



PYROTEK ENGINEERING MATERIALS LTD

Chair's Statement for the period 6th April 2023 to 5th April 2024

PREPARED IN ACCORDANCE WITH THE OCCUPATIONAL PENSION SCHEMES (CHARGES AND GOVERNANCE) REGULATIONS 2015
("THE REGULATIONS")

I am pleased to present the Trustees' statement of governance in relation to the Pyrotek Engineering Materials Pension Scheme ("the Scheme"), covering the period from 6th April 2023 to 5th April 2024. This Statement describes how the Trustees seek to ensure that the Defined Contribution (DC) section of the Scheme is well-managed and delivers appropriate services to members. The Statement examines five key areas of the Trustees' governance, namely:

- The investment strategy relating to the Scheme's default arrangement.
- The processing of core financial transactions.
- Charges and transaction costs within the Scheme, including an illustration of its cumulative impact, and the Trustees' assessment of value for members;
- Net returns on investments; and
- The Trustees' compliance with the statutory knowledge and understanding requirements.

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, they can visit the Financial Conduct Authority website <https://www.fca.org.uk/consumers/finding-adviser>. If you choose to use a financial adviser, please be sure to check their area of expertise. The adviser will inform you of any charges that apply in return for their advice.

This statement will be published on a publicly available website and the information with regard to cost disclosures will be signposted in the annual benefit statements.

The Scheme is a small legacy hybrid scheme, with less than 100 members which closed to new contributions in 2010. There are approximately 18 members in the DC Section.

Following a thorough review of the Trustees' pension provision and advisors it was identified that there were some gaps in DC compliance for this Scheme. As result the Trustees have appointed new advisors and are working with them and the administrator to address these and consider the future of the DC Section of the Scheme to ensure members receive value.

This Chair's Statement has been completed based on the current understanding of the Trustees and information available at the time of writing and is believed to be the first Chair's Statement published for this Scheme.

1. Default Investment Arrangement

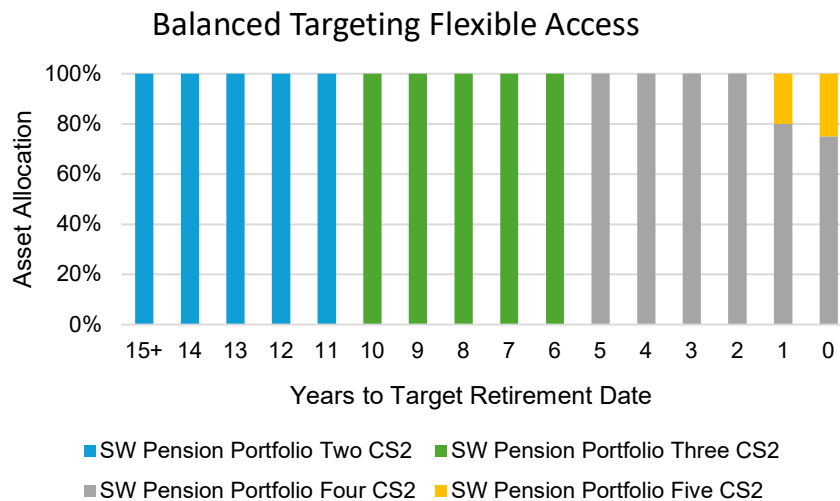
- 1.1 The Trustees are responsible for selecting the range of funds offered to members and for selecting and appointing the provider/platform.
- 1.2 The Scheme closed to future contributions in 2010 and therefore has never been used as a Qualifying Scheme for compliance with automatic enrolment legislation and as such there is no legislative

requirement for the Plan to have a default investment option in relation to the DC benefits. For this reason, the Trustees believe that the disclosures required in the Regulations with regard to default investment arrangements are not applicable to this statement.

1.3 The Trustees have appointed Scottish Widows as the bundled administrator this means Scottish Widows provide both the administration and investment platform (and thus funds) for the members. Scottish Widows provide a number of funds from which the Trustees can select to make available to members.

1.4 Although there is technically no default fund, there is a most popular fund that has been used by members and the features of the most popular fund, the Balanced Targeting Flexible Access Lifestyle Strategy, are detailed below:

- In the growth phase, 100% of contributions are invested in the Scottish Widows Pension Portfolio Two Pensions (Series 2).
- Starting 10 years from retirement, a member’s savings are switched gradually into the Scottish Widows Pension Portfolio Three Pensions (Series 2) before the Scottish Widows Pension Portfolio Four Pensions (Series 2) is introduced in the final 5 years prior to retirement. One year prior to retirement, the Scottish Widows Pension Portfolio Five Pensions (Series 2) is also incorporated into the scheme. At retirement, the default arrangement is invested 75% in Scottish Widows Pension Portfolio Four Pensions (Series 2) and 25% Scottish Widows Pension Portfolio Five Pensions (Series 2).



1.5 Default investment review:
The Scheme does not have a default fund. However, we understand no formal review of the fund range has been carried out since the Scheme closed in 2010.

1.6 The investment performance of the funds used in the Scheme has not historically been reviewed by the Trustees’. This is being addressed in conjunction with their advisers moving forward.

Asset allocation disclosure

1.7 The Occupational Pension Schemes (Administration, Investment, Charges and Governance) and Pensions Dashboards (Amendment) Regulations 2023 (“the 2023 Regulations”) introduced new requirements for trustees and managers of certain occupational pension schemes.

1.8 For the first scheme year that ends after 1 October 2023, trustees or managers of relevant occupational pension schemes are required to disclose their full asset allocations of investments from their default arrangements.

1.9 In order that members invested in the Scheme’s most popular investment option can see how their savings were invested as at 31 March 2024, the tables below show the percentage of each of the main asset classes held by the Balanced Targeting Flexible Access Lifestyle Strategy for members at different stages of the glidepath.

Balanced Targeting Flexible Access Lifestyle

	Growth Phase	De-Risking Phase	At retirement
	Allocation for members more than 10 years away from retirement (members aged 25, and 45)	Allocation for members 10 years from retirement (members aged 55)	Allocation for members at retirement (at 65 years)
Cash	2.3%	2.4%	14.5%
Bonds	11.8%	26.8%	54.3%
Listed Equity	78.2%	63.1%	25.0%
Private Equity	0.0%	0.0%	0.0%
Property	3.4%	2.9%	2.1%
Infrastructure	0.0%	0.0%	0.0%
Private Debt	0.0%	0.0%	0.0%
Other	4.3%	4.8%	4.1%

Source: Scottish Widows for underlying fund allocations as at 30 June 2024 and Mercer calculations.

Notes:

- *Normal Retirement Date for the Scheme is age 65, members have the opportunity of selecting their own retirement date.*
- *The following describes the types of investments covered by the above asset classes:*
 - **Cash** – Cash and assets that behave similarly to cash e.g. treasury bills and repurchase agreements.
 - **Bonds** – Loans made to the bond issuer, usually a government or a company, to be repaid at a later date. This includes Corporate, Government and Other Bonds.
 - **Listed Equity** – Shares in companies that are listed on global stock exchanges. Owning shares makes the Plan a part owner of the company, entitled to a share of the profits (if any) payable as dividends.
 - **Property** – Real estate, potentially including offices, retail buildings which are rented out to businesses.
 - **Other** – Any assets that do not fall within the above categories.

Additional Voluntary Contribution (AVC) arrangements

1.7 The only AVCs in the Scheme relate to DC AVCs invested in the same fund range with Scottish Widows, subject to the same charges.

2. Core Financial Transactions

2.1 As required by regulation 24 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996, the trustees must ensure that core financial transactions are processed promptly and accurately. Core financial transactions include (but are not limited to):

- Investment of contributions paid to the Scheme (noting no further contributions have been paid into the Scheme since 2010).
 - Transfers of members' assets into and out of the Scheme.
 - Switching of members' assets between different investment options available in the Scheme; and
 - Payments from the Scheme to or in respect of members.
- 2.2 The administration of the Scheme has been delegated to Scottish Widows. The Trustees are working with Scottish Widows to understand the minimum timescales for processing requests, including core financial transactions, and expect Scottish Widows to process core financial transactions well within any applicable statutory timescales.
- 2.3 The Trustees have not been receiving governance information from Scottish Widows to enable them to monitor and ensure that the requirements of the Disclosure Regulations are met, and that core financial transactions were processed promptly and accurately during the Scheme year. The Trustees are working with their new advisers to try and obtain this information regularly from Scottish Widows. As such the Trustees are unable to provide report on the service levels currently in place and whether these have been met.
- 2.4 The Trustees expect the processes adopted by Scottish Widows to help process transactions promptly and accurately to include:
- Timeliness of transactions monitored and reported.
 - Straight through processing for contribution payments -automated system (validations built in)
 - Manual processes require a separate processor and authoriser
 - Daily monitoring of bank accounts
 - Quality audit checks are undertaken on a sample of processes throughout the year.
 - Unit reconciliation between investment and administration systems undertaken and are checked and approved
 - Payments checked and approved independently by one or more individuals (depending on value).
 - Annual reporting on common and conditional data scores
- 2.5 The Trustees are not aware of any member complaints during the period and at the time of writing they are unable to comment on whether the core financial transactions have been processed promptly and accurately during the reporting period, but the Trustees are working with Scottish Widows about the controls and processes in place.

3. Charges and Transaction Costs

- 3.1 The Trustees are required to report on the charges and transaction costs for the investments used by the Scheme. The charges deducted from these funds relate to investment management and administration services and are:
- Total Expenses Ratio ('TER') - these costs comprise of management fees and additional expenses such as legal fees, auditor fees and other operational expenses. The TER is typically made up of two components the Annual Management Charge (AMC) and additional fund expenses.
 - Transaction costs - these are the fund manager's expenses associated with trading a fund's underlying securities, including commissions and stamp duty. These costs are taken into account by the fund managers when calculating the unit price for each of the funds, but are not included in the TER.
- 3.2 As the Scheme closed in 2010 it is not used for auto-enrolment purposes and as such is not required to comply with the change cap regulations. However, the overall fee each year for all the fund options are

in line the charge cap of 0.75% per annum which is measured by TER. For the period in question, the maximum TER a member would have incurred was 0.75%.

Fund	Total Expense Ratio (% p.a.)	Total transaction costs (%)
Scottish Widows Pension Portfolio Two Pension (Series 2) ¹	0.75	0.08
Scottish Widows Pension Portfolio Three Pension (Series 2) ¹	0.75	0.09
Scottish Widows Pension Portfolio Four Pension (Series 2) ¹	0.75	0.10
Scottish Widows Pension Portfolio Five Pension (Series 2) ¹	0.75	0.07
Scottish Widows Pension Protector Series (Series 2)	0.75	0.10

Source: Scottish Widows website, as at 31st March 2024. Transaction costs for the period of 12 months to 31st March 2024.

¹ These funds are used in the default strategy.

Illustration of the compounding effect of transaction costs and charges on members' benefits.

3.3 Based on statutory guidance and in accordance with the regulatory requirements, we have prepared illustrations detailing the impact of the costs and charges typically paid by a member of the Scheme on their retirement savings pot.

The below illustrations have taken into account the following elements:

- DC pot size
- Real terms investment return gross of costs and charges
- Adjustment for the effect of costs and charges, including transaction costs
- Period of investment

3.4 The illustrations are based on the most popular fund choice as well as the highest charging self-select fund and the lowest charging self-select available to members. The illustrations show what money invested (based on current pot size and investment returns) could be worth at retirement, taking inflation, investment costs and charges into account. All of the projected fund values shown are purely illustrative and are based on assumptions regarding future rates of return and inflation that may not be borne out in practice.

3.5 It should be noted that, in line with statutory requirements, these illustrations are designed only to show the cumulative impact that investment charges and transaction costs can have on fund values at retirement age. They are not intended to provide information or guidance to members on whether a particular fund is best suited to their requirements. In selecting funds, members should have regard not only to charges and potential transaction costs but also to factors such as expected future returns and their capacity for and tolerance of risk.

Youngest deferred member

3.6 To make this representative of the membership, we have based the illustrations on the age of the youngest deferred member, who is age 45 (20 years from Normal Retirement Age) and a median starting pot size of £11,500 has been used.

Projected Pot sizes in Today's Money							
		Most popular fund: Balanced Targeting Flexible Access Lifestyle		Most expensive fund: Scottish Widows Pension Portfolio Four Pension (Series 2)		Least expensive fund: Scottish Widows Pension Protector Series (Series 2)	
Year End	Age	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	46	£11,827	£11,730	£11,711	£11,613	£11,563	£11,471
2	47	£12,162	£11,965	£11,925	£11,727	£11,626	£11,442
3	48	£12,385	£12,082	£12,144	£11,842	£11,689	£11,413
4	49	£12,612	£12,201	£12,366	£11,958	£11,753	£11,384
5	50	£12,843	£12,321	£12,592	£12,076	£11,817	£11,355
10	55	£13,486	£12,618	£13,789	£12,680	£12,143	£11,211
15	60	£13,486	£12,618	£15,098	£13,315	£12,477	£11,070
20	65	£13,486	£12,618	£16,533	£13,982	£12,821	£10,930

Source: Scottish Widows. Membership used as at 06 April 2022.

Notes

1. Values shown are estimates at end of each year and are not guaranteed.
2. Projected pension pot values are shown in today's terms.
3. Growth rates include the prescribed underlying inflation rate assumption of 2.5% per annum.
4. Charges, transaction costs and estimated growth rates are assumed as follows:

	TER	Transaction costs*	Growth rate assumptions
Balanced Targeting Flexible Access Lifestyle (Most popular fund)	0.75% p.a.	0.7% p.a. for members 7 or more years from retirement; an average of 0.8% p.a. for members at retirement	5.27% p.a. for members 7 or more years from retirement, falling to 3.93% p.a. for members at retirement
Scottish Widows Pension Portfolio Four Pension (Series 2)	0.75% p.a.	0.09% p.a.	4.25% p.a.
Scottish Widows Pension Protector Series (Series 2)	0.75% p.a.	0.05% p.a.	3.00% p.a.

Charge and costs figures provided by Scottish Widows; growth rate assumptions provided by Mercer.

*The Regulations require that where possible the transaction costs assumed in these illustrations are based on an average of the previous five years' transaction costs for each fund, where available. Due to information not being available at the time of writing, the transaction costs shown above are an average of the costs provided for the 2 year period to 31 March 2024.

Value for Members' Assessment

- 3.7 The Trustees have for the first time this year considered the extent to which the member-borne charges represent good value for members by considering the performance of the funds, the services provided and the price members pay. This has been formally assessed by the Scheme's new professional advisors in October 2024 for the year ending 5 April 2024.
- 3.8 Under new legislation applying to all DC schemes with less than £100m in assets, the Trustees are required to assess the extent to which the Plan delivers value for members across three key areas:

Assessment area	Type of assessment
Costs and charges	Comparative assessment against three larger DC arrangements, considering the level of ongoing member-borne charges and transaction costs.
Net investment performance	Comparative assessment against three larger DC arrangements, considering investment performance net of all member-borne costs and charges.
Governance and administration	Standalone assessment of the Plan's governance and administration arrangements, covering: core financial transactions; record keeping; default investment strategy; investment governance; Trustees knowledge and understanding; member communications; and management of conflicts of interest

The Trustees have carried out a value for members' assessment as at 31 March 2024. The conclusions of this assessment are set out in the table below:

Assessment area	Conclusion
Costs and charges	The Trustees have assessed the Scheme as offering poor value from a costs and charges perspective.
Net investment performance	The Trustees have assessed the Scheme as offering reasonable value from a net investment performance perspective, with fund performance being higher than that of the comparator funds over the 1 year periods, but being behind some of the comparator arrangements over the 5 year periods.
Governance and administration	<p>The Trustees have assessed the Scheme as offering poor value from a governance and administration perspective.</p> <p>Promptness and accuracy of core financial transactions</p> <p>We have been unable to obtain evidence or confirmation of the Scheme's core financial transactions over the Scheme year. The Trustees are working with their new advisers to address this with Scottish Widows.</p> <p>Quality of record keeping</p> <p>No recent review has been carried out by the Trustees regarding the quality of data held or the data security controls in place through Scottish Widows. The Trustees also do not currently have a risk register in place. The Trustee is working with its new adviser to address these issues.</p> <p>Appropriateness of the default strategy</p>

Assessment area	Conclusion
	<p>The appropriateness of the default investment strategy for the Scheme’s members has not been reviewed for some time. The Trustees is going to review the DC section of the Scheme with its advisers to improve the member experience.</p> <p>Quality of investment governance</p> <p>The Scheme does not currently have appropriate investment governance procedures and policies in place. This is being reviewed with their new advisers.</p> <p>Level of trustee knowledge, understanding and skills to operate the pension scheme effectively</p> <p>The Trustees do not maintain a training log or have a process in place to ensure knowledge and understanding of key DC pensions issues are maintained. Training is being discussed with the Trustees advisers.</p> <p>Quality of communication with scheme members</p> <p>The Trustee understands the Scottish Widows member communications are in line with regulatory requirements, and members can engage with Scottish Widows through multiple media.</p> <p>Effectiveness of management of conflicts of interest</p> <p>The Trustee does not have a conflicts of interest policy in place, and no documented controls relating to conflicts of interest. This is being updated with the Trustees’ new adviser.</p>
Overall	<p>Based on our assessment, considering all three areas set out above, the Trustees have assessed the Scheme as offering poor value for members.</p> <p>The Trustees will explore options based on the Scheme rules, and in discussion with the Sponsoring Employer, to either transfer the Scheme’s DC assets to a larger provider that may offer better value for members going forward and if that is not possible within the Rules of the Scheme, they will work with their advisers to improve member value.</p>

4. Net Returns on Investments

- 4.1 Regulations introduced in 2021 require the Trustees to report on the net investment returns for the Scheme’s investment options for each fund which DC members have been able to select during the Scheme year. Net investment returns refer to the returns on funds minus all transaction costs and charges.
- 4.2 The table below sets out the net investment returns for the Scheme’s most popular which have been calculated in accordance with the statutory guidance.

Balanced Targeting Flexible Access	Annualised returns to 31st March 2024 (%)	
Age of member at start of period	1 year	5 years
25	15.6	6.8
45	15.6	6.8
55	14.2	5.4

Source: Data from Scottish Widows and Mercer calculations, as at 31 March 2024.

Fund performance is net of all charges and transaction costs. Performance has been calculated based on a fixed weighted average of underlying fund performance in the lifestyle, with the weightings as at the ages shown.

4.3 The table below includes the net investment return for the Scheme’s other fund options:

Self-select fund	Annualised returns to 31st March 2024 (%)			
	1 year	5 years	10 years	15 years
Scottish Widows Pension Portfolio Two Pension (Series 2) ¹	16.6	6.8	7.3	9.7
Scottish Widows Pension Portfolio Three Pension (Series 2) ¹	14.2	5.4	6.4	8.8
Scottish Widows Pension Portfolio Four Pension (Series 2) ¹	9.6	2.7	4.5	7.3
Scottish Widows Pension Portfolio Five Pension (Series 2) ¹	4.4	0.9	N/A	N/A
Scottish Widows Pension Protector Series (Series 2)	5.5	-4.6	1.0	3.0

Source: Scottish Widows as at 31 March 2024. Performance shown net of all charges and transaction costs.. Performance of standalone self-select options is independent of age, therefore performance is shown in a different format from the lifestyle performance on the previous page. Funds marked N/A have insufficient performance history.

5. Trustee Knowledge and Understanding

Requirements

- 5.1 In accordance with Sections 247 and 248 of the Pensions Act 2004, trustees are required to maintain an appropriate level of knowledge and understanding which, together with professional advice that is available to them, enables them to properly exercise their functions and duties in relation to the Scheme.
- 5.2 Trustees are also required to explain how their combined knowledge and understanding, together with the advice that is available to them, enables them properly to exercise their functions as trustees of their Scheme.
- 5.3 Trustees must also be conversant with their Scheme’s documentation, including its Trust Deed and Rules and SIP as well as any other document recording current policy relating to the administration of the Scheme more generally.
- 5.4 The Pensions Regulator interprets ‘conversant’ as having a working knowledge of those documents such that the trustees can use them effectively when they are required to do so in the course of carrying out their duties on behalf of the members. In addition, trustees are also required to have a knowledge and understanding of the law relating to trusts and pensions.

How the Trustees have met these requirements

- 5.5 The Trustees have recently appointed Mercer to support them in governing the Scheme in line with the Trust Deed and Rules and in accordance with the expectations of the Pensions Regulator. The advice

received along with their own evolving experience is intended to allow them to properly exercise their function as Trustees. If there are any ambiguities over the interpretation of the Rules legal advice is sought from their legal advisors.

- 5.6 Whilst the Trustees have not undertaken training recently and have not historically undertaken an assessment of their training needs, they recognise that trustees training is of high importance to the good running of the Scheme.
- 5.7 The Trustees are working with their advisors to put steps in place to increase their conversance and working knowledge of the Scheme in line with their working knowledge of the general Trust and Pensions Law. The current focus is understanding the benefits under the DC Section of the Scheme and the options available for the future management of these benefits.
- 5.8 In addition, the Trustees will be undertaking a number of activities that involve giving consideration to pensions and trust law, the Plan's governing documents and Investment Principles as part of the review of its pension provision and more specifically this Scheme. This will include consideration of the Scheme Rules, demographics of the DC Section members and the requirements as set out in legislation and the Pensions Regulator expectations and liaising with their advisors and the Regulator about the various aspects of complying with these.
- 5.9 Given the output of the value for members assessment has confirmed the Scheme delivers poor value for members the Trustees will work with their adviser to determine how this can be improved, and if it is not possible to improve the value within the Scheme, will consider moving the DC assets to an alternative arrangement, subject to receiving legal advice that this is possible within the Scheme's current Rules.
- 5.10 Whilst there have been no changes to Trustees during the year, the expected induction process going forwards would be as follows:
 - Newly appointed individuals to have completed all relevant modules of the Pensions Regulator's "Trustee toolkit" online training programme for trustees within six months of initial appointment. This covers topics such as the role of a trustee, the process of running a pension scheme, managing conflicts of interest, key areas of pensions law, and the principles of investment of pension scheme assets;
 - Supplemented with targeted individual training based on analysis of learning needs;
 - Facilitate familiarisation with the Scheme, stakeholders, advisers and providers and working methods.

Chair's declaration

This statement has been prepared in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (as amended). I confirm that the above Statement has been produced by the Trustees to the best of their knowledge.

Signed for and on behalf of the Trustees of the Pyrotek Engineering Materials Pension Scheme

Anita Hollis

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Chair of Trustees

Date ...29/10/2024.....