BASF
We create chemistry

DC Governance Statement

Introduction

This statement describes how the Trustee has governed the DC Section of the Scheme during the year. The Occupational Pension Schemes (Scheme Administration) Regulations 1996 require the Trustee to include an annual statement regarding governance in the annual report, and this statement covers the period from 1 January 2023 to 31 December 2023.

The Trustee Board delegates certain matters relating to the DC Section to its DC Committee. The Trustee Board has agreed appropriate terms of reference for the DC Committee, which meets at least three times per year to consider matters relating to the DC Section. The DC Committee reports after each DC Committee meeting to the Trustee Board.

The DC Committee is supported by a specialist professional DC investment adviser, who also covers wider DC matters and governance, and attends meetings of the DC Committee. The Trustee's legal adviser and representatives of the Scheme administrator also provide support and attend meetings of the Trustee Board and / or the DC Committee when required. Day-to-day support to the DC Committee is provided by the BASF In-House Pension Team.

The statement covers four principal areas:

- Investment, with focus on the Scheme's default investment arrangements
- Internal controls, with focus on the processing of core financial transactions
- Value for members, including details of the charges and transaction costs deducted from member funds
- The knowledge and resources available to the Trustee, including how the Trustee maintained the statutory levels of knowledge and understanding to govern the Scheme and how these help the Trustee to ensure that the Scheme is governed effectively

Investment Arrangements

The Scheme's latest Statement of Investment Principles (SIP), prepared in accordance with regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005, can be accessed on the Pension Website.

The SIP covers the Trustee's aims and objectives in relation to the investments, including the default investment arrangement. It also contains policies in relation to matters such as risk, diversification, and responsible investment. The SIP details why the Trustee believes the default investment arrangement to be designed in members' best interests.

The SIP was reviewed and updated in July 2023 as part of a regular programme of review. The changes related to referencing the Trustee's stewardship priorities (as detailed in the Implementation Statement) and other minor amendments. The Trustee took advice from its DC Investment Adviser when reviewing the SIP.

Default Arrangement

The default investment arrangement during the year covered by this statement was the Moderate Flexible Income LifePlan. This is a lifestyle strategy designed to help members planning to withdraw their benefits in a flexible way, typically through staying invested in retirement and drawing down on their savings over time (at the current time, this needs to be outside of the Scheme).

The default Moderate Flexible Income LifePlan invests in the Moderate Fund (a blended fund that invests c50% in global equities and c50% in diversified growth funds) until a member is 5 years away from their chosen Target Pension Date. The investments are then gradually switched each quarter so that at the point of retirement the member's investments are invested in a multi-asset "Cautious" Fund which holds a range of growth and defensive assets, and a pooled Sterling Liquidity Fund which holds cash and related money market investments.

Published: May 2024

Asset Allocation Disclosure as at 31 December 2023

The Trustee makes available asset allocation information on the Scheme's funds through quarterly factsheets which are available to members online.

Additionally, as part of changes introduced through the Occupational Pension Schemes (Administration, Investment, Charges and Governance) and Pensions Dashboards (Amendment) Regulations 2023, the Trustee is required to set out in this Statement the asset allocation of investments in default arrangements, at prescribed member ages. This is set out below. Note that as the strategic asset allocation of the Scheme's default investment arrangement does not change until a member is 5 years away from their target retirement date, the asset allocation at ages 25, 45, and 55 is identical.

Asset Class	Allocation			
	Age 25 (%)	Age 45 (%)	Age 55 (%)	age 65 (%)
Cash	0.7	0.7	0.7	23.1
Bonds (corporate and government)	22.3	22.3	22.3	30.7
Listed Equities	71.1	71.1	71.1	43.4
Private Equity	0.0	0.0	0.0	0.0
Infrastructure	0.0	0.0	0.0	0.0
Property/Real Estate	2.4	2.4	2.4	1.1
Private Debt/Credit	0.0	0.0	0.0	0.0
Other	3.5	3.5	3.5	1.7

Source: Investment managers. "Other" category includes commodities, currency, and insurance-linked securities. Note that the Scheme does invest in some private equity and infrastructure assets on an indirect basis, though as these are publicly listed vehicles (e.g. private equity and infrastructure company shares) they are categorised as listed equities.

Review of the Default Investment Arrangement

The Trustee undertakes a strategic review of the default investment strategy on a triennial basis, or more frequently if required. The last strategic review of the investment strategy was completed in 2022. For completeness, the review activity during 2022 included:

Risk analysis: Work on the level of risk within the default investment strategy, including consideration of the allocation to equities within the growth phase and the length of the de-risking phase. The DC Committee considered the impact of different risk levels on projected member outcomes up until retirement, along with metrics such as the "1 in 20 worst case" potential return over 1 year, at different ages.

Investment manager review: The Trustee, via the DC Committee, carried out a detailed review of the three appointed diversified growth fund (DGF) investment managers within the default investment strategy. This resulted in decisions being taken to:

- Replace one of the DGF managers with a new investment manager, with a view to improving future return potential (allowing for risk) as well as reducing ongoing fees for members.
- Replace one of the DGFs with an alternative fund managed by the same investment manager and team, but with additional objectives in relation to sustainability. The rationale for this was to continue to enhance how responsible investment considerations, including climate change, are integrated within the Scheme's investment strategy. Additionally, the ongoing fees for this new fund are lower than the prior fund, improving long term value for members.

As part of this exercise, the DC Committee met with alternative investment managers to assess the range of options available, and to ensure that suitable investment managers are in place for the Scheme's investment arrangements. Regulated investment advice was provided to the DC Committee on the new investment manager selections.

The two investment managers changes noted above were made in January 2023. All members affected received a communication on the changes.

The next formal triennial review is scheduled for 2025, or sooner if there is a significant change in the membership profile or other material circumstances of the Scheme.

Other Investment Governance activity

Over the year to 31 December 2023, performance and risk-based reviews were undertaken on a quarterly basis. These reviews incorporate independent quarterly reports from the DC adviser.

The reports provide detailed analysis of the performance of the Scheme's investments against benchmarks, target performance levels and peer groups, as well as risk measures (for example, the volatility of returns) and the investment adviser's research ratings which provide a forward-looking assessment of the likelihood of a fund's performance objective being met. The DC Committee discusses the reports at each meeting.

During the year, the DC Committee also met with four of the investment managers to the DC Section. This allowed the DC Committee to discuss performance, monitor risks, and to test the continued suitability of the investment managers to meet the objectives of their respective mandates.

Net Investment Returns

From 1 October 2021, trustees of all relevant pension schemes are required to calculate and state the return on investments, for all funds available to members, net of transaction costs and charges. This information is recorded in this statement and published on a publicly accessible website.

Investment returns after charges and costs for the funds available to members during the year are provided in the tables on the following pages. For the default strategy, the analysis assumes a retirement age of 65 and its performance has been calculated based on a fixed weighted average of underlying fund performance in the lifestyle strategy that is in place, with the weightings as at the ages shown.

Note that 10-year + returns are not available because the Scheme's funds were only launched by the investment manager or added to the Scheme more recently. Returns since inception have been included to provide the longest history possible.

Default strategy – Moderate Flexible Income LifePlan - returns (net of fees) % p.a.				
Age of Member	**1 Year**	**5 Years**	**Since Inception**	**Inception Date**
Up to age 60 (Moderate Fund)	8.3	9.2	7.9	1 April 2014
Age 65	6.2	3.6	3.5	1 April 2014

FreePlan (self-select) funds - returns (net of fees) % p.a.				
Fund	**1 Year**	**5 Years**	**Since Inception**	**Inception Date**
Moderate	8.3	9.2	7.9	1 April 2014
Adventurous	7.1	6.4	5.3	1 April 2014
Cautious	6.7	4.3	4.3	1 April 2014
Ethical	17.1	13.8	12.2	1 April 2014
Islamic	27.2	16.6	14.5	1 April 2014
Sterling Liquidity	4.6	1.3	0.9	1 April 2014
Pre-Retirement Annuity	7.4	-2.1	2.0	1 April 2014

Source: Scottish Widows. Fund returns shown net of all member-borne charges and costs.

Internal Controls and Core Financial Transactions

The Scheme has appointed a professional third-party administrator, Buck.

The Trustee has received assurance from the Scheme Administrator, and has taken steps to seek to ensure, that there were adequate internal controls to ensure that core financial transactions relating to the Scheme were processed promptly and accurately during the year. This includes the investment of contributions, processing of transfers in and out of the Scheme, transfers of assets between different investments, and payment of benefits to members. Our processes in this regard are documented below.

Administration

The Trustee has established service level agreements (SLAs) with the third-party administrator which include target timescales for processing core financial functions relating to contribution handling, quoting, switching, and paying benefits. The target timescales are all well within applicable statutory timescales.

Via the Administration Services and Governance Committee and the in-house team, the Trustee monitors SLAs on a quarterly basis. Over the year to 31 December 2023, the average percentage level of SLAs achieved across the Scheme stood at 97%. The average level for “DC processing” transactions was 99%.

SLAs are reported on an “end-to-end” measurement system. An individual query or member request may be opened and pended at various touchpoints. The service level used for each step is aggregated and at the point the case is closed the aggregated time is measured against the individual case service level. The ultimate driver is to improve members’ experience and provide a proactive service, while reducing the time work is open and active with the administration team.

The administrator also provides reporting each quarter on core financial transaction performance. This shows how many instances of different transaction types (e.g. investment switches, transfers out) are processed within target.

The quarterly administration reports include commentary on any service issues or trends. In addition, the Administration Services and Governance Committee takes a proactive approach to questioning the administrator about their service levels.

The administrator completes monthly DC unit reconciliations and bank reconciliations, along with periodic ah-hoc testing of administration processes. For example, in prior years the Trustee has requested that the auditor tests how lifestyle de-risking switches are checked for accuracy and timeliness by the Scheme’s administrator.

Finally, the Trustee also has oversight of the core financial transactions of the AVC arrangements with Prudential. Transactions are very limited given the small number of members involved and the closed nature of the policy, but no issues have been identified with core financial transactions in respect of these legacy arrangements.

Broader Controls

The Trustee has sought to ensure that detailed disaster recovery plans are in place with the administrator, other relevant third parties, and within the sponsoring employer.

All third-party providers are required to share their data security and cyber risk policies with the Trustee. These policies are reviewed, and the parties are questioned on any areas requiring clarity. The risk register has a dedicated section covering cyber risks, with detailed mitigation strategies documented for different aspects of cyber risks for each third-party provider.

The Trustee maintains and monitoring a risk register which includes risks in relation to core financial transactions, along with details of mitigation strategies adopted by the Trustee.

A professional firm has been appointed to undertake an annual audit of the Scheme.

The Trustee receives the administrator's annual assurance report on internal controls. In respect of the most recent report received, the Independent Service Auditor's opinion was that, in all material aspects, the administrator's controls were suitably designed and those tested operated effectively. The internal controls audit report is reviewed by the Administration Services and Governance Committee.

The Trustee is pleased to confirm that all Scheme operations have been maintained successfully during the year. All monthly contributions have been paid on time. Key administration functions such as preparing benefit quotations, issuing benefit payments, investing monthly contributions, and updating member records continue to be processed promptly by the administrator.

In the last Scheme year there have been no material administration service matters or internal controls issues which need to be reported here by the Trustee.

The Trustee is confident that the processes and controls in place with the administrator are robust and will ensure that the requirements of regulation 24 of the Regulations have been met, and that core financial transactions have been processed promptly and accurately.

Value, Charges and Transaction Costs

The range of the levels of charges and transaction costs applicable to the default arrangements during the period are detailed in this section. All funds available to members have total expense ratios that fall below the defined contribution charge cap of 0.75% per annum.

In the following table, we set out the charges and transaction costs applicable to the funds used in the default investment arrangement and other investment funds on 31 December 2023. Funds used as part of the default investment option are shown in blue.

Fund	TER* (% p.a.)	Transaction Costs** (%)
Adventurous	0.409	0.01
Moderate	0.396	0.09
Cautious	0.304	0.06
Pre-Retirement Annuity	0.142	0.00
Sterling Liquidity	0.135	-0.30
Ethical	0.277	0.00
Islamic	0.377	0.00

Source: Scottish Widows

** A "total expense ratio" reflects the total costs associated with managing and operating an investment fund, including investment management fees, fund legal fees, investment platform fees and any other expenses.*

*** When buying and selling investments, transaction costs can be incurred. Such costs are not explicitly deducted from a fund but are captured in its performance (i.e., the higher the transaction costs, the lower the returns). The FCA's guidance to investment managers (Policy Statement 17/20) has been used in calculating and disclosing these costs. Due to the way in which the costs must be calculated, they can be negative or positive; a negative figure is effectively a gain from trading, while a positive figure is effectively a cost from trading.*

There are no performance-based fee structures in place within the Scheme.

Impact of Costs and Charges

Using data provided by Scottish Widows and in accordance with Regulation 23(1)(ca) of the Administration Regulations, the Trustee has prepared illustrations detailing the impact of the costs and charges incurred by a member of the Scheme on their retirement savings pot. Statutory guidance has been considered when providing these examples.

BASF
We create chemistry

To represent the range of funds available, we are required to show the effect on a member's savings of investment in the following:

- The fund or strategy with the most members invested (Moderate Flexible Income LifePlan)
- The fund available as a FreePlan (self-select) option with the highest charges (Moderate Fund)
- The fund available as a FreePlan (self-select) option with the lowest charges (Sterling Liquidity Fund)

To show the impact across a typical working lifetime, the Trustee has based this on a member joining the Scheme at age 21, using a starting pot of £0 and a salary based on the approximate graduate employee average. It assumes an overall contribution level in line with the employer's current default contribution structure. The illustrations that follow take into account the following elements:

- Initial savings pot size
- Contributions, where applicable
- Time
- Real terms investment return gross of costs and charges
- Adjustment for the effect of costs and charges

Using data provided by Scottish Widows and in accordance with Regulation 23(1)(ca) of the Administration Regulations, the Trustee has prepared an illustration detailing the impact of the costs and charges typically paid by a member of the Scheme on their retirement savings pot. Statutory guidance has been considered when providing these examples.

Age	Default arrangement & most popular investment strategy		Fund with the highest charges available as a FreePlan (self-select) option		Fund with the lowest charges available as a FreePlan (self-select) option	
	Moderate Flexible Income LifePlan		Moderate Fund		Sterling Liquidity Fund	
	Pot size with no charges incurred (£)	Pot size with charges incurred (£)	Pot size with no charges incurred (£)	Pot size with charges incurred (£)	Pot size no with charges incurred (£)	Pot size with charges incurred (£)
21	0	0	0	0	0	0
25	20,650	20,350	20,650	20,350	18,850	18,790
30	51,340	49,830	51,340	49,830	41,750	41,480
35	88,310	84,380	88,310	84,380	64,010	63,400
40	132,610	124,700	132,610	124,700	85,750	84,690
45	185,510	171,610	185,510	171,610	107,080	105,480
50	248,440	226,000	248,440	226,000	128,110	125,870
55	323,080	288,890	323,080	288,890	148,930	145,970
60	411,370	361,440	411,370	361,440	169,640	165,890
61	429,560	376,200	430,870	377,220	173,780	169,860
62	446,950	390,280	451,010	393,440	177,910	173,830
63	462,010	402,480	471,830	410,130	182,050	177,800
64	474,480	412,640	493,350	427,290	186,190	181,760
65	484,920	421,180	515,590	444,940	190,330	185,730

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) To make this analysis representative of the membership, the Trustee has based this assumed member on data sourced from the administrator, as part of the last triennial investment strategy review. The assumed member is age 21, with a normal retirement age of 65, using a starting pot size of £0 (i.e. a new joiner) and a salary of c. £30,000 p.a. which is assumed to increase in line with inflation + 1% p.a. The member's total contributions are assumed to be 16% of the member's salary p.a.
4) Inflation is assumed to be 2.5% p.a. over the long term.
5) Regulations require that where possible the transaction costs assumed in these illustrations are based on an average of the previous 5 years' transaction costs for each fund, where available. As Scottish Widows is unable to provide historic transaction costs for these funds, the transaction costs shown above are an average of the costs provided for the 5 year period to 31/12/2023.
6) Where transaction costs are negative, it has been assumed that these costs are zero, on the grounds of prudence and because negative costs are not expected to continue consistently over time.

Published: May 2024

BASF
We create chemistry

Value for Members

The Trustee has assessed the extent to which the charges and transaction costs set out above represent good value for members. The Trustee concluded in its meeting on 8 May 2024, following receipt of a report from its DC adviser, that the Scheme offers good value for money relative to peers including other potential arrangements of a similar size and nature (using data from Mercer and other available surveys and benchmarking), and relative to options available to the Trustee with alternative investment managers and providers.

The Trustee recognises that a range of pension scheme vehicles (for example, master trusts) are available in the market, noting any changes would ultimately be the employer's decision. The Scheme has benefit features in the Scheme rules, which currently preclude some of these options being viable, but the Trustee remains very open to considering a wide range of design models in future, with value for members in mind.

The Trustee conducts an annual Value for Money assessment to arrive at this conclusion, incorporating consideration of:

- Total expense ratio costs borne by members
- Net of cost investment performance
- Investment manager and platform provider ratings
- Additional member services, including at retirement options, services, and member tools
- Transaction costs
- Administration performance
- Governance arrangements
- Fund range available to members

A proportionate approach is adopted for assessing the closed legacy AVC arrangement with Prudential on the basis that the AVC holdings are relatively modest. The assessment in this respect concluded that the arrangement represented reasonable value for members, and it is noted that there can be reasons why certain AVC arrangements have particular value for individuals (for example, guarantees in respect of with-profits funds).

Trustee Knowledge and Understanding

The requirement under the Pensions Act 2004 (requirement for knowledge and understanding) has been met during the Scheme year by the Trustee as a body in dealing with the whole Scheme (not just the DC Section).

The Trustee has put in place arrangements for ensuring its Trustee Directors take personal responsibility for keeping up to date with relevant developments and each quarter considers training requirements. Training logs are maintained for each Director and training for the full board and its various Committees is provided regularly during meetings. Training plans and sessions are bespoke and tailored to issues that arise on the Trustee's business plan.

The Trustee has adopted a robust training programme for newly appointed Trustee Directors. For the Scheme, upon appointment, a Trustee Director is required to undertake an induction process. This includes a training session with the in-house pensions team and completion of the Pensions Regulator's online toolkit within six months of taking up office.

During the year, the training topics considered by the DC Committee encompassed both dedicated training items as well as discussion of the "DC Current Issues" paper provided by the DC adviser. The topics included:

- Changes to Statutory Money Purchase Illustrations, in particular the way that investment return assumptions are required to be set (1 March 2023).
- The Retirement Living Standards published by the Pension and Lifetime Savings Association (PLSA), and the impact of higher inflation on the cost of living in retirement (1 March 2023).
- Environmental, social, and governance matters, with a focus on climate change and the requirements to prepare disclosures under the Taskforce on Climate-Related Financial Disclosures (TCFD) framework (1 March 2023) and on new developments in sustainable investment funds (4 July 2023).
- The Statement of Investment Principles (4 July 2023).
- The Government's "Mansion House" pension reforms (25 October 2023).
- Changes to the Value for Members assessment framework (25 October 2023).

BASF
We create chemistry

The Trustee also periodically conducts assessments of its effectiveness as a Trustee Board by seeking feedback from each Trustee Director. These assessments include candid feedback on the Trustee's operating framework and performance generally. The results are collated and discussed openly at Trustee meetings.

The Trustee is conversant with, and has demonstrated a working knowledge of, the Trust Deed and Rules by carrying out a training session in July 2018, in which case studies were completed. If there are any ambiguities over the interpretation of the Trust Deed and Rules, legal advice is sought from the Scheme's legal advisers. A new consolidated Trust Deed and Rules was signed in June 2019 and the Trustee has put in place a risk control to arrange a "health-check" of the Scheme Rules by its legal advisers every three years and after any significant changes of legislation.

The Trustee is conversant with, and has a working knowledge of, the SIP. A review of the SIP was undertaken during the year, as noted earlier, and this was discussed at the DC Committee meeting held on 4 July 2023 before the SIP was tabled for approval by the Trustee Board. The DC Committee and wider Trustee Board used the SIP review as an opportunity to keep its knowledge of the SIP regularly maintained.

The Trustee has also established a Terms of Reference confirming delegated responsibilities and powers for each of its committees. Trustee training includes training on these Terms of Reference. A review of the DC Committee Terms of Reference was completed shortly following the Scheme year end, in January / February 2024.

In addition, the Trustee receives advice from professional advisers and the relevant skills and experience of those advisers is a key criterion when evaluating adviser performance or selecting new advisers. No changes were made to the advisers during the Scheme year.

All the Trustee Directors in office in 2023 have completed the Pension Regulator's Trustee Toolkit. In addition, Directors are asked to complete the Pensions Management Institute Certificate in Trusteeship. The Trustee Directors are all working towards this qualification. The Chair of the Trustee Board is an accredited professional trustee with the Association of Professional Pension Trustees.

Taking account of actions taken individually and as a trustee body, and the professional advice available to them, the Trustee Directors consider they are enabled properly to exercise their function as a Trustee.

Trustee Statement of DC Governance

The Trustee considers that its systems, processes, and controls across key governance functions are consistent with those set out in The Pensions Regulator's Code of Practice.

Chair of Trustee
Signed for and on behalf of BASF Pensions Trustee Limited

Published: May 2024