

## SUN CHEMICAL LIMITED PENSION SCHEME

### CHAIR'S STATEMENT YEAR ENDED 5 APRIL 2021

#### 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, which are held with Prudential and Utmost Life and Pensions ('Utmost') and transfers that have been paid into the Scheme's Prudential AVC arrangements. For simplicity, we refer to these funds as AVCs throughout this statement.

This statement covers the period 6 April 2020 to 5 April 2021 and describes how the Trustees of the Scheme have met the statutory governance and charge requirements in relation to:

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

If the Scheme had a default investment strategy, this would be covered by this statement. However the 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. The Scheme does not therefore have a default investment strategy, as defined by the relevant regulations.

#### 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.

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 100% of cases over the Scheme year.

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#### Processing of Core Financial Transactions (continued)

The Trustees do not have SLAs in place with the Scheme's AVC providers. Our advisers have confirmed this is in line with market practice. The AVC providers generally operate within the target timescales they set themselves for core financial transactions however Prudential has been taking far longer than usual to process transactions since it changed its administration platform in Q4 2020. Prudential has put a service recovery plan in place to is looking to resolve the issues and return to its standard turnaround times as soon as possible but this has not been achieved this as yet.

The monthly reports produced by Aon 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, given the number of transactions involved each year.

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
- most core financial transactions for AVCs have been processed promptly and accurately during the Scheme year, the exceptions being dis-investments from Prudential which have taken longer than usual for the reasons described above.

#### 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 we requested transaction costs for the 12-month period ending 31 March 2021 for this statement.

The Utmost Secure Cash Fund was a temporary holding for funds transferred from the Equitable Life With Profits Fund to the Utmost Investing by Age Strategy. It closed on 31 December 2020 therefore transaction costs shown below are for the 12 months to 31 December 2020.

Where transaction costs were reported as negative, these have been set to zero by the Trustees.

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### CHAIR'S STATEMENT YEAR ENDED 5 APRIL 2021

#### Charges and transaction costs paid by members (continued)

Provider / Fund	TER (% p.a.)	Transaction costs (%)	Total costs & charges (% p.a.)
Prudential Deposit	Not applicable <sup>1</sup>	0.00	Not applicable <sup>1</sup>
Prudential Discretionary <sup>2</sup>	0.78	0.10	0.88
Prudential Fixed Interest	0.76	0.06	0.82
Prudential Global Equity	0.76	0.12	0.88
Prudential International Equity	0.76	0.21	0.97
Prudential Long-Term Gilt Passive	0.66	0.00	0.66
Prudential UK Equity	0.76	0.00	0.76
Prudential UK Property <sup>2</sup>	1.28	0.02	1.30
Prudential With Profits Cash Accumulation	0.98 <sup>4</sup>	0.13	1.11
Utmost Investing by Age Strategy	0.5 – 0.75 <sup>5</sup>	0.00 – 0.50 <sup>5</sup>	0.5 – 1.25 <sup>5</sup>
Utmost Managed	0.75	0.15	0.90
Utmost Money Market	0.50	0.00	0.50
Utmost Multi-Asset Cautious	0.75	0.50	1.25
Utmost Multi-Asset Moderate	0.75	0.41	1.16
Utmost Secure Cash	0.5	0.00	0.50
Utmost UK Equity (formerly Pelican)	0.75	0.55	1.30

#### Notes

<sup>1</sup> 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.

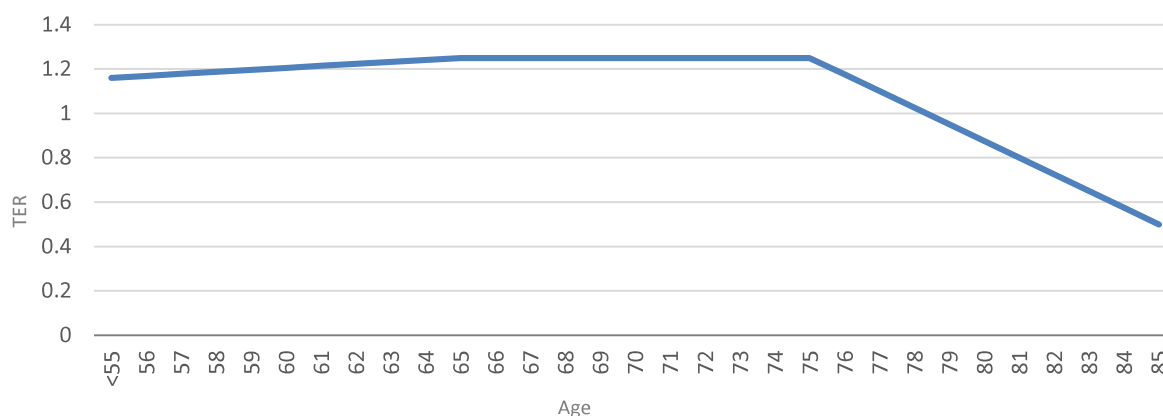
<sup>2</sup> The Prudential Discretionary and UK Property Funds have additional property expenses of 0.03% and 0.53% per annum respectively and these charges are included in the TER.

<sup>2</sup> The transaction costs shown for the UK Property Fund are for the 12-month period to 31 December 2020. Prudential has not yet published transaction costs for the 12-month period ending 31 March 2021.

<sup>34</sup> 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 as 0.18% p.a.

<sup>5</sup> Depending upon members' age.

The TER that members in the Utmost investing by age strategy pay varies according to their age, as shown in the line chart below.



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### CHAIR'S STATEMENT YEAR ENDED 5 APRIL 2021

#### **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 three example members, showing the longest time over which funds are likely to be invested:

- Example member 1: a member who holds transferred-in funds with Prudential who is currently 43 and therefore 22 years from retirement and has a current fund value of £9,700.
- Example member 2: a member who holds AVCs with Prudential who is currently 42 and therefore 23 years from retirement with a current fund value of £4,000.
- Example member 3: a member of the Utmost AVC arrangement who is currently 42 and therefore 23 years from retirement and has a current fund value of £4,400.

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

- For transferred in funds held with Prudential, we have illustrated the effect of costs and charges on the Discretionary, Global Equity and With Profits Funds.
- For AVC funds held with Prudential, we have illustrated the effect of costs and charges on the Discretionary, Long-Term Gilt Passive and With Profits Funds.
- For the Utmost 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 now 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.

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#### Illustrations to show the cumulative effect of costs and charges (continued)

##### Example member 1:

A member with transferred-in funds invested with Prudential who is currently 43 and therefore 22 years from retirement and has a current fund value of £9,700.

	Discretionary Fund			Global Equity 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
43	£9,700	£9,700	£0	£9,700	£9,700	£0	£9,700	£9,700	£0
45	£10,180	£10,010	£170	£10,470	£10,310	£160	£10,320	£10,100	£220
50	£11,480	£10,840	£640	£12,680	£12,020	£660	£12,030	£11,190	£840
55	£12,950	£11,730	£1,220	£15,360	£14,010	£1,350	£14,030	£12,400	£1,630
60	£14,610	£12,700	£1,910	£18,600	£16,320	£2,280	£16,360	£13,730	£2,630
65	£16,480	£13,740	£2,740	£22,520	£19,020	£3,500	£19,080	£15,210	£3,870

##### Example member 2:

A member with AVCs invested with Prudential who is currently 42 and therefore 23 years from retirement with a current fund value of £4,000.

	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
42	£4,000	£4,000	£0	£4,000	£4,000	£0	£4,000	£4,000	£0
45	£4,300	£4,190	£110	£4,030	£3,950	£80	£4,390	£4,250	£140
50	£4,850	£4,540	£310	£4,080	£3,870	£210	£5,120	£4,710	£410
55	£5,470	£4,910	£560	£4,130	£3,800	£330	£5,970	£5,220	£750
60	£6,170	£5,320	£850	£4,180	£3,720	£460	£6,960	£5,780	£1,180
65	£6,960	£5,760	£1,200	£4,230	£3,650	£580	£8,110	£6,400	£1,710

##### Example member 3:

A member of the Utmost AVC arrangement who is age 42 and therefore 23 years from retirement and has a current fund value of £4,400.

	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
42	£4,400	£4,400	£0	£4,400	£4,400	£0	£4,400	£4,400	£0
45	£4,490	£4,360	£130	£4,660	£4,520	£140	£4,490	£4,360	£130
50	£4,650	£4,290	£360	£5,140	£4,720	£420	£4,650	£4,290	£360
55	£4,810	£4,230	£580	£5,660	£4,930	£730	£4,810	£4,230	£580
60	£4,930	£4,120	£810	£6,230	£5,150	£1,080	£4,970	£4,170	£800
65	£4,930	£3,900	£1,030	£6,860	£5,380	£1,480	£5,100	£4,060	£1,040

## SUN CHEMICAL LIMITED PENSION SCHEME

### CHAIR'S STATEMENT YEAR ENDED 5 APRIL 2021

#### Illustrations to show the cumulative effect of costs and charges (continued)

##### Notes and assumptions

The example members represent the youngest member(s) of each category and the current median 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.

Data used is as at 5 April 2021 for Prudential members, and as at 1 September 2020 for Utmost members.

The projected growth rates have been obtained from the providers and are consistent with those used in annual benefit statements.

The value of members' funds invested in the Prudential With Profits Fund will depend upon the bonuses declared on the With Profits Fund and any final bonus added at retirement, which are indirectly impacted by the costs and charges.

The transaction costs have been averaged over a 3-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	Expected growth rate (before charges)
Prudential With Profits Cash Accumulation	1.1% p.a.	2.2% p.a. above inflation
Prudential Discretionary	0.86% p.a.	2.5% p.a. above inflation
Prudential Global Equity	0.81% p.a.	4% p.a. above inflation
Prudential Long-Term Gilt Passive	0.66% p.a.	0.25% p.a. above inflation
Utmost Life and Pensions Managed	0.89% p.a.	2.0% p.a. above inflation
Utmost Life and Pensions UK Equity	1.0% p.a.	2.0% p.a. above inflation
Utmost Life and Pensions Investing by Age strategy	1.0 – 1.18% p.a.*	0.3% p.a. below inflation – 0.7% 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 up to age 65.

##### 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 3i of this statement. The Trustees have concluded that the charges members pay from their AVC funds are within the range seen for other legacy arrangements, although they are higher than current market rates.

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### CHAIR'S STATEMENT YEAR ENDED 5 APRIL 2021

#### Value assessment (continued)

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 2021, carried out by our advisers, indicates that they appear reasonable.

The Trustees have considered the benefits of membership under the following categories: Scheme governance, investments, administration, communications and retirement options and support. 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 regularly review and update their governance processes and procedures to ensure they meet The Pensions Regulator's expectations and all regulatory requirements:

- Key processes and controls are documented in the Trustee handbook, which was recently reviewed and updated.
- 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 the unit linked AVC funds held by members annually.
- The AVC arrangements are reviewed against the investment regulations every 3 years.

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

- The Trustees are satisfied that Aon, Prudential and Utmost Life and Pensions have sufficient processes and checks in place to maximise the likelihood of core financial transactions being processed promptly and accurately. Though there have been some delays experienced with Prudential during this reporting period, Prudential has given assurance it has a service recovery plan in place.
- 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 market practice. 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. Since then, Prudential has experienced some difficulties but the Trustees are satisfied that Prudential has a service recovery plan in place and expect this to be a short-term issue.

## SUN CHEMICAL LIMITED PENSION SCHEME

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#### Value assessment (continued)

**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, in absolute terms and 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. The Trustees decided not to take any action as absolute returns achieved over the longer term were reasonable. 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 also agreed to introduce a lifestyle strategy to members of Prudential policy A609 so that they can choose an investment strategy that automatically moves 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 options and support** - 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 a one-off 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 options offered are in line with the majority of other schemes.

In summary, the Trustees 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.



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#### Trustee Knowledge and Understanding (continued)

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 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. The content and format of the Trustee Handbook was reviewed during the scheme year. All key scheme documents are readily available to the Trustees via a secure website, Aon Pensions Organiser.

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. Based upon the most recent assessment, potential training topics for the following scheme year have been identified as buy-out and member options, Pension Schemes Act 2021 and considering Cyber training.

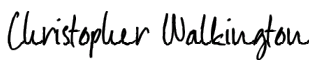
During the Scheme year covered by this Statement, the Trustees:

- Held four Trustee meetings at which their professional advisers were present to provide input as required.
- Updated the Statement of Investment Principles to describe the arrangements with investment managers and to provide additional information on their stewardship policy, (demonstrating knowledge and understanding of the relevant principles relating to the funding and investment of occupational schemes).
- Received training from their advisers on the covenant, superfunds/ commercial consolidators. Long-term objectives and journey planning.
- 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 2020.

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.

The Chair's Statement was approved by the Trustees and signed on their behalf by:

Chair of Trustees

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Date:

27-Oct-2021