Scapa Group Limited Pension Scheme ("the Scheme")

Chairman's closing statement regarding governance of defined contribution benefits

1. Introduction

1.1. The Scheme's Trustee, Scapa Pension Trustees Limited ("the Trustee") is required to report annually via a Chair's Statement on how it complies with the governance standards introduced under The Occupational Pension Schemes (Charges and Governance) Regulations 2015 ("the Regulations"), amended by The Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018.

1.2. These governance standards relate to defined contribution ("DC") benefits, also commonly referred to as money purchase benefits.

1.3. The Trustee was due to report its compliance via a Chair's Statement for inclusion in the Scheme's Annual Accounts relating to the period from 1 April 2022 to 31 March 2023. However, as no DC benefits were held in the Scheme as at 31 July 2023 (excluding Additional Voluntary Contributions ("AVCs") held with Prudential), the Trustee is no longer required under the Regulations to do so.

1.4. The Trustee has instead opted to include a Closing Statement within this year's Scheme Accounts to summarise the changes made to the Scheme's DC provision which are detailed below.

2. The Scheme's DC arrangements

2.1. The Scheme DC benefits were provided through a variety of arrangements within the Scheme, as follows:

2.1.1. Former members of the Scapa Group Plc Senior Retirement Benefits Scheme (SRBS) with pure DC benefits invested with Legal & General Investment Management (L&G) or with Baillie Gifford Life Limited (Baillie Gifford).

2.1.2. Former members of the Scapa Group Retirement Benefits Scheme (RBS). Within this category there were:

2.1.2.1. Members with pure DC benefits who were invested with L&G.

2.1.2.2. Members with DC benefits including a defined benefit ("DB") underpin, structured either as a Guaranteed Minimum Pension ("GMP") or a No Worse Off Guarantee ("NWOG"), provided through the Scheme ("hybrid benefits"). On transfer or retirement, these members were due to receive the greater of their DB or DC benefits. These RBS members' DC benefits were invested in the same strategy as the Scheme's DB assets, which are managed by Mercer Ltd (Mercer).

2.1.2.3. Members with pure DC benefits invested with Mercer in line with DB benefits.

2.1.3. AVCs provided through bundled (administration, investment and communication services) arrangements with Prudential and Clerical Medical. Some members' AVCs were also held in unbundled arrangements (investment services only) with Mercer and L&G.

3. Discharge of pure DC benefits

3.1. In January 2022, the Trustee took advice on the feasibility of discharging the 'pure' DC Section benefits, defined as DC benefits which were not subject to a DB underpin, to a separate Master Trust arrangement.

The feasibility study concluded that better value for members could be obtained from a Master Trust arrangement.

3.2. The key advantages for proceeding with the discharge of pure DC benefits were as follows:

3.2.1. **Enhanced DC facility for members**: Discharging members with pure DC benefits into a Master Trust arrangement would ensure members benefit from:

3.2.1.1. A well governed default investment arrangement that would be tailored for DC (as opposed to being invested in a DB-specific arrangement). These investment strategies would better reflect how members are expected to access their pension benefits at retirement.

3.2.1.2. A wider range of investment options to allow more choice in how (asset classes, regions etc.) members' benefits are invested. Previously members had either no or very limited investment options through the Scheme.

3.2.1.3. Greater flexibility in how and when members can access their DC benefits at retirement, including full access to the new pension freedoms (such as flexi-access drawdown).

3.2.1.4. Access to a suite of online/offline support material designed to help members better engage with their DC benefits so as to help members make positive decisions in the lead up to retirement.

3.2.2. **Reduced DC governance burden**: By discharging the pure DC benefits to a Master Trust, the Trustee has discharged the governance of these assets to a third-party, therefore savings have been made in terms of governance resources, time and associated costs for continuing to meet the (increasingly onerous) regulatory requirements. The governance requirements and costs associated with maintaining the DC Section had become increasingly disproportionate for the Scheme (given the small and diminishing number of members with pure DC benefits in the Scheme).

3.3. Subsequently, in May 2022 the Trustee undertook a market review with the help of its advisers, Barnett Waddingham LLP ("Barnett Waddingham"). Following the review and in conjunction with the Scheme's Sponsoring Employer, the Trustee concluded that the Aviva Master Trust was the most suitable arrangement for members pure DC benefits to be transferred into.

3.4. The transition of the Scheme's pure DC benefits took place in February 2023. The bulk transfer was pre-funded by Aviva to help mitigate potential out-of-market risk. Overall, the Trustee was satisfied with how the bulk transfer was conducted.

3.5. The Trustee has decided to allow, at its discretion, members the option of transferring their pure DC benefits held in the Aviva Master Trust back into the Scheme to fund part or all of members' tax-free cash lump sum entitlement alongside their DB pension income. This ensures members do not need to give up as much of their Scheme DB pension to provide tax free cash.

4. Hybrid benefits

4.1. In 2022 the Trustee took advice on whether it was permissible to convert members' hybrid benefits to a pure DB benefit in order to simplify the Scheme's benefit structure and facilitate the wind-up of the DC Section of the Scheme.

4.2. Following a stochastic analysis of the affected members' hybrid benefits, the Trustee agreed to proceed with the conversion by complying with the actuarial equivalence requirements of Section 67 of the Pensions Act 1995.

4.3. A communication was sent to the affected members in March 2023, setting out the proposed change to their benefits, and members were given four weeks to make representations to the Trustee about the proposed change.

4.4. No representations were received from members and therefore the benefit conversion was implemented via a deed of amendment with effect from 30 June 2023. A final communication was issued to the affected members in June 2023 confirming that the proposed change would take place.

4.5. Members' benefits were updated, and all DC funds were transferred to the Scheme's DB Section in July 2023. As a result, there were no DC benefits held in the Scheme as at 31 July 2023 (other than the AVCs held with Prudential).