DB Union Pension Plan

Statement of Investment Principles

September 2020

Table of Contents

1. Introduction

1.1 Plan Background

- This Statement of Investment Principles (the “Statement”) details the principles governing investment decisions for the DB Union Pension Plan (the “Plan”).
- The Plan:
  - operates for the exclusive purpose of providing retirement and death benefits to eligible participants and beneficiaries;
  - provides benefits calculated on a defined benefit basis;
  - is closed to new entrants.
- Buck is the investment consultant to the Trustee Directors.

1.2 Statement Structure

This Statement is divided into two main sections as follows:

- **Statutory Section:** This section covers the requirements of and the Plan’s compliance with the provisions of the Pensions Act 1995 and 2004 as amended by the Occupational Pension Schemes (Investment) Regulations 2005.
- **Myners Section:** This section includes additional non-statutory information that was recommended by the Myners Principles and is now included in a strengthened Statement.

2. Statutory Information

2.1 Introduction

- This section of the Statement covers the requirements of the Pensions Act 1995 and 2004 as amended by the Occupational Pension Schemes (Investment) Regulations 2005. In accordance with section 35 of the Pensions Act 1995, the Trustee Directors have reviewed and considered written advice from the investment consultant prior to the preparation of this Statement and have consulted the sponsoring employer.

- The Trustee Directors have full regard to their investment powers under the Trust Deed and Rules and the suitability of the various types of investments, the need to diversify, the custodianship of assets and any self-investment.

- The investment managers will prepare detailed quarterly reports on their activities and the Trustee Directors will meet with them periodically.

- This Statement will be reviewed periodically or whenever changes to the investment strategy or investment managers are made. Any changes to this Statement will be undertaken following advice from the investment consultant, as will any removal and/or appointment of an investment manager.

- All of the Plan's investment decisions are under the control of the Trustee Directors, with no constraint by the sponsoring employer. All investment decisions are taken by the Trustee Board as a whole. The Trustee Directors believe that collective responsibility is the appropriate structure, given the size of the board, except for specific projects when an investment sub-committee may be set up. The Trustee Directors will examine regularly whether additional investment training is desirable for any individual Trustee Director.

2.2 Statutory requirements

- This part of the Statement details the Trustee Directors' policy to secure compliance with the requirements of sections 35 and 36 of the Pensions Act 1995 and Sections 244 – 246 of the Pensions Act 2004.

2.2.1 Investment objective and suitability of investments

- The Trustee Directors' agreed investment strategy is based on an analysis of the liability profile of the Plan, the required investment return and the returns expected from the various asset classes over the long-term. Long-term returns from equities are expected to exceed the returns from bonds and cash, although returns and capital values demonstrate higher volatility. The Trustee Directors are prepared to accept this higher volatility in order to aim to achieve the overall investment objective.

- The Trustee Directors' primary objective is to operate an investment strategy that provides sound long-term growth and appropriate security for all beneficiaries.
- The Trustee Directors have translated their objectives into a suitable strategic asset allocation benchmark for the Plan.
- In accordance with the Financial Services & Markets Act 2000, the Trustee Directors are responsible for setting the general investment policy, but the responsibility for all day-to-day investment management decisions has been delegated to investment managers authorised under the Act.
- The Trustee Directors consider their current strategic asset allocation to be consistent with the current financial position of the Plan. This judgement is made with reference to the Technical Provisions set out in the Plan's Statement of Funding Principles.

2.2.2 Diversification

- The Trustee Directors, after seeking appropriate investment advice, have selected a strategic asset allocation benchmark.
- Subject to their respective benchmarks and guidelines the investment managers have been given full discretion over the choice of stocks and are expected to maintain diversified portfolios.
- The Trustee Directors are satisfied that the investments selected are consistent with their investment objectives, particularly in relation to diversification, risk, expected return and liquidity.
- Given the size and nature of the Plan, the Trustee Directors have decided to invest on a pooled fund basis; any such investment is effected through a direct agreement with an investment manager and/or through an insurance contract.
- The Trustee Directors are satisfied that the range of pooled vehicles in which the Plan's assets are invested, provides adequate diversification.

2.2.3 Balance between different kinds of investments

- The appointed investment managers will hold a mix of investments that correspond to the strategic benchmarks. Within each major market the managers will maintain a diversified portfolio of stocks within pooled vehicles.

2.2.4 Risk

- The Trustee Directors consider the main risk to be that of the assets being insufficient to meet the Plan's liabilities as they fall due.
- The investment strategy has been determined taking into account the expected returns required to meet the Trustee Directors' return requirement.
- Although the Trustee Directors acknowledge that the main risk is that the Plan will have insufficient assets to meet its liabilities, they recognise other contributory risks, including the following. The risk:
  - associated with the differences in the sensitivity of asset and liability values to changes in financial and demographic factors;
  - of the Plan having insufficient liquid assets to meet its immediate liabilities;
  - of the investment managers failing to achieve the required rate of return;
  - due to the lack of diversification of investments;
  - of failure of the Plan's sponsoring employer.
- The Trustee Directors manage and measure these risks on a regular basis via actuarial and investment reviews, and in the setting of investment objectives and strategy.
- Monitoring of the investment managers' performance against their target and objectives is undertaken on a regular basis.
- The Trustee Directors have signed legal agreements with their investment managers which provide a guide to the performance targets.Within each asset class, the investment managers are expected to maintain a portfolio of securities, which ensures that the risk being accepted in each market is broadly diversified.

2.2.5 Expected return on investments

- The investment strategy is believed to be capable of exceeding, in the long-run, the overall required rate of return as set out in the Scheme Actuary's published actuarial valuation report.

2.2.6 Kind of investments to be held

- The Plan may invest in quoted and unquoted securities of UK and overseas markets including, for example, equities, property, fixed and index-linked bonds and cash, via pooled investment vehicles that are considered to be appropriate for tax-exempt registered occupational pension schemes. The Trustee Directors have considered the attributes of the various asset classes. These attributes being:

- security (or quality of the investment),
- yield (expected long-term return),
- spread (or volatility) of returns,
- term (or duration) of the investment,
- exchange rate risk,
- marketability/liquidity (i.e., the tradability on regulated markets),
- taxation.

2.2.7 Realisation of investments

- In the event of an unexpected need to realise all or part of the assets within the portfolio, the Trustee Directors require the investment managers to be able to realise the Plan's investments within a reasonable timescale by reference to the market conditions existing at the time the disposal is required and subject to the best interests of the Plan. The vast majority of the assets are not expected to take an undue time to liquidate.

2.2.8 Financially Material Considerations

- The Trustee Directors expect their investment managers, where appropriate, to have taken account of financially material considerations, including environmental, social and governance (ESG) factors as part of their investment analysis and decision-making process. The Trustee Directors will review the investment managers' reporting on these issues and take action where they deem appropriate.

2.2.9 Non-Financial Matters

- The Trustee Directors' policy is that the financial interests of the Plan members is their first priority when choosing investments. The Trustee Directors have decided not to take members' preferences into account when considering these objectives.

2.2.10 Stewardship in relation to the Plan's Assets

- The Trustee Directors have a fiduciary duty to consider their approach to the stewardship of the investments, to maximise financial returns for the benefit of members and beneficiaries over the long term.

2.2.11 Engagement and Monitoring Stewardship in relation to the Plan's Assets

- The Trustee Directors' policy is to delegate responsibility for the engaging and monitoring of investee companies to the investment managers and they expects the investment managers to use their discretion to maximise financial returns for members and others over the long term.

- The Trustee Directors' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments and to encourage the investment managers to exercise those rights. The investment managers are expected to provide regular reports for the Trustee Directors detailing their voting activity. The Trustee Directors will review the investment managers' activities regularly and take corporate governance policies into account when appointing and reviewing such an investment manager.

2.2.12 The Trustee Directors' policy in relation to their Investment Manager

In detailing below the policies on the Investment Manager arrangements, the over-riding approach of the Trustee Directors is to select Investment Managers that meet the primary objectives of the Trustee Directors. As part of the selection process and the ongoing review of the Investment Managers, the Trustee Directors consider how well each Investment Manager meets the Trustee Directors' policies and provides value for money over a suitable timeframe.

How the arrangement incentivises the Investment Manager to align its investment strategy and decisions with the Trustee Directors' policies

- The Trustee Directors have delegated the day to day management of the Plan's assets to Investment Managers. The Plan's assets are invested in pooled funds which have their own policies and objectives and charge a fee, agreed with the Investment Managers, for their services. Such fees incentivise the Investment Managers to adhere to their stated policies and objectives.

How the arrangement incentivises the Investment Manager to engage and take into account financial and non-financial matters over the medium to long-term

- The Trustee Directors, in conjunction with their Investment Consultant, appoint their Investment Managers and choose the specific pooled funds to use in order to meet specific Plan policies. They expect that their Investment Managers make decisions based on assessments about the financial performance of underlying investments, and that they engage with issuers of debt or equity to improve their performance (and thereby the Plan's performance) over an appropriate time horizon.

- The Trustee Directors have decided not to take non-financial matters into account when considering their policy objectives.

How the method (and time horizon) of the evaluation of the Investment Manager's performance and the remuneration for asset management services are in line with the Trustee Directors' investment policies

- The Trustee Directors expect their Investment Managers to invest the assets within their portfolio in a manner that is consistent with the guidelines and constraints set out in their appointment documentation. The Trustee Directors review the Investment Managers periodically. These reviews incorporate benchmarking of performance and fees. Reviews of performance focus on longer-term performance (to the extent that is relevant), e.g. looking at five years of performance.

- If the Trustee Directors determine that the Investment Managers are no longer managing the assets in line with the Trustee Directors' policies they will make their concerns known to the Investment Managers and may ultimately disinvest.

- The Trustee Directors pay their Investment Managers a management fee which is a fixed percentage of assets under management.

- Prior to agreeing a fee structure, the Trustee Directors, in conjunction with their Investment Consultant, consider the appropriateness of this structure, both in terms of the fee level compared to that of other similar products and in terms of the degree to which it will incentivise the Investment Managers.

How the Trustee Directors monitor portfolio turnover costs incurred by the Investment Manager, and how they define and monitor targeted portfolio turnover or turnover range

- The Trustee Directors, in conjunction with their Investment Consultant, have processes in place to review investment turnover costs incurred by the Plan on an annual basis. The Trustee Directors receive a report which includes the turnover costs incurred by the Investment Managers used by the Plan.

- The Trustee Directors expect turnover costs of the Investment Managers to be in line with their peers, taking into account the style adopted by the Investment Manager, the asset class invested in and prevailing market conditions.

- The Trustee Directors do not explicitly monitor turnover, set target turnover or turnover ranges. The Trustee Directors believe that the Investment Managers should follow their stated approach with a focus on risk and net return, rather than on turnover. In addition, the individual mandates are unique and bespoke in nature and there is the potential for markets to change significantly over a short period of time.

The duration of arrangements with Investment Managers

- The Trustee Directors do not in general enter into fixed long-term agreements with their Investment Managers and instead retain the ability to change Investment Managers should the performance and processes of the Investment Managers deviate from the Trustee Directors' policies. However, the Trustee Directors expect their manager appointments to have a relatively long duration, subject to the manager adhering to its stated policies, and the continued positive assessment of its ability to meet its performance objective.

2.2.13 Additional assets

- The Plan has a facility for members' additional voluntary contributions (AVCs) to enhance their benefits at retirement, with Aegon (a brand name of Scottish Equitable plc). The Trustee Directors' objective is to provide vehicles that enable these members to generate suitable long-term returns, consistent with their reasonable expectations. The Trustee Directors have full discretion as to the appropriate investment vehicles made available to members of the Plan for their voluntary contributions. Only investment vehicles normally considered suitable for voluntary contributions will be considered by the Trustee Directors, having taken appropriate written advice from their investment advisers.

- The Trustee Directors consider that, in making a restricted number of funds available from the chosen provider; they have provided these members with a range of options to meet their reasonable expectations.

- The appointment of the AVC provider and the choice of AVC funds offered to members will be reviewed by the Trustee Directors in accordance with their responsibilities, based on the result of their monitoring of performance and process. The Trustee Directors will periodically review the appointment of the AVC provider in the light of their performance.

- The Trustee Directors will measure performance of the AVC provider in the light of its performance relative to the individual benchmarks and objectives for the funds offered and/or to other providers offering similar fund options as measured in industry AVC surveys.

- Members are recommended to seek independent financial advice when considering their AVC arrangements.

3. Myners Principles

The original Myners review of “Institutional Investing in the UK” was published in March 2001. It included a set of 10 Principles that pension scheme trustees were recommended to use when considering their investment strategy for defined benefit pension schemes and 11 Principles for defined contribution pension schemes. The Government endorsed the report with some minor modifications on 2 October 2001. Pension scheme trustees were asked to comply with the Principles on a voluntary basis. The Myners Principles recommend that certain issues are included in the Statement.

The Myners Principles were subsequently reviewed in October 2008; the explicit requirement to include certain items in a strengthened Statement was removed and replaced with a requirement for Trustee Directors to act in a transparent and responsible manner. By making the following statements the Trustee Directors believe that they are complying with the spirit of these principles.

3.1 Responsible ownership

Details of the responsibility for the exercising of rights (including voting rights) attaching to the Plan’s investments are included in Section 2.2.11.

3.2 Transparency and reporting

The Trustee Directors have discretion over the form of reporting they wish to undertake. This Statement provides the following details of the Trustee Directors’ investment approach:

- Who is taking which decisions and why has the structure been selected?

  Details of the Trustee Directors’ decision-making structure are included in Section 2.1.

- What is the Trustee Directors’ investment objective?

  Details of the Trustee Directors’ investment objective are included in Section 2.2.1..

- What is the Trustee Directors’ asset allocation strategy, including projected investment returns in each asset class, and how the strategy has been selected?

  Details of the Trustee Directors’ asset allocation strategy are included separately in the summary of investment arrangements. The strategy was determined after taking advice from the investment consultant and consultation with the sponsoring employer.

- What are the mandates given to all advisers and the investment managers?

  The responsibilities of the Trustee Directors, the investment consultant and the investment managers are outlined in Section 3.3.

- What is the nature of the fee structures in place for all advisers and the investment managers; and why this set of structures has been selected?

  Information on investment manager remuneration is included in Section 2.2.12. The Trustee Directors have discussed and agreed fee structures following consultation with their advisers, where appropriate, and believe they are reasonable for the services they receive.

3.3 Appointments and responsibilities

3.3.1 Trustee Directors

The Trustee Directors' primary responsibilities regarding investments include:

- Preparation of the Statement and reviewing the content of the Statement and modifying it if deemed appropriate, in consultation with the sponsoring employer and the investment consultant, at least every three years. The Statement will also be reviewed following any significant change to investment strategy and/or the investment managers.
- Appointing an investment consultant and investment managers as necessary for the good stewardship of the Plan's assets.
- Reviewing the investment strategy following the results of each triennial actuarial valuation, and/or asset liability modelling exercise, and/or significant changes to the Plan's liabilities, in consultation with the investment consultant and the Scheme Actuary.
- Assessing the processes (and therefore the performance) of the investment managers by means of regular, but not less than annual, reviews of information obtained (including investment performance).
- Monitoring compliance of the investment arrangements with this Statement on a regular basis.
- Monitoring risk and the way in which the investment managers cast votes on behalf of the Trustee Directors in respect of the Plan's equity holdings.

3.3.2 Investment consultant

The main responsibilities of the investment consultant include:

- Assisting the Trustee Directors in the preparation and periodic review of this Statement in consultation with the sponsoring employer and Scheme Actuary.
- Undertaking project work including reviews of the investment strategy, investment manager structure and investment manager performance as required by the Trustee Directors.
- Advising the Trustee Directors on the selection and review of the investment managers.

- Monitoring and advising upon where contributions should be invested/disinvested on a periodic basis.

3.3.3 Investment managers

The investment managers' main responsibilities include:

- Investing assets in a manner that is consistent with the objectives set.
- Ensuring that investment of the Plan's assets is in compliance with prevailing legislation and within the constraints detailed in this Statement.
- Providing the Trustee Directors with quarterly reports including any changes to their investment process and a review of the investment performance.
- Attending meetings with the Trustee Directors as and when required.
- Informing the Trustee Directors of any changes in the fee structure, internal performance objectives and guidelines of any pooled fund used by the Plan as and when they occur.
- Exercising voting rights on share holdings in accordance with their general policy.

3.3.4 Custodian

- The custodianship arrangements are those operated by the investment managers for all clients investing in their pooled funds.

3.3.5 Administrators

- The Plan's administration is carried out by Buck.

3.3.6 Scheme Actuary

The Scheme Actuary's main responsibilities in respect of investment policy include:

- Commenting on the suitability of the Plan's investment strategy given the financial characteristics of the Plan.
- Performing the triennial (or more frequently as required) actuarial valuation and advising on the Plan's funding level and therefore the appropriate level of contributions in order to aid the Trustee Directors in balancing short-term and long-term investment objectives.

3.4 Performance monitoring

- Each of the vehicles in which the Plan invests has a stated performance objective by which the performance is measured.

- The investment managers are expected to provide written reports to the Trustee Directors on a quarterly basis.
- The Trustee Directors will review the performance of the appointed investment managers from time to time, along with reasons for this performance.