

Annual Chair's Statement for the Servier Laboratories Limited Pension Fund (the "Scheme")

From 6 April 2015, the Occupational Pension Scheme (Charges and Governance) Regulations 2015 (the "Regulations") introduced minimum governance standards that apply to all trust-based Defined Contribution (DC) schemes, such as the Scheme. The requirements include ensuring that schemes:

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

This statement issued by the Scheme covers the period from **1 April 2018 to 31 March 2019**.

Areas that we have considered when drafting this statement:

1. The Default Arrangement
2. Processing of core financial transactions
3. Member borne charges and transaction costs
4. The Trustees' assessment of how the charges and transaction costs paid by members represent good value for members and
5. Trustee knowledge and understanding.

As required the Trustees have published this Chair's Statement on a website where individuals can view, download and print a copy. The Chair's Statement can be accessed at <https://www.servier.co.uk/content/pension-documents>.

1. The Default Arrangement

The Trustees are responsible for investment governance. This includes setting and monitoring the investment strategy for the Scheme's default arrangement. The default investment strategy is provided for members who join the Scheme and do not choose an investment option for their contributions. Members can also choose to invest in the default investment arrangement.

The default investment option is the Retirement Pathway Fund targeting drawdown.

Each member is allocated to the relevant Retirement Pathway Fund with a target date that most closely matches their selected retirement date. The switching of assets between the different underlying funds used within each asset allocation strategy is carried out within each target date fund.

Each asset allocation strategy aims to provide members with the potential for higher levels of growth during the accumulation of their retirement savings through exposure to growth assets, including equities. Following the accumulation phase, each asset allocation strategy gradually diversifies their investments in the years approaching retirement to reduce volatility and to provide a broad base of assets from which members can choose the type of benefits they wish to take.

The latest Statement of Investment Principles (SIP) for the Scheme which governs decisions about investments in the Scheme, including the specific requirements of the default strategy together with the details of how the default is currently invested, is appended to this statement.

Performance of the funds underlying the default strategy of the Scheme is monitored on a quarterly basis and reported in the Scheme's investment reports provided by the delegated investment manager.

It is the Trustees' policy to review the Scheme's investment strategy, including the default strategy, and all fund options on a regular basis or following any significant changes in the demographic profile of the Scheme

members. In setting the default investment option, the Trustees considered analysis of the existing membership of the DC Section, including considerations of factors such as age, accumulated fund values and term to retirement.

An investment strategy review is undertaken for the Scheme at least every three years, as prescribed by the Regulations. The last investment strategy review (including a review of the default strategy) for the Scheme was completed in January 2017. This resulted in changes to the default investment option (introduction of the Retirement Pathway Fund targeting drawdown as the default) and the launch of a new self-select fund range. These changes were implemented in December 2017. All DC members were advised of the changes through an extensive communication campaign that the Trustees carried out in 2017.

The next investment review is due to be carried out in January 2020.

2. Processing of Core Financial Transactions

The Trustees have a specific duty to ensure that core financial transactions are processed promptly and accurately.

What are core financial transactions?

Transactions we consider include:

- investment of contributions to the Scheme;
- transfer of members' funds in and out of the Scheme,
- transfers between different investments within the Scheme, and
- payments to and in respect of members, such as on retirement or death.

Servier Laboratories Limited ("the Sponsor") is responsible for ensuring that contributions are paid over to the Scheme promptly and the timing of such payments is monitored quarterly through reports submitted by the Scheme administrator, Aon.

Aon carry out the bulk of these core financial transactions. Service Level Agreements (SLA) are in place around the processing of these transactions.

To enable the Trustees to monitor the processing of core financial transactions, the Trustees receive a quarterly stewardship report from Aon that contains information on the core financial transactions for the Scheme and the service level achievements. The SLAs and quarterly reporting covers the accuracy and timeliness of all core transactions. These reports are reviewed by the Trustees at the regular board meetings to ensure compliance. The Trustees are comfortable that the SLAs are appropriate.

Administration summary for the year:

- **436** work items completed
- **98%** completed in agreed time levels

During the year of this report, the administrator completed 98% of cases within the agreed SLA. The Trustees understand that it is not always possible for cases to be dealt with within the SLA due to external factors, such as waiting for additional information from members and third parties. The Trustees are pleased to see that the administration team have exceeded their expected SLA target of 95%. There were no administration issues during the year that required the Trustees to take action.

During the year the Trustees agreed some changes to the death benefit process to make the process more efficient.

The Trustees also undertook a review of the common data (such as date of birth, address and National Insurance number) and conditional data (such as date of leaving and benefit details) held by the administrators on the Trustees' behalf. The review showed that 84% of the common data and 95% of the conditional data is complete and is accurate. The Trustees have made good progress in taking steps to address the data gaps where possible and this project is ongoing.

In addition, the Trustees receive an annual Scheme Audit Report, from the Auditor, an independent party that audits the pension scheme. In addition, the Secretary to the Trustees also reviews core financial transactions that go through the Trustee Bank Account statement on a monthly basis, which enables the Trustees to monitor that payments are being invested/settled within acceptable timeframes.

The Trustee is satisfied that there are adequate processes in place to ensure that all core financial transactions are processed in an accurate and timely manner.

3. Member Borne Charges and Transaction costs

The Trustees are required to assess the costs associated with the Scheme, which are paid by the members. These costs comprise charges and transaction costs.

- **Charges** – these include the Annual Management Charge ("**AMC**" – the annual fee charged by the investment manager for investing in a fund), as well as **additional expenses**. Together the AMC and the additional expenses make up the Total Expense Ratio (**TER**), which is the total cost of investing in the fund. The AMC and TER information is readily available as these charges are explicit and are deducted 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 are implicit within the performance of the fund.

The Trustees consider the costs and charges of the default arrangement and the self-select options to be appropriate for the size of the Scheme and comparable to charges levied by other providers, based on the investment strategy review undertaken in 2017. The next review is currently planned for the 2020 Scheme year. Details of the TERs and Transaction costs are below for members' information. We have also included some illustrations to demonstrate the impact of these costs on a members' pension pot over time. We have selected a number of example members to be representative of our membership for illustration purposes only. These illustrations are provided below.

3.1 - Details of the TERs

3.1.1 – TERs for the default arrangement (Retirement Pathway Fund, Drawdown)

The TERs that were applicable to the default arrangement, as at 31 March 2019, ranged from 0.31% p.a. to 0.33% p.a. These TERs can fluctuate but are subject to a maximum of 0.42% pa. Importantly, this range is well within the charge cap set by the regulations of 0.75% p.a.

3.1.2 – TERs for the self-select funds

In addition to the Retirement Pathway fund targeting drawdown, the Trustees also make available 2 other Retirement Pathway funds targeting Cash or Annuity and 11 self-select funds, which may be chosen as an alternative to the Retirement Pathway strategies. A full breakdown of the TERs for the funds available as at 31 March 2019, are listed in the table below:

Fund Name	TER (% pa) as at 31 March 2019
Aon Managed Retirement Pathway to Drawdown Funds (default)	0.31 to 0.33
Aon Managed Retirement Pathway to Cash Funds	0.31 to 0.33
Aon Managed Retirement Pathway to Annuity Funds	0.29 to 0.33
Aon Managed Passive Corporate Bond Fund	0.18
Aon Managed Long Term Inflation Linked Fund	0.17
Aon Managed Pre-Retirement Bond Fund	0.29
LGIM Ethical Global Index Fund	0.35
HSBC Islamic Global Equity Index Fund	0.35
Aon Managed Active Global Equity Fund	0.92
Aon Managed Global Equity Fund	0.25
Aon Managed Diversified Multi-Asset Fund	0.68
Aon Managed Diversified Multi Strategy Bond Fund	0.69
Aon Managed Liquidity Fund	0.20
Aon Managed Property and Infrastructure Fund	0.47

3.2 – Details of the Transaction costs

Hewitt Risk Management Services Ltd (HRMSL), the investment manager, has provided the following estimated transaction costs for the period 1 April 2018 to 31 March 2019 for the funds used in the default:

Fund	Total explicit costs (%)
Aon Managed Retirement Pathway to Drawdown Funds (default)*	0.01 to 0.15
Aon Managed Retirement Pathway to Cash Funds*	0.01 to 0.12
Aon Managed Retirement Pathway to Annuity Funds*	0.02 to 0.12
Aon Managed Passive Corporate Bond Fund	-0.02
Aon Managed Long Term Inflation Linked Fund	0.03
Aon Managed Pre-Retirement Bond Fund	0.02
LGIM Ethical Global Index Fund	0.01
HSBC Islamic Global Equity Index Fund	0.06
Aon Managed Active Global Equity Fund	0.09
Aon Managed Global Equity Fund	0.03
Aon Managed Diversified Multi-Asset Fund	0.32
Aon Managed Diversified Multi Strategy Bond Fund	0.53
Aon Managed Liquidity Fund	0.02
Aon Managed Property and Infrastructure Fund	0.09

* depending on how close a member is to retirement

3.3 Illustration of the effect 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.

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 the Scheme on 4 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 strategy. We therefore chose this option for these illustrations. Members are also offered alternative self-select funds which, as the tables on previous pages show, carry a variety of TERs and transaction costs. We have provided an illustration for the self-select fund with the highest charge.

Example 1 – Youngest active member (assuming they invest in the default investment option)

For an active member with 40 years to retirement, on a current salary of £31,500 and invested in the default, the estimated impact of charges on projected retirement values is shown below. Projections are based on a current fund value of £2,600 and are shown in current money terms.

Age	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £
25	2,600	2,600	-
30	26,513	26,262	251
35	57,799	56,752	1,047
40	98,188	95,564	2,624
45	165,073	159,645	5,428
50	259,074	248,926	10,148
55	381,352	365,272	16,080
60	565,208	537,928	27,280
65	797,288	753,193	44,095

Example 2 – Average active member (assuming they invest in the default investment option)

For an active member with 21 years to retirement, on a current salary of £58,000 and invested in the default, the estimated impact of charges on projected retirement values is shown below. Projections are based on a current fund value of £156,000 and are shown in current money terms.

Age	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £
45	171,568	171,001	567
50	270,547	265,936	4,611
55	400,520	390,537	9,983
60	591,558	571,346	20,212
65	827,978	792,338	35,640

Example 3 – Average active member (assuming they invest in the highest charged self-select fund)

For an active member with 21 years to retirement, on a current salary of £58,000 and invested in the highest charged self-select fund taking account of all costs and transaction charges (the Aon Managed Diversified Multi Strategy Bond Fund) throughout membership, the estimated impact of charges on projected retirement values is shown below. Projections are based on a current fund value of £156,000 and are shown in current money terms.

Age	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £
45	168,575	166,653	1,922
50	247,011	232,910	14,101
55	350,855	322,637	28,218
60	493,584	440,866	52,718
65	659,455	573,413	86,042

Example 4 – Deferred member (i.e. a member no longer contributing to the Scheme based on the average age and fund size for the deferred membership)

For a deferred member with 22 years to retirement and invested in the default, the estimated impact of charges on projected retirement values is shown below. Projections are based on a current fund value of £50,600 and are shown in current money terms.

Age	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £
45	53,504	53,139	365
50	61,513	60,057	1,456
55	67,864	65,306	2,558
60	78,023	73,809	4,214
65	89,703	83,418	6,285

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 based on the 'Staff' enhanced category and assumes that every 5 years the member moves service category and every 10 years the member moves age category. Contributions are payable by active members only, from their current age to a retirement age of 65. No allowance is made for additional employee contributions.
5. **The projected fund values shown are estimates for illustrative purposes only and are not guaranteed.**
6. The TERs and transaction costs used in the illustrations can be found in the tables above (using a TER of 0.33% for examples 1, 2 and 4).
7. The assumed growth rates (gross of costs and charges) are as follows:

Fund	Assumed gross growth rate
Example 1 – member invested in the Aon Managed Retirement Pathway 2058-60	6.0% p.a.
Example 2 – member invested in the Aon Managed Retirement Pathway 2040-42	5.4% p.a.
Example 3 - member invested in the Aon Managed Diversified Multi Strategy Bond Fund	3.5% p.a.
Example 4 – member invested in the Aon Managed Retirement Pathway 2040-42	5.4% p.a.

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 strategy) in making investment decisions and not in isolation.

4. Value for members assessment

In addition to the requirement to assess the charges and transactions costs paid by members, the Trustees are also required to consider the extent to which those charges and costs represent good value for money for members ("Value for Members"). The Regulations do not prescribe how trustees are to go about assessing Value for Members; it is left to each trustee body to develop their own assessment framework.

It should be noted that the Company pays for the majority of services related to running the Scheme including (but not limited to) administration services, audit costs, communication costs and professional advice including legal, actuarial and investment advice. By the Company meeting these costs this reduces the charge that the members would otherwise pay. The charges paid by members is to meet the cost of investing their pension pots. In limited circumstances members may incur administration charge, such as where more than one investment switch is made in a 12 month period. Therefore, the Trustees have a legal duty to assess whether the investment costs borne by members represents Value for Members in this Statement. However, members also benefit for the wider services that the Company pays for and as such the Trustees also take a view of whether all of the services that members benefit from represent good value.

Value for Members Assessment

As highlighted above, members of the Scheme only pay a charge to meet the cost of investing their pension pot. To assess if this meets good value the Trustees have taken into account:

The performance of the funds compared to the relevant objectives of the fund	<ul style="list-style-type: none"> ✓ The funds have mainly performed in line with their relevant objectives during the year ✓ Where funds have not met their objectives, steps have been taken to identify the reason for this and where deemed appropriate changes have been made to the funds.
Governance and delegated management of funds offered	<ul style="list-style-type: none"> ✓ The management of the investment funds is delegated to HRMSL. HRMSL will decide on which underlying funds to invest in to meet the fund's objective. ✓ The delegated fund manager has demonstrated that it is actively governing the funds. During the year it has made changes to the underlying investments where required to ensure that the funds meet their objectives. ✓ All actively managed funds invest in underlying funds that are 'buy' rated by the Trustees' investment advisers. Where an underlying fund's rating has been downgraded the delegated manager has taken positive steps to replace the fund within a reasonable time period. When taking such decisions HRMSL will look to reduce the transaction costs of replacing a fund as far as possible.
The range of funds offered	<ul style="list-style-type: none"> ✓ A default is offered which targets members taking their pension pot through drawdown. This reflects that the average fund size for members of the Scheme is high and that data suggests that members with larger funds are more likely to take their retirement benefits via drawdown. ✓ Drawdown may not suit all members' needs to alternative options for members are available that intend to take their benefits in a different way. Members can choose from three Retirement Pathway options to match how they intend to take their benefits at retirement. ✓ Members can select a Retirement Pathway fund where the investment of their pension pot is managed on their behalf. ✓ A good range of self-select funds are available covering the main types of investments available to members of a DC scheme ✓ These include different types of investment management (i.e. lower cost passive funds where the fund aims to provide performance in line with an index and higher cost active funds

	where the manager is trying to add value to the performance)
The ability to switch investments	<ul style="list-style-type: none"> ✓ Members can switch investments at any time (please note that the first switch in any 12 month period is free of charge, however members will incur a fee for any additional switch requests made within this period). ✓ The Retirement Pathway funds are mirrored until 5 years before retirement so members can switch Retirement Pathway funds prior to 5 years before retirement without incurring transaction costs. The Trustees expect that members are likely to know how they intend to take their retirement benefits 5 years from retirement.
The information available to members regarding the available funds	<ul style="list-style-type: none"> ✓ Fund factsheets are produced quarterly for members and these are available to download or can be requested via the Secretary to the Trustees. ✓ A member friendly guide to investments for the Scheme has been produced and issued to members

Based on the assessment set out above, the Trustees are happy that the charge that members pay represents **good value** for members.

Trustees' view on whether the Scheme offers good value

The Trustees also look at whether overall the Scheme offers good value to members. In addition to considering investment options, the Trustees also consider a number of other areas, which include:

Area	Examples of the areas considered by the Trustees
Member communications and engagement (including support at retirement)	<ul style="list-style-type: none"> ✓ Presentations have been held to help members understand how the Scheme works and to highlight the important decisions they need to make around how much to contribute and where to invest ✓ The member booklet has been updated ✓ A good level of support is given to members coming up to retirement. This includes access to online information and tools and personalised written communication.
Contributions	<ul style="list-style-type: none"> ✓ Contributions paid by the Company are very generous and significantly above the amounts required by law ✓ Members can request to pay additional voluntary contributions ✓ Salary sacrifice is used to reduce the cost to members of paying into the Scheme
Sound administration	<ul style="list-style-type: none"> ✓ As highlighted in section 2, the Trustees are happy that the administration is sound
The time spent by the Trustees in making sure that the Scheme is run in the best interests of its members	<ul style="list-style-type: none"> ✓ The Trustees regularly meet to discuss the Scheme and discussions at these meetings are documented in writing. The Trustees' professional advisers also attend these meetings to give advice and guidance to the Trustees ✓ All Trustees receive training both at outset and ongoing and are required to complete an agreed number of training hours per year to ensure that they can fulfil their duties ✓ The Trustee Board includes both Company and member nominated Trustees ✓ The Trustees have processes in place to deal with conflicts of interest and have a risk register that helps the Trustees to mitigate any risks related to running the Scheme

The above sets out some of the areas considered by the Trustees in coming to the conclusion that the Scheme represents **good value** for members.

5. Trustees' Knowledge and Understanding

The Regulations require the Trustees to have appropriate knowledge and understanding to run the Scheme effectively. The Trustees recognise the importance of training and development and have put in place arrangements for ensuring that the Trustees take personal responsibility for keeping themselves up-to-date with relevant developments.

The Trustees have a formal training policy in place dated June 2015. Under this policy all Trustees are required to complete the Pensions Regulator's online training and must attend formal or informal training totalling a minimum of 12 hours each year. Each Trustee is required to maintain a training log detailing attendance of both internal and external training courses. The training log is for the period 1 April to 31 March. Training logs are submitted to the Chair of Trustees who checks that the required level of training has been met. The Chair of Trustees is happy to report that all Trustees had undertaken the required number of hours of training during the period 1 April 2018 to 31 March 2019.

During the period of the report, the Chair of Trustees carried out his annual assessment of the efficiency of the Trustee Board. As part of this review the following changes were implemented:

- All Trustees must complete the Pensions Regulator's online toolkit every three years
- The variety of training will be increased in the next Scheme year and Trustees will record their key learnings from all training
- The Trustees all completed a knowledge assessment and this has been used to create areas whether additional training will be undertaken over the next 1-2 years

During the scheme year, the Trustees have demonstrated their understanding of the investment of occupational DC schemes by undertaking the following:

- Received an update from the DC Investment Manager covering the performance of the funds, the objectives of the funds, future enhancements being considered to the investment funds by the investment manager. This demonstrates the Trustees' understanding of the investment of occupational DC schemes and fund management.
- Received quarterly investment market outlooks.
- Received and discussed quarterly investment performance reports.
- Undertook training around Environmental, social and governance (ESG) issues covering how these issues can impact how funds are invested and the fund's long-term performance. The Trustees considered their own views and the views of the Company relating to ESG and started to consider how these views should be adapted into their investment strategy. The Trustees also started to debate how ESG matters would be reflected in the Statement of Investment Principles (SIP) (demonstrating the Regulator's requirement to have a working knowledge of the current SIP).

In addition to investment aspects, the Trustees also considered the following areas:

- Undertook training around the need to equalise GMPs and the impact that this would have on DC members with GMP underpins demonstrating knowledge of the principles relating the implications of contracting out and funding of DC schemes.
- Reviewed and updated the content of the member handbook and updated various aspects of the Trust documentation showing a working knowledge of the scheme's own trust documentation and the scheme's other relevant documents, in particular member communication. This also demonstrates an understanding of the law relating to pensions and trusts and an understanding of the requirements for running a Defined Contribution (DC) occupational arrangement
- Two of the four Trustees attended a pension conference run by Aon which covered a variety of topics, but in particular in relation to the DC section the following areas:
 - Enhancing trustee effectiveness
 - Potential impact on the investment markets, including as a result of Brexit
 - Enabling financial wellbeing of members
 - Mitigating the risk of cyber attacks

In addition to the skills within the Trustee board, the Trustees work closely with their appointed professional advisers throughout the year to ensure that they run the Scheme and exercise their functions properly. Their

professional advisers also attend all Trustees' meetings.

Taking into consideration the training activities completed by the Trustee board together with the professional advice available to the Trustees, the Trustees consider that they have met the Pension Regulator's TKU requirements (as set out under Code of Practice No 7) during the Scheme year and they are confident that the combined knowledge and understanding of the Trustees enables the Board to properly exercise its functions as the Trustees of the Scheme.

Overall, the Trustees are confident that all requirements of the Regulations as they apply are being met, and in many areas exceeded.

Signed on behalf of the Chairman of the Trustees of the Servier Laboratories Limited Pension Fund



Chairman of the Trustees

Date of signing 29/10/2019