

Shaw Group Pension Scheme

Chairman's Statement Year ended 5 April 2021

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 2020 to 5 April 2021. 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 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.

The Trustees remain 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. 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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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.

The Trustees continue to monitor the default arrangement and remain satisfied that it is performing broadly as expected and is consistent with the aims and objectives of the default as stated in the SIP. The Trustees will be undertaking another review of the default arrangement later in 2021, post scheme year-end, the results of which will be made available in next year's Chair's Statement.

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. These transactions are undertaken on the Trustees' behalf by Mobius Life, Hughes Price Walker Limited (HPW) as Scheme administrator (during the Scheme year, the Trustees switched their Scheme administrator from Quantum Advisory to HPW with effect from 1 November 2020) and Shaw Group operating the Trustees' bank account. The Trustees receive regular reports from these parties to enable them to assess that controls are in place and procedures are being followed appropriately. The Scheme's accounts are audited annually by UHY Hacker Young.

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Core Financial Transactions (continued)

HPW has set internal service level standards, under which most calculations are to be completed within five working days and its administration department is ISO 9001 accredited. The Trustees shall be updated with HPW's performance against their service levels on an annual basis.

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 2021 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 0.47%
100% Baillie Gifford Multi Asset Growth Fund	5 years to 2 years	0.47%
12.5% per quarter switch to Legal & General Cash Fund	Under 2 years	0.47% 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.

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Core Financial Transactions (continued)

The charges applicable to the funds offered under the Scheme are:

Fund name	Asset class	TER
Legal & General Ethical Global Equity Index	Equity	0.35%
Legal & General UK Equity Index	Equity	0.09%
Baillie Gifford Multi Asset Growth Fund	DGF	0.47%
Legal & General Property	Property	0.65%
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%
Legal & General World Equity Index Fund	Equity	0.14%

The transaction costs applicable during the last Scheme year were:

Fund name	Transaction cost
Legal & General World Equity Index Fund	-0.008%
Baillie Gifford Multi Asset Growth Fund	0.553%
Legal & General Over 15 Year Gilt Index	0.001%
Legal & General Cash Fund	-0.002%
Legal & General Ethical Global Equity Index	-0.004%
Legal & General UK Equity Index	-0.006%
Legal & General Property	-1.654%
Legal & General AAA-AA-A Corporate Bond Index	0.021%
Legal & General Pre-Retirement	0.014%

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

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Core Financial Transactions (continued)

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 significantly improved over the Scheme year as global and UK markets started to recover from the impact of the COVID pandemic.

Performance for the default strategy is shown in the table below:

Member's term to retirement	Performance over the year to 31 March 2021
Over 10 years	39.9%
10 years to 5 years	Between 39.9% and 20.5%
5 years to 2 years	20.5%
Under 2 years	Between 20.5% and 0.1%
At target retirement age	0.1%

Illustration of costs and charges

Over a period of time, the charges and transaction costs that are taken out of a member's pension savings can reduce the amount available to the member at retirement. The Trustees have set out below illustrations of the impact of charges and transaction costs on different investment options in the Scheme. 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" on the projection of an example member's pension savings.

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Illustration of costs and charges (continued)

As each member has a different amount of savings within the Scheme and the amount of any future investment returns and future costs and charges cannot be known in advance, the Trustees have had to make a number of assumptions about what these might be. The assumptions are explained below:

- The "Before charges" figures represent the savings projection assuming an investment return with no deduction of member-borne fees or transaction costs. The "After all charges & costs deducted" figures represent the savings projection using the same assumed investment return but after deducting member-borne fees.
- The illustration is shown for the current default arrangement since it is the strategy with the most members invested in, where members were automatically enrolled, as well as a range of funds from the Scheme's self-select fund range. The self-select funds shown in the illustration are:
 - the fund that has attracted the greatest investment – this is the Legal & General World Equity Index
 - a diversified growth fund – this is the Baillie Gifford Multi Asset Growth
 - the fund with the lowest costs and return – this is the Legal & General Cash

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Illustration of costs and charges (continued)

Active member

The figures in the table below show the effect of the fund managers' charges on an active member's fund value over incremental periods for the next 43 years. The table shows the effect based on the assumptions set out in the notes below.

Projected Pension Account in today's money - active member age 21								
	Fund choice							
	Default strategy		Legal & General World Equity Index		Baillie Gifford Multi Asset Growth		Legal & General Cash	
Years	Before charges deducted	After all charges deducted	Before charges	After all charges deducted	Before charges	After all charges deducted	Before charges	After all charges deducted
1	£41,848	£41,792	£41,848	£41,792	£41,886	£41,471	£39,962	£39,924
3	£52,120	£51,922	£52,120	£51,922	£52,252	£50,810	£45,800	£45,679
5	£63,209	£62,827	£63,209	£62,827	£63,464	£60,703	£51,524	£51,311
10	£94,946	£93,883	£94,946	£93,883	£95,662	£88,084	£65,353	£64,871
15	£133,379	£131,227	£133,379	£131,227	£134,835	£119,714	£78,521	£77,718
20	£179,920	£176,131	£179,920	£176,131	£182,496	£156,251	£91,059	£89,890
25	£236,279	£230,125	£236,279	£230,125	£240,482	£198,458	£102,997	£101,424
30	£304,527	£295,052	£304,527	£295,052	£311,031	£247,213	£114,364	£112,351
35	£387,199	£372,898	£387,172	£373,122	£396,865	£303,533	£125,187	£122,705
40	£488,775	£454,710	£487,252	£466,998	£501,294	£368,592	£135,492	£132,515
43	£555,341	£502,553	£557,168	£532,217	£574,520	£412,378	£141,437	£138,152

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 £37,000 and the total contribution rate of 10%.
3. Inflation is assumed to be 2.5% each year.

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Illustration of costs and charges (continued)

4. Contributions are assumed to continue to retirement age based on the core minimum contribution rate. Contributions are based on a current salary of £35,000 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 2.1% to 6.5% 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: 6.60% pa
 - d. Legal & General Cash Fund: 1.50% pa.

Deferred member

The figures in the table show the effect of the fund managers' charges on a deferred member's fund value over incremental periods for the next 30 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 member age 34								
	Fund choice							
	Default strategy		Legal & General World Equity Index		Baillie Gifford Multi Asset Growth		Legal & General Cash	
Years	Before charges	After all charges deducted	Before charges	After all charges deducted	Before charges	After all charges deducted	Before charges	After all charges deducted
1	£47,795	£47,728	£47,795	£47,728	£47,840	£47,346	£45,551	£45,506
3	£51,598	£51,381	£51,598	£51,381	£51,744	£50,158	£44,667	£44,535
5	£55,704	£55,313	£55,704	£55,313	£55,966	£53,137	£43,799	£43,584
10	£67,455	£66,511	£67,455	£66,511	£68,091	£61,382	£41,704	£41,295
15	£81,685	£79,976	£81,685	£79,976	£82,843	£70,907	£39,709	£39,126
20	£98,917	£96,168	£98,917	£96,168	£100,792	£81,909	£37,810	£37,071
25	£119,953	£114,255	£119,785	£115,637	£122,628	£94,618	£36,001	£35,124
30	£144,595	£131,140	£145,054	£139,049	£149,196	£109,299	£34,279	£33,280

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Illustration of costs and charges (continued)

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. The starting Pension Account value is assumed to be £46,000.
2. Inflation is assumed to be 2.5% each year.
3. No further contributions are assumed.
4. Values shown are estimates and are not guaranteed.
5. The projected growth rates before charges for the fund choices are as follows:
 - a. Default investment strategy from 2.1% to 6.5% 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: 6.60% 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.

The Trustees have 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 remain satisfied that the Scheme provides value for members. In particular, the annual performance of the default strategy over the Scheme year has helped provide good value for members.

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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.

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.


Chairman of the Trustees

Date

28/10/21