

ESSENTRA PENSION PLAN (THE "PLAN")

ANNUAL GOVERNANCE STATEMENT FOR THE PLAN YEAR ENDING 5 APRIL 2019

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

1. Introduction

1.1 Regulations effective from 6 April 2015 require the Trustee to prepare a statement showing how they have met governance standards in relation to defined contribution benefits under the Plan. In doing so, we provide the various statutory disclosures required by the Occupational Pension Schemes (Charges and Governance) Regulations 2015

1.2 The statement covers five principle areas:

1. *The default investment arrangement*
2. *Core financial transactions*
3. *Charges and transaction costs*
4. *Value for Members assessment, and*
5. *The Trustee's compliance with the statutory knowledge and understanding (TKU) requirements.*

As Chairman of the Trustee, it is my pleasure to report to you on how the Trustee has embedded these standards over the period from 6 April 2018 to 5 April 2019 in relation to the Defined Contribution Section of the Plan.

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, a list of local independent financial advisers can be obtained on-line at www.unbiased.co.uk, if you choose to use a financial adviser, please be sure to check their area of expertise and their charges before making any commitments.

2. Default Investment Arrangement in the Defined Contribution Section

2.1 A copy of the Plan's latest Statement of Investment Principles ("SIP") is attached. The SIP has been prepared in accordance with Section 35 of the Pensions Act 1995, regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 and subsequent legislation. The SIP covers our aims and objectives in relation to the default investment arrangements 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, and accompanying Investment Policy Implementation Document ("IPID"), IPID 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.

2.2 A review of the default investment arrangement was undertaken during 2018. The review considered whether better risk-adjusted returns might be achieved by adopting other investment allocations in the growth phase, and it looked at the 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.

2.3 Following this review, the Trustee decided to make no change to the investment allocation of the default investment arrangement (a lifestyle targeting cash at retirement). The Trustee agreed that both the strategy and the performance of the funds remained consistent with the aims and objectives articulated in the SIP.

2.4 The default investment arrangement follows a pre-set investment route that transitions members' savings over the 5 years prior to the specified retirement date from a Growth fund (a combination of global equities and a diversified fund) to the Liquidity Fund (cash, 100% at retirement).

2.5 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 are more likely to be able to withstand the potential downside of equities as they have sufficient time for markets to recover.

- 2.6 As a member's invested fund grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustee believes that a strategy that seeks to reduce risk as the member approaches retirement is appropriate. This is achieved via automated lifestyle switches over the five-year period prior to a member's retirement date. Also, 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.
- 2.7 Investments are switched into 100% cash to match the targeted retirement outcome. Given the size of most members' DC pots at retirement, their link to the DB section of the Plan, and looking at what members have been taking at retirement, the Trustee believes this is the most appropriate target for members at the current time.

3. Core Financial Transactions

- 3.1 As required by the Administration Regulations, the Trustee 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.
- 3.2 The Schedule of Contributions sets out timescales for Essentra Plc ("the Company") to remit monthly contributions to the Plan in accordance with legislative requirements. However, agreed practice provides for payment of contributions in advance of these timescales. The deduction and payment of contributions is reviewed by the Company. Once received, contributions are invested in accordance with the timescales set out in the administration agreement with the Plan Administrators.
- 3.3 The Trustee receives administration reports produced by Barnett Waddingham LLP which are reviewed by the Trustee quarterly, enabling them to monitor that the requirements for the processing of financial transactions are being met.
- 3.4 The service level agreement ('SLA') with Barnett Waddingham sets out the approach (including timescales) regarding the transfer of members' assets into and out of the Plan the transfer of members' assets between different investment options available in the Plan and payments from the Plan to, or in respect of, members. The service level standards are reviewed periodically to ensure they remain appropriate and meet legislative requirements. Performance against SLAs is currently at 98.8% at a scheme level for quarter four 2018. The service level standards are reviewed periodically to ensure they remain appropriate and meet legislative requirements.
- 3.5 The Trustee has appointed an independent auditor, J W Hinks LLP, 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.
- 3.6 The Trustee is satisfied that the Plan's core financial transactions have been processed promptly and accurately during the period to which the Statement relates.
- 3.7 The Plan's risk register details the key risks to Plan members and is monitored and reviewed on a quarterly basis. The risk register sets out controls to mitigate the effects of these risks.
- 3.8 Core transactions require liaising with the investment managers. The Trustee has delegated the day-to-day investment management of the DC and AVC Section assets to underlying investment managers, Legal & General. The legacy AVC policies are held with Equitable Life.

4. Charges and Transaction Costs

- 4.1 As required by the Administration Regulations, the Trustee is required to report on the charges and transactions costs for the investments used in the Default 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.
- 4.2 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, we note that 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.
- 4.3 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.
- 4.4 The tables below show the total expense ratio (TER) in each of the funds underlying the Plan's default lifestyle arrangements (the 5 Year Cash Lifestyle Strategy). The overall charge being deducted from a member's fund, if in the default lifestyle arrangement, will reflect the member's allocations in each of the underlying funds. The TER is at its highest during the growth phase, falling during the five years prior to the Selected Retirement Age, to reflect the automated transition of assets to the Liquidity Fund, which has a lower TER.

Funds used within the Default Lifestyle Arrangement	Total Expense Ratio (% p.a.)	Transaction Cost (% p.a.)
Global Equity Market Weights (30:70) Index	0.160	0.000
Diversified	0.300	-0.050
Sterling Liquidity	0.125	-0.020

The following provides information on the charges applicable to the funds offered as self-select options.

Fund	Total Expense Ratio (% p.a.)	Transaction Cost (% p.a.)
Global Equity Fixed Weights (50:50) Index	0.125%	0.050%
UK Equity Index	0.080%	-0.010%
North America Equity Index	0.125%	-0.010%
Europe (ex-UK) Equity index	0.175%	0.010%
Japan Equity Index	0.150%	-0.010%
Asia Pacific (ex-Japan) Equity Index	0.225%	-0.010%
World Emerging Markets Equity Index	0.400%	0.030%
Over 15 Year Fixed Interest Gilts Index	0.040%	-0.020%
Pre-Retirement	0.150%	0.020%
Over 5 Years Index Linked Gilts	0.040%	0.050%
Drawdown	0.250%	0.000%

Source: LGIM (May 2019)

5. AVC – Legacy Policies

- 5.1 The Plan's assets also include AVCs held in legacy policies with Equitable Life. A number of the AVC investments are held in With-Profits funds, due to the way in which With-Profits Funds are structured, any fee is an indicative fee, actual charges are not explicitly stated. These funds are not subject to Charge Cap Regulations. Due to changes at Equitable Life, the Trustee will undertake a review of these arrangements in 2019.

Fund	Total Expense Ratio (% p.a.)	Transaction Cost (% p.a.)
Equitable Life: With Profits	1.00%	n/a

Source: Equitable Life – due to the way in which With Profits funds are structured, this is an indicative fee – actual charges are not explicitly stated.

6. Impact of Costs and Charges

- 6.1 In accordance with regulation 23(1)(ca) of the Administration Regulations, as inserted by the 2018 Regulations, the Trustee has 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.

To make this representative of the membership, the Trustee has based this on the average member age of 44, using a starting pot size of £15,500 and assumes an overall contribution level of 9%. Assumed starting salary of £29,500 has been used, with a 2.50% salary increase per year.

Projected Pot sizes in Today's Money										
Year End	Most Popular Fund / Default Arrangement		Most Expensive Fund		Highest Growth		Lowest Growth		Cheapest Fund	
	Cash Lifestyle Path		World Emerging Markets		UK Equity Fund		Liquidity Fund		Over 15 Year Fixed Interest Gilts Index	
	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred
1	19,616.24	19,557.39	19,692.90	19,608.22	19,692.90	19,677.15	19,022.25	18,998.47	19,022.25	19,014.64
2	23,927.88	23,795.97	24,102.00	23,889.49	24,102.00	24,057.65	22,601.98	22,550.21	22,601.98	22,585.40
3	28,442.09	28,221.99	28,735.97	28,380.35	28,735.97	28,661.63	26,240.91	26,156.91	26,240.91	26,214.01
4	33,166.30	32,841.91	33,603.77	33,078.21	33,603.77	33,493.73	29,940.83	29,820.32	29,940.83	29,902.22
5	38,108.16	37,662.40	38,714.72	37,990.54	38,714.72	38,562.86	33,703.55	33,542.24	33,703.55	33,651.85
10	66,368.31	65,020.93	68,266.06	66,048.53	68,266.06	67,797.61	53,525.80	53,094.70	53,525.80	53,387.43
15	101,372.61	98,517.57	105,496.56	100,739.13	105,496.56	104,484.59	75,216.48	74,402.12	75,216.48	74,954.73
20	135,485.96	131,106.65	152,004.31	143,310.08	152,004.31	150,142.50	99,056.34	97,738.90	99,056.34	98,632.33
21	140,183.55	135,677.16	162,580.40	152,894.27	162,580.40	160,503.43	104,109.35	102,676.26	104,109.35	103,648.00

* The TER and transaction costs for the default and most popular fund, the Cash Lifestyle Strategy changes depending upon how close the member is to retirement. The Cash Lifestyle is comprised of a number of different funds. De-risking for Plan members begins five years before retirement. The underlying asset allocation for the lifestyle option changes over the de-risking period at the end of each year end prior to a member's target retirement date.

Notes:

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation
2. Starting pot size is assumed to be £15,500 and future contributions of 9% have been assumed
3. Starting salary is assumed to be £29,500 with an assumed increase of 2.50% per year
4. Values are estimates and are not guaranteed
5. The projected growth rate for each fund are as follows:
 - a. Cash Lifestyle Path (Most Popular Fund): 2.48% p.a. gross expected real return above inflation (This applies to investment in the growth phase only)
 - b. World Emerging Markets (Most Expensive Fund): 2.93% p.a. gross expected real return above inflation.
 - c. UK Equity Index (Highest Expected Growth): 2.93% p.a. gross expected real return above inflation.
 - d. Liquidity Fund (Lowest Expected Growth Fund): -0.98% p.a. gross expected real return above inflation.
 - e. Over 15 Year Fixed Interest Gilts Index (Cheapest Fund): -0.98% p.a. gross expected real return above inflation.
6. The Transaction Costs relate to the actual transaction costs incurred in the Plan year

6.2 The Trustee acknowledges the requirement to publish these illustrations on a website and this page will be available in time for the deadline of 7 months following the Plan year end. The 2019 benefit statements will include the web address in order to inform members where they can access this information.

7. Value for Members

7.1 In accordance with regulation 25(1)(b), the Trustee is required to consider the extent to which the investment options and the benefits offered by the Plan represent good value for members when this is compared to other options available in the market.

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

7.3 The Trustee conducted a detailed Value for Money assessment in order to arrive at this conclusions, incorporating consideration of:

- Annual management charges
- Net cost of performance
- Fund range available to members
- Investment manager and platform provider ratings
- Additional services available to members, including at retirement options, services and member tools.

7.4 In May 2019, the Trustee assessed the extent to which the charges under the Essentra Pension Plan represent good value for members and concluded that the Plan offers good value for money relative to peers and alternative arrangements that are available. The reasons underpinning this conclusion include:

- The Trustee is satisfied that Barnett Waddingham have provided a good service during the Plan year
- Charges on funds have been assessed by our advisors as comparing favourably with those of peer funds for asset size.
- The funds used by the Plan are rated by Mercer Ltd as having good prospects of achieving their risk and return objectives.
- The performance of the Plan's funds over the period covered by this statement compare favourably relative to the benchmark set by the Trustee.

7.5 In other areas the assessment found that the Plan offers good value for money across the range of additional features for members, including scheme governance and management, administration, and communications.

7.6 Additionally, the Company pays for all administration, member communication and some advisory costs associated with operating the Plan, which further enhances the value that members receive. The Company also pays for the blending of investment funds to enhance the member experience.

7.7 The non-financial benefits of membership were also considered and included (amongst other things): the efficiency of administration processes and the extent to which Barnett Waddingham as administrator met its service level agreements for the year; the communications delivered to members; and the quality of plan governance.

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

8. **Trustee Knowledge and Understanding**

- 8.1 In accordance with sections 247 and 248 of the Pensions Act 2004, the Trustee is required to maintain an appropriate level of knowledge and understanding which, together with professional advice which is available to them, enables them to properly exercise their functions and duties in relation to the Plan.
- 8.2 This requirement has been met during the course of the Plan year and the Trustee has undertaken regular training throughout the year, including:
- General Data Protection Regulation training – 29 November 2017 and regularly updated as appropriate
 - Investment Strategy Review and Training on the DC pension market – June 2018
 - Updates in pension legislation – every quarter
 - General investments and the Plan's default monitoring at each quarterly Trustee meeting and each quarterly Investment Committee meeting
 - Updates on current pension topics from the Plan's advisor at each quarterly meeting
- 8.3 The Trustee's meetings held in the period for this Statement were attended by the Plan's advisers. Training and advice delivered as part of the business at these meetings is incorporated by the Trustee into their decision making processes.
- 8.4 The Trustee is conversant with, and have a working knowledge of, the Trust Deed and Rules. If there are any ambiguities over the interpretation of the Rules legal advice is sought from the Plan's legal advisors. During the year, the Trustee has demonstrated this knowledge in relation to the death benefits provisions.
- 8.5 The Trustee is conversant with, and has a working knowledge of, the current SIP. The Trustee undertakes regular training on investment matters and review the investments held by the Plan at each meeting. The Trustee has sufficient knowledge of investment matters to be able to challenge their advisors.
- 8.6 The Trustee receives professional advice from Mercer 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 advisers. The advice received by the Trustee along with their own experience allows them to properly exercise their function as trustees.
- 8.7 The Trustee also reviews and assesses, on an ongoing basis, whether the systems, processes and controls across key governance functions are consistent with those set out in the Pensions Regulator's Code of Practice 13.
- 8.8 The Trustee is required to have a robust training programme in place for newly appointed Trustee Directors. For the Plan, upon appointment, a Trustee Director 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.
- 8.9 The Trustee 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:
- An investment review of the fund range was undertaken in June 2018; this demonstrates the Trustee's knowledge of investment principles and the Trust Deed and Rules.
 - The SIP is in the process of being updated following ESG discussions in March 2019; this demonstrates the Trustee's knowledge of investment principles and the Plan documentation.
 - The Risk Register is reviewed and updated quarterly. This demonstrates that the Trustee holds relevant knowledge on DC specific internal controls and the regulatory requirements.

8.10 The Trustee believes that the best run pension schemes utilise the combined skill and knowledge of both the Trustee and its professional advisors. The relevant skills and experience of those advisors are key criteria when evaluating advisor performance and selecting new advisors. Additionally, the following measures have applied during the period:

- The Trustee’s professional advisors attend their formal meetings;
- The Trustee board contains trustee directors with wide ranging skills and experience, including pension experience;
- The Trustee receives briefings from their advisors on all legislative and regulatory developments at each meeting;

This statement has been prepared in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 as amended by the Occupational Pension Schemes (Charges and Governance) 2015 (together ‘the Regulations’) and I confirm that the above statement has been produced by the Trustee to the best of my knowledge.

I confirm that the above statement has been produced by the Trustee to the best of its knowledge.

Signed for and on behalf of the Trustee of the Essentra Pension Plan

Date

By

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Chairman of Trustee

Appendix A

Reporting Costs and Charges – Additional Illustrations

Due to the diverse Plan demographics, the Trustee has presented a further illustration below.

This is based on a member of 21, using a starting pot size of £1,500. It also assumes an overall contribution level of 9% per annum. Assumed starting salary of £29,588 has been used, with a 2.50% salary increase per year.

Projected Pot sizes in Today's Money										
Year End	Most Popular Fund / Default Arrangement		Most Expensive Fund		Highest Growth		Lowest Growth		Cheapest Fund	
	Cash Lifestyle Path		World Emerging Markets		UK Equity Fund		Liquidity Fund		Over 15 Year Fixed Interest Gilts Index	
	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred
1	3,721.66	3,710.49	3,732.73	3,716.68	3,732.73	3,729.74	3,635.69	3,631.15	3,635.69	3,634.24
2	6,053.03	6,023.46	6,085.52	6,042.91	6,085.52	6,077.58	5,804.30	5,792.55	5,804.30	5,800.54
3	8,498.21	8,442.51	8,563.27	8,482.77	8,563.27	8,548.25	8,006.86	7,985.23	8,006.86	7,999.93
4	11,061.42	10,971.32	11,171.03	11,040.49	11,171.03	11,146.65	10,244.41	10,210.21	10,244.41	10,233.45
5	13,747.02	13,613.72	13,914.04	13,720.43	13,914.04	13,877.83	12,518.02	12,468.55	12,518.02	12,502.17
10	29,173.88	28,671.56	29,854.98	29,116.24	29,854.98	29,716.01	24,466.25	24,299.23	24,466.25	24,412.66
15	48,403.13	47,213.85	50,080.44	48,309.57	50,080.44	49,745.32	37,491.68	37,136.49	37,491.68	37,377.57
20	72,165.79	69,869.35	75,493.17	72,031.09	75,493.17	74,834.16	51,759.46	51,142.06	51,759.46	51,560.87
25	101,319.10	97,368.82	107,167.33	101,137.69	107,167.33	106,012.84	67,455.28	66,497.36	67,455.28	67,146.79
30	136,867.04	130,560.64	146,379.08	136,633.07	146,379.08	144,502.11	84,788.19	83,406.15	84,788.19	84,342.59
35	179,984.04	170,428.73	194,642.67	179,691.45	194,642.67	191,746.40	103,993.65	102,097.53	103,993.65	103,381.62
40	230,498.11	216,738.72	253,752.56	231,685.07	253,752.56	249,452.83	125,337.12	122,829.37	125,337.12	124,526.82
44	254,939.18	239,515.26	310,264.74	280,781.21	310,264.74	304,493.27	144,151.22	141,077.99	144,151.22	143,157.39

* The TER and transaction costs for the most popular fund, the Cash Lifestyle Path change depending upon how close the member is to retirement. The Cash Lifestyle Path is comprised of a number of different funds. De-risking for Plan members begins five years before retirement. The underlying asset allocation for the lifestyle option change over the de-risking period at the end of each year end prior to a member's target retirement date.

Notes:

- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation
- Starting pot size is assumed to be £1,500 and future contributions of 9% have been assumed
- Starting salary is assumed to be £16,800 with an assumed increase of 2.50% per year
- Values are estimates and are not guaranteed
- The projected growth rate for each fund are as follows:
 - Cash Lifestyle Path (Most Popular Fund): 2.48% p.a. gross expected real return above inflation (This applies to investment in the growth phase only)
 - World Emerging Markets (Most Expensive Fund): 2.93% p.a. gross expected real return above inflation.
 - UK Equity Index (Highest Expected Growth): 2.93% p.a. gross expected real return above inflation.
 - Liquidity Fund (Lowest Expected Growth Fund): -0.98% p.a. gross expected real return above inflation.
 - Over 15 Year Fixed Interest Gilts Index (Cheapest Fund): -0.98% p.a. gross expected real return above inflation.
- The Transaction Costs relate to the actual transaction costs incurred in the Plan year