

# SI Group-UK, Ltd Pension Plan

## Statement of Investment Principles

September 2020

### 1. Introduction

- 1.1 This Statement has been prepared by the Trustees of the SI Group-UK, Ltd Pension Plan (“the Plan”) to comply with the requirements of the Pensions Act 1995 (the “Act”) and subsequent legislation. It sets out the principles that govern the Trustees’ decisions about the investment of the Plan’s assets. The Trustees refer to this Statement when making investment decisions, to ensure that they are consistent with these principles.
- 1.2 In preparing this Statement, the Trustees have obtained written advice from the Plan’s Investment Consultant, whom the Trustees believe to be suitably qualified and experienced to provide such advice. Where matters described in this Statement may affect the Plan’s funding policy, input has also been obtained from the Scheme Actuary. The Trustees will obtain similar advice whenever they review this Statement. In addition, consultation has been undertaken with SI Group-UK, Ltd (“the Sponsor”) in agreeing the Plan’s investment arrangements and, in particular, on the Trustees’ objectives.
- 1.3 The Trustees’ investment powers are set out within the Plan’s governing documentation and relevant legislation. If necessary, the Trustees will take legal advice regarding the interpretation of these. The Trustees note that, according to the law, they have ultimate power and responsibility for the Plan’s investment arrangements.
- 1.4 The Trustees seek to maintain a good working relationship with the Sponsor, and will discuss any proposed changes to this Statement with the Sponsor. However, the Trustees’ fiduciary obligations to Plan members will take precedence over the Sponsor’s wishes, should these ever conflict.
- 1.5 The Trustees believe that their investment policies and implementation are in keeping with best practice, including the principles underlying the Myners Code for pension scheme investment.
- 1.6 The Trustees will review this Statement at least once every three years, and without delay if there are relevant, material changes to the investment strategy, Plan and/or the Sponsor.
- 1.7 The Plan’s investment arrangements, based on the principles set out in this Statement, are detailed in the Investment Policy Implementation Document (“IPID”). The IPID will be reviewed periodically and any amendments agreed by the Trustees.

## **2. Plan Governance**

- 2.1 The Trustees have appointed an Investment Consultant to provide relevant investment advice to the Trustees. The Trustees also take advice as appropriate from the Scheme Actuary and other professional advisers.
- 2.2 The Trustees are accountable for the investment of the Plan's assets. The Trustees delegate some aspects of the Plan's investment arrangements to third party service providers, in order to manage the Plan's affairs effectively. The Trustees decide what to delegate after considering whether they have the necessary skills, knowledge and professional support to make informed and effective decisions.
- 2.3 The investment manager is responsible for the day-to-day management of the Plan's assets in accordance with guidelines agreed with the Trustees. They have discretion to buy or retain individual securities in accordance with these guidelines. They report to the Trustees regularly regarding their performance.
- 2.4 Fees for the Investment Consultant are based on hourly charge rates, with agreed fees for particular projects and core services.
- 2.5 The managers' fees relate to the amount of assets managed within the portfolio.

## **3. Environmental, Social and Corporate Governance ("ESG"), Stewardship, and Climate Change Beliefs**

- 3.1 The Trustees believe that ESG factors can have a material impact on investment risk and return outcomes (and so are considered to be financially material), and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly, but not limited to, climate change, present risks and opportunities that increasingly may require explicit consideration.
- 3.2 The Trustees will consider the investment consultant's assessment of how the investment manager embeds ESG into its investment process and how the manager's responsible investment philosophy aligns with the Trustees' responsible investment policy. This includes the investment managers' policy on voting and engagement. The Trustees will use this assessment in decisions around selection, retention and realisation of manager appointments.
- 3.3 The assets of the Plan are invested in pooled vehicles and the Trustees accept that pooled investments will be governed by the individual policies of the investment managers. These policies are reviewed as part of the consideration of pooled investments. As such, the Trustees have given their investment managers full discretion in evaluating ESG factors, including climate change considerations, exercising voting rights and stewardship obligations attached to the investments and engagement activities in accordance with their own corporate governance policies, and current best practice, including the UK Corporate Governance Code and the UK Stewardship Code. The Trustees will review the investment manager's policy on this periodically.
- 3.4 The Trustees are able to review these decisions, including voting history (in respect of equities) and engagement activity, and can challenge such decisions to try to ensure the best long term performance over the medium to long term.
- 3.5 The investment managers are expected to provide a summary of their ESG policies and to comment on these issues on an annual basis.

- 3.6 The Trustees also consider the ESG ratings provided by their investment consultant on how the investment manager embeds ESG and stewardship factors into its investment process. Where appropriate, the Trustees will use this assessment in the decisions around selection, retention and realisation of manager appointments

#### **4. Member Views**

“Non-financial matters” (where “non-financial matters” includes members’ ethical views separate from financial considerations such as financially material ESG issues) are not explicitly taken into account in the selection, retention and realisation of investments. The Trustees may review this policy in response to significant member demand.

#### **5. Investment Restrictions**

The Trustees have not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may re-consider this in future.

### **Defined Benefit Section**

#### **6. Investment Objectives**

- 6.1 The Trustees’ primary investment objective is to invest the Plan’s assets in such a manner that members’ benefit entitlements can be paid as and when they fall due.
- 6.2 The Trustees are therefore aiming to achieve an ongoing funding level of 100% on a Technical Provisions basis and thereafter to maintain 100% funding.
- 6.3 A further objective is for the Plan’s investment manager to meet their performance targets.

#### **7. Risk and Return Targets**

- 7.1 The Trustees have selected investments that broadly match the estimated liability cash flows. However, in order to meet the long-term funding objective with an acceptable level of Sponsor contributions, the Trustees have also agreed to take investment risk relative to the liabilities. This is to target a greater return than the matching assets are expected to provide.
- 7.2 Before deciding to take investment risk relative to the liabilities, the Trustees received advice from the Investment Consultant and held discussions with the Sponsor. In particular, the Trustees considered carefully the following possible consequences:
- The assets might not achieve the excess return relative to the liabilities anticipated over the longer term. This would result in deterioration in the Plan’s financial position and consequently higher contributions than are currently expected.
  - The relative value of the assets and liabilities will be more volatile over the short term than if investment risk had not been taken. As a result, any improvement or decline in the Plan’s funding position is likely to be of greater magnitude than if no investment risk had been taken. This consequence is particularly serious if it coincides with the Sponsor being unable to make good a shortfall in the event of discontinuance of the Plan.
  - This volatility in the relative value of assets and liabilities may also increase the short-term volatility of the Sponsor contribution rate set at successive actuarial valuations, depending on the approach to funding adopted.

7.3 The Trustees' willingness to take investment risk is dependent on the continuing financial strength of the Sponsor and its willingness to contribute appropriately to the Plan. The financial strength of the Sponsor and its perceived commitment to the Plan is monitored and the Trustees will review investment risk relative to the liabilities should either of these deteriorate.

7.4 The degree of investment risk the Trustees are willing to take also depends on the financial health of the Plan and the Plan's liability profile. The Trustees monitor these with a view to altering the investment objectives, risk tolerance and/or return target should there be a significant change in either.

## **8. Diversification of risks**

8.1 In addition to targeting an appropriate overall level of investment risk, the Trustees seek to spread risks across a range of different sources. The Trustees aim to take on those risks for which they expect to be rewarded for over time, in the form of excess returns. The Trustees believe that diversification limits the impact of any single risk.

8.2 The Trustees have considered that there are a number of different types of investment risk that are important for the Plan during its anticipated lifetime. These include:

- Interest rate and inflation risk - the risk that the assets do not move in line with the value placed on the Plan's liabilities in response to changes in interest rates and inflation respectively. This is mitigated via investments in bonds and gilts (or derivatives providing similar exposure) via pooled funds which are expected to change in value in the same way as a proportion of the liabilities in response to changes in interest rates and inflation.
- Credit risk - the risk that payments due to bond investors might not be made. The Plan is subject to credit risk because it invests in corporate bonds. The Trustees manage exposure to credit risk by only investing in pooled funds that have a diversified exposure to different credit issuers. The underlying bonds in the Buy and Maintain fund are predominantly investment grade.
- Currency risk - the risk that the value of the overseas assets deteriorate relative to the sterling based liabilities due to exchange rate fluctuations. The Plan is subject to currency risk as some of its investments are held in overseas markets. Currency risk is managed by hedging around 65% of overseas exposure within the equity portfolio.
- Equity market risk - the risk that equity values fluctuate. The Plans is subject to equity market risk through its investment in global equities. The Trustees manage this risk by investing in a broad range of global equities (UK, European, North American Emerging Markets, Japan, and Asia Pacific) and which have a diversified underlying exposure to a range of companies.
- Investment manager risk – the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, the Trustees receive written advice from a suitably qualified individual. The Trustees also monitor the investment manager on a regular basis.
- Longevity risk – the risk that members live, on average, longer than expected. This is partly managed through the current buy-in policy with Aviva Annuity UK Limited.

8.3 The investment manager employs derivatives for the purposes of efficient portfolio management and subject to agreed restrictions.

- 8.4 Across all of the Plan's investments, the Trustees are aware of the potential for regulatory and political risks. *Regulatory risk* arises from investing in a market environment where the regulatory regime may change. This may be compounded by *political risk* in those environments subject to unstable regimes.
- 8.5 *Liquidity risk* refers to the ease with which assets are marketable and realisable. The Trustees recognise that there is *liquidity risk* in holding assets that are not readily marketable and realisable. This could result in being unable to meet member benefit payments. Given the Trustees' long-term investment horizon, the Trustees believe that a degree of liquidity risk is acceptable because they expect to be rewarded for assuming it. In addition, the Trustees are aware of the Plan's cashflows requirements and believe that risk is managed by having an appropriate amount of liquidity across the Plan.
- 8.6 The Trustees are also aware of *concentration risk* which arises when a high proportion of the Plan's assets are invested in securities, whether debt or equity, of the same or related issuers or markets. The overall investment arrangements are intended to provide an appropriate spread of assets by type and spread of individual securities within each asset class.

## **9. Strategic investment benchmark and investment manager structure**

- 9.1 The overall strategic investment benchmark for the Plan as set by the Trustees is detailed in the IPID. The IPID also contains full details of the manager structure.
- 9.2 The strategic investment benchmark and the investment manager structure have been determined to capture the level of investment risk and the target investment return, based on assumptions about the behaviour of different asset classes. The Trustees review these assumptions periodically, and revises the benchmark and/or manager structure as appropriate in order to maintain consistency with the risk and return targets.
- 9.3 The Trustees will monitor the Plan's overall asset distribution and make any changes necessary either by transferring assets or directing cashflows.

## **10. Investment Manager Arrangement, Engagement and Monitoring**

### *Aligning Manager Appointments with Investment Strategy*

- 10.1 When engaging with the investment manager to implement the Trustees' investment strategy, the Trustees are concerned that, as appropriate and to the extent applicable, the investment manager is incentivised to align their strategy and decisions with the objectives of the Plan.
- 10.2 The Trustees have appointed the investment manager based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and desired risk characteristics for the asset classes they are selected to manage.
- 10.3 The Trustees utilise the Investment Consultant's forward-looking assessment of a LGIM's ability to outperform over a full market cycle. This view will be based on the Investment Consultant's assessment of the investment manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the Plan invests in. Mercer's manager research ratings also assist with due diligence (and questioning the investment manager during presentations to the Trustees) and are used in decisions around selection, retention and realisation of manager and asset class appointments.
- 10.4 The Trustees will consider how ESG and stewardship are integrated into the investment process as well as ensuring fees are competitive within the asset class.

- 10.5 If investment objective for a particular fund changes, the Trustees will review the fund appointment to ensure that it remains appropriate and consistent with the wider Trustees' investment objectives.

#### *Manager Appointments and Remuneration*

- 10.6 Day-to-day management of the assets is delegated to a professional investment manager who is regulated by the Financial Conduct Authority (the "FCA"). The current investment manager is listed in the IPID.
- 10.7 The investment manager has discretion to buy and sell investments on behalf of the Plan, subject to agreed constraints. It has been selected for its expertise in different specialisations and manages investments for the Plan to a specific mandate. The IPID gives details of the manager's mandate as set out in their appointment documentation.

The Trustees accept that it is not possible to specify investment restrictions where assets are managed via pooled funds. Nevertheless, notwithstanding how the assets are managed the Trustees take appropriate legal and investment advice regarding the suitability of the investment parameters and relevant investment vehicles, and select appropriate mandates to align with the Plan's overall investment strategy.

- 10.8 The Trustees receive, and consider, performance reports from its investment manager on a quarterly basis, which present performance information and commentary on the funds the Plan invests in over various time periods. The Trustees review absolute performance and in many cases relative performance, either against a suitable index used as a benchmark (where relevant) and/or against the investment manager's stated performance target (over the relevant time period).
- 10.9 The Trustees' focus is primarily on long-term performance but short term performance is also reviewed. The Trustees may review the investment manager's appointment if:
- There are sustained periods of underperformance;
  - There is a change in the underlying objectives of the investment manager, or a change in the portfolio manager;
  - There is a significant change to the Investment Consultant's rating of the funds in which the Plan invests
  - There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager.

The Trustees expect investment managers to incorporate the consideration of longer-term factors, such as ESG considerations, into their decision making process where appropriate. The extent to which this is so will be considered during the selection, retention and realisation of manager appointments. Voting and engagement activity should be used by investment managers to discuss the performance of an issuer of debt or equity.

The investment manager is aware that its continued appointment is based on their success in delivering the mandates for which they have been appointed. If the Trustees are dissatisfied, then it may look to replace the manager or ask the manager to review the Annual Management Charge.

- 10.10 The Trustees assess the continuing suitability of the Plan's investment manager. They meet the investment manager from time to time to discuss their performance, activity and wider issues. The Investment Consultant provides help in monitoring the investment manager, both in the form of written reports and attendance at meetings.

#### *Manager Turnover*

The Trustees are long-term investors and are not looking to change the investment arrangements on a frequent basis. There is therefore no set duration for manager appointments. The Trustees typically expect to retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;
- The basis on which the manager was appointed changes materially (e.g. manager fees or investment process); or
- The manager appointed has been reviewed and the Trustees have decided to terminate the mandate.

#### *Portfolio Turnover Costs*

- 10.11 The Trustees do not actively monitor portfolio turnover costs. The Trustees will continue to monitor industry improvements concerning the reporting of portfolio turnover costs. In future, the Trustees may ask the investment manager to report on portfolio turnover cost.
- 10.12 The Trustees will advise the investment manager of any material change to this Statement.

### **11. Additional Voluntary Contribution Assets (“AVCs”)**

- 11.1 Assets in respect of members' AVCs are invested in a range of investment funds. With the assistance of the Plan's Investment Consultant, the AVC arrangements will be reviewed periodically to ensure that the investment profile of the funds available remains consistent with the objectives of the Trustees and the needs of the members. More information on the AVC providers is detailed in the IPID.

### **Defined Contribution Section**

#### **12. Investment Objectives**

- 12.1 The Trustees recognise that members of the DC Section have differing investment needs and that these may change during the course of their working lives and that they may have differing risk tolerances. The Trustees believe that members should generally make their own investment decisions based on their individual circumstances.
- 12.2 The Trustees regard their primary objective as making available a range of investment funds which enable members to tailor the strategy for their assets to their own needs. The Trustees also recognise that members may not believe themselves qualified to take investment decisions. As such the Trustees make available a default investment strategy.

12.3 These objectives translate to the following principles:

- Offering members a ‘Lifestyle’ approach for the default investment strategy and ensuring that the other investment strategy options allow members to plan for their specific retirement objectives;
- Making available a range of pooled investment funds which serve to meet the varying investment needs and risk tolerances of Plan members;
- Providing general guidance as to the purpose of each investment option;
- Encouraging members to seek independent financial advice from an appropriate party in determining the most suitable option for their individual circumstances;
- The Trustees periodically review the suitability of the options provided and from time to time will change or introduce additional investment options as appropriate.

12.4 The objectives set out above and the risks and other factors referenced in this Statement are those that the Trustees determine to be financially material considerations. Broader considerations including Environmental, Social and Corporate Governance issues are discussed in Section 3.

12.5 The Trustees regularly review the suitability of the options provided and from time to time will change managers or introduce additional investment options.

### **13. Investment Policies**

13.1 The Trustees have made available a range of individual self-select fund options for investment in addition to the default strategy. All of the funds allocated to within the default strategy are also available as self-select options.

13.2 The Trustees delegate the day-to-day management of the assets in the DC Section of the Plan to Legal & General Investment Management (“LGIM”). All investments are held in pooled investment arrangements managed by LGIM. The Trustees are responsible for the selection, appointment, removal and monitoring of the Plan’s pooled investment arrangements. Full details of these investment arrangements are provided in the IPID.

13.3 All funds, including those in the default strategy, are daily-dealt pooled investment arrangements. These pooled investment arrangements are themselves regulated and underlying investments are mainly invested in regulated markets. Where pooled investment arrangements do not invest assets in regulated markets these are not expected to account for a material proportion of assets. Therefore, assets should be realisable at short notice, based on member demand.

13.4 A range of asset classes/fund types have been made available, including: developed market equities, money market instruments, index-linked gilts, a diversified growth fund and a pre-retirement fund. In the majority of cases the investment options are passively managed, with the exception of the fund which invests in money market instruments. The diversified growth fund has active asset class allocation but invests in passive pooled investment arrangements to get asset class exposure.

13.5 The default strategy manages investment and other risks through a diversified strategic asset allocation. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. The balance of different asset classes within the default strategy explicitly considers the trade-off between risk and expected return. Any investment in derivative instruments contributes to risk reduction, or efficient portfolio management.



- 13.6 If members choose to self-select, they can combine the investment funds in any proportion in order to determine the balance between different kinds of investments. This will also determine the expected return on a member's assets and should be related to the member's own risk appetite and tolerances. Each of the available funds is considered to be diversified across a reasonable number of underlying holdings / issuers.
- 13.7 In addition, the Trustees have made available a lifestyle investment option built to be suitable for a member who wishes to take an annuity at retirement – this is the default strategy. The lifestyle switching period commences five years before a member's selected retirement age.
- 13.8 The Trustees regard 'risk' as the likelihood of failing to achieve the objectives outlined above and have, on the advice of their Investment Consultant, taken several measures to minimise this risk, so far as is possible.

#### 14. Risk Management and Measurement

- 14.1 The Trustees have considered investment risk for the Defined Contribution Section of the Plan from a number of perspectives. These are set out in the table below:

Risk	Description	How is the risk monitored and managed?
Market risks	Inflation risk	The Trustees make available a range of funds, across various asset classes, with the majority expected to keep pace with inflation. The Trustees review both absolute and relative performance against a portfolio or underlying investment manager's benchmark on a quarterly basis, including assessments of both shorter and longer time horizons.  Members are able to set their own investment allocations, in line with their risk tolerances.  The Trustees offer a lifestyle strategy that aims to reduce overall investment risk as the member approaches retirement. Within active funds management of many of these market risks is delegated to the fund manager.
	Currency risk	
	Credit risk	
	Equity, property and other price risk	

Risk	Description	How is the risk monitored and managed?
Environmental, Social and Corporate Governance risk	The risk that environmental, social or corporate governance concerns, including climate change, have a financially material impact on the return of the Plan's assets.	The management of ESG related risks is delegated to investment managers.  See Section 3 of this Statement for the Trustees' Environmental, Social and Corporate Governance ("ESG"), Stewardship, and Climate Change Beliefs.
Investment Manager risk	The risk that the investment manager underperforms its objectives, fails to carry out operational tasks, does not ensure safe-keeping of assets or breaches agreed guidelines.	The Trustees consider fund returns relative to their benchmark and compared to the investment manager's stated target / expected tracking error. The Trustees monitor the performance of the investment vehicles on a regular basis.
Liquidity risk	The risk that the members' investments do not provide the required level of liquidity and members are unable to realise their investments.	Members invest in a range of daily dealt pooled investment vehicles that facilitate the availability of assets to meet benefit outflows.
Pension Conversion risk	The purchasing power of members may fall relative to how they wish to take benefits at retirement or the risk that the member is invested in a strategy that does not reflect the way in which they intend to take their benefits at retirement.	The Trustees make available a number of funds, which allow members to plan for different retirement objectives.  The Trustees make available a lifestyle strategy for members.  A lifestyle strategy automatically switches member assets into investments whose value is expected to be less volatile relative to how the member wishes to access their pension savings as they approach retirement age.

14.2 The above items are in relation to what the Trustees consider 'financially material considerations'. The Trustees believe the appropriate time horizon for which to assess these considerations within should be viewed at a member level. This will be dependent on the member's age and when they expect to retire.

- 14.3 The Trustees have considered these risks when choosing the funds to make available to members. The Trustees believe that the investment strategy for the Defined Contribution Section of the Plan is appropriate for meeting the risks outlined above.
- 14.4 The Trustees pay close regard to the risks which may arise from the lack of diversification of investments. The Trustees believe that the choice of funds in place provide an adequately diversified distribution of assets.
- 14.5 The Trustees recognise that many of these risks are inherent to investing and understand that the above list is not exhaustive.

*The aims of the default strategy*

- 14.6 With regards to the default strategy:
- The growth phase structure invests in equities and a diversified growth fund and is intended to provide growth with some protection against inflation erosion whilst managing downside risk.
  - As a member’s assets grow, investment risk will have a greater impact on member outcomes. Therefore, the default strategy seeks to reduce investment risk as the member approaches retirement.
  - Based on their understanding of the Plan’s membership, the Trustees have implemented a default strategy that targets an investment portfolio suitable for a member wishing to take benefits at retirement by purchasing an annuity, after taking a tax-free cash lump sum (up to 25% of a members’ pot). This option was chosen on the basis that this is likely to meet a typical member’s requirements for income in retirement. It does not mean that members have to take their benefits in this format at retirement – it merely determines the default investment strategy that will be in place pre-retirement. Members who intend to take their retirement benefits through other formats have the option of choosing their own investment strategy.
- 14.7 Taking into account the demographics of the Plan’s membership and the Trustees’ views of how the membership will behave at retirement, the Trustees believe that the current default strategy is invested in the best interests of members and beneficiaries. In order to ensure the default strategy remains appropriate, the Trustees review the default over time, at least triennially, or after significant changes to the Plan’s demographics, if sooner.
- 14.8 In arriving at their default strategy, the Trustees have considered the following risks and the associated actions to manage or mitigate:

Type of Risk	Risk	Description	How is the risk monitored and managed?
Market risks	Inflation risk	The risk that returns over the members’ working lives does not keep pace with inflation.	The default option has an explicit allocation to assets that are expected to outperform inflation over the long term. The Trustees regularly monitor performance. The strategy for the default option is set with the intention of
	Currency risk	The risk that fluctuations in foreign exchange rates will cause the value of overseas investments to fluctuate.	

Credit risk	The risk that the issuer of a financial asset, such as a bond, fails to make the contractual payments due.	diversifying these risks to reach a level of risk deemed appropriate. The default option is a lifestyle strategy which automatically and gradually reduces the level of investment risk members are exposed to as they approach retirement. The strategy is outsourced to the Investment Manager.
Equity, property and other price risk	The risk that market movements leads to a substantial reduction in the value of a member's savings.	Within active funds the management of many of these market risks is delegated by the Investment Manager to the underlying investment manager.
Liquidity risk	The risk that the members' assets cannot be realised at short notice in line with member demand.	Managed in line with the main Plan, as set out in Section 12.1.
Investment Manager risk	The risk that the appointed investment managers underperform the benchmark return, fail to carry out operational tasks, do not ensure safe-keeping of assets or breach agreed guidelines.	Managed in line with the main Plan, as set out in Section 12.1.
Pension Conversion risk	The risks that the member is invested in a strategy that does not reflect the way in which they intend to take their benefits at retirement.	The default strategy is a lifestyle strategy which automatically switches member assets into investments whose value is expected to be less volatile relative to annuity prices. As part of the triennial default strategy review, the Trustees ensure the default destination remains appropriate.
Environmental, Social and Corporate Governance ("ESG") risk	The risk that ESG concerns, including climate change, have a financially material impact on the return of the Plan's assets.	Managed in line with the main Plan, as set out in Section 12.1.

14.9 The above items listed are in relation to what the Trustees consider 'financially material considerations' specifically related to the default option. The Trustees believe the appropriate time horizon for which to assess these considerations within should be viewed at a member level. This will be dependent on the member's age and when they expect to retire. It is partly for this reason that the default investment option is a lifestyle strategy.

## 15. Other default options

- 15.1 In addition to the default investment arrangement for DC members, an additional “technical default” arose during 2020. This was as a result of the closure of Equitable Life and the movement of its assets to Utmost Life.
- 15.2 In January 2020, members who had Additional Voluntary Contribution (“AVC”) assets invested at Equitable Life, had their funds transferred to Utmost Life under a Part VII transfer, which completed on 1 January 2020. Members who were invested in the Equitable Life With Profits Fund were transferred without consent to the Utmost Secure Cash Fund, and given an uplift to their fund values to compensate for the loss of guarantees from the With Profits Fund.
- 15.3 The Trustees see the Secure Cash Fund as an appropriate interim investment. The main objectives of the Utmost Life Secure Cash Fund are capital preservation, liquidity and yield; in that order.
- 15.4 The Trustee notes that the Secure Cash Fund’s value is unlikely to keep pace with inflation. Utmost has guaranteed that the unit price (net of fees) will not decrease, after accounting for charges. The Secure Cash Fund will cease to exist on 31 December 2020.
- 15.5 The Secure Cash Fund will predominately be invested in UK Treasury Bills, short term gilts and overnight bank deposits. On occasions other high quality money market investments such as commercial paper or repurchase agreements may be purchased. The investment manager is responsible for determining the balance between these different kinds of investments.
- 15.6 Other policies are in line with the main DC Section.
- 15.7 The Trustees have considered risks from a number of perspectives. The list below is not exhaustive but covers the main risks that the Trustees consider and how they are managed.

### *Strategy risks*

<b>Risk</b>	<b>Description</b>	<b>How is the risk monitored and measured?</b>
<b>Market Risk</b>	<p>The fund will predominantly be invested in UK Treasury Bills, short term gilts and overnight bank deposits. On occasions other high quality money market investments such as Commercial Paper or Repurchase Agreements may be purchased.</p> <p>There is a guarantee in place for the first six months of investment that the value of the fund will not decrease, after the adjustment of fees.</p>	<p>The Trustees will monitor the performance of this fund, in line with the guarantee provided.</p>

<b>Risk</b>	<b>Description</b>	<b>How is the risk monitored and measured?</b>
<b>Inflation Risk</b>	The fund is a short term investment, and as such inflation is not expected to have a large impact on the fund	The Trustees will monitor the performance of this fund, and note that it is an interim arrangement for 2020.
<b>Counterparty Risk</b>	The Trustees have taken comfort from the High Court ruling in 2019 which considered the status of Utmost Life in the initial status of monitoring this investment. Underlying investments are considered in line with the main DC Section.	Monitor developments at Utmost, taking advice from the Investment Consultant.
<b>Currency Risk</b>	In line with the main DC Section.	Managed in line with the main Plan, as set out in Section 12.1.
<b>Operational Risk</b>	In line with the main DC Section.	Monitor developments at Utmost, taking advice from the Investment Consultant.
<b>Liquidity Risk</b>	In line with the main DC Section.	Managed in line with the main Plan, as set out in Section 12.1.
<b>Valuation Risk</b>	In line with the main DC Section.	Managed in line with the main Plan, as set out in Section 12.1.
<b>Environmental, Social and Governance Risk</b>	In line with the main DC Section.	Managed in line with the main Plan, as set out in Section 12.1.
<b>Manager Skill / Alpha Risk</b>	In line with the main DC Section.	Managed in line with the main Plan, as set out in Section 12.1.

15.8 The Secure Cash Fund is designed to meet its objective as outlined above.

15.9 The Secure Cash Fund will transition over the final 6 months of 2020 to Utmost's "Investing by Age Journey". The underlying funds will be managed according to the allocations below.

15.10 The Trustees see the Investment by Age Strategy as an appropriate investment for members. The main objectives of the Utmost Life Investment by Age Strategy is the growth of assets while the Plan's member is far from retirement decreasing these as the member retires.

15.11 J.P. Morgan Asset Management are the asset managers for the funds which make up the Investing by Age Strategy. These funds are predominantly equity based meaning they may be of higher risk for members at a younger age and gradually move through the described below funds in order to de-risk the member's assets as they get closer to retirement. The members are given regular updates to actively manage their funds and ensure that the funds are in line with the individual retirement intentions.

15.12 The Investment by Age Strategy consists of three underlying investment funds managed by J.P. Morgan. The fund choice for a member's is set default by the investment manager, however the member may contact the manager directly to change their investment choice.

	TO AGE 55	AGE 55 TO 65	AGE 65 TO 75	AGE 75 TO 85	OVER 85
<b>GROWTH PHASE: MULTI-ASSET MODERATE</b>	100%	From 100% to 0%	0%	0%	0%
<b>DEFENSIVE PHASE: MULTI-ASSET CAUTIOUS</b>	0%	From 0% to 100%	100%	From 100% to 0%	0%
<b>CASH PHASE: MONEY MARKET</b>	0%	0%	0%	From 0% to 100%	100%

15.13 The Trustees have considered risks from a number of perspectives. The list below is not exhaustive but covers the main risks that the Trustees consider and how they are managed.

*Strategy risks*

Risk	How it is managed	How it is measured
<b>Market Risk</b>	The strategy will predominantly be invested in shares at younger ages. The strategy then gradually invests in bonds and cash as the member gets older.	The Trustees will monitor the performance of this strategy and underlying funds, which are managed by JP Morgan Asset Management.
<b>Inflation Risk</b>	The strategy is not aiming to keep pace with inflation.	The Trustees will monitor the performance of the strategy, and will ensure members are aware of the strategy's objectives.
<b>Counterparty Risk</b>	Underlying investments are considered in line with the main DC Section.	Managed in line with the main Plan, as set out in Section 12.1.
<b>Operational Risk</b>	In line with the main DC Section.	Managed in line with the main Plan, as set out in Section 12.1.

<b>Risk</b>	<b>How it is managed</b>	<b>How it is measured</b>
<b>Liquidity Risk</b>	In line with the main DC Section.	Managed in line with the main Plan, as set out in Section 12.1.
<b>Valuation Risk</b>	In line with the main DC Section.	Managed in line with the main Plan, as set out in Section 12.1.
<b>Environmental, Social and Governance Risk</b>	In line with the main DC Section.	Managed in line with the main Plan, as set out in Section 12.1.
<b>Manager Skill / Alpha Risk</b>	In line with the main DC Section.	Managed in line with the main Plan, as set out in Section 12.1.

15.14 Other policies are in line with the main Plan.

15.15 The Investing by Age strategy is designed to meet its objective as outlined above. In line with regulation requirements, the Trustees will continue to review this over time, at least triennially, or after significant changes to the Plan's demographic profile, if sooner.

## **16. Implementation, Realisation of Investments and Engagement Policy**

16.1 Within the Defined Contribution Section of the Plan, the Trustees have contracted with Legal & General, who are regulated by the Financial Conduct Authority (the "FCA"), to deliver DC investment management services.

16.2 The pooled investment vehicles are daily-dealt, with assets mainly invested in regulated markets and therefore should be realisable at short notice, based on either the Trustees or member demand. The selection, retention and realisation of investments within the pooled investment vehicles is the responsibility of the relevant investment manager.

16.3 The below table sets out the Trustees approach to implementation and engagement. The list below is not exhaustive, but covers the main areas considered by the Trustees.

<b>Policy statement</b>	<b>Trustees' Approach</b>
<b>How the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with the Trustees' policies</b>	<p>The Trustees appoint underlying investment managers based on their capabilities and, therefore the perceived likelihood of achieving the expected return and risk characteristics required. Mercer's manager research rating reflects Mercer's forward-looking assessment of a manager's ability to meet or exceed their objectives.</p> <p>As the Trustees invest in pooled investment vehicles, they accept that they have no ability to influence investment managers to align their decisions with the Trustees' policies set out in this Statement. However, appropriate mandates can be selected to align with the overall investment strategy.</p>



Policy statement	Trustees' Approach
	<p>The underlying investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustees are dissatisfied, then they will look to replace the manager.</p> <p>If the investment objective for a particular manager's fund changes, the Trustees will review the fund appointment to ensure it remains appropriate and consistent with the Trustees' wider investment objectives.</p>
<p><b>How the arrangement incentivises the asset manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term</b></p>	<p>The Trustees expect investment managers to incorporate the consideration of longer-term factors, such as ESG considerations, into their decision making process where appropriate. The extent to which this is so will be considered during the selection, retention and realisation of manager appointments. Voting and engagement activity should be used by investment managers to discuss the performance of an issuer of debt or equity.</p>
<p><b>How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the Trustees' policies</b></p>	<p>The Trustees focus is on longer-term performance but shorter-term performance is monitored to ensure any concerns can be identified in a timely manner. The Trustees review both absolute and relative performance against a portfolio or underlying investment manager's benchmark on a quarterly basis, including assessments of both shorter and longer time horizons. The remuneration for investment managers used by the Plan is based on assets under management; the levels of these fees are reviewed annually as part of the annual value for money assessment to ensure they continue to represent value for members. If performance is not satisfactory, the Trustees will ask the fund manager to provide additional rationale, and if not satisfied with this, may request further action be taken, including a review of fees.</p> <p>The Trustees receive investment manager performance reports on a quarterly basis, which present performance information over three months, one year, and three years. The Trustees review the absolute performance, relative performance against a suitable benchmark, and against the underlying manager's stated target performance (over the relevant time period) on a net of fees basis. Whilst the Trustees' focus is on long-term performance, they also take shorter-term performance into account.</p>

Policy statement	Trustees' Approach
<p><b>How the Trustees monitor portfolio turnover costs incurred by the asset manager.</b></p>	<p>Portfolio turnover costs for each of the funds are reviewed on an annual basis as part of the annual value for members assessment. The ability to assess the appropriateness of these costs is limited by the availability of data. The Trustees will monitor industry developments in how to assess these costs and incorporate this in future value for members assessments. Importantly, performance is reviewed net of portfolio turnover costs.</p>
<p><b>How the Trustees define and monitor targeted portfolio turnover or turnover range.</b></p>	<p>The Trustees do not currently define target portfolio turnover ranges for funds.</p>
<p><b>How the Trustees define and monitor the duration of the arrangement with the asset manager.</b></p>	<p>The Trustees are long term investors, all DC funds are open-ended and therefore there is no set duration for manager appointments.</p> <p>The funds are reviewed on a regular basis, supported by advice from the investment consultants.</p> <p>The Trustees may choose to remove a fund from the fund range, if it is no longer considered appropriate, and the fund range is reviewed on at least a triennial basis.</p>

**For and on behalf of the Trustees of the SI Group-UK, Ltd Pension Plan**