

# Stena Drilling Limited Money Purchase Scheme

## Chair's statement regarding the governance of defined contribution arrangements

Scheme year - 6 April 2019 to 5 April 2020

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### 1. Introduction

- 1.1. This statement has been prepared by Stena Drilling (Money Purchase) Pension Trustee Limited ("the Trustee"), the Trustee of the Stena Drilling Limited Money Purchase Scheme ("the Scheme"), to report on compliance with governance standards.
- 1.2. The governance standards apply to defined contribution ("DC") arrangements and are designed to help members achieve good outcomes from their pension savings.
- 1.3. This statement covers the Scheme year 6 April 2019 to 5 April 2020.
- 1.4. The Scheme is open to new members and the Sponsoring Employer, Stena Drilling Limited, uses the Scheme to meet its auto-enrolment obligations by auto-enrolling newly Eligible Jobholders into the Scheme and by maintaining the Scheme as a 'Qualifying Scheme' for the active membership.
- 1.5. The Scheme provides benefits on a DC basis. The Scheme is operated on bundled basis whereby The Prudential Assurance Company Limited ("Prudential") provides investment, administration and communication services on behalf of the Trustee.
- 1.6. In addition, one preserved member holds Additional Voluntary Contributions with Utmost Life and Pensions (formerly held with the Equitable Life Assurance Society and transferred to Utmost Life and Pensions on 1 January 2020 as part of the business transfer between these two organisations).

### 2. Default investment arrangement

- 2.1. For members who are automatically enrolled into the Scheme, and who do not make an alternative selection, contributions are invested in the Scheme's default investment arrangement ("the default").
- 2.2. The key features of the default are:
  - 2.2.1. The default uses a 'lifestyle' strategy to automatically reduce risk/volatility in the years approaching retirement age.
  - 2.2.2. Up until 5 years before a member's target retirement age, the default invests 100% of member's funds in the Baillie Gifford Diversified Growth Fund.
  - 2.2.3. Over the 5 year period immediately prior to a member's target retirement age, the default automatically and gradually switches out of the Baillie Gilford Diversified Growth Fund and into the Prudential Long Term Bond Fund and the Prudential Cash Fund. By the time the member reaches their target retirement age they will be invested 75% in the Prudential Long Term Bond Fund and 25% in the Prudential Cash Fund as detailed in the table over the page:

Years to Target Retirement Age	Baillie Gifford Diversified Growth Fund	Prudential Long Term Bond Fund	Prudential Cash Fund
0	0%	75%	25%
1	20%	70%	10%
2	40%	60%	0%
3	60%	40%	0%
4	80%	20%	0%
5	100%	0%	0%
>5	100%	0%	0%

### Review of the default

- 2.3. No formal review of the default was undertaken in the Scheme year. The strategy and performance of the default were last formally reviewed in May 2018. This concluded that that the arrangement and fund returns are consistent with the aims and objectives set out in the Statement of Investment Principles ("SIP"). The Trustee considered the impact of performance on different groups of members in the Scheme and were satisfied that is on target for all groups. The next review is scheduled to take place in 2021.
- 2.4. The Trustee monitors the performance of all investment options, including the funds which make up the default, at each Trustee meeting. These reviews are part of the regular governance of the Scheme and do not constitute a formal review of the default, which ordinarily follows a three year cycle.

### Further information on the default

- 2.5. Details of the default are set out in the attached SIP dated 5 November 2019. This covers the investment policy in relation to the entire Scheme.
- 2.6. The Trustee Directors have set up processes to publish relevant information on the default arrangement by publishing the SIP online at the following URL: <https://s3-eu-west-1.amazonaws.com/stenadrillingmediabank/stena/wp-content/uploads/2019/11/07141603/Statement-of-Investment-Principles-Eighth-Edition.pdf> and they will notify members about this in their annual benefit statements.

## 3. Core financial transactions

- 3.1. The Trustee has a duty to ensure that 'core financial transactions' are processed promptly and accurately.
- 3.2. Core financial transactions comprise the following:
- 3.2.1. investment of contributions
  - 3.2.2. transfers into and out of the Scheme
  - 3.2.3. investment switches within the Scheme
  - 3.2.4. payments out of the Scheme
- 3.3. Core financial transactions are undertaken by Prudential (with the exception of any transaction involving the AVC fund held with Utmost Life and Pensions).

### Controls and monitoring arrangements

- 3.4. The controls in place in relation to ensuring the promptness and accuracy of core financial transactions are as follows:
- 3.4.1. Financial transactions are undertaken on the Trustee Directors' behalf by the scheme administrator, Prudential. The Trustee Directors periodically review the processes and controls implemented by Prudential, and consider these to be suitably designed to achieve the objectives. The Trustee

Directors have a service level agreement ("SLA") in place with the scheme administrator which covers the accuracy and timeliness of all core transactions and they receive regular reports to monitor the performance against those service levels. The processes adopted by the Scheme administrator to help meet the SLA include checklists, a central financial control team separate to the admin team, peer checking and authorisation of payments, automated reporting of late contributions, daily monitoring of bank accounts, daily checking and reconciliation of member unit holdings, and a dedicated contribution processing team. During the period covered by this statement the Trustee Directors monitored the service levels reported by Prudential at each trustee meeting and recorded no concerns over the recent administration of the Scheme.

- 3.4.2. Additional measures that help to monitor the accuracy of core financial transactions are the external audit of the Scheme's contributions.
- 3.4.3. The administrator's controls and processes are also subject to a formal external audit for its annual assurance report on internal controls.
- 3.4.4. Any material issues uncovered regarding inaccuracies with core financial transactions are included within the administrator's quarterly reporting to the Trustee.

### Performance during the scheme year

- 3.5. The Trustee Directors received quarterly reports from the administrator during the Scheme year and were satisfied with the performance against the SLA.
- 3.6. Neither the administrator's quarterly reports nor the audit of the annual report and accounts identified material issues with the accuracy of core financial transactions.

### Assessment

- 3.7. In view of the controls and monitoring arrangements, and the lack of material issues experienced during the Scheme year, the Trustee Directors believe that core financial transactions have been processed promptly and accurately.

## 4. Member-borne charges and transaction costs

- 4.1. Members bear charges and transaction costs, which will differ depending on the investment options in which their pension savings are invested:
  - 4.1.1. Charges: these are expressed as a percentage of the value of a member's holdings within an investment fund, and can be made up of a combination of charges, e.g. annual management charge and additional expenses.
  - 4.1.2. Transaction costs: these relate to the variable costs incurred within an investment fund arising from the trading activities of the fund, e.g. incurred in the buying and selling of securities, which are not accounted for in the headline charge.

## Charges in relation to the Scheme

4.2. The following table provides details of the charges and transaction costs for each of the investment options provided through the scheme over the scheme year (data sourced from Prudential):

	ANNUAL MANAGEMENT CHARGE % per annum	OTHER CHARGES & EXPENSES % per annum	TRANSACTION COSTS % Average of up to last 5 years
<b>Prudential S3 Baillie Gifford Diversified Growth*</b>	0.75	0.00	0.5125
<b>Prudential S3 Cash*</b>	0.25	0.00	0.0000
<b>Prudential S3 Long Term Bond*</b>	0.15	0.00	0.0000
Prudential Baillie Gifford Global Stewardship S3	0.50	0.00	-0.0750
Prudential Dynamic Global Equity Passive	0.14	0.00	Currently not available
Prudential S3 All Stocks Corporate Bond	0.25	0.00	-0.0225
Prudential S3 BlackRock Aquila Emerging Markets Equity	0.40	0.00	-0.0550
Prudential S3 Discretionary	0.25	0.00	-0.0475
Prudential S3 Dynamic Growth I	0.22	0.01	0.1075
Prudential S3 Dynamic Growth II	0.22	0.00	0.1125
Prudential S3 Dynamic Growth III	0.22	0.00	0.1125
Prudential S3 Dynamic Growth IV	0.22	0.00	0.1150
Prudential S3 Dynamic Growth V	0.22	0.01	0.0975
Prudential S3 Europe Equity Passive	0.15	0.02	0.1450
Prudential S3 Fixed Interest	0.25	0.00	0.0000
Prudential S3 Global Equity	0.25	0.00	-0.0525
Prudential S3 HSBC Islamic Global Equity Index	0.40	0.00	-0.0075
Prudential S3 International Equity	0.25	0.02	0.0075
Prudential S3 Japan Equity Passive	0.15	0.03	-0.0775
Prudential S3 LGIM Ethical Global Equity Index	0.45	0.00	0.0050
Prudential S3 LGIM Ethical UK Equity Index	0.25	0.00	0.0100
Prudential S3 North America Equity Passive	0.15	0.00	-0.0300
Prudential S3 Pacific Basin ex-Japan Equity Passive	0.15	0.04	0.0275
Prudential S3 Threadneedle Property	0.90	0.77	0.0733
Prudential S3 UK Equity	0.25	0.01	-0.0700
Prudential S3 UK Smaller Companies	0.25	0.01	-0.0200
Prudential M&G Recovery Series 3	0.25	0.01	-0.1475
Prudential S3 BNY Mellon UK Equity	0.50	0.00	0.1150
Prudential S3 BlackRock Aquila (30:70) Currency Hedged Global Equity Index	0.30	0.00	0.0775
Prudential S3 UK Property	0.25	0.57	0.5400
Prudential Schroder QEP Global Core Fund Series 3	0.40	0.00	0.2850
Prudential With Profits Fund 90/10	<a href="https://www.pru.co.uk/pdf/GENF1007703.pdf">https://www.pru.co.uk/pdf/GENF1007703.pdf</a>		0.0825

\* Default fund

Source of information: Prudential

Annual management charge / Other charges & expenses: These charges cover the cost of running the fund. They include administrative costs such as maintaining records, producing reports and calculating the daily unit price, as well as the research that goes into deciding what assets to buy and sell.

Transaction costs: This is the Transaction cost information as a percentage average up to last 5 years. Transaction costs occur when a fund buys or sells investments. They are not separate charges – transaction costs have been taken account of in the investment returns of your fund. Due to the movement of prices transaction costs can be positive or negative. The impact of a positive transaction cost is that it will reduce your potential investment returns, while a negative transaction cost will increase your potential investment returns.

### Additional Voluntary Contributions

- 4.3. During the course of this Scheme year, the Scheme assets invested with Equitable Life Assurance Society (“Equitable Life”) were transferred to Utmost Life & Pensions (“Utmost”). The decision to transfer was led by the two providers and upon provision of proposals that were considered at a Policyholders’ Meeting and Extraordinary General Meeting on 1 November 2019 where a vote was held. Ultimately, policyholders voted overwhelmingly in favour of the proposals, which also received High Court approval on 4 December 2019.
- 4.4. One member had AVCs invested in the Equitable Life With-Profits Fund.
- 4.5. The transfer of assets from Equitable Life to Utmost took place on 1 January 2020. Members invested in the With-Profits Fund received an uplift in value to compensate for guarantees lost as part of the unitisation process and will be invested in the Utmost Secure Cash Fund up to the end of June 2020.
- 4.6. There were no explicit costs to members for the transition, either in selling units in the Equitable Life funds or buying units in the Utmost Funds. Therefore, members’ fund values immediately before and immediately after the transition were the same.
- 4.7. Prior to transfer, the annual management charge applicable to the Equitable Life With-Profits Fund was estimated at 1.00%, based on information provided by Equitable Life. In addition, Equitable Life held back a further 0.5% to cover future guarantees. Whilst these charges were deducted before returns were applied to members’ Policy Values, at normal retirement age or earlier death members’ benefits were subject to an underpin of the Guaranteed Value which increases each year by 3.5% and was applied regardless of any charges incurred.
- 4.8. Equitable Life publishes information regarding the transaction costs within its funds. The last available information it has published is to 31 December 2019 and is outlined as follows (information provided by Equitable Life):

Equitable Life Fund (Citi Code)	Fund Annual Management Charge %pa	Underlying Open Ended Investment Company “OEIC” Held	Annualised Reporting Period	OEIC Net Transaction Cost %pa [1]	Stocklending %pa [2]	Equitable Life Fund Transaction Cost %pa [3]	Equitable Life Fund Total Charges Impact %pa [4]
With-Profits Fund [5]	1.00	N/A	31/12/2019	N/A	0.00391	1.035577	2.04

Notes:

[1] The costs to date are not calculated on the full arrival price slippage methodology, instead using industry supplied expected spreads for each asset category. The With-Profit Fund does not invest in OEICs but in direct assets.

[2] When a fund lends stock it is entitled to receive 80% of the income earned. The remaining 20% belongs to the stocklending agent. The costs suffered by the fund are disclosed but not the income.

[3] This is the cost incurred on the Fund when it purchases or sells the underlying asset (OEIC) as the price may include a dilution adjustment. The purpose of dilution is to ensure the OEIC is not impacted by large investments or disinvestments.

[4] The total charges impact to policyholders on each Equitable Life Fund (With-Profit and Unit-Linked) of costs at both Fund and

underlying OEIC level and include the annual management charge.

[5] This excludes the 0.5% for cost of guarantees.

4.9. Utmost publishes information regarding the transaction costs within its funds. The last available information it has published is to 31 March 2020 and is outlined as follows (information provided by Utmost):

Utmost Fund (Citi Code)	Fund Annual Management Charge %pa	Underlying Open Ended Investment Company "OEIC" Held	Annualised Reporting Period	OEIC Net Transaction Cost %pa [1]	Stocklending %pa [2]	Utmost Fund Transaction Cost %pa [3]	Utmost Fund Total Charges Impact %pa [4]
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UK Secure Cash Pension (QRAZ)	0.50	N/A	31/03/2020	N/A	N/a	0.001	0.501
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Notes:

[1] The costs for the underlying OEICs held by each Fund are now being calculated on the full arrival price slippage methodology.

[2] When an Aberdeen Standard Investment fund lends stock it is entitled to receive 85% of the income earned. The remaining 15% belongs to the stocklending agent. When a JP Morgan fund lends stock it is entitled to receive 90% of the income earned. The remaining 10% belongs to the stocklending agent. The costs suffered by the fund are disclosed but not the income in accordance with regulations.

[3] This is the cost incurred on the Fund when it purchases or sells the underlying asset (OEIC) as the price may include a dilution adjustment. The purpose of dilution is to ensure the OEIC performance is not impacted by large investments or disinvestments.

[4] The total charges impact to policyholders on each Utmost Fund of costs at both Fund and underlying OEIC level and includes the annual management charge.

Document Produced:

10th July 2020

## 5. Impact of costs and charges

- 5.1. The Trustee, with the assistance of Prudential, has produced illustrations in line with the February 2018 guidance from the Department for Work & Pensions entitled "Cost and charge reporting: guidance for the trustees and managers of occupation schemes". These illustrations, as provided by the Prudential, together with explanatory notes are included as Appendix 1 and Appendix 2. The illustrations are for typical members in the Scheme, showing the cumulative effect the cost and charges have on their pension fund.
- 5.2. Appendix 1 shows illustrations assuming regular contributions continue to be paid, and Appendix 2 shows illustrations assuming there are no contributions paid to the Scheme.
- 5.3. For each individual illustration, each example member's pension fund has been projected twice; firstly to allow for assumed investment return gross of the costs and charges of the fund the member is invested in and then again, but adjusted for the cumulative effect of the costs and charges of the fund.

## 6. Value for members

- 6.1. The Trustee is required to assess annually the extent to which the charges and transaction costs borne by members represent good value.
- 6.2. Analysis was undertaken by the Trustee's professional advisers, Barnett Waddingham LLP, and the findings were set out in a report dated 15 September 2020.
- 6.3. Recognising that low cost does not necessarily mean good value, the assessment considered whether the services for which members pay or share the costs are suitable for, relevant to and (likely to be) valued by

members and whether performance of the services had been effective. Consideration was also made of the costs relative to other options available in the market.

- 6.4. Various investment-related services for which members do not directly bear the costs are nevertheless inextricably linked to creating the environment under which investment returns are delivered, e.g. strategy, monitoring and the investment governance structure, so these were included in the assessment.
- 6.5. Other services paid for by Stena Drilling Limited ("the Company") were excluded from the assessment but nevertheless deliver value to members, e.g. the services of professional advisers and the operation of the trustee board, with a duty to act in the best interest of members.
- 6.6. In relation to the Scheme, the member-borne charges and transaction costs relate to:
  - 6.6.1. investment services
  - 6.6.2. administration services
  - 6.6.3. communication services
- 6.7. The assessment considered:
  - 6.7.1. in relation to investment services:
    - 6.7.1.1. the investment strategy, e.g. the design of the default and range of alternative options;
    - 6.7.1.2. the arrangements for monitoring the performance of the investment options and reviewing the investment strategy; and
    - 6.7.1.3. the investment governance arrangements.
  - 6.7.2. in relation to administration services:
    - 6.7.2.1. the general administration arrangements;
    - 6.7.2.2. arrangements in relation to financial transactions; and
    - 6.7.2.3. data and record keeping.
  - 6.7.3. in relation to communication services:
    - 6.7.3.1. communication strategy;
    - 6.7.3.2. pre-retirement communications; and
    - 6.7.3.3. at/post retirement communications.
- 6.8. The Trustee concluded that the Stena Drilling Limited Money Purchase Scheme offers good value in relation to the charges and transaction costs borne by members.
- 6.9. In reaching this conclusion, the Trustee recognised:
  - 6.9.1. a default investment arrangement which includes automatic de-risking as members approach retirement;
  - 6.9.2. a suitable range of self-select funds are available to members;
  - 6.9.3. monitoring processes of the default investment arrangement strategy and fund performance continue to remain in place;
  - 6.9.4. the Trustee has adopted a policy around Environmental, Social & Governance ("ESG") issues and monitors how these are implemented with the investment manager;
  - 6.9.5. there are areas for improvement in the functionality, support and communications available to members through the Prudential proposition. However, Prudential has announced it is moving to

a completely new administration and delivery platform (through Diligenta) in the current Scheme year, so the Trustee will be monitoring developments closely to understand what improvements this delivers in terms of value for members.

## 7. Trustee knowledge and understanding

### The Trustee Board

7.1. The Trustee Board comprises five trustee directors, two of whom are nominated by the members and three of whom are appointed by the Company.

### Trustee knowledge and understanding requirements

7.2. Sections 247 and 248 of the Pensions Act 2004 set out the requirement for trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, investment of the scheme's assets and other matters to enable them to exercise their functions as trustees properly. This requirement is underpinned by guidance in the Pension Regulator's Codes of Practice 07 and 13.

### Approach

7.3. The Trustee Directors have put in place arrangements for ensuring that we take personal responsibility for keeping ourselves up-to-date with relevant developments and carry out self-assessments of training needs to help identify any knowledge gaps. The Secretary to the Trustee Directors reviews the self-assessments and arranges for training to be made available to individual Trustee Directors or to the Trustee Board as a whole, as appropriate.

7.4. Over the past year the Trustee Directors received training at trustee meetings on the following topics:

- 7.4.1. consideration of ESG risks in relation to investment strategy
- 7.4.2. General Data Protection Regulation ("GDPR")
- 7.4.3. DC Governance
- 7.4.4. The exercise of Trustee Discretion

7.5. The Trustee Directors receive advice from professional advisors, and the relevant skills and experience of those advisors is a key criterion when evaluating advisor performance or selecting new advisors.

7.6. Over the year, the Trustee Directors regularly received training updates from their advisers. These included publications called 'Current issues in Pensions' produced by Mercer and 'Pensions Briefings' produced by Norton Rose Fulbright which were circulated to the Trustee Directors.

7.7. All Trustee Directors were required to attend an external Trustee Training course.

7.8. All of existing Trustee Directors are completing the Pension Regulator's Trustee Toolkit. The Trustee Directors are also required to familiarise themselves with the Scheme's trust deed, rules and Statement of Investment Principles. Training sessions led by the Scheme's professional advisers are held in conjunction with regular meetings of the Trustee Directors.

7.9. The SIP has been referred to by the Trustee Directors on a number of occasions during the year, given the reviews of the default strategy and value for money that have been carried out. Throughout the year, the Trustee Directors have demonstrated a working knowledge of the Trust Deed and Rules dealing with specific issues as they arose. The Trustee Directors have prepared a comprehensive data strategy policy which documents the procedures that are in place to comply with the GDPR requirements.

7.10. Taking account of actions taken individually and as a Trustee body, and the professional advice available to us, the Trustee Directors consider that they are enabled properly to exercise their functions as Directors of the Trustee Company.

7.11. Given the extent of the training above, the Trustee Directors are comfortable that they have demonstrated sufficient knowledge of the law relating to pension schemes and trusts and the principles relating to the funding and investment of pension schemes. I am also satisfied that the Trustee Directors have demonstrated a working knowledge of the Scheme's trust deed and rules, Statement of Investment Principles and all other documents setting out of the Trustee Directors' current policies.

### Assessment

7.12. The Trustee Directors consider that their combined knowledge and understanding, together with their access to professional advice, enables them to properly and effectively exercise their trustee functions in the following ways:

- 7.12.1. The Trustee Directors are able to challenge and question advisers, service providers and other parties effectively;
- 7.12.2. Trustee Directors' decisions are made in accordance with the Scheme rules and in line with trust law duties; and
- 7.12.3. The Trustee Directors' decisions are not compromised by such things as conflicts or hospitality arrangements.



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Stuart M Wyness, Chair of the Trustee

25th September 2020

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Date

## Appendix – Illustrations on the impact of cost and charges