The Chair's Annual Governance Statement – year ended 31st December 2018

This statement has been prepared by the Trustees to demonstrate how the Plan has complied with the governance standards introduced under The Occupational Pension Schemes (Charges and Governance) Regulations 2015. This statement covers the period from 1 January 2018 to 31 December 2018 and is in respect of the following DC arrangements that are linked to the Plan:

- The Senior Managers DC Section
- The AVC arrangement

The statement covers the following areas:

1. Investment strategy
2. The processing of core Plan financial transactions;
3. Charges, transaction costs and value for members within the Plan;
4. The Trustees' compliance with the statutory knowledge and understanding (TKU) requirements.

The Trustees’ statement in respect of these requirements is set out herein and the following sections apply equally to the Senior Managers DC Section and the AVC arrangement unless otherwise stated.

The Trustees receive professional Defined Contribution ('DC') advice from Willis Towers Watson Limited ('the Professional Adviser').

The Trustees, in conjunction with the Professional Adviser, undertake regular assessments of the Plan's DC arrangements, as deemed necessary.

As the Plan's DC arrangements are merely top-up vehicles to the main underlying defined benefit section and are now closed to future contributions, the Trustees have agreed that assessments should be pragmatic in their scope. The assessments therefore focus on the legal requirements and Pension Regulator's expectations that are relevant to top-up DC arrangements such as ours.

The last full assessment was undertaken in January 2017 in line with the Pension Regulator's Code of Practice No. 13 following amendment in June 2016. The assessment has been updated in January 2019, to include amendments to the Code brought about by The Occupation Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018. A copy of the updated assessment report is available upon request.

The Trustees will continue to monitor and assess the Plan's DC arrangements and will take such action as deemed necessary and appropriate to maintain good outcomes for members.
**Investment strategy**

The statement below outlines the Trustees’ decision making process in connection with the Plan’s DC investments.

*The Trustees’ investment beliefs & objectives*

The Trustees have prepared a Statement of Investment Principles (SIP) which governs decisions about investments, especially the Trustees’ aims and objectives for the DC investment options.

A copy of the full Statement of Investment Principles is available on request and on the Innospec Pension Plan website (www.innospecpensionplan.co.uk).

*Default arrangement – Senior Managers DC Section*

During 2016, the Trustees undertook a review of the investment provider and the investment funds available under the Senior Managers DC Section to ensure these remained appropriate and represented best value for members. Following the review, it was agreed that the investment funds under both DC arrangements should be consolidated with Legal & General (‘L&G’) and the consolidation exercise was duly completed in September 2016.

The Plan’s default arrangement during the period covered by this Statement invests in a lifestyle strategy. During the growth phase of the lifestyle strategy, members are invested in a global equity fund. As members approach their selected retirement date, their assets switch into a long-dated gilt fund and cash fund on a quarterly basis over a 5 year period. At retirement the member is invested 25% in the cash fund and 75% in a long-dated gilt fund.

The Trustees have agreed that the current default remains appropriate at the present time, but will continue to monitor and may undertake a review of the default in future if deemed appropriate.

Full details of the charges applying to each investment fund available to members are set out below.

*Performance monitoring*

The Trustees regularly review how the funds have performed against the investment managers’ objectives and benchmarks. An update is provided at each Trustees’ meeting.

*Core Plan financial transactions*

The Trustees regularly monitor the core financial transactions of the Plan at each Trustees’ meeting via the Plan administrator’s (AON Hewitt’s and then subsequently Willis Towers Watson’s) quarterly administration reports, supplemented by DC-specific governance reports received from L&G. The Scheme’s accounts are also audited annually by PricewaterhouseCoopers LLP, who test a sample of financial transactions for benefits as part of this process.
As the Plan is closed to accrual/DC contributions, monitoring only applies to transfers out of the Plan, fund switches and payments out of the Plan to and in respect of members.

The Trustees have reviewed the processes and controls implemented by those organisations who are involved in the management of the Plan’s financial transactions and consider them to be suitably designed to achieve these objectives.

Based on information provided by the administrator in the governance reports, and the auditor’s review of benefits paid over the year, the Trustees are satisfied that over the period covered by this statement:
- there have been no material administration errors in relation to processing core financial transactions; and,
- all core financial transactions have been processed promptly and accurately during the year.

**Charges, transaction costs and value for members**

**Charges**

The charge or Total Expense Ratio (‘TER’) applied to the Plan’s DC investment options are shown in the following table and are expressed as a percentage of the members’ underlying fund value(s):

<table>
<thead>
<tr>
<th>Fund Name</th>
<th>Total Expense Ratio (TER) % p.a. as at 31/12/2018</th>
<th>Aggregate transaction costs (% of fund p.a. for the 12 month period to 31 December 2018) – see commentary below³</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Equity Fixed Weights 70:30 Index (Senior Managers Fund)</td>
<td>0.40%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Fixed Interest (Senior Managers Fund)</td>
<td>0.40%</td>
<td>-0.03%</td>
</tr>
<tr>
<td>L&amp;G Cash 3 (Senior Managers Fund)²</td>
<td>0.40%</td>
<td>-0.04%</td>
</tr>
<tr>
<td>Global Equity Fixed Weights 60:40 Index (AVC Fund)</td>
<td>0.40%</td>
<td>0.00%</td>
</tr>
<tr>
<td>L&amp;G Managed 3 (AVC Fund)²</td>
<td>0.46%</td>
<td>0.07%</td>
</tr>
<tr>
<td>L&amp;G Cash 3 (AVC Fund)²</td>
<td>0.40%</td>
<td>-0.04%</td>
</tr>
<tr>
<td>Over 15 Years Gilts Index (AVC Fund)</td>
<td>0.38%</td>
<td>-0.02%</td>
</tr>
</tbody>
</table>

¹ The TER provides investors with details of the total annual costs involved in running an investment fund. This includes the annual management charge, plus other charges incurred in administering the fund (these charges typically include share registration fees, legal fees, auditor fees, custodian fees etc). Trading costs are not included. TERs can vary from time to time.

² These funds changed during the course of the year (name changes plus change in fund structures)

³ These figures were provided by Legal & General, and are made up of the explicit and implicit transactional costs. Due to fund switches which occurred during the reporting period, a pro rata approach has been used in calculating transaction costs which assumes costs were incurred evenly over this period. For any funds which hold an investment managed by a third party, the transaction costs were provided by the third party manager. Where transaction cost information was not made available by the third party, proxies have been used where possible otherwise transaction costs incurred by the externally managed fund have not been included.
The Scheme’s default investment strategy is constructed using a number of the above funds and, as such, the charges members pay depends on the period of time until their selected retirement date. The maximum total charge for the default was 0.40% p.a. and, therefore, falls below the charge cap of 0.75% p.a. set out in the Regulations.

Transaction costs

Transaction costs are those incurred by fund managers as a result of buying, selling, lending or borrowing investments within their funds. These costs are taken into account via the unit price for each of the funds.

The fund manager (L&G) has provided the figures included in the table on the previous page, which show the level of transactions costs that applied to members DC funds over the reporting period. These figures will also be included in the information to be made available to members on a ‘publicly accessible and searchable website’.

Impact of costs and charges on members’ DC Accounts

The Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 require the Trustees to produce a “£ and pence” illustration showing the compounded effect of costs and charges on members DC accounts. The Trustees (via their Professional Adviser) have contacted L&G to request the appropriate illustration.

L&G are currently working on a model for producing the illustration and expect to provide this shortly. On receipt, it will be included in the information to be made available to members on a ‘publicly accessible and searchable website’.

Value for Members (“VfM”)

The Trustees are committed to ensuring that members receive value from the DC arrangements linked to the Plan (i.e. the costs and charges deducted from members’ DC accounts provide good value in relation to the benefits and services provided by or on behalf of the Plan).

The Trustees, in conjunction with the Professional Adviser, undertook an assessment of the DC arrangements in January 2018 across five areas (charges, Plan governance and management, investment, administration and communications). This assessment has included or noted:

- As the DC arrangements provide a ‘top-up’ to the main Plan benefits, a pragmatic approach to the assessment was taken.
- Members benefit from support from both the administrator of the DC arrangements, L&G, Aon Hewitt and Willis Towers Watson, with the latter providing additional oversight and assistance to members when required.
- Members can use up to 100% of their DC accounts to fund tax-free cash, minimizing the impact on their DB pension under the main Plan.
- A benchmarking exercise to compare the weighted average charges paid by members against those of other similar pension arrangements shows that the Plan charges are broadly in line with those of other comparative DC arrangements.
- We believe the DC arrangements continue to provide sufficient VfM in all of the areas considered.

A copy of the updated VfM report is available upon request.
Trustees’ knowledge and understanding (‘TKU’)

The Trustees adopt a TKU process which enables them, together with the advice available from their professional advisers, to exercise their function as Trustees of the Plan. The Trustees’ approach to meeting the TKU requirements includes (but is not limited to):

- On an ongoing basis, the Trustees receive hot topics and updates concerning legislative, regulatory, provider and wider market developments from the Professional Adviser where relevant to the Plan and/or the members.
- If necessary, the Trustees receive relevant training delivered by the Professional Adviser as and when specific DC issues arise.
- The Secretary to the Trustee records all training in the trustee training log.
- As appropriate, the Trustees have completed the Pensions Regulator’s Trustee Toolkit.
- The Trustees provide an initial training and induction programme for new Trustees with the support of their advisors and all new Trustees are required to complete the Pension Regulator’s Trustee Toolkit within twelve months of their appointment.

The Trustees are satisfied that they have met the relevant legislative requirements.

The Trustees’ training log demonstrates that all Trustees have undertaken a range of training activities across a wide range of pensions-related subjects and embracing a variety of DC aspects, including topical issues as they arise.

Signed by the Chair of the Trustees of the Innospec Limited Pension Plan:

[Signature]

Print name: ____________________________

Date: 7th June 2019