

# Halcrow Pension Scheme (No.2)

## Chair's DC Governance Statement

For the period covering 1 January 2020 to 31 December 2020

### 1. Introduction

Governance requirements apply to pension arrangements which provide Defined Contribution (DC) benefits, like the Halcrow Pension Scheme (No. 2) (the "Scheme"), to help members achieve a good outcome from their pension savings. A DC pension scheme is one where employee and employer contributions are paid into it, and the member chooses the investments from the options made available, but also bears the investment risk.

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 Crouch Hogg Waterman (CHW) Scheme. For these members their benefit is the greater of:

- the benefit that can be provided from the 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 their individual DC account.

As at 1 January 2020 there were 52 members remaining in the Scheme with DC accounts. None of these members left the Scheme over the 2020 Scheme year, leaving 52 members remaining with DC accounts as at 31 December 2020.

There is no default option (as there is no requirement for one as indicated below), and all DC members' assets are invested in the Aviva Life & Pension UK Limited (formerly Friend's Life) Secure Growth Fund.

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

Provider	Number of members	of Approx. value as at 31 December 2020
Aviva – former CHW Scheme – Main Section	52	£839k
Aviva – former CHW Scheme – AVC	13	£80k
Aviva – AVC	50	£834k
Prudential – AVC	20	£111k
Phoenix Life – AVC	1	£8k
NPI – AVC	1	£2k
Utmost (was Equitable Life) – AVC	3	£37k
<b>Total</b>	<b>140</b>	<b>£1,911k</b>

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 the following requirements have been met:

- the requirements for processing financial transactions (i.e. administration of the Scheme);
- 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.

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. The Scheme is not used as a qualifying Scheme for auto-enrolment purposes.

The key points that we would like members reading this Statement to take away are as follows:

- We regularly monitor the DC investment arrangements, and we are satisfied they remain suitable for the membership invested in them
- The administrator has processed core financial transactions promptly and accurately to an acceptable level during the Scheme year, and we remain comfortable with the administrator's performance.
- Fees can have a material impact on the value of your pension savings and the fee impact is greater the more time passes, since fees reduce the amount of money which can grow with future investment returns.
- Fees for the investment options are set out in this Statement, and we remain comfortable that these fees are reasonable given the circumstances of the Scheme and overall represent appropriate value for the benefits members obtain.
- Please rest assured that we are looking after your best interests as members, and we undertake training and receive advice as appropriate so that we have sufficient knowledge and understanding to do so effectively

## **2. Requirements for processing core financial transactions**

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

- recording all member payment or transfer requests on a 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 authoriser.

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

To help the Trustee monitor whether service levels are being met, the Trustee receives reports at each Operations and Governance committee meeting (4 times a year) about administration and how internal controls have been met and based on these reports is satisfied that over the period covered by this Statement:

- there have been no material administration errors in relation to processing core financial transactions; and
- all core financial transactions have been processed promptly and accurately during the Scheme year.

## **3. Member-borne charges and transaction costs**

The Trustee is required to set out the on-going charges incurred by members over the period covered by this Statement, which are annual fund management charges plus 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. 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.

Despite requests for information the Trustee still has limited disclosure on the transaction costs from the providers. 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 will continue 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. Due to the way in which transaction costs have been calculated it is possible for figures to be negative; since transaction costs are unlikely to be negative over the long term the Trustee has shown any negative figure as zero.

## 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 0.014%.

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 0.04% for the Managed Fund and 0.202% 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:

Manager – 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%
Phoenix Life – Deposit Administration	Not applicable*	0.00%
NPI – PLAL NPL Capital Account	1.0%	0.17%
Utmost (Equitable Life) – Multi asset	0.75%	0.87%
Utmost (Equitable Life) – Money Market	0.50%	0.00%

\*Annual interest awards are paid net of fees

Aviva policy charges are based on 2019 information.

## Illustration of charges and transaction costs

The table below 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. In preparing this illustration, the Trustee has had regard to the relevant statutory guidance.

Years invested	Friend's Life Secure Growth Fund		Friend's Life UK Equity Fund		Friend's Life Managed Fund		Equitable Life - Money Market Fund	
	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs
1	£15,200	£14,900	£15,700	£15,600	£15,700	£15,600	£14,700	£14,600
3	£15,700	£14,800	£17,100	£16,800	£17,100	£16,900	£14,100	£13,900
5	£16,200	£14,600	£18,700	£18,100	£18,700	£18,200	£13,600	£13,200
10	£17,400	£14,200	£23,300	£21,800	£23,300	£22,100	£12,300	£11,600
15	£18,800	£13,900	£29,000	£26,200	£29,000	£26,900	£11,100	£10,300
20	£20,200	£13,500	£36,200	£31,600	£36,200	£32,600	£10,000	£9,000
25	£21,800	£13,200	£45,100	£38,100	£45,100	£39,600	£9,100	£8,000
30	£23,400	£12,900	£56,200	£45,900	£56,200	£48,100	£8,200	£7,000

- The “before costs” figures represent the savings projection assuming an investment return with no deduction of member borne charges (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 charges and an allowance for transaction costs.
- The transaction cost figures used in the illustration are those provided by the managers over the past year (or previous year where indicated), 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:
  - the fund with the highest before costs expected return – this is the Friend's Life Managed Fund
  - the fund with the lowest before costs expected return – this is the Utmost Money Market fund
  - the fund with the lowest annual member borne costs – this is the Friend's Life UK Equity fund
  - the fund with highest annual member borne costs – this is the Friend's Life Secure Growth Fund

### 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 £15,000. This is the mean pension pot size for the Scheme's arrangements.
- All arrangements are closed, so new contributions are assumed to be nil and there is no need to make assumptions about salaries or salary growth.
- The projection is for 30 years, being the longest duration that the youngest scheme member has until they 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:
  - Friend's Life Managed Fund: 4.5% pa above inflation
  - Utmost Money Market fund: 2.0% pa below inflation
  - Friend's Life Managed Fund: 4.5% pa below inflation
  - Friend's Life Secure Growth Fund: 1.5% pa above inflation
- No allowance for active management outperformance has been made.

## 4. Value for members assessment

The Trustee is required to assess every year the extent to which member borne charges and transaction costs represent good value for members and to explain that assessment. There is no legal definition of 'good value' which means that determining this is subjective. However, having taken advice from its investment consultant and legal advisers, the Trustee interprets this as meaning that the combination of costs and quality of what is provided is appropriate for the members investing in the funds. 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) annually, with the aim of ensuring that members are obtaining value for money given the circumstances of the Scheme. The date of the last review was September 2020. The Trustee notes that value for members does not necessarily mean the lowest fee, and the types of investment and the overall quality of the service received has also been considered in this assessment.

The Trustee gave careful consideration to the "value for members" on the DC assets for the former CHW Scheme at the last review in September 2020. The Trustee noted that whilst the fees on the Aviva Secure Growth Fund are relatively high, the smoothed rate of interest from these funds has been greater than cash rates in recent years, net of fees, and therefore these funds represent reasonable value for money. 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.

For the other DC investment funds, the Trustee's assessment included a review of the performance of the funds (after all charges and transaction costs) in the context of their investment objectives. Generally, the returns on the investment funds members could choose during the period covered by this statement were consistent with their stated investment objectives. However, some funds, such as the Global Equity, European Equity and Pacific Equity Aviva unit linked funds, underperformed their benchmarks over the period. The Trustee is monitoring the performance of these funds going forwards. Overall, having taken advice from LCP as its investment consultant, the Trustee concluded that in 2020 performance of the funds had been reasonable.

In carrying out the value for members assessment, the Trustee also considers the other benefits members receive from the Scheme, which include:

- the oversight and governance of the Trustee, including ensuring the Scheme is compliant with relevant legislation, and holding regular meetings to monitor performance and address any material issues that may impact members;
- the range of investment options and strategies available;
- the quality of communications delivered to members; and
- the efficiency of administration.

As detailed in the earlier section covering the processing of core financial transactions, on the basis of the information reported to it by the Jacobs UK Pensions team, the Trustee is comfortable with the quality and efficiency of the administration processes. With respect to the investment options and strategies, on the basis of the advice from LCP, the Trustees concluded 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. While it keeps member communications under review, the Trustee currently considers the communications appropriate given the number of members invested and that no further contributions are being made.

The Trustee believes the transaction costs provide value for members as the ability to transact forms an integral part of the investment approaches and the ability to change investments allows members to take action to increase their investment returns net of costs over time.

Overall, having taken advice from LCP, the Trustee believes that members of the Scheme are receiving reasonable value for the charges and costs that they incur across the DC and AVC policies, for the reasons set out in this section. In summary:

- Most (c65%) of the DC and AVC assets are invested in the with-profits type investments which generally benefit from capital guarantees and / or terminal bonus at contractual events e.g. retirement. These may be lost if members leave early, therefore this needs to be balanced against the higher charges incurred.
- 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 is reasonable.

## 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, pensions 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 when they join the Trustee board. This requires new Trustee Directors to complete the Pensions Regulator's Trustee 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, and the Jacobs UK Pensions team monitor progress with this requirement.

All the Trustee Directors have completed the Pension Regulator's Trustee Knowledge and Understanding Toolkit and are familiar with the key terms of, and have access to copies of, the current Scheme governing documentation, including the Trust Deed & Rules (together with any amendments) and Statement of Investment Principles (SIP) (which sets 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 consolidate and develop their 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 through 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 by the Jacobs UK Pensions team 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, periodically considers training requirements to identify any knowledge gaps. In particular, this is done in the context of issues arising at Trustee meetings, and in 2020 the Trustee Directors took part in Scheme surveys facilitated by the Trustee's legal advisers and the Jacobs UK Pensions team, which allowed for a further assessment of the Trustee Directors knowledge and any perceived gaps in this.

The Trustee's investment advisers proactively raise any changes in governance requirements and other relevant matters as they become aware of them. The Trustee's advisers would typically deliver training on changes impacting the Scheme 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, with questions being raised with advisers in meetings.

During the period covered by this Statement, the Trustee received updates on topical issues from the Trustee's investment advisers, via quarterly update documents, on matters including:

- Environmental, social and governance issues, including climate change;
- The UK Statistics Authority's plans to cease the production of RPI; and
- the CMA requirement for strategic objectives for investment consultants.

Also, Trustee training was held at Trustee meetings on Pensions Act 2021. In addition, Jim Billingham attended two webinars on investments. Leon Power re-took modules from the Pension Regulator's Trustee Toolkit. Roger Hoad attended a webinar on 'Politics, Pandemics and pensions online'

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.

Considering the knowledge and experience of the Trustee Directors and the specialist advice (both in writing and whilst attending meetings) received from the appointed professional advisors (e.g. investment consultants, legal advisers), 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 <http://halcrow.com/>



Date: 28<sup>th</sup> July 2021

**Signed by the Chair of Trustee of the Halcrow Pension Scheme (No. 2)**