

Chair's DC Governance Statement, covering 1 April 2021 to 31 March 2022

1. Introduction and members' summary

The ESAB Group (UK) Limited Pensions & Life Assurance Scheme (the "Scheme") is an occupational pension scheme providing defined contribution ("DC") benefits (a DC pension scheme is where employee and employer contributions are paid into it, and the member chooses their investments, but bears the investment risk). Some members also have Additional Voluntary Contributions ("AVCs") in the Scheme.

Governance requirements apply to DC pension arrangements, to help members achieve a good outcome from their pension savings. We, the Trustee of the Scheme, are required to produce a yearly statement (signed by the Chair of Trustees) covering:

- the design and oversight of the default investment option (ie where contributions are invested for members that do not wish to choose their own investments);
- processing of core financial transactions (ie administration of the Scheme, such as investment of contributions);
- the charges and transaction costs borne by members for the default option and any other investment option members can select or have assets in, such as "legacy" funds;
- an illustration of the cumulative effect of these costs and charges;
- net returns of the investment options;
- 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 are satisfied that the default and other investment options remain suitable for the membership, noting that the Scheme has been in wind-up since May 2021.

- 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 that 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 your best interests as members, and undertake training and receive advice as appropriate so that we have sufficient knowledge and understanding to do so effectively.

2. 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.

We have made available a range of investment options for members and recognise that most members did not make active investment decisions and instead invest in the Default. After taking advice, we 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 did not choose an investment option were placed into the ESAB Cash Lifestyle (the "Default").

We are responsible for investment governance, which includes setting and monitoring the investment strategy for the default arrangement. Our 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.

Details of the objectives and our policies regarding the default arrangement is set out in a document called the 'Statement of Investment Principles' ("SIP"). The Scheme's SIP covering the default arrangement is attached to this Statement as an Appendix.

The Default was not reviewed during the period covered by this Statement. The last review was carried out 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.

We regularly monitor the performance of the Default and will formally review the strategy at least every three years. However, as the Scheme has been in wind-up since May 2021, no further review has been carried out.

3. 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") for those members who had AVCs still invested with Utmost for the part-year until AVCs were transferred to L&G in Summer 2021. Core financial transactions include (but are not limited to): the investment of contributions, 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 Scheme has a Service Level Agreement ("SLA") in place with the 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 we receive, 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

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 are 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.

L&G's performance against the agreed SLA, as set out in the quarterly governance reports provided to us, is:

- Q2 2021: 100% met within SLA.
- Q3 2021: 100% met within SLA.
- Q4 2021: 100% met within SLA.
- Q1 2022: 50% met within SLA.

To help us monitor whether service levels are being met, we receive 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.

We have no concerns over the poor performance of 50% Q1 2022. L&G has confirmed that all cases completed outside of their SLAs were done so within a maximum of two days outside the SLA. This reflected an increased number of customer enquiries across L&G's book of business but to combat this L&G has cross-skilled staff throughout the business, flexed its resources to support this higher demand and undertook a recruitment drive to boost the team further going forwards.

There have been no member complaints in respect of the DC Section over the period covered by this Statement and we confirm 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 us for further investigation under the Trustee' Internal Dispute Resolution Procedure.

Utmost

Some members had AVC investments with Utmost until Summer 2021 when they were transferred to L&G. In respect of that part year, Utmost had a standard set of service levels it adhered 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 provider the timescales were 20 days for most requests and 10 days for payments.

Over 2021, Utmost's performance against these targets were:

- 96% of payments made within SLA
- 84% of illustrations made within SLA
- 90% of general servicing was completed within SLA.

Utmost publishes information online regarding its processes. Based on what is available online we are 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, we note that as Utmost is not the main Scheme administrator, it does not hold full details of the common or conditional data for the Scheme.

We are comfortable with Utmost's service level based on information made available online by Utmost.

Conclusion

Overall, based on its review processes, we are 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.

4. Member-borne charges and transaction costs

We are 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 are shown as a per annum ("pa") figure and include any administration charges, since members incur these.

We also required to 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. Transaction costs are borne by members.

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

When preparing this section of the Statement we have taken account of the relevant statutory guidance. Under the prescribed way in which transaction costs

have been calculated it is possible for figures to be negative, where market movements are favourable between the time a trade is placed and it is executed. We have shown any negative figures in the tables for the year as provided, but for the costs and charges illustrations we have used zero where a transaction cost is negative to give a more realistic projection (ie we would not expect transaction costs to be negative over the long term).

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	0.01
5 years to retirement	0.33	0.01
At retirement	0.29	0.00

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.

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	0.01
5 years to retirement	0.33	0.01
At retirement	0.31	0.00

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	0.01
5 years to retirement	0.33	0.01
At retirement	0.53	0.04

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

Fund name	TER (% pa)	Transaction costs (% pa)
L&G Index-Linked Gilt Fund	0.29	0.02
L&G International Fund	0.51	0.00
L&G Managed Fund	0.36	0.05
L&G Sustainable Property Fund	1.36	0.00
L&G Distribution Fund	0.56	0.05
L&G European Fund	0.50	0.13
L&G Fixed Interest	0.29	0.03
L&G Cash Fund	0.29	0.00
L&G UK Smaller Companies Fund	0.46	0.07
L&G UK Equity Index Fund	0.30	0.02
L&G Japan Equity Index Fund	0.32	0.00
L&G Global Equity Fixed Weights 50:50 Index Fund	0.30	0.01
L&G Pre-Retirement Fund	0.32	0.00
L&G Multi-Asset Fund	0.33	0.01
L&G Retirement Income Multi-Asset Fund	0.53	0.04
L&G M&G PP All Stocks Corporate Bond Fund	0.56	0.06

AVC fund charges and transaction costs

Fund name	TER (% pa)	Transaction costs (% pa)
Utmost Multi-Asset Moderate	0.75	0.18
Utmost Multi-Asset Cautious	0.75	0.13
Utmost Money Market	0.50	0.01

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, we 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 five years, where available, or covering a shorter period where full five year data is not yet available. These are 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 longest period for which figures were available, as provided by L&G – these 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) and two funds from the Scheme's self-select fund range. The two self-select funds shown in the illustration are:
 - the fund with highest annual member borne costs (TER plus Scheme Year transaction costs) – this is the L&G Sustainable Property Fund.
 - the fund with lowest annual member borne costs – this is the L&G Cash Fund.

Projected pension pot in today's money

Years invested	Default option		L&G Sustainable Property Fund		L&G Cash Fund	
	Before costs	After costs	Before costs	After costs	Before costs	After costs
1	£122,500	£122,200	£121,900	£120,300	£118,200	£117,900
3	£127,700	£126,600	£125,900	£120,900	£114,700	£113,700
5	£133,100	£131,200	£129,900	£121,400	£111,300	£109,600
10	£147,700	£143,400	£140,600	£122,900	£103,200	£100,200
15	£162,500	£155,200	£152,300	£124,400	£95,700	£91,500
20	£165,800	£155,900	£164,800	£125,900	£88,700	£83,600

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. The numbers shown in the illustration are rounded to the nearest £100 for simplicity.
- 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 long term annual inflation assumption used is 2.5%.
- The starting pot size used is £120,000. This is the approximate average (median) pot size for members of the scheme as at 31 March 2022.
- The projection is for 20 years, being the approximate duration that the youngest scheme member has until they reach the scheme's Normal Pension Age.

We have made no allowance for future contributions to the Scheme on the basis the Scheme has been closed to future contributions since April 2021.

- The projected annual returns used are as follows:
 - Default option: 2.1% above inflation for the initial years, gradually reducing to a return of 1.5% below inflation at the ending point of the lifestyle.
 - Property fund: 1.6% above inflation
 - Cash fund: 1.5% below inflation
- No allowance for active management outperformance has been made.

5. Investment returns

This section shows the annual return, after the deduction of member borne charges and transaction costs, for all investment options in which member assets were invested during the scheme year.

For the Default and self-select strategies returns are shown over the scheme year for a member aged 55, 60 and 65 at the start of the period the returns are shown over. Note the age 55 figures also apply for those members younger than age 55.

ESAB – Cash Lifestyle net returns over periods to scheme year end

Age of member at the start of the period	1 year (%)
55	11.6
60	4.4
65	0.1

ESAB – Annuity Lifestyle net returns over periods to scheme year end

Age of member at the start of the period	1 year (%)
55	11.6
60	4.2
65	-4.9

ESAB – Flexible Access Lifestyle net returns over periods to scheme year end

Age of member at the start of the period	1 year (%)
55	11.6
60	4.2
65	3.8

Self-select fund net returns over periods to scheme year end

Fund name	1 year (%)
L&G Index-Linked Gilt Fund	3.9
L&G International Fund	7.3
L&G Managed Fund	5.8
L&G Sustainable Property Fund	11.5
L&G Distribution Fund	3.2
L&G European Fund	-16.2
L&G Fixed Interest	-4.9
L&G Cash Fund	0.1
L&G UK Smaller Companies Fund	5.1
L&G UK Equity Index Fund	13.0
L&G Japan Equity Index Fund	-2.5
L&G Global Equity Fixed Weights 50:50 Index Fund	11.6
L&G Pre-Retirement Fund	-6.7
L&G Multi-Asset Fund	4.4
L&G Retirement Income Multi-Asset Fund	3.8
L&G M&G PP All Stocks Corporate Bond Fund	-6.7

AVC policies

The equivalent figures for Utmost Life are shown below covering the year to 31 March 2022. Please note that members were only invested with Utmost Life for part-year until Summer 2021 but figures were not available covering the period members were actually invested.

Fund name	1 year (%)
Utmost Multi-Asset Moderate	5.6
Utmost Multi-Asset Cautious	0.4
Utmost Money Market	-0.4

6. Value for members assessment

We are required to assess every year the extent to which member borne charges and transaction costs represent good value for members and to explain that assessment. 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.

For 2022 where a scheme has total assets (both Defined Benefit and Defined Contribution) of less than £100m, like the Scheme, there is a requirement from The Pension Regulator ("TPR") to assess the value achieved in a more holistic and detailed way, carrying out a comparison against three large well-run pension arrangements, such as master trusts. TPRs expectation is that where such schemes do not demonstrate Value for Members ("VFM"), trustees should wind up the existing DC Section and consolidate members into one of these larger pension arrangements, unless they can promptly improve VFM.

However, we commenced winding the Scheme up in May 2021 and have since been working with our advisers to transfer the remaining DC benefits to Rothesay Life as part the wind-up project. Member's DC benefits in the Scheme were transferred to Rothesay Life in September 2022. Consequently, whilst the new VFM requirements applied for the Scheme year ending 31 March 2022 we have not carried out the required additional analysis due to the move to Rothesay Life already having taken place.

We review 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 date of the last review was March 2021. However, as part of the wind-up project and the proposed transfer of DC benefits to Rothesay Life we reviewed the fund charges paid within the Scheme and are satisfied that the charges that will apply from Rothesay Life after the transfer are reasonable and continue to provide good value for members.

We note 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. Our investment advisers have confirmed that the fund charges are competitive for the types of fund available to members.

Our 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. Our investment advisers confirmed they are comfortable with the fund range in place until the transfer to Rothesay Life takes place in Q3 2022. Furthermore, we are satisfied that the range of funds being made available from Rothesay Life are reasonable.

The returns on the investment funds members can choose during the period covered by this statement have been consistent with their stated investment objectives.

In carrying out the assessment, we also consider the other benefits members receive from the Scheme, which include:

- our oversight and governance, 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, we are comfortable with the quality and efficiency of the administration processes.

We believe 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 costs over time.

Overall, we believe that members of the Scheme are receiving good value for money for the charges and cost that they incur because:

- 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.

7. Trustee knowledge and understanding

We are required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively. We have measures in place to comply with the legal and regulatory requirements regarding knowledge and understanding of relevant matters, including investment, pension and trust law.

With the help of our advisers, we regularly consider training requirements to identify any knowledge gaps, bearing in mind the nature of the tasks we are carrying out and the range of tasks being considered as we look to wind-up the Scheme. Our investment advisers proactively raise any changes in governance requirements and other relevant matters as they become aware of them. Our advisers typically deliver training on such matters at Trustee meetings if they were material. During the period covered by this Statement, we received regular updates on a range of topics as part of our day to day work with advisers who are assisting us through the wind-up process.

We are familiar with and have access to copies of the Scheme's governing documentation and documentation setting out our 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 and included in meeting papers for each trustee meeting. In particular, we refer 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 annually and as part of making any change to the Scheme's investments. Further, we believe that we 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 our duties.

No material knowledge gaps were identified during the Scheme year. This is something we continue to monitor on an ongoing basis with the help of our investment / professional advisers as we look to complete the Scheme wind-up.

All the Trustee Directors have completed the Pensions Regulator's Trustee Toolkit (an online learning programme, designed to help trustees of pension schemes meet the minimum level of knowledge and understanding required by law).

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. We will review our new trustee induction process at the time a new Trustee Director is appointed, although do not envisage any changes to the Trustee Board as we look to wind-up the Scheme. If required, this will include the need to complete the Pension Regulator's Trustee Toolkit within 6-months of joining the Board.

Considering our knowledge and experience and the specialist advice received from the appointed professional advisors (eg investment consultants, legal advisors), we believe that we are well placed to exercise our functions as Trustee of the Scheme properly and effectively.

Chair of Trustee Directors 26 October 2022.

ESAB Group (UK) Limited Pensions & Life Assurance Scheme