

**Dermal Laboratories Occupational Pension Scheme**  
**Chair's statement regarding the governance of defined contribution arrangements**  
**Scheme year - 1 July 2024 to 30 June 2025**

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## 1. Introduction

- 1.1. This statement has been prepared by the Trustees of the Dermal Laboratories Occupational Pension Scheme ("the Scheme") to report on compliance with governance standards. The governance standards apply to defined contribution (DC) arrangements and are designed to help members achieve good outcomes from their pension savings.
- 1.2. This statement covers the Scheme year 1 July 2024 to 30 June 2025.

## 2. The Scheme's DC arrangements

- 2.1. Over the Scheme year the Scheme's DC arrangements comprised the following policies administered by Phoenix Life:
  - 2.1.1. Main Section of the Fund, collectively referred to as the 'DC Section':
    - 2.1.1.1. Dermal Laboratories Limited (1978) Executive Benefits Plan – policy number 003396
    - 2.1.1.2. Dermal Laboratories Ltd Executive Benefits Plan – policy number 0060
  - 2.1.2. Additional Voluntary Contributions (AVCs), referred to as the 'AVC Section'
    - 2.1.2.1. Dermal Laboratories (1978) EBP – CAPS (GAVC1046I)
- 2.2. Policy number 003396 is open to future contributions. All other policies listed above are closed to new members and are classed as paid-up policies with no future contributions payable.

## 3. Default investment arrangements

- 3.1. Over the reporting period, the Scheme had two investment arrangements (strategies), as follows:
  - 3.1.1. Phoenix Life Traditional With Profits Policy (policy number 003396)
  - 3.1.2. Phoenix Life Unitised With Profits Policy (policy number 0060)
- 3.2. The investment strategies are subject to review at least every three years or sooner if there is a change to investment policy or the Scheme's membership profile.

### Aims and objectives of the DC Section

- 3.3. The **Phoenix Life Traditional With Profits Policy** aims to:
  - 3.3.1. achieve long-term growth by using an investment fund that invests in a diverse range of assets.
  - 3.3.2. secure a guaranteed value at the Scheme's normal retirement age of 65, which increases over time by the addition of bonuses.
  - 3.3.3. provide a valuable guarantee when accessing benefits – known as a guaranteed annuity rate. This allows you to buy a pension income from Phoenix Life at a rate significantly better than normally available.
- 3.4. The **Phoenix Life Unitised With Profits Policy** aims to:
  - 3.4.1. achieve long-term growth by using an investment fund that invests in a diverse range of assets.

3.4.2. secure a guaranteed fund value at the Scheme's normal retirement age of 65, which increases over time by the addition of bonuses during the term of the policy.

### Asset allocation of the DC Section

3.5. The asset allocation of the **Phoenix Life Traditional With Profits Policy** is as follows:

Asset Class	Allocation**
Cash	1%
Bonds	77%
Listed Equities	13%
Private Equity	0%
Infrastructure	0%
Property/Real Estate	4%
Private Debt/Credit	0%
Other*	5%

\* Please note this includes growth assets such as hedge funds.

\*\* Please note the information in this table is correct as at 31 December 2024.

3.6. The asset allocation of the **Phoenix Life Unitised With Profits Policy** is as follows:

Asset Class	Allocation**
Cash	0%
Bonds	28%
Listed Equities	49%
Private Equity	0%
Infrastructure	0%
Property/Real Estate	13%
Private Debt/Credit	0%
Other*	10%

\* Please note this includes growth assets such as hedge funds.

\*\* Please note the information in this table is correct as at 31 December 2024.

## Review of the default

- 3.7. The Scheme is not classed as a qualifying scheme for the purposes of the Automatic Enrolment legislation and as such does not need to offer a default investment strategy or meet the charge cap requirements, however the Trustees still review the suitability of the Scheme's investment options on a regular basis. This includes charges and whether the funds are meeting their objectives.
- 3.8. The Trustees undertook a review of the investment strategies of policies 003396 and 0060 in the Scheme year.
- 3.9. The review concluded that the investment strategies of both policies remain broadly suitable. The Trustees noted that the investment options under both policies are limited to With Profit funds only. In terms of these investment options, the asset allocation of the Phoenix Life Traditional With Profits fund used within policy 003396 is predominantly invested in Fixed Interest and Cash assets to reflect the guarantees applying. In addition, the guaranteed annuity rate ("GAR") applying to members' benefits is valuable compared to annuity rates available on the open market, which are significantly lower.
- 3.10. The Trustees note there is no option but to retain the current strategy if benefits remain with Phoenix Life, but equally the guarantees available justify its continued use. Given the size of the Scheme it's also unlikely a competitive alternative arrangement could be sourced elsewhere.

## Further information on the DC Section

- 3.11. Further details of the investments as well as the investment governance structure is formally documented in the Statement of Investment Principles (SIP). For the purposes of Regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 the SIP includes details of the processes undertaken when selecting investments, the Trustees' objectives, key risks and the ongoing monitoring undertaken by the Trustees. A copy of the SIP is published online at <https://dermallaboratoriespensions.co.uk/documents/>

## 4. Core financial transactions

- 4.1. The Trustees have a duty to ensure that 'core financial transactions' are processed promptly and accurately.
- 4.2. Core financial transactions comprise the following:
  - 4.2.1. investment of contributions
  - 4.2.2. transfers into and out of the Scheme
  - 4.2.3. investment switches within the Scheme
  - 4.2.4. payments out of the Scheme
- 4.3. Core financial transactions for the DC Section are undertaken by Phoenix Life.
- 4.4. Core financial transactions for the AVC arrangement are undertaken by Phoenix Life.

## Controls and monitoring arrangements

- 4.5. The controls in place in relation to ensuring the promptness and accuracy of core financial transactions are:
  - 4.5.1. The Trustees have a service level agreement with Phoenix Life in place whereby all core transactions are expected to be completed within 6 to 10 working days. Phoenix Life are unable to provide further details of how they have performed against these targets over the reporting period. The Trustees will continue to work with Phoenix Life with a view to providing this in the future.
  - 4.5.2. A single contribution in respect of policy number 003396 is made on an annual basis and has been invested correctly with no issues being encountered.

4.5.3. Monitoring of accuracy is undertaken via the auditing of the Scheme’s annual report and accounts and periodic auditing of the Scheme’s membership data. In addition, the administrator’s processes are subject to internal controls procedures.

4.5.4. In terms of accuracy, core financial transactions are recognised in the annual report and accounts and are subject to audit. In addition, Phoenix Life as administrators are subject to external annual audit.

4.6. Considering the above, that there are limited payments and thus limited core financial transactions, the Trustees consider they meet the requirements for processing core financial transactions as specified in the regulations.

## 5. Member-borne charges and transaction costs

5.1. Members bear charges and transaction costs, which will differ depending on the investment options in which their pension savings are invested:

5.1.1. Charges: these are expressed as a percentage of the value of a member’s holdings within an investment fund and can be made up of a combination of charges, e.g. annual management charge and additional expenses. We refer to the total annual charge as the Total Expense Ratio (TER).

5.1.2. Transaction costs: these relate to the variable costs incurred within an investment fund arising from the trading activities of the fund, e.g. incurred in the buying and selling of securities, which are not accounted for in the TER charge.

### Charges in relation to the Scheme

5.2. The following table provides details of the charges and transaction costs for each of the investment options provided through the DC and AVC Section over the Scheme year (data sourced from Phoenix Life):

Investment option	TER (p.a.)	Transaction costs (p.a.)
Traditional With Profits	0.80% or 0.83%*	0.062%
Unitised With Profits	0.70%	0.060%
Managed Growth Fund	0.52%	0.056%
Pension Protector Fund	0.58%	0.030%
Cash Fund	0.50%	0.008%

\* The TER is 0.80% on regular premium investments and 0.83% on single premium investments.

### Impact of costs and charges

5.3. To demonstrate the impact of charges and transaction costs on members’ pension savings over time, the Trustee has produced illustrations, and these are set out in Appendix 1.

## 6. Net investment returns

6.1. The Trustees are required to disclose returns, net of charges and transaction costs, for the default investment arrangement and for each fund that members are able, or were previously able, to select and in which members’ assets were invested during the Scheme year. When preparing this section of the statement the Trustees have taken account of the relevant statutory guidance.

6.2. The returns stated are the underlying fund returns, as members receive bonuses rather than returns.

## Returns in relation to the Scheme

Investment fund	Annualised Return – 1 year to 30 June 2025	Annualised Return – 3 years to 30 June 2025	Annualised Return – 5 years to 30 June 2025	Annualised Return – 10 years to 30 June 2025
Traditional With Profits	5.15%	4.15%	2.94%	3.75%
Unitised With Profits	5.15%	4.15%	2.94%	3.75%
Phoenix Life Managed Growth Fund	6.82%	7.22%	5.63%	5.33%
Phoenix Life Pension Protector Fund	-5.51%	-10.05%	-13.45%	-2.55%
Phoenix Life Cash Fund	4.46%	4.06%	2.46%	1.28%

## 7. Value for members

- 7.1. Regulations require the Trustees to assess the extent to which the Scheme provides value for members.
- 7.2. The method to be used for this assessment changed for schemes with assets of less than £100m that have been operating for three years or more, effective for scheme years ending after 31 December 2021. The Scheme fits these criteria.
- 7.3. The assessment comprises three components:
  - 7.3.1. An assessment of costs and charges relative to the average costs and charges for three comparator schemes
  - 7.3.2. An assessment of net investment returns relative to the average net investment returns for three comparator schemes
  - 7.3.3. A self-assessment across seven key metrics of scheme administration and governance
- 7.4. For the relative assessments, costs and charges and net returns for default arrangements should be compared with those for the default arrangements of the comparator schemes. In addition, costs and charges and net returns for popular self-select funds should be compared with those for the nearest comparable funds in the comparator schemes (or, where there is no comparable fund, a comparator scheme's default arrangement).
- 7.5. The value for members assessment was undertaken in accordance with the statutory guidance for the Scheme year. Analysis was undertaken by Barnett Waddingham LLP and the findings are due to be considered at the next trustee meeting, which is scheduled to take place in Q2 2026.
- 7.6. The following comparator schemes were used for the relative components of the assessment: The People's Pension Master Trust, NEST and a bundled own-trust DC scheme.
- 7.7. The outcomes of the three components of the assessment were:
  - 7.7.1. Due to the charges for both policies being significantly higher than those of the comparators, the limited investment options available, and the With Profit restrictions in the form of the guarantees applying in particular the guaranteed annuity rate, we would suggest the charges across the different policies represent moderate value for members.
  - 7.7.2. As the net investment returns of the Scheme's default funds are underperforming the comparator defaults on a 1-, 3- and 5- year basis, we would suggest the net investment returns of the scheme provide moderate value for members. The With Profit default funds are predominately invested in defensive assets, such as UK gilts and bonds, due to the guarantees of the fund with a smaller holding in equities, and, as such, the funds will be impacted with comparison against other default strategies

with higher equity investment. We note that members won't see this performance directly due to the guarantees applying in the form of annual and final bonuses.

7.7.3. The Trustees considered all seven metrics across scheme administration and governance. Whilst areas were identified where the Trustees could improve the value of the scheme, including member specific communications which was provided by the Trustees to scheme members during the reporting year, the Trustees recognise the limitations of the legacy administration platform. The Trustees concluded that the Scheme provides moderate value for members in relation to administration and governance.

7.8. Taking the three components into account, the Trustees concluded that overall the Scheme provides moderate value for members. It should be noted that the With Profit restrictions in the form of guarantees applying mean that it is not viable to wind up the Scheme without members losing these valuable guarantees.

7.9. The method of assessment is prescribed. Factors that were not considered but that add value include:

7.9.1. the services fully paid for by Dermal Laboratories Limited, e.g. the services of legal advisers, consultants and auditors

7.9.2. the operation of the Trustees, with a duty to act in the best interest of members, which is paid for by Dermal Laboratories Limited; and the employer contributions available through the Scheme

## 8. Trustee knowledge and understanding

### The Trustee Board

8.1. During the Scheme year, the Trustees comprise two trustees, one of whom is nominated by the members and one appointed by the Company. The Trustees, Michael Yarrow and Steve Bluff, have the requisite knowledge and skills to undertake a trustee role effectively, based on pensions experience, knowledge and expertise. Steve Bluff replaced the previous member nominated Trustee, Mark Arnold, and the process to elect a new member nominated trustee was completed during the Scheme year. Trustees are required to be conversant with a Scheme's main documents and have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational schemes and investment of scheme assets.

### Approach

8.2. The Trustees aim to remain conversant with the Scheme's trust deed and rules as well as all other Scheme documents such as the Statement of Investment Principles, the risk register and current policies, e.g. conflicts of interest. They do so through their experience in governing the Scheme, as well as specific activities over the Scheme year and access to professional advice from their advisers Barnett Waddingham.

8.3. The Trustees aim to achieve and maintain knowledge and understanding of the law relating to pensions and trusts, the funding of occupational schemes and investment of scheme assets through a combination of training and taking professional advice. The Trustees consult with professional advisers as and when required, for example on consultancy, investment and legal matters. The professional advisers are engaged to pro-actively alert the Trustees on relevant changes to pension and trust law. Professional advisers also provide support in relation to understanding and reviewing the Scheme's documents, attending trustee meetings and often in the delivery of training at these meetings.

### Activities over the Scheme year

8.4. A new member nominated Trustee was appointed during the Scheme year, following an election process.

8.5. During the Scheme year, the Trustees took professional advice on:

- 8.5.1. undertaking the annual value for members assessment
- 8.5.2. preparation of the annual chair's statement
- 8.5.3. disclosure of costs, charges and investments
- 8.5.4. providing a scheme communication to members
- 8.5.5. the process of appointing a new member nominated Trustee

**Assessment**

- 8.6. The Trustees consider that their combined knowledge and understanding, together with their access to professional advice, enables them to properly and effectively exercise their trustee functions in the following ways:
  - 8.6.1. The Trustees are able to challenge and question advisers, service providers and other parties effectively
  - 8.6.2. Trustee decisions are made in accordance with the Scheme rules and in line with trust law duties
  - 8.6.3. The Trustee's decisions are not compromised by such things as conflicts or hospitality arrangements

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**Signed: Michael Yarrow**

**Date:**

**On behalf of the Trustees of the Dermal Laboratories Occupational Pension Scheme**

## Appendix 1 – Illustrations on the impact of cost and charges

A1.1. To demonstrate the impact of member-borne charges and transaction costs on the value of members' pension savings, the Trustee has produced illustrations in accordance with statutory guidance.

### Parameters used for the illustrations

- A1.1.1. Pot size: The starting pot sizes of £50,000 and £100,000 for the With Profit funds and £1,000 for both the Pension Protector Fund and Cash Fund have been selected as these are a broad representation of the pot sizes of the respective Scheme membership groups as at 30 June 2025.
- A1.1.2. Contribution: The Trustees have determined not to include future contributions within these illustrations. Most policies are no longer receiving contributions, and members will receive annual statements covering the effect of any future contributions where they are currently being made.
- A1.1.3. Timeframe: the illustrations are shown over a 10-year time frame as this covers the approximate duration that the youngest member would take to reach retirement age.
- A1.1.4. Investment options: the options selected for the illustrations include the two investment arrangements used by members, the highest charged AVC fund and the lowest charged AVC fund.

### Guidance to the illustrations

- A1.2. For each illustration, the savings pot has been projected twice: firstly for the assumed investment return gross of costs and charges; and secondly for the assumed investment return net of costs and charges.
- A1.3. Projected pot sizes are shown in today's terms, so do not need to be reduced further for the effects of future inflation. Inflation is assumed to remain constant throughout the term of the illustrations, at 2.5% per year. It is for this reason that real growth (after inflation) may be negative.
- A1.4. The real-terms rates of growth used in the illustrations are calculated by reference to the Financial Reporting Council's AS TM1.
- A1.5. The projected growth rates (above inflation and gross of charges) and costs and charges used are as follows:

Fund/Strategy	Assumed return	TER	Transaction costs
Phoenix Life Traditional With Profits	4.00%	0.80%	0.062%
Phoenix Life Unitised With Profits	4.00%	0.70%	0.060%
Phoenix Life Pension Protector Fund	7.00%	0.58%	0.030%
Phoenix Life Cash Deposit Fund	2.00%	0.50%	0.008%

A1.6. Values shown are estimates and not guaranteed.

A1.7. The starting date for the illustrations is 30 June 2025.

## Default investment arrangement – Traditional With Profits

Years from taking benefits	Starting pot size: £50,000 Future contributions: No		Starting pot size: £100,000 Future contributions: No	
	Before charges	After charges	Before charges	After charges
0	£50,000	£50,000	£100,000	£100,000
1	£50,732	£50,311	£101,463	£100,622
5	£53,767	£51,576	£107,534	£103,151
10	£57,818	£53,201	£115,636	£106,402

A1.8. Note on how to read this table: If a member had £50,000 invested in this option on 30 June 2025, when they came to retire in 10 years the savings pot could be worth £57,818 if no charges are applied or £53,201 with charges applied.

## Default investment arrangement – Unitised With Profits

Years from taking benefits	Starting pot size: £50,000 Future contributions: No		Starting pot size: £100,000 Future contributions: No	
	Before charges	After charges	Before charges	After charges
0	£50,000	£50,000	£100,000	£100,000
1	£50,732	£50,361	£101,463	£100,722
5	£53,767	£51,831	£107,534	£103,662
10	£57,818	£53,729	£115,636	£107,459

A1.9. Note on how to read this table: If a member had £50,000 invested in this option on 30 June 2025, after 10 years of membership the savings pot could be worth £57,818 if no charges are applied or £53,729 with charges applied.

## Highest charge AVC fund - Phoenix Life Pension Protector Fund

Years of investment	Starting pot size: £1,000 Future contributions: No	
	Before charges	After charges
0	£1,000	£1,000
1	£1,044	£1,038
5	£1,240	£1,205
10	£1,537	£1,451

A1.10. Note on how to read this table: If a member had £1,000 invested in this option on 30 June 2025, after 10 years of membership the savings pot could grow to £1,537 if no charges are applied but to £1,451 with charges applied.

## Lowest charge AVC fund - Phoenix Life Cash Fund

Years of investment	Starting pot size: £1,000 Future contributions: No	
	Before charges	After charges
0	£1,000	£1,000
1	£995	£990
5	£976	£952
10	£952	£906

A1.11. Note on how to read this table: If a member had £1,000 invested in this option on 30 June 2025, after 10 years of membership the savings pot could be worth £952 if no charges are applied or £906 with charges applied.