Swan Mill Annual DC & AVC Governance Statement
1 April 2019 to 31 March 2020 (the "Scheme Year")

1. Introduction

Governance rules apply to defined contribution pension arrangements like the Defined Contribution Section and the AVC Section of the Swan Mill Paper Company Limited Retirement Benefits Plan (the Scheme). These are designed to help members achieve a good outcome from their pension savings.

The Trustees of the Scheme are required to prepare an annual statement (signed by the Chair of the Trustees) – the "Chair's Statement". This explains what steps have been taken by the Trustee Board to meet the governance standards in relation to:

- the investment options in which members' funds are invested (this means the "default arrangement" and other funds members can select or have assets in, or legacy funds);
- the requirements for processing financial transactions;
- the charges and transaction costs borne by members;
- an illustration of the cumulative effect of these costs and charges;
- a 'value for members' assessment; and
- Trustee knowledge and understanding.

The Trustees will make this Chair's Statement available at www.swantex.com, a publicly available website and this will be referred to in members' next benefit statement.

It is important to emphasise that this Chair's Statement does not contain advice in respect of actions that members should or should not take and is not intended to be used for that purpose. If members need advice, a list of local independent financial advisers can be found on-line at www.unbiased.co.uk.

The Defined Contribution Section of the Scheme is closed to new entrants and no longer has any active members. It is therefore not used by the Employer for auto-enrolment purposes.

2. Default investment arrangements

Members who have joined the Defined Contribution Section of the Scheme and who do not choose an investment option are automatically placed into the Lifestyle Fund ("the Default Fund").

The Trustees are responsible for investment governance. This includes appointing investment managers and setting and monitoring the investment strategy for this Default Fund.

Some years ago the Trustees appointed Standard Life Aberdeen PLS ("SLA") to manage the Scheme's assets on a pooled basis and chose their SLA Opportunity ll Universal Lifestyle Profile Fund (Code 40PP).

A copy of the latest Statement of Investment Principles ("SIP") signed on behalf of the Trustees on the 17 September 2020 and prepared in accordance with regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005, is attached to this Chair's Statement as Appendix A and is publicly available at www.swantex.com. This shows details of the Defined Contribution Section of the Scheme's investment strategy and investment objectives, including for the Default Fund.

The key aims, objectives and information about the Default Fund (labelled by Standard Life as the Stock Exchange Pension Fund) are as follows:

> It is made up of three funds - the UK Equity Pension Fund, the Annuity Targeting Purchase Fund, and the Money Market Pension Fund. The amount in each is dependent on the length of time a member has to their expected retirement date. More than five years from expected retirement, all contributions are invested in the UK Equity Pension Fund, with the aim of obtaining significant long term real growth while members are far from their target retirement date. At five years from the expected retirement, the member's pension fund assets are moved into the Annuity Targeting Purchase Fund, which invests in bonds. At one year from expected retirement, 25% of the assets are moved into the Money Market Pension Fund to reflect the current tax free rules on the purchase of an Annuity at retirement. This gradually reduces the risk taken in investment strategy as members come closer to their retirement date. It enables the Trustees to have an asset allocation at the member's target retirement date that is appropriate and consistent with members buying Annuity on their retirement.

The Trustees are required to review the strategy and objectives of the Default Fund at regular intervals and to take into account the needs of the Defined Contribution Section of the Scheme's membership. During the year reports have continued to be submitted by SLA to the Trustees to monitor at their Trustee meetings and these were reviewed at those meetings. This has enabled the Trustees to confirm that the investment performance has remained consistent with the aims and objectives as set out in the Defined Contribution Section of the Scheme's SIP (as revised from time to time).

However, following a review of the Defined Contribution Section of the Scheme's default strategy and the performance of the default fund in March 2017, whilst the Trustees were satisfied with the allocation of investments in the Default Fund, they, in association with Swan Mill (Holdings) Ltd (the Scheme's sponsoring employer) decided that members' interests would be better served by closing the Defined Contribution Section of the Scheme to future contributions and transferring members' pension funds into a Mastertrust managed by Legal & General, the Legal & General Worksave Pension Mastertrust, ("L&G Mastertrust"). The pension funds of the Defined Contribution Section of the Scheme's active members were transferred to the L&G Mastertrust on 21 November 2017. The Trustees then waited for the L&G Mastertrust to receive authorisation from the Pensions Regulator before progressing the bulk transfer of the deferred members' pension funds without the consent of the deferred members. The L&G Mastertrust has obtained this authorisation. This allows the Trustees to make a bulk transfer of all existing members' pension funds over to the L&G Mastertrust without members' consent. This was due to occur in Spring 2020 but because of the impact of Covid 19 on investment matters, the Trustees have agreed to postpone this transfer until Autumn 2020 and they have agreed a date for this with the L&G Mastertrust. Accordingly, the Trustees have continued with the current investment strategy for the Default Fund this year, as the Trustees believe it remains appropriate.

The principal reasons arising from the earlier review for the move to the L&G Mastertrust are set out below and in the Trustees' opinion, they remain valid reasons to move all members' pension funds from the Defined Contribution Section over to the L&G Mastertrust.

- The Defined Contribution Section of the Scheme as administered by SLA is not able to offer members' flexibility and control over their savings, in particular, the new pension choices including drawdown at 55;
- The fund and administration management charges for the L&G Mastertrust are lower than those currently levied by SLA; and
- The interactive internet platform offered by the L&G Mastertrust is more relevant and user friendly compared to the legacy platform offered by SLA.

Pending the bulk transfer in Autumn 2020, the Trustees continue to monitor the investment performance of the Defined Contribution Section of the Scheme and continue to take investment advice from their investment consultants, Mercer, on the Defined Contribution Section of the Scheme, its investment strategy, the Default Fund and its SIP.

3. Requirements for processing core financial transactions

The Trustees receive an administration report twice a year from SLA reporting upon the administrator's performance and the Trustees are satisfied that over the period covered by this Chair's statement there were adequate internal controls to ensure that core financial transactions relating to the Defined Contribution Section of the Scheme were processed promptly and accurately during the Scheme Year. As the Defined Contribution Section of the Scheme now only has deferred members, no new contributions were paid or accepted into the Defined Contribution Section of the Scheme. There were no retirements in the Scheme Year. The core financial transactions were therefore restricted to such matters as set out below, which did not involve the Trustees' bank account:

- transferring assets relating to members out of the Defined Contribution Section of the Scheme (including AVCs) to be completed within 10 working days;
- transferring assets between different investments within the Defined Contribution Section of the Scheme (including AVCs) to be completed within 10 working days;

The Trustees are pleased to report that transactions were processed promptly and accurately during the Scheme Year, in accordance with SLA's service level agreement, with no material administration errors and with SLA operating appropriate checks and control for the Trustees to review and if appropriate challenge. The Trustees are satisfied that the standards of practice set out in the DC code and DC regulatory guidance have been adopted, including as regards SLA's AAF report and workflow systems
The Trustees can confirm that there are no commissions or other payments made to third party intermediaries in relation to the Defined Contribution Section of the Scheme.

4. Charges and Transaction Costs paid by Members

The Trustees are required to set out the on-going charges borne by members in this Chair's statement. These are the annual fund management charges plus any additional fund expenses, such as custody costs, but excluding transaction costs. This is also known as the total expense ratio ("TER"). The TER is paid by the members and is reflected in the unit price of the funds. In addition to the investment managers' expenses included in the TER, investment funds are subject to other implicit costs, such as those associated with trading a fund's underlying securities, commissions and stamp duty. These expenses are not explicitly deducted from the fund but are captured by a reduction in investment returns and are known as transaction costs.

The level of charges applicable to the SLA Default Lifestyle Fund net of a negotiated discount is as follows:

Stock Exchange Pension Fund - 0.62%

The level of charges for administration, investment management and transaction costs applicable to the other Funds offered under the Scheme in addition to the SLA Default Lifestyle Fund, are as follows:

UK Equity Pension Fund – 0.61% pa
Overseas Equity Pension Fund - 0.61% pa
Annuity Targeting Pension Fund – 0.61% pa
Money Market Pension Fund – 0.60%

The above charges are made up of an annual management charge of 0.60% (being 1% less a discount of 0.40%) plus a transaction charge of 0.01%, except the Money Market Pension Fund where it is 0.002%.

Significantly, out of £687K invested by members in the SLA Funds £583K, (85%) is invested in the Stock Exchange Pension Fund which is the Default Lifestyle Fund.

In accordance with Regulation 23(1) (ca) of the Administration Regulations, as inserted by the 2018 Regulations, the Trustees have prepared an illustration detailing the impact of the costs and charges typically paid by a member of the Scheme over a 30 year period, based on the period to retirement of the youngest member, at three prospective investment returns of 5.0% pa being the default rate as described in Para 1 above, 3.0% pa being Fund A, and 1.5% being Fund B, all being 2.5%, 0.5% and -1% respectively above or below inflation of 2.5% pa with costs and charges of 0.62% pa, the current SLA rates described above. The starting member's pension fund for this is assumed to be £10,000. The statutory guidance provided has been considered in these examples.

Projected Pot sizes in Today's Money						
Year End	**Default Arrangement**		**Stock Exchange Pension Fund (most popular; highest charges; highest expected return)**		**Money Market Pension Fund (lowest charges; lowest expected return)**	
	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	£10,245	£10,182	£10,246	£10,182	£9,855	£9,795
3	£10,753	£10,557	£10,756	£10,557	£9,570	£9,396
5	£11,286	£10,946	£11,292	£10,946	£9,294	£9,014
10	£12,738	£11,982	£12,750	£11,982	£8,638	£8,125
15	£14,376	£13,115	£14,397	£13,115	£8,028	£7,324
20	£16,225	£14,356	£16,257	£14,356	£7,461	£6,602
25	£18,311	£15,714	£18,357	£15,714	£6,935	£5,951
30	£19,021	£15,831	£20,729	£17,201	£6,445	£5,364

The annual charges and transaction costs for the default arrangement changes depending upon how close the member is to retirement. The default arrangement adopts a lifestyle strategy that is comprised of a number of different funds. Investments begin to switch into less volatile assets five years before retirement.

Notes:

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation – inflation has been assumed at 2.5%
2. Starting pot size is assumed to be £10,000 because this is the pot size for the majority of members.
3. Current age is 35 and retirement age is 65.
4. Values are estimates and are not guaranteed
5. The projected growth rate assumed for each fund are as follows:

a. Default Arrangement: ranging from 2.44% p.a. to -0.37% p.a. gross expected real return above inflation (depending upon how far the member is from retirement age).

b Stock Exchange Pension Fund (most popular, most expensive fund and highest expected growth fund): 2.44% p.a. gross expected real return above inflation.

c. Money Market Pension Fund (lowest expected growth fund but also one of the least expensive funds): -1.46% p.a. gross expected real return above inflation.

As far as the Trustees are aware, all transaction costs have been disclosed to them and are set out above.

The Company pays all advisory fees associated with the operation of the Defined Contribution Section of the Scheme.

5. Value for Members

When assessing the charges and transaction costs which are payable by members, the Trustees are required to consider the extent to which these represent good value for Defined Contribution Section of the Scheme members.

The Trustees have undertaken their own value for members assessment in September 2020 for the period covered by this Chair's statement, as well as advice from their investment consultants, Mercer, and are pleased to report that SLA's arrangements do represent reasonable value for money to members, having considered the investment pricing and performance in the context of the size of the Scheme's DC assets and being well below the statutory charge cap of 0.75%. In reaching this assessment, the Trustees have also considered and weighed up SLA's member services, platforms, turnaround levels and member options at retirement. Each of which the Trustees have concluded is no better than reasonable. The Trustees also note that members benefit from the strong Scheme governance which the Trustees have put in place, their Trustees oversight, and ongoing member communications.

However based on a member's existing invested pension fund in the Defined Contribution Section of the Scheme of £10,000, the reduced annual charge by L&G Mastertrust of 0.43% compared to SLA's 0.62% would result in an annual saving of £18 which, over a 30 year period, would amount to a cumulative saving of £540, ignoring compounding and investment returns. Additionally, because of the economies of scale available, the L&G Mastertrust 0.43% for its default lifestyle fund is considerably better, as well as offering a more user friendly platform and member service for members and all pension flexibility options on a member's retirement.

Because of this and the other benefits arising from a move to the L&G Mastertrust, the Trustees will progress the bulk transfer of members' pension funds in Autumn 2020 from the Defined Contribution Section of the Scheme to the L&G Mastertrust.

It should be noted that there are also two AVC arrangements. One is with SLA and invested in the same funds as are open to the deferred members of the DC Section of the Scheme and hence the same charges apply as set out above. The other AVC arrangement is with Scottish Friendly (SF). This has five deferred members of the **Scheme'**s defined benefits section, who have £56K in total invested. This AVC arrangement dates back more than five years but for the last five years, there have been no further payments in and no payments or transfers out. SF levy an Annual Management Charge of 1.25%. The Trustees recognise that the fee level for the SF fund is relatively high and have asked their advisers, Mercer, to consult SF accordingly with a view to reducing their fees. In the meantime, the fee is clearly stated on the annual benefit statement sent to these members.

The performance of the funds in which the AVC members are invested has been regularly discussed at Trustee meetings.

6. Trustee Knowledge and Understanding

The Scheme's Trustees are required to maintain appropriate levels of knowledge, experience and understanding to run the Scheme effectively and all the Trustees have undertaken the Pensions Regulator's Trustee Toolkit. Queen Street Trustees Limited was appointed, as one of the Scheme's Trustees on 22 June 2020, amongst other things, to assist with these requirements.

Each Trustee must:

- Be conversant with the trust deed and rules of the Scheme, the Scheme's statement of investment principles and any other document recording policy for the time being adopted by the Trustees relating to the administration of the Scheme generally,
- Have, to the degree that is appropriate for the purposes of enabling the individual properly to exercise his or her functions as trustee, knowledge and understanding of the law relating to pensions and trusts and the principles relating to the funding and investment of assets of occupational pension schemes.

All the Trustees are familiar with and have access to the Scheme's current governing documentation, including its trust deed and rules, as amended, the SIP and their key policies and procedures. The Trustees refer to their governing trust deed and rules when making decisions about the Scheme and the SIP is regularly reviewed and kept up to date.

The Trustees also consider they have sufficient knowledge and understanding of the law relating to pensions and trusts and of the relevant principles relating to funding and the investment of occupational pension schemes to fulfil their duties. The Trustees consult with their advisers to ensure this is maintained.

The Trustees consult with their professional advisers as and when required, for example on governance and legal matters when, for example, specific clarification is needed about the Scheme and its governing documentation. The professional advisers also alert the Trustees, and where appropriate provide training, on relevant changes to pension and trust law and other changes that are applicable to the Scheme, including relating to investment.

The Trustees take training and development responsibilities seriously and keep a record of the training completed by both Trustees. In the past year, the Trustees have attended investment conferences hosted by investment managers and investment consultants, as well as seminars hosted by professional pension fund administrators. This training has ensured that the Trustees have been able to participate in dialogue with their investment advisers. .

7. Assessment

Taking into account the knowledge and experience of each of the Trustees with the specialist advice (both in writing and whilst attending meetings) received from the appointed professional advisors (e.g. investment consultants, legal advisors), the Trustees consider that their knowledge, skills and understanding together with the advice which is available to them from their advisers, enable them to properly exercise their functions as Trustees of the Scheme, properly and effectively.

Graham Rogers

Graham Rogers - Chair of Trustees
The Swan Mill Paper Company Ltd Retirement Benefits Plan
29th September 2020