

Chair's DC Governance Statement, covering 31 March 2019 to 31 March 2020

1. Introduction

Governance requirements apply to defined contribution ("DC") pension arrangements, to help members achieve a good outcome from their pension savings. The Trustee of the Arch UK Biocides Pension Plan (the "Plan") is required to produce a yearly statement (which is signed by the Chair of Trustee) to describe how these governance requirements have been met in relation to:

- the investment options in which members can invest (this means the default arrangement and other funds members can select or have assets in, such as "legacy" funds);
- the requirements for processing financial transactions;
- the charges and transaction costs borne by members;
- an illustration of the cumulative effect of these costs and charges;
- a 'value for members' assessment; and
- Trustee knowledge and understanding.

2. Default arrangements

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

The Trustee has 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"). The Trustee recognises that most members do not make active investment decisions and instead invest in the Default. After taking advice, the Trustee 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.

The Trustee is responsible for investment governance, which includes setting and monitoring the investment strategy for the default arrangement.

Details of the objectives and the Trustee's 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 attached to this document.

The aims and objectives of the default arrangement 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 regularly monitors the performance of the Default and will formally review both this and the strategy at least every three years (the next review is intended to take place by January 2021 or immediately following any significant change in investment policy or the Scheme's member profile).

The Plan's provider, Legal & General Group, 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. The Trustee will review the Plan's strategy again, following the transfer to ReAssure.

3. Requirements for processing core financial transactions

The processing of core financial transactions is carried out by the administrator of the Plan, Legal & General Assurance Society Limited ("L&GAS"). Core financial transactions include (but are not limited to): the investment of contributions, processing of transfers in and out of the Scheme, transfers of assets between different investments within the Scheme, and payments to members/beneficiaries.

The Trustee has received assurance from L&GAS, by way of annual compliance reporting against the agreed service level agreement ("SLA"), that there are adequate internal controls to ensure that core financial transactions for the Plan 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. The SLA specifies target timescales within which L&GAS aims to complete requests from members ranging between 24 hours and 10 working days. The key processes adopted by the administrator to help it meet the SLA are as follows:

- work management systems with built in controls to ensure a high level of quality through checking processes for the day to day administration of the Plan. These are also subject to quality sampling;
- administration systems have data restrictions in place. The L&GAS systems have a data specification to restrict acceptance of incorrect data at source;
- a task logging system which is reviewed regularly for forthcoming workloads with tasks allocated on a daily basis;
- automated cash allocation with any failures picked up by a reconciliation report to be processed manually;
- all disinvestment requests get processed by the claims payment function, then quality checked by a second person. Payment is then released following finance authorisation; and
- L&GAS complete internal audit processes to ensure processing controls are in place and adhered to.

To help the Trustee monitor whether service levels are being met, the Trustee has received reports about the administrator's performance and compliance with the SLA. Any issues identified by the Trustee as part of its review processes would be raised with the administrators immediately, and steps would be taken to resolve the issues.

The report covers the administrator's performance in meeting the agreed service standards, broken down by process. Records of the nature of all calls handled and all complaints received by the administrator are also included. The administrator has confirmed that it received no complaints over the period covered by this Statement.

Over the year, it was identified that the administrator had allocated the funds of a small number of members to the incorrect investments. The investments of these members were in the default strategy but had not been de-risking as expected over the five years to retirement. The administrator rectified the situation for the affected members, moving members to the correct portfolios and making up the value of any value lost. Given the upcoming move to ReAssure,

the Trustee decided that no further action was required, except to continue monitoring the Plan closely.

Based on its review processes, the Trustee, is satisfied that over the period covered by this Statement:

- the administrator was operating appropriate procedures, checks and controls, and operating within the agreed SLA;
- there have been no other administration issues in relation to processing core financial transactions; and
- all core financial transactions have been processed promptly and accurately during the Plan year.

During the reporting period, the administrator did not complete some member requests within the timescale agreed in the SLA. This was due to an increased level of member activity that L&GAS had not forecasted.

4. Member-borne charges and transaction costs

The Trustee is 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 administration and investment costs, since members incur these costs.

The Trustee is 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 have been supplied by L&GAS who is the Plan's platform provider and investment manager. All transaction costs for the period covered by this Statement have been obtained and none are outstanding.

When preparing this section of the Statement the Trustee has taken account of the relevant statutory guidance. Due to the way in which transaction costs have been calculated it is possible for figures to be negative; since transaction costs are unlikely to be negative over the long term the Trustee has shown any negative figure as zero.

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 fund 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	0.01%
5 years to retirement		0.02%
At retirement		0.09%

*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 options

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 charges and transaction costs

Fund name	TER	Transaction costs
LGIM Global Equity 70:30 Fund	*see below	0.01%
LGIM Over 5 Year Index-Linked Gilts Index Fund		0.12%
LGIM Overseas Equity Consensus Index Fund		0.00%
LGIM UK Equity Index Fund		0.00%
L&G Cash Fund		0.00%
L&G Fixed Interest Fund		0.08%

* 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, the Trustee has 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 three years to 31 March 2020, 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 three 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, the fund with the second 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		UK Equity Index Fund (highest return)		Cash Fund (lowest return)		Index-Linked Gilt Fund (highest cost)		Overseas Equity Consensus Index Fund (second highest return)	
	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs
1	£88,600	£88,200	£89,000	£88,600	£85,000	£84,600	£85,000	£84,600	£88,700	£88,400
3	£104,400	£103,200	£105,800	£104,600	£92,800	£91,700	£92,800	£91,500	£104,900	£103,800
5	£121,200	£119,100	£123,800	£121,700	£100,400	£98,500	£100,400	£98,300	£122,200	£120,100
10	£167,700	£162,500	£174,600	£169,300	£118,500	£114,700	£118,500	£114,200	£170,500	£165,200
15	£221,700	£212,200	£235,000	£225,100	£135,500	£129,700	£135,500	£128,800	£226,900	£217,300
20	£282,300	£267,000	£306,800	£290,300	£151,400	£143,400	£151,400	£142,200	£293,000	£277,300
25	£309,100	£288,600	£391,900	£366,700	£166,300	£156,100	£166,300	£154,600	£370,400	£346,600

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 £81,000. This is the approximate median pot size for the three youngest active members of the Plan.
- The projection is for 25 years, being the approximate duration that the youngest Plan member has until they reach the scheme's Normal Pension Age.
- The starting salary is assumed to be £46,000. This is the approximate representative salary for the three youngest active members of the Plan.
- Total contributions (employee plus employer) are assumed to be 11.0% of salary per year, the median contribution rate for active members of the Plan.
- 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: 3.5% above inflation;
 - Cash Fund: 1.3% below inflation;
 - Index-Linked Gilt Fund: 1.3% below inflation; and
 - Overseas Equity Consensus Index Fund: 3.2% above inflation.
- No allowance for active management outperformance has been made.

5. Value for members assessment

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

The Trustee reviews 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. The Trustee notes 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, the Trustee believes the fund charges are reasonable.

The returns on the investment funds members can choose during the period covered by this statement have been consistent with their stated investment objectives. The passive funds have tracked their benchmark returns closely and active funds have outperformed their respective benchmarks.

The Trustee has considered whether to review its arrangements with L&GAS. The Plan was transferred to ReAssure Limited ("ReAssure") on 7 September 2020, providing the Trustee with the opportunity to review the funds available to members and the fees charged.

The Trustee also considers the other benefits members receive from the Plan, which include:

- the oversight and governance of the Trustee, 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.

This is kept under ongoing review but will be considered more thoroughly following the move to ReAssure.

The Trustee believes the transaction costs provide value for members as the ability to transact forms an integral part of the investment approaches, and we expect this to lead to greater investment returns net of fees over time.

Overall, the Trustee believes that members of the Plan are receiving reasonable value for money for the charges and cost that they incur, given the circumstances of the Plan. The Trustee aims to improve this in future through a review of the investment arrangements following the Plan's transfer to ReAssure, as outlined above.

6. Trustee knowledge and understanding

The Plan's Trustee Board is required to maintain appropriate levels of knowledge and understanding to run the Plan effectively. The Trustee has 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, 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.

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

- considering the administration systems and ensuring the Trustee Directors have seen the latest business continuity plans and disaster recovery plans; and

- consideration of when and how to review the default investment strategy in the Plan.

All the Trustee Directors are familiar with the Scheme's governing documentation, including the Trust Deed & Rules and SIP. In particular, the Trustee refers 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. Trustee Directors consider the range of skills they have and ensure they are appropriate for their role, alongside using their advisers to support them in specific areas. The Trustee Directors believe they 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 their duties.

The Trustee regularly considers its knowledge and training requirements and training is received at Trustee meetings to enable the Trustee Directors to make effective decisions. All the Trustee Directors are required to commit to completing the training, either at the relevant meetings or by personal study. All the Trustee Directors have completed the Pensions Regulator's Trustee Toolkit (an online learning programme, designed to help trustees of occupational pension schemes meet the minimum level of knowledge and understanding required by law).

Taking into account the knowledge and experience of the Trustee Directors with the specialist advice (both in writing and whilst attending meetings) received from the appointed professional advisors (eg investment consultants, legal advisors), the Trustee believes it is well placed to exercise its functions as Trustee of the Plan properly and effectively.



Date: 26 OCT 2020

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