

# Wood Pension Plan

## Statement of Investment Principles – September 2020 (replaces January 2020)

### 1. Introduction

The Trustee of the Wood Pension Plan (the “Plan”) has drawn up this Statement of Investment Principles (the “Statement”) to comply with the requirements of:

- The Pensions Act 1995, as amended by the Pensions Act 2004;
- The Occupational Pension Schemes (Investment) Regulations 2005, as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015; and
- Subsequent legislation.

The Statement is intended to affirm the investment principles that govern decisions about the Plan’s investments. A separate document (the Investment Policy Implementation Document, “IPID”) detailing the specifics of the Plan’s investment arrangements is available upon request.

In preparing this Statement, the Trustee has consulted a suitably qualified person by obtaining written advice from Mercer Limited (“Mercer”). In addition, the Trustee has consulted the Sponsoring Company, Amec Foster Wheeler Limited and its parent company John Wood Group plc (together, referred to in this document as “Wood”), to ascertain whether there are any material issues of which the Trustee should be aware in agreeing the Plan’s investment arrangements and, in particular on the Trustee’s objectives.

The investment responsibilities of the Trustee are governed by the Plan’s Trust Deed and Rules (a copy of which is available for inspection on request) and relevant legislation. According to the law, the Trustee has ultimate power and responsibility for the Plan’s investment arrangements.

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). These are covered separately in Sections 2 and 3 respectively.

In respect of the Defined Benefit Section (which includes the benefits held under both the DB Legal Section and the Ex-Serco Protected Persons Legal Section), the Trustee has established an Investment Committee (“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 (DC) Section, the Trustee has established a DC Sub-Committee to focus on DC issues, including DC investment matters along with other areas of DC governance. The DC Sub-Committee operates under a Terms of Reference which sets out its powers and duties.

## **2. Defined Benefit Section**

### **2.1 Process For Choosing Investments**

The process for choosing investments is as follows:

- Identify appropriate investment objectives
- Consider the broad level of risk consistent with meeting the objectives set
- Construct a portfolio of investments that is expected to maximise the return (net of all costs) given the Trustee's risk tolerance, liquidity requirements and expected cashflow needs

In considering the appropriate investments for the Plan, the Trustee has obtained and considered the written advice of Mercer Limited (the "Investment Consultant"), whom the Trustee believes to be suitably qualified to provide such advice. Where matters described in this Statement may affect the Plan's funding policy, input has also been obtained from the Plan Actuary. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

### **2.2 Investment Objectives**

The Trustee's primary objective is to invest the Plan's assets in the best interest of the members and beneficiaries, and in the case of a potential conflict of interest between them and Wood, in the sole interest of the members and beneficiaries.

The Trustee believes that an appropriate strategic objective is to achieve full funding on a gilts re-investment basis. Whilst certain demographic and uninsurable investment risks will remain, a fully funded basis on a gilt re-investment yield would enable the Trustee to take most of the investment risk out of the Plan, thereby reducing its reliance on Wood's covenant.

The Trustee pays due regard to Wood's views with regard to the potential size and incidence of contribution payments, and the degree to which Wood accepts variation in the Plan's surplus or deficit as a consequence of the investment policy adopted.

The objectives set out above and the risks and other factors referenced in this Statement are those the Trustee determines to be financially material considerations in relation to the Defined Benefit Section of the Plan over the time horizon appropriate to the Plan. Given the nature of the Plan's liabilities, the appropriate time horizon is potentially long-term although the potential to transfer liabilities out of the Plan for example through bulk annuities could reduce the time horizon substantially.

### **2.3 Portfolio Construction**

The Trustee has adopted the following control framework in structuring the Plan's investments:

- There is a role for both active and passive management. Passive management will be used for one of several reasons, namely:
  - To diversify risk;

- To invest in markets deemed efficient where the scope for active management to add value is limited;
- As a temporary home pending investment with an active manager.
- To help diversify manager specific risk, multiple manager appointments, within a single asset class are preferred where practical.
- At the total Plan level and within individual manager appointments investments should be broadly diversified to ensure there is not a concentration of investment with any one issuer.
- Investment in illiquid assets, such as private equity and debt investments and property or pooled property funds, may be held in limited quantities. The proportion of such investments will be monitored at the individual manager and at the total Plan level.
- Investment in derivatives is permitted as agreed on a manager-by-manager basis if they contribute to a reduction in risk or facilitate efficient portfolio management.
- Investment may be made in securities that are not traded on regulated markets. Recognising the risks (in particular liquidity and counterparty exposure), the Trustee will look to ensure that the assets of the Plan are predominantly invested in regulated markets.
- Stock lending of Government bonds (gilts) is permitted provided arrangements are in place to ensure security and sufficient liquidity.
- No investment in securities issued by Wood, or affiliated companies will be made (other than any such securities held within a pooled fund in which the Trustee invests), unless posted by a third party as collateral as part of a diversified stock lending programme.
- Borrowing is not permitted except to cover short-term liquidity requirements.

## **2.4 Investment Strategy**

The Trustee has defined a strategic objective to reach full funding on a gilts re-investment basis and de-risk the Plan's assets accordingly. However, it recognises that at current funding levels, a degree of investment risk will need to remain for the foreseeable future. The current investment strategy is set out in this and related documents.

Given the on-going commitment of Wood to the Plan, a degree of mismatching risk can be accepted for the time being on the basis that it is also acceptable to the Wood. It is recognised that, as the Plan is closed to new entrants and future accrual, it will gradually mature over the coming years.

The Trustee has decided to set a Plan Specific Benchmark which will be expected over the long-term to produce investment returns in excess of the liabilities as required to meet the investment objectives as set out in Section 2.2, while limiting the risk inherent in the mismatch between assets and liabilities to a level acceptable to the Plan and to Wood. The Trustee will review the Plan Specific Benchmark from time to time and will seek advice from the Investment Consultant on the appropriateness of the Plan Specific Benchmark with input from the Plan Actuary and Wood on the acceptable degree of mismatch.

The broad investment strategy is currently as shown in the following table. Further detail is included in a separate document produced by the Trustee, entitled Investment Policy Implementation Document ("IPID"), which is available to members upon request.

<b>Asset Class</b>	<b>Benchmark Allocation (%)</b>
<b>Return-Seeking Assets (Equities)</b>	<b>15.0</b>
Global Listed Equities	15.0
Private Equity	- <sup>1</sup>
<b>Mid-Risk / Cashflow Matching Assets</b>	<b>29.0</b>
Core Property	5.0 <sup>2</sup>
Inflation-Linked Property	4.0 <sup>2</sup>
Corporate Bonds - buy & maintain	20.0
Private Debt	- <sup>1</sup>
<b>Liability Matching Assets</b>	<b>56.0</b>
Liability-Driven Investment	56.0
<b>Total</b>	<b>100.0</b>

- 1 *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.*
- 2 *The Plan is currently in the process of selling down these assets over time, as opportunities in the market arise, given the illiquid nature of the asset class. Proceeds will be used to remove underweight allocations or increase LDI exposure.*

## 2.5 Financially Material Considerations, Risk Management and Measurement

There are various risks to which any pension scheme is exposed. The Trustee's policy on the factors they consider to be financially material when making decisions relating to selection, retention and realisation of investments over the Plan's anticipated lifetime including the Trustee's policy on risk management, is as follows:

- The primary risk upon which the Trustee focuses is that arising through a mismatch between the Plan's assets and liabilities. The Trustee manages this risk by allocating a portion of the Plan's assets to assets that possess similar characteristics to the Plan's liabilities, referred to as Liability Matching Assets. The current strategic allocation to Liability Matching Assets is 56%. The allocation to Liability Matching Assets results in a "hedge ratio" of around 75% of the Scheme's liabilities, as measured on the Technical Provisions basis, in relation to changes in interest rates and inflation, although the precise hedge ratio will vary due to market conditions. The Trustee's willingness to take this level of mismatch is dependent on the continuing financial strength and support of Wood. The Trustee receives regular business updates from Wood and formally assesses the support at least every three years as part of the actuarial valuation.
- The Trustee recognises that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Plan's accruing liabilities as well as producing more short-term volatility in the Plan's funding position. A deterioration in the Plan's funding level could lead to a requirement for higher than expected contributions from Wood. The Trustee overlays the current strategy with a framework which will allow the Trustee to reduce the overall level of risk when suitable opportunities arise.
- The Trustee recognises the "covenant" risk associated with Wood's potential inability or unwillingness to support the Plan and any associated deficit going forward. As mentioned earlier, the Trustee pays due regard to Wood's views with regard to the

potential size and incidence of contribution payments, and the degree to which Wood accepts variation in the Plan's surplus or deficit as a consequence of the investment policy adopted.

- The Trustee believes that environmental, social and corporate governance ("ESG") issues, including climate change and stewardship, may present financially material considerations. Section 5 provides dedicated comments on the Trustee's approach.
- The Trustee recognises the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustee aims to ensure that the asset allocation and manager structure policies in place result in an adequately diversified portfolio. The Trustee invests predominantly in directly held assets (via segregated accounts) but also holds investments in collective investment vehicles (i.e. pooled funds).
- The documents governing the investment manager appointments include several guidelines which, among other things, are designed to ensure that only suitable investments are held by the Plan. The investment managers are prevented from investing in asset classes or investments outside of their mandate without the Trustee's prior consent.
- The Trustee recognises the risks of underperformance introduced by using active managers. Arrangements are in place to monitor the continuing suitability of the current investments. The Trustee regularly reviews the continuing suitability of the Plan's investments including the appointed managers and the balance between active and passive management. The Trustee receives regular reports from the investment managers and Investment Consultant.
- The Trustee recognises that investments in illiquid asset classes, for example property, private debt and private equity, may not be readily realisable. The Trustee intends to withdraw from these assets as they mature or through orderly sales. In addition, the majority of the Plan's assets are liquid and readily realisable in the event of funds being required to meet benefit payments.
- The Trustee recognises that returns from investment in private equity may be negative in the early years of such an investment. The Trustee also recognises that it is difficult to measure performance of private equity, and that it may be several years before the investment will generate any return of capital or distribution of gains. In addition, the Trustee recognises that investment in private assets is illiquid and involves commitment of funds for many years. The Trustee limits the allocations to such assets to what are felt to be acceptable levels, and is in the process of allowing these assets to mature, but is comfortable to take the additional risk, given the expected returns.
- The Trustee recognises the risk of holding assets denominated in foreign currencies and a portion of this exposure is hedged to sterling.
- The Trustee permits stock lending of Government gilts and recognises the associated risks. Safeguards are in place to minimise the risk of financial loss to the Plan should the borrower default on repayment, including indemnification against losses provided by the lending agent, BlackRock, receiving liquid collateral in excess of the value of any loans, and regular reviews of the credit-worthiness of potential borrowers by the lending agent. Limits on the amount of stock lending are also in place to ensure suitable liquidity.

- The safe custody of the Plan's assets is delegated to a professional custodian. The custodian is responsible for the prompt reclaim of withholding taxes and other taxes on income due to the Plan.

In considering the selection, retention and realisation of investments, the Trustee does not currently take account of non-financially material considerations in considering the selection, retention and realisation of investments. It does however welcome the views from members, who have a variety of methods by which they can make these views known to the Trustee; this position is reviewed periodically.

Should there be a material change in the Plan's circumstances, the Trustee will review whether and to what extent the investment arrangements should be altered; whether the current risk profile remains appropriate.

## **2.6 Day-to-Day Management of the Assets**

Day to day management of the assets is delegated to professional investment managers who are all regulated by the Financial Conduct Authority ("FCA") or the relevant authority in the domicile country. The investment managers have full discretion to buy and sell investments on behalf of the Plan, subject to agreed constraints and applicable legislation. They have been selected for their expertise in different specialisations and each manages investments for the Plan to a specific mandate which includes performance objectives, risk parameters and timescales over which their performance will be measured.

Management of the Plan's gilt lending programme is delegated to a lending agent, BlackRock, who have discretion to agree loans subject to agreed constraints. These constraints are agreed by the Trustee to ensure security and that sufficient liquidity is maintained across the Plan's asset portfolio.

Section 6 sets out how the Trustee incentivises investment managers, where applicable, to operate in line with the objectives set out in Section 2.2.

Details of the Plan's current benchmark, the appointed managers and the gilt lending programme can be found in the IPID.

## **2.7 Realisation of Investments**

The Investment Managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation.

## **2.8 Cash flow and cash flow management**

Any cashflows into or out of the Plan are, in the normal course of events, directed to maintain the Plan's asset allocation as close as possible to that shown in Section 2.4. Again, however, there is discretion in relation to this if the IC believes an alternative approach is in the best interest of members. Further details on both the rebalancing and cashflow policies are set out in the IPID.

## **2.9 Rebalancing**

In order to control the Plan's target level of investment risk, the IC monitors the allocation between the investment managers and asset classes relative to the benchmark allocations

set out in Section 2.4 and in the IPID. A decision as to whether to rebalance is not a mechanistic process but is taken on a discretionary basis.

## **2.10 Expected return**

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 (and with no stock lending). It is recognised that over the short-term, performance may deviate significantly from the long-term target and there are no guarantees that an excess return above the liabilities will be generated.

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

## **3. Defined Contribution Section**

### **3.1 Process for Choosing Investments**

The Trustee considers the characteristics of a range of members and their associated investment needs when choosing which types of investment to make available. The range of funds offered include those which offer the prospect of growth which exceeds the rate of inflation in the long term, as well as funds that provide greater protection against changes in the cost of securing retirement benefits or volatile nominal market values.

### **3.2 Investment Objectives**

The Trustee recognises that members have differing investment needs and that these may change during members' working lives. It also recognises that members have different attitudes to risk. The Trustee believes that members should make their own investment decisions based on their individual circumstances. The Trustee regards its duty to be to make available a range of investment options sufficient to enable members to tailor, to their own needs, their investment strategy.

Specifically, the Trustee has chosen a range of funds designed to enable members to achieve the following individual investment objectives:

- Positive long-term real rates of return
- Increasing protection for members' accumulated assets in the years approaching retirement against:
  - a. Sudden (downward) volatility in capital values;
  - b. Fluctuations in the cost of taking retirement benefits in the member's chosen form.

The Trustee also provides members with a default investment option for those who do not wish to implement their own investment strategy.

The objectives set out above and the risks and other factors referenced in this Statement are those that the Trustee determines to be financially material considerations in relation to the Defined Contribution Section of the Plan.

### **3.3 Risk Management and Measurement**

There are various risks to which any pension scheme is exposed, which the Trustee believes may be financially material to the Plan. The Trustee has considered risk from several perspectives over the Plan's anticipated lifetime. The Trustee believes that the appropriate time horizon within which to assess these considerations should be viewed at the member level. This will be dependent on the member's age and when they expect to take their benefits from the Plan.

The primary risks considered are:

*Market risk* – The risk that low investment returns over members' working lives or unfavourable market movements in the years just prior to retirement will secure inadequate retirement benefits.

*Benefit conversion risk* – The risk that a member's fund value does not change in line with the cost of securing their selected retirement benefit type.

*Inflation risk* – The risk that investments do not keep pace with inflation, and thus the purchasing power of a member's accumulated wealth is eroded.

*Expectation risk* – The risk that a member's retirement benefits fall short of the amount expected or required, whether this is due to lower than expected investment returns or insufficient contributions being paid.

*Manager risk* – The risk that the Investment Managers do not meet their objectives. The Trustee monitors the managers' performance on a regular basis and compares the investment returns with the agreed performance objectives to ensure acceptable performance is being achieved. The Trustee has chosen to appoint both active and passive managers. The core funds offered to members are largely passively managed to reduce active manager risk for the majority of members. However, whilst the use of active management increases manager risk, the Trustee considers that it is appropriate to offer members the choice.

*Liquidity risk* – The risk that arises from being unable to sell an asset in a timely manner. The pooled funds in which the Trustee allows members to invest are expected to provide a suitable level of liquidity. The Plan invests in daily dealt and daily priced pooled funds.

*Concentration risk* – The Trustee has adopted a default investment option for members who choose not to make their own investment decision that ensures that the risk of an adverse influence on investment values from the poor performance of a small number of individual investments is reduced by diversification of the assets:

- *by asset class (equity, bonds, etc.)*
- *by region (UK, overseas, etc.)*
- *within each asset class, by the use of diversified pooled funds.*

*Default investment risk* – The risk that the investment profile of the default investment option is unsuitable for the requirements of some members.

### **3.4 Investment Strategy**

#### *Default investment option*

The Target Drawdown strategy is the default investment option for the Plan.

The aims of the default investment option, and the ways in which the Trustee seeks to achieve these aims, are detailed below:

- To generate returns in excess of inflation during the growth phase of the strategy whilst managing downside risk.

*The default investment option's growth phase invests in the Mercer Growth Fund which consists of equities and other growth-seeking assets. These investments are expected to provide equity-like growth over the long term with some downside protection and some protection against inflation erosion.*

- To provide a strategy that reduces investment risk for members as they approach retirement.

*As a member's pot grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustee believes that a strategy that seeks to reduce investment risk as the member approaches retirement is appropriate.*

*Hence, eight years before their target retirement date (or normal retirement date, if no target is specified), members in the default investment option will have their holdings transferred into a target date fund ("Target Drawdown Retirement 20XY Fund", based on the expected date of retirement in year 20XY). These target date funds aim to gradually move investments from higher-risk growth-seeking assets to assets aiming for income and less volatile growth, along with an allowance for tax-free cash benefits through an allocation to money market investments.*

- To provide exposure, at retirement, to assets that are broadly appropriate for an individual planning to take 25% cash at retirement (reflecting current tax-free cash rules) and to use the balance to stay invested post-retirement (albeit outside of the Plan).

*By the start of the year of their expected retirement, members' accumulated savings in the default investment option will be moved to the Target Drawdown Retirement Fund, which aims to broadly match these benefits through investment of 25% of the portfolio in a mix of high quality short-term sterling denominated money market instruments and 75% in a Diversified Retirement Fund, which aims to generate income and maintain the purchasing power of members' savings until they retire from the Scheme. The assets in this multi-asset fund include equities, bonds and alternative assets.*

The Trustee's policies in relation to the default investment option are detailed below:

- Assets in the default investment option are invested in the best interests of members and beneficiaries, taking into account the profile of members. In particular, the Trustee considers analysis of the Plan's membership in order to inform decisions regarding the default investment option. Based on this understanding of the membership, a default investment option that targets a drawdown-focused asset allocation at retirement is considered appropriate.
- Members are supported by clear communications regarding the aims of the default investment option and the access to alternative investment approaches. If members wish to, they can opt to choose their own funds or an alternative lifestyle strategy. Moreover, members do not have to take their retirement benefits in line with those targeted by the default investment option; the target benefits are merely used to determine the investment strategy held pre-retirement.
- The default investment option manages investment risks through a diversified strategic asset allocation consisting of traditional and alternative assets. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. The Trustee considers risk qualitatively in the context of the variability of expected retirement outcomes and quantitatively in the context of the variability of

investment returns. Investment risk levels are monitored by the Trustee on a quarterly basis. In designing the default investment option, the Trustee has explicitly considered the trade-off between risk and expected returns and has taken advice from an independent investment adviser on the suitability of the Plan's arrangements.

- Assets in the default investment option are invested in daily traded pooled funds which hold liquid assets. The pooled funds are commingled investment vehicles which are managed by various Investment Managers. The selection, retention and realisation of assets within the pooled funds are delegated to the respective Investment Managers in line with the mandates of the funds.
- Likewise, the Investment Managers have full discretion (within the constraints of their mandates) on the extent to which social, environmental and governance considerations are taken into account in the selection, retention and realisation of investments. However, the Trustee has in place a policy regarding such issues, which is detailed in Section 5 of this Statement. Currently, no additional policies in this regard have been applied to the default arrangement, and the core policy in section 5 applies.

Taking into account the nature of the Plan's membership and the Trustee's views of how the membership will behave at retirement, the Trustee believes that the current default investment option is appropriate and will continue to review this over time, at least triennially, or after significant changes to the Plan's demographic, if sooner.

#### *Additional Technical Default Arrangements*

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**. In March 2020, the underlying investment manager for the Active Property – Property Fund suspended trading due to uncertainties in valuing the properties held. Those members with holdings in this Fund received communications to inform them of the position and confirm that contributions could be redirected into a fund of their choice. However, for members who did not make a choice, contributions were re-directed into the Active Cash – Cash Fund (an existing self-select fund choice that is also used within the Plan's main default investment arrangement).

The Trustee governs this fund as technically constituting a default investment arrangement, in line with appropriate governance requirements, including the annual cap on charges of 0.75% p.a. and the duty to review this Fund at least every three years.

#### *Other Investment Arrangements*

The Plan offers alternative lifestyle investment options which target different retirement benefits than that targeted by the default investment option, namely full cash withdrawal and annuity purchase (which includes an allowance for tax-free cash benefits of 25%).

In addition, a range of self-select funds are offered to members. Details of the alternatives to the default option are provided in the IPID.

### **3.5 Day-to-Day Management of the Assets**

The Trustee delegates day to day management of the Plan's assets to professional investment management firms who are regulated by the FCA.

The fund range offered to members of the Defined Contribution Section is accessed through Mercer Workplace Savings on the platform provided by Scottish Widows Limited ("Scottish Widows"). The platform is accessed via a long-term insurance contract with Scottish Widows.

The Trustee will ensure that the performance of each Investment Manager is assessed on a regular basis against a measurable objective, consistent with the objectives of the Plan, and an acceptable risk level.

### **3.6 Realisation of Assets**

The Plan's investment managers have discretion in the timing of realisation of investments within funds and have responsibility for generating cash as and when required for benefit payments.

## **4. Additional Assets**

Under the terms of the trust deed the Trustee is responsible for the investment of Additional Voluntary Contributions ("AVCs") paid by members and various immediate annuity contracts. The Trustee reviews the investment performance of the chosen AVC providers on a regular basis and takes advice as to the providers' continued suitability. Details of the current providers can be found in the IPID.

## **5. ESG, Stewardship (including Engagement Activities) and Climate Change Considerations**

### *Defined Benefit and Defined Contribution*

The Trustee believes that ESG issues may have an impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly require explicit consideration.

The Trustee accordingly considers these issues in the context of anticipated time horizon over which the assets will be held.

The Trustee does not directly manage its investments and Investment Managers have full discretion to buy and sell investments within the various portfolios, within the guidelines of their mandates. ESG considerations are however taken into account in the selection, retention and realisation of investments in the following ways:

- The Trustee considers the ESG research ratings published by their Investment Consultant when monitoring the Plan's Investment Managers' capabilities. These ratings are also considered as part of any new selection of investment funds.
- In meetings with the Plan's Investment Managers, where relevant, ESG issues are discussed and the manager is expected to discuss voting and engagement activities carried out on behalf of the Trustee for mandates where this is appropriate.

- Whilst members' views are not currently explicitly taken into account in the selection, retention and realisation of investments, the Trustee welcomes views from members. Members have a variety of methods by which they can make views known to the Trustee. This position is reviewed periodically.

### Defined Benefit Section

The Trustee has given its investment managers full discretion when evaluating ESG issues and in exercising rights and stewardship obligations relating to the Plan's investments, taking account of current best practice, including the UK Corporate Governance Code, and the UK Stewardship Code. This applies to both equity and debt investments, as appropriate, and covers a range of matters including the issuers' performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, environmental and social impact and corporate governance.

The Trustee encourages their managers who are regulated in the UK to comply with the UK Stewardship Code.

The Plan's investment managers exercise voting rights and undertake engagement (collaborative or other) in accordance with their own corporate governance policy including escalation procedures to protect investment value. Each manager's policy is expected to be provided to the Trustee.

In the case of active managers, where the manager believes that these issues will impact on performance or risk, the manager will be expected to take them into account in their decision making.

The Trustee reviews these policies through a review of stewardship compliance. The Trustee will, where it is deemed necessary, engage the managers in discussion on their policies. It will however be made clear to the managers that any decisions taken by the managers should be in the best long-term financial interest of the Plan and its members.

To enable ongoing monitoring by the Trustee of manager activity, reporting on voting and engagement activities should be provided to the Trustee by the managers on a regular basis.

### Defined Contribution Section

The Trustee has delegated day to day management of the majority of the assets of the Defined Contribution Section to Mercer who in turn delegates responsibility for the investment of the assets to a range of underlying Investment Managers.

Mercer has in place a Sustainable Investment Policy which the Trustee has considered and adopted as part of the delegation of investment management. This Policy encompasses, for example:

- A commitment to appoint only underlying investment strategies at or above an agreed ESG ratings level.
- Taking a broader and longer-term perspective on risk, including identifying sustainability themes and trends for risk management and new opportunity allocations within the funds, where appropriate within the risk / return and asset allocation guidelines of the relevant funds.

- Recognition that climate change is a systemic risk given the transition to a low-carbon economy and the potential physical impact risks; actions in this respect will be taken in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. In particular, the Trustee receives Mercer's climate change management statement covering investments managed on behalf of Mercer Workplace Savings clients. The statement is produced in line with the recommendations of the TCFD, which Mercer, as the Plan's delegated investment manager for the Defined Contribution Section, signed up to following the release of its voluntary framework in 2017.
- Stewardship monitoring on investment manager voting and engagement activity and monitoring of adherence to the UK Stewardship Code.

The underlying investment managers are expected to evaluate ESG factors, including climate change considerations, and to exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

For delegated investment funds, Mercer is expected to provide reporting to the Trustee on a regular basis, at least annually, on ESG integration progresses, stewardship monitoring results, and climate-related metrics such as carbon foot printing for equities and/or climate scenario analysis for diversified portfolios.

In the context of non-financial factors and members' views and beliefs, in the Defined Contribution Section the Trustee has also made available to Plan members an ethical investment fund and a Sharia-compliant investment fund for those members with beliefs in this regard. The ethical fund is passively managed against an index which explicitly incorporates ethical considerations in the selection of its constituents. The Sharia-compliant fund is passively managed against an index of global companies engaged in Sharia compliant activities.

## **6. Investment Manager Arrangements**

### **6.1 Overview**

Investment managers are appointed based on their perceived capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics for the asset class or specific investment strategy they are selected to manage over a suitable time horizon.

The Trustee receives advice from its Investment Consultant in relation to forward-looking assessments of a manager's ability to outperform over a full market cycle, for mandates where outperformance is the objective. This view will be based on the Investment Consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment strategy/fund(s) that the Plan invests in.

For passively managed mandates, or those where outperformance is not the primary goal, the Trustee will seek guidance from the Investment Consultant in relation to their forward-looking assessment of the manager's ability to achieve the stated mandate objectives.

Where the Trustee makes segregated appointments, the Trustee specifies the investment objectives and guidelines in an investment management agreement ("IMA") and sets these so that they are in line with the Trustee's specific investment requirements.

Where the Trustee invests in pooled investment vehicles it accepts that it has no ability to specify the risk profile and return targets of the manager other than through the choice of specific vehicles. The Trustee will therefore select vehicles that best align with its own policy in terms of investment objectives and guidelines as set out in this Statement. Once appointed, the Trustee will review the appointment, should there be any material changes in these terms.

The Trustee makes appointments with the view to them being long term (to the extent this is consistent with the Trustee's overall investment time horizon) and there is typically no set duration for the manager appointments. However, the Plan invests in closed-ended funds in respect of the private equity and private debt mandates. The Plan is invested in these funds for the lifetime of the funds. At the time of appointment, the investment managers provided an indication of the expected investment duration of their funds and have the discretion to extend the lifetimes of the funds in line with the IMAs.

For each appointment, retention is dependent upon the Trustee having ongoing confidence that the investment manager will achieve its investment objective. The Trustee makes this assessment taking into account various factors, which includes performance to date as well as an assessment of future prospects.

Investment managers are therefore incentivised both to achieve the objectives set for them, which are consistent with the Trustee's policies and objectives, and to ensure that they remain capable of doing so on a rolling basis. This encourages investment managers to take a suitably long-term view when assessing the performance prospects of, and engaging with, the equity and debt issuers in which they invest or seek to invest.

## **6.2 Investment Manager Evaluation and Remuneration**

The Trustee receives reporting on asset class and investment manager performance on a quarterly basis, via a combination of investment monitoring reports from the appointed Investment Consultant, and presentations from the investment managers.

The Trustee meets with its investment managers as deemed appropriate. During such meetings the Trustee is able to review the decisions made by the managers, including investment decisions, voting history (in respect of equities) and engagement activity with investee companies, and can question such activities.

Investment returns (and volatility) are measured on both an absolute basis and relative to one or more suitable benchmarks and targets. Returns are considered net of all fees. The Trustee's focus is on long-term performance but it will consider a review if there are significant short-term performance concerns.

As well as assessing investment returns, the Trustee will consider a range of other factors, with the assistance of their Investment Consultant, when assessing investment managers, which may include:

- Personnel and business change
- Portfolio characteristics (including risk and compatibility with objectives) and turnover
- Voting and engagement activity
- Service standards
- The adviser's assessment of ongoing prospects based on their research ratings, including ESG ratings.

The majority of investment managers are remunerated by way of a fee calculated as a percentage of assets under management.

For liability hedging a fee is typically calculated based on a combination of physical and hedged exposures. In each case, the principal incentive is for the investment manager to retain their appointment (in full), by achieving their objectives, in order to continue to receive their fee in full. The Trustee has agreed performance related fees for some mandates and carries out regular reviews of manager fee arrangements. Investment managers are not remunerated based on portfolio turnover.

Fees on stock lending within the Defined Benefit Section in respect of assets managed by BlackRock are based on the share of revenue generated.

As part of the annual Value for Money assessment, the Trustee reviews the investment manager fees within the Plan's Defined Contribution arrangements, including benchmarking against appropriate peer groups.

### **6.3 Portfolio Turnover Costs**

The Trustee does not monitor portfolio turnover costs in respect of the Defined Benefit Section and has no set portfolio turnover targets; rather the Trustee assesses investment performance net of the impact of the costs of such activities.

For the Defined Contribution Section, transaction costs, which include portfolio turnover costs, are monitored and assessed within the annual Value for Money assessment. The Trustee has not set portfolio turnover targets; again the Trustee instead assesses investment performance net of the impact of the costs of such activities.

Turnover costs arise from a) "ongoing" transactions within an investment manager's portfolio and b) "cashflow" costs incurred when investing in, or realising assets from, a mandate.

The Trustee seeks to minimise cashflow costs by receiving income from mandates where possible and consistent with overall policy. The Trustee monitors the costs of implementing strategic change via their Investment Consultant.

The Trustee will seek periodic reporting on turnover and ongoing costs for all appointed managers.

## **7. Compliance with this Statement**

The Trustee will monitor compliance with this Statement at least annually and will review this Statement at least once every three years and without delay after any significant change in investment policy. The Investment Consultant will provide the advice needed to allow the Trustee to review and update this Statement as required. In addition, no change will be made to the Statement unless the proposed changes to investment policy have been approved by the Trustee and recorded in the minutes of a Trustee meeting.