

Chairman's Statement

Year ended 5 April 2020

Introduction

Governance requirements apply to defined contribution pension arrangements such as the Defined Contribution (DC) Section of the Shaw Group Pension Scheme (the Scheme), to help members achieve a good outcome from their pension savings. The Trustees of the Scheme are required to produce a yearly statement (which is signed by the Chair of Trustees) to describe how these governance requirements have been met in relation to:

- the investment options in which members' funds are invested (this means the default arrangement and other funds members can select or have assets in, such as self-select or legacy funds);
- the requirements for processing financial transactions;
- the charges and transaction costs borne by members;
- an illustration of the cumulative effect of these costs and charges;
- a 'value for members' assessment; and
- trustee knowledge and understanding.

This statement covers the period from 6 April 2019 to 5 April 2020. The Trustees continue to be committed to high governance standards and we have an annual meeting at which we monitor the controls and processes in place in connection with the Scheme's investments and administration. The Trustees met on 16 July 2019.

The Scheme operates under a definitive Trust Deed and Rules dated 2 November 1999. A copy is available to members and beneficiaries on request from the Trustees.

I welcome this opportunity to explain what the Trustees do to help to ensure the Scheme is run as effectively as it can be. If you have any questions about anything that is set out below, or any suggestions about what can be improved, please do contact Cerys Smith, Payroll & Pensions Compliance Manager, using the following contact details:

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Summary of the Year

Alongside the rest of the world, the pension industry ended the financial year of 2019-20, facing a large amount of uncertainty as the implications of COVID-19 began to make massive disruptions. The year also saw, as in previous years, new legislative requirements, requiring the Trustees to assess current practices and make amendments where necessary to ensure compliance. Throughout, the Trustees have remained resolute in their determination to continue ensuring member's interests remain at the forefront of their minds whilst making decisions and ensuring value for money is maintained at a high standard.

Default Investment Arrangements

Members who join the Scheme and who do not choose an investment option from the Self-Select Funds options are placed into the default investment arrangement.

The Trustees are responsible for the Scheme's investment governance, which includes setting and monitoring the investment strategy for the Scheme's default arrangement. Details of the objectives and the Trustees' policies regarding the default arrangement can be found in the 'Statement of Investment Principles' ("SIP"), attached to this annual statement.

The Trustees' key aim is to provide investments that are suitable for meeting members' long and short-term investment objectives. They have considered members' potential circumstances, in particular members' attitudes to risk and how this might vary with the term to retirement.

The Trustees note that powers of investment must be exercised in such a manner as to ensure the security, quality, liquidity and profitability of the portfolio as a whole.

The Trustees are aware of the need for assets to be invested in the best and sole interest of the members and beneficiaries and in a way, which helps ensure that the members' benefit aspirations are met.

The Trustees review the default arrangement of the DC Section at least every three years and without delay following any significant change in investment policy, or the demographic profile of relevant members. The Trustees consider the extent to which the return on the investments relating to the default arrangement (after deduction of investment charges) is consistent with the Trustees' aims and objectives for the default arrangement. A review was undertaken in 2018 during which the default strategy was updated, additional self-select funds were offered and investments were transferred to the Mobius Life Platform. Further details on this is included in the SIP.

During this year, the Trustees concluded that the default arrangement was performing broadly as expected and is consistent with the aims and objectives of the default as stated in the SIP.

Core Financial Transactions

The Trustees are required to report the processes and controls in place in relation to the 'core financial transactions', including but not limited to, investment of contributions, transfer of member assets from the Scheme, investment switches and payments out of the Scheme to members/beneficiaries.

The Trustees ensure that these important financial transactions are processed promptly and accurately. The responsibility for this is held by the Scheme administrator, Quantum Advisory, who provide an annual report to the Trustee Board assessing the speed and effectiveness of investing the monthly contributions.

Quantum has set internal service level standards, under which most calculations are to be completed within ten working days. As part of Quantum's Audit and Assurance Faculty internal controls, standards are monitored at least weekly by Team Leaders to ensure service levels are met. The Trustees are updated with Quantum's performance against their Service Level Agreement annually.

The core financial transactions include:

- The investment of contributions to the Scheme (within three working days).
- The transfer of assets relating to members into and out of the Scheme.
- The movement of assets relating to members between different investments within the Scheme (e.g. fund switching).
- Payments from the Scheme to, or in respect of, members and their beneficiaries.

The Trustees are pleased to report that in the last Scheme year there were no material administration service issues and all core financial transactions were processed promptly and accurately. The Trustees also ensure that core financial transactions are processed promptly and accurately by having the Scheme auditor independently test monthly contributions for timeliness and compliance with the Payment Schedule, as part of the annual audit process.

Charges and transaction costs paid by members

The Total Expense Ratio (TER) that applied to the Scheme's default arrangement over the year to 5 April 2020 is detailed in the table below. The default strategy is designed for members who wish to take their benefits as cash at retirement. Lifestyle switches under the default investment strategy are conducted on a quarterly basis.

Funds	Years to retirement	TER
100% Legal & General World Equity Index Fund	Over 10 years	0.14%
5% per quarter switch to Baillie Gifford Multi Asset Growth Fund	10 years to 5 years	0.14% to 0.49%
100% Baillie Gifford Multi Asset Growth Fund	5 years to 2 years	0.49%
12.5% per quarter switch to Legal & General Cash Fund	Under 2 years	0.49% to 0.10%
100% Legal & General Cash Fund	At target retirement age	0.10%

The TER sets out the total annual costs involved in running an investment fund. This includes the Annual Management Charge, plus other charges incurred in administering the fund (including, but not limited to, share registration fees, legal fees, auditor fees and custodian fees).

As can be seen, the total charge that applied to the default investment strategy at the end of the year did not exceed the 'charge cap' of 0.75%. The charge cap is actually assessed against a different measure of the costs that apply to the funds, known as the Member Borne Deduction (MBD). The MBD can be considered to be the same as the TERs shown above.

The charges applicable to the funds offered under the Scheme, which are not part of the default arrangement, are:

Fund name	Asset class	TER
Legal & General World Equity Index Fund	Equity	0.14%
Legal & General Ethical Global Equity Index	Equity	0.35%
Legal & General UK Equity Index	Equity	0.09%
Baillie Gifford Multi Asset Growth Fund	DGF	0.49%
Legal & General Property	Property	0.66%
Legal & General AAA-AA-A Corporate Bond Index	Bonds	0.13%
Legal & General Pre-Retirement	Bonds	0.13%

Legal & General Over 15 Year Gilt Index	Gilts	0.08%
Legal & General Cash Fund	Cash	0.10%

The transaction costs applicable during the last Scheme year were:

Fund name	Transaction cost
Legal & General World Equity Index Fund	0.004%
Baillie Gifford Multi Asset Growth Fund	0.563%
Legal & General Over 15 Year Gilt Index	0.034%
Legal & General Cash Fund	0.003%
Legal & General Ethical Global Equity Index	0.007%
Legal & General UK Equity Index	0.021%
Legal & General Property	-0.053%
Legal & General AAA-AA-A Corporate Bond Index	0.215%
Legal & General Pre-Retirement	N/A

(Some transaction costs are negative due to the prescribed method for calculating them.)

Transaction costs are incurred as a result of buying, selling, lending or borrowing investments. The costs mainly arise as a result of delivering a fund's target investment return where a passive or active investment approach is used. As an example, a fund may need to buy or sell assets when members pay money into or take money out of a fund and the buying or selling of assets will incur costs.

Transaction costs arise as a result of participating in a financial market and are separate from any annual management charges. The transaction cost for buying or selling an investment includes all costs incurred by a buyer or seller from the point an order to transact is received to the point at which the transaction completes.

These costs include all charges, commissions, taxes and other associated payments incurred directly or indirectly. These costs are ultimately borne by assets of the arrangement or of any investment in which the arrangement is

directly or indirectly invested. Of these costs, some are easily identifiable as specific costs incurred, but some are less identifiable and may rely on the investment manager's judgement.

The default strategy's performance is monitored at Trustees' meetings. The funds' performance fell drastically in March 2020 due to the COVID pandemic and this is reflected in the annual performance below. However, performance over the longer period is in line with the Trustees' expectations. Performance for the default strategy is shown in the table below:

Member's term to retirement	Performance over the year to 31 March 2020
Over 10 years	-6.0%

		& costs deducted						
1	£56,200	£56,100	£58,100	£58,000	£57,800	£57,600	£55,500	£55,400
3	£67,800	£67,100	£71,000	£70,800	£70,100	£69,200	£62,300	£62,200
5	£80,600	£79,200	£85,000	£84,500	£83,300	£81,600	£69,000	£68,700
10	£118,000	£115,000	£125,000	£124,000	£120,000	£116,000	£85,300	£84,600
15	£164,000	£159,000	£173,000	£171,000	£164,000	£155,000	£101,000	£99,700
20	£219,000	£211,000	£232,000	£227,000	£216,000	£201,000	£115,000	£114,000
25	£286,000	£275,000	£303,000	£295,000	£277,000	£254,000	£129,000	£127,000
30	£368,000	£351,000	£389,000	£377,000	£349,000	£315,000	£143,000	£140,000
35	£466,000	£443,000	£493,000	£476,000	£435,000	£385,000	£155,000	£152,000
40	£585,000	£553,000	£619,000	£594,000	£536,000	£467,000	£168,000	£164,000
45	£729,000	£686,000	£771,000	£737,000	£656,000	£561,000	£179,000	£175,000

Notes

1. Projected Pension Account values are shown in today's terms and do not need to be reduced further for the effect of future inflation.
2. The starting Pension Account value is assumed to be £52,000.
3. Inflation is assumed to be 2.5% each year.
4. Contributions are assumed to continue to retirement age based on the core minimum contribution rate. Contributions are based on a current salary of £40,000 pa which will increase in line with assumed earnings inflation of 2.5% each year.
5. Values shown are estimates and are not guaranteed.
6. The projected growth rates before charges for the fund choices are as follows:
 - a. Default investment strategy from 2.90% to 6.33% pa depending on how close you are to retirement
 - b. Legal & General World Equity Index Fund: 6.50% pa
 - c. Baillie Gifford Multi Asset Growth Fund: 6.00% pa
 - d. Legal & General Cash Fund: 1.50% pa.

Deferred member

The figures in the table overleaf show the effect of the fund managers' charges on a deferred member's fund value over incremental periods for the next 40 years. The table shows the effect based on the assumptions set out in the notes below the table.

Projected Pension Account in today's money - deferred members

	Fund choice							
	Default investment strategy		Legal & General World Equity Index		Baillie Gifford Multi Asset Growth		Legal & General Cash	
Years	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted
1	£35,100	£35,100	£36,400	£36,300	£36,200	£36,000	£34,700	£34,600
3	£37,300	£36,900	£39,300	£39,100	£38,700	£38,200	£34,000	£33,900
5	£39,900	£39,100	£42,400	£42,100	£41,400	£40,500	£33,300	£33,200
10	£47,700	£46,100	£51,300	£50,700	£49,000	£46,700	£31,700	£31,400
15	£57,800	£55,500	£62,200	£60,900	£57,900	£54,000	£30,200	£29,800
20	£70,000	£66,800	£75,300	£73,300	£68,500	£62,400	£28,800	£28,200
25	£84,800	£80,300	£91,100	£88,200	£81,000	£72,200	£27,400	£26,700
30	£103,000	£96,600	£110,000	£106,000	£95,800	£83,400	£26,100	£25,300
35	£124,000	£116,000	£134,000	£128,000	£113,000	£96,400	£24,800	£24,000
40	£151,000	£140,000	£162,000	£154,000	£134,000	£111,000	£23,600	£22,700

Notes

1. Projected Pension Account values are shown in today's terms and do not need to be reduced further for the effect of future inflation.
2. The starting Pension Account value is assumed to be £35,000.
3. Inflation is assumed to be 2.5% each year.
4. No further contributions are assumed.
5. Values shown are estimates and are not guaranteed.
6. The projected growth rates before charges for the fund choices are as follows:
 - a. Default investment strategy from 2.90% to 6.33% pa depending on how close you are to retirement
 - b. Legal & General World Equity Index Fund: 6.50% pa
 - c. Baillie Gifford Multi Asset Growth Fund: 6.00% pa
 - d. Legal & General Cash Fund: 1.50% pa.

Value for Members Assessment

The Trustees are required to assess the extent to which member borne charges and transaction costs represent good value for members. It is difficult to give a precise definition of “good value”, but the Trustees consider that it broadly means a good balance between the level of costs and the quality, which is appropriate for the Scheme membership as a whole, in comparison to other options.

In August 2019 the Trustees undertook a value for members review.

The Trustees looked at the services members pay for over the four core areas detailed in the Pensions Regulator’s guidance: administration, investment governance, communications, scheme management and governance. The Trustees recognise that the only services that members routinely pay for are in relation to the investment of members’ accounts. In other words, the only costs borne by members are the charges and transaction costs that apply to the investment of their accounts. Other charges can be incurred, including transaction costs for additional quotations or switches and payment of fees in relation to divorce purposes, but these are ad-hoc.

In carrying out the assessment, the Trustees also consider the other benefits members receive from the Scheme, including ensuring the Scheme is compliant with relevant legislation; the design of the default arrangement and how this reflects the membership as a whole; the range of investment options and strategies; the quality of

communications delivered to members; the quality of support services; and the efficiency of administration processes and the extent to which the administrator met or exceeded its service level standards for the Scheme year.

A benchmarking exercise was undertaken as at 5 April 2019 to analyse whether the funds offered by the Scheme provide value for members in terms of performance and the fees charged. In summary, the fees for current funds and performance, as far as a comparison can be made, appear broadly comparable with other institutional providers.

The Trustees concluded in their review that the Scheme provides value for members.

Trustees knowledge and understanding

The Trustees are required by law to possess, or have access to, sufficient ‘knowledge and understanding’ to run the Scheme effectively. Each Trustee must:

- Be conversant with the trust deed and rules of the Scheme, the Scheme’s statement of investment principles and any other document recording policy for the time being adopted by the Trustees relating to the administration of the Scheme generally,
- Have, to the degree that is appropriate for the purposes of enabling the individual properly to exercise his or her functions as trustee, knowledge and understanding of the law relating to pensions and trusts and the principles relating to investment the assets of occupational pension schemes. The Trustees take this responsibility seriously and work with their professional advisers to address any areas where their knowledge might be less than the Pensions Regulator would expect.

The Trustees have measures in place to comply with the legal and regulatory requirements regarding conversance and knowledge and understanding. Details of how the conversance and knowledge and understanding requirements have been met during the period covered by this statement are set out below. We take our training and development responsibilities seriously and maintain a Trustee training record. This training record is reviewed at every meeting to identify any gaps in the knowledge and understanding across the board.

This allows us to work with our professional advisers to address any areas where our knowledge is less than what Pensions Regulator would expect.

The Trustees, with the help of their advisers, regularly consider training requirements to identify any knowledge gaps. The Trustees' investment advisers proactively raise any changes in governance requirements and other relevant matters as they become aware of them. The Trustees' advisers would typically deliver training on such matters at Trustee meetings if they were material. During the period covered by this statement, the Trustees received training on the following topics:

- The Pensions Regulator's future programme
- Automatic enrolment: earnings trigger review and 2019/20 qualifying earnings band published
- Pensions Ombudsman's powers consultation
- Pension scams

All the Trustees are familiar with and have access to copies of the current Scheme governing documentation, including the Trust Deed & Rules (together with any amendments), the SIP and key policies and procedures. In particular, the Trustees refer to the Trust Deed and Rules as part of considering and deciding to make any changes to the Scheme and, where relevant, deciding individual member cases, and the SIP is formally reviewed at least every three years and as part of making any change to the Scheme's investments.

Further, the Trustees consider that they have sufficient 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 to fulfil their duties.

Taking into account the knowledge and experience of the Trustees with the specialist advice (both in writing and whilst attending meetings) received from the appointed professional advisers (e.g. investment consultants, legal advisers), the Trustees believe they are well placed to exercise their functions as Trustees of the Scheme properly and effectively.

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Chairman of the Trustees

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Date