

June 2018

## 2017 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 third Fund Chair's statement which covers the period from 1 January 2017 to 31 December 2017 and describes how the Trustee of the Fund has met the statutory, governance and charge requirements in relation to:

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- 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.

In addition to the Default Investment Strategy there are a further two investment strategies available to members and 10 self-select funds. 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.

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 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 is monitored on a quarterly basis and reported in the Fund's quarterly monitoring report. The generic impact of the default strategy and performance on member outcomes is monitored annually, together with a more detailed review of performance.

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, for the Fund was completed in 2015 with changes implemented in October 2015, taking account of the new Pension Freedoms legislation. A partial review was completed in 2017 resulting in changes being made to the underlying funds in the Default Fund.

## **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. The Trustee can report that there have been no administration issues impacting core financial transactions which need to be reported.

Willis Towers Watson have also compiled an Administration procedures manual for the Fund, which covers services provided by Willis Towers Watson to the Fund and the procedures followed for various financial transactions and member events. This was updated and approved by the Trustee in February 2017.

In light of the above, the Trustee is satisfied that there are processes in place to ensure that all core Fund transactions are 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.

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 are costs which are incurred within the day to day management of the assets by the fund manager. This covers such things as the cost of buying and selling securities within the fund.

Transaction costs are incurred on an on-going basis and the reported performance of the fund will take account of these costs. The Trustee has sought to obtain information on these transaction costs and has been informed that due to the complex nature of investments and lack of standard disclosure requirements, information on transaction costs is not available at this current time. However, new regulations that came into force for Fund Managers from 3 January 2018 mean that this information should be able to be reported on in next year's statement.

The one-off transaction (sale and purchase) costs incurred in September 2017, from the changes made to the underlying funds which make up the Adventurous and Balanced Funds, totalled 0.22% of the total value of the funds switched (£47.4k fees on a total value of £22.9m).

The TERs, as at 31 December 2017, that were applicable to the Fund's default arrangement, the Drawdown Lifestyle Strategy, and the two other lifestyle strategies available to members can 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 to retirement through investment in the Default Investment Strategy.

Lifestyle strategy	T.E.R range (% p.a.)*
<b>Drawdown Lifestyle strategy (default arrangement)</b>	<b>0.176 – 0.308</b>
Annuity Lifestyle strategy	0.135 – 0.308
Cash Lifestyle strategy	0.100 – 0.308

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

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 at the levels shown in the table below as at 31 December 2017.

FUND NAME	TER
Adventurous Fund	0.176
Balanced Fund	0.558
Passive UK Equity Fund	0.100
Passive Overseas Equity Fund	0.125
Property Fund	0.850
Diversified Growth Fund	0.940
Annuity Fund	0.125
Corporate Bond Fund	0.125
Index-Linked Gilt Fund	0.100
Cash Fund	0.100

#### **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 good value is provided. The Trustee has identified the following areas where they believe there is a benefit derived by members and compared these to the costs 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 2017, there were four Individual Trustee Directors, all of whom have held this role for at least nine years and as such have a great deal of experience. One of the four Trustee Directors is an Independent (professional) Trustee. 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 sufficient 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 31.12.17 all current 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 2017 are available. At those meetings, the Trustee received specific training including: the new DC Code of Practice, achieving good member outcomes, legal training including on Master Trust legislation and GDPR, member support at retirement, triennial investment strategy review, and the Chair's Statement and Value for Money assessment.

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.

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

Mark T Garrod  
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Chairman of the Trustee

Date of signing June 12<sup>th</sup>, 2018  
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