

HCA INTERNATIONAL LIMITED FINAL SALARY PENSION SCHEME (the 'Scheme')

THE CHAIR'S ANNUAL GOVERNANCE STATEMENT

Introduction

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

We are pleased to present our annual statement on Defined Contribution (DC) governance for inclusion in the Report and Accounts for the Scheme, covering the period 1 April 2020 to 31 March 2021. This statement describes how the Trustees seek to make sure that the Scheme is well-managed and delivers good services to members. In doing so, we provide the various statutory disclosures required by legislation.

This statement covers five key areas:

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

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

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

Money purchase underpins for ex St Martins members

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

The HCA International Limited Final Salary Pension Scheme is **not** typically regarded as a money purchase pension scheme. Members' pensions at retirement are calculated on a defined benefit formula based on pay and length of service (1/60th of Final Pensionable Salary for each year of Pensionable

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

The Scheme Actuary has carried out analysis which confirms that the money purchase underpins have not exerted any influence on members' outcomes in retirement during the 12-month period to 31 March 2021 and based on current market conditions are unlikely to do so in the future. This is because the level of the notional contributions are very low compared to the relatively high cost of the pension calculated on the Final Salary formula for the Scheme. Therefore, the Trustees believe that the requirements referred to above **do not** apply to the money purchase underpin for the purpose of the year ending 31 March 2021 Statement and the remainder of this Statement applies to the AVC) policies.

Default investment arrangement

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

Requirements for processing core financial transactions

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

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

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

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

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

| Transaction* | Service Level Agreement | Service Level Achievement % |
|--------------------------|-------------------------|-----------------------------|
| Death Benefit settlement | 2 days | 60% |
| Transfer out | 15 days | 79% |
| Retirement settlement | 13 days | 83% |

*Transfers into the Scheme are not permitted.

Stewardship information is typically provided quarterly so that the Trustees can ensure the prompt and accurate processing of financial transactions, including core transactions such as the transfer of member assets out of the Scheme, and the payment of benefits. The overall performance attained during the reporting period was 74% of core events being processed within the agreed target dates. The Trustees receive further data on any events that breach the target timescale, including the amount of time it took to complete and why. Where agreed service levels have not been achieved, the Trustees have worked with the administrator to understand why this has happened and where improvements can be made. Over the period of this statement the Trustees are satisfied that the administrator controls to process transactions promptly and accurately functioned well during the year.

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

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

The Trustees also monitor the accuracy of the Schemes’ common data and in the last annual Scheme Return, confirmed a score of 77% as at December 2019.

The Trustees are pleased to confirm that in the last Scheme year there have been no material administration service issues that need to be reported here. The Trustees are confident that the processes and controls in place with the administrator are robust.

Charges and transaction costs

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

The Scheme’s assets include AVC policies with Aviva, Utmost Life and Pensions (Utmost), Prudential Assurance Company (Prudential) and Royal London.

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

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

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

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

| Provider | Fund Name | TER (p.a.) | TC (p.a.) |
|---------------------|---|------------|-----------|
| Aviva | BlackRock (30:70) Currency Hedged Global Equity Index Tracker | 0.46% | 0.1543% |
| | BlackRock (60:40) Global Equity Index Tracker | 0.40% | 0.0792% |
| | BlackRock DC Diversified Growth | 1.01% | 0.5233% |
| | BlackRock Sterling Liquidity | 0.40% | 0.0120% |
| | BlackRock Over 15 Year Gilt Index Tracker | 0.40% | 0.0153% |
| | BlackRock Over 5 Year Index-Linked Gilt Index Tracker | 0.40% | 0.0732% |
| Utmost | Money Market | 0.50% | 0.000083% |
| | Managed | 0.75% | 0.127976% |
| | UK Equity | 0.75% | 0.540438% |
| Prudential | With Profits Cash accumulation | *1 | 0.1025% |
| Royal London | Crest Secure Fund | 1.45% | *2 |

Sources:

- Aviva data as at 30 September 2020. TER defined by Aviva as Administration Cost.
- Utmost data as at 31 March 2021.
- *1 Charges on With-Profits business depend on the performance of the With-Profits Fund and, in particular, the investment returns achieved and expenses incurred. The annual charge, further costs, and charges to cover the cost of the guarantees, are already taken into account when Prudential calculate the bonus rates for the With-Profits Fund.

The Trustees will continue to request for the exact cost of the fund on behalf of the membership. Prudential transaction cost data is an average percentage of up to the last 5 years to 31 March 2021.

- *2 Royal London confirmed that as at 31 December 2020 the Crest Secure base charge (the Annual Management Charge) is 2.25%, which is reduced to 1.45% (due to the 0.8% enhancement) and this is an all-in charge and allowed for all costs (including transaction costs). The Trustees will continue to request for the exact split of the transaction costs and charges of the fund on behalf of the membership.

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

The below illustration 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.

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

| Projected Pot Sizes in Today's Money | | | | | | | | | | | |
|--------------------------------------|-----|--|--------------------------------|---|--------------------------------|--|--------------------------------|--|--------------------------------|---|--------------------------------|
| | | Most Popular: Prudential With Profits Cash accumulation | | Most Expensive: Royal London Crest Secure Fund | | Least Expensive: BlackRock Sterling Liquidity | | Highest Expected Return: BlackRock (60:40) Global Equity Index Tracker | | Lowest Expected Return: Utmost Money Market | |
| Year End | Age | Pot Size with no Charges Incurred | Pot Size with Charges Incurred | Pot Size with no Charges Incurred | Pot Size with Charges Incurred | Pot Size with no Charges Incurred | Pot Size with Charges Incurred | Pot Size with no Charges Incurred | Pot Size with Charges Incurred | Pot Size with no Charges Incurred | Pot Size with Charges Incurred |
| 0 | 54 | £12,500 | £12,500 | £12,500 | £12,500 | £12,500 | £12,500 | £12,500 | £12,500 | £12,500 | £12,500 |
| 1 | 55 | £12,924 | £12,911 | £12,452 | £12,271 | £12,283 | £12,232 | £12,883 | £12,824 | £12,281 | £12,220 |
| 2 | 56 | £13,363 | £13,336 | £12,403 | £12,046 | £12,069 | £11,970 | £13,278 | £13,155 | £12,066 | £11,946 |
| 3 | 57 | £13,817 | £13,775 | £12,355 | £11,826 | £11,859 | £11,713 | £13,685 | £13,496 | £11,855 | £11,678 |
| 4 | 58 | £14,286 | £14,228 | £12,307 | £11,609 | £11,653 | £11,462 | £14,104 | £13,845 | £11,648 | £11,416 |
| 5 | 59 | £14,772 | £14,696 | £12,260 | £11,396 | £11,451 | £11,217 | £14,537 | £14,203 | £11,444 | £11,161 |
| 6 | 60 | £15,273 | £15,180 | £12,212 | £11,187 | £11,251 | £10,976 | £14,982 | £14,571 | £11,244 | £10,910 |
| 7 | 61 | £15,792 | £15,679 | £12,165 | £10,983 | £11,056 | £10,741 | £15,441 | £14,948 | £11,047 | £10,666 |
| 8 | 62 | £16,328 | £16,195 | £12,118 | £10,781 | £10,864 | £10,511 | £15,915 | £15,335 | £10,854 | £10,427 |
| 9 | 63 | £16,883 | £16,728 | £12,071 | £10,584 | £10,675 | £10,286 | £16,402 | £15,732 | £10,664 | £10,193 |
| 10 | 64 | £17,456 | £17,278 | £12,024 | £10,390 | £10,489 | £10,065 | £16,905 | £16,139 | £10,477 | £9,965 |
| 11 | 65 | £18,049 | £17,846 | £11,977 | £10,200 | £10,307 | £9,850 | £17,423 | £16,557 | £10,294 | £9,741 |

Source: Mercer

Notes:

- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
- The starting pot size is assumed to be £12,500.
- Term of investment is based on the youngest member, aged 54 with an expected retirement age of 65.
- There is an assumption of no contributions being made by members.
- Values are estimates and are not guaranteed.
- The projected growth rate for the funds are as follows (real):
 - Most Popular by Members - Prudential With Profits: 3.29%*
 - Most Expensive Fund - Royal London Crest Secure Fund: -0.39%
 - Least Expensive Fund - BlackRock Sterling Liquidity: -1.75%
 - Highest Expected Return - BlackRock (60:40) Global Equity Index Tracker: 3.00%
 - Lowest Expected Return - Utmost Money Market: -1.75%

*Although the Prudential With Profits Fund has the highest expected return based on projected growth rate, it should be noted that the charges for this Fund have not been provided, and as such we have illustrated the highest expected return based on the complete data set available (including projected returns and total costs, including transaction costs).

7. The Transaction Costs relate to the average transaction costs incurred during the last two scheme years (as data for previous five years was not available at the time of producing this Statement). However, where it has been noted earlier in this Statement that the transaction cost has not been provided, we have assumed a neutral transaction cost of 0.0% per annum. Furthermore, where a transaction cost has been recorded as a negative, we have been prudent in our assumption and revised this within the illustration to reflect 0.0% per annum.

Value for members

When assessing the charges and transaction costs which are payable by members, the Trustees are required to consider the extent to which these represent good value for members. There is no legal definition of "good value", so the process of determining good value is a subjective one. "Value" is not a straightforward concept to quantify and can be open to broad interpretation.

The Trustees review the AVC policies on a regular basis, with the last review delivered September 2021. The outcome of the review noted the following:

- The relative performance of the unit linked funds has been mixed;
- Mercer recommends the inclusion of "lifestyling", at least for the Aviva investors and to also consider the range of investment options available;
- The Prudential With Profits Fund has generally been in the top two quartiles compared with other With Profits funds; and
- There may be a need to communicate with members to remind members of their investments.

Trustees' Knowledge and Understanding

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

PSGS is represented by Ian Eggleton, a Client Director. Ian is a Fellow of the Pensions Management Institute and he has completed the Pensions Regulator's Trustee Toolkit and undertakes a minimum level of CPD each year for PMI. Ian is also a PMI accredited professional trustee in the UK.

Ian has spent his entire career in the pensions world having started as an actuarial student. He moved into consultancy and held senior positions with Mercer before leaving at the end of 2008. Ian was President of the Pensions Management Institute from 2001 to 2003 and has been a regular contributor to the pensions debate as a speaker or chair of industry conferences. He is also an adviser with TPAS, the

Pensions Advisory Service, which now forms the Early Resolution Team in the Pensions Ombudsman's office.

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

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

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

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

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

| Requirement | How met |
|---|--|
| Trustees must describe how, through the scheme year the trustees have demonstrated a working knowledge of the trust deed and rules. | The Trustees are conversant with, and have demonstrated a working knowledge of, the Trust Deed and Rules during the Scheme year by providing decisions in line with the Rules. At each Trustee meeting, the Trustees maintain a "discretions log" to document any discretionary decisions made throughout the Scheme year. During the year the Trustees have assessed a number of complex cases including ill health early retirements, transfer cases and the exercise of discretion on the payment of death benefits which have required the Trustees to look closely at the Trust Deed & Rules, alongside regulatory guidance and as required have sought specific advice from the Scheme legal advisors. |
| Trustees must describe how, through the scheme year the trustees have demonstrated a working knowledge of the current SIP. | During the year, the Trustees discussed the new requirements pertaining to the creation of an Implementation Statement, which refers to the Trustees policies as set out in their current SIP. |

| | |
|---|--|
| <p>Trustees must describe how, through the scheme year the trustees have demonstrated a working knowledge of all documents setting out the trustees' current policies.</p> | <p>The Trustees have demonstrated a working knowledge of their current policies through their maintenance of an annual calendar. Key policies and documents are reviewed annually and updated if appropriate.</p> <p>During each Scheme year, the Trustees maintain a "Decision Record", containing key minuted decisions made at Trustee meetings, to ensure an accurate record of the Trustees' current policies.</p> |
| <p>Trustees must describe how, through the scheme year the trustees have demonstrated that they have sufficient knowledge and understanding of the law relating to pensions and trusts.</p> | <p>The Trustees advisors, Mercer, attend each meeting and give the Trustees an overview of market and legislative developments, including the Trustees duties and requirements for strong governance.</p> <p>In addition, if there are any ambiguities over the interpretation of the Rules or new legislation, legal advice is sought from the Trustees' lawyers, Squire Patton Boggs.</p> <p>During the Scheme Year, the two non-professional Trustees attended formal trustee training aimed at developing understanding to a more advanced level around trustees' key governance responsibilities for Defined Benefit Schemes.</p> |
| <p>Trustees must describe how, through the scheme year the trustees have demonstrated that they have sufficient knowledge and understanding of the relevant principles relating to the funding and investment of occupations schemes.</p> | <p>The Trustees, alongside their advisors have looked carefully at investment strategy and the opportunity to reduce risk. Reflecting back on a prior decision to reduce risk, which ultimately has proved very successful, the Trustees have discussed with the Company longer term strategy and proposed a number of options for managing funding and investment risk over time. The Trustees have implemented an interest rate and inflation hedge through Liability Driven Investments (LDI), and have been considering a Fiduciary manager appointment based on recommendations from advisers."</p> <p>The Trustees have also attended training in relation to a number of topics; covering funding, investment, governance and legal areas. Specific training included:</p> <ul style="list-style-type: none"> • An assessment of risk and the importance of cashflow with the opportunities of CDI (Cashflow Driven Investment) at the 16 April 2020 meeting; • Mercer presented to the Trustees on the advantages of Fiduciary Management and LDI at the 13 July 2020 meeting; • An updated SIP was signed in September 2020. |

| | |
|--|--|
| | <ul style="list-style-type: none"> • an update on LDI at the 17 November 2020 meeting following which the interest and inflation hedges were implemented ; • A further risk assessment resulted in the trustees deciding to terminate the BlackRock Property Fund investment in favour of Multi Asset Credit; and • An update on GMP reconciliation and equalisation at the 17 November 2020 Trustee meeting. <p>As a result, they have sufficient knowledge and understanding of the relevant principles relating to the funding and investment of occupation schemes.</p> |
| <p>Trustees must describe how, through the scheme year the trustees have demonstrated that their combined knowledge and understanding, together with available advice, enable them to properly exercise their functions.</p> | <p>The Trustees receive advice from professional advisers to support them in reviewing the performance of the Scheme and in governing the Scheme in line with the Trust Deed and Rules, and the relevant skills and experience of those advisers is a key criterion when evaluating advisor performance or selecting new advisers. The advice received by the Trustees along with their own experience allows them to properly exercise their function as Trustees.</p> |

The Trustees have a robust training programme in place for newly appointed Trustees. Upon appointment, each Trustee is required to undertake an induction process. This includes a training session with relevant advisers, conflicts of interest training, as well as training on the Pensions Regulator’s online training programme. Initial Scheme specific training sessions are held in advance of the Trustee directors’ first formal Trustee’s meeting, with the aim to have the Trustee toolkit completed within six months of appointment. At 31 March 2021, all Trustees had completed the Pension Regulator’s online training programme.

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

The Trustees undertake annual Trustee training assessments to identify potential training needs and receive appropriate Trustee training on all relevant issues, as well as assessing on an annual basis whether they continue to meet the “fit and proper” Trustee requirements.

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

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

A handwritten signature in black ink, appearing to read 'I Eggleston', written over a horizontal line.

Signature: _____

Name: Ian Eggleston

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

Date: 7 October 2021