039 ⁴	2.54
Utmost Life Managed	0.75	0.1354	0.89
Utmost Life UK Equity (formerly Pelican)	0.75	0.1297	0.88
Utmost Life Multi-Asset Moderate	0.75	0.108 ⁵	0.86
Utmost Life Multi-Asset Cautious	0.75	0.359 ⁵	1.11
Utmost Life Secure Cash	0.5	0.001 ⁵	0.50
Utmost Life Investing by Age Strategy	0.5 – 0.75 ⁶	0.001 – 0.359 ⁶	0.50 – 1.11 ⁶

Notes

¹ The charges on the Prudential Deposit Fund are not explicit, they are taken into account when the interest rate on the fund is declared. Prudential does not provide an estimate of charges on this Fund.

² The Prudential Discretionary and UK Property Funds have additional property expenses of 0.03% and 0.53% per annum respectively and these charges are included in the TER.

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 is declared. Prudential currently estimates administration charges 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 0.18% p.a.

⁴ Transaction costs are for the 12-month period to 31 December 2019, as this Fund closed on 1 January 2020.

⁵ Transaction costs shown are annualised for the period to 31 March 2020, though members have only been able to invest in these funds since 1 January 2020.

⁶ Depending upon members' age.

Illustrations to show the cumulative effect of costs and charges

From 6 April 2018, the Trustees have been 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.

The illustrations are based on a number of assumptions about the future which are set out under 'notes and assumptions' below. Members should be aware that such assumptions may or may not hold true, so the illustrations do not promise what could happen in the future and fund values are not guaranteed. Furthermore, because the illustrations are based on typical members of the Scheme they are not a substitute for the individual and personalised illustrations which are provided to members in their annual benefit statements.

To help members understand the impact that costs and charges can have on their AVC funds, we have decided to illustrate one 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 Prudential AVC arrangement (policy A609) who is currently 47 and therefore 18 years from retirement and has a current fund value of £8,000.
- Example member 2: a member of the Prudential policy 95492 / 54538 who is currently 42 and therefore 23 years from retirement with a current fund value of £10,500.
- Example member 3: a member of the Utmost Life and Pension AVC arrangement who is currently 42 and therefore 23 years from retirement and has a current fund value of £7,500.

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

- For Prudential policy A609, we have illustrated the effect of costs and charges on the Discretionary, Long-Term Gilt Passive and With Profits Funds.
- For Prudential policy 95492/ 54538, we have illustrated the effect of costs and charges on the Global Equity, Cash and With Profits Funds.
- For the Utmost Life and Pensions arrangement, we have illustrated the effect of costs and charges on the Managed Fund, UK Equity Fund and the 'Investing by Age' strategy as all members are invested in one of these funds.

The tables below illustrate the effect of costs and charges at different ages on estimated projected fund values at retirement for the example members.

Example member 1: a member of Prudential policy A609 who is age 47 and has a current fund value of £8,000.

	Discretionary Fund			Long-Term Gilt Passive Fund			With Profits Fund		
At age:	Before charges	After charges	Effect of charges	Before charges	After charges	Effect of charges	Before charges	After charges	Effect of charges
50	£8,480	£8,270	£210	£7,500	£7,350	£150	£8,480	£8,220	£260
55	£9,340	£8,740	£600	£6,730	£6,380	£350	£9,340	£8,600	£740
60	£10,280	£9,240	£1,040	£6,030	£5,540	£490	£10,280	£9,000	£1,280
65	£11,330	£9,770	£1,560	£5,410	£4,820	£590	£11,330	£9,410	£1,920

Example member 2:

A member of Prudential policy 95492/ 54538 who is age 42 and has a current fund value of £10,500:

	Global Equity Fund			Fixed Interest Fund			With Profits Fund		
At age:	Before charges	After charges	Effect of charges	Before charges	After charges	Effect of charges	Before charges	After charges	Effect of charges
45	£11,840	£11,590	£250	£9,900	£9,680	£220	£11,130	£10,790	£340
50	£14,480	£13,660	£820	£8,970	£8,450	£520	£12,260	£11,290	£970
55	£17,700	£16,110	£1,590	£8,130	£7,370	£760	£13,500	£11,810	£1,690
60	£21,630	£18,990	£2,640	£7,360	£6,440	£920	£14,870	£12,350	£2,520
65	£26,440	£22,390	£4,050	£6,670	£5,620	£1,050	£16,380	£12,920	£3,460

Example member 3:

A member of the Utmost Life and Pensions AVC arrangement who is age 42 and has a current fund value of £7,500:

	Managed Fund			UK Equity Fund			Investing by Age strategy		
At age:	Before charges	After charges	Effect of charges	Before charges	After charges	Effect of charges	Before charges	After charges	Effect of charges
45	£8,130	£7,930	£200	£8,530	£8,300	£230	£7,720	£7,530	£190
50	£9,300	£8,700	£600	£10,580	£9,810	£770	£8,110	£7,580	£530
55	£10,650	£9,550	£1,100	£13,110	£11,610	£1,500	£8,510	£7,640	£870
60	£12,180	£10,470	£1,710	£16,250	£13,730	£2,520	£8,930	£7,690	£1,240
65	£13,940	£11,490	£2,450	£20,150	£16,250	£3,900	£9,280	£7,640	£1,640

Notes and assumptions

The example members represent the youngest member(s) of each policy and the current average fund value of all members in the policy.

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 transaction costs have been averaged over a 2-year period (where available) in line with statutory guidance to reduce the level of volatility, and a floor of 0% pa has been used for the transaction costs if these were negative in any year so as not to potentially understate the effect of charges on fund values over time.

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

Fund / strategy	Total costs & charges (% p.a.)	Expected growth rate (before charges)
Prudential With Profits Cash Accumulation	1.07	2.0% p.a. above inflation
Prudential Discretionary	0.855	2.0% p.a. above inflation
Prudential Global Equity	0.77	4.2% p.a. above inflation
Prudential Long-Term Gilt Passive	0.65	2.2% p.a. below inflation
Prudential Fixed Interest	0.75	2.0% p.a. below inflation
Utmost Life and Pensions Managed	0.881	2.8% p.a. above inflation
Utmost Life and Pensions UK Equity	0.9966	4.5% p.a. above inflation
Utmost Life and Pensions Investing by Age strategy	0.5 – 1.109*	2.0% p.a. below inflation – 1.0% p.a. above inflation*

*For the Utmost Life and Pensions Investing by Age strategy, the illustration takes into account the changing proportion invested in the underlying funds.

Value assessment

The Administration Regulations require the Trustees to make an assessment of charges and transactions costs borne by members and the extent to which those charges and costs represent good value for money for members.

There is no legal definition of "good value" or the process of determining this for scheme members. Therefore, working in conjunction with our advisers, Aon, the Trustees have developed their cost-benefit analysis framework in order to assess whether our members receive good value from the Scheme relative to the costs and charges they pay from their AVC funds.

The costs and charges have been identified as the TER plus the transaction costs and are set out in section 3 of this statement. The Trustees have concluded that the charges members pay from their AVC funds are in line with other closed schemes of a similar size. There is no market benchmarking data available for transaction costs and they are volatile from one year to the next depending on the extent of trades within the fund. However, a high-level assessment of the transaction costs incurred by members over the year to 31 March 2020, carried out by our advisers, indicates that they appear reasonable. The transaction costs on the Equitable Life With Profits Fund were in excess of 1% but this is not unexpected since the Fund was closed and assets were transferred as cash to Utmost Life and Pensions.

The Trustees have considered the benefits of membership under the following categories: Scheme governance, investments, administration, retirement options and communications. Benchmarking relative to other pension arrangements or industry best practice guidelines has also been undertaken.

Governance - Scheme governance covers the time spent by the Trustees to ensure the Scheme is run in compliance with the law and regulations, 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 ensure they meet the Pensions Regulator's best practice guidance.
- AVC-related risks are included on the Scheme's risk register, which is reviewed annually.
- The Scheme Administrators report to the Trustees on a monthly basis.
- The Trustees review the performance of unit-linked funds held by members annually.
- The AVC arrangements are reviewed against the investment regulations every 3 years.

Administration - The Trustees believe that good administration and record keeping play a crucial role in ensuring that scheme members receive the retirement income due to them and that the type and quality of service experienced by members has a bearing on the level of member engagement.

- The Trustees are satisfied that Aon, Prudential, Equiniti and Utmost Life and Pensions have sufficient processes and checks in place to ensure core financial transactions are processed promptly and accurately.
- Aon reports administration performance to the Trustees on a monthly basis, and performance in respect of core financial transactions has exceeded the Service Level Agreement over the scheme year.
- The Trustees do not have service level agreements in place with the AVC providers but this is in line with many other schemes and, though not formally monitored, AVC transactions are included in Aon's reports therefore we believe any major issues with AVC core financial transactions would be identified by Aon's reporting.
- The review of the AVC arrangements carried out in 2020 raised no concerns and reported that the providers' standards of administration were adequate even during the COVID-19 pandemic.

Investments - The Trustees believe that a well-designed investment portfolio that is subject to regular performance monitoring and assessment of suitability for the membership will make a large contribution to the delivery of good member outcomes.

- The Trustees review unit-linked AVC fund performance 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).
- The Trustees have a process in place to review the investment strategy for the AVC arrangements every three years.
- The review of the AVC arrangements presented to the Trustees on 7 October 2020 raised some concerns over relative fund performance and the Trustees are considering what action, if any, is required. The review did not include a detailed analysis of the AVC membership but concluded that the investment options available to members were likely to suit the needs of members with differing attitudes to risk and investment growth aims for their AVC funds. The Trustees have also agreed to offer a lifestyle strategy to members of Prudential policy A609 so that their funds are moved automatically to lower risk funds as they approach retirement.

Member communications - The Trustees believe that effective member communications and delivery of the right support and tools helps members understand and improve their retirement outcomes.

- The Scheme communications are drafted by technical and communication experts with the aim of producing effective communications that are accurate, clear, informative and timely.
- Members are given the option of accessing information via the Scheme website or being sent important information by post.

- Retirement communications also explain members have the option to transfer from the Scheme to access the wider pension freedoms (flexi-access drawdown or multiple Uncrystallised Fund Pension Lump Sums).

Retirement - The Trustees believe members should have some options about how they take their AVC funds at retirement.

- The Scheme allows members to take AVC funds as an Uncrystallised Fund Pension Lump Sum, or to take up to 25% of their AVC fund as a tax free cash lump sum and use the remainder to purchase an annuity.

The Trustees' assessment concluded that the charges and transaction costs borne by Scheme members on their AVC funds represent good value for members relative to the benefits of Scheme membership.

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 comments here relate to the Scheme as a whole and not solely the AVC funds.

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 different professional backgrounds including Company Secretary, Finance and Treasury and HR. Most of the Trustees are long-serving and are very familiar with the governing documentation for the Scheme and its discretionary policies.

The Scheme has a Trustee handbook which is a comprehensive document that enables Trustees to familiarise themselves with the Scheme's trust deed and rules and processes and controls. All key scheme documents are readily available to the Trustees via a secure website, Aon Pensions Organiser.

No new Trustees have been appointed during the year, but there is an induction process in place for new Trustees. As part of this, new Trustees are expected to complete the Pensions Regulator's Trustee Toolkit within 6 months of being appointed.

The Trustees are supported by a Secretary to the Trustees who has significant pension experience. The Trustees also receive advice from professional advisors regularly throughout the year to ensure that they run the Scheme and exercise their functions properly.

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. A formal training and skills assessment was undertaken for the Trustees in September 2019 to review the self-assessment questionnaires Trustees completed in 2016 and all training needs addressed since that time. Based upon the assessment, potential training topics for the following scheme year have been identified as Trustee effectiveness, long-term funding targets, legal training from Osbourne Clarke, Pensions Ombudsman cases, training on new investment issues, cyber 'war games' and commercial consolidators.

During the scheme year covered by this Statement, the Trustees:

- Held four Trustee meetings at which their professional advisers were present to provide input as required;
- Updated the Statement of Investment Principles to describe how they take account of financially material factors, including environmental, social and governance considerations and took advice regarding the closure of the Equitable Life With Profits Fund, and the transfer of policies to Utmost Life and Pensions (demonstrating knowledge and understanding of the relevant principles relating to the funding and investment of occupational schemes).

- Received training from their legal advisers on GMP equalisation, investment issues, survivor benefits and data protection regulations.
- Received training on the 2020 defined benefit funding code requirements and employer covenant from their actuarial advisers.
- 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 2019.

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

OCTOBER 2020

Date _____

Chair of Trustees