TREMCO ILLBRUCK UK PENSION PLAN (THE "PLAN") – MONEY PURCHASE SECTION AND DEFINED BENEFIT ADDITIONAL VOLUNTARY CONTRIBUTIONS

ANNUAL GOVERNANCE STATEMENT FOR THE PLAN YEAR ENDING 5 APRIL 2021

PREPARED IN ACCORDANCE WITH REGULATION 23 OF THE OCCUPATIONAL PENSION SCHEMES (SCHEME ADMINISTRATION) REGULATIONS 1996 (THE "REGULATIONS")

Regulations effective from 6 April 2015 require the Trustees to prepare a statement showing how they have met certain minimum governance standards in relation to the defined contribution benefits under the Plan. These standards cover the following areas relating to the Plan's defined contribution benefits, namely:

1. *The default investment arrangement*
2. *Core financial transactions*
3. *Charges and transaction costs,*
4. *Value for members,*
5. *AVCs within the DB Section*
6. *The Trustees' knowledge, understanding, and,*
7. *Statement of DC Governance*

As Chair of Trustees, it is my pleasure to report to you on how the Trustees have embedded these standards over the period from 6 April 2020 to 5 April 2021 in relation to the Money Purchase Section of the Plan and the Additional Voluntary Contributions (AVCs) within the Defined Benefit (DB) Section. Members who have paid AVCs in the DB Section are able to invest in either the funds available through the Money Purchase Section or a separate AVC policy with either Phoenix Life or Royal London.

This Statement does not contain advice in respect of actions that members should take and is not intended to be used for that purpose. If members need advice, they can visit the Financial Conduct Authority website https://www.fca.org.uk/consumers/finding-adviser. If you choose to use a financial adviser, please be sure to check their area of expertise. The adviser will inform you of any charges that apply in return for their advice.

This statement will be published on a publicly available website and the information with regard to cost disclosures will be signposted in the annual benefit statements.

1. Default Investment Arrangement in the Money Purchase Section

1.1 Throughout this Statement, the "default investment arrangement" will refer to the Mercer Drawdown Retirement Path.

1.2 A copy of the Plan's latest Statement of Investment Principles ("SIP"), dated March 2021 is appended to this Statement. The SIP has been prepared in accordance with regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 and subsequent legislation dated October 2016 is attached. The SIP covers our aims and objectives in relation to the default investment arrangement, as well as our policies relating to matters such as risk and diversification. In addition to the default funds and the wider fund range, the SIP covers alternate investment choices under the Plan, covering a range of funds that our members can choose which was designed with their needs in mind.

1.3 The performance of the default investment arrangement is reviewed regularly; the Trustees consider the performance of all the Plan's investments at each meeting

1.4 The most recent review of the default investment arrangement started in Q1 2021 and was discussed by the Trustees in their June 2021 meeting. The review considered whether better risk-adjusted returns might be achieved by adopting other investment allocations in both the growth and consolidation phases. It looked also at the performance of the Plan and profile of members- age, fund size, contribution levels, tenure of active membership- to help determine whether other de-risking patterns and at retirement investment allocations would be more suited to members' needs. The main outcomes of this review are outline below:

- The current default strategy targeting drawdown at retirement should be maintained. This was based on retirement data and industry trends.
- The investment allocations within the growth phase and pre-retirement phase remains appropriate.
- It was concluded that default option of start de-risking at 8 years to retirement provides enough time to progressively switch from the higher risk growth portfolio to less risky funds.
- A number of the self-select funds were not used by members, and the Trustees could consider updating the range available.

1.5 Following the review, the Trustees decided to make no change to the investment allocation of the default investment arrangements. The Trustees agreed that both the strategy and the performance of the funds remained consistent with the aims and objectives articulated in the Statement of Investment Principles. However, the Trustees are in discussions around the self-select range with their investment adviser.

1.6 The default investment arrangement uses a target date fund approach, which invests in equities and other growth-seeking assets during the 'growth' phase of the strategy. Eight years prior to each member's selected retirement year (or the Plan's default normal retirement age of 65 where none is selected), investments are transferred to a Target Drawdown Retirement Fund based on the targeted retirement year.

1.7 The default lifestyle path's growth phase invests predominantly in equities, with modest allocations to property, bonds and cash. Overall these investments are expected to provide long term (above inflationary) growth with some protection against inflation erosion, albeit with volatility. Long-term returns in excess of earnings inflation are generally required for members' attaining an adequate income in retirement. Younger members can withstand the potential downside of equities as they have sufficient time for markets to recover.

1.8 As members' funds grows, investment risk will have a greater impact on retirement outcomes. Therefore, the Trustees believe that a strategy that seeks to reduce risk as the member approaches retirement is appropriate. This is achieved via automated lifestyle switches over the eight-year period prior to a member's retirement date. In addition, falls in the values of equity investments could potentially inflict significant losses to members' savings at a time when they have insufficient years of accumulation remaining to recover from such losses, particularly if they choose to make early withdrawals from savings. Investments are switched into a mix of less volatile assets and a diversified growth fund to match the targeted retirement outcome.

1.9 The default investment arrangement has been adopted in light of the Plan's current demographic and is kept under regular review. Members are also able to access alternative lifestyle strategies and a range of self-select funds, and are supported by clear communications.

1.10 Elements of the investment governance of the Plan have been delegated to Mercer Workplace Savings ('MWS'). This includes strategic and tactical asset allocations along with manager selection. On an annual basis MWS review the continued appropriateness and suitability of the investment solutions underlying the Plan. The most recent review was completed in Q1 2021, and was discussed by the Trustees in their June 2021 meeting, alongside the Plan-specific investment strategy review.

1.11 Investment performance and risk-based reviews of all the funds available to members are undertaken on a quarterly basis, with a particular focus on the default investment strategy.

1.12 There are no default investments in place for the DB Section AVCs, which are held in separate arrangements to the Money Purchase Section benefits.

2. Core Financial Transactions

2.1 As required by the Administration Regulations, the Trustees must ensure that core financial transactions are processed promptly and accurately. This includes:

- Investment of contributions paid to the Plan;
- Transfer of members' assets into and out of the Plan;
- Transfers of members' assets between different investment options available in the Plan; and
- Payments from the Plan to, or in respect of, members.

2.2 The Trustees recognise that delay and errors can cause significant loss for members. Delays and errors can also cause members to lose faith in the Plan, which may in turn reduce their propensity to save and impair future retirement outcomes.

2.3 The Trustees have delegated the administration of member records, in respect of the Money Purchase section to Aviva. The DB section administration is undertaken by Mercer Limited with the AVCs administered by Phoenix Life and Royal London.

2.4 Regulation 24 of the Regulations have been met and core financial transactions have been processed promptly and accurately by:

- Appointing a reputable professional pension administration provider, Aviva.
- Having in place Service Level Agreements (SLAs) with Aviva that cover core administration processes. These SLAs are monitored on a quarterly basis, with penalties applying under certain circumstances for underperformance.
- The Plan's Schedule of Contributions sets out timescales for all participating employers to remit monthly contributions to the Plan in accordance with legislative requirements. Once received, contributions are invested in accordance with the timescales set out in the administration agreement with Aviva.
- The Trustees receive administration reports, which are reviewed by the Trustees quarterly, enabling them to monitor that the requirements for processing financial transactions are met.
- Ensuring that detailed disaster recovery plans are in place with the administrators, other relevant third parties, and within the sponsoring employer.
- Maintaining and monitoring a risk register, which includes risks and controls in relation to core financial transactions.
- Appointing a professional firm to undertake an annual audit, including the material financial transactions that have taken place during the Plan year.

2.5 The Trustees receive administration reports produced by the administrator, which are reviewed by the Trustees at each meeting, enabling them to monitor that the requirements for the processing of financial transactions are being met. The administrator is also invited to attend Trustee meetings when appropriate, and reports are received to support their attendance.

2.6 Aviva are aware of the statutory deadlines for the processing of all member-related services, including core financial functions such as investment switches and benefit payments. Should standards fall, the administrator will be asked by the Trustees to explain. The Trustees will continue to seek the relevant details to support effective monitoring of these processes.

2.7 The Trustees challenge Aviva with regard to the processing of core financial transactions. Aviva is aware of statutory deadlines for the processing of all member-related services, including core financial transactions (such as investment switches and benefit payments), and have confirmed that there have been no reportable breaches of statutory deadlines over the Plan year.

2.8 The Trustees appoint an independent auditor to carry out an annual audit of the Plan, including the material financial transactions that have taken place during the Plan year. The auditors carry out spot checks to ensure that contributions to the Plan or payments made by the Plan are paid in accordance with the Plan's rules

2.9 As a wider review of Aviva, they employ an independent auditor to prepare an annual report on their internal controls (AAF01/06/ ISAE 3402) which the Trustees have sight of.

2.10 The Trustees acknowledge that there have been some errors and delays caused by Aviva outside of day-to-day member cases, but these appear to be isolated rather than systemic issues. As such, overall, the Trustees are satisfied that the Plan's core financial transactions have been processed promptly and accurately during the period of time to which this Statement relates.

3. Charges and Transaction Costs

3.1 As required by the Administration Regulations, the Trustees are required to report on the charges and transactions costs for the investments used in the default investment arrangement as well as funds available as self-select options to members and their assessment on the extent to which the charges and costs represent good value for members.

3.2 The range of the levels of charges and transaction costs applicable to default arrangement during the period are detailed in this section. In relation to 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 investment 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 calculations and disclosures of transaction costs. Due to the way in which transaction costs are required to be calculated, they can be negative or positive in nature; a negative figure is effectively a gain from trading activity, whilst a positive figure is effectively a cost from trading activity.

3.3 Charges relating to investment management are deducted from members' funds. The Plan is used as a qualifying arrangement for auto enrolment and as such must comply with regulations on charge controls introduced from April 2015. Specifically, all of the default investment arrangements under the Plan must have a total expense ratio equal to, or below the charge cap of 0.75% p.a. of savings. The Trustees can confirm that this threshold is adhered to.

The table below shows the total expense ratio (TER) in each of the funds in which members held investments as at the date of this Statement. The funds underlying the Plan's default lifestyle arrangements are in bold text. The transaction costs shown in the table have been provided by Aviva.

Fund	TER (%)	Transaction Costs (%)
Mercer Growth / Balanced Risk	**0.48**	**0.21**
Mercer High Growth / Higher Risk	0.49	0.23
Mercer Diversified Retirement Fund	**0.49**	**0.20**
Mercer Cash Retirement Fund	0.36	0.01
Mercer Target Drawdown 2022 Retirement Fund	**0.52**	**0.19**
Mercer Target Drawdown 2023 Retirement Fund	**0.53**	**0.19**
Mercer Target Drawdown 2024 Retirement Fund	**0.54**	**0.21**
Mercer Target Drawdown 2025 Retirement Fund	**0.53**	**0.20**
Mercer Target Drawdown 2026 Retirement Fund	**0.51**	**0.21**
Mercer Target Drawdown 2027 Retirement Fund	**0.50**	**0.21**
Mercer Target Drawdown 2028 Retirement Fund	**0.49**	**0.21**
Mercer Target Drawdown 2029 Retirement Fund	**0.48**	**0.21**
Mercer Active UK Equity	0.91	0.82
Mercer Active Global Equity	0.93	0.09
Mercer Sustainable Global Equity	0.87	0.27

Source: Aviva, TER as at 5 April 2021, transaction costs up to 31 March 2020.

Impact of Costs and Charges

3.4 In accordance with regulation 23(1) (ca) of the Administration Regulations, as inserted by the 2018 Regulations, the Trustees have prepared an illustration detailing the impact of the costs and charges typically paid by a member of the Plan on their retirement savings pot. The statutory guidance provided has been considered when providing these examples. The below illustration has taken into account the following elements:

- Savings pot size;
- Real terms investment return gross of costs and charges;
- Adjustment for the effect of costs and charges; and
- Time.

3.5 To make this representative of the membership, the Trustees have based this on the average member age of 43, using an average pot size of £18,500 and assumes an overall contribution level of 9%. An assumed average salary of £35,000 has been used.

Projected DC Account in Today's Money (£)								
	Most Popular		Most Expensive		Least Expensive & Lowest Expected Growth		Highest Expected Growth	
Year-end	Drawdown Retirement Path		Mercer Active Global Equity		Mercer Cash		Mercer Sustainable Global Equity	
1	£22,000	£21,900	£22,300	£22,000	£21,300	£21,200	£22,300	£22,100
2	£25,600	£25,300	£26,200	£25,600	£24,100	£23,900	£26,100	£25,700
3	£29,200	£28,800	£30,200	£29,300	£26,800	£26,500	£30,100	£29,400
4	£32,900	£32,300	£34,400	£33,100	£29,400	£29,100	£34,300	£33,200
5	£36,700	£35,800	£38,600	£36,900	£32,100	£31,600	£38,500	£37,000
10	£56,600	£54,200	£62,200	£57,300	£44,500	£43,300	£61,800	£57,600
15	£78,400	£73,600	£89,700	£79,900	£55,900	£53,900	£88,900	£80,400
20	£99,700	£91,800	£121,800	£104,800	£66,400	£63,300	£120,400	£105,700
22	£106,800	£97,600	£136,200	£115,500	£70,300	£66,900	£134,400	£116,600

Notes:

1. Salary increase and price inflation have been assumed to be 2.5% per year
2. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation
3. When allowing for the transaction costs within the growth assumptions, the Trustees have used an average of the transaction costs provided by Aviva for the 2018/19, 2019/20 and 2020/21 Plan years. This is because the transaction cost for each will fund will fluctuate, so using an average is likely to be more accurate over a long time period.
4. Starting pot size is assumed to be £18,500 and future contributions of 9% have been assumed
5. Starting salary is assumed £35,000.
6. Values are illustrations only and are not guaranteed
7. The projected growth rates assumed for each fund, after allowing for charges, are as follows:
    a. Drawdown Retirement Path (Default investment arrangement) between 1.20% and -0.44% p.a net expected real return above inflation, depending on how far away a member is from retirement
    b. Mercer Active Global Equity (Most Expensive Fund): 2.04% p.a net expected real return above inflation.
    c. Mercer Sustainable Global Equity (Highest Expected Growth): 2.10% p.a net expected real return less inflation.
    d. Mercer Cash Retirement (Lowest Expected Growth and Least Expected Return Fund): -2.10 % p.a. net expected real return above inflation.

3.6 The Trustees have presented a further illustration below. This is based on a member of age 21, using a starting pot size of £700 and a salary of £19,500. It also assumes an overall contribution level of 9% per annum.

Projected DC Account in Today's Money (£)								
	Most Popular		Most Expensive		Least Expensive & Lowest Expected Growth		Highest Expected Growth	
Year-end	Drawdown Retirement Path		Mercer Active Global Equity		Mercer Cash		Mercer Sustainable Global Equity	
1	£2,500	£2,500	£2,500	£2,500	£2,400	£2,400	£2,500	£2,500
2	£4,300	£4,300	£4,400	£4,300	£4,100	£4,100	£4,400	£4,300
3	£6,100	£6,100	£6,300	£6,100	£5,800	£5,800	£6,300	£6,100
4	£8,000	£7,900	£8,300	£8,000	£7,400	£7,400	£8,200	£8,000
5	£9,900	£9,800	£10,300	£9,900	£9,100	£8,900	£10,300	£10,000
10	£20,000	£19,400	£21,500	£20,200	£16,700	£16,400	£21,400	£20,300
15	£31,100	£29,600	£34,600	£31,500	£23,700	£23,000	£34,400	£31,700
20	£43,200	£40,400	£50,000	£44,000	£30,200	£29,000	£49,500	£44,300
25	£56,400	£51,900	£67,900	£57,900	£36,100	£34,400	£67,000	£58,400
30	£70,900	£64,100	£88,800	£73,200	£41,500	£39,200	£87,400	£74,000
35	£86,700	£77,000	£113,300	£90,200	£46,500	£43,600	£111,200	£91,300
40	£103,000	£89,700	£141,900	£108,900	£51,100	£47,500	£138,800	£110,500
44	£112,900	£96,800	£168,200	£125,300	£54,400	£50,400	£164,200	£127,400

Notes:

8. Salary increase and price inflation have been assumed to be 2.5% per year
9. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation
10. When allowing for the transaction costs within the growth assumptions, the Trustees have used an average of the transaction costs provided by Aviva for the 2018/19, 2019/20 and 2020/21 Plan years. This is because the transaction cost for each will fund will fluctuate, so using an average is likely to be more accurate over a long time period.
11. Starting pot size is assumed to be £700 and future contributions of 9% have been assumed
12. Starting salary is assumed £19,500.
13. Values are illustrations only and are not guaranteed
14. The projected growth rates assumed for each fund, after allowing for charges, are as follows:
    a. Drawdown Retirement Path (Default investment arrangement) between 1.20% and -0.44% p.a net expected real return above inflation, depending on how far away a member is from retirement
    b. Mercer Active Global Equity (Most Expensive Fund): 2.04% p.a net expected real return above inflation.
    c. Mercer Sustainable Global Equity (Highest Expected Growth): 2.10% p.a net expected real return less inflation.
    d. Mercer Cash Retirement (Lowest Expected Growth and Least Expected Return Fund): -2.10 % p.a. net expected real return above inflation.

3.7 The Trustees acknowledge the requirement to publish these illustrations on a website and this page is available at www.vfm.aviva.co.uk/tremco-illbruck. The 2021 benefit statements include the web address in order to inform members where they can access this information. These illustrations will be published on the Aviva site.

4. Value for Members

4.1 In accordance with regulation 25(1)(b), the Trustees assessed the extent to which the charges under the Money Purchase Section represent good value for members and concluded that the Plan offers good value for money relative to peers and alternative arrangements that are available.

4.2 The Trustees' Value for Money assessment framework incorporates consideration of:

- Investment management charges
- Administration charges
- Transaction costs where available
- Net of fees performance
- Investment design and range
- Member communications
- Trustees' governance arrangements

- Additional services available to members.

4.3 In September 2021, the Trustees assessed the extent to which the charges under the Plan represent good value for members and concluded, in consultation with their DC advisers, that the Plan offers good value for money relative to peers and alternative arrangements that are available. The reasons underpinning this conclusion include:

- Charges for the Plan's default investment arrangement are below the 0.75% charge cap per year.
- With the exception of one fund, all funds in use by members of the Plan are assessed as providing good value when considering price and performance in conjunction. One fund has been assessed to provide reasonable value.
- The Plan's funds, based on their underlying investment managers, are assessed as having above average prospects of outperforming (active) or meeting the benchmark within the tolerance range (passive).
- The transaction costs provided by the Plan's fund managers appear to be reflective of the costs expected of the various asset classes and markets that the Plan invests in, although there is not yet an 'industry standard' that the Trustees can compare against.
- In other areas the assessment found that the Plan offers good VFM across the range of additional features for members, including governance, and communication.

4.4 In other areas the assessment found that the Plan offers good value across the range of additional features for members, including plan governance, and communication, for example:

- The Company pays for governance costs, together with various member communication, administration and advisory costs associated with operating the Plan, which further enhances the value that members receive.

4.5 The Trustees will continue to monitor the administration and performance of the Plan's investment funds.

5. AVCs within the DB Section

5.1 As noted above, there are additional voluntary contribution monies invested in Phoenix Life (NELEX Guaranteed Growth fund) and Scottish Life/Royal London (CREST Secure Fund).

5.2 The Phoenix Life investment offers guaranteed growth that has been at a much higher level than could be obtained in a regular deposit account over recent times however a penalty may be imposed on early disinvestment.

5.3 The Royal London investment is classed as a "deposit administration fund" with a standard growth rate declared annually; this was at 0.25% over 2020/21 and it has been announced that there will be capital protection applied.

5.4 Providing a comparison between these types of funds and its peers is quite difficult as the funds offer different terms and guarantees and, hence, will invest very differently from one another, which in turn affects the performance received through bonus announcements. There may also be penalties applied for early disinvestment.

5.5 Assessing value for members is directly related to an individual's attitude towards, and capacity for, investment risk. An individual may find comfort in the fact that there are some guarantees, whether that is a certain level of investment return or "just" capital security. Therefore, we consider it inappropriate to reach a general conclusion on value for members for these "deposit administration" funds as this may vary by member.

6. Trustee Knowledge and Understanding

6.1 In accordance with sections 247 and 248 of the Pensions Act 2004, the Trustees are required to maintain an appropriate level of knowledge and understanding which, together with professional advice, enables them to properly exercise their functions and duties in relation to the Plan. This requirement has been met during the course of the Plan year and the Trustees have undertaken regular training throughout the year, in summary:

- The Trustees have regular meetings and professional advisors are in attendance at each meeting.
- The Trustees review training opportunities periodically throughout the year, and attends any sessions they think are appropriate, training is subsequently recorded in a log.
- The Trustees receive topical training regarding DC pensions from their advisers.

6.2 The Trustees undertook a number of activities over the past year which demonstrates how they have a working knowledge of pension & trust law, funding & investment principles, Trust Deed and Rules and the SIP. These activities include:

- The conflicts of interest policy is considered at each meeting.

- Trustees are in the process of incorporating a new employer into the Plan, demonstrating their knowledge of the Trust law, the Plan's deed and rules.
- The SIP was updated to include a policy on investment manager appointment, engagement and monitoring.
- The Risk Register is reviewed and updated regularly. This demonstrates that the Trustees hold relevant knowledge on DC specific internal controls and the regulatory requirements.
- In December 2020, the Trustees carried out an assessment of the Plan's processes and documentation against the Regulator's DC Code of Practice.

6.3 The following topical trainings were undertaken by the Trustees over the Plan year:

- In April 2020, the Trustees received training around COVID-19 (and similar events that could happen in future), and the impact it would have on the Plan.
- In June 2020, the Trustees received training on new SIP requirements, relating to engaging with investment managers, this training enabled the Trustees to subsequently update the SIP.
- At each meeting, the Trustees receive topical updates regarding DC pensions from their adviser at each meeting.

6.4 The Trustees are conversant with, and have a working knowledge of, the Trust Deed and Rules and the policies and documents setting out the Trustees' running of the Plan. If there are any ambiguities over the interpretation of the Rules legal advice is sought from the Plan's legal advisors. The Trustees are conversant with, and have a working knowledge of, the current SIP. The Trustees undertake regular training on investment matters and reviews the investments held by the Plan at each meeting. The Trustees have sufficient knowledge of investment matters to be able to challenge their advisors

6.5 The Trustees receive professional advice from Mercer and other advisors to support them in reviewing the performance of the Plan and in governing the Plan in line with the Trust Deed and Rules, and the relevant skills and experience of Mercer is a key criterion when evaluating advisor performance or selecting new advisors. The advice received by the Trustees along with their own experience allows them to properly exercise their function as Trustees.

6.6 The Trustees also review and assess, on an ongoing basis, whether the systems, processes and controls across key governance functions are consistent with those set out in the Pension Regulator's Code of Practice 13, the last review took place in December 2020.

6.7 The Trustees have a robust training programme in place for newly appointed Trustees. Upon appointment, a Trustee is required to undertake completion of the Pensions Regulator's online training programme. The Trustee toolkit is expected to be completed within six months of appointment.

6.8 The Trustees believe that the best run pension plans utilise the combined skill and knowledge of both the individual Trustees and their professional advisors. The relevant skills and experience of those advisors are key criteria when evaluating advisor performance and selecting new advisors.

7. Statement of DC Governance

7.1 The Trustees undertake regular assessments of the Plan against the DC Code of Practice 13 and related guidance.

7.2 The Trustees consider that our systems, processes and controls across key governance functions are consistent with those set out in the Pension Regulators Code of Practice 13.

Signed for and on behalf of the Trustees of the Tremco Illbruck UK Pension Plan

Date ....

By

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Peter Paes, Chair of Trustees

Appendix A - Statement of Investment Principles