

Babcock International Group Pension Scheme Value for Members Assessment 2020/21 Scheme Year

August 2021



Limitations

Towers Watson Limited (Willis Towers Watson) (“we/our/us”) has prepared this document for the Trustee of the Babcock International Group Pension Scheme (the “Trustee” of the “Scheme”) to assist in the governance and oversight of the monitoring of the DC Section that forms part of the Scheme.

In preparing this report we may have relied upon data supplied to us by third parties. While reasonable care has been taken to gauge the reliability of this data, we are unable to guarantee the accuracy or completeness of that data, and we cannot therefore be held liable in this regard, including as to the misrepresentation of data by third parties involved.

Our opinions and ratings on providers are not intended to imply, nor should be interpreted as conveying, any form of guarantee or assurance by us of the future performance of the fund provider in question, either favourable or unfavourable.

Some general limitation on reliance should be noted:

- past performance should not be taken as representing any particular guide to future performance
- the value of investments can go down as well as up, and an investor might not receive back as much as they originally invest.

This document is provided to the Trustee solely for their use, for the purpose indicated. It is based on data/information available to us at the date of the report and takes no account of subsequent developments after that date.

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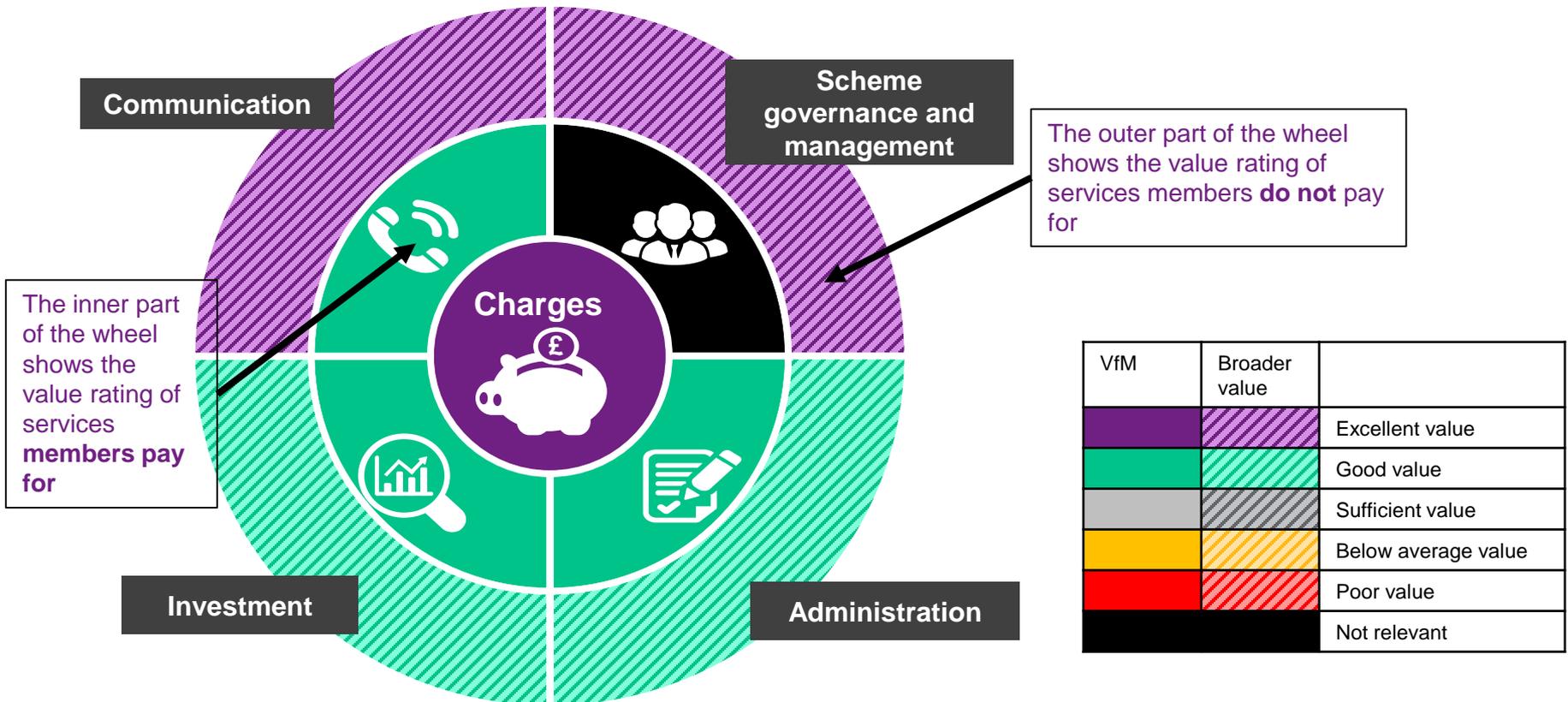
Executive summary

Value for members ('VfM')

We believe that the combined value provided to members by the DC Section's governance and management, administration, investment and communication services and features offers **good to excellent value for members** when compared with the overall level of charges met by members. The DC Section provides good quality services that are expected to meet the specific needs of the DC Section membership.

Scheme Governance and Management continues to offer **Excellent Value** due to a dedicated DC Committee responsible for the monitoring and oversight of the DC Section and its associated practices including a solid governance framework, well maintained risk register, with additional support from the Group Pensions Department and external professional advisers as required.

Communications also continues to offer **Excellent Value** reflecting the additional engagement opportunities available to members via OneDay.



Assessment of elements that influence value

The Pensions Regulator has recommended that, in order to assess the value members receive, trustees need to consider three aspects:

- 1. Identify what members pay for** – Identify those services and features that fall under the legal value for members requirements, and which are elements of broader value.
- 2. Need** – The Trustee must consider the need for the service from members. This covers both the appropriateness of a service for the membership, as well as the actual and perceived value members gain.
- 3. Performance** – The Trustee must consider the quality of the service to meet the need. This should look at the current service provided, the performance of the service provider and how well this meets the needs of the membership.

Throughout the assessment we look to document the Trustee's views on the need and the performance under the key areas of scheme governance and management, administration, investment and communications and relate these back to the Scheme charges – which are paid by members. We also look to reference the supporting evidence used to form and support the assessment.

Value for members core areas

Charges

Scheme governance and management

Investment

Administration

Communications

Value for members – Charges and transaction costs

Scheme management charges

- The competitive AMCs are due to the Trustee using the DC Section's profile and notable assets under management to negotiate significant cost savings on the fund charges for members. During 2019 and 2020 Aviva offered further reductions in the fund charges once Scheme assets reach certain 'trigger points'
 - The TERs for the funds available to members range from 0.22% to 0.52% and are competitive compared with other comparative DC arrangements.
 - The TER for the growth phase of the default investment option (global equity) is 0.25% which is significantly below the charge cap (0.75%).
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Transaction costs

- Transaction costs are those incurred by fund managers as result of buying, selling, lending or borrowing investments.
 - We have set out the transaction cost information provided by Aviva on the following slide
 - The transaction costs range from 0.00% to 0.0895% over the course of the Scheme year
 - The FCA has stipulated that a calculation methodology called 'slippage cost' should be used for transaction costs. This calculates the difference between the expected price of trading a fund's underlying investment (e.g. company shares or bonds) at the time the order is raised by the fund manager and the price at which the trade is actually executed on the relevant market.
 - One consequence of this calculation method is that, rather than generating a cost, it can result in a profit (also known as a 'negative cost'). This can happen, for example, when the actual price paid in buying an investment is lower than the expected price.
 - Please refer to the Appendix which show the DC Section charges in absolute and relative terms. We conclude that, in isolation, the charges represent **Excellent value for members**.
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Value for members

Scheme governance and management

Members do not meet or contribute towards to cost of the governance and management of the DC Section. We have, therefore, assessed this area in the broader context and have excluded it from the our formal assessment of value for members.

Need

It is evident that a well run pension plan, delivering good member services and outcomes can only be achieved through the maintenance of a strong governance and management framework. This need is a cornerstone of the Pension Regulator's own beliefs.

Performance

- We believe that the oversight and management by the Trustee adds material value to members. The Trustee oversight of the DC Section includes:
 - A dedicated 'DC Committee' comprising of Trustee Directors is responsible for the monitoring and oversight of the DC Section.
 - The DC Committee operates a governance framework to co-ordinate and help manage its oversight and risk management activities on a regular basis.
 - A risk register is maintained and reviewed regularly.
 - Where appropriate, the DC Committee utilises services of Group Pensions Department and external professional advisers to support its activities.
 - Identifying areas where further communication may be required to assist members with manging their pension arrangements and understanding the risks.
 - Efficient and productive relationship between the Trustee and the Company
 - Regular catch-up meetings with senior personnel within Aviva to ensure 'Scheme voice' is heard

Although the cost of scheme governance and management is not met by members, and so falls outside of the legal definition, we believe that the Trustee provides excellent value to members in the areas listed above. We further note that the Trustee has been able to continue to perform its duties and meet its obligations to the same high standard throughout the Covid-19 pandemic

Rating

We conclude that under the key area of scheme governance and management the DC Section provides **excellent value for members**.

Value for members

Administration

The DC Section is a bundled trust based pension arrangement with administration services provided by Aviva. All administration costs are met by the members via the TERs on funds in which they invest.

Need

Members have a need for accurate and up-to-date information on their fund value and investment performance. Members also have a need for prompt and accurate processing of tasks such as fund switches, retirement quotations and contribution investments. Given this tends to be the area where most complaints are raised across the industry, the need for high quality administration is evident.

Performance

Aviva generally provides a good quality service to members. Performance remained stable during the last year, with Aviva processing on average 88% of tasks within SLA, which demonstrates Aviva's continuing resilience to the potential adverse impacts of Covid-19. Aviva was also able to restructure at short notice to remote working and this is now well established with suitable network capacity and additional business communications such as MS Teams which is proven and effective.

Aviva has also continued to develop its 'Service transformation programme' which is designed to give members a better overall experience in relation to any interactions with Aviva. The digital transformation from member-site to My Workplace is due to launch later this year. Aviva will continue to provide regular updates to the Babcock Group Pensions Team regarding the new features. A user group is being established to test the new website and provide feedback ahead of the launch date and the DC Committee are included, in addition to the Babcock Pensions team.

The 'my Aviva' App continues to benefit from development and is rich in functionality..

Rating

We therefore believe that the overall value offered by the DC Section under the key area of administration offers **good value for members.**

Value for members

Investment

Investment costs are met by members via the Annual Management Charge (AMC). As previously identified, the charges under the DC Section are competitive.

Need

Around **97%** of the DC Section's membership assets are invested in the default option demonstrating that there is a need for a well designed and governed default investment strategy.

Performance

The Trustee undertook a triennial investment strategy review in February 2019 and an annual strategy review in 2021 which focused on the appropriateness of the current default strategy based on member demographics and member retirement behaviour. The Trustee believes that the current investment strategy still continues to meet the needs of most members.

The review also considered the range of alternative investment choices and again concluded that the current range is appropriate.

The review also reviewed the Scheme's underlying manager's approach to ESG factors and as such the Trustee considered whether to enhance its ESG focus within the available fund range, given the high focus from regulators on this issue. The Trustee agreed to pursue the addition of an ESG/Climate change focussed fund to the self select fund range and work commenced on this during the 2020/21 Scheme year and is expected to conclude during the 2021/22 Scheme year.

The Trustee and their investment adviser undertakes regular monitoring of the DC Section's investment fund performance on a net fee basis, that includes the default lifestyle strategy and the self-select fund range. This monitoring takes place on a quarterly basis with the results presented at each DC Committee meeting. As the majority of funds are passively managed the focus is on ensuring that the funds are performing in line with their underlying indices (benchmarks) – which they are.

The Trustee also undertook a Security of Assets assessment in 2021 which showed the Scheme's position was consistent with that of its peers and that it was a low risk area given Aviva's financial strength and the regulatory regime, but should be kept under consideration.

Rating

We therefore believe that the overall value offered by the DC Section under the key area of investment is **good value for members.**

Value for members

Communications

The DC Section provides a number of bespoke communications to members some of which are provided by Aviva and others which have been developed by the Trustee with their communications consultant. The cost of these communications is met by a combination of the Company and by the members via the annual management charge.

Need

Good communication is important as it enables members to develop a greater understanding of their Scheme and the options available – which should lead to improved outcomes.

Performance

The DC Section provides a number of services which enable members to access information about their DC accounts. The key areas include:

- Member booklet and investment guides
- A bespoke pension website (OneDay... which includes financial education videos)
- Annual newsletter & Eforms
- Dedicated member helpline
- Online access to their accounts and online modelling tool
- Access to a whole of market annuity broking service
- Occasional on-site face to face sessions provided by Aviva personnel

The communication materials provided by Aviva have improved in recent years and are now well-rated by the Trustee's professional advisers. In addition the Trustee has augmented the Aviva communications with its own dedicated website OneDay to enhance the member experience.

Rating

We therefore believe that the overall value offered by the DC Section under the key area of communication is **good value for members**. However, in the broader sense, the Scheme provides **excellent value for members** as a result of the development of OneDay.

Conclusion and next steps

Conclusion

The Trustee, with assistance from its advisers, has considered the services and features of the DC Section that influence value. The need for each service has been considered as well as the performance of the service to meet this need.

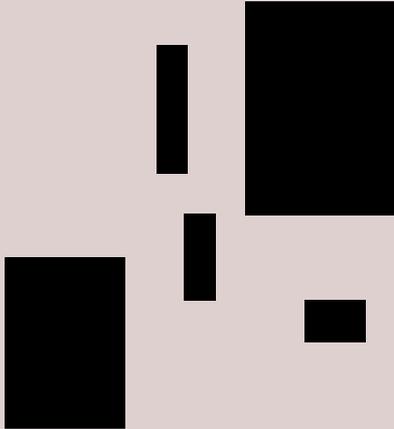
Based on this assessment of the DC Section, we believe that combined value provided to members by the Scheme in the various areas of governance and management, administration, investment and communication services and features is **good to excellent** when compared with the overall level of charges met by members. The DC Section provides high quality and appropriate services to meet the needs of the DC Section membership that have been identified.

Next steps

The Trustee is required to publish its Chair's Statement for the 2020/21 Scheme year. The output of this report should be referenced in the Chair's Statement.

We do not believe there are any actions the Trustee need to take to address areas of poor value. The Trustee should continue to monitor value for members as part of its standard governance processes.

Appendices – Scheme charges and fee benchmarking



Value for members – Charges and transaction costs for 2020/2021

Fund Name	Total expense ratio	Total transaction costs
AV Global Equity (BIGPS)	0.24%pa	0.0895%
AV Diversified Growth (BIGPS)	0.37%pa	0.00%
AV Emerging Market Equity (BIGPS)	0.45%pa	0.0246%
AV Target Level Annuity (BIGPS)	0.29%pa	0.0370%
AV Target Increasing Annuity (BIGPS)	0.21%pa	0.0311%
AV Stewardship	0.27%pa	0.0786%
AV Money Market (BIGPS)	0.21%pa	0.0144%
AV HSBC Islamic Global Equity	0.51%pa	0.0248%

Source: Aviva. TERs can change from time to time.

Value for members – Charges

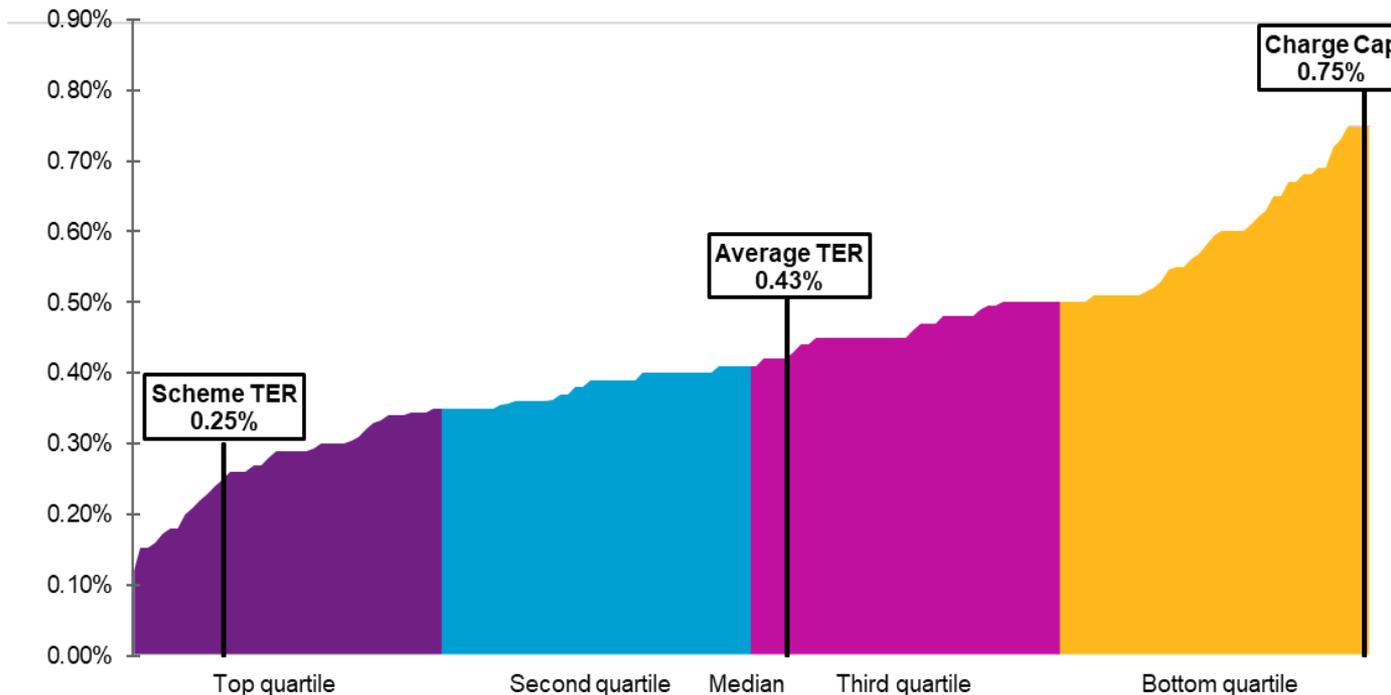
The Scheme's TER of 0.25%pa for the default fund (growth fund) is below that of an average scheme, and below that of the charge cap.

NB – the Scheme's TER has subsequently reduced to 0.24%pa

In this chart we have shown how the charges of the Scheme compare against other pension arrangements.

The Scheme's charges are expressed as a total expense ratio (TER), which includes the annual management charges and additional expenses. This amounts to 0.25%pa for the Scheme's default fund (growth fund) and is below the average TER of other DC arrangements. This comparison is against schemes of all sizes and structures as the perceived value a member gets from the charges will not reflect the size of the Scheme.

We conclude that, in isolation, the charges represent **Excellent value for members.**



How the fee benchmarking works

We have benchmarked fees by comparing the Scheme's default fund TER against the default fund charges of other schemes at Willis Towers Watson. The fees are inclusive of the standard charges for communication, investments, administration and scheme governance and management. We have used the cost of accessing the default fund across all schemes, regardless of the underlying structure of the default investment option.