Chairs Governance Statement for the year to 31 December 2023 for the AvestaPolarit Pension Scheme

This Chair's Governance Statement has been produced for the AvestaPolarit Pension Scheme (the "Scheme") in accordance with regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996, introduced by the Occupational Pension Schemes (Charges and Governance) Regulations 2015. It describes the role of the Trustee Board ("Trustee") and how the Trustee has met its statutory governance standards in relation to the Scheme's Defined Contribution ("DC") arrangements during the Scheme year ended 31 December 2023 (the "Scheme Year") in the following areas:

- the requirement for Trustee knowledge and understanding;
- the default investment arrangements;
- assessment of charges and transaction costs;
- assessment of value for members;
- the net return on investments for each default arrangement and self-select funds;
- the asset allocation for each default arrangement; and
- requirements for processing core financial transactions.

The Trustee has agreed that the Charges year for the purposes of the Occupational Pension Schemes (Charges and Governance) Regulations 2015 shall be the same as the Scheme Year.

The Scheme is used as a qualifying scheme for Auto-enrolment.

It is noted that since 31 October 2022, the Scheme has two legally separate sections known as the "Outokumpu Section", which includes Defined Benefit ("DB") and DC arrangements, and the "Long Products Section", which includes just DC arrangements. Whilst the Outokumpu Section and the Long Products Section are legally separate sections, for the purpose of this Chair's Governance Statement, reference to DC arrangements means the DC arrangements in both the Outokumpu Section and the Long Products Section.

Role of the Trustee

The Trustee is accountable to the Scheme's members of both the Outokumpu Section (in relation to DB and DC arrangements) and the Long Products Section (in relation to DC arrangements), for the overall management of the Scheme and in terms of acting in the best interests of the members.

The Scheme has in place a conflicts of interest policy. Any conflicts of interest are recorded at each Trustee's meeting. The Scheme has been run by a professional Sole Trustee with effect from 8 March 2021.

Investment strategy

Members who join the Scheme and who do not choose an investment option are placed into the default investment strategy. The Scheme's DC investment strategy is set out in the Scheme's Statement of Investment Principles ("SIP") which governs its decisions about investments including its aims, objectives and policies for the Scheme's default arrangements, prepared in accordance with Regulation 2 of the Occupational Pension Schemes (Investment) Regulations 2005. A copy of the SIP in force as at 31 December 2023, is attached to this document.

For the Scheme's DC arrangements, the Trustee's policy is to seek to provide members with a range of lifestyle strategies and self-select funds to support individual preferences and their retirement planning.

The DC arrangements have two default arrangements. Both are "lifestyle strategies", which means members are invested in different funds depending on their age and the time remaining to the members' chosen, or the default, target retirement age. The arrangements are:

- The "Balanced Lifestyle Strategy" (for members other than Special Deferred Members in the Outokumpu Section) – this strategy does not target one particular retirement outcome and provides improved diversification and more flexibility than a fund purely targeting an annuity at retirement. This Lifestyle Strategy starts de-risking, through diversification, when members are 20 years from retirement, with a further phased introduction of a bond portfolio 10 years from retirement.

- The “Lump Sum Lifestyle Strategy”, (introduced as a default for Special Deferred Members (“SDMs”) in the Outokumpu Section) – this is the default for SDMs as it is expected that they will use their DC assets to fund their Pension Commencement Lump Sum (usually alongside DB benefits) or to take a lump sum at retirement.

Members can select one of these defaults or one of two alternative lifestyle strategies. These are the “Annuity Lifestyle Strategy” and the “Drawdown Lifestyle Strategy”. They invest in the same way as the Balanced Lifestyle Strategy during the growth phase but follow different paths when de-risking based on the desired retirement choice.

In addition to the two lifestyle strategies, some additional self-select investments are provided for those members who prefer to make their own investment choices.

DC Investment strategy review

The Trustee periodically, and on no less than a three-yearly cycle, is required to review the appropriateness of the default arrangements and the range of funds available to members. It will undertake an earlier review if there are any significant changes in legislation, investment policy or member demographics.

The Trustee took professional advice and completed an investment strategy review in June 2022. The Trustee concluded that the design of the default investment strategies, the alternative lifestyle strategies and self-select fund range remain appropriate for the DC membership of the Scheme. The range of funds continues to achieve the primary objective of the SIP to provide appropriate investment vehicles to enable members to manage the different risks associated with money purchase investment.

The next default strategy review is schedule for 2025.

DC arrangement investment charges and transaction costs

The Trustee has agreed that the charges year for the purposes of the Occupational Pension Schemes (Charges and Governance) Regulations 2015 shall be the same as the Scheme Year. Charges are negotiated by the Trustee with advice from the Scheme’s investment adviser. In preparing this statement the Trustee has taken account of the DWP’s Statutory Guidance on reporting on costs and charges.

The Trustee has included a DC Costs and Charges illustration in the appendix, which sets out the cumulative effect over time of the charges and transaction costs on the value of a range of realistic and broadly representative funds (within the default fund), fund sizes and contribution rates. As each member has a different amount of savings within the Scheme and the amount of any future investment returns and future costs and charges cannot be known in advance, Fidelity (on behalf of the Trustee) has had to make several assumptions about what these might be.

The link below includes further illustrations for the full range of available funds within the DC arrangements of the Scheme. These illustrations have been produced by Fidelity and have taken account of the statutory guidance on disclosure charges and are updated quarterly:

https://retirement.fidelity.co.uk/costs-and-charges/avpo

Due to a technical issue at Fidelity, the illustrations appended to this Statement are as at 30 June 2024, rather than 31 December 2023, as this was the closest available date. The Total Expense Ratios have not changed between these dates, and the illustrations are not dependent on the date at which they are produced (they depend only on the projection period, not the starting date). It is not anticipated that the cause of the unavailability of the data will reoccur in the future.

For the purposes of regulation 2A of the Investment Regulations, due to their history and development, the five funds which make up the default lifestyle (see below) are also classified as “default arrangements” when used on a self-select basis.

The Trustee is required to set out the on-going charges borne by members in this statement, which are annual fund management charges plus any additional fund expenses, such as custody costs, but excluding transaction costs; this is also known as the total expense ratio (TER). The TER is paid by the members and is reflected in the unit price of the funds. None of the funds contain performance related fees.

The Trustee is also required to separately disclose transaction cost figures that are borne by members. In the context of this statement, the transaction costs shown are those incurred when the Scheme's fund managers buy and sell assets within investment funds. Due to calculation methods, these can sometimes be negative. In such circumstances, we have reported as zero. A full list of the funds available and the charges to 31 December 2023 are shown below (please note the transaction cost for the State Street All World Index Fund is as at 30 June 2023 and the Fidelity Cash fund is at as 31 March 2024, as Fidelity were unable to provide these cost at 31 December 2023):

Fund	Total Expense Ratio (a)	Transaction Costs (b)	Overall cost in Scheme year (a) + (b)
State Street All World Index (unhedged)	0.25%	0.03%	0.28%
Legal & General Diversified Fund	0.39%	0.00%	0.39%
BlackRock Over 15 Years UK Gilt Index	0.28%	0.03%	0.31%
BlackRock Corp Bond Index	0.29%	0.01%	0.3%
Fidelity Cash	0.30%	0.00%	0.30%
BlackRock Over 5 Years Ind Linked Gilt	0.28%	0.03%	0.31%
BlackRock Pacific Rim Equity Index	0.27%	0.00%	0.27%
Fidelity L&G Global Equity 30/70 Index Fund (Hgd)	0.31%	0.00%	0.31%
Fidelity L&G North American Equity Fund	0.29%	0.00%	0.29%
Fidelity L&G UK Equity Index Fund Class	0.29%	0.00%	029%
Fidelity L&G European (Ex UK) Equity Index	0.29%	0.10%	0.39%
Fidelity L&G World Emerging Markets	0.52%	0.00%	0.52%
L&G Japan Equity Index Fund	0.29%	0.03%	0.32%

Source: Fidelity to 31 December 2023

The default arrangements have been set up as a lifestyle approach, which means that members' assets are automatically moved between different investment funds as they approach their target retirement date. This means that the level of charges and transaction costs will vary depending on how close members are to their target retirement date and in which fund they are invested. During the Scheme year these range from 0.28% to 0.39% for the Balance Lifestyle Strategy and 0.28% and 0.39% for the SDM default strategy. This can be viewed in more detail here: https://retirement.fidelity.co.uk/costs-and-charges/avpo

Net investment returns

The Trustee is required to report on the net investment returns for their default arrangement(s) and for each fund which scheme members are, or have been, able to select, and in which members have assets invested during the scheme year. Net investment returns refer to the returns on funds minus all transaction costs and charges.

The figures for net investment returns used in the table below are based on those provided by Fidelity over the past 1,3 and 5 years.

Balanced Lifestyle Strategy

Age of member	Investment return over 1 year (to 31 December 2023)	Investment return p.a. over 3 years (to 31 December 2023)	Investment return over 5 year (to 31 December 2023)
25	16.1%	8.2%	11.9%
45	16.1%	7.7%	9.2%
55	7.4%	1.7%	3.9%

Lump Sum Lifestyle Strategy

Age of member	Investment return over 1 year (to 31 December 2023)	Investment return p.a. over 3 years (to 31 December 2023)	Investment return over 5 year (to 31 December 2023)
25	16.1%	8.2%	11.9%
45	16.1%	7.7%	9.2%
55	7.4%	2.1%	5.1%

When preparing this section of the statement, the Trustee has taken account of the DWP's statutory guidance on "Completing the annual Value for Members assessment and Reporting of Net Investment Returns".

In the addition to the above the net investment returns for the self-select fund available through the Scheme are shown below.

Fund name	Investment return over 1 year (to 31 December 2023)	Investment return p.a. over 3 years (to 31 December 2023)	Investment return p.a. over 5 years (to 31 December 2023)
State Street All World Index (unhedged)	16.1%	8.2%	11.9%
Legal & General Diversified Fund	7.4%	2.1%	5.1%
BlackRock Over 15 Years UK Gilt Index	1.3%	-17.7%	-6.6%
BlackRock Corp Bond Index	8.5%	-5.0%	0.2%
Fidelity Cash	4.6%	1.9%	1.2%
BlackRock Over 5 Years Ind Linked Gilt	-0.1%	-13.8%	-5.1%
BlackRock Pacific Rim Equity Index	4.1%	1.4%	6.1%
Fidelity L&G Global Equity 30/70 Index Fund (Hgd)	15.9%	7.2%	10.0%
Fidelity L&G North American Equity Fund	19.3%	11.7%	15.5%
Fidelity L&G UK Equity Index Fund Class	7.5%	8.4%	6.4%
Fidelity L&G European (Ex UK) Equity Index	14.7%	7.2%	10.1%

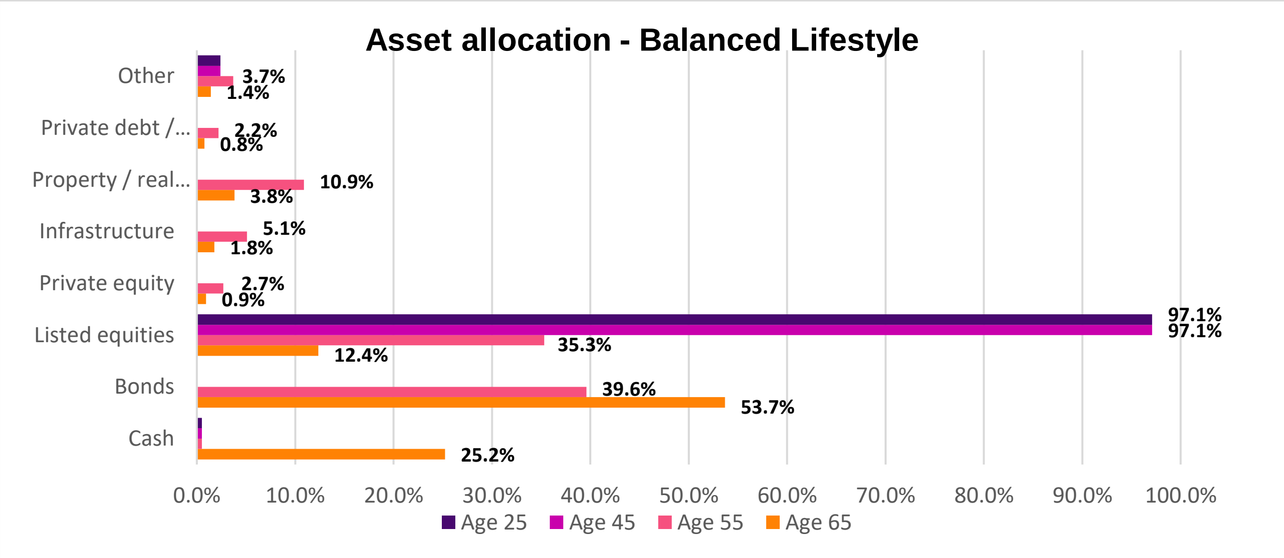
Fidelity L&G World Emerging Markets	2.6%	-1.8%	4.1%
L&G Japan Equity Index Fund	12.4%	2.8%	6.8%

Investment asset allocation

The Trustee has calculated the asset allocations, for example in relation to members invested in the default arrangements, in line with the guidance issued by the Department for Work and Pensions. The asset allocations vary for different aged members due to the lifestyle strategies outlined previously in this Statement. Figures may not add up to 100% due to rounding.

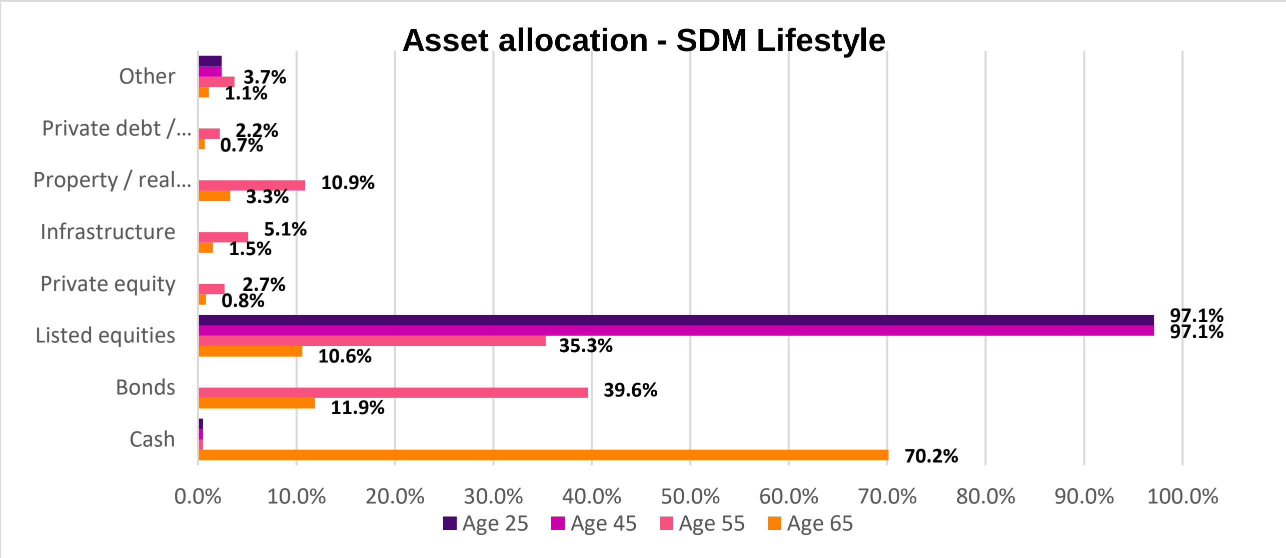
Balanced Lifestyle Strategy

Asset class	Percentage allocation			
	25-year-old	45-year-old	55-year-old	65-year-old
Cash	0.5%	0.5%	0.5%	25.2%
Bonds	0.0%	0.0%	39.6%	53.7%
Listed equities	97.1%	97.1%	35.3%	12.4%
Private equity	0.0%	0.0%	2.7%	0.9%
Infrastructure	0.0%	0.0%	5.1%	1.8%
Property / real estate	0.0%	0.0%	10.9%	3.8%
Private debt / credit	0.0%	0.0%	2.2%	0.8%
Other	2.4%	2.4%	3.7%	1.4%



Lump Sum Lifestyle Strategy

Asset class	Percentage allocation			
	25-year-old	45-year-old	55-year-old	65-year-old
Cash	0.5%	0.5%	0.5%	70.2%
Bonds	0.0%	0.0%	39.6%	11.9%
Listed equities	97.1%	97.1%	35.3%	10.6%
Private equity	0.0%	0.0%	2.7%	0.8%
Infrastructure	0.0%	0.0%	5.1%	1.5%
Property / real estate	0.0%	0.0%	10.9%	3.3%
Private debt / credit	0.0%	0.0%	2.2%	0.7%
Other	2.4%	2.4%	3.7%	1.1%



DC arrangements value for members

The Trustee is committed to ensuring that members receive value for their membership of the Scheme (i.e. the costs and charges deducted from members' funds and contributions paid provide good value in relation to the benefits and services provided by or on behalf of the Scheme, when compared to the market).

In line with the requirements of the Pensions Regulator's DC Code of Practice No.13 (Governance and administration of occupational trust-based schemes providing money purchase benefits - published in July 2016), this assessment considers the extent to which services paid for by members offer good value relative to those costs. It also considers more generally the range and quality of services and benefits associated with Scheme membership, including those benefits provided by the Company. The Trustee notes that it is difficult to give a precise legal definition of 'good value'.

Following a 'value for members' assessment by the Trustee's adviser, WTW, as at 31 December 2023, the Trustee has concluded that the Scheme provides 'good value' when looking at what members pay for, and below average when looking at the wider services provided. Benchmarking from WTW showed that the charges borne by members are competitive. Value for money does not necessarily mean the lowest fee, and the overall quality of the service received is also considered during the assessment.

In forming their conclusion on the value provided to members, the Trustee Board considered matters including the Scheme's management and governance, administration, investment governance and communications and also, the general characteristics of the Scheme's membership. In particular:

- Charges for the Scheme's default arrangements are below the charge cap of 0.75% p.a. which applies to default arrangements in all DC schemes used by employers for automatic enrolment of employees and also are comparable with similar schemes based on surveys.
- Given the assets under management and investment structure, the charges are competitive when compared to the market.
- The Scheme's default funds have performed in line with their objectives and achieved positive investment returns over the long term. Members have access to various asset classes and lifestyle strategies, all of which have competitive fund management charges.
- Members have access to a range of communication services and tools through the member website.
- Fidelity's good performance against agreed service levels. The Trustee is comfortable with the quality and efficiency of the administration processes.
- The costs of running the Scheme (other than Fidelity's charges explained above) have been paid for by the Company. These include professional adviser fees, secretarial costs and Trustee services and expenses.

DB Member Additional Voluntary Contributions ("AVCs")

All unit-linked AVC assets are invested in a Fidelity arrangement which mirrors the funds, terms and conditions of the Scheme's DC arrangements.

Processing of core financial transactions

Scheme administration in respect of the DC arrangements, including the processing of financial transactions, is undertaken by Fidelity. Processes adopted by Fidelity to help meet the agreed service levels include:

- Full integration between their administration platform and dealing system.
- Electronic checking of financial transactions.
- Straight through processing for the majority of administrative functions.
- "Second set of eyes" checking for manual tasks.

The Trustee ensured that core financial transactions have been processed promptly and accurately during the Scheme year by requiring the Scheme's administrator to comply with a service level agreement (SLA). Service levels have been agreed with Fidelity which cover the accuracy and timeliness of all core financial transactions and the Trustee receives quarterly Management reports from Fidelity, outlining performance against these service standards. Assurance has been obtained that adequate internal controls are in place.

The Trustee regularly monitors the core financial transactions of the Scheme by regularly monitoring the administrators' performance against the agreed SLAs. These include the investment of contributions, transfers of assets into and out of the Scheme, fund switches and payments out of the Scheme to and in respect of members.

There were 10 complaints to Fidelity during the Scheme year, of which 3 were upheld. These were all informal complaints made through Fidelity. The upheld complaints received were due to delays or incorrect information provided by Fidelity. They resulted in goodwill compensation payments ranging from £100 - £150. The Trustee is satisfied these have been resolved and that they did not represent systemic administration issues.

The Trustee, having considered the reports received from Fidelity on a regular basis throughout the year, and investigated further where required, has concluded that there have been no material administration errors in relation to processing core financial transactions (including investment of contributions, transfers in/out, investment switches and payments out of the Scheme) and that they have been processed promptly and accurately during the Scheme Year.

Trustee Knowledge and Understanding ("TKU")

Noting the need for professional expertise and the increasing workload required by trustees to ensure a good level of knowledge and understanding, the Company introduced a professional corporate sole trustee with effect from 8 March 2021. It was concluded that operating under this structure would be a better use of resources and ultimately would provide a greater level of understanding, which in turn would benefit members.

Independent Trustee Services Limited ('ITS' - which from February 2023, and following its merger with Ross Trustees, is now part of the Independent Governance Group) is represented by two Directors, with over 60 years combined pensions industry experience. A thorough, documented, onboarding and Scheme familiarisation process was undertaken.

The Scheme's Trustee is required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively. The individuals representing the Trustee must have, to the degree that is appropriate for the purposes of enabling the individual properly to exercise his functions as Trustee, knowledge and understanding of the law relating to pensions and trusts and the principles relating to the investment of the assets of occupational pension schemes.

With regard to ITS, all its Directors have carried out an assessment of their skills and experience and identified any specific development needs. All Directors participate in an ongoing training programme and maintain individual training logs. This is designed to ensure that knowledge is kept up to date. In addition, the two ITS Directors who are responsible for the Scheme, and the Trustee Manager who assists them in decision-making processes, are fully accredited members of the Association of Professional Pension Trustees, requiring completion of 25 hours of Continuing Professional Development each year.

The Trustee has an established TKU process in place, which, together with the advice available to the Trustee from the Scheme's pensions advisers, investment advisers, lawyers and auditors, enables the Trustee to properly exercise its functions as Trustee of the Scheme. The Trustee is satisfied that it has met its TKU duties during the Scheme Year.

The individuals representing the Trustee have completed the relevant modules of the Pensions Regulator's Trustee Toolkit. They also attend external events and webinars. They are required to have a good working knowledge of the Scheme's governing documents and are conversant with the Scheme's SIP, Trust Deed and Rules and various documents setting out the Trustee's policies and procedures. The Trustee's representatives believe, on the basis of their knowledge and experience and the training undertaken by them, that they have sufficient knowledge of the law relating to pensions and trusts and the relevant principles relating to the funding and investment of occupational DC pension schemes. Where necessary, specific legal advice is provided by the Scheme's legal advisor, actuarial adviser or investment adviser as appropriate.

The Trustee refers to the Trust Deed and Rules as part of considering and deciding whether or not to request any changes to the Scheme and, where relevant, deciding individual member cases, and the SIP is formally reviewed at least every three years and as part of making any change to the Scheme's investments.

The Trustee uses its knowledge and understanding to:

- Manage the Scheme effectively, in line with its governing documents.
- Ensure that Scheme specific policies and procedures continue to be appropriate.
- Operate a communications approach which positively supports member education and retirement planning.
- Identify where specialist advice is needed to assist the Trustee in its decision-making and management of the Scheme.

Based on these factors the Trustee is satisfied that it has the combined knowledge and understanding which is needed in order to properly exercise its trustee functions.

Signed by the Chairman on behalf of the AvestaPolarit Pension Scheme

Chris Martin

Date: 17 July 2024

Appendix

Statement of Investment Principles

DC Costs and Charges illustration.