

# HCA INTERNATIONAL LIMITED FINAL SALARY PENSION SCHEME (the ‘Scheme’)

## THE CHAIR’S ANNUAL GOVERNANCE STATEMENT

### Introduction

Under legislation set out in regulation 23 of The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (as amended) (the ‘Administration Regulations’), the Trustees of the HCA International Limited Final Salary Pension Scheme (the “Scheme”) are required to prepare a statement (the “Statement”) on governance in the annual report.

We are pleased to present our annual statement on Defined Contribution (DC) governance for inclusion in the Report and Accounts for the Scheme, covering the period 1 April 2022 to 31 March 2023. This statement describes how the Trustees seek to make sure that the Scheme is well-managed and delivers good services to members. In doing so, we provide the various statutory disclosures required by legislation.

This statement covers five key areas:

1. The Scheme’s default arrangement;
2. The processing of core financial transactions;
3. Charges and transaction costs within the Scheme;
4. Value for Members assessment; and
5. The Trustees’ compliance with the statutory knowledge and understanding (“TKU”) requirements.

This Statement is presented in relation to the Scheme’s **money purchase** benefits. These benefits fall into two categories, namely;

- Money purchase underpins for ex St Martins members.
- Additional Voluntary Contributions (AVCs).

### *Money purchase underpins for ex St Martins members*

Generally speaking, a money purchase scheme is one where broadly, each member has his/her own savings pot into which contributions are paid. The retirement benefits eventually paid to members are not known in advance but depend instead on factors such as the amounts of contributions that are paid, the investment returns that they earn and the charges that are deducted from savings. The purpose of the annual statement is for trustees of money purchase schemes to explain how they have exercised their responsibilities in these crucial areas.

The HCA International Limited Final Salary Pension Scheme is **not** typically regarded as a money purchase pension scheme. Members’ pensions at retirement are calculated on a defined benefit formula based on pay and length of service (1/60<sup>th</sup> of Final Pensionable Salary for each year of Pensionable Service), irrespective of investment returns or fund charges. However, these defined benefits for former

members of the St Martin's Healthcare Limited Retirement Benefits Scheme have a money purchase underpin attaching to them. This means that when the Scheme was open to accrual, a contribution was notionally invested for each member in certain pay periods. When a member retires or transfers out, pension rights calculated on the defined benefit formula described above are compared against the benefits that could be provided from the value of the money purchase underpin determined from the notional contributions. If the latter benefits are greater, the member's benefits will be topped up accordingly.

The Scheme Actuary has carried out analysis which confirms that the money purchase underpins have not exerted any influence on members' outcomes in retirement during the 12-month period to 31 March 2023. Based on current market conditions, it is highly unlikely to do so in the future. Therefore, the Trustees believe that the requirements referred to above **do not** apply to the money purchase underpin for the purpose of the year ending 31 March 2023 Statement and the remainder of this Statement applies to the Additional Voluntary Contribution (AVC) policies held by the Trustees.

### **Default investment arrangement**

The Trustees do not operate default investment arrangements within the meaning of Pensions Act 2008 in relation to the AVC policies. For this reason the Trustees believe that the disclosures required in the Regulations with regard to default investment arrangements are not applicable to this statement. For the same reason, the Trustees' Statement of Investment Principles does not contain wording relating to default investment arrangements.

### **Requirements for processing core financial transactions**

As required by the Administration Regulations, the Trustees must ensure that "core financial transactions" are processed promptly and accurately. Core financial transactions are (broadly):

- Investment of contributions made to the Scheme by members and their employer(s);
- Transfers into and out of the Scheme of assets relating to members;
- Switches of members' investments between different funds within the Scheme; and
- Payments from the Scheme to or in respect of members (e.g. payment of death benefits).

The Scheme is closed to future accrual and therefore no further contributions are notionally allocated to members' money purchase underpins or AVCs. No timescales are therefore required in relation to contribution payments. Also, as money purchase underpins are purely notional in nature, members are not allowed to direct how they are invested, so investment switching in relation to money purchase underpins does not arise in practice.

The Scheme administrators, Mercer Limited (Mercer), record all member transactions and benefit processing activities in a work flow management system which assigns the relevant timescale to the task. They typically disclose quarterly, to the Trustees, their performance against these agreed timescales. These disclosures are considered by the Trustees at their meetings.

The Trustees set minimum timescales with its administrators for all services, including core financial functions. The Service Level Agreement ('SLA') in place with Mercer, and achievement during the period, covering core financial transactions are as follows.

Transaction*	Service Level Agreement	Service Level Achievement %
Death Benefit settlement	4 days	100%
Transfer out settlement	15 days	100%
Retirement settlement	13 days	100%

\*Transfers into the Scheme are not permitted.

Stewardship information is typically provided quarterly so that the Trustees can ensure the prompt and accurate processing of financial transactions, including core transactions such as the transfer of member assets out of the Scheme, and the payment of benefits. The overall performance attained during the reporting period was 98% of events being processed within the agreed target dates. The Trustees receive further data on any events that breach the target timescale, including the amount of time it took to complete and why. Where agreed Service levels have not been achieved, the Trustees have worked with the administrator to understand why this has happened and where improvements can be made. Over the period of this statement the Trustees are satisfied that the administrator controls to process transactions promptly and accurately functioned well during the year.

As a wider review of the Scheme administrator in general, the Trustees receive the Scheme administrator's annual assurance report on internal controls. The Trustees have noted the Independent Scheme Auditor's opinion that, in all material aspects, its controls were suitably designed and those tested operated effectively.

The Scheme's risk register details all of the risks to members and is monitored and reviewed on at least an annual basis.

The Trustees also monitor the accuracy of the Scheme's common data. In March 2023, the common data score was 81% which has improved slightly on last years' statement.

The Trustees are confident that the processes and controls in place with the administrator are robust.

### **Charges and transaction costs**

As required by the Administration Regulations, the Trustees are required to report on the charges and transactions costs for the investments used in the Scheme and assess the extent to which the charges and costs represent good value for members.

The Scheme's assets include AVC policies with Aviva, Utmost Life and Pensions (Utmost), formerly known as Equitable Life, Prudential Assurance Company (Prudential) and Royal London.

By their nature, the charging structure of With-Profits policies is not transparent. Further information on this has been provided below.

The Trustees have requested the total charges payable, quoted in the following table as TER (Total Expense Ratio), and transaction costs (TC) for the AVC policy investments from each of the AVC providers and have taken account of statutory guidance when producing this section.

The TER is a measure of the total costs associated with managing and operating an investment fund. These costs consist primarily of management fees and additional expenses, such as trading fees, legal fees, auditor fees, and other operational expenses. In the context of DC arrangements, transaction costs arise from the buying and selling of assets when members buy and sell units of funds or when managers trade within pooled funds. These costs of manager trading are borne by members. Transaction costs are those which members may incur when switching their investments between the investment funds that are available. Where there is a negative transaction cost, this indicates that transacting has resulted in a net revenue rather than a net cost for the fund.

The information received from each of the providers is set out below:

Provider	Fund Name	TER (p.a.)	TC (p.a.)
<b>Aviva</b>	BlackRock (30:70) Currency Hedged Global Equity Index Tracker	0.46%	0.1338%
	BlackRock (60:40) Global Equity Index Tracker	0.40%	0.0347%
	BlackRock DC Diversified Growth	1.01%	0.4433%
	BlackRock Sterling Liquidity	0.40%	0.0132%
	BlackRock Over 15 Year Gilt Index Tracker	0.40%	0.0177%
	BlackRock Over 5 Year Index-Linked Gilt Index Tracker	0.40%	0.0264%
<b>Utmost</b>	Money Market	0.50%	0.0000%
	Managed	0.75%	0.0111%
	UK Equity	0.75%	0.0222%
<b>Prudential</b>	With Profits Cash accumulation	*1	0.0000%
<b>Royal London</b>	Crest Secure Fund	1.45%	*2

## Sources:

- \*1 Charges on With-Profits business depend on the performance of the With-Profits Fund and, in particular, the investment returns achieved and expenses incurred. The annual charge, further costs, and charges to cover the cost of the guarantees, are already taken into account when Prudential calculate the bonus rates for the With-Profits Fund. The Trustees will continue to request the exact cost of the fund on behalf of the membership. Prudential transaction cost data is as at 31 March 2023.
- \*2 Royal London confirmed that the Crest Secure Fund base charge (the Annual Management Charge) is 2.25%, which is reduced to 1.45% (due to a 0.8% interest rate) as at 31 March 2023 and this is an all-in charge and allowed for all costs (including transaction costs). The Trustees will continue to request for the exact split of the transaction costs and charges of the fund on behalf of the membership.
- Aviva data as at 31 March 2023. TER defined by Aviva as Administration Cost.
- Utmost data as at 31 March 2023.

**Net Investment Returns**

To help members understand how their investments are performing, the tables below show investment returns, net of all charges and transaction costs, for all investment options used by members during the scheme year.

*Self Select Funds*

Duration	1 Year	5 Years
Aviva Pension BlackRock Sterling Liquidity FP	2.84	0.64
Aviva Pension BlackRock DC Diversified Growth FP	4.78	2.39
Aviva Pension Baillie Gifford UK Equity Core FP	9.74	0.49
Aviva Pension BlackRock (30:70) Currency Hedged Global Equity Index Tracker FP	11.29	6.31
Aviva Pension Pre-Retirement Fixed Interest FP	-15.34	-4.79
Aviva Pension Baillie Gifford International FP	11.44	7.57
Aviva Pension BlackRock Over 15 Year Gilt Index Tracker FP	-24.47	-8.41
Aviva Pension Baillie Gifford Managed FP	9.43	4.22

Aviva Pension BlackRock (60:40) Global Equity Index Tracker FP	9.85	4.65
Aviva Pension BlackRock Over 5 Year Index-Linked Gilt Index Tracker FP	-18.28	-6.08
Utmost Pension Money Market	0.85	0.14
Utmost Pension Managed	2.80	-6.07
Utmost Pension UK Equity	2.51	-8.77
Prudential With Profits Cash Accumulation	1.50	1.20
Royal London Crest Secure*2	-	-

*\*Please note that Aviva could only provide data accurate as at 30 June 2023. Utmost data available as at May 2023.*

*\*2 Net returns were requested from all providers but not received at the time of writing this report. The Trustee will continue to request it.*

In With Profits funds members typically receive annual bonuses, which do not reflect the underlying fund's investment performance due to smoothing (keeping some of the return back in good years to support bonus rates in years where the investment return has been lower). The timing of the annual bonus varies by Provider. The amount a member will receive will depend on when they take their benefit and any terminal bonus payable at the time. The level of terminal bonus is dependent on a number of factors and typically is only guaranteed at the normal retirement age under the policy, or death. The Trustee will consider how best to improve reporting for net performance for With Profits Funds in the future in light of any updated statutory guidance.

## Reporting Costs and Charges

Using the charges and transaction cost data provided and in accordance with regulation 23(1)(ca) of the Administration Regulations, as inserted by the 2018 Regulations, the Trustees have prepared an illustration detailing the impact of the costs and charges typically paid by a member of the Scheme on their retirement savings pot. The statutory guidance provided has been considered when providing these examples.

In order to represent the range of funds available to members we are required to show the effect on a member's savings of investment in the following (with the Scheme's relevant funds/strategies listed in brackets):

- **The fund or strategy with the most members invested:** Prudential With Profits Cash Accumulation
- **The most expensive fund:** Royal London Crest Secure Fund
- **The least expensive fund:** Prudential With Profits Cash Accumulation

The below illustrations have taken into account the following elements:

- Savings pot size;
- Contributions;
- Real terms investment return gross of costs and charges;
- Adjustment for the effect of costs and charges; and
- Time.

The illustration includes all member costs, including the TER, transaction costs and inflation. It is important to note that the values shown are estimates and are not guaranteed. The term of investment has been based on the average active member of the Scheme.

Projected Pot sizes in Today's Money							
		Prudential With Profits Cash Accumulation		Most expensive fund: Royal London Crest Secure Fund		Least expensive fund: Prudential With Profits Cash Accumulation	
Year End	Age	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred
0	61	£15,600	£15,600	£15,600	£15,600	£15,600	£15,600
1	62	£15,916	£15,912	£15,327	£15,105	£15,916	£15,912
2	63	£16,239	£16,230	£15,059	£14,625	£16,239	£16,230
3	64	£16,568	£16,555	£14,795	£14,161	£16,568	£16,555
4	65	£16,903	£16,886	£14,536	£13,711	£16,903	£16,886

Source: Mercer

#### Notes:

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
2. The starting pot size is assumed to be £15,600.
3. Term of investment is based on the average member, aged 61 with an expected retirement age of 65.
4. There is an assumption of no contributions being made by members.
5. Values are estimates and are not guaranteed.
6. The projected growth rate for the funds are as follows (real):
  - Prudential With Profits: 2.0%
  - Royal London Crest Secure Fund:-1.8 %
7. The Transaction Costs relate to the actual transaction costs incurred in the scheme year (as data for previous years was not available at the time of producing this Statement). However, where it has been noted earlier in this Statement that the transaction cost has not been provided, we have assumed a neutral transaction cost of 0.0% per annum. Furthermore, where a transaction cost has



been recorded as a negative, we have been prudent in our assumption and revised this within the illustration to reflect 0.0% per annum.

### **Value for members**

When assessing the charges and transaction costs which are payable by members, the Trustees are required to consider the extent to which these represent good value for members. There is no legal definition of “good value”, so the process of determining good value is a subjective one. “Value” is not a straightforward concept to quantify and can be open to broad interpretation. The Trustees do not believe that it is currently proportionate to undertake a market review of price and performance, particularly as switching away from the current policy will result in members’ losing any accumulated terminal bonus, for example in the Prudential With Profits fund.

The Trustees review the AVC policies on a regular basis, with the last review being carried out during March 2023. The outcome of the review noted the following:

1. The available fund range with Aviva was formally reviewed as part of the 2023 AVC review;
2. The Trustees are considering Mercer’s advice regarding refining the AVC funds available to members, particularly the Prudential unit-linked fund range, and the possibility of introducing a cash lifestyle investment strategy via the Aviva platform as an additional investment option; and
3. There are several areas on which the Trustees could consider communicating with members and Mercer will prepare suggested communications for the Trustees to review and issue in the near future.

### **Trustees’ Knowledge and Understanding**

The Trustees include two senior employees of the Company, one of whom is a Member Nominated Trustee, plus an independent trustee, Vidett Trust Corporation Ltd (“VGS”). VGS is a leading independent pension trustee company, first formed in 1995 and part of the Punter Southall Group of companies. They act for many pension schemes, from the very small to the very large, including defined benefit (DB) and defined contribution (DC) pension schemes that are open and closed to new members, closed to future benefit accrual, winding up and merging. They work with both trust based pension schemes and contract based workplace pensions.

VGS is represented by Ian Eggleden, a Client Director. Ian is a Fellow of the Pensions Management Institute (PMI) and he has completed the Pensions Regulator’s Trustee Toolkit and he undertakes at least the minimum level of CPD each year for PMI. Ian is also a PMI accredited Professional Trustee in the UK.



VGS requires that each of the Client Directors is professionally qualified and undertakes a minimum level of CPD each year, maintaining an adequate level of knowledge and understanding of the law relating to pensions and trust. PSGS has significant experience in the DC market.

In accordance with sections 247 and 248 of the Pensions Act 2004, the Trustees are required to maintain an appropriate level of knowledge and understanding that, together with professional advice available to them, enables them to properly exercise their functions and duties in relation to the Scheme.

The Trustees must also be conversant with the Scheme's own documentation. These are described in legislation as the trust deed and rules and statement of investment principles. The Trustees must also be conversant with any other document recording current policy relating to the administration of the Scheme generally. The Pensions Regulator interprets 'conversant' as having a working knowledge of those documents such that the Trustees are able to use them effectively when they are required to do so in the course of carrying out their duties.

The Trustees are required to disclose how these duties have been fulfilled and how their combined knowledge and understanding, together with the advice that is available to them, enables them to properly exercise their duties and responsibilities.

The table below shows how these requirements have been met during the year.

Requirement	How met
Trustees must describe how, through the scheme year the trustees have demonstrated a working knowledge of the trust deed and rules.	The Trustees are conversant with, and have demonstrated a working knowledge of, the Trust Deed and Rules during the Scheme year by providing decisions in line with the Rules. At each quarterly Trustee meeting, the Trustees maintain a "Discretions Schedule" to document any discretionary decisions made throughout the Scheme year.
Trustees must describe how, through the scheme year the trustees have demonstrated a working knowledge of the current SIP.	During the Scheme year, no changes were made to the SIP. However, the Trustees are conversant with, and have a working knowledge of, the current SIP. The Trustees undertake regular training on investment matters and are confident that the Trustees have sufficient knowledge of investment matters to be able to challenge their adviser if and when appropriate. The Trustees demonstrate their working knowledge of the SIP through their ongoing training in relation to investments and member outcomes.
Trustees must describe how, through the scheme year the trustees have demonstrated a working knowledge of all	The Trustees have demonstrated a working knowledge of their current policies through their maintenance of an Annual Calendar. Key policies and documents are reviewed annually and updated if appropriate.

documents setting out the trustees' current policies.	During each Scheme year, the Trustees maintain a "Decision Record", containing key minuted decisions made at Trustee meetings, to ensure an accurate record of the Trustees' current policies.
Trustees must describe how, through the scheme year the trustees have demonstrated that they have sufficient knowledge and understanding of the law relating to pensions and trusts.	<p>The Trustees' advisors, Mercer, attend each meeting and give the Trustees an overview of market and legislative developments, including the Trustees' duties and requirements for strong governance.</p> <p>In addition, if there are any ambiguities over the interpretation of the Rules or new legislation, legal advice is sought from the Trustees' lawyers, Squire Patton Boggs.</p> <p>During the Scheme Year, the two non-professional Trustees attended various trustee training sessions aimed at developing understanding to a more advanced level around PSA21, Dashboards and the General Code.</p>
Trustees must describe how, through the scheme year the trustees have demonstrated that they have sufficient knowledge and understanding of the relevant principles relating to the funding and investment of occupations schemes.	<p>The Trustees, alongside their advisors have looked carefully at their investment strategy and the opportunity to reduce risk. Reflecting back on a prior decision to reduce risk, which ultimately has proved very successful, the Trustees have discussed with the Company their longer term strategy and proposed a number of options for managing funding and investment risk over time.</p> <p>The Trustees have also attended training in relation to a number of topics covering funding, investment, governance and relevant legislation. Specific training included:</p> <ul style="list-style-type: none"> <li>• LDI Considerations training in Q4 2023;</li> <li>• A review of the AVC advice provided by Mercer;</li> <li>• A review of the DS appointment with Mercer;</li> <li>• The introduction of a new Member Nominated Trustee in March 2023, who received training on pensions and the Scheme;</li> <li>• Over the coming months the Trustee has scheduled training on GMP Equalisation and Cyber Security.</li> </ul> <p>As a result, they have sufficient knowledge and understanding of the relevant principles relating to the funding and investment of occupation schemes.</p>

Trustees must describe how, through the scheme year the trustees have demonstrated that their combined knowledge and understanding, together with available advice, enable them to properly exercise their functions.	The Trustees receive advice from professional advisers to support them in reviewing the performance of the Scheme and in governing the Scheme in line with the Trust Deed and Rules, and the relevant skills and experience of those advisers is a key criterion when evaluating advisor performance or selecting new advisers. The advice received by the Trustees along with their own experience allows them to properly exercise their function as Trustees.
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The Trustees have a robust training programme in place for newly appointed Trustees. Upon appointment, each Trustee is required to undertake an induction process. This includes a training session with relevant advisers, conflicts of interest training, as well as training on the Pensions Regulator's online training programme. Initial Scheme specific training sessions are held in advance of the Trustees' first formal Trustee's meeting, with the aim to have the Trustee toolkit completed within six months of appointment.

The Trustees have broad skills covering a wide range of financial, legal, investment and human resources expertise. Ad-hoc training to support their knowledge requirements is provided by their professional advisers at each Trustee meeting. A summary of the Balance of Powers in the Trust Deed and Rules has been produced and is made available to the Trustees.

The Trustees receive appropriate Trustee training on all relevant issues, as well as assessing on an annual basis whether they continue to meet the "fit and proper" Trustee requirements.

During the year, the Trustees discussed their training needs at their meetings, having regard to the statutory requirements to have knowledge and understanding of pensions law and to be conversant with the Scheme's trust deed and rules, Statement of Investment Principles and other documents recording the Trustees' policies. The Trustees undertook a number of activities that involved giving detailed consideration to pensions law and conversance with the Scheme's governing documents, including the Statement of Investment Principles.

This statement has been prepared in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 as amended by the Occupational Pension Schemes (Charges and Governance) 2015 (together 'the Regulations') and I confirm that the above statement has been produced by the Trustee to the best of my knowledge.

Signature: \_\_\_\_\_

Name: Ian Eggleden

On behalf of the Trustees of the HCA International Limited Final Salary Pension Scheme

Date: 12 October 2023