

# **Wood Pension Plan**

## **Investment Policy Implementation Document – September 2020 (replaces January 2020)**

### **1. Introduction**

The Statement of Investment Principles (“SIP”) of the Wood Pension Plan (the “Plan”) sets out the guiding principles upon which the Plan’s investments are based. The purpose of this Investment Policy Implementation Document (“IPID”) is to provide details of the specific investments in place alongside other information relevant to the management of the investments.

Investment policy can be considered in two parts; the strategic management, the setting of which is one of the fundamental responsibilities of the Trustee, and the day-to-day management of the assets, which is delegated to professional investment managers.

The Plan provides two types of benefit; one linked to final salary (Defined Benefit Section) and the other of a money purchase type (Defined Contribution Section).

### **2. Strategic Management - Defined Benefit Section**

The benchmark allocation of the Plan’s assets between the major asset classes is detailed in the table overleaf.

The benchmark allocation will be reviewed by the Trustee on an ongoing basis in line with any changes to the Plan’s investment strategy.

<b>Asset Class</b>	<b>Benchmark Allocation (%)</b>	<b>Benchmark</b>
<b>Return-Seeking Assets</b>	<b>15.0</b>	
Global Listed Equities	15.0	MSCI AC World (NDR) Index <sup>1</sup>
Private Equity	- <sup>2</sup>	n/a
<b>Mid-Risk / Cashflow Matching Assets</b>	<b>29.0</b>	
Core Property	5.0	IPD Quarterly and Monthly Valued Funds Index
Inflation Linked Property	4.0	Retail Prices Index + 3.5% p.a.
Corporate Bonds – UK Buy & Maintain	10.0	iBoxx Sterling Non-Gilts Index
Corporate Bonds – Global Buy & Maintain	10.0	Barclays Global Aggregate Corporate (GBP Hedged) Index
Private Debt	- <sup>2</sup>	n/a
<b>Liability Matching Assets</b>	<b>56.0</b>	
Liability-Driven Investment	56.0	n/a
<b>Total</b>	<b>100.0</b>	

<sup>1</sup> Global equity benchmark at total Plan level. However, underlying managers may be benchmarked against alternative indices.

<sup>2</sup> Committed capital of £10m to a buyout private equity fund, £30m to a secondaries private equity fund and £30m to a mezzanine debt fund. These positions are intended to be held to maturity and will therefore represent a varying portion of total Plan assets. As such, they are held outside the Plan's strategic benchmark allocation.

There are no benchmark allocation control ranges in place, however the Trustee keeps overall allocations under review.

In order to meet future Plan cashflow requirements, the Trustee receives income from the Plan's asset portfolios where possible. In the event these cashflows are insufficient to meet the Plan's outgoings, the Trustee makes disinvestments when required. In the normal course of events, such cashflows will be sourced from specific asset classes/managers in order to move the Plan's asset allocation towards the target allocation. The Trustee has full discretion to alter this policy if in doing so, it believes it is in the best interests of members.

### 3. Day-to-Day Management of the Assets

The Plan assets are split between those relating to the main Plan and those relating to Additional Voluntary Contributions ("AVCs"). Section 4 covers those assets held in respect of members' AVC arrangements and various immediate annuity contracts.

### 3.1 Investment Structure – Defined Benefit Section

Manager	Mandate	Benchmark % of Plan Assets
<b>Return-Seeking Assets (Equities)</b>		<b>15.0</b>
Equities		15.0
BlackRock Investment Management (UK) Limited (“BlackRock”)	Passive Global Equities	5.0
Magellan Asset Management (“Magellan”)	Active Global Equities	5.0
Veritas Asset Management (“Veritas”)	Active Global Equities	5.0
Dunedin Capital Partners (“Dunedin”)	Private Equity	- 1
Coller Capital Partners (“Coller”)	Private Equity	- 1
<b>Mid-Risk / Cashflow Matching Assets</b>		<b>29.0</b>
Property		9.0
LaSalle Investment Management Limited (“LaSalle”)	Core Property <sup>2</sup>	5.0
	Inflation-Linked Property	4.0
Credit		20.0
Royal London Asset Management (“RLAM”)	UK Buy & Maintain Credit	10.0
PGIM Fixed Income (“PGIM”)	Global Buy & Maintain Credit <sup>3</sup>	10.0
Barings Asset Management (“Barings”)	Mezzanine Debt	- 1
<b>Liability Matching Assets</b>		<b>56.0</b>
Government Bonds, Derivatives & Cash		56.0
BlackRock	Liability-Driven Investment	56.0
<b>Total</b>		<b>100.0</b>

<sup>1</sup> Committed capital of £10m to a buyout private equity fund, £30m to a secondaries private equity fund and £30m to a mezzanine debt fund. These positions are intended to be held to maturity and will therefore represent a varying portion of total Plan assets. As such, they are held outside the Plan’s strategic benchmark allocation.

<sup>2</sup> Includes the Newcastle Estates.

<sup>3</sup> PGIM hedge overseas currency exposure back to Sterling.

All the managers are regulated by the Financial Conduct Authority (“FCA”) or the relevant authority in the domicile country. The individual investment manager benchmarks and investment objectives are set out below and the investment restrictions and other guidelines can be found in the individual Investment Management Agreements (“IMAs”) or similar fund documentation.

The Trustee expects to generate a return, over the long term, of c. 1.3% per annum\* (after expenses) above that which would have been achieved had no investment risk been taken within the portfolio i.e. had the asset portfolio been invested solely in a portfolio of long dated government bonds which broadly match the Plan liabilities, with no stock lending. The actual return is dependent upon the market benchmarks for each manager and how they perform relative to their benchmarks. At a total Plan level, the total benchmark is a composite of the underlying investment manager benchmarks. The benchmark is assumed to be rebalanced quarterly for performance measurement purposes.

\* Expected return calculation is based on the strategic asset allocation and asset class assumptions as at 31 March 2020.

## 3.1.1 Mandate Details

Manager Name	Asset Class / Mandate	Benchmark Index	Investment Objective	Permitted Maximum Cash Allocation	Inception Date
<b>BlackRock</b> <i>(Aquila Life MSCI World Equity Fund)</i>	Global Equity	MSCI World Net Total Return Index	To track the performance of the MSCI World Net Total Return Index, gross of fees <sup>(a)</sup>	N/A <sup>(a)</sup>	10 August 2020
<b>Magellan</b>	Global Equity	MSCI AC World (NDR) Index	To outperform the total return of the MSCI AC World (NDR) Index in Sterling terms by 3% p.a. gross of fees over the long term.	20%	17 December 2013 <sup>(b)</sup>
<b>Veritas</b>	Global Equity <sup>(c)</sup>	MSCI AC World (NDR) Index	To outperform the total return of the OECD G7 CPI index by 6% p.a. net of fees over rolling 5 year periods.	25%	11 May 2012
<b>Dunedin</b> <i>(Dunedin Buyout Fund II)</i>	Private Equity	N/A	To invest in primary private equity opportunities and aim to achieve superior returns through the realisation of capital gains.	N/A	20 October 2006 <sup>(d)</sup>
<b>Coller</b> <i>(Coller CIPVI Fund)</i>	Private Equity	N/A	To achieve long term capital appreciation primarily by investing directly or indirectly through other entities in privately negotiated investments in the private equity secondaries market worldwide.	N/A	14 November 2011 <sup>(e)</sup>
<b>LaSalle</b>	Core Property	IPD Quarterly and Monthly Valued Funds Index	To receive upper quartile performance (which in practice shall mean outperformance by 0.5% to 1% per annum) within the IPD Monthly and Quarterly Valued Funds Benchmark on a 3 year rolling basis, gross of fees. <sup>(f)</sup>	N/A	30 November 1990
<b>LaSalle</b>	Inflation-Linked Property <sup>(g)</sup>	Retail Prices Index ("RPI") +3.5% p.a.	To receive a total return of RPI + 3.5% p.a. on a gross of fees basis.	N/A	12 September 2012
<b>RLAM</b>	UK Buy & Maintain Credit	N/A <sup>(h)</sup>	To achieve an additional yield to maturity over that available from government bonds.	N/A	5 July 2012
<b>PGIM</b>	Global Buy & Maintain Credit	N/A <sup>(i)</sup>	To invest in a diversified portfolio of fixed income securities in a way that harvests the credit spread premium in the most efficient way.	N/A	31 July 2017 <sup>(j)</sup>
<b>Barings</b> <i>(Babson Almack III Fund)</i>	Mezzanine Debt	N/A	To invest in mezzanine debt and equity (anticipated to be a minimum of 80% in senior mezzanine debt when fully invested and up to 20% in junior mezzanine and equity instruments).	N/A	18 January 2011 <sup>(k)</sup>
<b>BlackRock</b>	Liability-Driven Investment	N/A	To provide a defined level of interest rate and inflation exposure <sup>(l)</sup> . BlackRock are also appointed as a lending agent with an objective of delivering incremental return through a secure programme of gilt lending.	N/A	8 August 2019

<sup>(a)</sup> BlackRock indicate they expect cash balances will typically be less than 1% of the overall portfolio.

<sup>(b)</sup> Represents inception date of the legacy Amec Staff Pension Scheme mandate.

- (c) Formerly held within the Foster Wheeler Pension Plan.
- (d) Inception date shown for performance measurement purposes. The initial term of the fund was 10 years, but this was extended for a one year period, while a further extension may be agreed.
- (e) Inception date shown for performance measurement purposes. The initial term of the fund is 10 years, but may be extended for up to 3 successive one year periods.
- (f) The Trustee notes that the performance objective relates to property assets managed by LaSalle excluding the properties within the Newcastle Estates, which LaSalle are additionally responsible for the management of on behalf of the Trustee since they were acquired for the main portfolio in August 2006. Performance for this portfolio has been measured by IPD since 31 March 1995, however the Newcastle Estates are excluded from the portfolio's performance as measured by IPD.
- (g) Up to 25% may be invested in senior private debt instruments. Inception date shown for performance measurement purposes.
- (h) Given the nature of this fund, it has no stated benchmark. However, for performance measurement purposes it will be measured against the iBoxx Sterling Non-Gilt Index (i.e. the full UK universe of listed investment grade credit issuances). As income and maturity proceeds are paid out of this portfolio and no further investments are expected to be made, it is expected to decline in value over time.
- (i) Given the nature of this fund, it has no stated benchmark. However, for performance measurement purposes it will be measured against the Barclays Global Aggregate Corporate (GBP Hedged) Index (i.e. the global universe of listed investment grade credit issuances). PGIM are allowed to invest in non-Sterling denominated securities and are instructed to hedge all foreign currency exposure back to Sterling.
- (j) Inception date for performance measurement purposes.
- (k) The initial term of the fund is 10 years from the date of the final closing, but may be extended for up to two additional one year periods at the discretion of the manager.
- (l) BlackRock are authorised, at their discretion and subject to agreed guidelines, to lend securities in the LDI portfolio to one or more third parties.

### 3.2 Investment Structure – Defined Contribution Section

Day-to-day management of the assets is delegated to a range of professional investment managers through pooled funds which are accessed through the Scottish Widows Limited (“Scottish Widows”) Investment Platform, where the Trustee holds a long term insurance policy.

The investment platform is provided under agreement with Mercer Workplace Savings (“MWS”) and Scottish Widows. MWS combines a corporate investment platform offered by Scottish Widows with Mercer investment consulting advice and access to highly rated and blended funds. Funds comprise of single or a combination of external underlying investment managers which are highly rated by Mercer. All parties are regulated by the Financial Conduct Authority (the “FCA”).

Based on advice from the Investment Consultant, the Trustee is responsible for the selection, monitoring and, where necessary, the termination of the funds made available to members. In the case of the blended funds, underlying managers can be changed at any time but the objectives of the funds will remain the same.

#### 3.2.1 Investment Options

The investment options available to members via the Scottish Widows investment platform, incorporating a range of active and passively managed funds, are set out below.

<b>Fund Type</b>	<b>Fund</b>
Multi Asset	Multi-Asset - Growth
	Multi-Asset – Diversified Growth
Equity	Passive Equity – UK Equity
	Passive Equity – Global Equity
	Passive Equity – Overseas Equity
	Passive Equity - Emerging Market Equity
	Passive Equity – Ethical Global Equity
	Active Equity - UK Equity
	Active Equity - Global Equity
	Active Equity - Emerging Markets Equity
Passive Equity – Shariah	
Bond	Passive Bonds - Fixed Interest Government Bonds
	Passive Bonds - Inflation-Linked Government Bonds
	Passive Bonds - UK Corporate Bonds
	Active Bonds – UK Corporate Bonds
Cash	Active Cash – Cash
Alternatives	Active Property – Property

In addition to these funds, a series of Target Retirement dated funds are available, which provide automated de-risking aligned to three different types of retirement benefit. Further details are provided in the following sections.

All members are free to allocate their funds between any of the above options. If members do not actively choose one or more of these options, they will automatically be enrolled into the default arrangement.

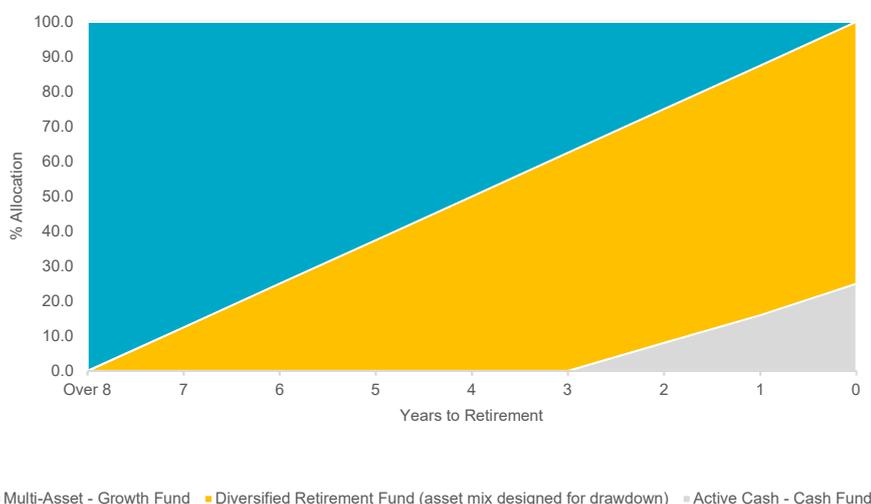
### 3.2.2 Default Arrangement (the Target Drawdown Strategy)

Members who do not make their own investment decisions will be automatically enrolled into the Target Drawdown Strategy, which is a lifestyle arrangement managed through a range of target date funds.

Under the default arrangement, a member's assets will be invested entirely in the Mercer Growth Fund until 8 years before their target retirement age. They are then switched into the Mercer Target Drawdown Retirement 20XY Fund (based on the selected date of retirement). In the ensuing years to retirement assets are switched out of the Mercer Growth Fund and into a diversified portfolio of assets designed to meet the needs of a member intending to remain invested post-retirement (albeit outside of the Plan) and to draw down their funds over time, after taking tax free cash benefits.

When a member reaches the year of their retirement, all assets will be switched into the Target Drawdown Retirement Fund, from which a member can retire at any time.

A summary of the underlying asset allocation of the default strategy is shown in the following chart.



### 3.2.3 Technical Defaults and Alternative Lifestyle Strategies

In accordance with the Occupational Pension Schemes (Charges and Governance) Regulations 2015, the Trustee has identified a further investment option to be treated as a default arrangement (as defined by these regulations) in addition to the current default investment option (as detailed above). This fund has been identified as a default arrangement as member contributions have been automatically directed without members having instructed the Trustee where their savings and future contributions are to be invested.

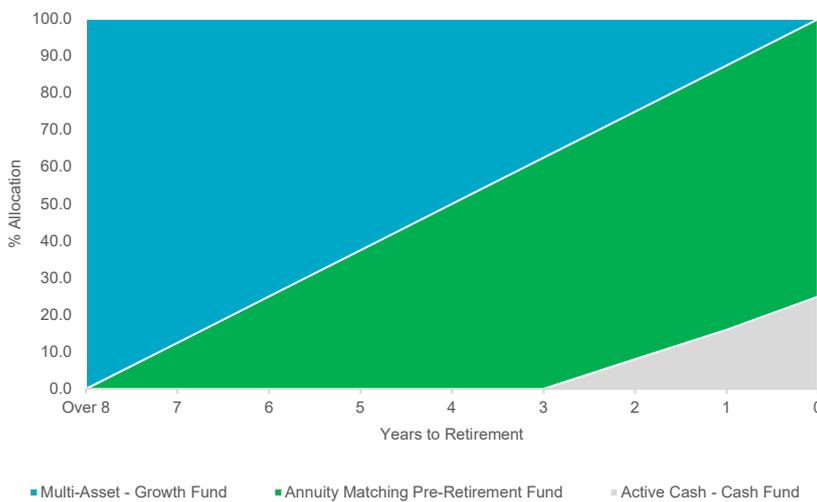
This additional default arrangement is the **Active Cash – Cash Fund** and the rationale for consideration of this Fund as a technical default arrangement is outlined in the SIP.

In addition to the Target Drawdown Strategy, which is the default investment option, the Trustee has made available alternative lifestyle options; the Target Annuity Strategy targets annuity purchase at retirement (with an allowance for taking tax free cash), and the Target Cash Strategy targets full withdrawal of benefits as cash at retirement.

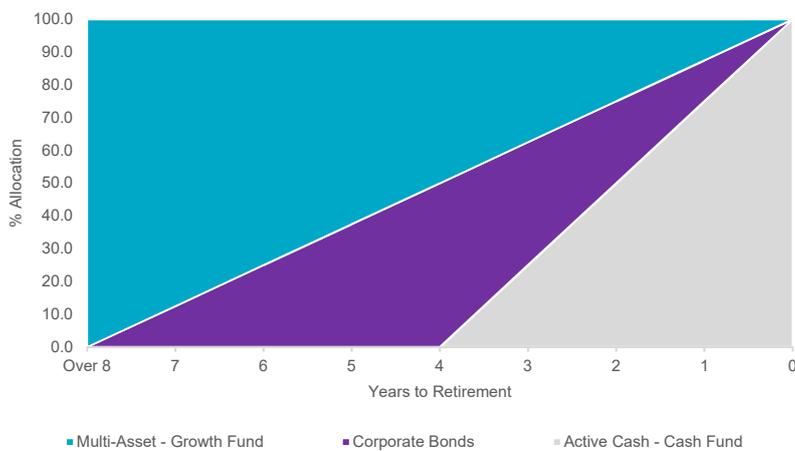
The growth phase for all three profiles is the same, whereas different target dated funds are used within each profile to achieve risk reduction as members approach retirement.

Summaries of the underlying asset allocations of these alternative lifestyle strategies are shown in the following charts.

**Target Annuity Strategy**



**Target Cash Strategy**



#### **4. Additional Voluntary Contributions (“AVCs”)**

In addition to the main assets of the Plan referred to earlier in this IPID, the Plan holds assets in respect of members’ historic AVC arrangements as set out below.

There are currently eight providers of AVC funds to the Plan for the “previous” DB schemes, which allow members to invest AVCs in a range of funds. The remaining providers are Zurich, Fidelity, Prudential, Phoenix Life (former London Life), Standard Life, Aviva and Utmost Life (former Equitable Life).

No new AVC payments are being made to these arrangements as active members can adjust their contributions as desired under the DC section options.

#### **5. Other Assets of the Plan**

##### **5.1 Pensions in Payment**

In addition, the Plan holds various immediate annuity contracts with a number of insurance companies in respect of pensions in payment to certain former members of predecessor schemes. In order to simplify the application of pension increases, the insurance companies concerned pay the relevant amounts to the Plan, which, in turn, pays the pensions to the individual pensioners.

##### **5.2 BlackRock Gilt Lending Programme**

A diversified portfolio of stocks is posted as collateral to protect the Plan against a borrower failing to repay gilts lent to them (in addition, the Plan is indemnified against loss by BlackRock). In the event that default occurs, the Plan will acquire temporary ownership of the collateral until disposed of.

##### **5.2 De-Mutualisation Holdings**

From time to time, there may be short-term direct holdings of shares arising from the de-mutualisation of insurance companies or building societies, pending realisation and distribution of the proceeds to the appropriate beneficiaries.

#### **6. Advisors and Plan Governance**

##### **6.1 Committees**

In respect of the Defined Benefit Section, the Trustee has established an Investment Committee (the “IC”) to focus on investment matters. While the Trustee retains direct responsibility for setting investment objectives, establishing risk and return targets and setting the Plan’s strategic benchmark and manager structure, it makes these decisions after considering recommendations from the IC. The IC implements them under delegated powers by retaining and monitoring investment managers, custodians and other service providers.

In respect of the Defined Contribution Section, the Trustee has established a Defined Contribution Committee to focus on relevant issues, including investment matters along with other areas of Defined Contribution governance. The Defined Contribution Committee operates under a Terms of Reference which sets out its powers and duties.

## **6.2 Custodian**

The role of a custodian is to ensure the safe keeping of the assets and facilitate all transactions entered into by the appointed investment managers.

The Trustee is not responsible for the appointment of the custodian of the assets contained within the various pooled fund investments.

In relation to the segregated investments, the Trustee has appointed State Street Bank & Trust Company as custodian. However, the Trustee has noted the need to conduct periodic reviews of the custodian to ensure their continuing suitability.

## **6.3 Actuary**

The Actuary performs a valuation of the Plan at least every three years, in accordance with regulatory requirements. The main purpose of the actuarial valuation is to assess the extent to which the assets cover the accrued liabilities and agree the employer's contribution rate. Mr S Jones of Mercer Limited ("Mercer") is the appointed Plan Actuary.

## **6.4 Investment Consultant**

Whilst the day-to-day management of the Plan's assets is delegated to investment managers, all other investment decisions including strategic asset allocation and selection and monitoring of investment managers are based on advice received from the Investment Consultant.

## **6.5 Mercer Workplace Savings (MWS)**

As part of their ongoing operational governance, the Investment Consultant will conduct quarterly governance meetings with Scottish Widows to discuss the provider's overall performance, review and measure its provision of services, consider the adequacy of its people resourcing, review service levels provided to the Plan, monitor and resolve key risks, review management information reports and monitor Scottish Widows' market leading status.

A range of services will be provided as part of the ongoing investment governance MWS offers, including:

- Quarterly investment reports
- Review of investments and platform at annual meeting
- Updates on the defined contribution market. This will include a summary of legislative and regulatory developments and commentary on wider defined contribution issues that will impact the Plan
- SIP updates

- Reporting on stewardship and voting activity for delegated investment managers.

## **7. Fee Structures**

The investment managers levy fees based on a percentage of the value of the assets under management. In addition, some levy performance based fees. The custodian has a fee basis that is a mixture of fixed fees and a percentage of the value of the assets under their custody in line with standard industry practice.

The Plan Actuary and the Investment Consultant typically work on the basis of time cost; however in certain circumstances a fixed fee will be agreed.

Finally, MWS governance services are charged on the basis of an agreed fixed fee.

An Appendix to this document sets out the fee scales negotiated with each of the Plan's investment managers and the platform provider (in respect of the Defined Contribution arrangements). However, we note that the fee scales are regarded as commercially sensitive and as such the distribution of this Appendix is limited to the Trustee, Investment Committee, Investment Consultant and Plan Auditor.