DC Governance Statement from 1 January 2019 to 31 December 2019

1. Introduction

This statement has been prepared by the Trustee of the Halcrow Pension Scheme (No. 2) (the "Scheme") to describe how the Trustee has met the governance standards in relation to the Defined Contribution (DC) benefits for former Crouch Hogg Waterman (CHW) Scheme members, and the Scheme's Additional Voluntary Contribution (AVC) arrangements.

Although the Scheme members' benefits are predominantly defined benefit in nature, there is a small group of members who transferred in DC benefits from the CHW Scheme. For these members, their benefit is the greater of:

- the benefit that can be provided from members' individual DC accounts; and
- any Guaranteed Minimum Pension ("GMP") accrued in respect of the period of the contributions.

In almost all cases, these members are expected to receive the Guaranteed Minimum Pension benefit, rather than the benefit based on the value of their individual DC account.

As at 1 January 2019, there were 51 former CHW Scheme members in the Scheme who had DC accounts. 4 of those members left the Scheme during the 2019 scheme year, leaving 47 of these members remaining in the Scheme with DC accounts as at 31 December 2019.

Though there is no default option, all members assets are invested in the Aviva Life & Pension UK Limited (formerly Friends Life) Secure Growth Fund.

The full list of the Scheme's DC and AVC policies is provided below:

Provider	Number of members	Approx. value as at 31 December 2019
Aviva – former CHW Scheme – Main Section	47	£885k
Aviva – former CHW Scheme - AVC	11	£78k
Aviva – Halcrow Pension Scheme (No.2)	78	£814k
Prudential	22	£122k
Phoenix Life	1	£12k
Phoenix Life (was NPI)	1	£2k
Utmost (was Equitable Life)	3	£29k
Total	**163**	**£1,942k**

Governance requirements apply to the Scheme's DC and AVC accounts to help members achieve good outcomes from their pension savings. The Trustee is required to produce this yearly statement to describe how those governance requirements have been met in relation to:

- the investment options in which members can invest;
- the requirements for processing financial transactions;
- the charges and transaction costs borne by members;
- an illustration of the cumulative effect of these costs and charges;
- a 'value for members' assessment; and
- Trustee knowledge and understanding

DC Governance Statement from 1 January 2019 to 31 December 2019 continued

The governance requirements relating to default investment arrangements do not apply to the DC section of the Scheme because the DC section is closed to new contributions and no contributions have been received since well before April 2015 when governance requirements were introduced. The Scheme is not used as a qualifying scheme for auto-enrolment purposes.

2. Requirements for processing core financial transactions

The Jacobs pensions team (which is the in-house administrator for the scheme) carries out the processing of core financial transactions. For DC and AVC members these are mainly transfers and payments out of the Scheme to members as no new contributions are being paid, and in the scheme year members have not switched between investments under the scheme, although AVC members are aware of their options to do so.

The Jacobs pensions team ensures internal controls are operated so that core financial transactions relating to the Scheme are processed promptly and accurately. These include:

- recording of all member payment or transfer requests on the workflow system;
- issuing of authorised disinvestment instructions to DC/AVC providers;
- recording and daily monitoring of DC and AVC monies on the Scheme cashbook;
- ensuring payments are made to, or in respect of, members within 10 working days of receipt of funds from DC/AVC providers;
- sending of payment confirmation letters within 10 working days of receipt of funds from DC/AVC providers;
- all member processing is reviewed by an authorise i.e. there is appropriate peer review.

The Scheme auditor also conducts a sample check on the accuracy of administration undertaken as part of its annual audit of the Trustee's Annual Report and Financial Statements.

The Jacobs Pensions team reports at each Trustee meeting (3 times a year) about the administration of the Scheme and how internal controls have been met. No report has been made over the period covered by this Statement that has raised any concerns with the Trustee that there have been no material administration errors in relation to processing core financial transactions.

On this basis the Trustee considers that all core financial transactions have been processed promptly and accurately during the scheme year in accordance with the procedures outlined above.

3. Member-borne charges and transaction costs

The Trustee is required to set out the on-going charges incurred by members in this Statement, which are annual fund management charges plus any additional fund expenses, such as custody costs, but excluding transaction costs. This is also known as the total expense ratio ("TER"). The TER is paid by the members and is reflected in the unit price of the funds. The stated charges exclude administration costs since these are not met by the members.

The Trustee is also required to separately disclose transaction cost figures. Despite requests for information the Trustee still has very limited disclosure on this from the providers. In the context of this Statement, the transaction costs shown are those incurred when the Scheme's fund managers buy and sell assets within investment funds but are exclusive of any costs incurred when members invest in and switch between funds. The transaction costs are borne by members.

DC Governance Statement from 1 January 2019 to 31 December 2019 continued:

The Trustee's investment advisers have sought to obtain a breakdown of the underlying transaction costs over the period covered by this Statement from the Scheme's

DC and AVC providers. Where available this has been provided in the table below. The Trustee is continuing to work with its providers through follow-up requests for information being made by its administrators, with the aim of providing complete transaction cost figures in future annual Statements.

The information below has been supplied by the Scheme's DC and AVC providers. When preparing this section of the statement the Trustee has taken account of statutory guidance.

Fund options
Former CHW members – DC and AVCs

Members' assets held in the DC section are invested in the Aviva Life & Pension UK Limited (formerly Friends Life) Secure Growth Fund. The annual management charge on this fund is 2.0% pa and the transaction costs over the period of this Statement were 0.064%.

Members' AVCs assets are held in a range of unitised funds managed by Aviva (Managed, Balanced and UK equities funds). The annual management charge on these funds is 0.5% pa. The transaction costs over the period of this Statement were 0.213% for the Managed Fund and 0.085% for the UK equity fund. Transaction costs for the Balanced Fund were not provided.

Halcrow Pension Scheme (No.2) members - AVCs

For the Scheme's other AVC providers, the level of charges for each fund that members invested in over the period covered by this Statement is set out in the following table:

Provider – fund name	Annual charge (per annum)	Transaction costs
Aviva – US Equity	PG20617 Policy - 0.875%; PY91183 Policy – 0.8%	Not provided
Aviva – Global Equity	PG20617 Policy - 0.875%; PY91183 Policy – 0.8%	Not provided
Aviva – UK Equity	PG20617 Policy - 0.875%; PY91183 Policy – 0.8%	Not provided
Aviva – European Equity	PG20617 Policy - 0.875%; PY91183 Policy – 0.8%	Not provided
Aviva – Pacific Equity	PG20617 Policy - 0.875%; PY91183 Policy – 0.8%	Not provided
Aviva – Gilt	PG20617 Policy - 0.875%;	Not provided
Aviva – Global Bond	PG20617 Policy - 0.875%; PY91183 Policy – 0.8%	Not provided
Aviva – Property	PG20617 Policy - 0.875%; PY91183 Policy – 0.8%	Not provided
Aviva – Mixed Invest	PG20617 Policy - 0.875%; PY91183 Policy – 0.8%	Not provided
Aviva – With-Profit Standard	PG20617 Policy - 0.875%; PY91183 Policy – 0.8%	Not provided
Aviva – Index Linked Gilt Fund	PY91183 Policy – 0.8%	Not provided
Aviva – Deposit	PY91183 Policy – 0.8%	Not provided
Prudential – Deposit	Not applicable*	0.00%
Aviva – Deposit Administration	1.00%	Not provided
NPI – PLAL NPL Capital Account	1.1%	0.10%
Equitable Life – With Profits	1.0%	1.04%

* Annual interest awards are paid net of fees

DC Governance Statement from 1 January 2019 to 31 December 2019 continued:

Illustration of charges and disclosure costs

The following table sets out an illustration of the impact of charges and transaction costs on the projection of an example member's pension savings in four funds, selected to demonstrate the impact of investing in the fund with the highest charges, lowest charges, highest expected return and lowest expected return.

- The "before costs" figures represent the savings projection assuming an investment return with no deduction of member borne fees (i.e. the annual charge) or transaction costs. The "after costs" figures represent the savings projection using the same assumed investment return but after deducting member borne fees and an allowance for transaction costs.
- The transaction cost figures used in the illustration are those provided by the managers over the past year, subject to a floor of zero (so the illustration does not assume a negative cost over the long term).
- The illustration is shown for four funds:
    - Aviva Secure Growth Fund – the highest member charge option
    - Aviva UK Equity Fund – the highest return
    - Aviva Managed Fund – the lowest member charge option
    - Prudential Deposit Fund – the lowest return option

	Default option and highest fee		Highest expected return		Lowest expected return		Lowest fee	
	Aviva Secure Growth Fund		Aviva UK Equity Fund		Prudential Deposit Fund		Aviva Managed Fund	
Years invested	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs
1	£14,900	£14,600	£15,400	£15,300	£14,400	£14,400	£15,400	£15,300
3	£15,400	£14,400	£16,800	£16,500	£13,800	£13,800	£16,800	£16,400
5	£15,800	£14,300	£18,300	£17,800	£13,300	£13,300	£18,300	£17,700
10	£17,100	£13,900	£22,800	£21,600	£12,000	£12,000	£22,800	£21,300
15	£18,400	£13,500	£28,400	£26,100	£10,900	£10,900	£28,400	£25,700
20	£19,800	£13,100	£35,400	£31,700	£9,800	£9,800	£35,400	£30,900
25	£21,300	£12,800	£44,200	£38,400	£8,900	£8,900	£44,200	£37,200
30	£23,000	£12,400	£55,000	£46,500	£8,000	£8,000	£55,000	£44,800
35	£24,700	£12,100	£68,600	£56,400	£7,200	£7,200	£68,600	£54,000
40	£26,700	£11,700	£85,500	£68,300	£6,600	£6,600	£85,500	£65,000

Notes

- Values shown are estimates and are not guaranteed. The illustration does not indicate the likely variance and volatility in the possible outcomes from each fund. The numbers shown in the illustration are rounded to the nearest £100 for simplicity.
- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
- Inflation is assumed to be 2.5% each year. This assumption is set by law.
- The starting pot size used is £14,700. This is the mean pension pot size for the Scheme's arrangements.
- All arrangements are closed, so contributions are assumed to be nil and there is no need to make assumptions about salaries or salary growth.
- The projection is for 40 years, being the longest duration for a scheme member to reach the Scheme's Normal Pension Age.
- The projected annual returns used are based on information provided by the relevant provider.

- The projected annual returns used are as follows:
    - Aviva Secure Growth Fund: 1.5% above inflation
    - Aviva UK Equity Fund: 4.5% above inflation
    - Aviva Managed Fund: 4.5% above inflation
    - Prudential Deposit Fund : 2% below inflation
- No allowance for active management outperformance has been made.

4. Value for members assessment

The Trustee is required to assess the extent to which member borne charges and transaction costs represent good value for members. There is no legal definition of 'good value' which means that determining this is subjective. However, the Trustee considers that it broadly means that the combination of costs and quality of what is provided is appropriate for the members as a whole. The general policy of the Trustee in relation to value for member considerations is set out below.

The Trustee reviews all member-borne charges (including transaction costs where available) regularly, with the aim of ensuring that members are obtaining value for money given the circumstances of the Scheme. The DC and AVC arrangements were last reviewed at the Trustee meeting held in August 2019. The Trustee noted that value for money did not necessarily mean the lowest fee, and the overall quality of the service received was also considered in this assessment. As part of the review in August 2019, the Trustee's investment advisers confirmed that the fund charges were competitive for the types of fund available to members, with the exception of a portion of members' funds in the Aviva AVC policy with an annual management charge of 4.5% pa, where equivalent assets had an annual management charge of 0.5% pa. Following enquires with Aviva, those assets on the higher charges were switched to 0.5% pa fee share class, which the Trustee believes has improved value for these members.

The Trustee's assessment included a review of the performance of the Scheme's investment funds (after all charges) in the context of their investment objectives. The returns on the investment funds available for members to choose from during the period covered by this statement were at the time of the review, and have continued to be, broadly consistent with their stated investment objectives.

The Trustee also considered the other benefits members receive from the Scheme, which included consideration of:

- the range of investment options and strategies;
- the quality of communications delivered to members; and
- the quality and efficiency of administration processes and the extent to which the administrator met or exceeded its service level standards.

As detailed in the earlier section covering processing of financial transactions, the Trustee is comfortable with the quality and efficiency of the administration processes. With respect to the investment options and strategies, the Trustees considered these provide an appropriate range given the circumstances of the Scheme. Communications with members are generally focussed on giving them specific statements of their entitlements and to remind them periodically of their options. The Trustee considers both the investment options and communications appropriate given the number of members invested and that no further contributions are being made.

The Trustee gave careful consideration to the "value for members" on DC assets for the former CHW Scheme. These assets are held in the Secure Growth Fund, with charges of 2% pa. The Trustee believes that returns after the deduction of fees still represent reasonable value for money (both in absolute terms due to the fund's strong performance and due to the 'smoothed' nature of the with-profits fund).

Early disinvestments can be subject to a Market Value Reduction ("MVR") and members' benefits are also subject a GMP defined benefit underpin. Taking all these factors into account, it is therefore considered unlikely to be beneficial for members to move these assets to another provider.

Overall, the Trustee believes that members of the Scheme are receiving reasonable value for money for the charges and cost that they incur across the DC and AVC policies. Most (c. 65%) of the DC and AVC assets are

invested in with-profit type investments which generally benefit from capital guarantees and/or terminal bonus at contractual events e.g. retirement. These may be lost if members left early, therefore this needs to be balanced against the higher charges made. The Trustee believes that the returns achieved by the unit-linked funds are commensurate with the objectives for each of the funds, and that the annual management charges for each of the funds are reasonable, especially given the recent fee reduction for the Aviva AVC policy.

The Trustee believes the transaction costs, where known, provide value for members as the ability to transact forms an integral part of the investment approaches, and it expects this to lead to greater investment returns net of fees over time.

5. Trustee knowledge and understanding

The Scheme's Trustee Directors are required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively. The Trustee has measures in place to comply with the legal and regulatory requirements regarding knowledge and understanding of relevant matters, including investment principles, pension and trust law. Details of how the knowledge and understanding requirements have been met during the period covered by this Statement are set out below.

An induction programme is in place for new Trustee Directors. This requires new Trustee Directors to complete the Pensions Regulator's Trustee Knowledge and Understanding Toolkit online training and also become familiar with the Scheme's governing documentation. It is a requirement that the Trustee Directors are fully conversant in their role within six months of their appointment.

All the Trustee Directors in place for the Scheme year have completed the Pensions Regulator's Trustee Knowledge and Understanding Toolkit online training and are familiar with, and have access to copies of, the Scheme governing documentation, including the Trust Deed & Rules (together with any amendments) and the Statement of Investment Principles (SIP) setting out the Trustee's policies on investment matters. In particular, the Trustee refers to the Trust Deed and Rules with its legal advisers as part of considering its powers and duties when providing benefits under the Scheme, and the SIP is formally reviewed annually and as part of making any change to the Scheme's investments. Further, the Trustee Directors believe they have sufficient knowledge and understanding of the law relating to pensions and trusts and of the relevant principles relating to the funding and investment of occupational pension schemes to fulfil their duties based on the Toolkit, training at Trustee meetings and external training courses, and in the case of the professional independent trustee from continuing professional development and experience from other schemes.

A training log is maintained for each Trustee Director in line with best practice and the training programme is reviewed annually to ensure it is up to date.

The Trustee, with the help of its advisers, regularly considers training requirements to identify any knowledge gaps. In particular, this is done in the context of issues arising at Trustee meetings. The Trustee's investment advisers proactively raise any changes in governance requirements and other relevant matters as they become aware of them.

DC Governance Statement from 1 January 2019 to 31 December 2019 continued:

The Trustee's advisers would typically deliver training on such matters at Trustee meetings if they were material, and otherwise updates are included in Trustee meeting packs for review by the Trustee Directors ahead of meeting, which questions being raised with advisers in meetings.

During the period covered by this Statement, the Trustee received an update on the Pensions Regulator's (TPR) investment guidance checklist and the following topics were raised by the Trustee's investment advisers via quarterly update documents:

- Collective Defined Contribution schemes;
- The UK Statistics Authority's plans to cease the production of RPI;
- The CMA requirement for strategic objectives for investment consultants; and
- The need for liquidity in DC investments

Also, James Billinghurst attended Lane Clark & Peacock LLP's Annual Pensions Conference and Roger Hoad participated in a Global Alpha Forum run by Baillie Gifford and the Annual Investors' Forum run by Newton.

In addition, Chris Martin, representative of professional independent trustee ITS on the Trustee board, has extensive experience of working on stand-alone DC schemes and hybrid DB/DC schemes (including investment strategy and value for members), which the Trustee draws on in collective decision making in relation to the DC and AVC accounts in the Scheme.

The Trustee carries out regular evaluations of the training undertaken and needed to maintain the effectiveness of the Trustee Board as a whole as measured against the objectives of the Scheme's business plan.

Taking into account the knowledge and experience of the Trustee Directors with the specialist advice (both in writing and whilst attending meetings) received from the appointed professional advisors (e.g. investment consultants, legal advisors), the Trustee believes it is well placed to exercise its functions as Trustee of the Scheme properly and effectively.

The Trustee has published this Statement on a public website for viewing by members. The address for this website is: www.halcrow.com/pensions.

Signed for and on behalf of the Trustee:

By: Leon Power
Date: 31 July 2020