

A.S. Watson (Health & Beauty UK) Pension Plan Summary Report for DC Section transition to the Aviva Master Trust

Introduction

In November 2020, the DC Section assets, and some Additional Voluntary Contribution (AVCs) within the A.S. Watson (Health & Beauty UK) Pension Plan (the Plan) were transferred from the Plan into the Aviva Master Trust.

The purpose of this report is to provide a summary of the key decisions and actions taken throughout the transition process and to provide a summary of the transactions that took place.

Project overview

In November 2019, the A.S. Watson Group (the Company) put forward a proposal to Superdrug Pension Trustee Limited (the Trustee) to transfer the DC Section assets to the Aviva Master Trust.

The proposal would see members' accrued funds transferred to a pension arrangement that offered greater retirement and investment flexibility that is possible in the Plan, and would provide synergy for members who are also members of the Company's Group Personal Pension Plan with Aviva. The Company had secured preferential terms with Aviva which would result in similar member-borne charges between the default investment strategies of the Aviva Master Trust and the Plan's DC section.

The Trustee discussed the proposal at the following trustee meeting and agreed in principle that the transfer would overall be in members' best interests. In particular, the Trustee was agreeable to the preferential terms negotiated by the Company, which had not been possible when the Trustee had previously researched the possibility of such a project. The Trustee was however keen to ensure that there were no groups of members would be worse off as a result of the transfer. The Trustee therefore asked Barnett Waddingham, its pension adviser, to do some further due diligence to identify any potential issues that might need resolved.

Barnett Waddingham reported back to the Trustee on the implications of proceeding with the transfer. Barnett Waddingham confirmed from its market experience and independent in-house provider research that the preferential terms negotiated by the Company were far below what would be available on the open market and that Aviva was ranked as one of the top providers in the Master Trust market in the UK. As a result, they were confident that a transfer would provide excellent value for members, a key consideration for trustees.

It was identified that some members would be at risk of losing their protected tax-free cash entitlement from of the transfer, due to their membership of the both the Plan's Defined Benefit and DC sections. The Company agreed to compensate these members for this by enhancing their fund value on transfer to cover the expected extra tax liability that would result. This totalled £672.55 across three members.

The Trustee also considered those members with AVCs in the Plan's DB Section, which if included in the transfer would be 'uncoupled' from members' defined benefits in the Plan. This is now a common scenario and Master Trust providers (including Aviva) have experience of implementing processes to transfer AVCs back to the scheme in which they were previously held so members can continue to use these funds towards their tax-free cash lump sum at retirement. Aviva had confirmed they were able to implement this process and as such the Trustee was confident that this would not leave AVC members any worse off in terms of retirement flexibility. The Plan's AVCs invested in Legal & General funds were therefore included in the transfer, however the Trustee decided not to transfer AVCs held in a group policy with Prudential due to concerns that some members would be subject to a reduction in the value of their AVCs should they transfer out of their existing with-profits investments prior to retirement. The Prudential policy therefore remains in the Plan.

The Trustee received legal advice from Gateley plc that concluded that there was no material reason why the transfer could not proceed. The Trustee agreed to put together a working group to oversee the transition and that the aim should be to complete the project by the end of 2020. Aviva were later able to accommodate a transition date in November 2020.

The Trustee took professional advice from its investment advisers on where members' funds would be invested following completion of the transfer to the Aviva Master Trust. As a result of this, the Trustee chose the 'My Future – targeting cash lump sum' strategy from the range of 'governed' strategies offered by Aviva in their Master Trust. In order to reduce the complexity of the asset transition, and with reference to certain restrictions imposed on trustees by legislation in such scenarios, the Trustee decided not to offer transferring members any choice in where their funds would initially be invested in the Master Trust. Members did however have the ability to select their own investments once the transfer had completed.

The Trustee put thought and planning into how best to move the assets to minimise risk and costs, and consulted with its professional advisers and Aviva to agree a transition plan. The asset transition was undertaken via cash transfer, and Aviva agreed to pre-fund 100% of the value of the transfer in order to mitigate as far as possible any out-of-market costs that would arise from transferring using this method. Bulk transfers of this nature often give rise to transaction costs, the costs of buying and selling the assets at either end of the transfer. While it is not possible to know the exact value of the costs prior to undertaking the transfer, the Trustee undertook some work to estimate the likely extent of these. Following calculation of these estimates, Aviva agreed to cover the first £15,000 of transaction costs that arose, and the Company agreed to pay for the remainder. The Trustee believed that this was a good deal for members and helped meet its objective that members would not lose out from the transfer.

Members were issued with a communication in October 2020 which provided them with information concerning the transfer. This included notice of the change, and actions members could take to make changes to their account within the Aviva Master Trust. The three members who received an uplift to their transfer value to compensate them for the loss of their protected tax-free cash entitlement received an extra communication in November 2020 to provide them with more detailed information about why this was occurring. Once the transfer to the Aviva Master Trust was complete, Aviva issued all members with a welcome communication which included details of how to access details of their member account online.

To implement the transition from the Plan to the Aviva Master Trust, project stakeholders (including Aviva, the Trustee, the Plan's administrators and advisers) held weekly calls starting in October 2020. Aviva produced and maintained a project plan through the project period to ensure project tasks were completed to time.

Summary of asset transition

The asset transition took place in November 2020 and some of the key dates are outlined below (source: Post-Transition Report, Aviva, December 2020):

Date	Milestone	Status
19/11/2020	Blackout begins	Completed
24/11/2020	Final member unit positions obtained	Completed
25/11/2020	Final pre-transition analysis completed	Completed
26/11/2020	Instruct Asset Transition (Various)	Completed
01/12/2020	Reconcile transition	Completed
02/12/2020	Cost Reimbursement Trades	Completed
08/12/2020	Create transfer policies	Completed
08/12/2020	Blackout lifted	Completed

The below tables summarise the assets that were transferred out of the Plan and invested in the Aviva Master Trust. The valuation of the transferring assets was taken on 26 November 2020, and Aviva invested these in the Master Trust on 26 November 2020 and 27 November 2020.

Funds Off	Value	Method
DC L&G Global Equity Fund	£26,152,405.31	Sell
DC L&G Cash Fund	£864,380.61	Sell
DC L&G Index-Linked Fund	£2,020,780.16	Sell
DC L&G Consensus Fund	£3,665,859.73	Sell
DC L&G Fixed Interest Fund	£367,153.26	Sell
DC L&G UK Equity Fund	£1,571,674.83	Sell
DC BG OEIC UK and Worldwide Eq Fund B	£1,019,073.52	Sell
DC BG OEIC Managed Fund B Accum	£1,073,016.71	Sell
DC BG OEIC UK Equity Core Fund B	£117,598.81	Sell
Total	£36,851,942.93	

Funds On – 26/11/2020	Value	Method
Aviva MyM My Future Growth Fund	£1,715,793.55	Buy
Aviva MyM My Future Consolidation Fund	£493,895.48	Buy
Total	£2,209,689.04	

Funds On – 27/11/2020	Value	Method
Aviva MyM My Future Growth Fund	£24,782,904.90	Buy
Aviva MyM My Future Consolidation Fund	£9,859,349.00	Buy
Total	£34,642,253.90	

Source: Post-Transition report, Aviva, December 2020.

Following the completion of the transition, Aviva provided the Trustee with a *Post Transition* Report, which includes more granular details of the asset transition, associated transaction costs and confirmation of the key asset transition dates.

The responsibility for the governance of the transferred benefits now sits with the Trustees of the Aviva Master Trust. As the only defined contribution benefits remaining in the Plan are AVCs, the Trustee of the Plan is no longer required to produce an annual governance statement for the Plan accounts. The Trustee will however continue to monitor the remaining AVCs in the Plan with Prudential to ensure their suitability for Plan members.

Barnett Waddingham February 2021