

THE CHAIRMAN'S STATEMENT REGARDING DC GOVERNANCE: 6 APRIL 2019 – 5 APRIL 2020

This statement is produced pursuant to Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996, as amended by subsequent legislation. It explains how the Deeside Cereals Pension Scheme is meeting the governance standards that apply to occupational pension schemes that provide money purchase benefits. These money purchase benefits relate to 3 members who have historic money purchase benefits in the Scheme, and also relate to AVC arrangements provided by the Scheme for members who have historically paid AVCs to the Scheme.

The Scheme is closed to further contributions. This means that no new members can commence paying money purchase contributions and the existing members who have historic funds (including AVCs) cannot make further contributions.

The Scheme is managed by Deeside Cereals I DB Pension Ltd ("the Trustee"), which ensures that the Scheme is run in the best interests of the members, and in accordance with the Scheme's rules and the law.

The Trustee receives professional advice from Mercer and holds three meetings a year. Mercer attends these meetings.

At the Trustee meetings, the high level operational framework of the Scheme is set, monitored and managed, so that the Scheme continues to be run within relevant codes of practice and best practice, and evolved over time as appropriate.

Oversight and monitoring of the day to day activity and performance of the Scheme is also undertaken at these Trustee meetings to check that the Scheme is operating effectively.

This Statement includes information about costs and charges in relation to members' investments, and a cumulative projection as required by the regulations, which is set out in Appendix 1. The Statement is available online at <http://www.deesidecereals.co.uk/wp-content/uploads/2019/10/pension-statement.pdf>.

Default arrangement

Under the regulations, trustees need to provide background on a scheme's default investment arrangement.

The 3 relevant members' funds were invested in the Equitable Life With Profits Fund (ELWPF).

On 31st December 2019, the business of Equitable Life was transferred to Utmost, with the ELWPF being disinvested and members' fund values being increased by an "Uplift" of between 87% and 111% (differing by member) in exchange for the capital guarantee and then reinvested with Utmost.

The Trustee received advice from Mercer, its investment adviser, and determined that the proceeds should initially be invested in the Utmost Secure Cash Fund (USCF) and remain in there in full until 30 June 2020 because investments in this fund are guaranteed not to fall below the amount initially invested and this will therefore protect members's savings. Utmost are winding down the USCF over the second half of 2020, and the Trustee also received advice from Mercer that given the potential for market volatility, it would be appropriate for the investments in the USCF to transition to the Utmost Money Market Fund (UMMF).

The ELWPF had not been specifically selected as a default arrangement and there had been no specific default arrangement in place. However, with the transfer to Utmost, the USCF and the UMMF have effectively become default funds as members have been invested into these funds without their prior consents.

For avoidance of doubt, the Scheme is not being used as a qualifying scheme for Auto Enrolment purposes.

As well as the USCF and UMMF, members have the choice of investing in a range of other funds with Utmost Life.

At 5 April 2020, AVCs were invested with Legal & General and Utmost Life.

Processing Scheme transactions

The Trustee Directors have a specific duty to ensure that core financial transactions (including the investment of contributions, transfer of member assets into and out of the Scheme, transfers between different investments within the Scheme and payments to and in respect of money purchase members) are processed promptly and accurately.

The Trustee Directors note that no further contributions can be paid, and that there have been no member instigated transfers between different investments. The Trustee Directors also note that Mercer, the Scheme administrator, would co-ordinate the disinvestment and payment of these money purchase benefits when a member transfers or retires.

The Trustee Directors have a service level agreement (SLA) in place with Mercer's Administration team, which covers the accuracy and timeliness of all core transactions.

The Trustee Directors have also considered the latest internal control report from Mercer which reviews processes and controls implemented, and are satisfied that there were no material issues highlighted.

At each meeting the Trustee Directors review the latest Mercer Administration Report, which reports on core financial transactions. This enables the Trustee Directors to monitor that delivery is in line with the agreed service levels and member expectations.

Members will also approach the Trustee Directors, the Company, or the Scheme Administrator from time to time if they have questions about their benefits, or concerns or issues with the Scheme's administration. Feedback from members therefore provides a good independent check that the Scheme is being operated in line with members' expectations.

Taking the above into consideration, the Trustee Directors are satisfied that there were no material issues during the scheme year and therefore that the requirements for processing core financial transactions specified in the Administration Regulations (The Occupational Pension Schemes (Scheme Administration) Regulations 1996) have been met.

Transaction costs – default arrangement and additional funds

The law requires the Trustee Directors to disclose the charges and transaction costs borne by DC members and to assess the extent to which those charges and costs represent good value for money for members. These transaction costs are not limited to the ongoing charges on member funds, but should also include trading costs incurred within such funds.

The fund charges in relation to the funds that were invested in the ELWPF were 1% p.a. to cover the cost of administration, and an additional 0.5% p.a. to cover the cost of the guarantees provided by the With Profits policies. These were applied by Equitable Life to the overall with profits fund assets and did not affect the guaranteed value of units which was available to members on policy maturity as a minimum.

The charge for the USCF is 0.5% p.a. provided this does not reduce the fund value below the initial value transferred. This investment has therefore been fully protected against the recent major falls in the investment markets.

Within the Utmost policy, the Annual Management Charges are 0.75% p.a., except for the UK FTSE All-Share Tracker, the UK Government Bond and Money Market Funds, which are 0.5% p.a..

The member invested with L&G is invested in a range of equity index funds, and the charges for these funds are 0.5% p.a..

The funds the member is invested in are:

- L&G US Equity Fund
- L&G European Equity Fund
- L&G UK Equity Fund

All the above charges relate to the cost of the money purchase provider.

The cost of Mercer's administration is met directly by the Company and is therefore not borne by the members.

The Trustee Directors note that it is a requirement of pensions legislation that charges for the default arrangement of a scheme, that is used to comply with Auto Enrolment, cannot be greater than 0.75% p.a.. The Scheme is not used

as a vehicle to comply with the Auto Enrolment requirements and therefore is not required to comply with the charge cap. Nevertheless, all the members' current funds have charges below the cap.

With this in mind, the Trustee Directors are satisfied that members receive value for money in relation to the money purchase and AVC benefits provided by the Scheme.

As noted earlier in this Statement, Appendix 1 includes an illustration of the impact of costs and charges.

It is a requirement to show such an illustration for the default investment strategy as well as an appropriate range of options.

There is no specific default strategy for the Scheme, although the funds for all members with money purchase transferred in benefits were invested in the ELWPF, before being transferred to the USCF and then transitioning to the UMMF over the second half of 2020. These funds have therefore become default arrangements because members' funds have been invested in them without the members' specific agreement. We have therefore prepared an illustration for the UMMF.

We have also provided a projection the L&G US Equity Fund which is the L&G fund with the most money invested.

Assessment of dealing costs over the period

As mentioned above, the Scheme is closed to further money purchase and AVC contributions. Therefore, no contributions have been paid to the Scheme's money purchase or AVC funds over the year.

Furthermore, the Trustee Directors note that the majority of the Scheme's AVCs were invested in the ELWPF, where the investment manager will apply bonuses. The information from Equitable Life shows transaction costs of 1.036% and stocklending costs of 0.004% for the year ending 30 September 2019. When determining the level of bonuses the investment manager takes into consideration the performance of the underlying assets, net of any dealing costs and any internal transaction costs.

The USCF is a new fund, and as such there is no information on transaction costs available. The UMMF experienced transaction costs of 0.0082% over the 12 months to 31st December 2019, giving total charges of 0.51%.

Legal & General have confirmed that there were no member-borne transaction costs. Legal & General have been asked to confirm the fund level transaction costs, but at the time of producing this statement, these have not been provided. We will include this information in next year's statement if received.

Based on the information available, the Trustee Directors are however satisfied that there are no material dealing costs to note in this year's report.

Statement of Investment Principles (SIP)

The latest SIP for the Scheme as a whole was recently updated in September 2020. As noted within this Chairman's Statement, the 3 members with historic money purchase benefits were invested in the ELWPF. This fund was not specifically selected as a default arrangement and there is no specified default arrangement in place. As such, the 2019 SIP does not specifically set out specific objectives or principles in relation to these funds and has not been included as part of this Chairman's Statement. The 2020 SIP will include the relevant information in relation to the default arrangement and a copy of the SIP will be included with the Trustee Report and Accounts. A copy of the SIP is also available on request, and is available online at:

http://www.deesidecereals.co.uk/wp-content/uploads/2020/09/Deeside-SIP-September-2020_Approved.pdf.

Ongoing Monitoring

The Trustee Directors review performance of the non With Profits funds on an annual basis, and are satisfied that the performance over the year ending 31 March 2020 was satisfactory.

Communications

Over the year ending 6 April 2020, the communications issued to members included:

- Annual benefit statement incorporating the Statutory Money Purchase Illustration
- Retirement warm up letters for members reaching age 50 including signposting to relevant information and guidance
- An 'at retirement' "Pensions Decision Service" provided by Mercer and offered to members as part of their retirement communications. This provides personalised support to members to help them navigate their choices at retirement including written guidance and a recommendation to seek independent financial advice where appropriate

As noted above, a copy of this Statement and the SIP are available on the on the website <http://www.deesidecereals.co.uk/wp-content/uploads/2019/10/pension-statement.pdf>.

Trustees' knowledge and understanding

Sections 247 and 248 of the Pensions Act 2004 set out the requirement for trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, investment of Scheme assets and other matters to enable them to exercise their functions as trustees properly. This requirement is underpinned by guidance in the Pension Regulator's Code of Practice 07 and 13.

The Trustee Directors have put in place arrangements for ensuring that they take personal responsibility for keeping themselves up-to-date with relevant developments. They are also required to familiarise themselves with the Scheme's trust deed, rules and Statement of Investment Principles.

The Trustee Directors are all experienced in their roles. The Trustee board includes a professional, independent Trustee, 3 of the 4 Trustee Directors have been in their role for more than 10 years, whilst the fourth Trustee Director has been in place for more than 5 years.

The Trustee Directors receive advice from professional advisers, who attend all meetings and the relevant skills and experience of those advisers is a key criterion when evaluating adviser performance or selecting new advisers. The Trustee Directors will seek advice, if appropriate, between meetings as and when questions or issues arise to ensure that the Scheme is administered in accordance with its governing documents as well as the overriding pensions legislation.

The experience of the Trustee Directors and the assistance of the advisers, both at meetings, and outside meetings as required, helps the Trustee to make sure that the Scheme is administered in accordance with its governing documents and policies, overriding pensions legislation, as well as the Statement of Investment Principles.

The Trustee demonstrated a knowledge of the SIP over the Scheme year when it was updated to include the new provisions in relation to Responsible Investment, Environmental Social and Governance factors including Climate Change, with the new version reviewed by the Trustee Directors and signed off in September 2019.

They have also carried out a self-assessment of training needs to help identify any knowledge gaps and this has been reviewed so that training needs can be addressed.

Over the Scheme year, the Trustee Directors have received updates on legislative developments in the course of their regular meetings with a Current Pensions Issues document from Mercer being included on the agenda at each Trustee meeting, so that the Trustee Directors can satisfy themselves that they are kept up to date with relevant developments.

Over the Scheme year, the Trustee Directors between them received relevant training as follows:

June 2019 Trustee meeting:

- Notifiable Events and Whistleblowing from Mercer
- Responsible Investment and Environmental, Social and Governance factors from Mercer
- Club Vita life expectancy, Mercer

February 2020 Trustee meeting:

- Implications of Shareholders' Rights Directive on SIPs from Mercer

The Independent Trustee Chair also undertook over 35 hours of training over the Scheme year, of which over 10 hours was on DC related matters.

All of the existing Trustee Directors have completed the Pension Regulator's Trustee Toolkit and new Trustee Directors are expected to complete this within six months of taking up office.

Taking account of actions taken individually and as a Trustee body, and the professional advice available to them, the Trustee Directors consider that they can properly exercise their functions as Trustee Directors of the Scheme.

Governance statement

As Trustee Directors of the Scheme, we have reviewed and assessed our systems, processes and controls across key governance functions and we are satisfied that these are consistent with those expected by The Pensions Regulator so far as they apply to the circumstances of the Scheme.

Furthermore, taking into consideration the Governance framework and measures assessed as set out within this Statement, the Trustee reviewed the relevant factors at its meeting on 22 October 2020 and concluded that it is satisfied that over the year ending 6 April 2020, the Scheme provided Value for Members.

The Chairman's statement regarding DC governance was approved by the Trustee Directors on 22 October 2020 and signed on their behalf by Mr W Ashburner, as Chairman of the Deeside Cereals I DB Pension Ltd, Trustee of the Deeside Cereals Pension Scheme.

APPENDIX 1 - CUMULATIVE EFFECT OF CHARGES

The compounding effect of charges on an active member's fund can be illustrated as follows:

Illustrations for an "Average" member				
	L&G US Equity Index Fund		Utmost Money Market Fund	
Years from now	Before Charges	After Charges and costs deducted	Before Charges	After Charges and costs deducted
0	£600	£600	£16,700	£16,700
1	£623	£620	£16,521	£16,437
3	£673	£663	£16,168	£15,925
5	£727	£709	£15,823	£15,428
10	£880	£838	£14,992	£14,252
11 (retirement)	£914	£867	£14,831	£14,028
Total Fees	£40		£848	
<p><i>It could be helpful to provide the context for the investment returns and charges presented above. If savings were not invested at all (i.e. there were no investment returns or fees) then, according to our modelling, the value of the "Average" members' pots at retirement would be £457 and £12,728 in today's money for the respective pots above.</i></p>				
<p>Assumptions</p> <p>The above illustrations have been produced for an "average" member of the Scheme based on the Scheme's membership data. The illustrations assume 100% of the member's assets are invested in that fund up to the Scheme retirement age. The results are presented in real terms, i.e. in today's money to help members have a better understanding of what their pension pot could buy in today's terms, should they invest in the funds above as shown.</p> <p>The total fee reflects what would actually be taken from the pot to pay for the management of assets and other expenses, whereas the difference between before and after fee pot values reflects the effect of the lost investment returns on the fees charged.</p>				
Age	54 (the average age of the Plan's unit linked AVC members)			
Plan Retirement Age	65			
Starting Pot Size	Fund dependent, shown above			
Inflation	2.5% p.a.			
Annual contributions	n/a			
Expected future returns on investment:	6.5%p.a. : L&G US Equity Fund 1.4.%p.a.: Utmost Money Market Fund			