

# Chair's DC Governance Statement, covering 1 April 2020 to 31 March 2021

## Introduction and members' summary

Governance requirements apply to defined contribution ("DC") pension arrangements, to help members achieve a good outcome from their pension savings. A DC pension scheme is where employee and employer contributions are, or have been, paid into it, and the member chooses the investments from the options made available, but also bears the investment risk.

The Trustee of the ESAB Group (UK) Limited Pensions & Life Assurance Scheme (the "Scheme") is required to produce a yearly statement (which is signed by the Chair of the Trustee) to describe how these governance requirements have been met in relation to the following areas in respect of the DC Section of the Scheme:

- The design and oversight of the default options (ie where contributions were invested for members that did not choose their own investments);
- processing of core financial transactions (ie administration of the Scheme such as payment of benefits);
- the charges and transaction costs borne by members for the default option any other investment options members can select or have assets in, such as "legacy" funds;
- an illustration of the cumulative effect of these costs and charges;
- how the value members obtain from the Scheme is assessed; and
- Trustee knowledge and understanding.

The key points that we would like members reading this Statement to take away are as follows:

- We regularly monitor the investment arrangements, and we are satisfied that the default and other investment options remain suitable for the membership, noting that the Scheme is due to wind up early in 2022. These funds will be transferred to Rothesay Life in early 2022 as part of the Buy Out of the Scheme.
- The administrator has processed core financial transactions promptly and accurately to an acceptable level during the Scheme year, and we remain comfortable with the administrator's performance.
- Fees can have a material impact on the value of your pension savings and the fee impact is greater the more time passes, since fees reduce the amount of money from which can grow with future investment returns.
- Fees for the investment options are set out in this Statement, and we remain comfortable that these fees are reasonable given the circumstances of the Scheme and represent value for the benefits members obtain.
- Please rest assured that we are looking after members' best interests, and we undertake training and receive advice as appropriate so that we have sufficient knowledge and understanding to do so effectively.

### 1. Default arrangements

From 1 April 2020 the Scheme closed to contributions, with future contributions being paid into the Colfax Corporate Retirement Saver for former active members of the Scheme. Consequently, from 1 April 2020 the Scheme was no longer used as a Qualifying Scheme for automatic enrolment purposes.

The Trustee has made available a range of investment options for members. The Trustee recognises that most members do not make active investment decisions and instead invest in the Default. After taking advice, the Trustee decided to make the Default a lifestyle strategy, which means that members' assets are automatically moved between different investment funds as they approach their target retirement date. Members who joined the Scheme and who did not choose an investment option were placed into the ESAB Cash Lifestyle (the "Default").

The Trustee is responsible for investment governance, which includes setting and monitoring the investment strategy for the default arrangement.

Details of the objectives and the Trustee's policies regarding the default arrangement can be found in a document called the 'Statement of Investment Principles' ("SIP"). The Scheme's SIP covering the default arrangement is included in this document.

The Trustee's primary objective for the DC Section, as stated in the SIP dated 30 September 2019, is to provide members with access to an appropriate range of investment options, reflecting the membership profile of the DC Section and the variety of ways that members can draw their benefits in retirement.

The Default was not reviewed during the period covered by this Statement. The last review was carried out at the Trustee meeting on 5 September 2019. The performance and strategy of the Default were reviewed to ensure that investment returns (after deduction of any charges) have been consistent with the aims and objectives of the Default, and to check that it continues to be suitable and appropriate given the Scheme's risk profile and membership demographic.

The Trustee regularly monitors the performance of the Default and will formally review both this and the strategy at least every three years if the proposed Scheme wind-up, which is due to take place in Q1 2022, does not proceed

The Trustee will continue to monitor both the performance of the Default and its ongoing appropriateness on at least an annual basis until the Scheme winds-up.

### 2 Requirements for processing core financial transactions

The processing of core financial transactions is carried out by the administrator of the Scheme, Legal & General ("L&G") for the main DC section and Utmost Life & Pensions ("Utmost") for the Additional Voluntary Contributions ("AVCs"). Core financial transactions include processing of transfers in and out of the Scheme, transfers of assets between different investments within the Scheme, and payments to members/beneficiaries.

### Legal and General

The Trustee has received assurance from L&G that there are adequate internal controls to ensure that core financial transactions for the Scheme are processed promptly and accurately. These are set out in L&G's latest AAF report and its Internal Controls report, both of which have been provided to the Trustee. L&G commits to provide a robust and timely level of service to the Trustee in relation to the administration of the Scheme.

The Scheme has a service level agreement ("SLA") in place with L&G which covers the accuracy and timeliness of all core financial transactions. L&G aims to ensure 95% of all processes identified are completed within the defined SLA. The SLAs in place for the transactions that took place over the year, based on the quarterly governance reports provided to the Trustee, are set out in the following table.

Process	SLA
Cash allocation	24 hours
Customer update and enquiries	5 working days
Investment management switches	24 hours
Drawdown payment	10 working days
Surrender	5 working days
Issuing retirement packs	5 working days
Issue leaver documentation	5 working days
Lump sum quote	5 working days

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The key processes adopted by L&G to help it meet the SLA are as follows:

- Dedicated senior members of staff for the Scheme;
- Agreed checking and review procedures reflecting the size of a transaction or payment;
- L&G has its own risk management procedure in place which is governed by its internal control standards. The internal control standards set out a wide range of potential risks which are then monitored through L&G's automated risk management system.
- Key controls are identified and put in place by L&G's management and a monthly report is produced to confirm controls have operated as required. If a particular control fails or an adverse event occurs, this is recorded on the risk management system and mitigative action is implemented.
- Finally, L&G's governance forums carry out a further review to ensure that control issues and adverse events are addressed and to identify systemic root causes in order to continue to improve its risk management process across its business.

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L&Gs performance against the agreed SLA, as set out in the quarterly governance reports provided to the Trustee, is:

- Q2 2020: 100% met within SLA.
- Q3 2020: 100% met within SLA.
- Q4 2020: 100% met within SLA.
- Q1 2021: 100% met within SLA.

To help the Trustee monitor whether service levels are being met, it receives regular reports about the administrator's performance and compliance with the SLA. Any issues identified as part of our review processes would be raised with the administrators immediately, and steps would be taken to resolve the issues.

There have been no member complaints in respect of the DC Section over the period covered by this Statement and the Trustee confirms that there are no unresolved issues that are currently outstanding.

For any errors that do arise, L&G follows an 'Issue Escalation Process' within the business to respond to any issues which occur throughout any part of the member journey across all of its schemes. Moreover, L&G has a Business Operational Standards team which facilitates the Issue Escalation Process, engaging with appropriate L&G personnel where necessary, and tracking any actions to ensure that any issue identified is capped going forward and remediated as appropriate. An important part of the process is to then build appropriate controls (if not already in place) to prevent recurrence, including a review of the operational performance and design of controls on an ongoing basis.

In addition, if a member has a complaint with L&G, they are encouraged to contact L&G which will note this formally as a stage 1 complaint. L&G will investigate the complaint in line with its internal policy and should a member remain dissatisfied then L&G will refer this to the Trustee for further investigation under the Trustee's Internal Dispute Resolution Procedure.

### **Utmost**

Utmost has a standard set of service levels it adheres to across its entire client base, rather than targets at product or scheme level. Since December 2020 Utmost aims to reply to most requests within 10 days, with payments completed within 5 days where possible. Prior to this, when Covid-19 was impacting many pension providers the timescales were 20 days for most requests and 10 days for payments.

Over 2020, Utmost's performance against these targets were:

- 93% of payments made within SLA
- 85% of illustrations made within SLA
- 91% of general servicing was completed within SLA.

Utmost publishes information online regarding its processes. Based on what is available online the Trustee is satisfied that Utmost has appropriate internal standards to ensure that staff are properly trained, qualified, supervised and monitored. Furthermore, staff are encouraged to enhance their skills and knowledge by also attending external training courses where appropriate.

Utmost's administration procedure manuals are regularly reviewed and updated internally at Utmost. Both automated and manual processes are subject to checking and/or regular quality sampling.

Utmost carry out regular data integrity exercises covering both core and conditional data. Any errors identified are investigated and corrected. However, the Trustee notes that as Utmost are not the main Scheme administrator, it does not hold full details of the common or conditional data for the Scheme.

The Trustee is comfortable with Utmost's service level based on information made available online by Utmost.

### Conclusion

Overall, based on its review processes, the Trustee is satisfied that over the period covered by this Statement:

- both L&G and Utmost were operating appropriate procedures, checks and controls, and operating within the agreed SLA;
- there have been no material administration issues in relation to processing core financial transactions; and
- all core financial transactions have been processed promptly and accurately to an acceptable level during the Scheme year.

### 3 Member-borne charges and transaction costs

The Trustee is required to set out the on-going charges incurred by members over the period covered by this Statement, which are annual fund management charges plus 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.

The stated charges include any costs associated with both administration and investment, since members of the DC Section incur these costs.

The Trustee is also required to separately disclose transaction cost figures. 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, but are exclusive of any costs incurred when members invest in and switch between funds. The transaction costs are borne by members.

The charges and transaction costs have been supplied by L&G who is the Scheme's administrator and investment platform provider. We have obtained charges and transaction costs from Utmost Life online.

When preparing this section of the Statement the Trustee has taken account of the relevant statutory guidance. Due to the way in which transaction costs have been calculated it is possible for figures to be negative and we have disclosed this in the table below. However, since transaction costs are unlikely to be negative over the long term we have taken any negative figure to be zero when preparing the illustration of charges and transaction costs below.

### Default arrangements

The Default arrangement is the ESAB – Cash Lifestyle. The Default has 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 age and in which funds they are invested.

The Default gradually switches from the Global Equity 50:50 Index Fund to the Multi-Asset Fund between 10 and 5 years to retirement. For the 5-year period prior to retirement, assets are gradually switched into the L&G Cash Fund.

For the period covered by this Statement, annualised charges and transaction costs are set out in the following table.

### ESAB – Cash Lifestyle (Default arrangement)

#### Default charges and transaction costs

Years to target retirement date	TER (% pa)	Transaction costs (% pa)
10 or more years to retirement	0.30	0.00
5 years to retirement	0.33	0.03
At retirement	0.29	0.00

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### Self-select options

In addition to the default arrangement, members also have the option to invest in two other lifestyles, targeting annuity purchase and income drawdown and several other self-select funds. These are called the ESAB - Annuity Lifestyle and ESAB - Flexible Access Lifestyle respectively.

These two lifestyles follow the same strategy as the Default until 5 years prior to retirement. At that point, the Annuity Lifestyle option gradually switches into the L&G Pre-Retirement Fund and L&G Cash Fund, while the Flexible Access Lifestyle option gradually switches into the L&G Retirement Income Multi-Asset Fund.

The annual charges for these lifestyles during the period covered by this Statement are set out in the subsequent tables.

**ESAB – Annuity Lifestyle**  
**Charges and transaction costs**

Years to target retirement date	TER (% pa)	Transaction costs (% pa)
10 or more years to retirement	0.30	0.00
5 years to retirement	0.33	0.03
At retirement	0.31	0.05

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**ESAB – Flexible Access Lifestyle**  
**Charges and transaction costs**

Years to target retirement date	TER (% pa)	Transaction costs (% pa)
10 or more years to retirement	0.30	0.00
5 years to retirement	0.33	0.03
At retirement	0.51	0.00

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The level of charges for each self-select fund (including those used in the Default) and the transaction costs over the period covered by this Statement are set out in the following table. The underlying funds used within the Default are shown in **bold**.

### Self-select fund charges and transaction costs

	TER (% pa)	Transaction costs (% pa)
L&G Index-Linked Gilt Fund	0.29	-0.01
L&G International Fund	0.51	-0.13
L&G Managed Fund	0.36	0.02
L&G Property Fund	1.43	-0.05
L&G Distribution Fund	0.58	0.05
L&G European Fund	0.50	-0.89
<b>L&amp;G Cash Fund</b>	0.29	-0.01
L&G UK Smaller Companies Fund	0.45	0.15
L&G UK Equity Index Fund	0.30	-0.02
L&G Japan Equity Index Fund	0.32	0.02
<b>L&amp;G Global Equity Fixed Weights 50:50 Index Fd</b>	0.30	0.00
L&G Pre-Retirement Fund	0.32	0.07
<b>L&amp;G Multi-Asset Fund</b>	0.33	0.02
L&G Retirement Income Multi-Asset Fund	0.51	0.00
L&G M&G PP All Stocks Corporate Bond Fund	0.56	0.09

### AVC fund charges and transaction costs

Fund name	TER (% pa)	Transaction costs (% pa)
Utmost Multi-Asset Moderate	0.75	0.00
Utmost Multi-Asset Cautious	0.75	0.00
Utmost Money Market	0.50	0.00

### Illustration of charges and transaction costs

The following table sets out an illustration of the impact of charges and transaction costs on the projection of an example member's pension savings. In preparing this illustration, the Trustee has had regard to the relevant statutory guidance.

- The “before costs” figures represent the savings projection assuming an investment return with no deduction of member borne charges or transaction costs. The “after costs” figures represent the savings projection using the same assumed investment return but after deducting member borne charges and an allowance for transaction costs.
- The transaction cost figures used in the illustration are those provided by the managers over the past three years, subject to a floor of zero (so the illustration does not assume a negative cost over the long term). We have used the average annualised transaction costs over the past three years as this is the longest period over which figures were available, and should be more indicative of longer-term costs compared to only using figures over the Scheme year.
- The illustration is shown for the Default (the ESAB – Cash Lifestyle) since this is the arrangement with the most members invested in it as well as four funds from the Scheme's self-select fund range. The four self-select funds shown in the illustration are:
  - the fund with the highest before costs expected return – this is the L&G International Fund.
  - the fund with the lowest before costs expected return – there are two such funds but we have carried out this illustration using the L&G Index Linked Gilt Fund, noting the L&G Cash Fund is the fund with lowest annual member borne costs and is therefore already included in the projections.
  - the fund with highest annual member borne costs – this is the L&G Property Fund.
  - the fund with lowest annual member borne costs – there are two such funds but we have carried out this illustration using the are the L&G Cash Fund, noting we have already provided an illustration in respect of the L&G Index-Linked Gilt Fund.

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### Projected pension pot in today's money

Years invested	Default option		L&G International fund		L&G Index-Linked Gilt Fund		L&G Property Fund		L&G Cash Fund	
	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs
1	£114,300	£114,000	£114,500	£114,000	£110,100	£109,800	£113,900	£112,300	£110,100	£109,800
3	£117,500	£116,400	£118,200	£116,500	£105,100	£104,200	£116,200	£111,300	£105,100	£104,200
5	£120,600	£118,700	£122,000	£119,000	£100,400	£98,800	£118,500	£110,300	£100,400	£98,900
10	£128,100	£124,200	£132,100	£125,600	£89,300	£86,600	£124,500	£108,000	£89,300	£86,700
15	£135,300	£129,000	£143,000	£132,600	£79,500	£75,900	£130,900	£105,700	£79,500	£76,100
20	£133,200	£125,000	£154,900	£140,000	£70,800	£66,600	£137,600	£103,400	£70,800	£66,700

### Notes

- Values shown are estimates and are not guaranteed. The illustration does not indicate the likely variance and volatility in the possible outcomes from each fund.
- Projections are shown to the nearest £100.
- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
- The starting pot size used is £98,000. This is the approximate average (median) pot size for members of the Scheme as at 31 March 2021.
- The projection is for 20 years, being the approximate duration that the youngest DC Section member has until they reach the Scheme's Normal Pension Age.
- We have assumed zero contributions as the Scheme does not accept further contributions.
- The projected annual returns used are as follows:
  - Default option: 1.4% pa above inflation for the initial years, gradually reducing to a return of 2.3% pa below inflation at the end point of the lifestyle
  - L&G International Fund: 1.6% pa above inflation
  - L&G Index Linked Gilt Fund: 2.3% pa below inflation
  - L&G Property Fund: 1.0% pa above inflation
  - L&G Cash Fund: 2.3% pa below inflation
- No allowance for active management outperformance has been made.

### 4 Value for members assessment

The Trustee is required to assess every year the extent to which member borne charges and transaction costs represent good value for members. There is no legal definition of 'good value' which means that determining this is subjective. Our general policy in relation to value for member considerations is set out below.

The Trustee reviews all member-borne charges (including transaction costs where available) annually, with the aim of ensuring that members are obtaining value for money given the circumstances of the Scheme. The last review was in March 2021 when the Trustee was considering appropriate options for members' DC benefits as part of the wind-up process. The Trustee notes that value for money does not necessarily mean the lowest fee, and the overall quality of the service received has also been considered in this assessment, which took into account both the Scheme's current DC provisions and those that may ultimately be provided once wind-up is complete. The Trustee's investment advisers have confirmed that the Scheme fund charges applying over the year covered by this Statement are competitive for the types of fund available to members.

The Trustee's assessment included a review of the performance of the Scheme's investment funds (after all charges and transaction costs) in the context of their investment objectives. The date of the performance report was August 2020. This review concluded that the returns on the investment funds members can choose during the period covered by this statement have been broadly in line with fund benchmarks for those funds managed on a passive basis. For active funds, performance has been variable. However, the Trustee's investment advisers confirmed they are comfortable with the fund range in place and have no recommendations to change any funds at the current time. The Trustee is continuing to monitor fund performance against investment objectives, with a view to ensuring members continue to have access to a suitable range of funds within the DC Section of the Scheme until wind-up is completed in early 2022.

In carrying out the value for members assessment, the Trustee also considers the other benefits members receive from the Scheme, which include:

- the oversight and governance of the Trustee, including ensuring the Scheme is compliant with relevant legislation, and holding regular meetings to monitor the Scheme and address any material issues that may impact members;
- the design of the default arrangements and how this reflects the interests of the membership as a whole;
- the range of investment options and strategies; and
- the efficiency of administration processes and the extent to which the administrator met or exceeded its service level standards.

As detailed in the earlier section covering the processing of core financial transactions, the Trustee is comfortable with the quality and efficiency of the administration processes.

The Trustee believes that the transaction costs provide value for members as the ability to transact forms an integral part of the investment approaches, and expect this to lead to greater investment returns net of fees over time.

Overall, the Trustee believes that members of the Scheme are receiving good value for money for the charges and cost that they incur. The Trustee believes this because:

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- There is a suitable range of fund options; these options comprise a set of competitively priced funds, and give members access to a range of both passively managed and actively managed funds;
- The funds have performed broadly in line with their stated objectives; and
- Administration has been carried out efficiently, with no member complaints arising in respect of the DC Section over the year. Furthermore, the administrators have appropriate processes in place to continue to ensure members receive a good service in relation to their benefits in the Scheme.

### 5 Trustee knowledge and understanding

The Scheme's Trustee Directors are required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively. The Trustee has measures in place to comply with the legal and regulatory requirements regarding knowledge and understanding of relevant matters, including investment, pension and trust law. Details of how the knowledge and understanding requirements have been met during the period covered by this Statement are set out below.

The Trustee, with the help of its advisers, regularly considers training requirements to identify any knowledge gaps. The Trustee's investment advisers proactively raise any changes in governance requirements and other relevant matters as they become aware of them. The Trustee's advisers typically deliver training on such matters at Trustee meetings if they were material. During the period covered by this Statement, we received training on the following topics:

- Responsible Investment update, in May 2020
- Introduction to climate-aware equity fund, in September 2020
- Advice on the impact of the Covid-19 pandemic on the Scheme, its investments, administration and the bulk annuity policy, in April 2020
- Responsible Investment update, in May 2020
- Introduction to climate-aware equity fund, in September 2020
- Advice on the consequences of the Employer commencing wind-up of the Scheme, in November 2020
- Further advice on GMP equalisation and the methodology to be adopted following the Lloyds Bank decision, in November 2020
- Further advice on the Trustee's obligations under the bulk annuity policy including the procedure for Trustee warranties, in March 2021
- Legal and investment advice on the option to transfer the Scheme's DC and AVC funds to Rothesay Life, in March 2021.

All the Trustee Directors are familiar with the Scheme's governing documentation and documentation setting out the Trustee's policies, including the Trust Deed & Rules and SIP (which sets out the policies on investment matters). A document listing all the Scheme documentation is maintained by the Trustee and included in meeting papers for each trustee meeting. In particular, the Trustee refers to the Trust Deed and Rules as part of considering and deciding to make any changes to the Scheme, and the SIP is formally reviewed at least every three years and as part of making any change to the Scheme's investments. Further, the Trustee Directors believe they have sufficient knowledge and understanding of the law relating to pensions and trusts and of the relevant principles relating to the funding and investment of occupational pension schemes to fulfil their duties.

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No material knowledge gaps were identified during the Scheme year. This is something the Trustee continues to monitor on an ongoing basis with the help of its investment / professional advisers.

All the Trustee Directors have completed the Pensions Regulator's Trustee Toolkit (an online learning programme, designed to help trustees of occupational pension schemes meet the minimum level of knowledge and understanding required by law). Training is provided on aspects of the Trustee Knowledge and Understanding requirements.

A training log is maintained in line with best practice and the training programme is reviewed annually to ensure it is up to date.

There have been no new Trustee Directors over the period covered by this Statement, meaning the experience and expertise of the Trustee Board has been retained throughout the year. The Trustee will review its new trustee induction process at the time a new Trustee Director is appointed. This will include the requirement to complete the Pension Regulator's Trustee Toolkit within 6-months of joining the Board.

Considering the knowledge and experience and the Trustee Directors and the specialist advice (both in writing and whilst attending meetings) received from the appointed professional advisors (eg investment consultants, legal advisors), the Trustee believes it is well placed to exercise its functions as Trustee of the Scheme properly and effectively.

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Date: 28 September 2021

**Signed by the Chair of Trustees of the**

**ESAB Group (UK) Limited Pensions & Life Assurance Scheme**