THE NHBC PENSION SCHEME

THE CHAIR’S ANNUAL GOVERNANCE STATEMENT 2020

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 2019 to 31 March 2020.

DEFAULT INVESTMENT STRATEGY

There is no default investment strategy for any of the DC accounts 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 regularly reviews 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

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 the following charges:

- An Annual Fund Charge of 0.60% per annum.

Prudential Transfer Accounts

Members’ Transfer Accounts under the two policies with Prudential are subject to the following charges:

- 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, they are expected to be around 0.8% per annum.

- Policy M028
  - An Annual Management Charge of 0.325% per annum with the exception of the BlackRock Aquila (30:70) Currency Hedged Global Equity Index fund, which has an Annual Management Charge of 0.35% per annum.

  Under policy M028, members only incur investment charges with the administration costs being met by the Trustee.

Transaction costs

In addition to the above charges, members incur transaction costs, such as those that arise as a result of buying or selling the investments held by each fund. 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 31March 2020 for Aviva and to 31 December 2019 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.

Note: 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.

Aviva AVC accounts

Fund Name	Total Transaction Costs for the year ending 31 March 2020
With-Profits	0.09%
Mixed Investment (0-35% Shares)	0.07%
Pacific Equity	0.11%
BlackRock Aquila Pacific Rim Equity Index Tracker	0.07%
Property	0.19%

Prudential transfer accounts

Policy TTP0062	
Fund Name	**Total Transaction Costs for the year ending 31 December 2020**
With-Profits	0.09%
Discretionary	0.12%

Policy M028	
Fund Name	**Total Transaction Costs for the year ending 31 December 2020**
BlackRock Aquila 30:70 Currency Hedged Global Equity Index	0.04%
BlackRock Aquila All Stocks Corporate Bond Index	0.02%
BlackRock Aquila Over 15 Years UK Gilt Index	0.06%
Cash	0.00%

The impact on benefits of annual charges and transaction costs

Over time, the charges and transaction costs that are taken out of a member's DC account can reduce the amount available to the member at retirement. The Trustee has therefore set out in the Appendix attached to this statement illustrations of the impact of 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 investment returns and future 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 also takes into consideration the fact that the benefits arising from members' DC accounts are supplemental to their main 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, such as 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.

- Regular review 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 charges deducted, the Trustee takes into account that the benefits arising from the DC accounts are paid as part of the member's 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.

Within the framework outlined above, the Trustee monitors the costs and charges 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 2020, the Trustee concluded that the DC accounts continue to represent good value for members for the following reasons:

- 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. Consequently, the charges paid by members principally cover Aviva's and Prudential's costs in managing the investment funds in which members invest (for Prudential policy M028, members only incur investment charges as the Trustee meets the administration charges).
- For Prudential policy M028, members 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 lower charges.
- 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.

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.

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 2020, the Trustee is satisfied that:

- Barnett Waddingham operated appropriate procedures, checks and controls in relation to the processing of core financial transactions.

- There have been no material administration errors in relation to core financial transactions.
- All core financial transactions have been processed promptly and accurately during the Scheme year ending 31 March 2020.

In addition, the Scheme's accounts are audited annually by the Trustee's appointed auditors, Deloitte, who report any concerns or discrepancies as part of their annual audit report to the Trustee.

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 and each Trustee Director must therefore:

- 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.
- 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, which include 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.
- 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 such training day took place in November 2019.
- 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 specific to the DC accounts). Where necessary, this training covers the relevant 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 charges and transaction costs

The illustrations below provide an indication of how charges and transaction costs impact a member's benefits over time. All figures have been rounded to the nearest £100.

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 4.1% pa		Assumed growth rate before inflation 5.0% pa		Assumed growth rate before inflation 1.0% pa	
	Assumed costs and charges 0.69% pa		Assumed costs and charges 0.71% 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	£25.400	£25,200	£25,600	£25.400	£24,600	£24,500
2	£25,800	£25,400	£26,200	£25.900	£24,300	£24,000
3	£26,200	£25,700	£26,900	£26,300	£23,900	£23,500
4	£26,600	£25,900	£27,500	£26,800	£23,600	£23,000
5	£27,000	£26,100	£28,200	£27,200	£23,200	£22,500
10	£29,200	£27,200	£31,800	£29,600	£21,600	£20,300
15	£31,500	£28,400	£35,900	£32,300	£20,000	£18,300

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 5.9% pa		**Assumed growth rate before inflation 5.0% pa**	
	Assumed costs and charges 0.88% pa		**Assumed costs and charges 0.81% 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	£60,000	£60,000	£60,000	£60,000
1	£60,990	£60,730	£60,730	£60,490
2	£63,010	£62,210	£62,210	£61,470
3	£65,100	£63,720	£63,730	£62,470
4	£67,260	£65,280	£65,280	£63,490
5	£69,490	£66,870	£66,870	£64,530
10	£81,810	£75,420	£75,430	£69,960

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 £60,000, which is representative of members with a Transfer Account invested in Prudential policy TTP0062.

    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 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 BlackRock 30:70 Currency Hedged Global Equity Index fund.
- The BlackRock All Stocks Corporate Bond Index fund.
- The 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							
	BlackRock 30:70 Currency Hedged Global Equity Index fund		**BlackRock All Stocks Corporate Bond Index fund**		**BlackRock Over 15 Years Gilt Index fund**		**Prudential Cash fund**	
	Assumed growth rate before inflation 6.0% pa		**Assumed growth rate before inflation 3.75% pa**		**Assumed growth rate before inflation 1.75% pa**		**Assumed growth rate before inflation 0.5% pa**	
	Assumed costs and charges 0.465% pa		**Assumed costs and charges 0.455% pa**		**Assumed costs and charges 0.385% 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	£40,590	£40,240	£40,150	£39,850	£39,780	£39,610	£39,540
2	£42,070	£41,780	£40,730	£40,460	£39,560	£39,330	£38,830	£38,640
3	£43,500	£43,020	£41,230	£40,770	£39,270	£38,890	£38,080	£37,760
4	£44,990	£44,280	£41,730	£41,080	£38,980	£38,460	£37,330	£36,900
5	£46,520	£45,590	£42,240	£41,390	£38,700	£38,030	£36,610	£36,060
10	£55,030	£52,720	£44,880	£43,000	£37,300	£35,950	£33,170	£32,140

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 members with a Transfer Account invested in Prudential policy M028.

    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.