

THE NHBC PENSION SCHEME

THE CHAIR'S ANNUAL GOVERNANCE STATEMENT 2021

INTRODUCTION

Please note that this Chair's Governance Statement only relates to members with Defined Contribution (DC) benefits in the NHBC Pension Scheme ("the Scheme"). These are members with an AVC Account with Aviva or a Transfer Account with Prudential. The Scheme closed to new members on 31 December 2002 and to future benefits on 31 March 2014.

This statement has been prepared by the Trustee of the Scheme in accordance with the Occupational Pension Schemes (Scheme Administration) Regulations 1996. It describes how, in relation to members' AVC Accounts with Aviva and Transfer Accounts with Prudential (collectively referred to as "the DC accounts"), the Trustee has complied with the applicable statutory governance standards. These cover the following key aspects affecting the operation of the DC accounts:

- The level of charges and the extent to which they represent good value to members;
- The monitoring of core financial transactions;
- How the Trustee ensures it has sufficient knowledge so that the DC accounts are well run.

This statement covers the Scheme's year from 1 April 2020 to 31 March 2021.

DEFAULT INVESTMENT STRATEGY

There is no default investment strategy for either the AVC Accounts with Aviva or the Transfer Accounts with Prudential as they are not used as a qualifying scheme for auto-enrolment purposes. In addition, the DC accounts were closed to new contributions on 31 March 2014.

However, the Trustee monitors the investment options available to members with DC accounts. In addition, the Trustee prepares and keeps under review a Statement of Investment Principles (SIP) that describes its investment policy for the Scheme as a whole, including those relating to the DC accounts.

A copy of the full SIP is available on request or a copy can be found at <http://www.nhbc.co.uk/nhbc-pension-scheme>.

CHARGES AND TRANSACTION COSTS

Overview

The main annual charge paid by members is each investment fund's Annual Management Charge (additional charges are incurred by members under Prudential policy TTP0062 – see below) and these are expressed as a percentage of the value of a member's DC account. For example, if the Annual Management Charge for an investment fund is 0.6%, this means the annual charge is £6.00 for every £1,000 invested in the fund.

The charges paid by members principally cover the administration, communication and investment services that Aviva and Prudential provide to the Trustee and members with DC accounts (although for members under Prudential policy M028, the Trustee pays the administration costs).

In addition to each investment fund's Annual Management Charge, transaction costs arise when each fund's investment manager buys or sells the investments held by the fund – more information on these is provided later in this statement.

The level of annual charges

The level of the annual charges applicable to the DC accounts for the period covered by this statement are summarised below.

Aviva AVC Accounts

Members' AVC Accounts with Aviva are subject to an Annual Management Charge of 0.60% per annum.

Prudential Transfer Accounts

For members with Transfer Accounts with Prudential, the level of annual charges differ between the two policies as summarised below.

Policy TTP0062

- An Annual Management Charge of 0.75% per annum, and
- A 5% 'bid offer spread' (the difference between the price at which units are bought and sold), and
- A fixed policy fee of £10 per annum.

For members invested in the With-Profits Fund under policy TTP0062, charges vary over time and depend on the performance of the fund. Currently, charges are expected to be around 0.8% per annum assuming future investment returns are 5% per annum. In addition, further additional costs for this fund are currently 0.18% giving an expected total annual charge of 0.98%.

Policy M028

Under policy M028, members only incur investment charges with the administration costs being met by the Trustee. Currently, all members in this policy are invested in the lifestyle investment strategy and the Annual Management Charges for the underlying investment funds are shown in the table below.

Prudential Fund	Annual Management Charge
Dynamic Global Equity Passive*	0.640% (see note below)
BlackRock All Stocks Corporate Bond Index	0.325% (to 31 July 2020) 0.305% (from 1 August 2020)
BlackRock Over 15 Years UK Gilt Index	0.325% (to 31 July 2020) 0.295% (from 1 August 2020)
Cash	0.325%

* replaced the BlackRock 30:70 Currency Hedged Global Equity Index fund in March 2020

Note: the Annual Management Charge for the Prudential Dynamic Global Equity Passive fund is subject to review. When this fund replaced the BlackRock 30:70 Currency Hedged Global Equity Passive fund in March 2020, it appears Prudential incorrectly applied an Annual Management Charge of 0.640% whereas the correct Annual Management Charge should be lower. If this is the case, the correct lower Annual Management Charge will be applied retrospectively so members are not disadvantaged.

As confirmed above, the above funds are used in a 'lifestyle investment strategy'. This means that while a member is more than 10 years from retirement, they are entirely invested in the Dynamic Global Equity Passive fund. Then, during the 10 years leading up to their retirement, a member's investments are gradually switched out of the Dynamic Global Equity Passive fund into a combination of the BlackRock All Stocks Corporate Bond Index fund, the BlackRock Over 15 Years UK Gilt Index fund and the Cash fund. This means that the annual charge paid by members varies overtime depending on their proximity to retirement as follows (although see the above note regarding the Dynamic Global Equity Passive fund):

- The annual charge is 0.640% while a member is more than 10 years from retirement;

- The annual charge ranges from 0.606% to 0.306% during the 10 years immediately before a member retires.

In addition, members in policy M028 can invest in the following funds:

Prudential Fund	Annual Management Charge
BlackRock UK Equity Index	0.325%
BlackRock World ex-UK Index	0.325% (to 31 July 2020) 0.305% (from 1 August 2020)
Index-Linked Passive	0.325%

Transaction costs

In addition to the above annual charges, members incur transaction costs each year, such as those that arise as a result of buying or selling the investments held by each fund. However, there is no standard way of calculating transaction costs. The FCA has stipulated that a calculation methodology called 'slippage cost' should be used. This calculates the difference between the expected price of buying an underlying investment in a fund, such as a company share, at the time the order is placed by the investment manager and the final price at which the trade is executed. One consequence of this calculation method is that, rather than generating a cost, it can result in a profit that in turn results in a negative transaction cost being reported. This can happen, for example, if the price paid when buying an investment is lower than the expected price.

The tables below show the total transaction costs (rounded to two decimal places) incurred by each investment fund over the most recent 12 month period for which this information was available at the time of preparing this statement – to 31 March 2021 for Aviva and to 31 December 2020 for Prudential. The Trustee will continue to liaise with Prudential to try and ensure that in future statements, transaction costs for the Scheme year are provided if possible. In line with guidance from the DWP, any negative transaction costs are shown as zero.

Aviva AVC accounts	
Fund Name	Total Transaction Costs for the year ending 31 March 2021
With-Profits	0.10%
Mixed Investment (0-35% Shares)	0.07%
Pacific Equity	0.07%
BlackRock Aquila Pacific Rim Equity Index Tracker	0.09%
Property	0.09%

Prudential policy TTP0062	
Fund Name	Total Transaction Costs for the year ending 31 December 2020*
With-Profits	0.13%
Discretionary	0.17%

Prudential policy M028	
Fund Name	Total Transaction Costs for the year ending 31 December 2020*
Dynamic Global Equity Passive	n/a**
BlackRock Aquila All Stocks Corporate Bond Index	0.06%
BlackRock Aquila Over 15 Years UK Gilt Index	0.05%
BlackRock UK Equity Index	0.06%
BlackRock World ex-UK Index	0.04%
Index-Linked Passive	0.00%
Cash	0.00%

* Transaction costs for the year ending 31 March 2021 were not available at the time this statement was prepared

** Not available for the year to 31 December 2020 as this fund was only launched in March 2020

The impact of annual charges and transaction costs on member's benefits

Over time, the annual charges and transaction costs that are paid by members with a DC account will reduce the amount available to them at retirement. The Trustee has therefore provided in the Appendix to this statement illustrations of the impact of the annual charges and transaction costs on different investment options available to members with DC accounts. The illustrations have been prepared in accordance with the DWP's statutory guidance on "Reporting costs, charges and other information: guidance for trustees and managers of occupational pension schemes".

As each member has a different amount of savings within their DC account and the amount of any future annual investment returns and future annual costs and charges cannot be known in advance, the Trustee has had to make a number of assumptions about what these might be. These assumptions are shown in the Appendix.

Ensuring the costs and charges provide good value

The Trustee is required to assess the extent to which member borne charges and transaction costs represent good value for members. Whilst there is no precise legal definition of "good value", the Trustee considers it broadly means that the combination of costs paid by members, and the quality of the services provided to members in return for those costs, is appropriate for and meets the needs of members with DC accounts. As part of this, the Trustee takes into consideration the fact that the benefits arising from members' DC accounts are supplemental to their main and larger final salary benefits under the Scheme.

The Trustee recognises that good value for members does not necessarily mean the lowest charges, and the overall quality and appropriateness of the service received by members in return for the charges incurred must also be considered along with other benefits from their membership of the Scheme for which they do not meet the cost. These include the Trustee's:

- Oversight and governance duties for both the DC accounts and the Scheme as a whole. These include ensuring compliance with relevant legislation and the holding of regular Trustee meetings to monitor the Scheme and address any material issues that may impact members both in relation to their main Scheme benefits and their DC accounts. The Trustee is assisted in this by advice it receives from its professional, independent advisers, the cost of which is not met by the members;
- Monitoring of the investment options available to members with DC accounts to ensure they remain appropriate.

Also, when considering the services members receive in relation to the annual charges deducted, the Trustee takes into account that the benefits arising from the DC accounts are supplemental to members' main final salary pension benefits under the Scheme. The Trustee is also conscious that there is limited

scope to improve value for members following the closure of the DC accounts to new contributions. In addition, the Trustee recognises that a significant number of members have chosen to invest their DC account in with-profits funds that provide valuable benefits specific to this type of investment fund, which may be difficult to replicate elsewhere.

Within the framework outlined above, the Trustee monitors the annual charges and costs deducted from members' DC accounts and each year, it assesses the extent to which the DC accounts represent value for members. As part of this assessment, the Trustee considers members' needs and the quality of the services received during the year for which the members meet the cost.

For the year ending 31 March 2021, the Trustee concluded that the DC accounts continue to represent good value for members for the reasons outlined below.

- Much of the administration associated with the DC accounts is undertaken by the Scheme's professional administrators, Barnett Waddingham, and the cost of this service is not met by the members.
- For Prudential policy M028, the Trustee pays Prudential's administration costs and consequently the members incur much lower annual charges as they only pay the charges for managing the investments.
- The annual charges paid by members principally cover Aviva's and Prudential's costs in managing the investment funds in which members invest. For the year to 31 March 2021:
 - The majority of members with Aviva AVC accounts and members in Prudential policy TTP0062 are invested in with-profits funds that provide a level of protection against falls in the values of their savings,
 - The majority of members in Prudential policy M028 are invested in Prudential's Dynamic Global Equity Passive fund (as part of a lifestyle strategy), which met its objective of tracking UK and overseas equities (within an acceptable tolerance).
- Members in Prudential policy M028 have access to a range of passively managed investment funds covering different asset classes with charges well below the statutory charge cap of 0.75% per annum applicable to default options. Members in Prudential policy TTP0062 can switch to this policy if they wish in order to take advantage of the wider investment choice and lower charges.
- The Trustee considers that transaction costs should provide value for members as the ability for investments managers to buy and sell investments forms an integral part of their management of the investments funds in which members are invested, which in turn should lead to greater investment returns, net of fees, over time.
- As and when appropriate, the Trustee provides supporting information to members to help them better understand their benefits and options under the DC accounts and ensures these communications are clear and engaging by taking professional advice. The costs of any such communication are not met by members.
- Members can access additional information in relation to their DC accounts direct from Aviva and Prudential free of charge.

MONITORING FINANCIAL TRANSACTIONS

As few remaining members of the Scheme have DC accounts and they are closed to further contributions and transfers-in, financial transactions are limited and primarily relate to:

- Payments to and in respect of members when they retire, die or choose to transfer-out of the Scheme;
- Switches between investment funds where requested by the member.

These transactions are principally undertaken on behalf of the Trustee and member by Barnett Waddingham (the Scheme's administrator) who liaise with Aviva and Prudential as and when a member

retires, chooses to transfer from the Scheme or wishes to make an investment change. As part of its administration agreement with Barnett Waddingham, the Trustee has agreed service standards covering the administration of the Scheme, including the provision of information to members as well as the accuracy and timeliness of benefit payments and other core financial transactions. These agreed service levels also cover the DC accounts.

The Trustee is satisfied that Barnett Waddingham has suitable processes and controls in place to ensure that it meets the agreed service standards, which include the need for it to liaise with Prudential and Aviva in relation to those members with DC accounts. In addition, the Trustee monitors the accuracy and timeliness of the core financial transactions by receiving quarterly administration reports from the Barnett Waddingham that include an analysis of its performance against the agreed service standards. Based on the information included in the reports for the Scheme year ending 31 March 2021, the Trustee is satisfied that:

- Barnett Waddingham operated appropriate procedures, checks and controls in relation to the processing of core financial transactions for the DC accounts;
- There have been no material administration errors arising from the processing of core financial transactions for the DC accounts;
- All core financial transactions relating to the DC accounts have been processed accurately during the Scheme year ending 31 March 2021.

During the year, for members with Transfer Accounts, delays were experienced by Barnett Waddingham when requesting from Prudential the disinvestment of a member's account in order their benefits under the Scheme could be paid. In some instances, this led to the payment of a member's benefit not being as prompt as expected by Barnett Waddingham. The Trustee is aware of these delays and Barnett Waddingham continues to work with Prudential in order to improve the timeliness of this process.

TRUSTEE KNOWLEDGE AND UNDERSTANDING (TKU)

The Scheme's Trustee Directors are required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively. As part of this, each Trustee Director must:

- Be conversant with the Scheme's governing documents that include the Trust Deed and Rules, the Statement of Investment Principles and any other policy documents relating to the operation and administration of the Scheme and the DC accounts;
- Have knowledge and understanding of the law relating to pensions and trusts together with the principles relating to the investment of the Scheme's assets and the DC accounts.

In order to comply with the above and in line with the guidance provided in the Pensions Regulator's Code of Practice No. 7, the Trustee has a process in place to ensure each Trustee Director has the appropriate knowledge and understanding to enable them to undertake their duties and responsibilities in relation to the Scheme and the DC accounts. For example, all Scheme documents are available to the Trustee Directors on a dedicated Trustee site, which allows each Trustee Director to maintain a working knowledge of the Scheme's key documents, such as the Trust Deed and Rules and the Statement of Investment Principles, by referring to them as and when required.

The Trustee keeps under regular review its approach to complying with its TKU requirements.

The above is supplemented as required by professional advice available from the Trustee's advisers that ensures the Trustee continues to have a sufficient and up to date knowledge and understanding of the law relating to pensions. As part of this, the Trustee's advisers attend the quarterly Trustee meetings.

During the year covered by this statement, the Trustee's approach to meeting its ongoing knowledge and understanding requirements remained unchanged and included:

- Having an induction process in place for new Trustee Directors that requires them to complete the Pensions Regulator's Trustee Toolkit within six months of their appointment (during the year to 31 March 2021, one new Trustee Director was appointed);
- Requiring Trustee Directors to complete relevant updates and new modules added to the Pensions Regulator's Trustee Toolkit;
- Having a dedicated training day to deal with topics where the Trustee feels it would benefit from further training (the last training day took place in November 2020, with the next due to take place in November 2021);
- Agreeing a programme of bespoke trustee training for the year, which is delivered by the Trustee's advisers at Trustee meetings (see below in relation to the annual training received relevant to the DC accounts);
- As required, training on the provisions of the Scheme's Trust Deed and Rules, the application of the Trustee's agreed policies and the review and updating of key governing documents, such as the Statement of Investment Principles;
- The occasional attendance by Trustee Directors at external seminars held by the Trustee's advisers and other third-party firms.

All training undertaken by the Trustee Directors and attendance at appropriate seminars is recorded in a training log, which is monitored and reviewed at each Trustee meeting.

In relation to the DC accounts, each year, the Trustee receives the following from its advisers:

- Updates about matters relevant to the DC arrangements, including legislative changes and updates on market practice, and
- An annual governance report on the DC accounts that provides an update on member numbers and fund values, significant developments at Prudential and Aviva and a review of the performance of the investment funds.

Taking into account the above and the professional advice available to the Trustee, it considers that it is able to properly undertake its functions and responsibilities in relation to the DC accounts as well as the Scheme as a whole.

Robert Gravill

**Chair of the NHBC Pension Scheme
For and on behalf of The Trustee Corporation**

APPENDIX

The impact of annual charges and transaction costs

Introduction

The illustrations below provide an indication of how charges and transaction costs impact a member's benefits over time.

Important note: as required under the regulations that govern these illustrations, all figures are shown in 'today's money', which means they allow for future inflation, assumed to be 2.5% p.a. Whilst this means the illustrations show what a member's DC account could be worth today, it is important to remember that over time, inflation reduces the worth of all savings and investments. The effect of this is shown in the illustrations and means the projected values may reduce as well as grow in 'today's money' depending on whether the assumed growth rate before and after charges is above or below the assumed rate of inflation.

Aviva AVC Accounts

The illustrations below have been produced by Aviva on behalf of the Trustee and provide an indication of how charges and transaction costs impact the value of a member's AVC Account over time. The projections are over 15 years, being the approximate duration that the youngest member with an AVC account has until they reach the Scheme's Normal Pension Age. All figures have been rounded to the nearest £100.

The investments funds chosen for the purposes of these illustrations are:

- The With-Profits fund – this is the investment fund chosen by the majority of members.
- The Pacific Equity fund – this is one of the investment funds with the highest assumed growth rate.
- The Pensions Deposit fund – this is the investment fund with the lowest assumed growth rate.

Illustration of effect of costs and charges for typical funds under the Aviva AVC arrangement						
	With-Profits fund		Pacific Equity fund		Pensions Deposit fund	
	Assumed growth rate before inflation 3.6% pa		Assumed growth rate before inflation 4.5% pa		Assumed growth rate before inflation 0.5% pa	
	Assumed costs and charges 0.70% pa		Assumed costs and charges 0.67% pa		Assumed costs and charges 0.6% pa	
At end of year	Projected value in today's money assuming no charges are taken	Projected value in today's money after costs and charges are taken	Projected value in today's money assuming no charges are taken	Projected value in today's money after costs and charges are taken	Projected value in today's money assuming no charges are taken	Projected value in today's money after costs and charges are taken
0	£25,000	£25,000	£25,000	£25,000	£25,000	£25,000
1	£25,300	£25,100	£25,500	£25,300	£24,500	£24,400
2	£25,500	£25,200	£26,000	£25,600	£24,000	£23,700
3	£25,800	£25,300	£26,500	£26,000	£23,600	£23,100
4	£26,100	£25,400	£27,000	£26,300	£23,100	£22,600
5	£26,400	£25,500	£27,500	£26,600	£22,700	£22,000
10	£27,800	£26,000	£30,300	£28,400	£20,500	£19,300
15	£29,300	£26,400	£33,400	£30,200	£18,600	£17,000

Source: Aviva

Assumptions for Aviva AVC accounts

- 1) Aviva has used the following assumptions when producing the above illustrations:
 - a. A starting pot of £25,000, which is representative of members with an AVC Account invested with Aviva.
 - b. Investment growth rates and costs and charges as per the table above.
- 2) Projected values are shown in today's terms with future inflation assumed to be 2.5% p.a.
- 3) Values shown are estimates and are not guaranteed.

Prudential Transfer Accounts

The illustrations below have been produced by Willis Towers Watson on behalf of the Trustee and provide an indication of how charges and transaction costs impact the value of a member's Transfer Account over time. For both policies, the projections are over 10 years, being the approximate duration that the youngest member with a Transfer Account has until they reach the Scheme's Normal Pension Age. All figures have been rounded to the nearest £10.

Prudential Policy TTP0062

Illustrations have been prepared for the following two funds, which are the only investment funds available under policy TTP0062:

- The With-Profits fund – this is the investment fund chosen by the majority of members.
- The Discretionary fund – this is the alternative fund available under this policy.

Illustrations of the effect of costs and charges for the two funds under Prudential policy TTP0062				
	With-Profits fund		Discretionary fund	
	Assumed growth rate before inflation 5.7% pa		Assumed growth rate before inflation 5.0% pa	
	Assumed costs and charges 1.077% pa		Assumed costs and charges 0.847% pa	
At end of year	Projected value in today's money assuming no charges are taken	Projected value in today's money after costs and charges are taken	Projected value in today's money assuming no charges are taken	Projected value in today's money after costs and charges are taken
0	£70,000	£70,000	£70,000	£70,000
1	£71,080	£70,710	£70,850	£70,560
2	£73,300	£72,160	£72,580	£71,680
3	£75,590	£73,630	£74,350	£72,820
4	£77,950	£75,140	£76,160	£73,980
5	£80,390	£76,680	£78,020	£75,160
10	£93,740	£84,840	£88,010	£81,330

Source: Willis Towers Watson

Assumptions for Transfer Accounts in Prudential policy TTP0062

- 1) The following assumptions have been used when producing the above illustrations:
 - a. A starting pot of £70,000, which is representative of the fund values for members with a Transfer Account invested in Prudential policy TTP0062.

- b. Investment growth rates and costs and charges as per the table above (transaction costs have been averaged over the previous three Scheme years).
- 2) Projected values are shown in today's terms with future inflation assumed to be 2.5% p.a.
- 3) Values shown are estimates and are not guaranteed.

Prudential Policy M028

Illustrations have been prepared for the four funds that make up the lifestyle strategy in which all members are invested under policy M028. These are:

- The Prudential Dynamic Global Equity Passive fund.
- The Prudential BlackRock All Stocks Corporate Bond Index fund.
- The Prudential BlackRock Over 15 Years Gilt Index fund.
- The Prudential Cash fund.

Illustrations of the effect of costs and charges for the funds that make up the lifestyle investment strategy under Prudential policy M028								
Prudential Dynamic Global Equity Passive fund		Prudential BlackRock All Stocks Corporate Bond Index fund		Prudential BlackRock Over 15 Years Gilt Index fund		Prudential Cash fund		
Assumed growth rate before inflation 6.0% pa		Assumed growth rate before inflation 3.25% pa		Assumed growth rate before inflation 1.25% pa		Assumed growth rate before inflation 0.25% pa		
Assumed costs and charges 0.640% pa		Assumed costs and charges 0.412% pa		Assumed costs and charges 0.352% pa		Assumed costs and charges 0.325% pa		
At end of year	Projected value in today's money assuming no charges are taken	Projected value in today's money after costs and charges are taken	Projected value in today's money assuming no charges are taken	Projected value in today's money assuming no charges are taken	Projected value in today's money assuming no charges are taken	Projected value in today's money after costs and charges are taken	Projected value in today's money assuming no charges are taken	Projected value in today's money after costs and charges are taken
0	£40,000	£40,000	£40,000	£40,000	£40,000	£40,000	£40,000	£40,000
1	£40,680	£40,550	£40,150	£40,060	£39,760	£39,680	£39,560	£39,490
2	£42,070	£41,680	£40,440	£40,190	£39,270	£39,060	£38,690	£38,500
3	£43,500	£42,830	£40,740	£40,320	£38,790	£38,450	£37,840	£37,530
4	£44,990	£44,020	£41,030	£40,450	£38,320	£37,840	£37,010	£36,580
5	£46,520	£45,240	£41,330	£40,580	£37,850	£37,250	£36,200	£35,660
10	£55,030	£51,880	£42,870	£41,230	£35,600	£34,410	£32,400	£31,390

Source: Willis Towers Watson

Assumptions for Transfer Accounts in Prudential policy M028

- 1) The following assumptions have been used when producing the above illustrations:
- a. A starting pot of £40,000, which is representative of the fund values for members with a Transfer Account invested in Prudential policy M028.
 - b. Investment growth rates and costs and charges as per the table above (transaction costs have been averaged over the previous three Scheme years).
- 2) Projected values are shown in today's terms with future inflation assumed to be 2.5% p.a.
- 3) Values shown are estimates and are not guaranteed.