

NAPP PHARMACEUTICAL GROUP PENSION SCHEME

(The “Scheme”)

Scheme Year ending 31 December 2018

Annual statement regarding governance

The law requires the Trustee of the NAPP Pharmaceutical Group Pension Scheme (the ‘Trustee’) to prepare a statement (the ‘Statement’) on governance in the annual report.

This statement of governance relates to the Scheme’s money purchase benefits. These benefits fall into two categories:

- The Scheme’s DC Section in which all benefits are Money Purchase (where the pension benefits at retirement are determined by agreed levels of contributions paid into the Scheme by the member and employer and which are often called defined contribution schemes).
- Additional Voluntary Contributions (‘AVCs’) in the Scheme’s DB Section.

This document sets out the Statement covering the period 1 January 2018 to 31 December 2018.

This statement covers four key areas:

1. The investment strategy relating to the Scheme's default option;
2. The processing of Scheme financial transactions;
3. Value, with particular focus on charges and transaction costs deducted from members’ funds; and
4. The Trustee’s compliance with the statutory knowledge and understanding (‘TKU’) requirements.

The default arrangement

The current default arrangement of the Scheme is the Cash Lifestyle Investment Strategy. Under this strategy, a member’s assets will be invested 75% in the BlackRock DC Aquila 40:60 Global Equity Fund (Global Equity Index Fund), 12.5% in the BlackRock Diversified Growth Fund and 12.5% in the Standard Life GARS Fund up until eight years before their Selected Retirement Age (‘SRA’), with the aim of achieving a good level of return over the long term.

Over the eight years before a member’s SRA, assets will gradually be switched from the Global Equity Index Fund into the LGIM Pre-Retirement Fund and the Cash Fund, whilst over 3 years before SRA all assets will be switched into the Cash Fund. The result of this switching will be that, at the SRA, 100% of a member’s fund will be invested in the Cash Fund.

The aim of this strategy is to provide protection for the member’s benefits in the run-up to retirement.

Members may opt out of this arrangement if they wish.

In accordance with the Administration Regulations, the Trustee has appended the latest copy of the statement of investment principles (the ‘SIP’) (dated 6 April 2018) prepared for the Scheme in compliance with Section 35 of the Pensions Act 1995 (the ‘1995 Act’) and regulation 2 / regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 (the ‘Investment Regulations’).

The Trustee and their professional investment adviser, Mercer Ltd, review how the funds within the default strategy and self-select asset class fund range have performed against the investment managers' objectives and benchmark via quarterly investment performance monitoring reports. Reports are presented and discussed at Trustee meetings.

The Trustee carries out a holistic and strategic review of the Scheme's default investment strategy, other lifestyle options and self-select asset class fund range at least every 3 years. The Trustee would also undertake an ad-hoc review of the investment policy in the event of significant legislative, market and/or member demographic changes.

The last full in depth investment strategy review was carried out in October 2014, when the Trustee decided that the default investment strategy would be the Cash Lifestyle Strategy for all members apart from those who were within five years of retirement as at the date of implementation of the new strategy. The default investment strategy for those members within five years of retirement as at the date of implementation therefore remains the Annuity Lifestyle Strategy.

However, the Trustee consider the performance of its underlying funds at each of their quarterly meetings during the year, taking input from their professional investment advisors.

The Trustee remains comfortable that the funds and strategies have performed in line with expectations. Whilst no formal review of the default investment arrangement was undertaken during the year, the Trustee has set up a sub-committee to consider the overall strategy and direction of the DC Section of the Scheme in 2019.

The AVCs for the Scheme relate to the DB members and these are invested with various policies with Equitable Life, Clerical Medical and Prudential. The DB Section of the Scheme closed to future accrual on 30 June 2015 so no further AVCs have been paid since that date.

The Trustee does not operate a default investment arrangement within the meaning of Pensions Act 2008 in relation to any of the AVC policies. For this reason, the Trustee believes that the disclosures required in the Regulations with regard to default investment arrangements are not applicable to AVCs. For the same reason, the Trustee's Statement of Investment Principles does not contain wording relating to default investment arrangements in the context of the DB Section AVC policies.

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

- a) investment of contributions to the Scheme;
- b) transfers of members' assets into and out of the Scheme;
- c) transfers of members' assets between different investments within the Scheme; and
- d) payments from the Scheme to, or in respect of, members.

The Trustee operates a system of internal controls aimed at monitoring the Scheme's administration and management. Included in this system are mechanisms for ensuring the prompt and accurate processing of financial transactions, including core transactions such as the payment and investment of contributions, the transfer of member assets into and out of the Scheme and the payment of benefits.

The Trustee has delegated the Scheme's administration and management of the Scheme's bank account to Mercer Ltd. The Trustee has agreed timescales with Mercer for the processing of all member-related services, including core financial functions relating to contribution handling, quoting benefits and paying benefits. These timescales are well within any applicable statutory timescale. The attainment of service level standards, for key DC Key events are noted below:

Period (1 January 2018 to 31 December 2018)	Attainment of Service Level Agreement	Number of cases processed	Number of cases outside of SLA
Quarter 1	95%	76 cases	4 cases
Quarter 2	99%	88 cases	1 case
Quarter 3	95%	85 cases	4 cases
Quarter 4	98%	110 cases	2 cases

Mercer records all member transactions and benefit processing activities in a work management system which assigns the relevant timescale to the task.

Mercer's administration reports disclose the provider's performance against these agreed timescales. These disclosures are considered by the Trustee at their quarterly meetings and are reviewed against the targets set. The Trustee requires additional disclosures in respect of any transactions and benefit processing activity that has not been completed within the agreed timescales including the cause of the delay, the extent to which agreed timescales were breached, whether there was any financial impact on effected members and the proposed remedial measures.

The Trustee also monitors the accuracy of the Scheme's common data quarterly. A summary report is received from the Scheme administrator.

As part of its approach to risk management, the Trustee receives Mercer's annual assurance report on internal controls. In the Scheme year, the report received was for the period up to 31 December 2017 and noted the Independent Service Auditor's opinion that, in all material aspects, its controls were suitably designed and those tested operated effectively. The report for the period up to 31 December 2018 has also been received.

The table below sets out the Scheme's core financial transactions and the controls that existed during 2018 to ensure accuracy and promptness. Overall, the Trustee is satisfied that the administrator's controls to process transactions promptly and accurately functioned well during the year.

There have been no material administration service issues which need to be reported here by the Trustee. We are confident that the processes and controls in place with the administrator are robust and will ensure that the financial transactions which are important to members are dealt with properly.

Core financial transaction	Key internal control
Payment of monthly contributions	<p>Promptness The Schedule of Contributions requires the Company to pay contributions electronically by 21st of the month following the month to which they relate</p> <p>Administrator must report all breaches of Payment Schedule within five working days of the breach being identified.</p>
Investment of monthly contributions following receipt by Trustee	<p>Promptness Administrator's agreed timescale for investing contributions is five days from date of receipt of contributions.</p> <p>Contributions are processed via an automated straight through process to ensure speed.</p>

	<p>Accuracy Monthly contribution cycle includes a reconciliation of transaction statements from fund managers with contribution receipts from Company.</p>
Investment switches requested by members	<p>Promptness Administrator's SLA for switching investments is 10 days from date of request.</p>
	<p>Accuracy All switches are reconciled with manager transaction statements.</p> <p>All members are notified when a switch is completed.</p>
Payment of benefits to members	<p>Promptness Cash flow preparation includes identification of forthcoming benefit payments</p> <p>SLAs for core benefit transactions (retirements, deaths and transfers) help ensure that member wishes are known well in advance of benefit payment date.</p> <p>Annual appraisal of common data helps ensure that member data is accurate, reducing the likelihood of delay from data gaps.</p> <p>Clear authorisations exist for the payment of transactions, balancing the need for promptness on the one hand with senior oversight on the other.</p>
	<p>Accuracy Administrator operates peer review system for all benefit calculations.</p> <p>Data accuracy is subject to regular evaluation and updating.</p>

The Scheme's Risk Register outlines all of the key risks to Scheme members and these are monitored and reviewed on an annual basis.

The Trustee has appointed BlackRock Life Limited to provide investment services to the Scheme. The Trustee last conducted a review of BlackRock Life Limited in 2015.

The auditor to the Scheme is Ernst and Young LLP.

As noted previously AVCs relating to the Scheme's DB Section are also invested with Equitable Life, Clerical Medical and Prudential.

Charges and transactions costs

DC Section of the Scheme

The actual Total Expense Ratio ('TER') applicable to the Scheme's default investment arrangement (the Cash Lifestyle Investment Strategy) at any one time will reflect the TERs applicable to the underlying funds being used. The TER is at its highest during year four of the switching phase (at 0.34% pa – the average of the three constituent funds applicable during this period). The TER falls from three years prior to Target Retirement Age, to reflect the automated transition of assets to the lower-risk fund options, which have lower TERs.

The TERs applicable to the constituent funds that make up the Cash Lifestyle Investment Strategy are as follows:

Constituent fund	TER (% , pa)
Aquila 40:60 Global Equity Fund	0.16
Standard Life GARS Fund	0.92
BlackRock Diversified Growth Fund	0.63
L&G pre-retirement Fund	0.21
Cash Fund	0.13

Source: Investment Managers as at 31 December 2018.

All of the funds in the Scheme's default investment arrangement have a combined total expense ratio that is well below the charge cap of 0.75% p.a. of savings.

The following provides information on the charges and transaction costs for the Scheme's self-select (non-default) fund options:

Self-select fund	TER (% , pa)	Transaction Cost (% , pa)	Total Charges impact (% , pa)
Aquila 40:60 Global Equity Fund	0.16	0.00025	0.16
Aquila World (excluding UK) Equity Fund	0.26	0.00003	0.26
UK Equity Index Fund	0.11	0.00046	0.11
Aquila Over 5 Years Index Linked Gilt Fund	0.11	-0.00010	0.11
Aquila Corporate Bond Fund	0.17	0.00016	0.17
L&G Pre-Retirement Fund	0.21	0.00016	0.21
Cash Fund	0.13	0.00017	0.13
Standard Life GARS Fund	0.92	0.00136	0.92
BlackRock Diversified Growth Fund	0.63	0.00378	0.63

Source: BlackRock, year to 31.12.2018

The costs for the majority of funds have been calculated by the slippage cost methodology. An anti-dilution adjustment is made so that the costs of purchase are met by those transacting. It has a positive effect so offsets other costs.

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 illustrations 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 illustrations have taken into account the following elements:

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

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 inflation. A typical member is contributing and 43 years old on average, with a retirement age of 65. The median pot size for an active contributing members is £22,000 (rounded down).

Year	Default arrangement		Highest Expected Investment Return Fund		Most Expensive Fund		Least Expected Investment Return and least expensive Fund	
			Aquila 40:60 Global equity		Standard Life GARS		BlackRock Aquila Over 5 Years Index Linked Gilt	
	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
1	£26,600	£26,495	£26,651	£26,602	£26,419	£26,141	£25,724	£25,698
5	£47,426	£46,638	£47,816	£47,443	£46,052	£44,045	£41,106	£40,936
10	£72,752	£70,746	£73,765	£72,807	£69,233	£64,309	£57,298	£56,911
15	£111,828	£107,265	£114,597	£112,385	£104,189	£93,432	£78,740	£77,972
20	£150,142	£142,001	£167,275	£162,974	£147,215	£127,428	£101,601	£100,314
22	£161,790	£152,767	£192,402	£186,952	£167,089	£142,569	£111,164	£109,627

Youngest member of the Scheme

The illustration below is based on the youngest contributing member of the Scheme. This includes all member costs, including the Total Expense Ratio, transaction costs and inflation. The youngest member is 20, with a retirement age of 65 and a starting pot size of £ 1,300 (rounded down).

Year	Default arrangement		Highest Expected Investment Return Fund		Most Expensive Fund		Least Expected Investment Return and least expensive Fund	
			Aquila 40:60 Global equity		Standard Life GARS		BlackRock Aquila Over 5 Years Index Linked Gilt	
	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
1	£3,666	£3,652	£3,671	£3,665	£3,649	£3,610	£3,580	£3,576
5	£14,379	£14,191	£14,463	£14,374	£14,082	£13,599	£12,998	£12,956
10	£31,081	£30,329	£31,443	£31,085	£29,815	£27,957	£25,470	£25,322
15	£52,409	£50,531	£53,350	£52,445	£49,180	£44,716	£38,768	£38,440
20	£79,645	£75,823	£81,613	£79,748	£73,016	£64,279	£52,946	£52,356
25	£114,425	£107,485	£118,073	£114,647	£102,355	£87,115	£68,062	£67,119
30	£158,839	£147,122	£165,111	£159,255	£138,467	£113,771	£84,178	£82,781
35	£215,557	£196,743	£225,794	£216,274	£182,915	£144,888	£101,361	£99,396
40	£281,694	£253,136	£304,082	£289,155	£237,625	£181,210	£119,681	£117,022
45	£328,043	£291,302	£405,080	£382,313	£304,965	£223,608	£139,213	£135,721

Notes:

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation
2. Contributions of 9% are assumed with no net change to salaries when taking into account the effect of inflation.
3. Values are estimates and are not guaranteed
4. The projected growth rate for each fund are as follows:
 - A. Default arrangement: 5.01% p.a. aggregate gross expected real return prior to de-risking to 1.32% p.a. at the end of the de-risking phase.
 - B. Aquila 40:60 Global equity: 5.23% p.a. aggregate gross expected real return
 - C. Standard Life GARS: 4.24% p.a. aggregate gross expected real return
 - D. BlackRock Aquila Over 5 Years Index Linked Gilt: 1.29% p.a. aggregate gross expected real return
5. The Transaction Costs relate to the actual transaction costs incurred in the Scheme year

When assessing the charges and transaction costs which are payable by members, the Trustee are required to consider the extent to which these represent good value for members.

The Trustee with support from their advisers, Mercer Ltd, have undertaken a value for money assessment.

The Trustee concluded that the Scheme's overall benefits and options represent reasonable value for money in comparison to the costs payable by members. The reasons underpinning this conclusion include:

- Charges for the Scheme's default investment arrangement are significantly below the charge cap of 0.75% per annum;
- Charges on DC section funds have been assessed by our advisors as comparing favorably with those of peer funds.
- The funds used by the Scheme are (where applicable) highly rated by Mercer Ltd as having good prospects of achieving their risk and return objectives.
- The performance of the majority of the Scheme's funds over the 3 years to 31 December 2018 compare favourably relative to the benchmark set by the Trustee.
- In relation to transaction costs, the funds with the higher transaction costs, over the period shown, are the active equity and property funds. This does not necessarily mean these funds offer less value. Given the nature of these funds higher transaction costs (relative to the passive fixed income and equity funds) are unavoidable.

Additionally, the Company pays for all administration, member communication and advisory costs associated with operating the Scheme, which further enhances the value that members receive.

Additional Voluntary Contributions in the DB Section of the Scheme

As noted previously, the Trustee does not operate default investment arrangements within the meaning of Pensions Act 2008 in relation to AVC policies.

Providers have been asked to provide explicit and implicit transaction costs which includes any administration related charges incurred and the "slippage" costs. Clerical Medical are still required to send information on the transaction costs relevant to the policies held with them. Mercer on behalf of the Trustees agree to continue to request the data quarterly until the data is received.

Equitable Life and Prudential have provided transaction cost data for the funds held within their policy as set out below.

Equitable Life Unit-Linked Funds

Equitable Life Fund	Fund Annual Management Charge % p.a. (= TER)	OEIC Net Transaction Cost % p.a. [1]	Stocklending % p.a. [2]	Transaction Cost % p.a. [3]	Total Charges Impact % p.a. [4]
Pelican	0.75	0.176000	0.002000	0.008700	0.94
All Share Tracker	0.50	0.021700	0.000000	0.015900	0.5
International	0.75	0.044200	0.002000	0.000600	0.80
Managed Pension [5]	0.75	0.046931	N/A	0.022669	0.82
Fund of Investment Trusts	0.75	0.100000	0.000000	0.005000	0.86
With-Profits Fund [6]	1.00	N/A	0.002500	0.023591	1.030000

Source: Equitable Life, year to 30.09.2018

[1] The costs to date are not calculated on the full arrival price slippage methodology, instead using industry supplied expected spreads for each asset category. The With-Profit Fund does not invest in OEICs but in direct assets.

[2] The costs suffered by the fund are disclosed but not the income received.

[3] This is the cost incurred on the Fund when it purchases or sells the underlying asset (OEIC) as the price may include a dilution adjustment. The purpose of dilution is to ensure the OEIC is not impacted by large investments or disinvestments.

[4] The total charges impact to policyholders on each Equitable Life Fund (With-Profit and Unit-Linked) of costs at both Fund and underlying OEIC level and includes the annual management charge.

[5] The calculations for the Managed Funds are based on the relevant calculations for the underlying OEICs held within the portfolio, prorated based on the portfolio percentage held. For the Managed Funds there are also costs associated with derivatives and currency deals included in addition to dilution.

[6] This excludes the 0.5% for cost of guarantees.

Clerical Medical Funds

Fund Name	AMC %
Cash Pension	1
Balanced	1
Cautious Pension	1
Halifax	1
With Profits 1999 sp Pension	
With Profits (S2) Single Pension	

Prudential funds – unit linked fund

Prudential Fund	Fund Total Expense Ratio % p.a.	Transaction Cost % p.a.	Total Charges Impact % p.a.
BlackRock Aquila (60:40) Global Equity Index	0.75	0.22	0.97
BlackRock Aquila All Stocks Corporate Bond Index	0.75	0.22	0.97
BlackRock Aquila Sterling Government Liquidity	0.75	0.02	0.77
BlackRock Aquila World ex-UK Equity Index	0.75	0.00	0.75
Newton UK Equity	1.00	0.31	1.31
All Stocks Corporate Bond	0.75	-0.10	0.65
Discretionary	0.77	-0.07	0.70
Ethical	0.75	-0.03	0.72
Global Equity	0.75	-0.04	0.71
Index-Linked	0.75	0.08	0.83
Index-Linked Passive	0.65	-0.05	0.60
International Equity	0.75	0.08	0.83
Japan Equity Passive	0.65	-0.20	0.45
Long Term Growth Passive	0.65	-0.19	0.46
Long-Term Gilt Passive	0.65	-0.13	0.52
North American Equity Passive	0.65	-0.01	0.64
UK Equity	0.75	-0.04	0.71
UK Equity Passive	0.65	0.31	0.96
UK Property	1.69	0.26	1.95
Schroder QEP Global Core	0.90	Not available from Prudential	N/A
With-Profits	0.80	0.05	0.85

Source: Prudential, year to 30.06.2018

Prudential noted the following in April 2019 in relation to unavailable data “We are working with fund groups to ensure the reporting of compliant transaction cost information. We expect coverage to improve in the coming months”.

With Profits

The Scheme's AVC policies include legacy with-profits policies with all 3 providers. By their nature, the charging structure of with-profits policies is not transparent- for example, investment returns are earned in the form of discretionary bonuses calculated by the provider. The Trustee does not believe that it is proportionate to undertake a market review of price and performance for the with profits policies, particularly as switching away from the current policies will result in members losing their accumulated terminal bonus, which can represent a significant proportion of members' AVC investments. However, in order to improve the likelihood of members receiving good value in relation to AVCs they intend taking the following actions;

- They will seek to obtain data from the three providers on charges deducted from these policies.
- They will remind members of the other investment funds available in the Scheme.
- They will remind members that they can transfer AVCs to the Scheme's DC Section

Equitable Life

The charges applicable to the twelve-month period of this Statement are set out in the additional information section at the end. The Trustee noted that Equitable Life increased the AMCs for a number of funds from April 2016 and they communicated details of this to members and advised them that they could transfer their AVCs to the DC Section funds.

Clerical Medical

The Trustee has obtained limited up to date details of Clerical Medical's charges (Mercer will continue to request outstanding information at least quarterly) and has acknowledged that these have not been reviewed for a number of years. The Trustee have communicated details of their AVC fund charges and those under the DC Section to remind them they can transfer their AVCs into their DC funds if desired.

Prudential

The Trustee has also obtained up to date details of Prudential's charges and has acknowledged that these have not been reviewed for a number of years. The Trustee have communicated details of their AVC fund charges and those under the DC Section to remind them they can transfer their AVCs into their DC funds if desired.

Trustee knowledge and understanding

Pensions Act 2004 requires individual trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts and the investment of the assets.

As a corporate trustee, Napp Pension Trustees Limited must ensure that its Directors have appropriate knowledge and understanding as if they were individual trustees.

The degree of knowledge and understanding required is that appropriate for the purposes of enabling the trustee director to exercise the function in question.

During the year, the Trustee discussed its 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 Trustee's policies.

At each Board meeting the Trustee has considered a briefing from their professional advisors on forthcoming changes to pension laws and their impact on the Scheme.

At 31 December 2018, all Trustee (excluding Trustee Directors appointed during the year) had completed the Pension Regulator's online training programme.

The Trustee periodically conducts assessments of their effectiveness. The next assessment is due in 2019.

Additional training requirements that have been met during the period to which this Statement relates are as follows:

Requirement	How met
The Trustee has appropriate knowledge and understanding of the law relating to pensions and trusts and the investment of the assets	The Trustee reviews its training needs at each Board meeting.
The Trustee is conversant with the Scheme's own documentation	The Trustee has access to all key Scheme documentation.
Knowledge and resources generally	The Trustee Board comprises individuals with diverse professional skills and experiences, reflecting the varied nature of the challenges that its governance must address. The Trustee meets with its professional investment advisor at least annually. The Trustee maintains a training log that sets out individual and whole-board based training activity. The Trustee's professional advisors attend all meetings and are asked to input into the agenda. Completion of the Pensions Regulator's trustee training toolkit.

The above statement has been produced by the Trustee to the best of its knowledge.

Signature: A Davies

Name: Mr Alex Davies

Position: Chair of Trustees

Date: 26 July 2019

Additional information

Statement of Investment Principles effective: 6 April 2018.

Napp Pharmaceutical Group Pension Scheme

Statement of Investment Principles – April 2018

1. Introduction

Napp Pension Trustees Limited (“the Trustee”), the corporate trustee of the Napp Pharmaceutical Group Pension Scheme (“the Scheme”) has drawn up this Statement of Investment Principles (“the Statement”) to comply with the requirements of the following legislation:

- Pensions Act 1995 as amended by the Pensions Act 2004 and subsequent legislation; and
- The Occupational Pension Schemes (Investment) Regulations 2005, as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

The Statement is intended to affirm the investment principles that govern decisions about the Scheme’s investments.

In preparing this Statement, the Trustee has consulted the Principal Employer (see Section 12) to ascertain whether there are any material issues of which the Trustee should be aware in agreeing the Scheme’s investment arrangements.

2. Process For Choosing Investments

The process for choosing investments is as follows:

- Identify appropriate investment objectives
- Agree the level of risk consistent with meeting the objectives set
- Construct a portfolio of investments that is expected to maximise the return (net of all costs) given the targeted level of risk

In considering the appropriate investments for the Scheme the Trustee has obtained and considered the written advice of Mercer Limited (“Mercer”), 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).

Investment Objectives

2.1 Defined Benefit Section

The Trustee's objective is to invest the Scheme's assets in the best interest of the members and beneficiaries, and in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries. To guide them in their strategic management of the assets and control of various risks to which the Scheme is exposed, the Trustee (in consultation with the Company) has adopted the following objectives:

- To make sure that obligations to the beneficiaries of the Scheme are met.
- To pay due regard to Napp Pharmaceutical Holdings Limited's interests in the size and incidence of the employer's contribution payments.

2.2 Defined Contribution Section

The Trustee's objectives are:

- To provide a range of investment options which seek to provide access to high real long term returns to maximise the benefit received by the member at retirement, and to consolidate investment gains through a more conservative strategy in the run up to retirement.
- To identify a number of investment vehicles which together aim to:
 - maximise the value of members' retirement benefits during the bulk of their working lives by targeting equity investments; and
 - protect the value of investment gains as members approach retirement by investing in cash and bonds.
- To allow Members to tailor their investment choices to meet their own needs.
- To avoid over-complexity in the range of investment options in order to control administration costs and facilitate employee understanding.

To meet these objectives the Trustee has selected a range of passively invested funds for Members to select from. Members are advised to seek independent financial advice if they are unsure as to the appropriate investment strategy for their needs.

3. Risk Management and Measurement

There are various risks to which any pension scheme is exposed. The Trustee has considered separately the risks to which each section of the Scheme is exposed, and has formulated the following policies on risk management:

3.1 Defined Benefit Section

- The primary risk upon which the Trustee focuses is that arising through a mismatch of interest rate and inflation sensitivity between the Scheme's assets and its liabilities.
- The Trustee recognises that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's accruing liabilities as well as producing more short-term volatility in the Scheme's funding position. The Trustee has taken advice on the matter and (in light of the objectives noted previously) considered carefully the implications of adopting different levels of risk.
- The Trustee recognises the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustee aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. Due to the size of the Scheme's assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles.
- There is the risk that active management could result in underperformance against the relevant benchmark. The Trustee recognises that such a risk exists and has taken the decision that the majority of the Scheme's assets should be managed passively.
- The documents governing the manager appointments include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme. The investment managers are prevented from investing in asset classes outside their mandate without the Trustee's prior consent.
- Arrangements are in place to monitor the Scheme's investments to help the Trustee monitor that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustee meets regularly with the Scheme's investment managers and receives regular reports from the investment managers and Mercer.
- The safe custody of the Scheme's assets is delegated to professional custodians (via the use of pooled vehicles).
- The Trustee recognises that currency risk exists when investing in assets denominated in a foreign (non-sterling) currency due to foreign exchange rate fluctuations affecting the value of those assets when translated into the home currency (sterling). The Trustee has taken steps to mitigate this by introducing a degree of currency hedging within the overseas developed equity assets.

Should there be a material change in the Scheme's circumstances, the Trustee will review whether and to what extent the investment arrangements should be altered; in particular whether the current risk profile remains appropriate.

3.2 Defined Contribution Section

- The Trustee recognises the risk that the investment return over Members' working lives may not secure an adequate pension. The Trustee has made available a number of equity based strategies which seek to maximise the real value of each Member's investment when the member has a long period to retirement.
- The Trustee recognises the risk that relative market movements in the years just prior to retirement may lead to a substantial reduction in a member's pension and/or tax-free cash. The Trustee has made available bond funds and a cash fund to enable Members to help control this risk. In addition, a lifestyling strategy is available which seeks to reduce this risk by progressively switching a member's investments to bonds and cash as their retirement approaches.
- There is the risk that active management could result in underperformance against the relevant benchmark. The Trustee recognises that such risk exists and has only made passively managed funds available.
- The Trustee recognises the risk arising from the lack of diversification of investments. The Trustee therefore has made available a range of investment options in pooled funds, to enable members to achieve a diversified holding.
- Arrangements are in place to monitor the Scheme's investment options to help the Trustee monitor that nothing has occurred that would bring into question the continuing suitability of the current options. To facilitate this, the Trustee receives regular reports from the investment manager and Mercer.
- The safe custody of the Members' assets is delegated to professional custodians via the use of pooled vehicles.

4. Investment Strategy

4.1 Defined Benefit Section

Taking into account their investment objectives, the Trustee has targeted the high level investment strategy detailed in the table below.

Asset Class	Target Allocation (%)	Range (%)
Growth Portfolio	65.0	Max 68.5
Fixed Income Portfolio	30.0	Min 26.5
Property	5.0	3.5 – 6.5
Total	100.0	

The target allocations and rebalancing ranges within the Growth Portfolio and Fixed Income Portfolio are outlined on the next page.

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Growth Portfolio

Asset Class	Target Allocation (%)	Range (%)
UK Equity	7.8	4.3 – 11.3
US Equity	12.2	9.2 – 15.2
US (GBP hedged) Equity	12.2	9.2 – 15.2
Europe (ex-UK) Equity	9.7	7.7 – 11.7
Europe (ex-UK) (GBP hedged) Equity	9.7	7.7 – 11.7
Japan Equity	4.8	2.8 – 6.8
Japan (GBP hedged) Equity	4.8	2.8 – 6.8
Pacific Rim Equity	4.8	2.8 – 6.8
Pacific Rim (GBP hedged) Equity	4.8	2.8 – 6.8
Emerging Market Equity	9.2	7.2 – 11.2
Diversified Growth	20.0	18.0 – 22.0
Total	100.0	

Fixed Income Portfolio

Asset Class	Target Allocation (%)	Range (%)
Index Linked Gilts	66.8	59.3 – 74.3
Corporate Bonds	33.2	25.7 – 40.7
Total	100.0	

The Trustee, having taken expert advice from Mercer, believes that the targeted asset mix is currently appropriate for meeting the objectives and controlling the risks outlined in Sections 2.1 and 3.1 respectively.

The Trustee regularly reviews the continued appropriateness of the Scheme's investment strategy including consideration of asset classes other than those in which the Scheme already invests.

Rebalancing and Cashflow Policy

The Trustee has introduced a policy of having no minimum allocation to the Growth Portfolio (equities and diversified growth) and no maximum allocation to the Fixed Income Portfolio. This policy, agreed following consultation with the Company, reflects the fact

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that over time the Trustee intends to de-risk the investment strategy by reducing the allocation to Growth assets.

In the event of the proportion of assets falling outside the ranges indicated in the tables above, the Trustee will review the asset mix and consider taking action to bring the Scheme back in line with the target allocations.

Additionally, in respect of the direction of cashflows, all net disinvestments from the Scheme will be funded from the Growth assets managed by BlackRock, and all net investments will be directed to the Fixed Income portfolio also managed by BlackRock.

4.2 Defined Contribution Section

The Trustee believes, having taken expert advice from Mercer, that it is appropriate to offer a range of passively managed investment funds in order to meet the Members' investment needs and to reduce the risk of an active manager underperforming its benchmark. The nine funds that are currently available are:

'Growth' Funds	'Protection' Funds
Global Equity (40 UK / 60 Overseas)	Corporate Bonds
UK Equity	Index-Linked Gilts
Overseas Equity	Pre-Retirement
Diversified Growth (x2)	Cash

- The three equity funds have been selected with the aim of targeting real long-term growth.
- The two diversified growth funds have been selected with the aim of targeting a level of real growth similar to that of equity funds, but with a lower level of volatility over the long-term.
- The three bond and cash (or "Protection") funds have been selected with the aim of protecting the purchasing power of Members' savings in the years approaching retirement.

In addition to the nine fund options set out above, Members who do not wish to set their own investment strategy can opt for a choice of three lifestyle arrangements (the 'lifestyle options') which operate under pre-determined investment strategies.

Lifestyle Options

There are currently three lifestyle strategies available to members:

- Cash Lifestyle Strategy (the default investment option)
- Annuity Lifestyle Strategy
- Income Drawdown Lifestyle Strategy

Default Investment Option

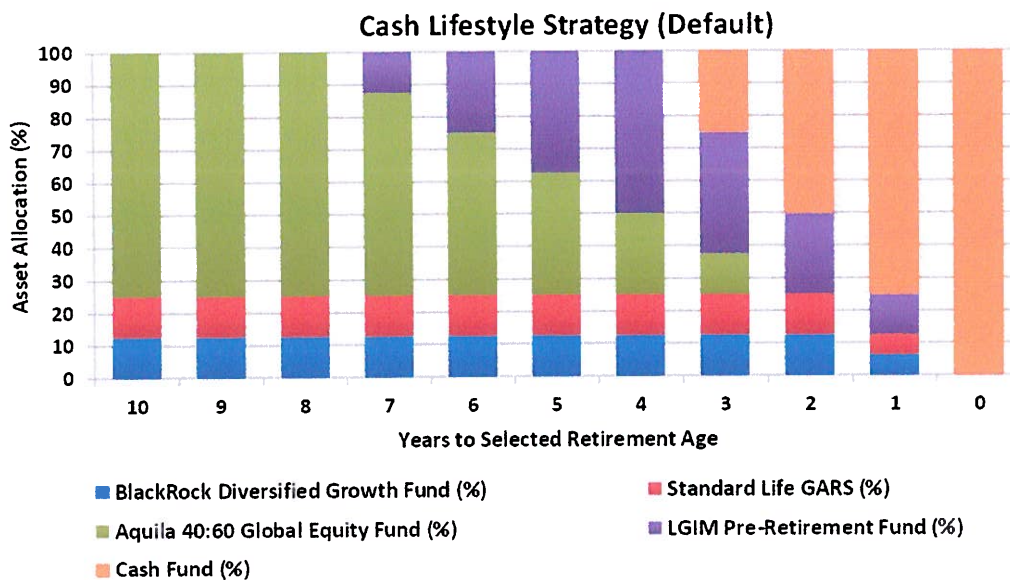
Typically, a proportion of members will actively choose the default option because they feel it is most appropriate for them. However, the vast majority of DC scheme members do not make an active investment decision and are invested in the default option.

The Trustee has decided that the default, for those members who have not selected an investment option themselves, will be the Cash Lifestyle Strategy for all members apart from those who were within five years of retirement as at the date of implementation of the new investment strategy (May 2015). The default for those members within five years of retirement as at the date of implementation is the Annuity Lifestyle Strategy.

The Cash Lifestyle Strategy is designed to be suitable for members who intend to withdraw their entire pension savings as cash upon retirement. As such, this strategy is 100% invested in the Cash Fund at retirement.

The allocation for this strategy will gradually switch out of a globally diversified portfolio of return seeking assets (equities and diversified growth funds) into initially the LGIM Pre-Retirement Fund and then into cash with this strategy 100% invested in the Cash Fund once a member reaches their Selected Retirement Age. The intermediate allocation is made to a bond fund, the LGIM Pre-Retirement Fund, as the fund's bond holdings are expected to offer a modest return with a relatively low level of absolute risk.

The switching will occur broadly in line with the distributions below:



The aims of the Cash Lifestyle Strategy (default investment option)

The aim of the Cash Lifestyle Strategy is to achieve real long-term growth while aiming to protect capital value of investments as a member approaches retirement.

The Cash Lifestyle Strategy manages investment and other risks through a diversified strategic asset allocation consisting of traditional and alternative assets. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. Any investment in derivative instruments contributes to risk reduction, or efficient portfolio management.

- In designing the Cash Lifestyle Strategy, the Trustee has explicitly considered the trade-off between risk and expected returns.
- If members wish to, they can opt to choose their own investment strategy or an alternative lifestyle strategy on joining but also at any other future date.
- Assets in the Cash Lifestyle Strategy are invested in the best interests of members and beneficiaries, taking into account the profile of members.
- Assets in the Cash Lifestyle Strategy are invested in a manner which aims to ensure the security, quality, liquidity and profitability of a member's portfolio as a whole.
- Assets are invested mainly on regulated markets (those that are not are kept to prudent levels).

Policies in relation to the default investment option

In addition to the Trustee's Investment Objectives, the Trustee believes that:

- The growth phase structure of each lifestyle strategy, which invests in equities and other growth-seeking assets, will provide growth with some downside protection and some protection against inflation erosion.
- As a member's pot grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustee believes that the cash and annuity lifestyle strategies that seek to reduce investment risk as the member approaches retirement are appropriate.
- Based on their understanding of the Scheme's membership, an investment strategy that targets members taking their benefits as cash at retirement (for all members except those within five years from retirement as at May 2015) and a level annuity at retirement (for those members less than five years from retirement as at May 2015) is likely to meet members' requirements for income in retirement.
- This does not mean that members have to take their benefits in this format at retirement – it merely determines the default investment strategy that will be in place

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pre-retirement. Members who intend to take their retirement benefits through other formats have the option of switching to an alternative lifestyle strategy prior to retirement or even choosing their own investment strategy.

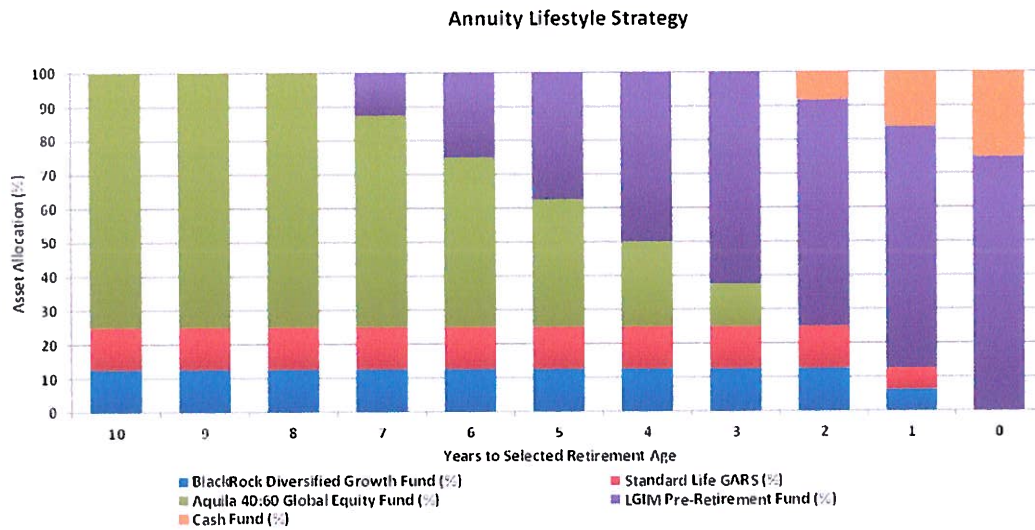
Taking into account the demographics of the Scheme’s membership and the Trustee’s view of how the membership will behave at retirement, the Trustee believes that the current default strategy is appropriate and will continue to review this over time, at least triennially, or after significant changes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

The Trustee believes that this strategy should meet the investment objectives outlined in section 2.2 and help control the risks identified in section 3.2.

Additional Lifestyle Strategies

In addition to the Cash Lifestyle Strategy the Scheme offers members the choice of two other Lifestyle Strategies.

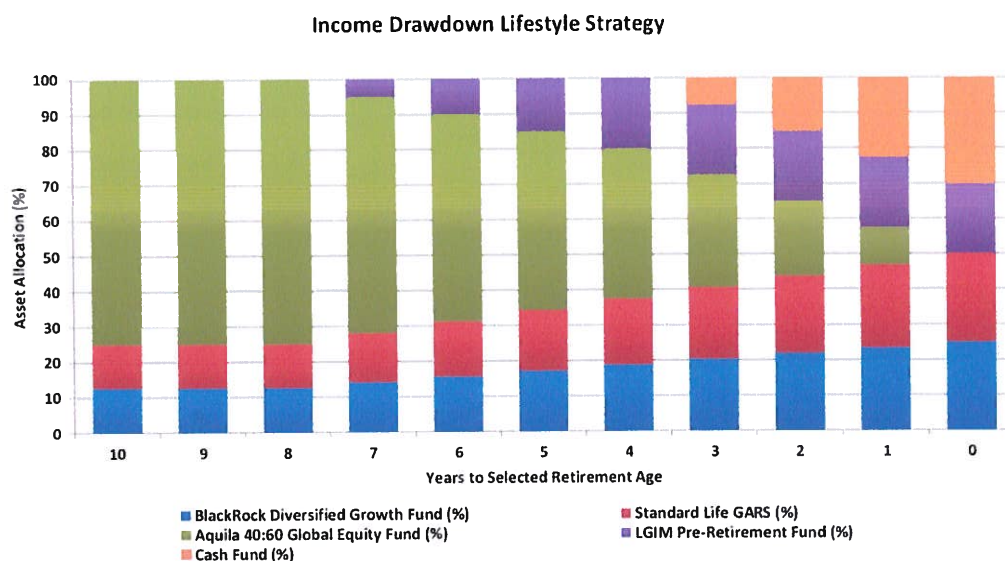
The **Annuity Lifestyle Strategy** is designed for members who wish to take 25% of their pot as tax-free cash and intend to purchase a level/fixed annuity at retirement with the remaining amount of savings. The switching will occur broadly in line with the distributions below:



The Annuity Lifestyle Strategy is the default investment strategy for members who were within five years of their Selected Retirement Age as at the date of implementation of the new investment strategy (May 2015).

The **Income Drawdown Lifestyle Strategy** is designed for members who wish to keep their retirement savings invested after retirement and achieve an income in retirement by making regular withdrawals. The switching will occur broadly in line with the distributions below:

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5. Day-to-Day Management of the Assets

The Trustee delegates the day to day management of the Defined Benefit Section assets to two investment managers. The Trustee has established an insurance policy with BlackRock Life Limited for the investment of the Defined Contribution Section assets. The Trustee has taken steps to satisfy itself that the appointed managers have the appropriate knowledge and experience for managing the Scheme’s investments and they are carrying out their duties competently.

The Trustee regularly reviews the continuing suitability of the Defined Benefit and Defined Contribution Section’s investments, including the appointed managers, the strategic asset allocation and the balance between active and passive management, which may be adjusted from time to time.

5.1 Defined Benefit Section

All of the Scheme’s equity and bond assets are passively managed by BlackRock, the diversified growth mandate is actively managed by BlackRock and the property mandate is actively managed by Lothbury Investment Management (“Lothbury”). The Scheme’s assets are managed to the following benchmarks:

Asset Class	Weight (%)	Benchmark
Total Equities	52.0	-
UK Equity	5.0	FTSE All-Share Index
Overseas Developed Equity	20.5	Weighted Composite

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Asset Class	Weight (%)	Benchmark
<i>US Equity</i>	7.9	<i>FTSE AW USA Index</i>
<i>Europe (ex-UK) Equity</i>	6.3	<i>FTSE AW Dev Europe (ex-UK) Index</i>
<i>Japan Equity</i>	3.1	<i>FTSE AW Japan Index</i>
<i>Pacific Rim Equity</i>	3.1	<i>FTSE AW Developed Asia Pacific (ex- Japan) Index</i>
Overseas Developed Equity (GBP hedged)	20.5	Weighted Composite (95% GBP hedged)
<i>US (GBP hedged) Equity</i>	7.9	<i>FTSE AW USA 95% GBP Hedged Index</i>
<i>Europe (ex-UK) (GBP hedged) Equity</i>	6.3	<i>FTSE AW Developed Europe (ex-UK) 95% GBP Hedged Index</i>
<i>Japan (GBP hedged) Equity</i>	3.1	<i>FTSE AW Japan 95% GBP Hedged Index</i>
<i>Pacific Rim (GBP hedged) Equity</i>	3.1	<i>FTSE AW Developed Asia Pacific (ex-Japan) 95% GBP Hedged Index</i>
Emerging Market Equity	6.0	MSCI Global Emerging Markets index
Diversified Growth	13.0	3 Month Sterling Libor + 3% p.a.
Property	5.0	IPD Monthly Property Index
Total Bonds	30.0	-
UK Index-Linked Gilts	20.0	FTA Over 25 Years Index-Linked Gilts Index
UK Corporate Bonds	10.0	IBoxx £ Non-Gilts over 15 Year Index
Total	100.0	-

All investments are held in units of pooled funds operated by BlackRock and Lothbury.

BlackRock and Lothbury are regulated by the FCA. As required by the Financial Services Act, the Trustee has entered into a signed Agreement with each manager which complies in all respects with this Statement. The Agreement provides important protections for the Scheme itself and for the Trustee. It also sets out the terms on which the assets are managed, and the investment brief, guidelines and restrictions under which the investment manager works.

5.2 Defined Contribution Section

The Trustee has established an insurance policy with BlackRock Life Limited for the investment of the Defined Contribution Section assets. The day-to-day responsibility for the investment management of the underlying assets of the insurance policy is delegated

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to an associate company, BlackRock Advisors (UK) Limited (“BlackRock”) which is regulated by the Financial Conduct Authority (“FCA”).

The selection of funds available to members through the BlackRock platform is as follows:

Fund	Target
BlackRock Aquila Life (40:60) Global Equity	Aims to achieve index returns in line with the FTSE All-Share Index (40%) and the FTSE All-World Developed ex UK Index (60%).
BlackRock Aquila Life UK Equity Index	Aims to achieve index returns in line with the FTSE All-Share Index
BlackRock Aquila Life World (ex UK) Index	Aims to achieve index returns in line with the FTSE All-World Developed ex UK Index
BlackRock Aquila Life Over 5 Year Index-Linked Gilt	Aims to achieve index returns in line with the FTSE UK Gilts Index-Linked Over 5 Years Index
BlackRock Aquila Life All Stocks Corporate Bond Index	Aims to achieve index returns in line with the iBoxx £ Non-Gilts Index
BlackRock Aquila Life Cash	Aims to achieve an investment return that is in line with wholesale money market short-term interest rates. Specifically, the Fund is benchmarked against 7 Day Sterling LIBID.
BlackRock Diversified Growth	Aims to achieve an investment return of 3.5% above the Bank of England official Bank Rate measured over rolling 3 year periods (gross of fees)
Standard Life Global Absolute Return Strategies	Aims to achieve an investment return of 5.0% above cash over rolling three-year periods (gross of fees)
LGIM Pre-Retirement	Aims to provide diversified exposure to sterling assets that reflect the broad characteristics of investments underlying the pricing of a typical non-inflation-linked annuity product.

The Trustee also offers three lifestyle strategies as described in section 4.2.

6. Expected Return

The Trustee expects the Defined Benefit Section to generate returns, over the long term, above that which would have been achieved had no investment risk been taken within the portfolio i.e. invested solely in a portfolio of long dated Government debt. It is recognised that over the short term performance may deviate significantly from the long term target.

7. Responsible Investment

The Trustee believes that environmental social and corporate governance (“ESG”) issues can affect the performance of investment portfolios and should therefore be considered as part of the Scheme’s investment process.

The Trustee has given its investment managers full discretion when evaluating ESG issues and in exercising rights and stewardship obligations relating to the Scheme’s investments.

It is accepted that pooled investments will be governed by the individual policies of the investment managers. These policies are reviewed as part of the consideration of pooled investments.

The Trustee believes that good stewardship can enhance long-term portfolio performance, and it is therefore in the best interests of the Scheme’s beneficiaries and aligned to the Trustee’s fiduciary duty.

The Trustee is supportive of the UK Stewardship Code published by the Financial Reporting Council in July 2010 and encourages the Scheme’s equity managers who are registered with the FSA to comply with the UK Stewardship Code. Such managers are expected to report on their adherence to the UK Stewardship Code on an annual basis.

8. Additional Assets

Additional Voluntary Contributions (AVCs) are separately invested on a money purchase basis with Equitable Life Assurance Society (“Equitable Life”) and Prudential (who offer a range of funds in which members can invest their AVCs). Prudential was appointed in 2001 as a replacement AVC provider to Equitable Life and all new AVC contributions will be invested with Prudential. Certain assets remain invested with Equitable Life. Copies of the Agreements with Equitable Life and Prudential are available for inspection at Cambridge Science Park.

Further to the Trustee’s decision to align the AVC and DC fund offerings, the following six funds were made available to AVC members:

- BlackRock Aquila Global Equity Index Fund (40:60)
- BlackRock Aquila World (Ex-UK) Equity Index Fund
- Prudential UK Equity Passive Fund
- Prudential Index-Linked Passive Fund
- BlackRock Aquila Corporate Bonds All Stocks Index Fund
- BlackRock Ascent Sterling Government Liquidity Fund

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In addition, further to this decision, the following changes were agreed in respect of the AVC assets:

- New AVC contributors will only be allowed to invest in the six funds mentioned above.
- No Lifestyle option will be offered within the AVC offering for new members.
- Existing AVC contributors will be able to continue to contribute to the range of AVC funds previously offered before the introduction of the new fund range.
- The exception to this is the Cash and Deposit funds previously offered which are to be closed as part of the agreed changes with all existing monies in the Cash and Deposit funds to be transferred to the BlackRock Ascent Sterling Government Liquidity Fund.
- Existing contributors will also be able to use the newly introduced funds listed above for new AVC contributions and transfer their existing funds to them if they wish to do so.

A relatively low balance of Scheme assets is also held in deposit and current bank accounts to facilitate benefit payments.

9. Realisation of the Assets

The Trustee has delegated the responsibility for buying and selling investments to the investment manager who has undertaken not to exceed the Trustee's investment powers as set out in the trust deed. As noted, the day-to-day activities which the investment managers carry out for the Trustee are governed by the Agreement between the Trustee and the investment managers, which is reviewed from time to time to ensure that the operating instructions, guidelines and restrictions remain appropriate.

10. Monitoring Compliance with this Statement

We the Trustee; the investment managers; Mercer, our consultants; and the Scheme Actuary (all of whom have been appointed by the Trustee) each have duties to perform to ensure compliance with this Statement. These are:

The Trustee will review this Statement at least every three years on the advice of Mercer.

The investment managers, BlackRock and Lothbury, prepare and will continue to prepare quarterly reports to the Trustee including:

- Valuation of all investments held for the Scheme.
- Records of all transactions together with a cash reconciliation.

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- A review of recent actions undertaken on behalf of the Scheme together with a summary of their current stated policy.
- Written confirmation that the principles contained in this Statement have been followed and that the manager has had regard for the need for diversification and the suitability of investments to the Scheme.

The investment managers also notify us in advance of any new investment categories in which they are proposing to invest.

Mercer, our consultants, and the Scheme Actuary provide and will continue to provide the advice needed to assist us to review and update this statement as required. Mercer also provides independent quarterly investment performance reports.

11. Review of this Statement

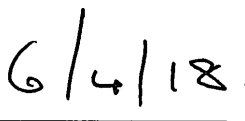
The Trustee will review this Statement at least every three years and without delay following any material changes to any aspects of the investment policy detailed above. Any such review will again be based on written expert investment advice and will be in consultation with the Principal Employer.

12. Principal Employer

For the avoidance of doubt Napp Pharmaceutical Holdings Limited has been nominated by all Participating Employers under the Scheme to act as their representative for the purposes of Section 35 (3) of the Pensions Act 1995 (as amended by the Pensions Act 2004).



Signed



Date

For and on behalf of Napp Pension Trustees Limited