

Piramal Healthcare UK Pension Fund (DC Section) Implementation Statement for the year ending 31 December 2020

Introduction

This implementation statement has been prepared by the Trustee of the Piramal Healthcare UK Pension Fund ("the Fund"). The statement:

- sets out how, and the extent to which, the DC policies (which also cover AVC's) set out in the Statement of Investment Principles (the SIP) have been followed during the year
- describes any review of the SIP, including an explanation of any DC-related changes made, and
- describes the DC-related voting behaviour by, or on behalf of, the Trustee over the same period.

Trustee's overall assessment

In the opinion of the Trustee, the DC policies as set out in the SIP have been followed during the year ending 31 December 2020.

Review of the SIP

The Trustee's DC policies have been developed over time by the Trustee in conjunction with their investment consultants (Aon up to mid-2020 and Buck Consultants from January 2020) and are reviewed and updated at least every three years.

The SIP in place from the start of the year was put in place September 2019. The SIP was reviewed during the Fund year because of changes in legislation effective from 1 October 2020. This review resulted in the Trustee policy in relation to their arrangements with their investment managers being updated in a revised SIP dated September 2020. In addition, this new version of the SIP also incorporated the revised DC investment strategy introduced during August 2020.

Investment strategy

The Trustee's DC policy is to provide suitable information for members so that they can make appropriate investment decisions. The range of funds was chosen by the Trustee after taking advice from their advisors. In choosing the Fund's DC investment options, it is, and was for the previous strategy, the Trustee's policy to consider:

- A full range of asset classes.
- The suitability of the possible styles of investment management and the need for manager diversification.
- The suitability of each asset class for a defined contribution scheme.
- The need for appropriate diversification of asset classes.

- An appropriate size of fund range, bearing in mind both member needs and governance requirements.
- ESG considerations

The Trustee also provides a default strategy to provide a balanced investment strategy for members who do not make an active investment choice. The current default investment strategy was implemented in August 2020 through the introduction of a new platform provider, Mobius Life.

Policies in relation to the kinds of investments to be held, the balance between various kinds of investments and the realisation of investments

To assist members who do not wish to make an active decision about where to invest their account, the Fund, as of August 2020, offers a lifestyle strategy which manages risks when saving for retirement. This strategy consists of an accumulation phase, a consolidation phase (running from ten years to five years before a member's planned retirement age) and a pre-retirement phase (beginning five years from a member's planned retirement age).

The primary aim of the accumulation phase is to grow a member's assets, while maintaining a suitable level of diversification and taking an appropriate level of risk. The primary aim of the consolidation phase is to introduce a higher level of diversification, providing a more stable asset value, while still maintaining growth potential.

The pre-retirement phase then switches to funds suitable for members approaching retirement. The assets used here are intended to be suitable for use for a range of different purposes (such as annuity purchase within the Fund or externally, cash withdrawal or drawdown), with the asset mix chosen to take into account the most likely ways in which members may choose to withdraw their benefits, bearing in mind the characteristics of the membership and the options available to members within the Fund.

The lifestyle strategies are designed to be appropriate for a member with a predictable retirement date, however, the lifestyle strategy is not necessarily suitable for members who unexpectedly retire early or retire later than planned.

Under normal market conditions the Trustee expects to be able to realise investments within a reasonable timescale although there remains the risk that certain assets may become less liquid in times of market stress.

The above comments also relate to the previous strategy up to August 2020, except that strategy had three lifestyle options, each intended for those planning to take drawdown, an annuity, or cash, rather than one.

Despite the ongoing COVID-19 pandemic and volatile markets, no liquidity issues arose during the year in either the old or new strategy.

Policy in relation to the expected return on investments

The Trustee expects the long-term return on the investment options that invest predominantly in equities to exceed price inflation and general salary growth. Multi-asset funds are also expected to have long-term returns that exceed price inflation and general salary growth, however these

funds also have wider aims, such as increasing diversification, reducing volatility, or facilitating the move to a drawdown arrangement, post retirement.

The long-term returns on bond and cash options are expected to be lower than returns on equity options. However, bond fund volatility and price movements (particularly of longer dated bonds) are expected to broadly match those of annuities, giving some protection in the amount of secured pension for members closer to retirement, and who are likely to take all or part of their retirement benefits in the form of an annuity. Cash funds aim to provide protection against changes in short-term capital values and may be appropriate for members choosing to take all or part of their retirement benefits in the form of cash.

The lifestyle strategies in both the old and new arrangements defined in the 2019 and 2020 SIP's reflect the above policies in terms of achieving the intended balance of return and risk reduction.

Policy in relation to risks

The Trustee recognises the key risk is that members will have insufficient income in retirement or an income that does not meet their expectations. The Trustee considered this risk when setting the investment options and strategy for the Fund, accepting that a member's annual contribution rate – a major factor in the accumulation of members' funds – is not relevant as the Fund no longer has any active members. The Trustee also recognises that the extent to which members can rely in retirement on other savings, which sit outside of the Fund, is outside of the Trustee's visibility and control.

Due to the complex and interrelated nature of the various risks for the Fund, the Trustee considers these risks in a qualitative rather than quantitative manner as part of each formal strategy review. During the year, the Trustee reviewed the default and self-select options and considered risk as part of this review.

In addition, the Trustee measures risk in terms of the performance of the assets compared to the benchmarks on a 6-monthly basis, along with monitoring any significant issues with the fund managers that may impact their ability to meet the performance targets in place. During 2020 the Trustee primarily received basic performance monitoring information from its investment consultants as the August platform and strategy switch date made relevant benchmarks difficult to obtain.

Policies in relation to their investment manager arrangements

The Trustee will monitor at least annually the Fund's investments to consider the extent to which the investment strategy and decisions of the asset managers are aligned with the Trustee's policies, including those on non-financial matters. This includes monitoring the extent to which asset managers:

- make decisions based on assessments about medium- to long-term financial and non-financial performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

During the year, the Trustee in conjunction with their investment consultant reviewed, as part of the strategy review, the proposed new asset managers' approach to the above requirements

and found them to be acceptable. As part of preparing this statement the Trustee reviewed the investment managers' voting and engagement activities and also found them to be acceptable.

Investment manager monitoring and charges

The Trustee will, as of the September 2020 SIP, collect annual cost transparency reports covering all their investments and ask that the investment managers provide this data in line with the appropriate Cost Transparency Initiative ("CTI") template for each asset class. This allows the Trustee to understand exactly what they're paying their investment managers. The Trustee works with their investment consultant and investment managers to understand these costs in more detail where required. The costs in respect of 2020 and the new asset managers have still to be reviewed.

Stewardship of investments

- The Trustee recognises the significance of their role as stewards of capital and the need to ensure high standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Fund invests, as this ultimately creates long-term financial value for the Fund and its beneficiaries.
- The Trustee, under both the old and new DC strategy, reviews on a 6-monthly basis the suitability of the Fund's appointed asset managers and takes advice from their investment consultant in respect to any changes. If an incumbent manager is shown to be falling short of the standards the Trustee has set out in their policy, the Trustee undertakes to engage with the manager and seek a more sustainable position but may seek to replace the manager if they fail to comply.

The investment strategy review that took place in 2020 resulted in new underlying asset managers being used. The Trustees will monitor the stewardship activities of the asset managers in future years.

Stewardship - monitoring and engagement

- The Trustee shares their policies and priorities with respect to stewardship with the Fund's appointed investment managers and will engage with them as necessary to ensure that robust active ownership behaviours, reflective of the Trustee's active ownership policies, are carried out. The Trustee reviews the alignment of the Trustee's policies to those of the Fund's asset managers to ensure that their managers, or other third parties, use their influence as major institutional investors to carry out the Trustee's rights and duties as a responsible shareholder and asset owner. This includes exercising all applicable voting rights, along with – where relevant and appropriate – engaging with underlying investee companies and assets to promote good corporate governance, accountability, and positive change.
- The Trustee reviews the stewardship activities of their asset managers on a regular basis, covering both engagement and voting actions. This will take the form of reporting which will be made available to Fund members upon request.

As part of preparing this statement the Trustee reviewed the investment managers' voting and engagement activities and found them to be acceptable.

Exercising rights and responsibilities

- The Trustee has identified climate change risk and poor corporate governance as important investment risks to the Fund and, as such, the Trustee will level scrutiny on their investment

managers accordingly. The Trustee expects that the Fund's asset managers will prioritise and actively monitor these risks within their investment processes and that they will provide adequate transparency with respect to the management and mitigation of these risks, including transparency around voting and engagement actions where appropriate. The transparency offered for engagements should include methods of engagement, progress, and perspectives around shortcomings as well as escalation procedures for unsuccessful engagements.

- The transparency for voting should include voting actions and rationale with relevance to the Fund, in particular where: votes were cast against management; votes against management generally were significant, votes were abstained; voting differed from the voting policy of either the Trustee or the asset manager.

The latest available information provided by the investment managers that have public equity voting rights are as follows:

Voting behaviour			
Investment Manager	Period	Proportion of votes cast	Proportion of votes against management
Legal & General Investment Management	01/01/2020 – 31/12/2020	99%	17%
State Street Global Advisors	01/10/2020 – 31/12/2020	97%	13%

The investment managers use proxy advisers for the purposes of providing research, advice or voting recommendations that relate to the exercise of voting rights.

Blackrock are not included above as the only fund they manage is the cash fund.

Trustee engagement

The Trustee have undertaken a review of each investment manager's engagement policy including their policies in relation to financially material considerations.

The Trustee have reviewed the investment managers' policies relating to engagement and voting and how they have been implemented and have found them to be acceptable at the current time.

The Trustee recognises that engagement and voting policies, practices and reporting, will continue to evolve over time and are supportive of their investment managers being signatories to the United Nations' Principles for Responsible Investment and the Financial Reporting Council's UK Stewardship Code 2020.

Appendix

Links to the Engagement Policies for each of the investment managers can be found here:

Investment manager	Engagement Policy
---------------------------	--------------------------

BlackRock Investment Management	https://www.blackrock.com/corporate/literature/fact-sheet/blk-responsible-investment-engprinciples-global.pdf
---------------------------------	---

Legal & General Investment Management	https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-engagement-policy.pdf
---------------------------------------	---

State Street Global Advisors	https://www.ssga.com/investment-topics/environmental-social-governance/2019/03/issuer-engagement-protocol.pdf
------------------------------	---
