

## **Chair's Annual Governance Statement 2021/22 (DCS)**

### **1. Introduction and members summary**

The **Skanska Pension Fund – DC Section** (the "Fund") 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).

Governance requirements apply to DC pension arrangements, to help members achieve a good outcome from their pension savings. We, the Trustee Directors of the Fund, are required to produce a yearly statement (signed by the Chair of Trustee) covering:

- the design and oversight of the default investment option (ie where contributions are invested for members that do not wish to choose their own investments);
- processing of core financial transactions (ie administration of the Fund, such as investment of contributions);
- the charges and transaction costs borne by members for the default option and any other investment option 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;
- how the value members obtain from the Fund is assessed; and
- Trustee knowledge and understanding.

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

- We regularly monitor the investment arrangements, and we are satisfied that the default and other investment options remain suitable for the membership.
- The administrator has processed core financial transactions promptly and accurately to an acceptable level during the Fund 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 from 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 Fund and represent 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. Default arrangements**

The Fund is not used as a Qualifying Scheme for automatic enrolment purposes. It is closed to new members and existing members are unable to make any further contributions. The DC assets within the Fund relate to those members who remain invested in a Legal & General ("L&G") arrangement administered by Capita / Trafalgar House, who were unable to move to the Aegon Master Trust when this was put in place as Skanska's ongoing DC arrangement, due to the presence of Guaranteed Minimum Pensions ("GMPs"). Our intention for these remaining DC assets is to move them into the Aegon Master Trust once the situation around the GMPs has been resolved – with the project expected to begin in 2022.

There are a range of investment options for members. Prior to the Fund's closure to new members and contributions, members who did not choose an investment option were invested into the Drawdown Lifestyle Strategy (the "Default"). We recognise that most

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members do not make active investment decisions and instead invest in the Default. After taking advice, we decided to make the Default a lifestyle strategy, which means that members' assets are automatically moved between different investment funds as they approach their target retirement date.

We are responsible for investment governance, which includes setting and monitoring the investment strategy for the Default. Details of the objectives and our policies regarding the default arrangement can be found in a document called the 'Statement of Investment Principles' ("SIP"). The Fund's SIP covering the default arrangement is included in this document on page 53.

The aims and objectives of the Default, as stated in the SIP, are as follows:

- provide an investment option that the Trustee believes to be reasonable for those members that do not wish to make their own investment decisions;
- to generate returns significantly above inflation whilst members are some distance from retirement, but then to switch automatically and gradually to lower risk investments as members near retirement

The Default was last reviewed on 9 July 2021; this review concluded the default strategy remains appropriate given the membership demographics and circumstances of the Fund. We regularly monitor the performance of the Default and will formally review both this and the strategy at least every three years or immediately following any significant change in investment policy or the Fund's member profile.

In addition to the strategy review we also review the performance of the DC investments on a quarterly basis. Our reviews over the Fund year concluded that the DC investments were performing broadly as expected.

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

The processing of core financial transactions is carried out by the administrator of the Fund, Capita. Core financial transactions include (but are not limited to): processing of transfers out of the Fund, transfers of assets between different investments within the Fund, and payments to members/beneficiaries.

We recognise that delay and error can cause significant issues for members. They can also cause members to lose faith in the Fund, which may in turn reduce their propensity to save and impair future outcomes. We have received assurance from Capita that there are adequate internal controls to ensure that core financial transactions for the Fund are processed promptly and accurately.

The Fund has a service level agreement ("SLA") in place with Capita, which covers the accuracy and timeliness of all core financial transactions. The Fund's SLA generally stipulates a target of five working days to process most transactions, but this can vary depending on tasks. The key processes adopted by Capita to meet the SLA are as follows:

- benefit calculations, payments and transactions are done, checked and reviewed by appropriately senior members of the administration team;
- payments over £150,000 are reviewed by a Senior Manager at Capita; and
- a quarterly report of Capita's performance against the SLA is provided to the Fund's Trustee (which is then reviewed in Trustee meetings).

To help us monitor whether service levels are being met, we receive quarterly reports about the administrator's performance and compliance with the SLA. Any issues identified as part of our review processes would be raised with the administrators immediately, and steps would be taken to resolve the issues.

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Based on its review processes, we are satisfied that over the period covered by this Statement:

- the administrator was operating appropriate procedures, checks and controls, and operating within the agreed SLA;
- there have been no material administration issues in relation to processing core financial transactions; and
- core financial transactions have been processed promptly and accurately to an acceptable level during the Fund year.

#### 4. Member-borne charges and transaction costs

We are 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 costs, since these are not met by the members.

We are also required to separately disclose transaction cost figures. In the context of this Statement, the transaction costs shown are those incurred when the Fund'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.

The charges and transaction costs have been supplied by Legal & General Investment Management ("LGIM") who are the Fund's investment manager. When preparing this section of the Statement we have 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 (ie we would not expect transaction costs to be negative over the long term).

#### Default arrangements

The Default arrangement is the Drawdown Lifestyle Strategy. The Default has been set up as a lifestyle approach, which means that members' assets are automatically moved between different investment funds as they approach their target retirement date. This means that the level of charges and transaction costs will vary depending on how close members are to their target retirement age and in which funds they are invested. For the period covered by this Statement, annualised charges and transaction costs are set out in the following table

#### Default (Drawdown Lifestyle Strategy) charges and transaction costs

Years to target retirement date	TER (% pa)	Transaction costs (% pa)
15 years or more to retirement	0.47	0.19
10 years to retirement	0.46	0.19
5 years to retirement	0.45	0.19
At retirement	0.36	0.14

#### Self-select options

In addition to the default arrangement, members also have the option to invest in two other lifestyle strategies, targeting annuity purchase and cash withdrawal, as well as several other self-select funds. The annual charges for these lifestyles during the period covered by this Statement are set out in the following tables.

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The level of charges for each self-select fund (including those used in the Default) and the transaction costs over the period covered by this Statement are set out in the following table. The underlying funds used within the Default are shown in **bold**.

#### Cash Lifestyle charges and transaction costs

Years to target retirement date	TER (% pa)	Transaction costs (% pa)
15 years or more to retirement	0.47	0.19
10 years to retirement	0.46	0.19
5 years to retirement	0.45	0.19
At retirement	0.10	0.02

#### Annuity Lifestyle charges and transaction costs

Years to target retirement date	TER (% pa)	Transaction costs (% pa)
15 years or more to retirement	0.47	0.19
10 years to retirement	0.37	0.15
5 years to retirement	0.27	0.10
At retirement	0.08	0.02

#### Self-select fund charges and transaction costs

Fund name	Investment manager and composition	TER (% pa)	Transaction costs (% pa)
<b>Diversified Fund</b>	<b>50% abrdn GARS 50% Newton Real Return Fund</b>	0.80	0.36
<b>Global Equity Fund</b>	<b>L&amp;G Global Equity (60:40) Index Fund</b>	0.013	0.01
UK Equity Fund	L&G UK Equity Index Fund	0.14	0.02
Overseas (non-UK) Equity Fund	L&G World (ex UK) Equity Index Fund	0.11	0.00
Ethical Global Equity Fund	L&G Ethical Global Equity Index Fund	0.20	0.00
UK Government Bonds Fund	L&G Over 15 Years Fixed Interest Gilts Index Fund	0.06	0.05
<b>UK Index-Linked Gilts Index Fund</b>	<b>L&amp;G Over 5 Years Index-Linked Gilts Index Fund</b>	0.07	0.02
<b>Corporate Bonds Fund</b>	<b>L&amp;G Corporate Bonds Over 15 Years Index Fund</b>	0.11	0.00
UK Property Fund	L&G Property Fund	1.08	-0.27
<b>Cash Fund</b>	<b>L&amp;G Cash Fund</b>	0.10	0.02

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#### Illustration of charges and transaction costs

The following table sets out an illustration of the impact of charges and transaction costs on the projection of an example member's pension savings. In preparing this illustration, we had regard to the relevant statutory guidance.

- The "before costs" figures represent the savings projection assuming an investment return with no deduction of member borne charges 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 three years, subject to a floor of zero (so the illustration does not assume a negative cost over the long term). We have used the average annualised transaction costs over the past three years as this is the longest period over which figures were available and should be more indicative of longer-term costs compared to only using figures over the Fund year.
- The illustration is shown for the Default Drawdown Lifestyle Strategy since this is the arrangement with the most members invested in it, as well as two funds from the Fund's self-select fund range. The two self-select funds shown in the illustration are:
  - the fund with the highest total expense ratio – this is the UK Property Fund
  - the fund with the lowest total expense ratio – this is the UK Government Bonds Fund

#### Protected pension pot in today's money

Years invested	Default option		UK Property Fund		UK Government Bonds Fund	
	Before costs	After costs	Before costs	After costs	Before costs	After costs
1	£12,300	£12,200	£12,200	£12,000	£11,800	£11,800
3	£12,800	£12,600	£12,500	£12,100	£11,400	£11,300
5	£13,400	£13,000	£12,800	£12,100	£11,100	£10,900
10	£14,700	£13,900	£13,600	£12,200	£10,100	£10,000
15	£15,700	£14,300	£14,500	£12,300	£9,200	£9,100
20	£16,000	£14,200	£15,400	£12,400	£8,400	£8,300

#### 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 inflation rate that has been used is 2.5% pa.
- As members cannot contribute into the Fund, we have not included average salary or contributions for the purpose of our projections.
- The starting pot size used is £12,000. This is the approximate average (median) pot size for members in the Fund.
- The projection is for 20 years, being the approximate duration that the youngest Fund member has until they reach the Fund's Normal Pension Age.
- The projected annual returns used are as follows:
  - Default option: 2.25% above inflation for the initial years, gradually reducing to a return of 0.09% below inflation at the ending point of the lifestyle.
  - The UK Property Fund: 1.25% above inflation
  - The UK Government Bonds Fund: 1.75% below inflation
- No allowance for active management outperformance has been made.

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#### 5. Investment returns

This section shows the annual return, after the deduction of member borne charges and transaction costs, for all investment options that members can select or could select during the scheme year, and in which assets relating to members were invested during the scheme year.

For the arrangements where returns vary with age, such as for the default strategy, returns are shown over various periods for a member aged 25, 45 and 55 at the start of the period the returns are shown over.

#### Default Lifestyle strategy net returns over periods to scheme year end

Age of member at the start of the period	1 year (%)
25	4.8
45	4.8
55	2.1

#### Cash Lifestyle strategy net returns over periods to scheme year end

Age of member at the start of the period	1 year (%)
25	4.8
45	4.8
55	2.1

#### Annuity Lifestyle strategy net returns over periods to scheme year end

Age of member at the start of the period	1 year (%)
25	4.8
45	4.8
55	3.6

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

LGIM Skanska Fund name	1 year (%)
Diversified Fund	-2.3
Global Equity Fund	12.0
UK Equity Fund	13.2
Overseas (non- UK) Equity Fund	16.4
Ethical Global Equity Fund	18.6
UK Government Bonds Fund	-7.9
UK Index-Linked Gilts Index Fund	3.9
Corporate Bonds Fund	-9.7
UK Property Fund	22.1
Cash Fund	0.0

#### 6. Value for members assessment

We are 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. Our general policy in relation to value for member considerations is set out below.

We review 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 Fund. The date of the last review was 9 July 2021. We note that value for money does not necessarily mean the lowest fee, and the overall quality of the service received has also been considered in this assessment.

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Our investment advisers have confirmed that compared to schemes with a similar (and in some cases significantly larger) level of assets, overall members of the Fund are paying competitive fees for the investments. This is mainly due to the fact that fees were negotiated when the Fund was much larger and are being honoured by L&G despite the small amount of remaining assets.

In carrying out the assessment, we also consider the other benefits members receive from the Fund, which include: confirmed that compared to schemes with a similar (and in some cases significantly larger) level of assets, members of the Fund are paying very competitive fees for both passive and active funds. This is largely as a result of fees negotiated when the Fund was much larger being honoured by L&G for the small amount of remaining assets.

In carrying out the assessment, we also consider the other benefits members receive from the Fund, which include:

- our oversight and governance, including ensuring the Fund is compliant with relevant legislation, and holding regular meetings to monitor the Fund and address any material issues that may impact members;
- the design of the default arrangements and how this reflects the interests of the membership as a whole;
- the range of investment options and strategies;
- the quality of communications delivered to members;
- the quality of support services, such as the Fund website where members can access fund information online; and
- the efficiency of administration processes and the extent to which the administrator met or exceeded its service level standards.

As detailed in the earlier section covering the processing of core financial transactions, we are comfortable with the quality and efficiency of the administration processes.

We believe that the transaction costs provide value for members as the ability to transact forms an integral part of the investment approaches and expect this to lead to greater investment returns net of costs over time.

Overall, we believe that members of the Fund are receiving good value for money for the charges and cost that they incur, for the reasons set out in this section.

#### **7. Trustee knowledge and understanding**

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

With the help of our advisers, we regularly consider training requirements to identify any knowledge gaps. Our investment advisers proactively raise any changes in governance requirements and other relevant matters as they become aware of them. Our advisers typically deliver training on such matters at Trustee meetings if they were material. During the period covered by this Statement, there was no such training needed.

We are familiar with and have access to copies of the Fund's governing documentation and documentation setting out our policies, including the Trust Deed & Rules and SIP (which sets out the policies on investment matters). In particular, we refer to the Trust Deed and Rules as part of considering and deciding to make any changes to the Fund, and the SIP is formally reviewed annually and as part of making any change to the Fund's investments. Further, we believe that we have sufficient knowledge and understanding of

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the law relating to pensions and trusts and of the relevant principles relating to the funding and investment of occupational pension schemes to fulfil our duties.

We are required to commit to completing the training, either at the relevant meetings or by personal study. All of the Trustee Directors have completed the Pensions Regulator's Trustee Toolkit (an online learning programme, designed to help trustees of pension schemes meet the minimum level of knowledge and understanding required by law). Regular training is provided on aspects of the Trustee Knowledge and Understanding requirements. Other training relates to topical items or specific issues under consideration and during the Fund year.

A training log is maintained in line with best practice and the training programme is reviewed annually to ensure it is up to date. Additionally, the Fund has in place a structured induction process for new Trustee Directors.

Considering our knowledge and experience and the specialist advice received from the appointed professional advisors (eg investment consultants, legal advisors), we believe that we are well placed to exercise our functions as Trustee Directors of the Fund properly and effectively.

The Statement of Investment Principles on page 53 forms part of this Chair's Annual Governance Statement.

### **Signed by the Chair of the Trustee of the Skanska Pension Fund:**

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Chairman

17 October 2022  
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Date