

DC Governance Statement

Introduction

This statement describes how the Trustee has governed the DC Section of the Scheme and the Additional Voluntary Contribution (AVC) arrangements during the year and, in particular, the steps the Trustee has taken during the year to improve the likelihood of members experiencing a good outcome for life after work.

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 require the Trustee to include an annual statement regarding governance in the annual report. This statement covers the period from 1 January 2021 to 31 December 2021.

The Trustee Board delegates certain matters relating to the DC Section to its DC Committee which is chaired by the Chair of the Trustee Board. The Trustee Board has agreed appropriate terms of reference for the DC Committee.

The DC Committee is supported by an independent DC investment adviser, who also covers wider DC matters and governance, and attends meetings of the DC Committee. The Trustee's legal adviser and representatives of the Scheme administrator also provide support and attend meetings of the Trustee Board and / or the DC Committee when required.

The statement covers four principal areas:

1. Investment, with focus on the Scheme's default investment arrangements.
2. Internal controls, with focus on the processing of core financial transactions.
3. Value, including details of the charges and transaction costs deducted from members' funds.
4. The knowledge and resources available to the Trustee, including how the Trustee maintained the statutory levels of knowledge and understanding to govern the Scheme and how these help the Trustee to ensure that the Scheme is governed effectively.

Investment Arrangements

The Scheme's latest Statement of Investment Principles (SIP), prepared in accordance with regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005, can be accessed on the [Pension Website](#).

The SIP covers the Trustee's aims and objectives in relation to the investment strategy, including the default investment arrangement. It also contains policies in relation to matters such as risk, diversification and responsible investment. The SIP details why the Trustee believes the default investment arrangement to be designed in members' best interests. There were no changes to the SIP during the Scheme year.

Default Arrangement

The default investment arrangement during the year covered by this statement was the Moderate Flexible Income LifePlan. This is a lifestyle strategy designed to help members planning to withdraw their benefits in a flexible way, typically through staying invested in retirement and drawing down on their savings over time (at the current time, this needs to be outside of the Scheme).

The default Moderate Flexible Income LifePlan invests in the Moderate Fund (a blended fund that invests c50% in global equities and c50% in diversified growth funds) until a member is 5 years away from their chosen Target Pension Date. The investments are then gradually switched each quarter so that at the point of retirement the member's investments are invested in a multi-asset "Cautious" Fund which holds a range of growth and defensive assets, and a pooled Sterling Liquidity Fund which holds cash and related money market investments.

Changes During the Year & Review of the Default Strategy

Following a review of the Trustee's investment beliefs and in tandem with a review of the default investment strategy, in August 2021 the Trustee implemented a change to the equity element of the Moderate Fund and Cautious Fund used in the default strategy (the same replacement was also implemented in the Adventurous Fund available to members as a FreePlan option).

The change involved replacing a portion of the global equities within these risk-profiled Funds with a global equity fund that embeds environmental, social, and governance (ESG) considerations within the way that the fund is constructed. The rationale was as follows:

- Alignment with the Trustee's beliefs and policies (as documented in the SIP).
- Recognition that companies with weak governance, exposure to environmental risks, and/or poor social responsibility characteristics would be less likely to produce sustainable long-term investment returns in the future.
- Analysis provided by the DC investment adviser demonstrated that the replacement Fund had produced a higher risk-adjusted return (over the c.7.5 year period for which a performance track record was available), relative to the Scheme's prior approach.
- The selected fund also had improved ESG characteristics relative to the prior approach across a range of metrics, including but not limited to carbon emissions, diversity, and investor rights.

During the year, the Trustee (via the DC Committee) also progressed a broader review of the Scheme's investment strategy, with a particular focus on the default arrangement. During 2021, this involved:

- **Risk analysis:** The level of risk within the default investment strategy was reviewed, including consideration of the allocation to equities within the growth phase and whether member outcomes could be improved by taking different levels of risk.
- **Equity portfolio construction:** The DC Committee reviewed the regional and investment style allocations within the equity element of the default investment strategy, as well as the level of ESG integration. As a result of this review, a portion of the equities was replaced by a global equity fund that embeds ESG considerations within the way that the fund is constructed.
- **Investment manager review:** The DC Committee met with the investment managers that manage the default investment strategy in June 2021. No immediate changes were deemed necessary, but this aspect of the review will be reassessed in 2022.

Other Investment Governance activity

Over the year to 31 December 2021, performance and risk-based reviews were undertaken on a quarterly basis. These reviews incorporate independent quarterly reports from the DC adviser.

The reports provide detailed analysis of the performance of the Scheme's investments against benchmarks, target performance levels and peer groups, as well as risk measures (for example, the volatility of returns). The DC Committee discusses the reports at each DC Committee meeting.

Net Investment Returns

The investment returns after charges and transaction costs for the funds available to members during the year are provided in the following table. Funds used in the default investment arrangement are highlighted in blue.

Fund	One Year Fund Return (%)	Three Year Fund Return (% p.a.)
Adventurous	13.3	14.1
Moderate	10.6	10.9
Cautious	6.8	7.8
Pre-Retirement Annuity	-4.9	5.9
Sterling Liquidity	-0.1	0.3
Ethical	24.9	20.4
HSBC Islamic	27.2	26.1

Source: Scottish Widows. Fund returns shown net of all member-borne charges and costs.

Internal Controls and Core Financial Transactions

The Scheme has appointed a professional third-party administrator, Buck.

The Trustee has received assurance from the Scheme's administrator, and has taken steps to seek to ensure, that there were adequate internal controls to ensure that core financial transactions relating to the Scheme were processed promptly and accurately during the year. This includes the investment of contributions, processing of transfers, transfers of assets between different investments, and payment of benefits.

Administration

The Trustee has established service level agreements (SLAs) with the third-party administrator which include target timescales for processing core financial functions relating to contribution handling, quoting, switching and paying benefits. The target timescales are all well within applicable statutory timescales.

Via the Administration & Communications Committee and the in-house team, the Trustee monitors SLAs on a quarterly basis. Over the 12 months to 31 December 2021, the average percentage level of SLAs achieved for the DC Sections of the Scheme stood at 94%. The Administration & Communications Committee takes a proactive approach to questioning the administrator about their service level reports.

The administrator completes monthly DC unit reconciliations and bank reconciliations, along with periodic ad-hoc testing of administration processes. For example, in prior years the Trustee has requested that the Scheme auditor tests how lifestyle de-risking switches are checked for accuracy and timeliness by the Scheme's administrator.

The Trustee also has oversight of the core financial transactions of the "bundled" AVC arrangements with Prudential. Transactions are very limited given the small number of members involved and the closed nature of the arrangements, but no issues have been identified with core financial transactions in respect of these arrangements.

Broader Controls

The Trustee has sought to ensure that detailed disaster recovery plans are in place with the administrator, other relevant third parties, and within the sponsoring employer.

All third-party providers are required to share their data security and cyber risk policies with the Trustee. These policies are reviewed, and the parties are questioned on any areas requiring clarity. The risk register has a dedicated section covering cyber risks, with detailed mitigation strategies documented for different aspects of cyber risks for each third-party provider.

The Trustee maintains and monitors a risk register which includes risks in relation to core financial transactions, along with details of mitigation strategies adopted by the Trustee. A professional firm has been appointed to undertake an annual audit of the Scheme.

The Trustee receives the administrator's annual assurance report on internal controls. In respect of the most recent report received, the Independent Service Auditor's opinion was that, in all material aspects, the administrator's controls were suitably designed and those tested operated effectively. The internal controls audit report is reviewed by the Administration & Communications Committee.

During the Scheme year, the Covid-19 pandemic continued to require the Trustee and its providers to use their previously prepared business continuity measures at times when access to workplaces was restricted and individuals were asked to work remotely. The Trustee is pleased to confirm that all of the Scheme's operations have been maintained successfully. The Trustee Board and its Committees have continued with their 2021 meeting schedule via remote working. All monthly contributions have been paid on time. Important administration functions such as preparing benefit quotations, issuing benefit payments, investing monthly contributions and updating member records continue to be processed promptly by the administrator. The Trustee will keep business continuity arrangements under careful review.

In the last Scheme year there have been no material administration service matters or internal controls issues which need to be reported here by the Trustee. The Trustee is confident that the processes and controls in place with the administrator are robust and will ensure that the requirements of regulation 24 of the Regulations have been met, and that core financial transactions have been processed promptly and accurately.

Value, Charges and Transaction Costs

The range of the levels of charges and transaction costs applicable to the default arrangements during the period are detailed in this section.

Charges

All funds available to Scheme members have total expense ratios that fall below the charge cap of 0.75% p.a. Note that a "total expense ratio" reflects the total costs associated with managing and operating an investment fund, including investment management fees, fund legal fees, investment platform fees and any other expenses.

Transaction Costs

When buying and selling investments, transaction costs can be incurred. Transaction costs are not explicitly deducted from a fund but are captured in its performance (in other words, the higher the transaction costs, the lower the returns produced by a fund). The Financial Conduct Authority has provided guidance (in Policy Statement 17/20) to investment managers regarding calculation and disclosure of transaction costs. Due to the way in which these costs are required to be calculated, they can be negative or positive; a negative figure is effectively a gain from trading activity, whilst a positive figure is effectively a cost from trading activity.

Scheme Charges and Costs

In the following table, we set out the charges and transaction costs applicable to the funds used in the default investment arrangement and other investment funds as at 31 December 2021.

Fund	TER (% p.a.)	Transaction Costs (%)
Adventurous	0.405	0.01
Moderate	0.468	0.21
Cautious	0.350	0.14
Pre-Retirement Annuity	0.142	0.01
Sterling Liquidity	0.125	-0.02
Ethical	0.277	0.00
HSBC Islamic	0.377	0.03

Source: Scottish Widows

Impact of Costs and Charges

Using data provided by Scottish Widows and in accordance with Regulation 23(1)(ca) of the Administration Regulations, the Trustee has prepared an illustration detailing the impact of the costs and charges typically paid by a member of the Scheme on their retirement savings pot. Statutory guidance has been considered when providing these examples.

In order to represent the range of funds available to members we are required to show the effect on a member's savings of investment in the following (with the Scheme's relevant funds / strategies are listed in brackets):

- The fund or strategy with the most members invested (Moderate Flexible Income LifePlan)
- The fund available as a FreePlan (self-select option) with the highest charges (Moderate)
- The fund available as a FreePlan (self-select option) with the lowest charges (Sterling Liquidity)

To show the impact across a typical working lifetime, the Trustee has based this on a member joining the Scheme as a graduate at age 21, using a starting pot of £0 and a salary based on the approximate graduate employee average. It assumes an overall contribution level in line with the employer's current default contribution structure.

The illustrations that follow take into account the following elements:

- Initial savings pot size
- Contributions, where applicable
- Real terms investment return gross of costs and charges
- Adjustment for the effect of costs and charges
- Time

Regulations require a disclosure of costs and charges for the following funds:

- Default option (and / or most popular)
- Non-default fund with the lowest charges
- Non-default fund with the highest charges

Year-End	Default investment option		Fund with the highest charges		Fund with the lowest charges	
	Moderate Flexible Income LifePlan		Moderate		Sterling Liquidity	
	Pot size (no charges)	Pot size (with charges)	Pot size (no charges)	Pot size (with charges)	Pot size (no charges)	Pot size (with charges)
21	0	0	0	0	0	0
25	19,282	18,958	19,282	18,958	17,597	17,543
30	47,948	46,331	47,948	46,331	38,965	38,731
35	82,500	78,307	82,500	78,307	59,741	59,217
40	123,942	115,510	123,942	115,510	80,033	79,120
45	173,447	158,645	173,447	158,645	99,944	98,556
50	232,375	208,503	232,375	208,503	119,569	117,629
55	302,310	265,976	302,310	265,976	139,003	136,441
60	385,091	332,069	385,091	332,069	158,332	155,087
61	402,148	345,502	403,371	346,419	162,193	158,804
62	418,455	358,320	422,268	361,169	166,053	162,519
63	432,567	369,448	441,801	376,327	169,915	166,232
64	444,255	378,729	461,990	391,905	173,777	169,945
65	454,033	386,562	482,855	407,913	177,641	173,657

Notes:

- i. Values shown are estimates at end of each year and are not guaranteed.
- ii. Projected pension pot values are shown in today's terms.
- iii. To make this analysis representative of the membership, the Trustee has based this illustration on data sourced from the administrator as part of the triennial investment strategy review. The assumed member is age 21, with a normal retirement age of 65, using a starting pot size of £0 (i.e., a new joiner) and a salary of c. £28,000 p.a. which is assumed to increase in line with inflation + 1% p.a. The total contributions are assumed to be 16% of the member's salary p.a.
- iv. Inflation is assumed to be 2.5% p.a.

Value for Members

The Trustee has assessed the extent to which the charges and transaction costs set out above represent good value for members. The Trustee concluded, following receipt of a report from its independent DC adviser, that the Scheme offers good value for money relative to peers including other pension arrangements of a similar size and nature (using data from Mercer and other available public surveys) and relative to options available to the Trustee with alternative investment managers and providers.

The Trustee recognises that a range of pension scheme vehicles (for example, master trusts) are available in the market, noting any changes would ultimately be the employer's decision. The Scheme has benefit features in the Scheme rules, which currently preclude some of these options being viable, but the Trustee remains very open to considering a wide range of design models in future, with value for members in mind.

The Trustee conducts an annual Value for Money assessment to arrive at this conclusion, incorporating consideration of:

- Total expense ratio costs borne by members
- Transaction costs
- Net of cost investment performance
- Administration performance
- Governance arrangements
- Fund range available to members
- Investment manager and platform provider ratings
- Additional member services, including at retirement options, services and member tools.

A proportionate approach is adopted for assessing the closed legacy AVC arrangement with Prudential on the basis that the AVC holdings are relatively modest. The assessment in this respect concluded that the arrangement represented reasonable value for members.

Trustee Knowledge and Understanding

The requirement under the Pensions Act 2004 (requirement for knowledge and understanding) has been met during the Scheme year by the Trustee as a body in dealing with the whole Scheme.

The Trustee has put in place arrangements for ensuring its Trustee Directors take personal responsibility for keeping up to date with relevant developments and each quarter considers training requirements. Training logs are maintained for each Director and training for the full board and its various Committees is provided regularly during meetings. Training plans are bespoke and tailored to issues that arise on the Trustee's business plan.

The Trustee has adopted a robust training programme for newly appointed Trustee Directors. For the Scheme, upon appointment, a Trustee Director is required to undertake an induction process. This includes a training session with the in-house pensions team and completion of the Pensions Regulator's online toolkit within six months of taking up office.

During the year, the training topics considered by the DC Committee at Committee and discussed at meetings included:

- New regulations in relation to climate change reporting
- Diversified growth fund investment management (training provided during manager presentations)
- Training on forthcoming regulatory and policy changes, including the consolidated Single Code of Practice, new value for members assessments, and pensions dashboards.

In 2021 a new independent professional trustee was appointed, which provided an opportunity to consider Board skills, knowledge, and effectiveness. The Trustee also periodically conducts assessments of its effectiveness as a Trustee Board by seeking feedback from each Trustee Director. These assessments include candid feedback on the Trustee's operating framework and performance generally. The results are collated and discussed openly at Trustee meetings.

The Trustee is conversant with, and has demonstrated a working knowledge of, the Trust Deed and Rules by carrying out a training session in July 2018, in which case studies were completed. If there are any ambiguities over the interpretation of the Trust Deed and Rules, legal advice is sought from the Scheme's legal advisers. A new consolidated Trust Deed and Rules was signed in June 2019 and the Trustee has put in place a risk control to arrange a "health-check" of the Scheme Rules by its legal advisers every three years and after any significant changes of legislation.

The Trustee is conversant with, and has a working knowledge of, the SIP. Refresher training was provided at the DC Committee meeting on 5 November 2021 in relation to developments in the requirements for SIPs, linked to changes in the Investment Regulations.

The Trustee has also established a Terms of Reference confirming delegated responsibilities and powers for each of its Committees. Trustee training includes training on these Terms of Reference.

In addition, the Trustee receives advice from professional advisors and the relevant skills and experience of those advisors is a key criterion when evaluating advisor performance or selecting new advisors. No changes were made to the advisers during the Scheme year.

All the Trustee Directors in office in 2021 have now completed the Pension Regulator's Trustee Toolkit. In addition, Directors are asked to complete the Pensions Management Institute Certificate in Trusteeship. The Trustee Directors are all working towards this qualification. The Chair of the Trustee Board is an accredited professional trustee.

Taking account of actions taken individually and as a trustee body, and the professional advice available to them, the Trustee Directors consider they are enabled properly to exercise their function as a Trustee.

Trustee Statement of DC Governance

The Trustee considers that its systems, processes and controls across key governance functions are consistent with those set out in The Pensions Regulator's Code of Practice.



Shehzad Ahmad
Chair of Trustee
Signed for and on behalf of BASF Pensions Trustee Limited