

# Seetru Limited Pension Assurance Scheme (DC section)

## Statement of Investment Principles – September 2020

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### Introduction

Section 35 of the Pensions Act 1995 (“the Act”) requires the Trustees to prepare, maintain, and review regularly a written statement of the principles governing investment decisions (“the Statement”) for the purposes of the Scheme. This document fulfils that requirement.

The Trustees have previously conducted an investment review, the results of which are reflected in this statement.

Responsibility for maintaining the Statement and deciding investment policy rests solely with the Trustees. The Trustees will review the Statement at least every three years and after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believe to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

The Trustees’ Investment Consultant in respect of the DC section of the Scheme is Hughes Price Walker Ltd (‘HPW’). HPW is a designated professional body, licensed by the Institute and Faculty of Actuaries, to offer regulated investment services.

The Scheme is closed and no member contributions have been paid in the period since 1 April 2014. Therefore, the Scheme does not provide a default arrangement under the meaning of regulation 3 of the Occupational Pension Schemes (Charges and Governance) Regulations 2015 for automatic enrolment purposes or the meaning of regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005.

### Investment Objectives

The Trustees recognise that their ultimate objective is to ensure, as far as possible, that members of the Scheme are able to retire on a reasonable level of pension taking into account the contributions previously paid into members’ individual accounts and the timescale over which those contributions were paid.

In particular:

- the Trustees will ensure that an objective is set for the selected investment options, including expected risks and returns, and
- when selecting investment options, the Trustees will
  - review the option taking into account the member’s preferences, and
  - review the option to offer a sufficient fund range to satisfy the risk and return combinations reasonable for most members.

## Seetru Limited Pension Assurance Scheme (DC section)

### Statement of Investment Principles – September 2020

---

To this end, the Trustees have in place a range of investment options that they believe will allow members to strike appropriate balances between long term needs for capital growth and shorter term volatility of returns, especially in the period approaching retirement.

The Trustees have also designed an opt-in lifestyle investment option which is an automated switch facility allowing members to pre-select an investment strategy, which will move their accrued funds into lower risk investments as retirement approaches.

#### Investment Policy

The Trustees have appointed Legal & General Investment Management ('LGIM') as investment manager.

The Trustees offer money purchase members the option of investing in the following funds:

- Legal & General Multi-Asset (formerly the Consensus Index) Fund – to provide long-term investment growth through exposure to a diversified range of asset classes, excluding physical property.
- Legal & General Global Equity Fixed Weights (60:40) Fund – to provide diversified exposure to UK and overseas equity markets, with a fixed asset allocation between the UK (60%) and overseas (40%).
- Legal & General Pre-Retirement Fund (*only if opted-in to lifestyle strategy*) – to provide diversified exposure to sterling assets that reflect the broad characteristics of investments underlying the pricing of a typical non-inflation linked annuity.
- Legal & General Cash Fund (*only if opted-in to lifestyle strategy*) – the aim of this fund is to provide capital protection with growth at short term interest rates. The fund invests in short term money markets such as bank deposits and Treasury bills.

The Trustees periodically review the choices at Trustee meetings and do not consider it necessary to update at this time. All funds operate as pooled investment vehicles with each having specific benchmarks and performance objectives as outlined below.

The Trustees recognise that the value of funds invested in equities can fall as well as rise on a day to day basis. However, over the longer term, equities are expected to produce the best returns. The Trustees therefore allow members to opt into a lifestyling strategy for those who wish to protect the purchasing power of their accumulated money purchase accounts in the period leading up to their expected retirement date. Members who choose to invest in the lifestyle strategy have their assets invested solely in the Multi-Asset Fund or the Global Equity Fixed Weights (60:40) Fund when they are some years from retirement. As the 'lifestyle' members' expected retirement dates draw near, assets are progressively switched to lower risk investments in fixed interest securities (corporate bonds/gilts) and cash over a ten-year period prior to expected retirement. Switches take place at quarterly intervals, designed to culminate

## Seetru Limited Pension Assurance Scheme (DC section)

### Statement of Investment Principles – September 2020

---

in a fund that is around 75% invested in the Pre-Retirement Fund and 25% invested in the Cash Fund at retirement. The automated switch facility is managed by HPW.

#### Delegation of Investment Discretion

The Trustees have delegated day-to-day investment management to LGIM, which is regulated by the Financial Conduct Authority. The investment manager manages the investments of the Scheme's assets in accordance with the following aims:

Fund	Aim
Legal & General Multi-Asset Fund	To match the performance of the Association of British Insurers (ABI) Mixed Investment 40%-85% Shares sector average.
Legal & General Global Equity Fixed Weights (60:40) Fund	To match the performance of the composite benchmark consisting of 60/40 distribution between UK and overseas.
Legal & General Pre-Retirement Fund	To provide diversified exposure to assets that reflect the broad characteristics of investments underlying the pricing of a typical level annuity product.
Legal & General Cash Fund	To match the performance of the 7 day GBP London Interbank Bid Rate, without incurring excessive risk.

The terms of the delegation are set out in agreements between the Trustees and the investment manager. The agreement includes such matters as investment objectives, the procedures for instructions, custody of the assets, voting, fees and charges.

#### Realisation of Investments

The Trustees will realise assets as required following member requests on retirement or earlier where required, provided that the Trustees are satisfied they are acting in the best interest of members. The Trustees' policy is to invest in funds that offer daily dealing to enable members to readily realise and change their investments.

#### Expected Return on Investments

The Trustees expect the returns on the Multi-Asset Fund and Global Equity Fixed Weights (60:40) Fund to exceed the return on the Pre-Retirement Fund as well as the rate of increase in prices and earnings.

The Trustees expect the return on a 75:25 split between the Pre-Retirement Fund and Cash Fund to broadly preserve the size of pension and amount of tax free cash sum available at retirement.

The Trustees monitor LGIM's performance on a quarterly basis and compare the investment returns with appropriate performance objectives.

## Seetru Limited Pension Assurance Scheme (DC section)

### Statement of Investment Principles – September 2020

---

#### Investment Management Monitoring

The appointment of the investment manager will be reviewed by the Trustees from time to time, based on the results of their monitoring of performance and process and of the investment managers' compliance with the requirements in the Pensions Act 1995 (as amended by the Pensions Act 2004) and the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005.

LGIM prepares regular reports for the trustees including:

- Valuations of all investment holdings
- Performance data and comprehensive statistics in respect of the DC section
- A review of recent actions taken on behalf of the Scheme, together with a summary of their stated policy.

In the event that the Trustees are not satisfied with the Investment Manager they will require the Investment Manager to take requisite steps to correct this position or will remove their Investment Manager and appoint other Investment Manager(s).

LGIM has been provided with a copy of this SIP and the Trustees will monitor the extent to which they give effect to the policies set out in it. As part of this ongoing review the Trustees will have regard to whether LGIM is:

- Carrying out their functions competently;
- Having regard to the need for diversity in relation to investments;
- Having regard to the suitability of investments; and
- Exercising their investment powers in line with the SIP.

#### Fee Structures for Managers

LGIM's fees are paid in relation to the size of assets managed within each fund:

Fund	Total ongoing charges* (%)
Legal & General Multi-Asset Fund	0.26
Legal & General Global Equity Fixed Weights (60:40) Fund	0.18
Legal & General Pre-Retirement Fund	0.15
Legal & General Cash Fund	0.12

\*Includes Manager's fees and indirect fees but excludes transaction costs.

#### Risk Management

The Trustees recognise a number of risks involved in the investment of the assets of the Scheme, including:

## Seetru Limited Pension Assurance Scheme (DC section)

### Statement of Investment Principles – September 2020

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- That the Investment Manager appointed may under-perform their benchmarks;
- That an individual investment, constituting a large part of a DC member's assets, may fail;
- That assets may be lost through the failure of procedures for safekeeping; and
- The cost of securing a member's pension may rise in the period prior to retirement.

The Trustees are aware of the following investment risks that the Scheme faces and have implemented policies in order to measure and manage those risks as appropriate:

- *Manager risk:*
  - is addressed through the performance objectives and the ongoing monitoring of the investment manager. The Trustees review the investment manager's performance on a quarterly basis.
  - Prior to appointing an investment manager, the Trustee receives written advice from a suitably qualified individual, and will typically undertake an investment manager selection exercise.
- *Inflation risk:*
  - The Pre-Retirement Fund used in the lifestyle strategy is suited to short-term investment as it invests in lower risk investments, where returns are likely to be lower and not keep pace with inflation. This makes it suitable for those members approaching retirement.
- *Interest rate risk:*
  - Changes to interest rates could affect the value of bond investments. Where long term interest rates rise, the value of bonds is likely to fall, and vice versa.
- *Risk on annuity conversion:*
  - The Trustees recognise that, for those members wishing to take an annuity at retirement, the value of their pensions will be determined in line with prevailing annuity rates. The lifestyle strategy allows those members' assets to be better matched to interest rate movements at retirement (by investing the majority of assets in bonds). In doing this, members' investments will move broadly in line with the price of annuities at the time of retirement.
  - The range of alternative investment options offered to members also provides the opportunity to manage this risk as members see fit.
- *Risk from lack of diversification:*
  - is mitigated by the Trustees investing in pooled funds with a diversified asset allocation.

## Seetru Limited Pension Assurance Scheme (DC section)

### Statement of Investment Principles – September 2020

---

- The Trustees believe that the lifestyle strategy is adequately diversified between different asset classes and that the options provide a suitably diversified range for members to choose from.
- *Lifestyle strategy risk:*
  - Long gilts and long corporate bonds are used in lifestyle strategies because of their inverse relationship with annuity rates, which protects the purchasing power of members' funds. However, there is a risk that the relationship can fail, for example there can be a delay between changes in long bond values and annuity rates.
- *Liquidity risk:*
  - is managed by using pooled funds that deal on a daily basis.
- *Currency risk:*
  - is measured by the level of overseas investment and the translation effect of currencies leading to the risk of an adverse influence on investment values.
  - The Multi-Asset Fund and Global Equity Fixed Weights (60:40) Fund invest overseas so their value will go up and down in line with changes in currency exchange rates. This could have positive or negative impacts, particularly if exchange rates are volatile.
- *Credit risk:*
  - This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Scheme is subject to credit risk because it invests in bonds or other types of debt via pooled funds. The Trustees manage exposure to credit risk by only investing in pooled funds that have a diversified exposure to different credit issuers.
- *Political risk:*
  - is measured by the level of concentration in any one market leading to the risk of an adverse influence on investment values arising from political intervention.
  - is managed by regular reviews of the actual investments relative to policy and through assessment of the levels of diversification within the existing policy.
- *Post-retirement risk:*
  - Where 'lifestyle' members have not taken their retirement benefits after their target retirement date, they will remain invested in the Pre-Retirement Fund and Cash Fund. This asset mix is not designed for long-term investing and returns may not keep pace with inflation, meaning the real value of investments will fall.

## Seetru Limited Pension Assurance Scheme (DC section)

### Statement of Investment Principles – September 2020

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#### Environmental, Social and Corporate Governance Matters

The Trustees also have a duty to act in the best financial interests of the Scheme's beneficiaries and this includes considering Environmental, Social and Corporate Governance ('ESG') risks and opportunities that may be financially material to the Scheme. The Trustees invest in pooled funds and so the assets are subject to the investment manager's own policies on ESG considerations, including climate change, capital structure and conflicts of interest. However, the Trustees expect LGIM to have integrated climate risk into their risk analysis and investment process and, where appropriate and practical, will take it into account when managing new and existing investment arrangements. The Trustees manage this expectation by:

- Obtaining and familiarising themselves with documentation on LGIM's approach to corporate governance and responsible investment;
- Discussing the above documentation as a trustee board;
- Meeting face to face with the managers (when it is appropriate to do so); and
- Taking advice from their investment consultant and seeking input from other relevant parties.

The current appointed investment managers have opted to sign the United Nations backed Principles for Responsible Investment (PRI). As signatories to the PRI, LGIM has made the following commitments:

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time).

We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5: We will work together to enhance our effectiveness in implementing the Principles.

Principle 6: We will each report on our activities and progress towards implementing the Principles.

## Seetru Limited Pension Assurance Scheme (DC section)

### Statement of Investment Principles – September 2020

---

The Trustees welcome any views shared by members in respect of risks and opportunities associated with ESG as part of the Scheme's investment policy. This matter will be kept under review and any ethical concerns related to the Scheme's investment portfolio received from members will be addressed, should they arise.

#### Exercise of rights

As the Trustees invest in pooled funds, the investment managers make decisions related to:

- the exercise of any rights, including voting rights, attaching to the investments; and
- engagement activities in respect of the investments.

LGIM publishes their voting reports on a quarterly basis and their latest reports are available to the Trustees.

#### Arrangements with the investment managers

The Trustees only invest in pooled funds. Therefore, the Trustees are not able to specify the risk profile and return targets of those funds. However, after considering appropriate investment advice, pooled funds with appropriate expected return and risk characteristics are chosen for each asset class to align with the overall investment strategy for the DC section.

The underlying fund managers are responsible for all decisions to select and remove individual investments within each fund. In the case of multi-asset funds, the underlying managers are responsible for the allocation to separate asset classes.

The Trustees are long-term investors and do not look to change the investment arrangements on a frequent basis.

The Trustees do not have any fixed-term agreement with LGIM as the investment manager. They are appointed based on their capabilities including their perceived likelihood of achieving the expected risk/return characteristics required for each fund. The Trustees receive quarterly investment reports showing performance information over 3 months, 1 year, 3 years and 5 years where data is available. The Trustees' main focus is on long term performance.

LGIM is remunerated by charges based on the value of the assets that they manage on behalf of the Scheme. This is the primary means of incentivising managers as, if the funds are not performing as required, they may be replaced.

## Seetru Limited Pension Assurance Scheme (DC section)

### Statement of Investment Principles – September 2020

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The Trustees therefore consider that the method of remunerating LGIM provides their underlying fund managers with the incentive to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity. This encourages the underlying investment managers to engage with issuers of debt or equity in order to improve performance in the medium to long-term.

The Trustees do not have targets for portfolio costs and neither do they monitor portfolio turnover costs in the funds. However, the performance reports reviewed by the Trustees include returns net of all charges, including portfolio costs. Portfolio turnover costs relate to the costs incurred by the buying, selling, lending or borrowing of investments.

This Statement has been agreed by the Trustees of the Seetru Limited Pension Assurance Scheme.

Signature: *Andrew Varga*

Name: Andrew Varga

Position: Trustee

**On behalf of the Trustees of the Seetru Limited Pension Assurance Scheme**