# IMS (UK) Pension Plan

## Statement of Investment Principles

**Barnett Waddingham LLP**

February 2022

# Contents

# 1. Introduction

1.1. This is the Statement of Investment Principles prepared by the Trustee of the IMS (UK) Pension Plan ("the Plan"). This statement sets down the principles which govern the decisions about investments that enable the Plan to meet 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 (Investment) (Amendment) Regulations 2010;
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018; and
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

1.2. In preparing this statement the Trustee has consulted IQVIA Limited, the Principal Employer, and obtained advice from Barnett Waddingham LLP and Towers Watson Limited, the Trustee's investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.

1.3. This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.

1.4. The Trustee will review this statement at least every three years or if there is a significant change in any of the areas covered by the statement.

1.5. The investment powers of the Trustee are set out in Clause 10 of the Definitive Trust Deed & Rules, dated 25 November 2008. This statement is consistent with those powers.

# 2. Choosing investments

2.1. The Trustee's policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustee considers the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.

2.2. The day-to-day management of the Plan's assets is delegated to one or more investment managers. The Plan's investment managers are detailed in the Appendix to this Statement. The investment managers are authorised and regulated by the Financial Conduct Authority, and are responsible for the buying and selling of investments, stock selection within the DB funds and the exercise of voting rights.

2.3. The Trustee reviews the appropriateness of the Plan's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the investment managers with respect to performance within any guidelines set. The Trustee will also consult the Principal Employer before amending the investment strategy.

2.4. For the Money Purchase section, the Trustee carefully considers its investment objectives (shown below), when designing the range of investment options to offer to its members. The Trustee also acknowledges that members will have different attitudes to risk and different aims for accessing their retirement savings and therefore, whilst seeking good member outcomes net of fees, it also considers the level of risk that is appropriate based on the anticipated needs of the membership profile of the Plan.

The Trustee considers that the objectives of the Money Purchase section are likely to be met by offering a range of investment options in which members can choose to invest their funds, subject to certain restrictions. This includes three Lifecycle strategies where the asset allocations for a member's assets are mechanically adjusted over time to reflect their time to retirement. The Plan offers three Lifecycle strategies; an annuity focused strategy, a drawdown focused strategy and a cash focused strategy. The difference between these strategies is their approach to managing investment risk as members approach retirement. Details of the Plan's full investment options available to members are included in Appendix 1.

The Trustee is required by legislation to provide a default investment strategy where members fail to make an investment decision. The Plan's default investment strategy is the "Lifecycle: Drawdown focused", full details of which are included in Appendix 1. The default was designed to meet the needs of the membership, as determined by the Trustee's review of the membership profile and assessment of the likely risk tolerance profile and retirement objectives. The default's objective is to provide capital growth for members in the early years of their career and then de-risk into a more diversified portfolio as members approach retirement, in expectation that members will opt for an income drawdown focused retirement proposition and therefore want to retain some investment risk at retirement.

# 3. Investment objectives

3.1. The Trustee has discussed key investment objectives in light of an analysis of the Plan's liability profile as well as the constraints the Trustee faces in achieving these objectives. As a result, the Trustee's main investment objectives for the DB section are:

- to ensure that the Plan can meet the members' entitlements under the Trust Deed and Rules as they fall due;
- to achieve a long-term positive real return on the growth portfolio;
- to manage the expected volatility of the returns achieved in order to control the level of volatility in the Plan's required contribution levels;
- to invest in assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from the Principal Employer, the cost of current benefits which the Plan provides;
- to reduce the risk of the assets failing to meet the liabilities over the long term and to manage the Plan with an objective of achieving self-sufficiency (and a long-term target of buy-out as the Plan matures);
- to minimise the long-term costs of the Plan by maximising the return on the assets whilst having regard to the above objectives.

3.2. The Trustee is aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Plan's liabilities. The Trustee has obtained exposure to investments that they expect will meet the Plan's objectives as best as possible.

3.3. The Trustee's main investment objectives for the Money Purchase section are:

- the acquisition of secure assets of appropriate liquidity which will generate income and capital growth which, together with new contributions from members and the Employer will provide a fund at retirement to meet the member's retirement objective;

- to recognise and limit (in as far as is reasonably consistent with the provision of member choice as set out under the Plan's rules) the risk of a member's account failing to satisfy the member's reasonable expectations over the long term;
- to maximise the long-term benefits from the Plan by allowing members to maximise the returns on their assets whilst having regard to the objectives shown above.

3.4. A Funding and Investment Sub-Committee has been established, to assist the Trustee in the management and monitoring of the Plan's investment arrangements. However, the Trustee remains ultimately responsible for all investment decisions.

# 4. Kinds of investments to be held

4.1. The Plan is permitted to invest in a wide range of assets including equities, bonds, cash, property and alternatives.

4.2. The Trustee monitors from time-to-time the employer-related investment content of their portfolio as a whole and will take steps to alter this should they discover this to be more than 5% of the portfolio. The Plan's Trust Deed and Rules states that the Plan shall not invest directly in the Shares, Stock or debt securities of IMS Health Inc. or of subsidiaries. Typically this check is carried out annually by the Plan's auditors.

# 5. The balance between different kinds of investments

5.1. The Plan invests in assets that are expected to achieve the Plan's objectives. The allocation between different asset classes is contained within the Appendix to this Statement.

5.2. For the Money Purchase section, members can choose to invest in any of the funds detailed in Appendix 1, Section 4 or can elect to invest in a lifecycle strategy. Where members do not choose where their contributions, and those made on their behalf by the employer, are invested, the Trustee will invest these contributions according to the default investment strategy (the "Lifecycle: Drawdown focused" strategy).

5.3. The Trustee considers the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Appendix to this Statement.

5.4. From time to time the Plan may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate any short-term cashflow requirements or any other unexpected items.

5.5. The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and therefore the Plan's asset allocation is expected to change as the Plan's liability profile matures/ the membership profile evolves.

# 6. Risks

6.1. The Trustee has considered the following risks for the Plan with regard to its investment policy and the Plan's liabilities, and considered ways of managing/monitoring these risks:

| | |
|---|---|
| **Risk versus the liabilities** | The Trustee will monitor and review the investment strategy with respect to the liabilities in conjunction with each actuarial valuation. The investment strategy will be set with consideration to the appropriate level of risk required for the funding strategy as set out in the Plan's Statement of Funding Principles. |
| **Covenant risk** | The creditworthiness of the Principal Employer and the size of the pension liability relative to the Principal Employer's earnings and net assets are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the employer covenant. The Trustee formally assesses the covenant in conjunction with the triennial actuarial valuation process. |
| **Solvency and mismatching** | This risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustee is aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Plan's funding basis. |
| **Asset allocation risk** | The asset allocation is detailed in the Appendix to this Statement and is monitored on a regular basis by the Trustee. |
| **Investment manager risk** | The Trustee monitors the performance of each of the Plan's investment managers on a regular basis in addition to having meetings with each manager from time to time as necessary. The Trustee has a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate. |
| **Governance risk** | Each investment manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustee monitors these and will report on the managers' practices in their annual Implementation Statement. |
| **ESG/Climate risk** | The Trustee has considered that long-term financial risks to the Plan and ESG factors, as well as climate risk, are potentially financially material and will continue to develop its policy to consider these, alongside other factors, when selecting or reviewing the Plan's investments in order to avoid unexpected losses. |
| **Concentration risk** | Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities. |
| **Liquidity risk** | The Plan invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Plan's cashflow requirements. The Plan's administrators assess the level of cash held in order to limit the impact of the cashflow requirements on the investment policy. |
| **Currency risk** | The Plan's liabilities are denominated in sterling. The Plan may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency |

| | |
|---|---|
| | management. In some cases, currency hedging is employed to manage the impact of exchange rate fluctuations. |
| **Loss of investment** | The risk of loss of investment by each investment manager and custodian is assessed by the Trustee. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud). The Trustee undertakes an annual review of the internal controls and processes of each of the investment managers. |

6.2. Risk in a defined contribution scheme lies with the members themselves. The Trustee has considered a number of risks when designing and providing suitable investment choices to members. A comprehensive list of risks is set out in the Trustee's risk register, however, the main investment risks affecting all members are:

| | |
|---|---|
| **Inflation Risk** | The risk that the investments do not provide a return at least in line with inflation, thus eroding the purchasing power of the retirement savings. The Trustee makes available investment options that are expected to provide a long-term real rate of return. |
| **Decumulation mis-match risk** | The risk that investment allocations in the years just prior to retirement do not match members' retirement objectives, exposing members to inefficient or uncertain outcomes. The Trustee has made available a range of investment options that allow members sufficient flexibility to meet their varying objectives. |
| **Capital risk** | The risk that the value of a member's invested capital may fall. This risk is most important to members approaching retirement. The Trustee has made available lower risk investment options for the purpose of managing the risk. |
| **Opportunity risk** | The risk that a member takes insufficient investment risk when appropriate (such as when they are younger) resulting in a smaller pot of money with which a pension can be purchased. The Trustee has made available equity funds, and a lifecycle strategy, to help manage this risk. |

# 7. Expected return on investments

7.1. The Trustee has regard to the relative investment return and risk that each asset class is expected to provide. The Trustee is advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the investment managers.

7.2. The Trustee recognises the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

7.3. In considering the expected return from investments, the Trustee recognises that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.

7.4. Having established the investment strategy, the Trustee monitors the performance of each investment manager against an agreed benchmark as frequently as appropriate according to market conditions and the Plan's funding position.

# 8. Realisation of investments

8.1. The Trustee has delegated the responsibility for buying and selling investments to the investment managers. The Trustee has considered the risk of liquidity as referred to above.

8.2. Ultimately, the investments will all have to be sold when the Plan's life comes to an end. In this situation, the Trustee is aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Plan accounts.

8.3. In relation to the Money Purchase Section, the members' accounts are held in funds that can be readily realised to provide benefits on retirement, or earlier transfer to another pension arrangement.

# 9. Financially material considerations, non-financially material considerations, the exercise of voting rights and engagement activities

9.1. The Trustee has set policies in relation to these matters, which are set out in the Appendix.

# 10. Policy on arrangements with asset managers

## Incentivising alignment with the Trustee's investment polices

10.1. Prior to appointing an investment manager, the Trustees discusses the investment manager's approach to the management of ESG and climate related risks with the Plan's investment consultant, and how their policies are aligned with the Trustee's own investment beliefs.

10.2. When appointing an investment manager, in addition to considering the investment manager's investment philosophy, process and policies to establish how the manager intends to make the required investment returns, the Trustee also considers how ESG and climate risk are integrated into these. If the Trustee deems any aspect of these policies to be out of line with their own investment objectives for the part of the portfolio being considered, they will consider using another manager for the mandate.

10.3. The Trustee carries out a strategy review at least every three years where they assess the continuing relevance of the strategy in the context of the Plan's membership and their aims, beliefs and constraints. The Trustee monitors the investment managers' approach to ESG and climate related risks on an annual basis.

10.4. In the event that an investment manager ceases to meet the Trustee's desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment will be terminated. Prior to terminating their appointment, the manager will be given the opportunity to correct or improve their performance and actions in order to meet the desired aims. The investment managers have been informed of this by the Trustee.

10.5. Investment manager ESG policies are reviewed in the context of best industry practice and feedback will be provided to the investment manager.

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beyond the expected

## Incentivising assessments based on medium to long term, financial and non-financial considerations

10.6. The Trustee is mindful that the impact of ESG and climate change has a long-term nature. However, the Trustee recognises that the potential for change in value as a result of ESG and climate risk may occur over a much shorter term than climate change itself. The Trustee acknowledges this in their investment management arrangements.

10.7. When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustee assesses these over a rolling timeframe. The Trustee believes the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon. Where a fund may have an absolute return or shorter term target, this is generally supplementary to a longer term performance target. In the case of assets that are actively managed, the Trustee expects this longer term performance target to be sufficient to ensure an appropriate alignment of interests.

10.8. The Trustee expects investment managers to be voting and engaging on behalf of the Plan's holdings and the Plan monitors this activity within the Implementation Statement in the Plan's Annual Report and Accounts. The Trustee does not expect ESG considerations to be disregarded by the investment managers in an effort to achieve any short term targets.

## Method and time horizon for assessing performance

10.9. The Trustee monitors the performance of their investment managers over medium to long term periods that are consistent with the Trustee's investment aims, beliefs and constraints.

10.10. The Plan invests exclusively in pooled funds. The investment manager is remunerated by the Trustee based on the assets they manage on behalf of the Trustee. As the funds grow, due to successful investment by the investment manager and/ or through market movements, they receive more and as values fall they receive less. In some instances, a performance fee may also be applied based on investment performance exceeding pre-agreed targets.

10.11. The Trustee believes that this fee structure, including the balance between any fixed and performance related element, enables the investment manager to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.

10.12. The Trustee asks the Plan's investment consultant to assess if the asset management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered regularly as part of the review of the Statement of Investment Principles. The costs related to the Money Purchase Section (including transaction costs) are reported to members within the Annual Chair's Statement and are independently assessed as part of its value for members reporting.

## Portfolio turnover costs

10.13. The Trustee acknowledges that portfolio turnover costs can impact on the performance of their investments. Overall performance is assessed as part of the quarterly investment monitoring process.

10.14. During the investment manager appointment process, the Trustee may consider both past and anticipated portfolio turnover levels. When underperformance is identified, deviations from the expected level of turnover may be investigated with the investment manager concerned if it is felt they may have been a significant contributor to the underperformance. Assessments reflect the market conditions and peer group practices. The Trustee acknowledges that for some asset classes, such as LDI, a higher turnover of contracts such as repurchase agreements, can be beneficial to the fund from both a risk and cost perspective.

### Duration of arrangement with asset manager

10.15. For the open-ended pooled funds in which the Plan invests, there are no predetermined terms of agreement with the investment managers.

10.16. The suitability of the Plan's asset allocation and its ongoing alignment with the Trustee's investment beliefs is assessed every three years, or when changes deem it appropriate to do so more frequently. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.

# 11. Agreement

11.1. This statement was agreed by the Trustee, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the Principal Employer, the investment managers, the Scheme Actuary and the Plan auditor upon request.

**Agreed by the Trustee on behalf of the IMS (UK) Pension Plan on 21 February 2022**

# Appendix 1 Note on investment policy of the Plan in relation to the current Statement of Investment Principles

## 1. The balance between different kinds of investment

The Plan has a strategic asset allocation as set out in the table below, which has been agreed after considering the Plan's liability profile, funding position, expected return of the various asset classes and the need for diversification.

| | Asset Class | Strategic Allocation |
|---|---|---|
| **Growth Portfolio** | | |
| Towers Watson Partners Fund | Diversified growth | 56% |
| LGIM Equities | UK and overseas equity | 20% |
| **Protection Portfolio** | | |
| LGIM Matching Core Funds | Liability Driven Investment | 19% |
| LGIM Absolute Return Bond Plus Fund (GBP Hedged) | Absolute return bonds | 5% |
| **Total** | | **100%** |

### Rebalancing

The Trustee recognises that the asset allocation of investments in different asset classes will vary over time as a result of market movements. The Trustee seeks to maintain a balance between maintaining the asset allocation in line with its benchmark and limiting the costs of rebalances. The Trustee will monitor the asset allocation relative to the strategic allocation and make decisions to rebalance as appropriate.

The LGIM Equities are managed to a benchmark by LGIM and suitable ranges have been agreed within which the allocation should be maintained. LGIM monitor the portfolio on an ongoing basis and rebalance any fund back towards its benchmark should the allocation fall outside of the control ranges.

| LGIM Fund | Benchmark | Control range (+/-) |
|---|---|---|
| UK Equity Index | 10% | 1% |
| World (ex. UK) Equity Index | 45% | 5% |
| World (ex. UK) Equity Index (GBP Hedged) | 45% | 5% |

# 2. Choosing investments

The Trustee has appointed the following investment managers to carry out the day-to-day investment of the Plan:

- Towers Watson Investment Management (mandate);
- Legal & General Investment Management ("LGIM").

The Trustee also has an AVC contract with LGIM for the receipt of members' Additional Voluntary Contributions (AVCs).

The investment managers and AVC providers are authorised and regulated by the Financial Conduct Authority.

The investment benchmarks and objectives for each fund are given below:

| Fund | Benchmark | Objective |
|---|---|---|
| Towers Watson Partners Fund | n/a | CPI + 5% p.a. over the long term |
| LGIM UK Equity Index | FTSE All-Share Index | To track the performance of the benchmark to within +/- 0.25% p.a. for two years out of three |
| LGIM World (ex. UK) Equity Index | FTSE World (ex UK) Index | To track the performance of the benchmark to within +/- 0.5% p.a. for two years out of three |
| World (ex. UK) Equity Index (GBP Hedged) | FTSE World (ex UK) Index (GBP Hedged) | To track the performance of the benchmark to within +/- 0.5% p.a. for two years out of three |
| LGIM Matching Core Funds | Bespoke liability profile benchmarks (valued on both swap and gilt curves) | No official outperformance target but performance is expected to be at least in line with the better performing of gilts and swaps over the long-term |
| LGIM Absolute Return Bond Plus Fund (GBP Hedged) | 3 month US dollar LIBOR (GBP Hedged) | LIBOR + 3.5% p.a. over rolling 3 year periods (before fees) |

The performance of the investment managers will be monitored quarterly and takes into account both short-term and long-term performance.

The AVC arrangement is reviewed from time to time.

# 3. Investments and disinvestments

The Trustee has adopted a Liability Driven Investment ("LDI") Portfolio, compromising of the LGIM Matching Core Funds, which has been designed to hedge around 70% of interest rate exposure and around 85% of the inflation exposure of the Plan's total liabilities, as measured on the 2018 Technical Provisions basis. The value of these investments can change materially over time due to movements in long-term interest rates and market-implied inflation and will therefore deviate from the strategic allocation set out above. The Trustee will therefore consider how any investments or disinvestments involving the LGIM Matching Core Funds will affect the level of interest rate and inflation hedging before taking action.

Therefore, through the normal course of events, cashflow management transactions will not be made using the LGIM Matching Core Funds, unless a change in the hedging level is required, or under other circumstances at the Trustee's discretion.

The Trustee has an allocation to the LGIM Absolute Return Bond Plus Fund to act as a primary source for meeting collateral calls from the Plan's LDI Funds. Should there not be sufficient capital available to meet a collateral call, the remaining balance will be disinvested from the LGIM Equity Portfolio (which is managed by LGIM), to move the actual asset allocation of the underlying equity funds more in line with the benchmark allocations.

Any disinvestments for cashflow purposes should be made from the LGIM ARB Plus Fund in the first instance, having considered the amount of capital that should be retained in order to meet any potential collateral calls. In the absence of sufficient capital to meet the full disinvestment, the remaining balance should be disinvested from the LGIM Equity Portfolio (with the actual disinvestment amounts from the underlying equity funds managed by LGIM according the benchmark policy). Given the illiquid nature of the Towers Watson Partners Fund, this fund will not be used for cashflow purposes.

In the absence of any other advice, investments should be made into the LGIM ARB Plus Fund.

# 4. Member options – Money Purchase section

The Trustee is responsible for the design of the default investment option and for choosing which investment options to make available to members. Members are responsible for their own choice of investment options (including where the default investment option is selected for them because they have not selected other funds).

The Trustee has made available a range of funds to suit the individual needs of the Plan's members. For example, a range of equity funds is available for those members willing to accept a greater level of volatility in pursuit of higher expected retirement savings. Bond and cash funds are also offered for those members who are less comfortable with the likely volatility of the equity funds.

Alternatively, the Trustee has made available lifecycle arrangements, whereby a member's assets are automatically invested in line with a pre-determined strategy that changes as the member gets closer to accessing their retirement savings. Emphasis is placed on medium to higher risk funds (i.e. investment largely in growth assets) in search of long-term inflation-protected growth whilst the member is a long way off accessing their retirement savings, switching progressively to protection assets over the years preceding the member's target retirement date so as to protect the purchasing power of the retirement savings (further detail is provided below). The lifecycle arrangement is constructed from some of the funds below that are offered to members wanting to manage their own asset allocation decisions.

The Trustee currently offers the following range of funds:

| Asset class | Name of fund |
|---|---|
| Passive global equity | LGIM Future World Global Equity Index (50% GBP Hedged) |
| Passive emerging market equity | LGIM World Emerging Markets Equity Index Fund |
| Multi-asset | LGIM Diversified Fund |
| Shariah global equity | HSBC Islamic Global Equity Index |
| Passive index-linked bonds | L&G Over 5 Year Index Linked Gilts Index Fund |
| Cash | LGIM Cash Fund |
| Government and corporate bonds | LGIM Pre-Retirement Fund |

The objective of these options is to provide members with suitable funds from which they can construct their own portfolio. The funds' objectives and expected returns are as follows:

- LGIM Future World Global Equity Index (50% GBP Hedged): to achieve a return that is consistent with its benchmark (50% Solactive L&G ESG Global Markets Index, 50% L&G Solactive L&G ESG Global Markets – GBP Hedged). The Fund aims to provide exposure to developed and emerging equity markets whilst taking account of significant ESG issues.
- LGIM World Emerging Markets Equity Index Fund: to achieve a return that is consistent with the return of the FTSE Emerging Index.
- LGIM Diversified Fund: to provide long-term investment growth through exposure to a diversified range of asset classes. The long-term expected annualised rate of return for this Fund is broadly similar to that of a developed market equity fund over the long term. The Fund also seeks to reduce the level of volatility relative to a developed market equity fund.
- HSBC Islamic Global Equity Index: to create long term appreciation of capital through investment in securities which meets Islamic investment principles as interpreted and laid down by the Shariah Committee.
- LGIM Over 5 Year Index Linked Gilts Index Fund: to achieve a return that is consistent with the return of the FTSE Actuaries Index Linked (Over 5 Year) Index.
- LGIM Cash Fund: to achieve a return that is consistent with the return of cash deposits and short-term investments.
- LGIM Pre-Retirement Fund: aims to invest in assets that reflect the investments underlying a typical non-inflation linked pension annuity product. The fund invests in a mixture of UK government and corporate bond indices on a passive basis and LGIM regularly reviews the asset allocation of the fund to try to match changes in annuity pricing as closely as possible.

## Lifecycle arrangements

The Plan offers three Lifecycle strategies – drawdown focused, annuity focused and cash focused. The objective of these strategies is to provide investment growth when the member is further from retirement and then start to switch member's investments into funds that match their selected retirement objective. Therefore, the difference between the strategies is the approach to managing investment risk as members approach retirement. The strategies are also designed on the assumption that members want to take their pension savings in a particular way when they come to retire.

All three strategies invest 100% in the LGIM Future World Global Equity Index (50% GBP Hedged) when a member is more than 15 years from their target retirement date. The aim of this growth phase is to offer a chance of good returns in the years furthest away from retirement. This is achieved by investing in a mix of shares across the world. While the value of investments will rise and fall with the stock markets, over the long-term the value of member's savings is expected to grow.

## De-risking phases

**Lifecycle: Drawdown focused lifecycle (default option)**

Once a member reaches 15 years from their target retirement date, it starts to invest in the LGIM Diversified Fund, which aims to reduce the likelihood of investments falling sharply in value by spreading investments across a wide mix of funds. However, keeping an element invested in a way that exposes members to the risks of the stock market right up until they retire reduces the risk of pot sizes deteriorating against inflation. This is particularly important for members who are not looking to buy an annuity at retirement.

10 years from a member's target retirement date this lifecycle strategy starts to invest in the LGIM Over 5 Year Index-Linked Gilts Fund and five years from retirement the LGIM Cash Fund.

At retirement the member will be invested 70% in the LGIM Diversified Fund, 20% in the LGIM Over 5 Year Index-Linked Gilts Fund and 10% in the LGIM Cash Fund.

**Lifecycle: Annuity focused**

Once a member reaches 15 years from their target retirement date, this strategy starts to switch members into the LGIM Pre-Retirement Fund, which is aimed at members who are planning to purchase an annuity. Five years from retirement it starts to switch into the LGIM Cash Fund.

At retirement the member is invested 75% in the LGIM Pre-Retirement Fund and 25% the LGIM Cash Fund.

**Lifecycle: Cash focused**

Once a member reaches 15 years from their target retirement date, it starts to invest in the LGIM Diversified Fund, which aims to reduce the likelihood of investments falling sharply in value by spreading investments across a wide mix of funds.

10 years from a member's target retirement date this lifecycle strategy starts to invest in the LGIM Cash Fund.

At retirement the member will be invested 70% in the LGIM Diversified Fund, 30% in the LGIM Cash Fund.

# Appendix 2 Financially material considerations, non-financially material considerations, the exercise of voting rights and engagement activities

## 1. Financially Material Considerations

The Trustee considers that factors such as environmental, social and governance (ESG) issues (including but not limited to climate change) will be financially material for the Plan over the length of time during which the benefits provided by the Plan for members require to be funded to a level which would allow the benefits to be bought out with an insurer.

The Trustee has elected to invest the Plan's assets through pooled funds. The choice of underlying funds is made by the Trustee after taking advice from their investment consultant. The Trustee, and the managers of the underlying funds, take into account ESG factors (including climate change risks) in their decisions in relation to the selection, retention and realisation of investments. The majority of the funds available in the Money Purchase section, along with the LGIM Equities held in the DB strategy, are passively managed and therefore the investment manager is not able to deviate from the respective index of the fund.

The Trustee takes those factors into account in the selection, retention and realisation of investments as follows:

**Selection of investments:** assess the investment managers' ESG integration credentials and capabilities, including stewardship, as a routine part of requests for information/ proposals as well as through other regular reporting channels.

**Retention of investments:** Developing a robust monitoring process in order to monitor ESG considerations on an ongoing basis by regularly seeking information on the responsible investing policies and practices of the investment managers.

**Realisation of investments:** Where applicable, the Trustee will request information from investment managers about how ESG considerations are taken into account in decisions to realise investments.

The Trustee will also take those factors into account as part of its investment process to determine a strategic asset allocation, and consider them as part of ongoing reviews of the Plan's investments.

The Trustee will continue to monitor and assess ESG factors, and risks and opportunities arising from them, as follows:

- The Trustee will obtain regular training on ESG considerations in order to understand fully how ESG factors including climate change could impact the Plan and its investments;
- As part of the annual ESG monitoring of the Plan's investment managers, the Trustee will use any ESG ratings information available within the pensions industry or provided by its investment consultant, to assess how the Plan's investment managers take account of ESG issues; and
- Through their investment consultant the Trustee will request that all of the Plan's investment managers provide information about their ESG policies, and where applicable, details of how they integrate ESG into their investment processes on an annual basis.

# 2. Non-financially material considerations

The Trustee recognises that members and beneficiaries may have ethical views or views on matters such as the social and environmental impact of the Plan's investments. In conjunction with there being practical challenges of capturing and maintaining a consensus view on multiple issues across a varied membership population, it is the Trustee's view that financial factors should take precedence in seeking to maximise the security of member benefits. Therefore the Trustee does not typically take into account the views of Plan members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life of the members and beneficiaries of the Plan (referred to as "non-financial matters" in the relevant Regulations) in the selection, retention and realisation of investments.

# 3. The exercise of voting rights

The Trustee's policy on the exercise of rights attaching to investments, including voting rights, and in undertaking engagement activities in respect of the investments is that these rights should be exercised by the investment managers on the Trustee's behalf. In doing so, the Trustee expects that the investment managers will use their influence as major institutional investors to exercise the Trustee's rights and duties as shareholders, including where appropriate engaging with underlying investee companies to promote good corporate governance, accountability and to understand how those companies take account of ESG issues in their businesses.

The Trustee will monitor and engage with the investment managers about relevant matters (including matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance), through the Plan's investment consultant.

Investment managers will be asked to provide details of their stewardship policy and engagement activities on at least an annual basis. The Trustee will, with input from their investment consultant, monitor and review the information provided by the investment managers. Where possible and appropriate, the Trustee will engage with their investment managers for more information and ask them to confirm that their policies comply with the principles set out in the Financial Reporting Council's UK Stewardship Code.

# 4. Engagement activities

The Trustee acknowledges the importance of ESG and climate risk within their investment framework. When delegating investment decision making to their investment managers they provide their investment managers with a benchmark they expect the investment managers to either follow or outperform. The investment manager has discretion over where in an investee company's capital structure it invests (subject to the restrictions of the mandate), whether directly or as an asset within a pooled fund.

The Trustee is of the belief that ESG and climate risk considerations extend over the entirety of a company's corporate structure and activities, i.e. that they apply to equity, credit and property instruments or holdings. The Trustee also recognises that ESG and climate related issues are constantly evolving and along with them so too are the products available within the investment management industry to help manage these risks.

The Trustee considers it to be a part of their investment managers' roles to assess and monitor developments in the capital structure for each of the companies in which the managers invest on behalf of the Plan or as part of the pooled fund in which the Plan holds units.

The Trustee also considers it to be part of their investment managers' roles to assess and monitor how the companies in which they are investing are managing developments in ESG related issues, and in particular climate risk, across the relevant parts of the capital structure for each of the companies in which the managers invest on behalf of the Plan.

Should an investment manager be failing in these respects, this should be captured in the Plan's regular performance monitoring.

The Plan's investment managers are granted full discretion over whether or not to invest in the Principal Employer's business. Through their consultation with the Principal Employer when setting this Statement of Investment Principles, the Trustee has made the Principal Employer aware of their policy on ESG and climate related risks, how they intend to manage them and the importance that the pensions industry as a whole, and its regulators, place on them.

The DB Section's investment consultant (Barnett Waddingham) is independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes the Trustee confident that the investment manager recommendations they make are free from conflict of interest.

The Trustee expects all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so the Trustee believes they have managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustee/ investment manager and the investee companies.

In selecting and reviewing their investment managers, where appropriate, the Trustee will consider investment managers' policies on engagement and how these policies have been implemented.