# Pfizer Group Pension Scheme Chair’s Statement for the year ended 31 March 2024

**Introduction**

The Trustee of the Pfizer Group Pension Scheme (the ‘Scheme’) is pleased to present the annual Chair’s Statement on governance (the ‘Statement’) as required under legislation set out in regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (the ‘Administration Regulations’), as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

This statement sets out how the Trustee met the requirements of the Regulations, over the period from 1 April 2023 to 31 March 2024. This statement covers these main key areas:

- The investment strategy relating to the Scheme’s default DC arrangement;
- The processing of the Scheme’s financial transactions;
- Net investment returns;
- Asset allocation and performance-based fees disclosure;
- Charges and transaction costs within the Scheme, including the disclosures for the impact of costs and charges;
- Value for Members assessment; and
- The Trustee’s compliance with the statutory knowledge and understanding requirements.

At the Scheme year end, the Scheme held money purchase assets for two purposes:

- The Defined Contribution (“DC”) Section, accessed via an insurance policy with Scottish Equitable plc (“Aegon”).[a]
- Additional Voluntary Contributions (“AVCs”), both in legacy policies and an AVC Section also via Aegon and using the same fund range as the DC Section.

[a]During the Scheme year, in December 2023, the majority of DC members in the Scheme were transferred to the Aon Master Trust. Remaining in the DC Section of the Scheme after December 2023 are the members who have partially taken benefits from the Scheme (i.e. DC members who have accessed some of their pot via Uncrystallised Funds Pension Lump Sums known as UFPLS). The Trustee is currently working with Aon to have the remaining DC membership transferred to the Master Trust.

This Statement will be published online at https://www.pfizerpensiondirectory.co.uk/ and the information on cost disclosures will be signposted in the annual benefit statements.

The day-to-day administration of the Scheme is undertaken by Capita Pension Solutions Limited (“Capita”).

**The DC Section**

The Scheme includes DC benefits (accessible using Aegon investment platform). As at 31 March 2024 this Section includes a range of 13 self-select funds and three lifestyle options.

**The DC Section (continued)**

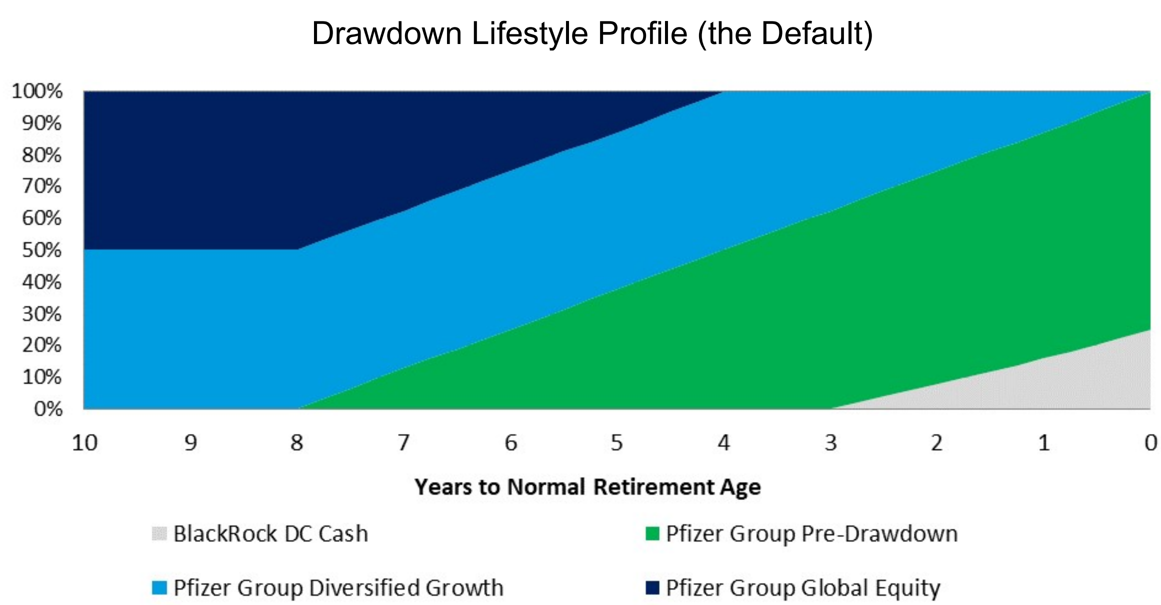
The lifestyle options target either a drawdown, annuity purchase or cash at retirement and utilise the same Growth phase consisting of 50% in the Pfizer Group Diversified Growth Fund and 50% in the Pfizer Group Global Equity Fund. In addition, in all three lifestyles, the fund allocations remain constant until eight years before members' selected retirement dates. Lastly, these lifestyle options utilise funds also available as self-select fund options, with the exception of the LGIM Future World Emerging Markets Equity Index Fund which is a constituent of the Pfizer Group Global Equity Fund.

**The Default Investment Option**

For the majority of the Scheme year, members making DC contributions, who did not choose to self-select from the lifestyles and funds available, were automatically placed in the Scheme's default arrangement. However, all active DC members moved to the Master Trust in December 2023 and therefore there are no longer any DC contributions going into the Scheme.

The Default Investment Option (the 'Default') as at 31 March 2024 was the Drawdown Lifestyle Profile. This is a lifestyle strategy that targets drawdown at retirement. This lifestyle invests initially in the Growth Phase, where investments are structured to provide positive returns, above inflation over the long term, with some downside protection and some protection against inflation erosion. From eight years before the selected retirement date, the Default then moves into a Protection Phase where investments aim to provide exposure to a mix of assets that are broadly appropriate for a member targeting drawdown at retirement. At retirement, the asset allocation will be 25% to BlackRock DC Cash Fund and 75% to Pfizer Group Pre-Drawdown Fund. As such, the Trustee believes that the structure of the Drawdown Lifestyle Profile is suitable for members who intend to leave their savings invested at retirement and withdraw, as needed, over the longer term. However, flexi-access drawdown is not offered in the Scheme and members must transfer out to access flexi-access drawdown (the Scheme does permit limited Uncrystallised Funds Pension Lump Sum ("UFPLS") payments, further details are provided below).

The allocation to each fund at different member ages is set out in the chart below.



**The DC Section (continued)**

**Additional Lifestyle Strategies**

The Scheme offers three lifestyle strategies, the Default as described above, plus two further strategies. These cater for the flexibilities available to members when taking benefits at retirement.

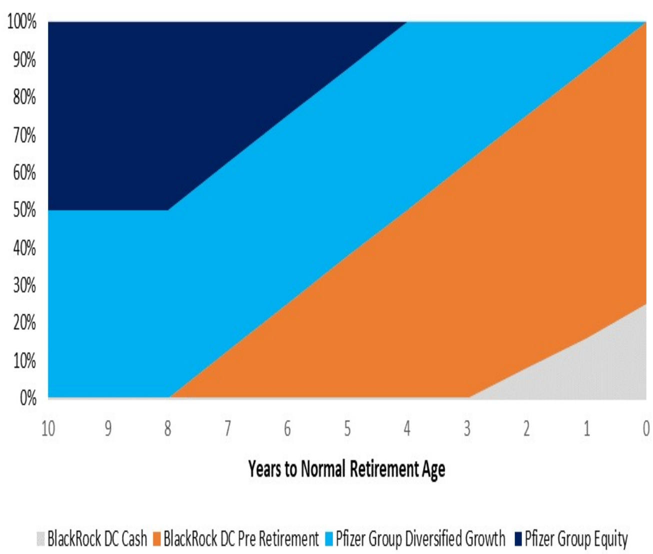
The three lifestyle strategies are the following:

- Drawdown Lifestyle Profile (the Default as described above)
- Annuity Lifestyle Profile
- Cash Lifestyle Profile

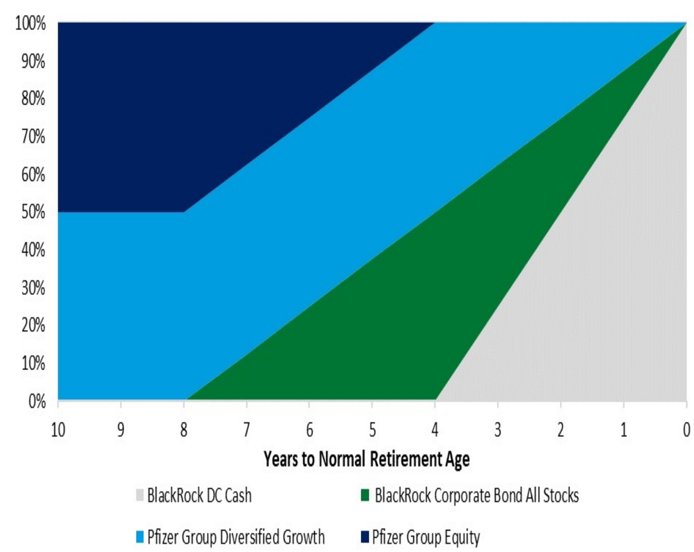
The Trustee believes that the structure of the Annuity Lifestyle Profile is suitable for members who wish to purchase a non-increasing annuity at retirement and take 25% of their pot as cash. The Trustee believes the structure of the Cash Lifestyle Profile is suitable for members who wish to withdraw their assets as cash at retirement.

The allocation to each fund at different member ages for the Annuity Lifestyle Profile and Cash Lifestyle Profile is set out in the charts below, respectively. These are the allocations in place over the course of the year covered by this statement.

Annuity Lifestyle Profile




Cash Lifestyle Profile




**Investment changes during the Scheme year to 31 March 2024**

The last in-depth review of the investment strategy was conducted by the Trustee in Q4 2020 when the suitability of the Annuity Lifestyle Profile as the previous Default Investment Option was reviewed and subsequently replaced with the Drawdown Lifestyle Profile. The change to the Default was considered by the Trustee and approved in 2021 and its implementation took place on 25 August 2021.

# Chair’s Statement (continued)

**The DC Section (continued)**

During the Scheme Year, the Trustee believed that all members of the DC Section would be transferred to the Aon Master Trust, and as such did not undertake a triennial strategy review. However, a few DC members remain in the arrangement at the Scheme year end due to their accessing of UFPLS. The Trustee is working with the Aon Master Trust to have these members transferred as soon as possible and therefore are not considering a further investment strategy review at this time. However, if these members are not transferred shortly, the Trustee will carry out a further investment strategy review.

In accordance with the Administration Regulations, the Trustee has appended the latest copy of the Statement of Investment Principles (SIP) prepared for the Scheme under Section 35 of the Pensions Act 1995 and regulation 2/2A of the Occupational Pension Schemes (Investment) Regulations 2005.

**Flexible retirement options**

The Scheme permits UFPLS for DC members; this allows some members to drawdown DC funds flexibly. Active members are limited to one UFPLS payment and deferred members can take up to three UFPLS so long as the final UFPLS is taken within two complete tax years of the first.

**Requirements for processing financial transactions**

As required by the Administration Regulations, the Trustee must ensure that core financial transactions are processed promptly and accurately.

This includes:

- Investment of contributions paid to the Scheme;
- Transfer of members’ assets into and out of the Scheme;
- Transfers of members’ assets between different investment options available in the Scheme; and
- Payments from the Scheme to, or in respect of, members.

On 31st March, 2023, Capita experienced a cyber incident that primarily affected access to its internal Microsoft Office 365 applications. Upon discovery, Capita interrupted and restricted the cyber incident promptly.

Following investigatory work, Capita identified that some data was exfiltrated. However, Capita cannot find evidence that data about individuals is or has been available for sale as a result of this cyber incident. Extensive measures have been taken to recover and protect the data of clients and customers.

The Trustee has fulfilled all regulatory obligations, including notifying relevant regulators and communicating with affected members. In collaboration with Capita, the Trustee has thoroughly assessed the incident’s impact on Scheme members and advised them on appropriate steps to mitigate any potential risks. Although the incident occurred outside the Scheme year covered by this report, rectification actions have been ongoing throughout the year.

***Timescales***

The Schedule of Contributions sets out timescales for Pfizer Limited (the Company) to remit monthly contributions to the Scheme in accordance with legislative requirements. However, agreed practice provides for payment of contributions in advance of these timescales. The deduction and payment of contributions is reviewed by the Company. Once received, contributions are invested in accordance with the timescales set out in the administration agreement with the Scheme Administrator.

**Requirements for processing financial transactions (continued)**

Previously, the Trustee had a contract with the Company for administration and accounting services. In turn, Pfizer Limited had contracted with selected providers for the provision of some of these services. The day to day administration is provided by Capita Pension Solutions Limited (“Capita”). However, from 19 April 2023 a new administration agreement was put in place directly between the Trustee and Capita.

Capita has agreed minimum timescales for all services, including core financial transactions, set out in the administration agreement now in effect between the Trustee and Capita. The Service Level Agreement (“SLA”) in place covers both the accuracy and timeliness of the financial transactions and sets out the approach (including timescales) regarding the transfer of members’ assets into and out of the Scheme, the transfer of members’ assets between different investment options available in the Scheme and payments from the Scheme to, or in respect of, members. Capita has agreed to aim for a minimum 95% SLA target for accuracy and timeliness of cases relating to individual financial transactions. These timescales are contractual rather than regulatory. All transactions are made in a timely manner as set out below:

- Contributions: These were sent by the administrator to the relevant investment manager(s) within 3 working days of receipt from the Company (or via a transfer in by the member from a previous arrangement) of the money, or all required information, whichever is the later. Once funds and investment instructions are received by the relevant investment manager(s) the investment of contributions was carried out by the manager within a further 4 working/trading days. The amount invested is checked to ensure it matches both the amount received earmarked for pension contributions and the total amount provided in the schedules received from the Company. The only exception to this is where a member is retiring directly from active status and is expected to draw their benefits very shortly after the contribution is received. Where this happens, so as to avoid the member experiencing short-term losses, the monies are retained within the Trustee bank account to be paid out to the member (or the member’s chosen pension provider, should they opt for an external annuity etc.) upon retirement. However all active DC members moved to the Master Trust in December 2023 and therefore there are no longer any DC contributions going into the Scheme.
- Switches: the instructions are processed within 2 working days of receipt from the member and recorded on Capita systems 2 working days after the contract note is received from the relevant investment manager.
- Transfers in: the proceeds from transfers in are invested, and the updated position confirmed to the member, 5 working days from the receipt of the necessary information and monies from the transferring scheme, excluding any time between submission of the transfer proceeds to the investment manager and the receipt of the contract note confirming investment of the monies.
- Transfers out: member benefits to be transferred out are disinvested, payment made to the receiving scheme and confirmation issued to both the member and receiving scheme 5 working days from the receipt of the necessary information from the member, receiving scheme and the member’s financial adviser where necessary, including checks required as part of due diligence to avoid improper transfers.
- Retirements: all lump sum payments, disinvestments and other actions including transfers to annuity providers and other receiving schemes are made 5 working days from the receipt of the necessary information from the member and any receiving arrangements where necessary, including checks required as part of due diligence to avoid unauthorised payments.

**Requirements for processing financial transactions (continued)**

- Deaths: all lump sum payments, disinvestments and other actions including transfers to annuity providers and other receiving schemes are made 4 working days from the receipt of the necessary Trustee discretion, information from the nominated beneficiaries and any receiving arrangements where necessary, including checks required as part of due diligence to avoid unauthorised payments. When approaching the 2-year payment window, payment would be made next day rather than within 4 working days in an attempt to avoid any issues / tax implications.

The administration reports produced by Capita quarterly and are reviewed by the Trustee and the Company. Performance against SLAs over the period 1 April 2023 – 31 March 2024 was 84.82%. The reason for the SLA score was due to a back log in member cases resulting from several reasons carried forward from the previous operating year. One of these reasons was the transition to the Aon Master Trust, which created additional work outside of casework relating to the DC section of the Scheme.

Although outside of the period that this report covers, Capita have confirmed that the backlog has since been cleared, which had negatively impacted the SLA score in the reporting period. The improved work position has had a positive impact on SLA performance, which is now meeting the required target of 95% at the point of signing this report. To enable the service to continue at the targeted rate, additional resource has been introduced to the administration team, supplementing the existing team ability to deal with spikes in case work, and overtime has also been offered to staff when required.

The SLAs are reviewed periodically to ensure they remain appropriate and meet legislative requirements.

***Accuracy***

Capita has stringent processes in place to ensure the accuracy of all financial transactions. Further details are set out below:

- A qualified member of staff within Capita's Financial Accounts department monitors the Trustee bank account daily. Their role is to advise of any issues such as unexpected payments or receipts, monitor cashflows to and from the account to ensure that the account has sufficient funds to pay member benefits when requested and to take action to rectify any identified issues.
- Capita team members provide a list of known upcoming transactions to the above department to allow cashflow forecasting relative to the payment of member benefits each month.
- Contributions are reconciled, processed and the investment transactions authorised by two senior members of the Capita administration team, including referral to more senior members of staff (managers, senior managers or directors) where the transaction value is greater than the maximum amount team members are able to authorise. Reconciliations are performed monthly by Capita to confirm contributions received from the Company vs contributions expected based on current active membership records.
- All benefit calculations relating to retirements or transfers must be peer reviewed by a senior Capita administrator to ensure all calculations are performed correctly prior to the provision of benefit correspondence.
- All banking transactions undergo checks and due diligence to ensure they are performed correctly prior to the payment being allowed. The process is as follows:

· a processor must create the payment

· a checker then authorises the payment

**Requirements for processing financial transactions (continued)**

· a further person who has sufficient authorisation limits will then sanction the payment (this person cannot be the same as the persons already noted before)

In the 2021/2022 Scheme year an issue was identified relating to asset holding discrepancies between the administrator and Aegon. While progress has been made with the reconciliation of the discrepancies, the remaining work to fully close these actions continues. The Trustee remains in regular communication with Capita and will continue to monitor the work Capita is undertaking, until it has concluded. It is anticipated that the corrective action will complete in 2024.

Aside from the issue noted above the Trustee is satisfied that all the other core financial transactions have been processed accurately during the period to which the Statement relates.

The Scheme's risk register details the key risks to Scheme members and is monitored and reviewed at least annually. The risk register sets out controls to mitigate the effects of these risks.

Core transactions require liaison with the investment managers. The Trustee holds a long-term unit-linked insurance contract arrangement with Scottish Equitable Plc (now part of Aegon). The Trustee has delegated the day-to-day investment management of the DC and AVC Section assets to underlying investment managers: BlackRock Life Limited ("BlackRock"), HSBC Investment Funds (Luxembourg) S.A. ("HSBC"), Legal and General Investment Management ("LGIM") and Insight Investment Management ("Insight").

The legacy AVC policies are held with the following providers:

- The Prudential Assurance Company Limited ("Prudential"). All invested in the Prudential With Profits Fund.
- Zurich Assurance Limited ("Zurich"). All invested in the Zurich Conventional With Profits Fund.

**Net return on investments**

The Occupational Pension Schemes (Administration, Investment, Charges and Governance) (Amendment) Regulations 2021 ('the 2021 Regulations') introduced new requirements for trustees of 'relevant' occupational pension schemes.

From 1 October 2021, trustees of all relevant pension schemes are required to calculate and state the return on investments from their default and self-select funds, net of transaction costs and charges.

The table below sets out annualised net performance for the 1 and 5 year periods for the lifestyle arrangements (for age 25, 45, and 55).

## Net return on investments (continued)

***Lifestyles***

| Age of member at start of period | Annualised returns to 31 March 2024 (% p.a.) | |
|---|---|---|
| | **1 year** | **5 years**** |
| **Drawdown Lifestyle Profile (default strategy)*** | | |
| 25, 45 | 15.2 | 6.9 |
| 55 | 15.2 | 6.7 |
| **Annuity Lifestyle Profile** | | |
| 25, 45 | 15.2 | 6.9 |
| 55 | 15.2 | 5.4 |
| **Cash Lifestyle Profile** | | |
| 25, 45 | 15.2 | 6.9 |
| 55 | 15.2 | 5.6 |

*Source: Aegon and Mercer.*

**As the growth phase is the same for all lifestyles, the returns are equal as well. Performance has been calculated based on a fixed weighted average of underlying fund performance in the lifestyle.*

***Please note until 16 January 2020 the growth phase was composed by the 50% Aegon Blackrock Diversified Growth Fund and 50% Aegon BlackRock 50:50 Global Equity Index Fund. From that date, the growth phase is composed by 50% Pfizer Group Equity Fund and 50% Pfizer Group Diversified Growth Fund.*

The table below sets out annualised net performance for the 1y, 5y, 10y and since inception periods for the self-select fund range to 31 March 2024.

## Net return on investments (continued)

### ***Self-Select Funds***

| Self-select funds | Annualised returns to 31 March 2024 (% p.a.) | | | | |
|---|---|---|---|---|---|
| | 1 year | 5 years | 10 years | Since Inception | Inception Dates |
| Pfizer Group Equity Fund * | 21.6% | ** | ** | 11.8% | 30/05/2019 |
| BlackRock UK Equity Fund | 6.9% | 4.8% | 5.5% | 7.1% | 31/10/2009 |
| BlackRock Overseas Equity Fund | 23.7% | 13.2% | ** | 13.2% | 30/09/2014 |
| BlackRock Emerging Markets Equity Fund | 5.0% | 2.6% | 5.5% | 3.9% | 31/07/2010 |
| Pfizer Group Diversified Growth Fund * | 9.2% | ** | ** | 3.3% | 30/05/2019 |
| Pfizer Group Pre-Drawdown Fund * | 6.8% | ** | ** | 0.0% | 30/06/2021 |
| BlackRock Pre-Retirement Fund | 1.4% | -3.3% | 1.8% | 5.2% | 31/12/1993 |
| BlackRock Index Linked Gilts Fund | -7.7% | -6.8% | 1.2% | 3.2% | 31/10/2009 |
| BlackRock Fixed Interest Gilts Fund | -4.8% | -8.3% | 0.3% | 2.2% | 31/10/2009 |
| BlackRock Corporate Bonds Fund | 6.3% | -0.4% | ** | 1.8% | 26/09/2015 |
| BlackRock Cash Fund * | 5.1% | 1.6% | 1.0% | 0.9% | 30/09/2010 |
| HSBC Islamic Global Equity Fund | 29.4% | 16.7% | 15.4% | 11.6% | 31/01/2006 |
| LGIM Future World Global Equity Fund | 21.1% | ** | ** | 12.9% | 31/05/2022 |

*Source: Aegon.*

*Performance shown net of all charges and transaction costs. Performance of standalone self-select options is independent of age, therefore performance is shown in a different format to the lifestyle performance on the previous page*

** Funds that make up the Default Investment Option.*

*** Data not available due to the fund inception date.*

### ***AVC Funds***

| AVC funds | Annualised returns to 31 March 2024 (%) | |
|---|---|---|
| | 1 year | 5 years |
| Prudential With Profits | 7.8* | 4.7* |
| Zurich With Profits | 1.4 | -3.7 |

*Source: Prudential and Zurich.*

** Data as at 06/04/2024.*

# Chair's Statement (continued)

## Asset Allocation disclosure

The Occupational Pension Schemes (Administration, Investment, Charges and Governance) and Pensions Dashboards (Amendment) Regulations 2023 ("the 2023 Regulations") introduced new requirements for trustees and managers of certain occupational pension schemes. In making these disclosures, the Trustee has taken into account the guidance issued by the Department for Work and Pensions (DWP Statutory guidance: Disclose and Explain asset allocation reporting and performance-based fees and the charge cap).

For the first scheme year that ends after 1 October 2023, trustees or managers of relevant occupational pension schemes, are required to disclose their full asset allocations of investments from their default arrangements.

There are currently no performance-based fees being charged for the Scheme as at 31 March 2024. For information on asset allocation for the default lifestyle see below:

| Asset class | Growth Phase | Drawdown Lifestyle |
|---|---|---|
| | Allocation for members more than 8 years away from retirement (aged 25, 45 and 55 years)* (%) | Allocation for members at retirement (65 years)* (%) |
| Diversified Growth | 0.00% | 0.00% |
| Cash | 4.43% | 25.00% |
| Fixed Income[(b)] | 16.90% | 47.63% |
| Listed Equity | 69.47% | 17.18% |
| Private Equity | 0.00% | 0.00% |
| Infrastructure | 0.00% | 2.55% |
| Property/real estate | 0.00% | 3.75% |
| Private debt/credit | 0.00% | 2.48% |
| Other | 11.21% | 1.43% |

** Retirement is assumed to be at 65 years old as this is the default retirement date unless a member selects an alternative retirement age.*

*(a) The lifestyle demonstrated above invests in both the Pfizer Group Diversified Growth Fund and the Pfizer Group Equity Fund evenly until 8 years to retirement.*

*(b) Fixed income allocation includes Corporate, Government and Other Bonds, as well as absolute return.*

**Asset Allocation disclosure**

**Underlying funds in the default strategy, the Drawdown Lifestyle Strategy:**

| Asset Class | Pfizer Group Equity Fund | | | |
|---|---|---|---|---|
| | Aegon BlackRock MSCI Currency Hedged World Index (45%) | Aegon LGIM Future World Global Equity Index Fund (45%) | Aegon BlackRock Emerging Markets Equity Index (5%) | Aegon LGIM Future World Emerging Markets Equity Index Fund (5%) |
| Diversified Growth | 0.00% | 0.00% | 0.00% | 0.00% |
| Cash | 0.00% | 0.00% | 0.00% | 0.00% |
| Fixed Income[b] | 0.00% | 0.00% | 0.00% | 0.00% |
| Listed Equity | 100.00% | 100.00% | 100.00% | 100.00% |
| Private Equity | 0.00% | 0.00% | 0.00% | 0.00% |
| Infrastructure | 0.00% | 0.00% | 0.00% | 0.00% |
| Property/real estate | 0.00% | 0.00% | 0.00% | 0.00% |
| Private debt/credit | 0.00% | 0.00% | 0.00% | 0.00% |
| Other | 0.00% | 0.00% | 0.00% | 0.00% |

| Asset Class | Pfizer Group Diversified Growth Fund | | Pfizer Group Pre-Drawdown Fund | Cash |
|---|---|---|---|---|
| | Aegon BlackRock Diversified Growth (60%) | Insight Broad Opportunities Fund (40%) | Aegon LGIM Retirement Income Multi-Asset | Aegon BlackRock Cash |
| Diversified Growth | 0.00% | 0.00% | 0.00% | 0.00% |
| Cash | 11.89% | 4.30% | 0.00% | 100.00% |
| Fixed Income[b] | 35.25% | 21.60% | 63.50% | 0.00% |
| Listed Equity | 37.30% | 41.40% | 22.90% | 0.00% |
| Private Equity | 0.00% | 0.00% | 0.00% | 0.00% |
| Infrastructure | 0.00% | 0.00% | 3.40% | 0.00% |
| Property/real estate | 0.00% | 0.00% | 5.00% | 0.00% |
| Private debt/credit | 0.00% | 0.00% | 3.30% | 0.00% |
| Other | 15.55% | 32.70% | 1.90% | 0.00% |

[b] *Fixed income allocation includes Corporate, Government and Other Bonds, as well as absolute return.*

Normal Retirement Date for the Scheme is age 65, and members have the opportunity to select their own retirement date.

**Asset Allocation disclosure**

The following describes the types of investments covered by the above asset classes:

- Cash – Cash and assets that behave similarly to cash e.g. treasury bills. It only includes invested cash and not the cash balance held by the Scheme.
- Bonds – Loans made to the bond issuer, usually a government or a company, to be repaid at a later date.
- Listed Equity – Shares in companies that are listed on global stock exchanges. Owning shares makes the Fund a part owner of the company, entitled to a share of the profits (if any) payable as dividends.
- Private Equity – Unlisted equities that are not publicly traded on stock exchanges. Encompasses a broad range of investment styles, including:
  - Venture Capital – Small, early stage businesses that may have high growth potential, albeit at significant risk.
  - Growth Equity – Relatively mature companies that are going through a transformational event with potential for growth.
- Infrastructure: physical structures, facilities, systems, or networks that provide or support public services including water, gas and electricity networks, roads, telecommunications facilities, schools, hospitals, and prisons
- Property – Real estate, potentially including offices, retail buildings which are rented out to businesses.
- Private Debt – Other forms of loan that do not fall within the definition of a ‘Bond’.
- Other – Any assets that do not fall within the above categories.

**Charges and transactions costs**

As required by the Administration Regulations, the Trustee is required to report on the charges and transactions costs for the investments used in the Default as well as self-select funds and their assessment on the extent to which the charges and costs represent good value for members.

Charges related to investment management are deducted from members’ funds. There are two different types of investment charges, the annual management charge (“AMC”) and the total expense ratio (“TER”). The AMC is the fee applied by the investment manager for managing the individual funds. The TER will be the same or higher and includes any additional expenses associated with the running and management of the funds such as custody costs (which will vary slightly from time to time).

In addition to investment management charges and the additional fund expenses included in the TER, investment funds are subject to other implicit costs, such as the investment manager’s expenses associated with trading a fund’s underlying securities, including commissions and stamp duty. These expenses, the transaction costs, are not explicitly deducted from the fund but are captured by a reduction in investment returns.

All other costs related to running the DC Section and the AVCs invested in the Aegon range of funds, including administration, advisory and member communication costs are paid by the Company. Members pay administration costs within the legacy AVC policies held with Prudential and Zurich.

**Charges and transactions costs**

**DC Section and AVC Section - Aegon**

In the table below, we have provided details of the TERs for the investment funds held through the Aegon arrangement; this fund range applies to the Scheme's DC membership and some of the AVC investments. In addition, the table below also includes the transaction costs associated with each fund.

As at 31 March 2024, the Default was the Drawdown Lifestyle Profile. The total charges payable under the Default will vary depending on the stage that each member has reached in the lifestyle process. The charges on the funds used in the Default all fall below 0.75% p.a. and therefore comply with the charge cap legislation requirements.

These charges are deducted from the investments themselves via an adjustment in the unit price. The charges in the table below are those in place as at 31 March 2024.

| Fund Name | TER (%, p.a.) | Transaction Costs (%, p.a.) |
|---|---|---|
| Pfizer Group Equity Fund* | 0.22 | 0.007 |
| BlackRock UK Equity Fund | 0.10 | 0.111 |
| BlackRock Overseas Equity Fund | 0.11 | 0.023 |
| BlackRock Emerging Markets Equity Fund | 0.33 | 0.000 |
| Pfizer Group Diversified Growth Fund* | 0.61 | 0.174 |
| Pfizer Group Pre-Drawdown Fund* | 0.34 | 0.083 |
| BlackRock Pre-Retirement Fund | 0.16 | 0.060 |
| BlackRock Index Linked Gilts Fund | 0.11 | 0.000 |
| BlackRock Fixed Interest Gilts Fund | 0.11 | 0.019 |
| BlackRock Corporate Bonds Fund | 0.11 | 0.000 |
| BlackRock Cash Fund* | 0.13 | 0.016 |
| HSBC Islamic Global Equity Fund | 0.45 | 0.015 |
| LGIM Future World Global Equity Fund | 0.22 | 0.021 |

*Source: Aegon as at 31 March 2024.*

*Transaction costs are over the scheme year (12 month period ending 31 Mar 2024).*

**Funds that make up the Default Investment Strategy*

**Charges and transactions costs**

**Legacy AVC Policies**

The assets include legacy AVC policies with Prudential and Zurich. Where the investments are held in With-Profits fund, due to the way in which With-Profits Funds are structured, any fee shown is indicative; actual charges are implicit and not explicitly stated. These funds are not subject to charge cap regulations. The Trustee undertook a review of these arrangements during December 2023.

| Fund Name | TER (%, p.a.) | Transaction Costs (%, p.a.) |
|---|---|---|
| Prudential With-Profits | 0.76* | 0.10 |
| Zurich With-Profits | Implicit** | 0.04 |

*Source: Prudential and Zurich as at 31 March 2024.*

**Prudential deduct TER through the bonus mechanism, they currently expect this charge to be 0.76% a year based on the assumption that future investment returns from the With-Profits Fund will be 5% per year. We will continue to follow up with Prudential for the actual TER applied for the 12 months to 31 March 2024.*

***TER has been requested from the provider, however Zurich has stated that as this is a traditional with profits fund there is not an explicit TER.*

**Reporting of Costs and Charges**

The Trustee has prepared an illustration detailing the cumulative effect of costs and charges typically paid by a member of the Scheme on their retirement savings pot. Using the charges and transaction cost data provided by Aegon and in accordance with regulation 23(1) (ca) of the Administration Regulations, as amended by the Occupational Pension Scheme (Administration and Disclosure) (Amendment) Regulations 2018 and the statutory guidance provided has been considered when providing these examples.

The latest guidance produced by the Department for Work & Pensions ('DWP') sets out that the Trustee and managers should present the impact of costs and charges typically paid by a member as a figure in pounds, or pounds and pence. It should use realistic assumptions and be representative of membership in terms of pot size, contribution rates, expected investment returns in real terms, time period and actual charges and costs.

The illustration below has 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

To illustrate the impact of charges on a typical member's pension pot, we have provided an example below. This includes all member costs, including the Total Expense Ratio, transaction costs and takes account of inflation. When preparing these illustrations, the Trustee has taken into account specific guidance from the DWP and has followed the approach set out in that guidance.

**Charges and transactions costs**

***Illustration 1: Typical DC Deferred Member***

Due to the move to Master Trust of the majority of DC members of the Scheme in December 2023, as at the Scheme year end there was only a small number of deferred members remaining in the DC section of the Scheme. Illustrations for this cohort are set out below.

| | **Most Popular Fund:** Drawdown Lifestyle Profile (default) | | **Most Expensive Fund:** Pfizer Group Diversified Growth Fund | | **Least Expensive Fund:** BlackRock Fixed Interest Gilts Fund | |
|---|---|---|---|---|---|---|
| **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** |
| 60 | £54,410 | £54,410 | £54,410 | £54,410 | £54,410 | £54,410 |
| 61 | £55,306 | £54,996 | £54,836 | £54,348 | £55,770 | £55,709 |
| 64 | £57,245 | £55,908 | £56,133 | £54,164 | £60,058 | £59,795 |
| 65 | £57,624 | £55,921 | £56,572 | £54,103 | £61,560 | £61,222 |

**Notes**

1. Values shown are estimates at end of each year and are not guaranteed.
2. Projected pension pot values are shown in today's terms.
3. To make this analysis representative of the membership, the Trustee has based this assumed member on data sourced from the administrator. The assumed member is age 60, with a normal retirement age of 65, using a starting pot size of £54,410. The member is assumed to be making no further contributions to the Scheme.
4. Growth rates include the prescribed underlying Inflation rate assumption of 2.5% per annum.
5. Charges, transaction costs and estimated growth rates are assumed as follows:

| | **TER** | **Transaction costs*** | **Growth rate assumptions** |
|---|---|---|---|
| Drawdown Lifestyle Profile (Default) | 0.42% p.a. for members 8 or more years from retirement, decreasing to 0.29% p.a. for members at retirement | 0.15% p.a. for members 8 or more years from retirement; an average of 0.4% p.a. for members at retirement | 4.00% p.a. for members 8 or more years from retirement, falling to<br>2.50% p.a. for members at retirement |
| Pfizer Group Diversified Growth Fund | 0.61% p.a. | 0.28% p.a. | 3.00% p.a. |
| BlackRock Fixed Interest Gilts Fund | 0.11% p.a. | Nil** | 5.00% p.a. |

Charge and costs figures provided by Aegon; growth rate assumptions provided by Mercer; member assumptions provided by Capita.

**Charges and transactions costs (continued)**

***Illustration 1: Typical DC Deferred Member (continued)***

*The Regulations require that where possible the transaction costs assumed in these illustrations are based on an average of the previous five years' transaction costs for each fund, where available. The transaction costs shown above are an average of the costs provided for the 5 year periods to 31 March 2024.

**This fund has reported a negative transaction cost over the 5 year period to 31 March 2024; we have therefore assumed these costs to be nil, as negative costs are not expected to continue consistently over time.

The Trustee acknowledges the requirement to publish these illustrations on a website and this Chair's Statement can be found at the following web address https://www.pfizerpensiondirectory.co.uk/ .The annual benefit statements also include the web address to inform members where they can access this information.

The Trustee also publishes, at the same web address, a member-friendly infographic that summarises the highlights of their Chair's Statement.

**Value for Members**

In accordance with regulation 25(1)(b) of the Administration Regulations, the Trustee is required to undertake a review of the charges and transaction costs incurred by members in order to ascertain whether or not they represent good value for members.

The Trustee, with support from its advisers, Mercer, undertake a value for members assessment, which they review and update in line with legislative requirements annually. The assessment conducted within this Scheme year using data as at 31 December 2023, was reviewed by the Trustee during Q2 2024. Following this review, the Trustee believes that the investment options available within the Scheme's DC Section represent good value for money to members.

The reviews considered whether the DC Section's (and legacy policies) overall benefits and options represented value for money in comparison to the costs payable by members. The assessment included consideration of:

- Investment charges for the default and core fund range, which were determined to be competitive and comply with charge cap limits;
- The transaction costs applied to each of the funds over the year;
- Performance;
- The costs funded by the Company, (rather than the member) of:
    - Scheme administration,
    - The Trustee's advisory costs,
    - Member communications;
- Scheme governance;
- Investment design and range;
- Overview of AVC funds;
- Investment manager ratings;
- Member tools.

## Chair's Statement (continued)

**Value for Members**

The conclusions from the 2023/24 review were as follows:

- Overall the review concluded that the Scheme provides good value for members.
- Charges for the Scheme's Default are lower than the charge cap of 0.75% per annum.

***Price***

- Charges for the Scheme's Default are lower than the charge cap of 0.75% per annum.
- The Scheme benefits from at or below median fee arrangements in respect of 6 of the investment funds that have been considered in the analysis.
- As at 31 December 2023, the default investment option is the lifestyle strategy targeting drawdown. This lifestyle strategy is compliant with the charge cap and each of its underlying components are included as part of the assessment.
- Six funds lie in the mid-upper quartile range: the Pfizer Group Equity Fund, the Pfizer Group Diversified Growth Fund, the BlackRock Emerging Markets Equity Fund, the BlackRock Annuity Protection Fund, the BlackRock Index Linked Gilts Fund and the BlackRock Fixed Interest Gilts Fund. The HSBC Islamic Global Equity Fund does not have an appropriate peer group for comparison so was not assessed.

***Performance***

- Performance for 9 of the 13 funds on the Aegon platform were rated 'green' over the three-year period to 31 December 2023, with the Pfizer Group Diversified Growth fund and the BlackRock UK Equity fund showing as 'red'. The BlackRock UK Equity Fund underperformed its benchmark. This is because BlackRock uses a custom ESG Screened 12 Noon pricing index which is what the underlying fund is compared against. Aegon do not have access to this index so they use the standard FTSE All Share Index as the benchmark in their reporting for this fund. The fund produced annualised returns of 7.8% over the 3 year period which the Trustee is comfortable with. In respect of the Pfizer Group Diversified Growth fund we note that 2023 was a challenging year and heavily impacted returns over the period assessed and the benchmark for this fund is an absolute return target meaning that during periods of significant stress this fund is expected to underperform.
- All the rated funds (with the exception of one which scored a B+) achieved a Mercer A rating, meaning they have been assessed to have above average prospects of outperformance/tracking.
- As at 31 December 2023, the Pfizer Scheme had with-profits investments with Zurich and Prudential. Assessing value for money of with-profits is directly related to an individual's attitude towards, and capacity for, investment risk. An individual may find comfort in the fact that a fund provides guarantees; whether that is a guaranteed pension, investment return or capital security. Therefore, the review considered it inappropriate to reach a general conclusion on value for members for the with-profits funds as this will vary from policy to policy and by member.
- Additionally, wider factors supplement this assessment, such as the payment of administration fees by the Company, the focus on improving member communications and engagement and the payment of the advisory costs associated with operating the Scheme by the Company. Capita provides members with an online service that allows members to switch funds and has other tools to assist members. These factors further enhance the value that members receive.

**Value for Members**

The Trustee considered the statutory guidance when undertaking the value for members assessment.

**Trustee Knowledge and Understanding ("TKU")**

Sections 247 and 248 of the Pensions Act 2004, require the Trustee to maintain an appropriate level of knowledge and understanding which, together with professional advice which is available to them, enables them to properly exercise their functions and duties in relation to the Scheme.

PZR Limited is the Trustee of the Pfizer Scheme. Law Debenture Pension Trust Corporation plc (Law Debenture) and a natural person from Law Debenture are now the only current Trustee Directors of PZR Limited.

Trustee training is of high importance to the good running of the Scheme. The Trustee acknowledges how vital it is to maintain knowledge of pension law, trust law, investment principles and is conversant with the Scheme documentation including the Trust Deed and Rules, SIP, statement of funding principles and Scheme policies

The Trustee receives regular updates from their advisers on changes required to their Scheme documentation and will update their SIP following advice from their investment consultant and following any changes made to the Scheme's investments.

In order to maintain this high level of knowledge, the Trustee has procedures and policies in place:

- The Scheme has appointed a professional trustee, who undertakes additional training to ensure that they keep up to date with changes in legislation, current issues and the latest developments
- Both the Trustee and Company representatives meet at least quarterly to discuss DC specific issues
- The Trustee is also prepared to meet on an ad-hoc basis in addition to scheduled meetings
- Minutes are taken for all DC meetings as a record of the items discussed
- DB matters are dealt with separately at different meetings
- All training activities are recorded in a training log maintained by Law Debenture
- Trustee training is undertaken by the professional trustee as part of their ongoing development, if required, training sessions are planned accordingly
- Regular DC meeting agenda items include investment monitoring, scheme risks, administration, communications, legal updates and Trustee training
- The Trustee maintains a risk register.

**Trustee Knowledge and Understanding ("TKU")**

***Training***

Over the course of the last year, the Trustee has demonstrated continuous commitment to learning by undertaking numerous formal training sessions led by external firms, including but not limited to topics such as:

- Insurance linked strategies
- Pension Dashboards
- TCFD and reporting metrics
- Cost transparency and benchmarking
- DC news and views quarterly updates, including DC funding, innovation and decumulation
- Assumptions underlying pension projections, relating to inflation, and mortality
- Risks and opportunities in credit markets
- Regulatory developments including General Code
- AI in Pensions

***Professional Trusteeship***

The Trustee is required to have appropriate knowledge of the law and practice relating to pensions and trusts, as well as an understanding of the matters relating to funding and investment of assets of occupational pension schemes and other matters to run the Scheme effectively. The Trustee is also required to be conversant with the Scheme's governing documents. Since the appointment of Law Debenture from 1 October 2021, these requirements have been met, by virtue of:

- As the sole Trustee of the Scheme, Law Debenture is an established provider of independent pension trusteeship services in the UK. It provides professional high quality trustee services to around 200 trust-based pension schemes. Its Directors are senior professionals from a range of backgrounds who are based and work together both in a virtual environment and offices based in London, Manchester and Dublin. This means they can collaborate on the whole range of technical and client-specific matters, including the funding and investment of occupational pension schemes. It ensures that each scheme benefits from their collective knowledge and understanding of the law relating to pensions and trusts and their experience of applying this knowledge and experience across a range of schemes and scenarios to ensure pragmatic, timely and cost-effective input.
- Under Law Debenture's TKU framework, all of its Directors complete the Pensions Regulator's Trustee Toolkit online training and are members of the Association of Professional Pension Trustees.
- All Directors also undertake continuous professional development (CPD) activity. This includes:
    - A programme of external meetings with external advisers, fund managers, investment banks and other industry participants to discuss developments in their respective areas.
    - Bespoke training sessions on current, technical and market developments in the pensions industry.

**Trustee Knowledge and Understanding ("TKU")**

- Investment and pensions seminars and conferences including moderating sessions and speaking.
- Participation within a range of trade associations and professional bodies including the Pensions Management Institute, the Institute and Faculty of Actuaries, the Association of Professional Pension Trustees, the Society of Pension Professionals, and the Pension Fund Investment Forum.

- In addition to CPD activity, Law Debenture has a comprehensive management and reporting structure centred on ongoing staff development, peer input and peer review.
- Directors hold regular management meetings and bi-annual away days where business strategy, regulatory matters and client case studies were discussed, for example, this may include DC-specific sessions on the new General Code Regulations, private investment markets, Value For Money assessments and the new Collective Defined Contribution pension vehicles.
- Law Debenture's sole trustee governance model combined with its TKU framework is designed to ensure that schemes are run to high standards. The sole trustee governance model includes reporting against agreed plans and objectives to the Scheme sponsor. There is a quarterly internal peer review process and documented approval of a minimum of two Trustee Directors for key decisions and signing of significant scheme documents. Peer reviews follow a set format, which incorporates a review of scheme activity, regulatory requirements and performance against objectives. Copies of scheme documents and correspondence are maintained in an accessible electronic folder structure. This framework ensures a working knowledge of the scheme documents, including the Trust Deed and Rules, the Statement of Investment Principles and the Trustee's current policies and up-to-date knowledge of the scheme.
- In addition, Law Debenture obtains annually an independent report under Technical release AAF 02/07 of the Audit and Assurance Faculty ("AAF") of the Institute of Chartered Accountants in England & Wales ("ICAEW"). This is subject to external audit and demonstrates that LDPTC operates sound internal procedures and controls and is committed to high standards of governance, thereby minimising exposure to risk on the part of the schemes to which it is appointed.
- The Trustee also had access to legal and other professional advice as and when required during the reporting period.

***Trustee Induction***

Law Debenture seeks to ensure that all its pensions team maintains up-to-date knowledge and skills to represent Law Debenture as pension professionals. It is Law Debenture's policy to ensure that staff obtain comprehensive and relevant training both on appointment and throughout their Law Debenture careers.

New staff members must complete or have already completed the Pensions Regulator's (TPR's) Trustee toolkit and, where appointed as a trustee, meet TPR's requirements for an independent trustee.

In addition, professional trustees are required to fulfil the Association of Professional Pension Trustees (APPT) accreditation as soon as practicable.

**Trustee Knowledge and Understanding ("TKU") (continued)**

***Trustee Induction (continued)***

New staff members will discuss with their line manager their specific training needs which may depend on their professional background or pensions experience prior to joining Law Debenture. The individual will then focus their training activity on events which will provide the necessary knowledge and skills. This will be with external providers, internal colleagues and with organisations with whom Law Debenture has an association.

Those seeking PMI qualification have access to a programme of study covered by a specific study policy.

Ongoing mandatory learning prescribed by Law Debenture ensures that statutory, legal, and best practice requirements are adhered to at all times. Compliance includes assessment and review alongside annual appraisals.

All professional trustees are required to keep under review the adequacy of their knowledge, skills and understanding to ensure they can properly discharge their responsibilities on behalf of Law Debenture.

New Trustee Directors for PZR Limited are provided with access to an online document site which contains important Scheme documents, including the meeting papers from past and upcoming meetings so they can familiarise themselves with them.

***Examples Demonstrating TKU***

The Trustee undertook a number of activities over the past year, which demonstrates how they have a working knowledge of pension & trust law, funding & investment principles, the Trust Deed and Rules and the SIP. These activities include:

| Requirement | How met |
|---|---|
| The Trustee must describe and demonstrate a working knowledge of the Trust Deed and Rules | The Trustee is conversant with, and has a working knowledge of, the Trust Deed and Rules. This can be evidenced by the work undertaken during the Scheme year to move DC members to the Aon Master Trust.<br><br>If there are ever any ambiguities over the interpretation of the Rules legal advice is sought from the legal advisers, A&O Shearman.<br><br>All guidance provided by A&O Shearman will have had respect to the relevant clauses in the Trust Deed and Rules and thereby help the Trustee remain conversant with the Rules and important powers and duties. |
| The Trustee must describe and demonstrate a working knowledge of the current Statement of Investment Principles (SIP) | The Trustee is conversant with, and has a working knowledge of, the current SIP. The Trustee undertakes regular training on investment matters and is confident that the Trustee has sufficient knowledge of investment matters to be able to challenge their adviser if and when appropriate.<br><br>Updates to the Pfizer SIP were made in May 2023 and October 2024.This activity reflects the Trustee's understanding and awareness of investment matters and the importance of maintaining the SIP.<br><br>In September 2023, the Trustee completed the Implementation Statement which sets out how the policies in the SIP had been followed over the course of the previous year. The Trustee is currently undertaking their latest Implementation Statement updates to cover the period from 1 April 2023 - 31 Mar 2024. The final Implementation Statements are published on the Pfizer Pensions Directory https://www.pfizerpensiondirectory.co.uk/. |

## Trustee Knowledge and Understanding ("TKU") (continued)

### *Examples Demonstrating TKU (continued)*

| Requirement | How met |
|---|---|
| The Trustee must describe and demonstrate a working knowledge of all documents setting out the trustee's current policies | The Trustee has full access, oversight and knowledge of the Trustee's current DC policies. The Trustee is conversant with all the Scheme policies, including but not limited to the following:<br>• Conflicts of interest policy<br>• Policy on reporting to tPR<br>• Risk policies<br>• Training policy<br>• CMA objectives<br>The full Scheme risk register is reviewed and updated regularly and covers both DC and wider pension risks.<br>As part of the General Code Effective System of Governance (ESOG) assessment the Trustee is reviewing its policies and procedures to identify areas for improvement. |
| The Trustee must describe and demonstrate that they have sufficient knowledge and understanding of the law relating to pensions and trusts | The Trustee is a professional trustee and meets high professional standards in terms of knowledge and understanding.<br>At the DC Trustee meetings, which were held quarterly over the year, advisers reported on forthcoming changes to regulations, their potential impact on the Scheme and the actions required to ensure compliance. In doing so, the Trustee remained informed about changes to pension laws and their duties in relation to those laws.<br>The Trustee appoints A&O Shearman as legal advisers. The Trustee consults with their legal advisers as and when queries arise. Having the legal advisers to consult with helps the Trustee remain conversant with important powers and duties set out in pension trust law.<br>The Trustee has undertaken training on the Pensions Dashboard in anticipation of its forthcoming implementation. The Trustee has been preparing for the new General Code which came into force from 28 March 2024 and are familiar with all its new requirements. |
| The Trustee must describe and demonstrate that they have sufficient knowledge and understanding of the relevant principles relating to the funding and investment of occupational scheme | The Scheme is a hybrid Scheme, containing both DB and DC sections, The Trustee therefore appoints a Scheme Actuary to advise on funding related issues.<br>The Trustee also appoints a DC specific investment consultant who advises on the relevant principles relating to the DC investment of the Scheme.<br>The advisers attend meetings, provide training and ensure the Trustee has up to date and sufficient knowledge and understanding of investment and funding principles.<br>The revised SIP weas formally signed off in September 2024. This activity demonstrates that the Trustee has knowledge of investments. |
| The Trustee must describe and demonstrate that their combined knowledge and understanding, together with available advice, enables them to properly exercise their functions | The Trustee appoints qualified advisers including the Scheme Actuary, investment advisers, legal advisers, administrators and communication consultants. These advisers regularly attend meetings and keep the Trustee up to date with any relevant training.<br>With the appointment of Law Debenture the professional trustee has wide ranging knowledge and expertise and is able to challenge the Scheme's advisers if and when appropriate to do so.<br>Ongoing knowledge and training is important to the Trustee. As a professional Trustee, Law Debenture meets a higher standard of knowledge and understanding than would be required from a lay trustee. |

**Trustee Knowledge and Understanding ("TKU") (continued)**

***Utilising Advisers***

The Trustee believes that the best run schemes utilise the combined skill and knowledge of both the Trustee and their professional advisers. The relevant skills and experience of those advisers are key criteria when evaluating adviser performance and selecting new advisers. Additionally, the following measures have applied during the period:

- The Trustee's professional advisers attend their formal meetings
- The Trustee receives briefings from their advisers on all legislative and regulatory developments at each meeting
- The DC matters are addressed at specific DC meetings, attendees comprise of both the Trustee, Company representatives and advisers who have the most knowledge and skill of this area.

***Assessing Effectiveness***

The Trustee understands that having knowledge and professional advice available is essential, but this also needs to be used effectively in order for the Scheme to be run properly. The Trustee must have the necessary skills, in order to perform at a high level. An individual's skill equips them to identify opportunities, manage risks, challenge professional advice and understand the evolving needs of their members. The Trustee believes that the knowledge and understanding of the Trustee (as described above) supplemented by the advice received from the Trustee's professional advisers (as described above), enable the Trustee to properly exercise their functions as Trustee of the Scheme.

The examples below demonstrate the actions which has been taken to ensure this is the case:

- At the beginning of each year the Trustee produces a DC specific business plan. Throughout the year regular monitoring of progress against the business plan ensures the Trustee is performing effectively and is meeting the objectives set out.
- The Trustee discusses DC governance at DC Trustee meetings, attended by advisers who specialise in the relevant areas.
- The Trustee maintains a conflicts of interest policy which identifies any possible conflicts. Any conflicts arising are declared at the start of meeting.

**Name:** **Samantha Pitt**

**Position:** **Trustee of the Pfizer Group Pension Scheme**

**Date:** **31 October 2024**

**Name:** **Michael Chatterton**

**Position:** **Trustee of the Pfizer Group Pension Scheme**

**Date:** **31 October 2024**

**Appendices**

**Appendix A – Statement of Investment Principles**

# Appendix A – Statement of Investment Principles (SIP)

## Pfizer Group Pension Scheme

## Statement of Investment Principles – September 2024

**Introduction**

For the purpose of this Statement:

- "the Trustee" means PZR Limited. The Law Debenture Pensions Trust Corporation P.L.C. are the Professional Corporate Sole Trustee ("PCST")
- "the Scheme" means Pfizer Group Pension Scheme
- "Principal Employer" means Pfizer Limited
- "the Financial Conduct Authority" is an independent UK financial regulatory body
- "the Act" means the Pensions Act 1995
- "UK Stewardship Code" sets out the principles of effective stewardship by investors
- "Statement" means Statement of Investment Principles

The Trustee has prepared this Statement to comply with the requirements of the Act and subsequent regulations to date. It is subject to periodic review by the Trustee and is also reviewed after significant changes in investment policy.

In preparing this Statement, the Trustee has consulted with the Principal Employer to the Scheme. Under the requirements of the Act, the Trustee has also taken and considered written advice from its investment advisor, Mercer Ltd, whom the Trustee believes to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

This Statement covers both the Defined Benefit ("DB") and Defined Contribution ("DC") Sections of the Scheme. Details of how the investment strategies are implemented are set out in separate Investment Policy Implementation Documents.

**Defined Benefit Section**

**Long Term Investment Objective**

The Trustee's primary objective is to meet benefit obligations in full.

To satisfy this objective, and in addition to its Statutory Funding Objective, the Trustee has established a long-term, lower-risk funding target.

As the Scheme approaches the Long Term Funding Target, the Trustee believes:

- Dependency on the covenant of the Principal Employer could be steadily and significantly reduced from current levels;
- The key financial risks e.g. asset market, interest rate and inflation risks should be progressively reduced as and when considered appropriate.

**Risk**

In order to meet its primary objective the Trustee accepts the need to take investment risk in order to target required returns.

The table shows the risks that have been identified and how these risks are managed:

| Type of risk | What is it? | How is it managed? |
|---|---|---|
| Mismatching risk | The value of liabilities does not change in the same way as the value of the assets when there are changes in financial and demographic factors.<br><br>(Demographic factors are changes in the size and age profile of the Scheme's membership) | This risk is taken into account when the investment strategy is set.<br><br>The Trustee has also appointed a specialist Liability Driven Investment ("LDI") manager, specifically to manage mismatching risk relating to interest rates and inflation. In addition the Trustee has insured the liabilities of some of the pensioner members, which will hedge longevity risks in addition to interest rate and inflation risks for the insured members. |
| Liquidity risk | The risk that that an asset cannot easily be sold or exchanged for cash, without a substantial loss in value.<br><br>Illiquid assets may also not be able to be sold quickly, because of a lack of ready and willing investors to purchase the asset. | This risk is managed by taking account of the cashflow and liquidity requirements of the Scheme when setting investment strategy.<br><br>The management and monitoring of liquidity within the portfolio is integrated within the strategic asset allocation process. |
| Manager risk | The fund managers fail to achieve target investment returns. | The Trustee regularly monitors the performance of its investment managers (or manager of managers) and also takes professional advice in relation to manager performance and prospects. |
| Risk of lack of diversification | Concentration of investment risk – 'putting all your eggs in one basket'. | The Trustee aims to construct adequately diversified portfolios. The documents governing the manager appointments include a number of guidelines which, among other things, are designed to ensure that suitably diversified investments are held. |

# Appendix A – Statement of Investment Principles (SIP)

**Risk (continued)**

| | | |
|---|---|---|
| Covenant risk | The Principal Employer may fail. | The Trustee and its advisers considered this risk when the investment strategy was set and continue to monitor it. The Trustee uses its covenant adviser to closely monitor the business and assess covenant risk on an ongoing basis, and findings are reviewed each quarter by the Trustee. The Trustee also consulted the Principal Employer on whether the strategy was suitable. As part of their considerations, the Trustee acknowledges the support it receives from the wider Pfizer Group in relation to the Scheme. |
| Currency risk | Risk is introduced by holding securities denominated in foreign currencies, due to movements in exchange rates. | The Trustee hedges a proportion of the Scheme's overseas currency exposure and considers the currency risk for the investment strategy as a whole and in particular when introducing any new asset classes. |
| Leverage | The use of borrowed money to increase exposure to a portfolio which magnifies both gains and losses. This may be achieved by derivative instruments. The Trustee recognises that derivatives can permit leveraged exposures to be created. | As part of its ongoing oversight, leverage ratios will be monitored. Furthermore, the Scheme's mandates have appropriate processes in place to manage leverage ratios. Managers are obliged to refer matters to the Trustee, where necessary. |
| Operational risk | The risk of fraud, poor advice or acts of negligence. | The Trustee seeks to minimise this risk by:<br>• Checking and regularly reviewing that all advisers and third party service providers are suitably qualified and experienced;<br>• Including suitable liability and compensation clauses in all contracts for professional services<br>• Making sure that proper controls are in place. |
| Environmental, Social and Governance ("ESG") risk | ESG issues, including climate change, may have substantive impacts on the global economy and subsequently investment returns. | The Trustee seeks to minimise this risk by:<br>• Monitoring and regularly reviewing that advisers, and fund managers to the Scheme are suitably experienced to consider the identified risk in the services they provide to the Scheme |

These risks may be interconnected. As part of any review of the investment strategy, they are assessed quantitatively, where possible, to see how these risks could affect the Scheme. In particular, the mismatching risk is regularly considered as part of the risk review, where all of the risks impacting funding volatility are assessed.

**Risk (continued)**

The above items are in relation to what the Trustee considers 'financially material considerations'. The Trustee believes the appropriate time horizon for which to assess these considerations will be dependent on the liability profile of the Scheme, including the average duration.

The Trustee also considers risks qualitatively where explicit modelling cannot be carried out, for example, in respect of the sponsor covenant and operational risks.

**Investment Strategy**

The Scheme's assets are invested across 1) a strategic asset allocation and 2) annuities. The Trustee sets the target asset allocation for the strategic asset allocation with the aim of generating sufficient investment returns to satisfy the statutory funding objective and also to achieve the Scheme's Long Term Funding Target.

The strategic asset allocation may include:

- **Liquid Growth Assets** such as publicly traded equities and other liquid alternatives (e.g. absolute return funds);
- **Illiquid Growth Assets** such as private debt;
- **Liability Enhancing Assets** to mitigate liability related risk while generating additional income over a government bond of equivalent duration (e.g. Buy and Maintain Credit, high-lease-to-value property); and
- **Liability Matching Assets** to provide direct interest rate and inflation liability hedging exposure through Liability Driven Investments ("LDI") (including interest rate and inflation swaps, gilt total return swaps and gilt repurchase agreements, and annuities).

The target allocation for the Scheme's assets excluding annuities is as follows:

| | Target Allocation (%) | Tolerance Range (%) |
|---|---|---|
| **Liquid Growth** | **7.5** | **5 – 10** |
| Public and Synthetic Equities | 7.5 | 5 – 10 |
| **Illiquid Growth** | **7.5** | **0 – 15** |
| Private Debt | 7.5 | 0 – 15 |
| **Liability Enhancing** | **50.0** | **40 – 60** |

# Appendix A – Statement of Investment Principles (SIP)

**Investment Strategy**

| | Target Allocation (%) | Tolerance Range (%) |
|---|---|---|
| Property[1] | 8.0 | 3 – 13 |
| Secured Finance | 15.0 | 10 – 20 |
| Global Buy and Maintain Credit | 27.0 | 22 – 32 |
| **Liability Matching** | **35.0** | **30 – 55** |
| LDI | 35.0 | 30 – 55 |
| **Other[2]** | **-** | **0 – 10** |
| **Total** | **100.0** | |

*Figures may not sum due to rounding*

The Trustee considers the asset allocation at each quarterly meeting and may take action to rebalance towards the strategic benchmark.

The overall portfolio is designed to generate long-term returns in excess of liability- matching gilts. By allocating assets to a range of asset classes, and through the use of active management, it is intended that this additional return is generated in an efficient manner while also protecting capital and reducing risk, defined as funding volatility.

Changes in the target asset allocations may be, in part, linked to improvements in the funding position, allowing for:

- The expected period to reach the Long Term Funding Target
- The maturity profile of the Scheme (in terms of the relative proportions of liabilities in respect of pensioners and non-pensioners);
- Projected liability cashflows;
- The level of disclosed surplus or deficit relative to the Long Term Funding Target;
- The strength of the covenant of the Principal Employer.
- The value (if any) of future contribution commitments from the Scheme sponsor and members; and
- Long-term expected risk and returns on the various assets held.

# Appendix A – Statement of Investment Principles (SIP)

**Investment Strategy**

The strategy is kept under regular review and may deviate from the table above, subject to consultation with the Principal Employer. It should be noted that re-risking, by increasing the overall allocation to Liquid or Illiquid Growth Assets, is not precluded, subject to consultation with the Principal Employer.

The SIP will be updated by the Trustee if any changes are to be made to the target asset allocation of the Scheme as a consequence of any de-risking or re-risking steps taken.

A liability hedging portfolio (or LDI mandate) will be maintained with the aim of reducing the volatility in the Scheme's funding ratio with respect to changes in long-term interest rates and inflation. The level of liability hedging will be assessed and may be changed from time to time, directly driven by factors such as:

- The Scheme's funding ratio;
- Market conditions;
- The passage of time in the context of the timeframe remaining for the achievement of the long term funding objectives.

The Trustee monitors the allocation between the appointed managers and between asset classes each quarter at their Investment Committee ("IC") meeting. The IC will decide if a rebalance is required and implement the necessary changes.

The Trustee has taken into account the Scheme's liquidity requirements when implementing its investment strategy and also collateral requirements arising from the Scheme's investments in LDI funds. The Trustee monitors the Scheme's liquidity and collateral requirements on a quarterly basis, and aims to keep sufficient cash reserves as well as hold a portion of assets in liquid investments that can be realised on short notice in order to fulfil cash calls.

The Investment Managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation and pooled fund prospectuses.

**Investment Restrictions**

The Scheme may invest in quoted securities of UK and overseas markets including equities, fixed interest, index-linked bonds, cash, hedge funds, private debt and property, either directly or through pooled funds. The Scheme may also make use of derivatives and contracts for difference for the purpose of efficient portfolio management or to hedge specific risks, as well as derivative based ("synthetic") equity portfolios to replace physical equity exposure where defined. The LDI portfolio may invest in gilts, index-linked gilts, interest rate and inflation swaps, gilt total return swaps, gilt repo and cash. In addition, specialist currency funds may be utilised to generate additional returns. The Scheme may also purchase annuities.

## Appendix A – Statement of Investment Principles (SIP)

**Day to Day Management of the Assets**

The Trustee has appointed investment managers which it believes to have particular strengths in the management of the various asset classes. The investment managers have full discretion over the day-to-day management of the assets.

The Trustee's objective is that the spread of asset types and the investment managers' policies on investing in individual securities within each asset type will provide adequate diversification of investments such that the asset mix is appropriate for controlling the risks identified in Section 3.2. The Trustee regularly reviews the suitability of these arrangements and of the appointed managers. Following a review, the Trustee may from time to time make adjustments to the asset mix, manager line-up and the degree of active management in accordance with this Statement.

For some asset classes the engagement, monitoring and termination (if necessary) of investment managers may be delegated to a third party fiduciary manager.

The safe custody of the Scheme's assets is delegated to professional custodians (either directly or via the use of pooled vehicles).

**Defined Contribution Section**

**Objectives**

The key objectives of the Trustee in relation to the Defined Contribution ("DC") Section are as follows:

- To establish a default option which will offer a high quality solution appropriate for the majority of members saving into the DC Section;
- Alongside the default option, provide a range of self-select funds to meet the diversity of member needs throughout their working lives;
- To provide both the default option and the range of self-select funds at a competitive price thus allowing members to benefit from retaining a higher share of the investment growth on their savings;
- To implement and deliver an attractive and compelling communication and engagement strategy that reflect the needs of members, specifically taking into account the nature of the Scheme and the investment arrangements that are provided;
- To explore, with the key stakeholders, the ability to make accessible to members the flexibilities in relation to DC savings that are now available;
- To put in place the necessary governance framework that will allow the ongoing suitability of the DC Section, including the suitability of the investment arrangements, to be monitored over time.

## Appendix A – Statement of Investment Principles (SIP)

**Strategy**

The Trustee makes available a range of funds and lifestyle strategy options for the DC Section of the Scheme which it believes provide appropriate strategic choices for members' different saving objectives, risk profiles and time horizons. Members themselves determine the fund(s) in which they invest.

Members who do not indicate a preference are invested in the default option which includes lifestyling towards taking their benefits at retirement via income drawdown. Members' assets are de-risked as they approach retirement. More information on the default option is included in Appendix A – Statement of Investment Principles – Default Option.

In addition, alternative lifestyle options are available to members that reflect the alternative ways in which members might take their benefits at retirement (Annuity or Cash).

All funds are daily-dealt pooled investment arrangements, with assets mainly invested on regulated markets. It is the Trustee's policy to offer both active and passive management options to members, depending on asset class.

A range of asset classes has been made available, including: developed market equities, emerging market equities, equities with an ESG focus, corporate bonds, money market investments, gilts, index-linked gilts, diversified growth funds and pre-retirement funds.

Members can combine the investment funds in any proportion in order to determine the balance between different kinds of investments. This will also determine the expected return on a member's assets and should be related to the member's own risk appetite and tolerances. Each of the available funds is considered to be diversified across a reasonable number of underlying holdings / issuers.

**Policies in relation to illiquid assets**

The Trustee considers illiquid assets as assets of a type which cannot easily or quickly be sold or exchanged for cash; including where such assets are invested as a component of a daily-dealing multi-asset fund. The Scheme's default arrangement includes no direct allocation to illiquid investments or to investments via a collective investment scheme. However, the Insight Broad Opportunities Fund has indirect exposure to illiquid assets with an allocation of c.12.1% in Real Assets which invests in illiquid assets, as at 31 July 2024. The other funds used in the default do not invest in any underlying illiquid assets.

The Trustee understands the potential for higher returns and benefits of diversification relative to more traditional asset classes (such as bonds or equities) that illiquid assets can offer. While these potential benefits are recognised by the Trustee, it is also aware of the risks of illiquid assets to members. Given the potential for valuations of illiquid assets to not reflect their true value at a given time, as well as concerns over liquidity management and platform compatibility; the Trustee considers direct investment into an illiquid asset fund as not currently suitable for members of the Scheme.

In selecting investments for the default option the Trustee uses both qualitative and quantitative analysis to consider the expected impact of different strategic allocation mixes. For any future investment, the Trustee carefully considers whether the investment provides value for members, taking account of the return potential and associated risks. It is the Trustee's policy to review the allocation of the default option on at least a triennial basis. Such reviews will include whether the incorporation of illiquid asset investments is appropriate.

# Appendix A – Statement of Investment Principles (SIP)

## Risk

The Trustee has considered risks from a number of perspectives. The list below is not exhaustive but covers the main risks that the Trustee considers and how they are managed:

| Risk | How it is managed | How it is measured |
|---|---|---|
| **Inflation Risk** | The Trustee provides members with a range of funds, across various asset classes, with the majority expected to keep pace with inflation (with the exception of the money market and fixed interest bond funds). | The Trustee considers the real returns (i.e. return above inflation) of the funds, with positive values indicating returns that have kept pace with inflation. |
| **Benefit Conversion Risk** | The Trustee offers three lifestyling strategies for DC members, each designed to cater to different retirement benefits: cash, drawdown, or annuity. These strategies automatically adjust member assets as they near retirement, moving them into investments that are expected to be less volatile based on the member's preferred method of accessing their pension savings. If a member has not indicated their preference, the default strategy is applied. The purpose of these lifestyling strategies is to gradually align the proportion of assets with the member's chosen retirement plan as they approach retirement age. This helps mitigate benefit conversion risk close to retirement.<br>Furthermore, members are asked to select their retirement age and the lifestyle strategies automatically target their switching accordingly. In the absence of a selected retirement age from the member the default of age 65 is applied. | The Trustee considers the returns of the funds used within the switching phase of the lifestyle strategy both in absolute terms as well as relative to inflation, cash or annuity prices (depending on their selected retirement destination). |
| **Market Risk** | The Trustee provides members with a range of funds, across various asset classes. Members are able to set their own investment strategy in line with their risk tolerances.<br>For the multi-asset funds which are targeting non-market benchmarks this is delegated to investment managers. | Monitors the performance of external investment funds on a quarterly basis. |
| **Counterparty Risk** | Delegated to external investment manager. | Monitors the performance of external investment funds on a quarterly basis. |
| **Currency Risk** | The Trustee provides diversified investment options that invest in local as well as overseas markets and currencies.<br>Delegated to investment managers. | Monitors the performance of external investment funds on a quarterly basis.<br>Considers the movements in foreign currencies relative to pound sterling. |
| **Operational Risk** | Outsourced this to the Investment Consultant. | Considers the ratings of investment strategies from their Investment Consultant and monitoring these on a quarterly basis. |
| **Liquidity Risk** | The Trustee accesses daily dealt and daily priced pooled funds. | The pricing and dealing terms of the funds underlying the unit-linked insurance contract. |
| **Valuation Risk** | Some multi-asset managers may hold illiquid assets. In such cases, the management of valuation risk is delegated to the external investment manager.<br>The majority of investment managers invest solely in liquid quoted assets. | The Trustee monitors performance of funds on a quarterly basis, and where relevant delegates the monitoring of valuation risk to the Investment Consultant. |
| **Environmental, Social and Governance Risk** | Delegated to external investment managers.<br>The Trustee's policy on ESG risks is set out in Section 14 of this Statement. | The Trustee reviews their external investment managers' policies and actions in relation to this on an annual basis. |

| Risk | How it is managed | How it is measured |
|---|---|---|
| **Climate Change Risk** | The Trustee regularly monitors and reviews the fund managers' experience to consider climate change risks. | The Trustee takes consideration of how to monitor and assess climate change risk through various metrics.<br>The Trustee assesses managers' voting and engagement activity on an annual basis. |
| **Manager Skill / Alpha Risk** | The Trustee makes available a number of actively managed funds to DC members where it deem appropriate; for example, multi-asset funds.<br>The actively managed funds made available are highly rated by their Investment Consultant, based on forward-looking expectations of meeting objectives. | The Trustee takes consideration of the ratings of investment strategies from their Investment Consultant during the selection process.<br>The Trustee monitors the performance and rating of funds on an ongoing basis relative to the fund's benchmark and stated targets/objective |

In selecting assets, the Trustee considers the liquidity of the investments in the context of the likely needs of members. All assets are daily dealing and therefore should be realisable based on member demand.

The above items are in relation to what the Trustee considers 'financially material considerations'. The Trustee believes the appropriate time horizon for which to assess these considerations within should be viewed at a member level. This will be dependent on the member's age and their Selected Retirement Age. If in the case that a member does not indicate their Selected Retirement Age, the default retirement age of 65 years will be applied.

**Implementation**

For the DC Section of the Scheme the Trustee has contracted with Aegon to deliver investment management services through their investment platform. Aegon are regulated by the Financial Conduct Authority (the "FCA").

**Governance**

The Trustee is responsible for the investment of the Scheme's assets. The Full Board of the Trustee takes some decisions itself and delegates others to the DC representatives. When deciding which decisions to take itself and which to delegate, the Full Board of the Trustee has taken into account whether the DC representatives have the appropriate training and access to expert advice in order to take an informed decision.

The Trustee has a clearly defined governance structure which documents the services provided by the investment adviser, custodians and fund managers. The delegatory duties and powers of the DC representatives are as provided for within the Terms of Reference as amended from time to time.

**Defined Benefit and Defined Contribution**

**Additional Voluntary Contributions**

The Trustee gives members the opportunity to invest in a range of investment vehicles at the individual member's discretion.

Assets in respect of members' additional voluntary contributions are either held alongside the DC assets, in the same range of funds, or in with-profits contracts with Prudential and Zurich.

**Responsible Investment and Corporate Governance**

The Trustee believes that environmental, social, and corporate governance ("ESG") factors may have a material impact on investment risk and return outcomes. The Trustee also recognises that long-term sustainability issues, including climate change, present risks and opportunities that increasingly require explicit consideration, as reflected in the Sections 3 and 10, "Risk", of this document.

The Trustee recognises that financially material ESG issues, including climate change, could impact the financial interests of the Scheme's beneficiaries. Accordingly, the Trustee has considered how ESG matters are integrated within investment processes when appointing new fund managers and monitoring existing fund managers. One such way ESG matters have been integrated within the DC Section is through the implementation of funds with a specific focus on ESG integration within the default arrangement.

The Trustee believes that good stewardship can preserve value for companies and markets as a whole. The Trustee monitors stewardship activity for the DC funds and reviews the ESG ratings for all funds annually.

Having considered their fiduciary duty the Trustee has delegated the evaluation of ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments to the appointed investment managers, in accordance with their own corporate governance policies.

The Trustee monitors how ESG, climate change and stewardship is integrated within investment processes of its investment managers. These issues are monitored on behalf of the Trustee by the IC for the DB Section investment managers and the DC representatives for the DC Section investment managers. Each group considers the investment consultant's assessment of how each of the Section investment managers embed ESG into their investment processes, and how the managers' responsible investment philosophies align with the Trustee's responsible investment policy. This includes the investment managers' policies on voting and engagement. The Trustee will use this assessment in decisions around selection, retention and realisation of manager appointments. Monitoring is undertaken on a regular basis and is documented at least annually to assess the effectiveness of applied approaches.

The Trustee can regularly review the decisions made by their managers, including voting history (in respect of equities) and engagement activity, and can challenge such decisions to try to ensure the best long term performance over the medium to long term. Voting and engagement is reviewed at least annually.

The Trustee takes into consideration non-financial matters when assessing the overall investment strategy and managers, as such members views on 'non-financial matters' (where "non-financial matters" include members' ethical views separate from financial considerations such as financially material ESG issues), are not explicitly taken into account in the selection, retention and realisation of investments.

The Trustee has not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future. Investment restrictions within the DB Section are further elaborated in the Section 5 "Investment restrictions" of this document. Within the DC Section, the Trustee has agreed to implement funds with a specific focus on ESG integration to the default arrangement which involves some screening of companies.

**Investment Manager Appointment, Engagement and Monitoring**

The investment managers are appointed by the Trustee based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class for which they are selected.

The Trustee looks to its investment consultant for their forward looking assessment of a manager's ability to outperform over a full market cycle. This view will be based on the consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management. The consultant's manager research ratings assist with due diligence and questioning managers during presentations to the IC/DC representatives/Trustee and are used in decisions around selection, retention and realisation of manager appointments.

The Trustee receives investment manager performance reports on a quarterly basis, which present performance information over 3 months, 1 year, 3 years and 5 years, or as appropriate. The Trustee reviews the absolute performance, relative performance against a suitable index used as the benchmark, and against the manager's stated target performance (over the relevant time period) on a net of fees basis. The Trustee's focus is primarily on long term performance but short term performance is also reviewed. There is no performance objective for the bulk annuity; the objective of the policy is to meet the liabilities of all members covered by the policy.

The investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustee is dissatisfied, then it will look to replace the manager.

If a manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the Trustee will review the fund appointment to ensure it remains appropriate and consistent with the Trustee's wider investment objectives and may ask the manager to review their fees – either the Annual Management Charge or the performance related fee element where relevant – instead of terminating the mandate.

Some mandates are actively managed and the managers are incentivised through remuneration (via performance related fees, noting that some have hurdle rate structures in place to avoid the Trustee paying additional fees during periods of long term underperformance) and performance targets (an appointment will be reviewed following periods of sustained underperformance). The Trustee will review the appropriateness of using actively managed funds (on an asset class basis) regularly.

The bulk annuity policy provider is incentivised to achieve the objectives set for it and its associated obligations, by both the contractual documentation in place and the regulatory framework that it is subject to. The policy provider is remunerated by way of a premium calculated at the time of purchase of the policy.

As the Trustee invests in pooled investment vehicles it accepts that it has no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy.

For the Scheme's segregated mandates, the Trustee has specified criteria in the investment manager agreements for the asset class managers to be in line with the Trustee's specific investment requirements.

- With respect to the LDI portfolio, the manager has been appointed to manage the assets in line with a Scheme-specific benchmark based on the underlying liabilities of the Scheme.

## Appendix A – Statement of Investment Principles (SIP)

**Investment Manager Appointment, Engagement and Monitoring**

- For the Buy and Maintain Credit mandates, the managers have been given guidelines specifying the Trustee's desired portfolio characteristics including permitted investments, credit limits and geographical exposure.

For DB Section assets, the Trustee does not currently monitor portfolio turnover costs but is looking to do this by adhering to the Cost Transparency Initiative, under which ClearGlass will collect data on the costs of the Scheme's investment managers as part of regular governance reviews. The Trustee will engage with a manager if portfolio turnover is higher than expected. This is assessed by comparing portfolio turnover as reported by the investment managers across the same asset class on a year-on-year basis, or relative to the manager's specified portfolio turnover range in the investment guidelines or prospectus (where applicable).

For DC Section assets, the Trustee reviews the investment manager fees and considers portfolio turnover costs as part of the annual Value for Members ("VfM") assessment.

The Trustee is a long term investor and is not looking to change the investment arrangements on a frequent basis.

For open-ended funds in which the Scheme invests, there is no set duration for the manager appointments. The Trustee will retain an investment manager unless:

- there is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager; or
- the manager appointment has been reviewed and the Trustee is no longer comfortable that the manager can deliver the mandate – see policy statement on realisation of assets.

Relative to the DB Section, for closed-ended funds, the Scheme is invested in a manager's fund for the lifetime of the fund. At the time of appointment, the investment managers provided an indication of the expected investment duration of their funds and have the discretion to extend the lifetime of the fund in line with the Investment Management Agreement. In order to maintain a strategic allocation to such asset classes, the Trustee may choose to stay with a manager in a new closed-ended fund for that asset class or appoint a different manager.

The buy-in policy is structured to meet all benefit obligations of the members that it covers.

## Appendix A – Statement of Investment Principles (SIP)

**Exercise of voting rights**

The Trustee has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the investment managers have produced written guidelines of their process and practice in this regard. The investment managers are encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies and are required to provide periodic written reports to the Trustee regarding their exercise of voting rights on the Trustee's behalf. Trustee views on stewardship are further elaborated in the Section 14 "Responsible Investment and Corporate Governance" of this document.

**Compliance with this Statement**

The Trustee will monitor compliance with this Statement regularly. In particular, it will obtain written confirmation from the investment managers that they have complied with this Statement as supplied to them and the Trustee undertakes to advise the investment managers promptly and in writing of any material change to this Statement.

**Review of this Statement**

The Trustee will review this Statement in response to any material changes to any aspects of the Scheme, its liabilities, finances and the attitude to risk of the Trustee and the Principal Employer which it judges to have a bearing on the stated investment policy.

This review will occur no less frequently than every three years. Any such review will be based on written, expert investment advice and will be undertaken in consultation with the Principal Employer.

Name: Samantha Pitt Date: 1 October 2024

For and on behalf of The Law Debenture Pension Trust Corporation plc.

## Appendix A – Statement of Investment Principles - Default Option

For members who do not wish to take an active role in investment decisions, the Trustee offers a **default option** which includes lifestyling arrangements to de-risk investments to an asset allocation designed to be appropriate for a typical member who intends to access their benefits via income drawdown at retirement. This strategy is known as the "Drawdown Lifestyle Profile".

**Aims and Objectives**

The aims of the default option, and the ways in which the Trustee seeks to achieve these aims, are detailed below:

- To generate returns in excess of inflation during the "growth" phase of the strategy whilst managing downside risk.

*The default option's growth phase structure invests in equities and other growth-seeking assets through diversified growth funds. These investments are structured to maximise real returns over the long-term with some downside protection and some protection against inflation erosion.*

- To provide a strategy that reduces investment risk for members as they approach retirement.

*As a member's pot grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustee believes that a default option that seeks to reduce investment risk as the member approaches retirement is appropriate. This is achieved via automated lifestyle switches over an eight year period.*

- To offer to members a mix of assets at retirement that is broadly appropriate for an individual planning to take their benefits through drawdown.

*Three months prior to the member's selected retirement date, 75% of the member's assets will be invested in a pooled pre-drawdown fund that aims to provide a suitable level of return for members who expect to transfer to a drawdown product at retirement, and 25% in a pooled cash fund reflecting the Trustee's view that members will take a tax free cash lump sum at retirement.*

**Risk**

In designing the default option, the Trustee has explicitly considered the trade-off between risk and expected returns. Risk is not considered in isolation, but in conjunction with expected investment returns and retirement outcomes for members. In particular, when reviewing the investment strategy of the default investment option, the Trustee considers risk quantitatively in terms of the variability of investment returns and potential retirement outcomes for members. From a qualitative perspective, the Trustee also considers risk in terms of the (mis) alignment of investments with the retirement benefits targeted by the default investment option.

Taking into account the demographics of the Scheme's membership and the Trustee's views of how the membership will behave at retirement, the Trustee believes that the default strategy outlined in this document is appropriate and will continue to review this over time, at least triennially, or after significant changes to the Scheme's demographic, if sooner.

In selecting assets, the Trustee considers the liquidity of the investments in the context of the likely needs of members. All assets are daily dealing and therefore should be realisable based on member demand.

# Appendix A – Statement of Investment Principles - Default Option

**Risk (continued)**

The Trustee has considered risks from a number of perspectives. The list is the same as shown in Section 10 unless mentioned below:

| Risk | How it is managed | How it is measured |
|---|---|---|
| **Inflation Risk** | During the growth phase of the default investment option the Trustee invests in a diversified range of assets which are likely to grow in real terms.<br>The default investment options invests in a diversified range of assets which are considered likely to grow in excess of inflation. | Considering the real returns (i.e. return above inflation) of the funds, with positive values indicating returns that have kept pace with inflation. |
| **Pension Conversion Risk** | The default investment option is a lifestyling strategy which targets drawdown as a retirement destination.<br>The Trustee believes that a strategy targeting drawdown is the most appropriate for their current membership. | Considering the returns of the funds used within the switching phase of the lifestyle strategy both in absolute terms as well as relative to inflation (the retirement destination).<br>As part of the triennial default strategy review, the Trustee ensures the default destination remains appropriate. |
| **Currency Risk** | The equity allocation of the default investment option is invested in global equity funds without a currency hedge. Within the diversified growth funds the currency risk management is delegated to investment managers.<br>Investment strategy is set with the intention of diversifying this risk to reach a level of risk deemed appropriate for the relevant members by the Trustee. | Monitors the performance of external investment funds on a quarterly basis.<br>Considers the movements in foreign currencies relative to pound sterling. |

The above items and the items in Section 10 are in relation to what the Trustee considers 'financially material considerations'. The Trustee believes the appropriate time horizon for which to assess these considerations within should be viewed at a member level. This will be dependent on the member's age and their Selected Retirement Age. It is partly for this reason that the default investment option is a lifestyle strategy.

Member views, when expressed, are taken into account relating to all financial and non-financial matters. In particular, members are asked to express opinions in the annual newsletter.

**Investment Strategy**

The Trustee believes that assets in the default investment option are invested in the best interests of members and beneficiaries, taking into account the profile of members.

The Drawdown Lifestyle Profile is designed to meet the above aims and objectives and is implemented using a range of pooled funds managed by the Trustee's chosen investment managers.

# Appendix A – Statement of Investment Principles - Default Option

**Investment Strategy (continued)**

Taking into account the demographics of the Scheme's membership and the Trustee's views of how the membership will behave at retirement, the Trustee believes that the current default option is appropriate and will continue to review this over time, at least triennially, or after significant changes to the Scheme's demographic, if sooner.

**Day to Day Management of the Assets**

Pooled investment funds are made available to members of the Scheme via an investment platform provided by Aegon. The platform is accessed through a direct (long-term) insurance contract between the Trustee and Aegon. Pooled funds accessed through the platform are managed by underlying investment managers. The Trustee is responsible for the selection, appointment, removal and monitoring of these external investment managers. The Trustee has taken steps to satisfy itself that the managers have the appropriate knowledge and experience for managing the Scheme's investments and that the managers are carrying out their work competently. Full details of these external investment managers and funds are provided in the IPID.

The safe custody of the Scheme's assets is delegated to professional custodians, as appointed by the governing bodies of the respective pooled funds.

***Buying and Selling Investments***

The investment manager has responsibility for buying and selling the underlying assets. All of the pooled funds used are daily dealt. The investment managers have discretion in the timing of realisation of investments and in considerations relating to liquidity of those investments within parameters stipulated in the relevant appointment documentation. The day to day activities which the investment manager carries out for us are governed by the arrangements between them and Aegon, which are reviewed from time to time to ensure that the operating instructions, guidelines and restrictions remain appropriate.

***Responsible Investment & Corporate Governance***

The Trustee believes that good stewardship and environmental, social and governance ("ESG") issues may have a material impact on investment returns. The Trustee has given the investment managers full discretion when evaluating ESG issues and in exercising rights and stewardship obligations attached to the Scheme's investments. The Trustee also recognises that long-term sustainability issues, including climate change, present risks and opportunities that increasingly require explicit considerations as outlined in Section 10.1.

Similarly, the Scheme's voting rights are exercised by its investment managers in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code.

Voting is also an integral part of the investment management delegation. The investment manager is encouraged, but not directed, to vote on all resolutions at annual and extraordinary general meetings of companies for the exclusive benefit of the participants.

The Trustee monitors the ESG policies and stewardship activities of its managers annually.

The Trustee supports the principle of good corporate governance and shareholder activism and, for relevant mandates, prefers its investment managers to have an explicit strategy, outlining the circumstances in which they will engage with a company (or issuer of debt or stakeholder, if applicable) on relevant matters (including performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance) and how they will measure the effectiveness of this strategy.