Chair's DC Governance Statement, covering 31 March 2020 to 31 March 2021

1. Introduction

The **Arch UK Biocides Pension Plan** (the "Plan") is an occupational pension scheme providing defined contribution ("DC") benefits (a DC pension scheme is where employee and employer contributions are paid into it, and the member chooses their investments, but bears the investment risk). A number of members also have Additional Voluntary Contributions ("AVCs") in the Scheme.

Governance requirements apply to DC pension arrangements, to help members achieve a good outcome from their pension savings. We, the Trustee Directors of the Plan, are required to produce a yearly statement (signed by the Chair of Trustees) covering:

- the design and oversight of the default investment option (ie where contributions are invested for members that do not wish to choose their own investments);
- processing of core financial transactions (ie administration of the Plan, such as investment of contributions);
- the charges and transaction costs borne by members for the default option and any other investment option members can select or have assets in, such as "legacy" funds;
- an illustration of the cumulative effect of these costs and charges;
- how the value members obtain from the Plan is assessed; and
- Trustee knowledge and understanding.

The Plan's previous DC provider, Legal & General Assurance Society Limited ("L&GAS"), announced in December 2017 that it planned to transfer the Plan's investments to ReAssure Limited ("ReAssure"). The transfer to ReAssure was carried out as planned on 7 September 2020.

2. Default arrangements

The Plan is not used as a Qualifying Scheme for automatic enrolment purposes.

We have made available a range of investment options for members. Members who join the Plan and who do not choose an investment option are placed into the Global Equity 70:30 Index Lifestyle Profile (the "Default"). We recognise that most members do not make active investment decisions and instead invest in the Default. After taking advice, we decided to make the Default a lifestyle strategy, which means that members' assets are automatically moved between different investment funds as they approach their target retirement date.

We are responsible for investment governance, which includes setting and monitoring the investment strategy for the default arrangement.

Details of the objectives and our policies regarding the default arrangement can be found in a document called the 'Statement of Investment Principles' ("SIP"). The Plan's SIP covering the default arrangement is included in this document.

The aims and objectives of the default arrangement, as stated in the SIP, are as follows:

- to generate returns significantly above inflation whilst members are some distance from retirement; and
- to switch automatically and gradually to lower risk investments as members near retirement.

The Default was not reviewed during the period covered by this Statement. The last review was carried out on 29 January 2018. The Trustee is currently reviewing the Plan's DC arrangement and is deciding whether it remains in members' best interests to continue the arrangement in its current form and as such, has held off reviewing the Default pending a broader review.

The Plan's previous provider, L&GAS, announced in December 2017 that it planned to transfer the Plan's investments to ReAssure Limited ("ReAssure"). Following the January 2018 review, the Trustee agreed that the Plan's strategy should remain unchanged.

3. Requirements for processing core financial transactions

The processing of core financial transactions is carried out by the administrator of the Plan, ReAssure. Core financial transactions include (but are not limited to): the investment of contributions, processing of transfers in and out of the Plan, transfers of assets between different investments within the Plan, and payments to members/beneficiaries.

We recognise that delay and error can cause significant issues for members. They can also cause members to lose faith in the Plan, which may in turn reduce their propensity to save and impair future outcomes. We have received assurance from ReAssure that there are adequate internal controls to ensure that core financial transactions for the Scheme are processed promptly and accurately.

The Plan has a service level agreement ("SLA") in place with the administrator which covers the accuracy and timeliness of all core financial transactions.

ReAssure has SLAs in place that specify target periods for responding to certain requests. As ReAssure only took on the policy from L&G in Q3 2020, they have only provided reporting versus their SLAs over the period since this date. Over Q4 2020, ReAssure achieved its 95% success targets for 2 out of 7 request types and over Q1 2021, ReAssure achieved its 95% success targets for 4 out of 8 request types. ReAssure acknowledged that these results are below expectations and have a plan in place to improve.

To help us monitor whether service levels are being met, we receive quarterly reports about the administrator's performance and compliance with the SLA. Any issues identified as part of our review processes would be raised with the administrators immediately, and steps would be taken to resolve the issues.

Based on the review processes, we are satisfied that over the period covered by this Statement:

- the administrator was operating appropriate procedures, checks and controls;
- there have been no material administration issues in relation to processing core financial transactions; and
- core financial transactions have been processed accurately to an acceptable level during the Scheme year.

ReAssure failed to meet its targeted service levels for some processes over the period to 31 March 2021. When the Plan was migrated from L&GAS to ReAssure, contact rates from former L&GAS customers far exceeded ReAssure's expectations, which was further exacerbated by service instability experienced by ReAssure's telephony provider. ReAssure responded by taking on additional staff in the customer services teams and enhanced its online services and has reported that these measures have led to improved service.

We will continue to monitor ReAssure's performance, noting that if performance does not improve then we will take steps to resolve the issues.

4. Member-borne charges and transaction costs

We are required to set out the on-going charges incurred by members over the period covered by this Statement, which are annual fund management charges plus additional fund expenses, such as custody costs, but excluding transaction costs; this is also known as the total expense ratio ("TER"). The TER is paid by the members and is reflected in the unit price of the funds.

The stated charges also include any costs, eg administration and investment costs, since members incur these costs.

We are also required to separately disclose transaction cost figures. In the context of this Statement, the transaction costs shown are those incurred when the Scheme's fund managers buy and sell assets within investment funds, but are exclusive of any costs incurred when members invest in and switch between funds. The transaction costs are borne by members.

The charges and transaction costs for the period covered by this statement have been supplied by ReAssure and L&GAS. All transaction costs for the period covered by this Statement have been obtained and none are outstanding.

When preparing this section of the Statement we have taken account of the relevant statutory guidance. Under the prescribed way in which transaction costs have been calculated it is possible for figures to be negative, where market movements are favourable between the time a trade is placed and it is executed. We have shown any negative figures in the tables for the year as provided, but for the costs and charges illustrations we have used zero where a transaction cost is negative to give a more realistic projection (ie we would not expect transaction costs to be negative over the long term).

Default arrangements

The Default arrangement is the Global Equity 70:30 Index Lifestyle Profile. The Default has been set up as a lifestyle approach, which means that members' assets are automatically moved between different investment funds as they approach their target retirement date. This means that the level of charges and transaction costs will vary depending on how close members are to their target retirement age and in which funds they are invested.

For the period covered by this Statement, annualised charges and transaction costs are set out in the following table.

Default charges and transaction costs

Years to target retirement date	TER	Transaction costs
6 years to retirement or more	*see below	0.00%
5 years to retirement		0.00%
At retirement		0.00%

* The annual charge for managing and administering members' investments is 0.5% pa of the first £50,000 of each member's fund and 0.3% pa on the value of each member's fund above £50,000.

Self-select and AVC options

In addition to the default arrangement, members also have the option to invest in several other self-select funds. The level of charges for each self-select fund (including those used in the Default) and the transaction costs over the period covered by this Statement are set out in the following table. The underlying funds used within the Default are shown in **bold**.

Self-select fund / AVC fund charges and transaction costs

Fund name	TER	Transaction costs
LGIM Global Equity 70:30 Fund	*see below	0.00%
LGIM Over 5 Year Index-Linked Gilts Index Fund		0.00%
LGIM Overseas Equity Consensus Index Fund		0.00%
LGIM UK Equity Index Fund		0.00%
L&G Cash Fund		-0.02%
L&G Fixed Interest Fund		0.03%

*The annual charge for managing and administering members' investments is 0.5% pa of the first £50,000 of each member's fund and 0.3% pa on the value of each member's fund above £50,000.

Illustration of charges and transaction costs

The following table sets out an illustration of the impact of charges and transaction costs on the projection of an example member's pension savings. In preparing this illustration, we had regard to the relevant statutory guidance.

- The "before costs" figures represent the savings projection assuming an investment return with no deduction of member borne charges or transaction costs. The "after costs" figures represent the savings projection using the same assumed investment return but after deducting member borne charges and an allowance for transaction costs. We have allowed for the tiered annual charge (0.5% pa on the first £50,000 invested and 0.3% pa thereafter) in the calculations.
- The transaction cost figures used in the illustration are those provided by the managers over the past four years, subject to a floor of zero (so the illustration does not assume a negative cost over the long term). We have used the average annualised transaction costs over the past four years as this is the longest period over which figures were available, and should be more indicative of longer-term costs compared to only using figures over the Plan year.
- The illustration is shown for the Default (the Global Equity 70:30 Index Lifestyle Profile) since this is the arrangement with the most members invested in it, as well as four funds from the Plan's self-select fund range. The four self-select funds shown in the illustration are:
  - the fund with the highest before costs expected return – this is the UK Equity Index Fund;
  - the fund with the lowest before costs expected return – this is the Cash Fund;
  - the fund with highest annual member borne costs – this is the Over 5 Year Index-Linked Gilts Index Fund; and
  - the fund with lowest annual member borne costs cannot be shown as all funds incur the same costs before transaction costs (see above). Instead, another fund with the joint highest before costs expected return is shown – this is the Overseas Equity Consensus Index Fund.

Projected pension pot in today's money

Years invested	Default option Before costs	Default option After costs	UK Equity Index Fund (highest return) Before costs	UK Equity Index Fund (highest return) After costs	Cash Fund (lowest return) Before costs	Cash Fund (lowest return) After costs	Index-Linked Gilt Fund (highest cost) Before costs	Index-Linked Gilt Fund (highest cost) After costs	Overseas Equity Consensus Index Fund (second highest return) Before costs	Overseas Equity Consensus Index Fund (second highest return) After costs
1	£110,800	£110,300	£110,800	£110,300	£105,000	£104,600	£110,800	£110,300	£110,800	£110,300
3	£129,100	£127,700	£129,100	£127,700	£110,800	£109,500	£129,100	£127,500	£129,100	£127,700
5	£148,500	£146,000	£148,500	£146,000	£116,300	£114,200	£148,500	£145,700	£148,500	£146,000
10	£202,300	£196,200	£202,300	£196,300	£128,900	£124,800	£202,300	£195,500	£202,300	£196,300
15	£264,800	£253,600	£264,800	£253,700	£139,900	£134,100	£264,800	£252,200	£264,800	£253,700
20	£337,200	£319,200	£337,200	£319,400	£149,700	£142,000	£337,200	£316,900	£337,200	£319,400
25	£420,200	£393,200	£421,100	£394,300	£158,300	£149,000	£421,100	£390,600	£421,100	£394,300
30	£495,200	£457,500	£518,500	£480,000	£165,900	£155,000	£518,500	£474,600	£518,500	£480,000

Notes

- Values shown are estimates and are not guaranteed. The illustration does not indicate the likely variance and volatility in the possible outcomes from each fund. The numbers shown in the illustration are rounded to the nearest £100 for simplicity.
- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
- Annual salary growth and inflation is assumed to be 2.5%. Salaries could be expected to increase above inflation to reflect members becoming more experienced and being promoted. However, the projections assume salaries increase in line with inflation to allow for prudence in the projected values.
- The starting pot size used is £102,000. This is the approximate median pot size for the three youngest active members of the Plan.
- The projection is for 30 years, being the approximate duration that the youngest scheme member has until they reach the scheme's Normal Pension Age.
- The starting salary is assumed to be £51,000. This is the approximate representative salary for the members of the Plan.
- Total contributions (employee plus employer) are assumed to be 11.0% of salary per year.
- The projected annual returns used are as follows:
  - Default option: 3.0% above inflation for the initial years, gradually reducing to a return of 1.3% below inflation at the ending point of the lifestyle;
  - UK Equity Index Fund: 3.0% above inflation;
  - Cash Fund: 2.5% below inflation;
  - Index-Linked Gilt Fund: 3.0% above inflation; and
  - Overseas Equity Consensus Index Fund: 3.0% above inflation.
- No allowance for active management outperformance has been made.

5. Value for members assessment

We are required to assess every year the extent to which member borne charges and transaction costs represent good value for members and to explain that assessment. There is no legal definition of 'good value' which means that determining this is subjective. Our general policy in relation to value for member considerations is set out below.

We review all member-borne charges (including transaction costs where available) annually, with the aim of ensuring that members are obtaining value for money given the circumstances of the Plan. The date of the last review was 2 June 2020. We note that value for money does not necessarily mean the lowest fee, and the overall quality of the service received has also been considered in this assessment.

Given that the Plan's negotiation power is limited, due to the relatively small size of the assets held, and administration costs are borne by members, we believe the fund charges are reasonable. The Trustee is currently reviewing the Plan's DC arrangement and is deciding whether it remains in members' best interests to continue the arrangement in its current form.

The returns on the investment funds members can choose during the period covered by this Statement have been consistent with their stated investment objectives.

In carrying out the assessment, we also consider the other benefits members receive from the Plan, which include:

- our oversight and governance, including ensuring the Plan is compliant with relevant legislation, and holding regular meetings to monitor the Plan and address any material issues that may impact members;
- the quality of communications delivered to members; and
- the quality of support services, including administration.

As detailed in the earlier section covering the processing of core financial transactions, we are comfortable with the quality and efficiency of the administration processes.

We believe that the transaction costs provide value for members as the ability to transact forms an integral part of the investment approaches, and expect this to lead to greater investment returns net of costs over time.

Overall, we believe that members of the Plan are receiving reasonable value for money for the charges and cost that they incur, for the reasons set out in this section.

6. Trustee knowledge and understanding

We are required to maintain appropriate levels of knowledge and understanding to run the Plan effectively. We have measures in place to comply with the legal and regulatory requirements regarding knowledge and understanding of relevant matters, including the Trust Deed and Rules, the SIP, principles of funding and investment, Plan policies, investment, pension and trust law. Details of how the knowledge and understanding requirements have been met during the period covered by this Statement are set out below.

With the help of our advisers, we regularly consider training requirements to identify any knowledge gaps. Our investment advisers proactively raise any changes in governance requirements and other relevant matters as they become aware of them. Our advisers typically deliver training on such matters at Trustee meetings if they were material. During the period covered by this Statement, we received training on overall DC governance with more detailed focus on the areas that we need to review, including:

- considering the administration systems and administrator performance following the transfer to ReAssure and ensuring that ReAssure have taken steps to improve the service levels as noted earlier in this Statement;
- the steps required to review the default strategy and assess the value for money for members; and
- consideration of alternative solutions for running the plan.

We are familiar with the Plan's governing documentation and documentation setting out our policies, including the Trust Deed & Rules and SIP (which sets out the policies on investment matters). In particular, we refer to the Trust Deed and Rules as part of considering and deciding to make any changes to the Plan, and the SIP is formally reviewed annually and as part of making any change to the Plan's investments. Further, we believe that we have sufficient knowledge and understanding of the law relating to pensions and trusts and of the relevant principles relating to the funding and investment of occupational pension schemes to fulfil our duties.

We are required to commit to completing the training, either at the relevant meetings or by personal study. During the period covered by this Statement, all the Trustee Directors completed the Pensions Regulator's Trustee Toolkit (an online learning programme, designed to help trustees of pension schemes meet the minimum level of knowledge and understanding required by law). Following the period covered by this statement, two new Trustee Directors have been appointed after two Trustee Directors retired. The new Trustee Directors have started following the same approach to training since being appointed.

Considering our knowledge and experience and the specialist advice received from the appointed professional advisors (eg investment consultants, legal advisors), we believe that we are well placed to exercise our functions as Trustee Directors of the Plan properly and effectively.

Date: 26th Novembr 2021

Signed by the Chair of Trustee of the Arch UK Biocides Pension Plan