

SUN CHEMICAL LIMITED PENSION SCHEME

APPENDIX II – CHAIR’S STATEMENT (forming part of the Trustees’ Report)

Defined Contribution Governance Statement

The Trustees are required to publish an annual statement regarding governance of Defined Contribution ('DC') funds within the Scheme. The DC 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 DC funds throughout this statement.

This statement covers the period 6 April 2023 to 5 April 2024 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. Net investment returns;
4. The extent to which the Scheme represents good value for members; and
5. Trustees 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 the relevant regulations came into effect in April 2015. The Scheme does not therefore have a default investment strategy, as defined by the relevant regulations.

1. 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 providers 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

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1. Processing of Core Financial Transactions (continued)

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 and accurate manner, although Aon is reliant on the AVC providers processing dis-investments and fund switches in a timely manner. Aon also reconciles the Trustee bank account on a monthly basis.

Aon met the SLA set for all administration tasks on Defined Benefit and DC funds (which include core financial transactions) for 91% of cases over this reporting period. Monthly performance ranged from 81% to 95% over the period.

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 (these are typically 10 working days). Utmost reports how well it has met its internal target timescales for all schemes over the previous calendar year, on its website. Over 2023, Utmost aimed to make 95% of all payments within 5 working days and to complete 90% of all general servicing requests within 10 working days. It met these targets during 2023. Prudential does not report service levels to the Trustees or more widely, but the Trustees are not aware of any issues that impacted members over this reporting period.

Although the Trustees do not have SLAs in place with Prudential and Utmost, the monthly reports produced by Aon include timescales for Aon dealing with DC fund transactions. Though not formally monitored, the Trustees expect Aon to raise any issues it encounters with delays by the AVC providers. 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 small number of transactions involved each year.

We are confident that the processes and controls we have in place with Aon ensure that 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:

- although there were months when the SLA was not met, the Scheme Administrator was operating appropriate procedures, checks and controls; and
- the core financial transactions for the DC funds have been processed promptly and accurately during the Scheme year.

2i. 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 charges and costs is not available, the Trustees have to make this clear, together with an explanation of what steps we are taking to obtain the missing information.

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2i. Charges and transaction costs paid by members(continued)

Our providers calculate transaction costs on a quarterly basis, therefore we requested transaction costs for the 12-month period ending 31 March 2024 for this statement. Utmost has reported transaction costs for the 12-month period to 31 March 2024, but the transaction costs for the Prudential funds are to 31 December 2023. These are the latest available at the time of writing this statement. Prudential has explained that it is reliant on the underlying fund managers providing transaction cost data, as well as the third party it uses to calculate transaction costs in the prescribed format and is therefore unable to report transaction costs more quickly.

The explicit charges and transaction costs on each of the DC funds held by members are set out in the table below.

Fund	TER (% p.a.)	Transaction costs (%)	Total costs & charges (% p.a.)
Prudential policy A609 (AVC funds)			
Prudential Cash	0.55	0.01	0.56
Prudential Deposit	Not applicable ¹	0.00	Not applicable ¹
Prudential Discretionary	0.77	0.12	0.89
Prudential Global Equity	0.77	0.18	0.95
Prudential International Equity	0.78	0.07	0.85
Prudential UK Equity	0.72	0.29	1.01
Prudential With Profits Cash Accumulation	1.11 ²	0.18	1.29 ²
Prudential policies 54538, 95492 & 96789 (AVC funds and transfers in)			
Prudential Discretionary	0.78	0.12	0.90
Prudential Global Equity	0.79	0.18	0.97
Prudential With Profits	0.96 ²	0.18	1.14 ²
Utmost policies P0517 & Q0238 (AVC funds)			
Utmost Investing by Age Strategy	0.5 – 0.75 ³	0.02 – 0.24 ³	0.52 – 0.99 ³
Utmost Managed	0.75	0.12	0.87
Utmost UK Equity (formerly Pelican)	0.75	0.24	0.99

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 Charges on the Prudential With Profits Funds 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 on the With Profits Cash Accumulation Fund are 0.8% p.a. assuming investment returns are 5% p.a. and those on the With Profits fund are 0.65%. Prudential reports the additional expenses on both With Profits Funds are currently 0.31% p.a.

3 Depending upon members' age (up to age 85).

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2ii. Illustrations to show the cumulative effect of costs and charges

Since 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 DC funds 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 DC 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 46 (and is therefore 19 years from retirement) and has a current fund value of £9,900.
- Example member 2: a member who holds AVCs with Prudential who is currently 45 (and is therefore 20 years from retirement) with a current fund value of £3,300.
- Example member 3: a member of the Utmost AVC arrangement who is currently 45 (and therefore 20 years from retirement) and has a current fund value of £4,000.

In accordance with the guidance, we have provided illustrations for the fund with the lowest and highest charges.

- For transferred in funds held with Prudential, we have illustrated the effect of costs and charges on the Discretionary Fund and the With Profits Fund.
- For AVC funds held with Prudential, we have illustrated the effect of costs and charges on the Cash Fund and the With Profits Cash Accumulation Fund. The returns on the Cash Fund are projected to be less than inflation so the fund value reduces over time, even before charges.
- For the Utmost arrangement, we have illustrated the effect of costs and charges on the Managed and the Investing by Age strategy.

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2ii. Illustrations to show the cumulative effect of costs and charges (continued)

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 with transferred-in funds invested with Prudential who is currently 46 and has a current fund value of £9,900.

At age:	Discretionary Fund (lowest charges)			With Profits Fund (highest charges)		
	Before charges	After charges	Effect of charges	Before charges	After charges	Effect of charges
50	£10,900	£10,540	£360	£10,090	£9,660	£430
55	£12,300	£11,400	£900	£10,340	£9,380	£960
60	£13,870	£12,330	£1,540	£10,600	£9,100	£1,500
65	£15,650	£13,340	£2,310	£10,860	£8,830	£2,030

Example member 2:

A member with AVCs invested with Prudential who is currently 45 with a current fund value of £3,300.

At age:	Cash Fund (lowest charges)			With Profits Cash Accumulation Fund (highest charges)		
	Before charges	After charges	Effect of charges	Before charges	After charges	Effect of charges
50	£3,070	£2,980	£90	£3,380	£3,180	£200
55	£2,850	£2,700	£150	£3,460	£3,060	£400
60	£2,650	£2,440	£210	£3,550	£2,950	£600
65	£2,460	£2,200	£260	£3,640	£2,840	£800

Example member 3:

A member of the Utmost AVC arrangement who is currently age 45 and has a current fund value of £4,000.

At age:	Managed Fund (lowest charges)			Investing by Age strategy (highest charges)		
	Before charges	After charges	Effect of charges	Before charges	After charges	Effect of charges
50	£4,730	£4,510	£220	£4,300	£4,100	£200
55	£5,600	£5,090	£510	£4,630	£4,200	£430
60	£6,620	£5,740	£880	£4,970	£4,300	£670
65	£7,830	£6,470	£1,360	£5,350	£4,400	£950

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2ii. Illustrations to show the cumulative effect of costs and charges (continued)

Notes and assumptions

The example members represent the youngest member with the median fund value of members in each policy. Member data is as at 5 April 2024 for Prudential policies and 5 April 2023 for Utmost policies.

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 are consistent with the growth rates providers use in members’ annual benefit statements which are determined by the statutory guidance for producing money purchase illustrations and which are now based on the historic volatility of the fund not expected future returns.

In practice, the annual returns members receive on the Prudential With Profits Funds are determined by the annual bonus rate declared on the Fund rather than the underlying return on the Fund. Fund values between now and retirement will not therefore correspond with those shown in the illustrations above.

The transaction costs have been averaged over a five-year period in line with statutory guidance to reduce the level of volatility, and a floor of 0% p.a. 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.)	Assumed growth rate (before charges) (% p.a.)
Prudential Discretionary	0.88	5.0
Prudential With Profits	1.11	3.0
Prudential Cash	0.55	1.0
Prudential With Profits Cash Accumulation	1.26	3.0
Utmost Managed	1.08	6.0
Utmost Investing by Age	1.0 – 1.07 (for members up to age 65)	4.0 (for members up to age 65)

3. Net investment returns

The Trustees are required to report the net investment returns for each fund Scheme members were invested in during the Scheme year. Net investment return refers to the returns on funds minus all member-borne transaction costs and charges.

The net investment returns set out below have been prepared having regard to statutory guidance. The guidance states that, where the net returns vary with age, they should be shown for members aged 25, 45 and 55 at the start of the investment reporting period. For the Utmost investing by age strategy, the underlying assets change over time but these changes take place from age 55 therefore the net returns for this strategy are the same for members aged 25, 45 and 55 as the funds were launched on 1 January 2020 so five-year investment periods are not reported.

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3. Net investment returns (continued)

For the Prudential With Profits Fund, the net investment returns shown in the table below are the bonus rates declared on the Fund over the calendar year ending in the relevant period. Whilst, in practice, we would expect a terminal bonus to increase returns to close to the returns on the underlying assets in the With Profits Fund over the period held (after all costs of running the Fund, including the costs of any guarantees), these amounts are unknown and are not guaranteed. Furthermore, a market value reduction, which can reduce the return delivered to investors, may be applied on exit from the With Profits Fund at any time other than at maturity date, or in the event of death before retirement.

It is important to note that past performance is not a guide to future performance.

	Investment returns to 31 March 2024	
	1 year (%)	5 years (% p.a.)
Prudential policy A609 (AVC funds)		
Cash	4.5	1.1
Deposit	5.0	1.6
Discretionary	9.1	4.4
Global Equity	9.4	5.4
International Equity	14.8	8.5
UK Equity	5.8	3.4
With Profits Cash Accumulation	1.5	1.2
Prudential policies 54538, 95492 & 96789 (AVC funds and transfers in)		
Discretionary	8.4	3.6
Global Equity	8.8	4.7
With Profits	2.5	1.7
Utmost policies (AVC funds)		
Investing by Age Strategy (member aged 25, 45 or 55 at the start of the investment reporting period)	10.8	Not available
Managed	9.4	4.7
UK Equity (formerly Pelican)	8.6	4.3

4. 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 DC funds.

The costs and charges have been identified as the TER plus the transaction costs and are set out in section 2i of this statement. The Trustees have concluded that the charges members pay from their funds are within the range seen for other legacy arrangements, although they are higher than current market rates.

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4. 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 reported in this statement, 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 and member communications and support. Benchmarking relative to other pension arrangements or industry best practice guidelines has also been undertaken. The conclusions of the Trustees’ assessment for this reporting period, which was completed on 17 September 2024 are set out below.

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 all regulatory requirements and The Pensions Regulator’s expectations. The aspects of the Trustees’ governance framework that are particularly relevant to members with DC funds are:

- Key processes and controls are documented in the Trustees handbook.
- DC-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 DC funds held by members annually.
- The DC 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 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, Equiniti and Utmost have sufficient processes and checks in place to maximise the likelihood of core financial transactions being processed promptly and accurately.
- Aon reports administration performance to the Trustees on a monthly basis, and performance in respect of all administration tasks has been 91% over this reporting period. Aon’s administration reports did not identify any specific issues with the administration of the Scheme’s DC funds.
- 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 standards of service achieved by the DC providers are considered as part of the triennial review of the DC arrangements .