July 2019

Annual Chair’s Statement for the Piramal Healthcare UK Pension Fund (Defined Contribution Section) ("the Fund")

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 ("the Administration Regulations") were amended by the Occupational Pension Scheme (Charges and Governance) Regulations 2015 (the "Regulations") which introduced new minimum governance standards that apply to all trust-based Defined Contribution (DC) schemes, such as the Fund.

The new requirements include ensuring that schemes:

- meet the new governance standards,
- explain how they have done so in an annual statement (i.e. this "Chair’s statement"),
- have an appointed Chair who signs the annual statement, and
- are compliant with the new charge controls where they are being used by employers to comply with their duties under automatic enrolment legislation.

The trustee body of any registered pension scheme providing DC benefits must have a chair of trustees who will have a single additional regulatory responsibility compared to other trustees, which is to sign off on an annual Chair’s statement, which should be included in the annual report.

This is the fourth Fund Chair’s statement which covers the period from 1 January 2018 to 31 December 2018 and describes how the Trustee of the Fund has met the statutory, governance and charge requirements in relation to:

- The Default Investment Strategy,
- Processing of core financial transactions
- Charges and transaction costs paid by members
- Value for Members assessment, and
- Trustee knowledge and understanding.

1. The Default Investment Strategy

The Trustee is responsible for investment governance. This includes setting and monitoring the Fund’s Default Investment Strategy which is provided for members who join the Fund and do not make an active investment choice for their contributions. Members can also choose to invest in the Default Investment Strategy if they so wish.

The ‘Drawdown Lifestyle Strategy’ is the Trustee's Default Investment Strategy and has been designed for members who wish to retain flexibility in the form in which they take their benefits at retirement, for example by transferring to a flexible income drawdown product.

The Default Investment Strategy consists of an accumulation phase, a transition phase (beginning 10 years from a member's planned retirement age) and a pre-retirement phase (beginning five years from a member's planned retirement age). In broad terms the accumulation phase focuses on growing the value of the members' funds and the latter phases switch funds into investments with a greater protection focus.
In addition to the Default Investment Strategy there are a further two investment strategies available to members and 10 self-select funds.

The latest Statement of Investment Principles (SIP) for the Fund, which governs decisions about investments in the Fund, including details of how the Drawdown Lifestyle Strategy is currently invested, is appended to this statement.

It is the Trustee’s policy to review the Fund’s investment options, including the default strategy, on a regular basis. Performance of the funds underlying the default strategy of the Fund has been monitored during the period on a quarterly basis and reported through the Fund’s quarterly monitoring report. Further, the performance of the default strategy in terms of the impact on member outcomes is monitored annually and this was considered during the year.

An investment strategy review is undertaken for the Fund at least every three years, as prescribed by the Regulations. The last completed investment strategy review, including a review of the default strategy, was completed in 2018. The main conclusion of the review was that the default strategy remained suitable for the membership. However, in tandem with the investment review, the Trustees considered, in conjunction with the principal employer, whether consolidation would be a better option for “pure DC” members.

The Trustee is of the view that this would benefit the DC membership, and the Company are in the process of consulting with employed members on a switch to the Aon Master Trust. If this switch should proceed then, subject to supporting specialist advice, it is proposed that the existing funds of all affected members will also be transferred to this new arrangement, unless they opt, in advance, to transfer their funds to another suitable pension arrangement.

The primary reasons for this proposed change are to improve member account access, communications and education, to improve member support at retirement, and to provide a drawdown option that does not require a member to leave the scheme. This will leave a small group of members in the Fund and so a second intended change is the decision to seek an alternative investment platform for those remaining members and an administration provider to enable similar improvements for those members.

2. Processing of Core Financial Transactions

The Trustee has a specific duty to ensure that core financial transactions are processed promptly and accurately. These transactions include, but are not limited to:

- investment of contributions to the Fund;
- transfer of member assets into and out of the Fund;
- transfers between different investments within the Fund; and
- payments to and in respect of members.

Piramal Healthcare UK Limited pays contributions to the Fund, and the timing of such payments is monitored by the Trustee through reports submitted regularly by the Fund’s administrator, Willis Towers Watson.

Willis Towers Watson carry out the bulk of the above listed core financial transactions. To enable the Trustee to monitor the processing of core financial transactions, the Trustee receives quarterly administration reports from Willis Towers Watson on key aspects of the administration which includes performance against the agreed service levels in relation to the timeliness of transactions and processing. Willis Towers Watson manage the Fund bank account as required daily and reconcile monthly bank statements with their internal cash ledger. They have in place a strict payment authorisation processes that involves more than a single individual and have a separate dealing team who invest contributions and disinvest benefits as necessary.
The Trustee also had an audit of some of the DC benefit calculations carried out in 2018, and this highlighted one deficiency that has been addressed with the provider. Additionally, it was found in April 2019 that the contributions from a participating employer's employees had not been invested over a 9-month period to March 2019. Accordingly, core Fund transactions have not been processed in an accurate and timely manner across the board.

Both issues have been or are being fully rectified at no cost to the affected members, and further checks and controls have been put in place to avoid a re-occurrence.

Further, following discussions and feedback to Willis Towers Watson on the errors made and service issues experienced, Willis Towers Watson have changed the team that manages the Fund, recognising that the previous team was over-stretched. The Trustee has also introduced regular review meetings with the Willis Towers Watson team to prioritise and progress all outstanding administration-related actions and issues.

The Trustee also implemented a further benefit calculations audit in early 2019 to confirm that improvements have been made. The results of this audit are still awaited.

Considering the above, the Trustee is now satisfied that there are processes in place to ensure that all core Fund transactions should be processed in an accurate and timely manner.

3. Charges and Transaction costs paid by members

The Trustee is required to assess the costs associated with the Fund, which are paid by the members. These costs comprise charges and transaction costs as follows:

Charges: The Total Expense Ratio (TER) is the total cost of investing in the fund and includes the publicised Annual Management Charge and additional fund expenses. The TER information is readily available and is clearly stated in fund literature. It is expressed as a percentage of members' funds.

Transaction costs: as defined by the Financial Conduct Authority:

- explicit transaction costs are the costs that are directly charged to or paid by the fund and may include taxes and levies (such as stamp duty), broker commissions (fees charged by the executing broker in order to buy and sell investments) and costs of borrowing or lending securities.

- implicit transaction costs are calculated as the difference between the actual price paid (execution price) and the quoted 'mid-market price' at the time the order was placed (arrival price). This method, although reasonable if observed over a long period of time, can result in a volatile measure from one year to another and can even result in a profit, known as "negative costs".

This can happen, for example when buying an asset, if the actual price paid ends up being lower than the mid-market price at the time of placing the order, because something has happened in the market that pushes the price of the asset down - such as some negative publicity or a big sell order by someone else. Transaction costs are incurred on an on-going basis and the reported performance of the fund will take account of these costs.

The TERs and transaction costs that were applicable to the Fund's default arrangement, the Drawdown Lifestyle Strategy, and the two other lifestyle strategies available to members can also be found in the table below.

Importantly, the TER range for the Fund's default arrangement is within the charge cap set by the regulations of 0.75% p.a. The reason a range exists is that a member's account will be invested in
different investment funds at different points over the period leading to retirement through investment in the Default Investment Strategy.

<table>
<thead>
<tr>
<th>Lifestyle strategy</th>
<th>T.E.R range (% p.a.)*</th>
<th>Transaction costs (%)</th>
<th>Total costs and charges (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drawdown Lifestyle strategy (default arrangement) – up to 10 years prior to retirement</td>
<td>0.170</td>
<td>-0.023</td>
<td>0.148</td>
</tr>
<tr>
<td>Drawdown Lifestyle strategy (default arrangement) – range between 5 and 10 years prior to retirement</td>
<td>0.170 – 0.307</td>
<td>-0.023 – 0.034</td>
<td>0.148 – 0.342</td>
</tr>
<tr>
<td>Drawdown Lifestyle strategy (default arrangement) – range between 0 and 5 years prior to retirement</td>
<td>0.301 – 0.307</td>
<td>0.034 – 0.041</td>
<td>0.342**</td>
</tr>
<tr>
<td>Annuity Lifestyle strategy (range)</td>
<td>0.119 – 0.307</td>
<td>-0.023 – 0.034</td>
<td>0.148 – 0.342</td>
</tr>
<tr>
<td>Cash Lifestyle strategy (range)</td>
<td>0.100 – 0.307</td>
<td>-0.023 – 0.034</td>
<td>0.104 – 0.342</td>
</tr>
</tbody>
</table>

* % p.a. of assets under management, depending on the combination of funds relating to each member’s term to retirement age.

** The total costs and charges range from 0.3417 to 0.3423.

In addition to the three lifestyle strategies, the Trustee also makes available 10 alternative self-select funds, which may be chosen as an alternative to the default lifestyle. These funds attracted TERs and transaction costs at the levels shown in the table below, as at 31 December 2018.

<table>
<thead>
<tr>
<th>Fund</th>
<th>TER* (% p.a.)</th>
<th>Transaction costs (%)</th>
<th>Total costs and charges (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adventurous Fund</td>
<td>0.170</td>
<td>-0.023</td>
<td>0.148</td>
</tr>
<tr>
<td>Balanced Fund</td>
<td>0.560</td>
<td>0.086</td>
<td>0.646</td>
</tr>
<tr>
<td>Passive UK Equity Fund</td>
<td>0.100</td>
<td>0.348</td>
<td>0.448</td>
</tr>
<tr>
<td>Passive Overseas Equity Fund</td>
<td>0.125</td>
<td>-0.005</td>
<td>0.120</td>
</tr>
<tr>
<td>Property Fund</td>
<td>1.640*</td>
<td>0.430**</td>
<td>2.070**</td>
</tr>
<tr>
<td>Diversified Growth Fund</td>
<td>0.950</td>
<td>0.195</td>
<td>1.145</td>
</tr>
<tr>
<td>Annuity Fund</td>
<td>0.125</td>
<td>0.042</td>
<td>0.167</td>
</tr>
<tr>
<td>Corporate Bond Fund</td>
<td>0.125</td>
<td>-0.012</td>
<td>0.113</td>
</tr>
<tr>
<td>Index-Linked Gilt Fund</td>
<td>0.100</td>
<td>0.067</td>
<td>0.167</td>
</tr>
<tr>
<td>Cash Fund</td>
<td>0.100</td>
<td>0.004</td>
<td>0.104</td>
</tr>
</tbody>
</table>

*The 'TER' for the Property Fund now includes, for the first time, a Property Expense Ratio (PER) of 0.78% p.a. The PER is a cost incurred for managing property funds and includes costs such as service charge shortfalls and holding costs such as empty rates and security, rent review and lease renewal costs, maintenance and repairs (not improvements), property insurance costs or rebates, or aborted transaction costs where appropriate. This PER has been reported to the Trustee by the fund manager for the first time this year.

** Complete transaction cost information was not available for the underlying AIM Property Fund at the time of writing.

Illustration of the cumulative effect over time of costs and charges on member fund values

From 6 April 2018 the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 introduced new requirements relating to the disclosure and publication of the level of charges and transaction costs by the trustees and managers of a relevant scheme. These changes are intended to improve transparency on costs. As part of the changes, the Trustee is required to illustrate the cumulative effect over time of the application of transaction costs and charges on the value of a member’s benefits. The projected fund values shown below are estimates for illustrative purposes only and are not guaranteed.
We have produced the following illustrations to demonstrate the effect of the costs and charges set out above for investment funds and strategies available through Phoenix CIS on 3 different combinations of terms to retirement, accumulated fund value, and both actively contributing and deferred members. A large proportion of members are invested in the default Drawdown Lifestyle strategy which automatically transitions members' funds between the underlying funds as members approach retirement age. We therefore chose this option for these illustrations. Members are also offered alternative lifestyle strategies and a series of self-select funds which, as the tables on previous pages show, carry a variety of TERs and transaction costs.

For an active member with 48 years to retirement, on a current salary of £19,000 and invested in the default Drawdown Lifestyle strategy, the estimated impact of charges on projected retirement values is shown below. Projections are based on a current fund value of £0 and a total contribution rate of 11% p.a. and are shown in current money terms. This illustration reflects the youngest scheme member.

As the projected fund values above are dependent on investment returns as well as the level of costs and charges, we have also included some comparison illustrations below. For comparison purposes, we have demonstrated the effect on the projected values if the member were invested in a lower risk profile fund (the Index-Linked Gilt Fund) which has a lower expected return as well as the Passive Overseas Equity Fund, which has a higher risk profile and higher expected return.

<table>
<thead>
<tr>
<th>Age</th>
<th>Drawdown Lifestyle Strategy</th>
<th>Index Linked Gilt Fund</th>
<th>Passive Overseas Equity Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Estimated fund value (before charges) £</td>
<td>Estimated fund value (after charges) £</td>
<td>Effect of charges £</td>
</tr>
<tr>
<td>20</td>
<td>6,560</td>
<td>6,546</td>
<td>14</td>
</tr>
<tr>
<td>25</td>
<td>19,299</td>
<td>19,187</td>
<td>112</td>
</tr>
<tr>
<td>30</td>
<td>34,705</td>
<td>34,369</td>
<td>336</td>
</tr>
<tr>
<td>35</td>
<td>53,335</td>
<td>52,601</td>
<td>734</td>
</tr>
<tr>
<td>40</td>
<td>75,864</td>
<td>74,496</td>
<td>1,368</td>
</tr>
<tr>
<td>45</td>
<td>103,108</td>
<td>100,790</td>
<td>2,318</td>
</tr>
<tr>
<td>50</td>
<td>136,054</td>
<td>132,368</td>
<td>3,686</td>
</tr>
<tr>
<td>55</td>
<td>175,894</td>
<td>170,290</td>
<td>5,604</td>
</tr>
<tr>
<td>60</td>
<td>215,911</td>
<td>207,208</td>
<td>8,703</td>
</tr>
<tr>
<td>65</td>
<td>245,878</td>
<td>232,635</td>
<td>13,243</td>
</tr>
</tbody>
</table>
For an active member with 21 years to retirement, with a current salary of £36,000 and invested in the Drawdown Lifestyle strategy, the estimated impact of charges on projected retirement values is shown below. Projections are based on a current fund value of £40,000 and a total contribution rate of 16% p.a. and are shown in current money terms. This illustration reflects the average active scheme member.

Active member in Drawdown Lifestyle Strategy-
21 years from selected retirement age

For a deferred member with 20 years to retirement, invested in the Drawdown Lifestyle strategy, the estimated impact of charges on projected retirement values is shown below. Projections are based on a current fund value of £35,000 and are shown in current money terms. This illustration reflects the average deferred scheme member.

Deferred member in Drawdown Lifestyle Strategy-
20 years from selected retirement age

Members are advised to consider both the level of costs and charges and the expected return on assets (i.e. the risk profile of the fund/strategy) in making investment decisions and not in isolation.

Assumptions for illustrations:
The following assumptions have been made for the purposes of the above illustrations:
1. Accumulated fund values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
2. Inflation is assumed to be 2.5% each year.
3. No allowance has been made for real salary growth above assumed earnings inflation of 2.5% p.a.
4. Total contribution rates are payable by active members only, from their current age to a retirement age of 65. In the above illustrations, we have assumed total contribution rates of 11% p.a. and 16% p.a. for an active member with 48 and 21 years to retirement, respectively.
5. The TERs and transaction costs used in the illustrations can be found in the tables above.
6. The assumed growth rates (gross of costs and charges) are as follows:
   - Corporate Bond Fund: 2.025%
   - Diversified Growth Fund: 5.050%
   - Index Linked Gilt Fund: 0.800%
   - Adventurous Fund: 6.471%
   - Passive Overseas Equity Fund: 7.025%

4. Value for Members Assessment

In addition to the requirement to assess the charges and transactions costs paid by members, the Trustee is also required to consider the extent to which those charges and costs represent good value for money for members ("Value for Members").

In conjunction with its investment advisors, the Trustee has established a cost-benefit analysis assessment framework to assess whether the scheme delivers good value to its members.

The Trustee has identified the following areas where they believe there is a benefit derived by members and compared these to the costs and charges shown above. The Trustee has given each of the following equal weighting as they are deemed equally important.

- Member communications and engagement (including support at retirement)
  - Ensuring member communications are effective and timely and support informed decisions
- Investment choices
  - Providing appropriate choices for members to invest their funds
- Flexible contributions
  - Ensuring members can make changes to savings levels regularly and easily
- Administration
  - Ensuring administration is robust and timely
- Governance
  - This represents the time spent by the Trustee in making sure that the Fund is run in the best interests of its members

Under the Trustee's assessment framework, the Trustee believes that the costs and charges borne by members represent good value relative to the benefits provided to members.

5. Trustees' Knowledge and Understanding

The Regulations require the individual Trustee Directors to have appropriate knowledge and understanding to run the Fund effectively. As at end of 2018, there were four Individual Trustee
Directors, three of whom have held this role for at least ten years and as such have a great deal of experience. One of the four Trustee Directors is an Independent (professional) Trustee [who is a member of the Association of Professional Pensions Trustees and who undertakes over 25 hours per annum of professional CPD alongside specific training around the Plan’s DC arrangements. Additionally, the professional trustee brings to the Board his experience of wider industry best practice and his experience from his roles on other DC arrangements.]
The other Trustee Director was newly-appointed as a DC member-nominated director during the year, and their training for the rest of 2018 was “on-the-job” learning and training on specific issues as they arise. The DB member-nominated director role was vacated in late 2018, and with no applications from the DB membership, is being held open until late 2019. The Trustee recognises the importance of training and development and has put in place arrangements for ensuring that Trustee Directors take personal responsibility for keeping themselves up-to-date with relevant developments and carry out a self-assessment of training needs. The Trustee Directors have responsibilities over both the Defined Benefit ('DB') and Defined Contribution ('DC') sections of the Fund and they aim to ensure enough training is taken on both DB and DC specific issues.

Training logs, which record all relevant training completed, are maintained by Trustee Directors and these are reviewed and updated regularly. Trustee Directors are also encouraged to complete the Pensions Regulator’s Toolkit training online, and as of 31.12.18 two out of the three non-professional trustee directors had done so.

The Trustee Board also aims to carry out a Trustee Knowledge and Understanding (TKU) self-evaluation every 2-3 years to determine the areas on which training should focus. This Gap analysis is presented in the form of a survey to be completed by the Trustee Directors, which compares their current level of knowledge against the Pensions Regulator’s TKU framework. The last review was carried out in June 2017.

The Trustee Board holds regular Trustee’s meetings and detailed minutes of the four meetings held during 2018 are available. At those meetings, the Trustee received specific DC training including: Introduction to Master Trusts, IA Fixed Factors, Valuation Factors, Trustee’s Duty to Advise, and Notifiable Events Changes. In addition to the experience within the Trustee board, the Trustee works closely with its appointed professional advisers throughout the year to ensure that it runs the Fund and exercises its functions properly. Its professional advisers also attend the Trustee’s meetings as and when required.

The Trustee Board’s independent professional trustee director led a questionnaire-based Trustee Effectiveness review in 2018, with three specific Board-effectiveness improvement actions put in place as a result.

Taking into consideration the training activities completed by the Trustee board together with the professional advice available to the Trustee, the Trustee considers that it has met the Pension Regulator’s TKU requirements (as set out under Code of Practice No 7) during the Fund year and is confident that the combined knowledge and understanding of the Trustee board, together with the input from its specialist advisers, enables it to properly exercise its functions as the Trustee of the Fund.

Overall, the Trustee is confident that all requirements of the Regulations as they apply are being met, and in many areas exceeded, in the interests of members of the Fund.

Signed on behalf of the Trustee of the Piramal Healthcare UK Pension Fund

Chairman of the Trustee

Date of signing 25th July 2019