ASTRAZENECA PENSION FUND
GOVERNANCE STATEMENT
YEAR ENDED 31 MARCH 2019

AstraZeneca Pension Fund – Chair’s Annual Statement to 31 March 2019

Introduction

This statement has been prepared by the Trustee of the AstraZeneca Pension Fund to demonstrate how the Fund has complied with the governance standards introduced under the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018. This statement covers the Fund year ending 31 March 2019 and reviews the following key aspects affecting the operation of the Fund:

- The default investment strategy and alternative investment arrangements
- Assessment of charges and transaction costs
- The monitoring of administration and core financial transactions
- The extent to which the Fund represents good value for members
- The Trustee Directors’ compliance with the statutory knowledge and understanding (TKU) requirements.

Whilst the Investment Account (IA) section is closed to new contributions (and is not used as a qualifying scheme for automatic enrolment purposes), the Trustee remains fully committed to maintaining high governance standards. The IA Section is monitored via the main board and sub-committees which meet regularly to monitor the investment options, controls and processes in place.

The Trustee has previously undertaken a comprehensive review of the Pension Regulator’s Code of Practice 13 on defined contribution schemes and concluded that the IA Section meets the required standards as set out in its guidance.

In addition, where relevant, the statement includes the Additional Voluntary Contribution arrangements with Equitable Life and Standard Life.

Default investment arrangement

The Trustee has in the past actively encouraged members to make an investment choice based on their own circumstances and attitude to risk and has provided a range of self-select investment funds and information to help members do this. A default investment option is provided for members who have not chosen an investment option for their contributions.

Whilst members are invested in the default investment option and a default was in place when the IA Section was open to accrual this is not a default option as defined under the Investment Regulations and for the purposes of the Chair’s statement. A summary of the default is provided below as it is relevant to other aspects of this statement.

Asset mix of the default

The default option invests in a combination of funds, the underlying mix depending upon whether a member’s Account is in the IA Section only or represents AVCs for Retirement Account (RA) members. In both cases, the default consists of passively managed equities split equally between the UK and Overseas. For IA only members, whilst the IA Section was open, the first 10% of pensionable pay was directed to a passive index-linked gilts fund. The aim of the default is to offer members a low cost option which targets long term real asset growth, with a view to providing a pension account of adequate size at retirement.
Review of the default

The Trustee is responsible for setting and monitoring the investment strategy for the default arrangement. Since the introduction of the pensions freedoms in April 2015, the Trustee has monitored industry experience and member decision making and recognises that members now have a far wider range of choices available to them at retirement. During the Fund year the Trustee completed a review of the IA investment options, including the default option, which considered how members were likely to use their IA at retirement and how the range of investment options could better support members’ needs. As a result, new investment options are being implemented later in Q4 2019 to support the new range of choices members now have at retirement. This includes replacing the default strategy with a lifestyle strategy targeting drawdown for IA members. In October 2019 IA only members will be switched to the new default, the Drawdown Lifestyle, as this is how most members are anticipated to use their IA at retirement. RA members whose IA account represents AVCS will be switched to the Lump Sum Lifestyle as most of these members use their IA for tax free cash. The changes will be made on a negative affirmation basis so members can opt out if they wish.

Charges and transaction costs paid by members

The Trustee meets the general administrative costs of running the IA Section of the Fund. The charges paid by members are set out in the table below and include the annual management charge, additional expenses and transaction costs for the funds available for selection by members during the year.

<table>
<thead>
<tr>
<th>Fund Name</th>
<th>Annual Management Charge %</th>
<th>Additional Annual Expenses %</th>
<th>Total Expense Ratio %</th>
<th>Aggregate transaction costs (%)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aquila Life Cash Fund</td>
<td>0.10</td>
<td>0.02</td>
<td>0.12</td>
<td>0.0167</td>
</tr>
<tr>
<td>Aquila Life Corporate Bond Index All Stocks</td>
<td>0.15</td>
<td>0.02</td>
<td>0.17</td>
<td>0.0196</td>
</tr>
<tr>
<td>Aquila Life Japanese Equity Index</td>
<td>0.10</td>
<td>0.02</td>
<td>0.12</td>
<td>0.060</td>
</tr>
<tr>
<td>Aquila Life Over 5Yr UK Index-linked</td>
<td>0.08</td>
<td>0.01</td>
<td>0.09</td>
<td>-0.0256</td>
</tr>
<tr>
<td>Aquila Life Pacific Rim Equity Index</td>
<td>0.08</td>
<td>0.04</td>
<td>0.12</td>
<td>0.0526</td>
</tr>
<tr>
<td>Aquila Life UK Equity Index</td>
<td>0.08</td>
<td>0.01</td>
<td>0.09</td>
<td>0.0878</td>
</tr>
<tr>
<td>Aquila Life US Equity Index</td>
<td>0.08</td>
<td>0.01</td>
<td>0.09</td>
<td>-0.0207</td>
</tr>
<tr>
<td>Aquila Life World Ex-UK Equity Index</td>
<td>0.10</td>
<td>0.01</td>
<td>0.11</td>
<td>0.0095</td>
</tr>
<tr>
<td>Ascent Life European Equity</td>
<td>0.75</td>
<td>0.04</td>
<td>0.79</td>
<td>0.5025</td>
</tr>
<tr>
<td>BlackRock DC Alpha Smaller Companies</td>
<td>0.60</td>
<td>0.01</td>
<td>0.61</td>
<td>0.2199</td>
</tr>
<tr>
<td>JPMorgan Emerging Markets</td>
<td>0.93</td>
<td>0.00</td>
<td>0.93</td>
<td>0.370</td>
</tr>
</tbody>
</table>

Source: Aegon and J.P. Morgan

The current charges for funds used in the default are materially below the charge cap of 0.75% prescribed by the Pension Regulator for default options in qualifying schemes for auto-enrolment purposes.
Transaction costs

Transaction costs are those incurred because of routine fund management activities such as buying and selling investments.

Transaction cost notes

1. All data has been taken directly from information provided by the respective managers.
2. Transaction costs have been calculated by the slippage methodology. This is impacted by market moves between instructing and executing a trade so can result in negative costs.

Investment transitions

The Trustee Directors ensure that when undertaking changes to the investment strategy, transaction costs are minimised as far as possible. Specifically, as a part of the review of the investment options which is being implemented in October 2019 the Trustee has considered the impact of member charges. Further details of the transition will be provided in next year’s statement.

AVC policies

The Trustee has two insured AVC policies with Equitable Life and Standard Life.

Equitable Life

All members are invested in the Equitable Life With-profits fund. There are no explicit charges and costs and expenses are deducted within the fund prior to the confirmation of bonus rates.

Standard Life

All members are invested in the Standard Life With-profits One fund. There are no explicit charges and costs and expenses are deducted within the fund prior to the confirmation of bonus rates.

Core financial transactions

Fund administration, including the processing of financial transactions, is undertaken by the Fund administrator, Willis Towers Watson (WTW), which provides regular reports to the Administration Committee of the Trustee Board. The Trustee has a service agreement in place with its administrator which covers the accuracy and timeliness expected for processing core financial transactions. Any errors or delays are investigated thoroughly, and action is taken to put things right as quickly as possible.

Core financial transactions include transfers into and out of the Fund, fund switches and payments out of the Fund to and in respect of members. There are no contributions to process as the IA Section is closed to future accrual. All financial transactions are reviewed, with transactions over £100,000 receiving an additional review. The administrator also monitors the Trustee bank account on a daily basis.

The Trustee is confident that the processes and controls in place with the administrator are robust and meet the required standards.

The Fund’s accounts are also audited annually by KPMG, the Fund’s appointed auditors. The Trustee tasks KPMG with performing additional testing to provide confidence in the control environment.

Based on the above, the Trustee Directors are satisfied that the core financial transactions for the IA Section have been processed accurately during the period from 1 April 2018 to 31 March 2019.
Service standards

During the reporting period, the Trustee monitored the performance of its administrator against the service agreement and has continued to raise concerns around service standards. Although outside the period covered by this statement in May 2019 KPMG were asked to assist and advise the Trustee on monitoring administration services and this is still ongoing.

Administration reporting in the Fund year is covered in the table below. (This reporting covers both the RA and IA Sections)

<table>
<thead>
<tr>
<th>Reporting period</th>
<th>% of total cases completed within target</th>
<th>No. completed inside target</th>
<th>No. completed outside target</th>
<th>Total events completed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 April 2018 – 30 June 2018</td>
<td>85</td>
<td>2319</td>
<td>422</td>
<td>2741</td>
</tr>
<tr>
<td>1 July 2018 – 30 September 2018</td>
<td>76</td>
<td>1874</td>
<td>578</td>
<td>2452</td>
</tr>
<tr>
<td>1 October 2018 – 31 December 2018</td>
<td>85</td>
<td>2283</td>
<td>394</td>
<td>2677</td>
</tr>
<tr>
<td>1 January 2019 – 31 March 2019</td>
<td>88</td>
<td>2541</td>
<td>341</td>
<td>2882</td>
</tr>
</tbody>
</table>

The Administration team has put in place a number of actions to improve the service including a backlog improvement plan ensuring that dedicated individuals are in place to provide and improve the ongoing service to the Trustee.

Weekly administration service delivery reports have been produced by WTW and reviewed by the Committee. In addition, the Committee has conducted monthly administration service delivery meetings with the aim of improving service level performance and has agreed improvement plans with the administrator.

WTW now provides IT support to its administration teams around the clock supplementing their UK based IT Support Desk with a further offshore IT Support Desk in Manila. Operationally, all new items of work received are now added to member records by the offshore team, together with the processing of all address and general data updates.

Service standards have continued to improve over the year and backlogs had further improved subsequent to the year end. The Trustee will continue to closely monitor the ongoing service to ensure that the service returns to the levels previously seen, and WTW have committed to demonstrating that the current position is sustainable.

Complaints

23 complaints were received during the year, 12 of which were in respect of delays. The number of complaints, particularly delay related, have reduced following the progress on the backlog of work. No members have lost out financially through any of these complaints.
Aegon as platform provider

The Trustee uses Aegon as its primary platform provider to facilitate the investment of funds within the IA Section. Aegon acquired BlackRock’s platform business which was transferred under a Part VII transfer on 30 June 2018. At the same time changes were made to the administration platforms used by Aegon. Aegon experienced some initial issues in the pricing approach used for the acquired assets which resulted in some pricing errors and delays to the fund performance reporting. Whilst these are still to be rectified the Trustee will ensure members to not lose out financially as a result.

Value for Members (VfM)

The Trustee is committed to ensuring that members receive VfM from the IA Section (i.e. the costs and charges deducted from members’ accounts provide good value in relation to the benefits and services provided by or on behalf of the IA Section). The Trustee undertook its annual assessment of whether the total cost of IA membership represented value for members in July 2019. This assessment was supported by a report prepared by, Willis Towers Watson.

To assess the total value members, receive from the IA Section, the Trustee considered both the:

- Legal duty to assess value for members which for the IA Section includes charges and investment.
- Broader elements of good value provided by the IA Section that members do not meet the cost for, which include administration, communication, governance and management.

An overview of the outcome of the report is shown below:

<table>
<thead>
<tr>
<th>Area</th>
<th>Rating</th>
<th>Rationale for rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>Good</td>
<td>Overall we believe that the IA section is offering Good value to its members although there are areas for improvement some of which are shortly to be implemented</td>
</tr>
<tr>
<td>Value for members</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Charges</td>
<td>Excellent</td>
<td>The Trustee meets the administration costs, which is of significant value to members. Member charges range from 0.08% to 0.93% although over 87% of assets are subject to charges of less than 0.15% and the higher charges relate to actively managed funds which are self selected by members. The charges for the default strategy are between 0.06% - 0.10%, which is significantly below the Government charge cap of 0.75% for schemes used for auto-enrolment.</td>
</tr>
<tr>
<td>Investment</td>
<td>Sufficient</td>
<td>The Trustee has in the past encouraged members to actively make an investment choice based on their own circumstances and attitude to risk and provides a range of self-select investment funds and information to help members do this. Consequently over 60% of members are in self select options. In Q3 2019 3 new lifestyles will be introduced: Drawdown (the default), Annuity and Lump Sum. IA only members will be switched to the new Drawdown lifestyle and RA members whose IA account represents AVCs will be switched to the new Lump Sum lifestyle. Members will be able to opt out of the switches prior to implementation.</td>
</tr>
<tr>
<td>Broader elements of value</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administration</td>
<td>Sufficient</td>
<td>The Trustee has a detailed service level agreement (SLA) in place and receives quarterly reports to measure performance. Longstanding issues with service levels have largely been addressed by the administrators Willis Towers Watson. The Trustee will continue to monitor these but since the end of the Fund year the administration backlogs have largely been addressed.</td>
</tr>
<tr>
<td>Communication</td>
<td>Sufficient</td>
<td>A range of communications are provided including member guides, ad-hoc newsletters and a bespoke pensions website. However, some of the communications now need updating. The review of the investment options will also provide the opportunity to update communications to re-engage with members.</td>
</tr>
<tr>
<td>Scheme governance &amp; management</td>
<td>Good</td>
<td>Costs associated with governance and oversight are met by the Company. There are no member borne costs. Fund governance, management and oversight is of good quality.</td>
</tr>
</tbody>
</table>
In accordance with the Pensions Regulator’s DC Code of Practice No 13 (paragraphs 18-41) and with the relevant legislation, the Trustee concluded that the IA Section does represent value for its members.

The Trustee will carry out a VfM assessment on an annual basis and will continue to review the costs and transaction charges deducted each year in order to ensure they continue to represent good value to members.

Trustee knowledge and understanding (TKU)

The law requires the Trustee Board to possess, or have access to, sufficient knowledge and understanding to manage the Fund effectively. In terms of the composition of the Board, there is one specialist independent Trustee Director in Law Debenture who sits alongside Company and member nominated Trustee Directors from varying backgrounds, with complementary skill sets.

Trustee training

The Trustee operates an ongoing training programme and keeps a record of the training completed by each member of the Board in training logs. This training record is reviewed annually to identify any gaps in the knowledge and understanding across the Board as a whole. This allows the Trustee to work with its professional advisers to fill in any gaps. Training in the last 12 months included:

- 21st Century trusteeship
- Effectiveness of Board operations
- Supporting members at retirement
- Chairs statement and transaction costs

In addition to formal training, access is provided for Trustee Directors to attend specialist pension conferences and seminars to help keep abreast of pension developments. The sponsoring employer also provides in-house resource from a range of specialist individuals who assist in the day to day management of the Fund and operation of the Trustee Board, ensuring that the highest standards of governance are met.

All of the Trustee Directors have completed the Trustee Toolkit made available by the Pensions Regulator including the sections that specifically relate to and cover defined contribution schemes.

New Trustee Director Induction programme

Newly appointed Directors are provided with induction training within 6 months of joining. They are also expected to complete the Trustee Toolkit within this time period.

The Trustee Director induction programme specifically includes DC training provided by Linklaters, Willis Towers Watson and the AstraZeneca pensions team.

There were no new Directors in the Fund year.
Trustee knowledge and understanding – staying up to date

The Trustee requests that Linklaters attends all of its Trustee meetings. The Trustee Directors therefore receive regular legal updates on legislative changes and the impact on the Fund and the existing rules so that they keep their knowledge of the law relating to pensions and trusts up to date.

Linklaters also contribute during meetings where advice or interpretation of the Trust Deed and Rules is required to supplement the Directors own knowledge of the trust deed and rules.

The Trustee has the following policies which are reviewed on an annual basis by the Trustee:

- Conflicts policy – This was reviewed in Q4 2018 and no changes were made.
- Trustee delegations – This was reviewed in Q2 2018 and minor changes were made.

Review of trustee effectiveness

Willis Towers Watson, the Trustee's secretariat, facilitated a TKU self-assessment review in July 2017. Anonymous questionnaires were completed by all the Directors. This covered all aspects of the Fund with a specific section devoted to DC arrangements. The Trustee’s ratings had generally improved compared to the 2016 review.

The next review of trustee effectiveness is scheduled for Q4 2019.

In summary

As a result of the training activities which have been completed by the Directors individually and collectively as a Board, and taking into account the professional advice available (from investment advisors, legal advisors and the Fund actuary), we are confident that the combined knowledge and understanding of the Board enables us to properly exercise our functions as the Trustee of the Fund, including in relation to the Investment Account section.

If you have any further questions about this statement, please contact John Rogers at john.rogers1@astrazeneca.com

Signed by the Chair on behalf of the Trustee of the Fund
Appendix - *pounds and pence illustrations*

The Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 require the Trustee to produce a “£ and pence” illustration showing the compounded effect of costs and charges. The tables below provide an indication of the projected account values over different timeframes for three example members in the IA Section.

<table>
<thead>
<tr>
<th>Example Member</th>
<th>Years</th>
<th>Default Fund Before charges</th>
<th>Default Fund After charges</th>
<th>UK Equity Fund Before charges</th>
<th>UK Equity Fund After charges</th>
<th>Overseas Equity Fund Before charges</th>
<th>Overseas Equity Fund After charges</th>
<th>Index-Linked Gilt Fund Before charges</th>
<th>Index-Linked Gilt Fund After charges</th>
<th>Emerging Markets Fund Before charges</th>
<th>Emerging Markets Fund After charges</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Young member in scheme</strong></td>
<td></td>
<td></td>
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<td></td>
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<td></td>
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<tr>
<td>1</td>
<td>£3,000</td>
<td>£3,100</td>
<td>£3,100</td>
<td>£3,000</td>
<td>£3,100</td>
<td>£2,900</td>
<td>£2,900</td>
<td>£3,100</td>
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<td>£3,100</td>
</tr>
<tr>
<td>5</td>
<td>£3,200</td>
<td>£3,600</td>
<td>£3,600</td>
<td>£3,200</td>
<td>£3,600</td>
<td>£2,700</td>
<td>£2,700</td>
<td>£3,600</td>
<td>£3,600</td>
<td>£3,600</td>
<td>£3,600</td>
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<tr>
<td>10</td>
<td>£3,500</td>
<td>£4,200</td>
<td>£4,200</td>
<td>£3,500</td>
<td>£4,200</td>
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<td>£4,200</td>
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<td>£4,200</td>
<td>£4,200</td>
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<tr>
<td>15</td>
<td>£3,800</td>
<td>£5,000</td>
<td>£5,000</td>
<td>£3,800</td>
<td>£5,000</td>
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<td>£5,000</td>
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<tr>
<td>20</td>
<td>£4,100</td>
<td>£6,000</td>
<td>£6,000</td>
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<td>£6,000</td>
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</tr>
<tr>
<td>25</td>
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<td>£7,100</td>
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<tr>
<td>30</td>
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<td>£8,400</td>
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<td>£8,400</td>
<td>£4,200</td>
<td>£4,200</td>
<td>£8,400</td>
<td>£8,400</td>
<td>£8,400</td>
<td>£8,400</td>
</tr>
<tr>
<td>35</td>
<td>£5,100</td>
<td>£9,700</td>
<td>£9,700</td>
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<td>£9,700</td>
<td>£9,700</td>
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</tr>
<tr>
<td><strong>Average member in scheme</strong></td>
<td></td>
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<td></td>
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<tr>
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<td>£51,700</td>
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<tr>
<td>5</td>
<td>£54,100</td>
<td>£59,900</td>
<td>£59,900</td>
<td>£54,100</td>
<td>£59,900</td>
<td>£55,400</td>
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<td>£59,900</td>
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</tr>
<tr>
<td>10</td>
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<td>£69,400</td>
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<td>£69,400</td>
<td>£62,200</td>
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</tr>
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<td>£67,800</td>
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</tr>
<tr>
<td><strong>Member approaching retirement</strong></td>
<td></td>
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<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
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</tr>
<tr>
<td>2</td>
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<td>£106,800</td>
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<td>£95,600</td>
<td>£106,800</td>
<td>£106,800</td>
<td>£106,800</td>
<td>£106,800</td>
</tr>
</tbody>
</table>

Projected fund values are rounded to the nearest hundred

A number of assumptions have been used to produce the illustration and these are set out below

**Pounds and pence illustration assumptions**

1. Projected pension account values are shown in today’s terms.
2. Costs/charges that are shown as a monetary amount and reductions are made halfway through the year.
3. Investment returns and costs/charges as a percentage reduction per annum are assumed to be deducted at the end of the year.
4. Charges and costs are deducted before applying investment returns.
5. Switching costs are not considered in the lifestyle strategy.
6. Inflation is assumed to be 2.5% each year.
7. No additional contributions are assumed as the IA Section has been closed since 2010.
8. Values shown are estimates and are not guaranteed.
9. The real projected growth rates for each fund are as follow:
   - Default Lifestyle strategy – 1.58% (assumed to be the same across the whole projected period)
   - UK Equity Fund – 3.50%
   - Overseas Equity Fund – 3.50%
   - Index-Linked Gilt Fund – -2.25%
   - Emerging Markets Fund – 3.50%
10. Transactions costs and other charges have been provided by Aegon and cover the period 1 April 2018 to 31 March 2019.
11. Pension scheme’s Normal Retirement Date is age 62.

12. Example members
   - Young: age 28, total contribution: nil, starting fund value: £3,000.
   - Average: age 48, total contribution: nil, starting fund value: £50,000.
   - Approaching retirement: age 60, total contribution: nil, starting fund value: £100,000.

13. Where the administrators, Willis Towers Watson have been provided with negative transaction costs, they have used a zero cost to reflect this. Negative costs are a feature of price movements in a fund as members trade in and out of the fund and are not a reflection of explicit costs paid by members. Because of this, it is not expected that transaction costs for the affected fund(s) will always be negative. Reporting of transaction costs has only recently been introduced and Willis Towers Watson will be building up more information in this area in the future which will enable them to provide more meaningful transaction cost information over longer periods. It is important to note that using a negative or zero cost during any one Fund year may not accurately represent the actual transaction costs a member may expect to see in any future Fund year.