

**Halcrow Pension Scheme (No.2)**  
**For the year ended 31 December 2022**

**DC Governance Statement from 1 January 2022 to 31 December 2022**

**1. Introduction**

The Halcrow Pension Scheme (No. 2) (the “Scheme”) is an occupational pension scheme providing defined contribution (“DC”) benefits (a DC pension scheme is where employee and employer contributions are paid into it, and the member chooses their investments, but bears the investment risk). Some members also have Additional Voluntary Contributions (“AVCs”) in the Scheme.

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 2022 there were 46 members remaining in the Scheme with DC accounts, 1 member left the Scheme over the 2022 Scheme year, leaving 45 members remaining with DC accounts as at 31 December 2022. 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 following table has a full list of the Scheme’s DC and AVC policies.

DC or AVC Provider	Number of members	Approx. value as at 31 December 2022
Aviva – former CHW Scheme – DC Main Section	45	£768k
Aviva – former CHW Scheme – AVC	8	£20k
Aviva – AVC	70	£710k
Prudential – AVC	18	£108k
Phoenix Life – AVC	1	£8k
NPI – AVC	0*	- *
Utmost (was Equitable Life) – AVC	2	£12k
<b>Total</b>	<b>144</b>	<b>£1,626k</b>

\* Last member in this policy retired during the year

Governance requirements apply to the Scheme’s DC and AVC accounts to help members achieve good outcomes from their pension savings. We, the Trustee Directors of the Scheme, are required to produce a yearly statement (signed by the Chair of Trustees) covering:

- processing of core financial transactions (i.e. administration of the Scheme, such as investment of contributions);
- the charges and transaction costs borne by members for all investment options members can select or have assets in, such as “legacy” funds;
- an illustration of the cumulative effect of these costs and charges;
- net returns of the investment options;

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- how the value members' obtain from the Scheme is assessed; 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.
- 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**

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.

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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 are shown as a per annum (pa) figure and exclude administration charges, since these are not met by the members.

The Trustee is also required to 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 the relevant statutory guidance. Under the prescribed way in which transaction costs have been calculated it is possible for figures to be negative, where market movements are favourable between the time a trade is placed and it is executed. We have shown any negative figures in the tables for the year as provided, but for the costs and charges illustrations we have used zero where a transaction cost is negative to give a more realistic projection (i.e. we would not expect transaction costs to be negative over the long term).

**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% p.a.

Members' AVCs assets are held in a range of unitised funds managed by Aviva (Managed and UK equities funds). Over the year to 31 December 2022 (the latest date for which information was available), the annual management charge on these funds was 0.5% p.a.

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**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%	0.004%
Aviva – Global Equity	PG20617 Policy – 0.875%; PY91183 Policy -0.8%	0.024%
Aviva – UK Equity	PG20617 Policy – 0.875%; PY91183 Policy -0.8%	0.052%
Aviva – European Equity	PG20617 Policy – 0.875%; PY91183 Policy -0.8%	0.045%
Aviva – Pacific Equity	PG20617 Policy – 0.875%; PY91183 Policy -0.8%	0.053%
Aviva – Gilt	PG20617 Policy – 0.875%	0.068%
Aviva – Global Bond	PG20617 Policy – 0.875%; PY91183 Policy -0.8%	0.202%
Aviva – Property	PG20617 Policy – 0.875%; PY91183 Policy -0.8%	0.087%
Aviva – Mixed Invest	PG20617 Policy – 0.875%; PY91183 Policy -0.8%	0.045%
Aviva – With-Profit	PG20617 Policy – 0.875%	0.038%
Aviva – With-Profit Guaranteed	PG20617 Policy – 0.875%	0.038%
Aviva – With-Profit Standard	PY91183 Policy – 0.8%	0.062%
Aviva – Index Linked Gilt Fund	PY91183 Policy -0.8%	0.073%
Prudential Deposit	Not applicable*	Not applicable*
Phoenix Life – Deposit Administration	Not applicable*	Not applicable*
Utmost – Multi asset	0.75%	0.35%

\*Annual interest awards are paid net of fees

**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 DC account in two funds, selected to demonstrate the impact of investing in the fund with the highest charges and lowest charges. In preparing this illustration, the Trustee has had regard to the relevant statutory guidance.

**Projected pension pot in today's money**

Years invested	Friend's Life Secure Growth Fund		Friend's Life UK Equity Fund	
	Before costs	After costs	Before costs	After costs
1	£15,200	£14,900	£15,700	£15,600
3	£15,700	£14,800	£17,100	£16,800
5	£16,200	£14,600	£18,700	£18,100
10	£17,400	£14,200	£23,300	£21,800
15	£18,800	£13,900	£29,000	£26,200
20	£20,200	£13,500	£36,200	£31,600

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- 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 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 the latest available, subject to a floor of zero (so the illustration does not assume a negative cost over the long term). If the managers have not provided figures this is indicated.
- The illustration is shown for two funds:
  - 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 (TER plus Scheme Year transaction 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. The long term annual inflation assumption used is 2.5%.
- 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 20 years, being the approximate 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 UK Equity Fund: 4.5% pa above inflation
  - Friend’s Life Secure Growth Fund: 1.5% pa above inflation
- No allowance for active management outperformance has been made.

**4. Investment returns**

This section shows the annual return, after the deduction of member borne charges and transaction costs, for all investment options in which member assets were invested during the scheme year.

**Self-select fund net returns over periods to scheme year end**

Fund name	1 year (%)	5 years (% pa)
Aviva Secure Growth Fund *	-14.9	-1.7
Aviva UK Equity Fund	3.4	3.6
Aviva Managed Fund	-11.2	2.3
Aviva US Equity Fund	-9.9	10.4
Aviva Global Equity Fund	-6.0	5.4
Aviva UK Equity Fund	0.4	2.6
Aviva European Equity Fund	-4.3	2.1
Aviva Pacific Equity Fund	-6.3	3.2

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Fund name	1 year (%)	5 years (% pa)
Aviva Gilt Fund	-24.0	-3.8
Aviva Global Bond Fund	-16.8	-1.4
Aviva Property Fund	-10.7	1.3
Aviva Mixed Invest (40-85% Shares) Fund	-6.9	2.1
Aviva With-Profit Fund *	-6.4	1.8
Aviva With-Profit Guaranteed Fund *	-6.4	1.8
Aviva With-Profit Standard Fund *	-6.3	1.9
Aviva Index Linked Gilt Fund	-38.7	-5.6
Prudential Deposit Fund	1.3	0.6
Phoenix Life Deposit Administration Fund	0.1	0.4
Utmost Multi asset Fund	-10.0	Not available

\*The with-profits funds' returns shown are those of the underlying investments. With Profits Funds are designed to smooth the returns members receive over their investment term and underlying investment returns are not the only factor determining the return members receive.

**5. 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 our 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 June 2022. 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 June 2022. 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 are expected to receive the Guaranteed Minimum Pension benefit, rather than the benefit based on their individual DC account. 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. Overall, having taken advice from LCP as its investment consultant, the Trustee concluded that the performance of the funds had been reasonable.

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

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- 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 focused 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.

#### **6. 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.

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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 Jacobs' UK Pensions team in line with best practice and the training programme is reviewed annually to ensure it is reflective of the needs of the Trustee Board and new and/or upcoming Regulations.

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. 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 training from its legal advisers and actuarial advisers on the following topics

- New Single code of practice
- Trustees received briefing on the process to be undertaken for the upcoming actuarial valuation

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:

- Responsible Investment and Stewardship;
- Economic Scenario modelling;
- DWP consultation on funding and investment regulations;
- TPR guidance on trustee oversight of investment consultants.

In addition, Catherine Williams, representative of professional independent trustee 20-20 Trustees, has extensive experience of working on stand-alone DC schemes and extensive experience of 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 advisors), the Trustee believes it is well placed to exercise its functions as Trustee of the Scheme properly and effectively.



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It is a requirement that the Trustee notifies members in the annual report and accounts that the Trustee has published this Statement on a public website for viewing by members. The address for this website is <https://halcrow.com>



Date: 31 July 2023

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