

# Statement of Investment Principles

**IBM Pension Plan**

November 2023

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## 1

# Introduction

- 1.1 IBM United Kingdom Pensions Trust Limited (the “Trustee”), as the Trustee of the IBM Pension Plan (the “Plan”), has drawn up this Statement of Investment Principles (the “Statement”) to comply with the requirements of the Pensions Act 1995 (the “Act”) and subsequent legislation. The Statement is intended to affirm the investment principles that govern the decisions about the Plan’s investments. The Trustee’s investment responsibilities are governed by the Plan’s Trust Deed and Rules, of which this Statement takes full regard.
- 1.2 The Trustee has consulted IBM United Kingdom Holdings Limited (the “Company”) as the Sponsor of the Plan on the principles set out in this Statement and will consult the Company on any changes to it having taken prior written advice from an authorised investment consultant. The Trustee seeks to maintain a good working relationship with the Company and will discuss any proposed changes to this Statement with the Company. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.
- 1.3 This Statement includes both the Defined Benefit (“DB”) and Defined Contribution (“DC”) Sections of the Plan and these are considered separately, as appropriate.
- 1.4 The DB Section of the Plan is closed to new members and to future accrual.
- 1.5 The DC Section of the Plan has been closed to new members since 2011 but continues to be open to new additional contributions.
- 1.6 Until 2011, the Plan provided a facility for DB and DC members to pay Additional Voluntary Contributions (“AVCs”) and Additional Smart Contributions (“ASCs”) into the Plan to enhance their benefits at retirement. With the closure of the DB Section to future accrual, DB members can maintain their existing AVC and ASC pension savings within the Plan but are no longer able to make further AVC or ASC contributions. The DC Section continues to be open to new AVC and ASC contributions.
- 1.7 The Plan’s investment arrangements, based on the principles set out in this Statement, are detailed in the Plan’s Investment Policy Implementation Document (“IPID”). This statement and the IPID are published on a public website (<https://www.smartpensionsuk.co.uk/#/page/governance-documentation>).
- 1.8 The Trustee does not expect to revise this Statement frequently because it covers broad principles rather than their implementation. The Trustee will review it at least once every three years, and without delay if there are relevant, material changes to the Plan and/or the Company which the Trustee judges to have a bearing on the stated investment policy. The IPID will be reviewed as required and updated to reflect any amendments to the investment arrangements, and any changes will be agreed by the Trustee. Any such reviews will be based on written expert investment advice and will be in consultation with the Company.

## 2

# Investment Management

## Plan Governance

- 2.1 The Trustee has appointed a professional consultant (the “Investment Consultant”) to provide relevant investment advice to the Trustee. The Investment Consultant has confirmed in writing to the Trustee that it has the appropriate knowledge and experience to give the advice required by the Pensions Act 1995 and the Occupational Pension Scheme (Investment) Regulations 2005. 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 The Trustee also takes advice as appropriate from the Plan Actuary and other professional advisers.
- 2.3 The Trustee is responsible for the investment of the Plan’s assets and retains control over the decisions on investment strategy. However, in order to ensure that investment decisions are taken by persons or organisations with the skills, information and resources necessary to take them effectively, the Trustee delegates some of these responsibilities.
- 2.4 The Trustee has appointed DB and DC Investment Committees and a separate Governance Committee.
- 2.5 The DB and DC Investment Committees are responsible for determining and implementing investment policy.
- 2.6 Sub-committees may be appointed to deal with specialist issues where required, one of which being the Environmental Social and Governance (“ESG”) Sub-committee who make recommendations to the Investment Committee on ESG related policies, processes and actions as outlined in sections 3 and 4. The ESG Sub-Committee has delegated responsibility from the Investment Committee.
- 2.7 The full responsibilities of the Investment Committees, Governance Committee and ESG Sub-committee are outlined in the Constitution and Powers document and Terms of Reference.
- 2.8 The Pensions Trust organisation undertakes a staff role in support of the Trustee and all committees.
- 2.9 The Trustee has delegated day-to-day management of the Plan’s investments to a number of investment managers. In some cases, this is via Trustee directed investments in pooled investment vehicles and insurance policies and in other cases via separate accounts in which the investment manager invests directly on behalf of the Plan.
- 2.10 The Plan’s DC investments (including AVCs and ASCs) are invested in a range of funds / strategies managed by Legal & General Investment Management Limited (“Legal & General”) and HSBC Global Asset Management (“HSBC”) which are made available on the Legal & General Assurance Society Limited (“LGAS”) investment platform.

- 2.11 Details of the appointments are contained in the investment management agreements between the investment managers and the Trustee, or within the governing documentation of the pooled vehicles.
- 2.12 A custodian is appointed by the Trustee to provide safekeeping of the Plan's DB assets not invested in pooled funds or insurance policies, and performs the associated administrative duties. The details of this appointment are contained in the contract between the Trustee and the custodian.

## **Realisation of Investments**

- 2.13 In general, the investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments.
- 2.14 The Trustee's policy for the Plan's DB investment strategy is that there should be sufficient secure investments in liquid or readily-realizable assets to meet short term cashflow requirements in the majority of foreseeable circumstances so that realisation of assets will not disrupt the Plan's overall investment policy.
- 2.15 The Trustee has a cashflow policy process to ensure there are sufficient funds available to meet benefit payments and other expenses.
- 2.16 Members' investments in the Plan's DC Section are traded and priced on a daily basis.

### 3

# Environmental, Social and Corporate Governance

- 3.1 The Trustee believes that environmental, social, and governance (“ESG”) factors, including climate change, can impact the performance of the Plan’s investments, both DB and DC (including the DC default investment strategies), over the medium to long-term. The Trustee has delegated responsibility for the selection, retention, and realisation of investments to its investment managers and accordingly, the Trustee seeks to manage the risks and opportunities associated with these ESG factors by selecting industry leaders in investment management and against criteria which include ESG considerations.
- 3.2 The Trustee expects its investment managers to be signatories of the Principles for Responsible Investment (PRI), where applicable, and implement these principles. The Trustee requires its investment managers to report on their commitment and how these principles have been implemented.
- 3.3 The Trustee takes decisions on ESG and climate-related risks in relation to the Plan’s investment arrangements having considered the recommendations of its ESG Sub-Committee.
- 3.4 The Trustee supports the goals of the Paris Agreement, and believes that long term sustainability issues, in particular climate risk, present risks and opportunities which increasingly require explicit consideration. Climate-related risks and opportunities are assessed using a balanced and proportionate approach. The ultimate responsibility of the Trustee is to pay members their benefits and the Trustee is trying to do this in a sustainable way. The Trustee is aware of IBM’s net zero target and the Trustee aspires to set its own net zero target as the quality of data improves. In general, the Trustee believes the Plan’s investments should be net zero emissions by 2050 or earlier, where applicable. The Trustee has set an interim target to reduce carbon intensity within reportable assets and monitors the Plan’s investments against this target on an annual basis.
- 3.5 The Trustee engages with investment managers to take steps to reduce carbon exposure within the Plan’s assets. The Trustee also engages with managers on climate-related risks and exposure to these risks within the Plan’s investments. These risks and opportunities are reported annually in compliance with the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021. Further information can be found in the Climate Change-related Disclosures Report (available at <https://www.smartpensionsuk.co.uk/#/page/governance-documentation>).
- 3.6 The Trustee does not take into account non-financial matters in the selection retention and realisation of investments.
- 3.7 As noted above, the Trustee does not have an active policy of taking non-financial matters into account in its investment decision making. However, the Trustee has considered and assessed member views (regarding both financial and non-financial factors) in relation to the range of DC lifecycles/lifestyles and self-select ('Freestyle') funds offered to members.

- 3.8 The Trustee has made available a number of sustainable and ethical funds as detailed in the IPID.

## 4

# Voting and Engagement Disclosures

## Rights Attaching to Investments (Stewardship)

- 4.1 The Trustee considers stewardship to be a key approach to implementing its investment beliefs and believes that well governed companies perform better over the longer term. The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to the Plan's DB and DC investments to the investment managers. Investment managers are encouraged to exercise these rights. The Trustee believes investment managers' voting activity in relation to ESG and Climate Change can make a significant contribution to reducing carbon exposure within the Plan.
- 4.2 The Trustee supports the aims of the UK Stewardship Code, and its investment managers are invited to operate in accordance with the guidelines laid out in the Stewardship Code which covers matters of both voting and engagement. The investment managers are encouraged to report their adherence to The Stewardship Code using the "comply" or "explain" principle where appropriate.
- 4.3 The Trustee has an appointed Stewardship Manager role to ensure that the Trustee's expectations for the Plan's investment managers to be compliant with the UK Stewardship Code and the PRI are met where appropriate.
- 4.4 The Trustee believes in a stewardship and engagement approach rather than exclusions. Management of exposure to companies meeting the exclusion criteria of the UN Global Compact is managed at the discretion of the investment managers. The Trustee will carry out analysis on the investment managers' policies on an annual basis as part of the annual Stewardship report.
- 4.5 The Trustee requires its investment managers to report on corporate governance, and particularly on their voting and engagement records. Furthermore, the Trustee requires detailed information on significant votes, as determined by the Trustee, to be provided by the investment managers on an annual basis. The significant votes are reviewed by the ESG Sub-Committee and the most significant votes, as determined by the Trustee, are disclosed on an annual basis in the Implementation Statement. The Trustee defines a 'significant vote' to be one which relates to one of the Trustee's beliefs and stewardship priorities, which are:
  - Climate Change;
  - Diversity, equity and inclusion;
  - Energy Efficiency.
- 4.6 The Trustee ensures the investment managers are aware of the Trustee's stewardship priorities and will regularly review the investment managers' voting and engagement activities in line with these priorities. The Implementation Statement is available to members online (<https://www.smartpensionsuk.co.uk/#/page/governance-documentation>) or upon request.
- 4.7 Significant shareholder action other than voting should also be reported.



- 4.8 Reports on corporate governance produced by the investment managers along with their voting and stewardship policies are considered as part of the annual Stewardship Report which is discussed at ESG Sub-Committee meetings to ensure that the policies outlined in sections 3 and 4 are being met.

## 5

# Investment Manager Arrangements

### Aligning Investment Manager Appointments with the Trustee's Investment Strategy

- 5.1 Investment managers are appointed based on their 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.
- 5.2 Where appropriate, the Trustee will seek investment advice in decisions regarding manager appointments. Such advice may consider factors such as the manager's idea generation, portfolio construction, implementation, and business management, in relation to the Trustee's proposed investment.
- 5.3 As stated in Section 4, the Trustee has a policy of appointing investment managers who are committed to the Principles for Responsible Investment. The Trustee will consider the investment manager's implementation of ESG and climate-related considerations and, where relevant, will also consider the investment manager's policy on voting and engagement in decisions concerning manager appointments.
- 5.4 In respect of segregated appointments, the Trustee specifies the investment objectives and criteria in an investment management agreement for the investment manager to be in line with the Trustee's specific investment requirements.
- 5.5 Where the Trustee invests in pooled investment vehicles, it accepts that it does not have the ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy.
- 5.6 The Trustee will review an appointment if the investment objective for a manager's pooled fund changes to ensure it remains appropriate and consistent with the Trustee's wider investment objectives.
- 5.7 Investment managers are aware that their continued appointment is based on the success in delivering the mandate for which they have been appointed to manage. If the Trustee is dissatisfied, it will look to review the appointment.

## Evaluating Investment Manager Performance

- 5.8 The Trustee receives reporting on asset class and investment manager performance on a quarterly basis and this includes performance information over 3 months, 1 year, 3 years and 5 years. Performance is measured on both an absolute return basis and a relative return basis against a suitable index used as the benchmark (where appropriate) or against an alternative performance target. Both asset class and investment manager performance are reported net of fees and transaction costs<sup>1</sup>.
- 5.9 The Trustee's focus is on long term performance but, as noted above, the Trustee may review a manager's appointment at any time for a variety of reasons including for example:
- sustained periods of underperformance;
  - changes in organisation or key personnel (including the portfolio manager);
  - a change in the underlying objectives of the investment manager;
  - a significant change to the Investment Consultant's rating of the investment manager.
- 5.10 The majority of investment managers are remunerated by way of a fee calculated as a percentage of assets under management. In this way, the managers are incentivised to maximise investment returns in line with the investment objectives. For the Liability and Currency Hedging managers, a fee is payable calculated as a percentage of the hedge.
- 5.11 In some cases, active managers are incentivised using a performance related target. Where a performance related fee is payable, a hurdle rate structure is in place to mitigate the possibility of the Trustee paying additional fees during periods of long-term underperformance.
- 5.12 As part of the annual Value for Members ("VfM") assessment, the Trustee reviews the DC investment manager fees. This review includes peer group comparison where fees are compared against those paid by other schemes based on each underlying fund's region, asset class, fund management style and the size of assets under management.

## Portfolio Turnover Costs

- 5.13 The Trustee does not currently actively monitor portfolio turnover costs within the DB Section of the Plan. As noted above, investment manager performance is evaluated net of fees and transaction costs, and where possible, performance objectives for investment managers are set on a net basis. In this way, managers are incentivised to keep portfolio turnover costs to the minimum required to meet or exceed their objectives.
- 5.14 Within the DC section of the Plan, the Trustee reviews the transaction costs of the underlying funds and strategies on a quarterly basis and again as part of the annual Value for Members assessment.
- 5.15 The Trustee will continue to monitor industry developments concerning the reporting of portfolio turnover costs and in particular the standardisation and benchmarking of cost reporting.

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<sup>1</sup> Costs incurred as a result of buying and / or selling assets.

## Manager Turnover

- 5.16 The Trustee is a long-term investor and does not seek to change the investment arrangements on a frequent basis. For open-ended funds there is no set duration for the manager appointments. The Trustee will therefore retain an investment manager unless:
- For the DB section, there is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;
  - For the DC section, the mandate is no longer considered to be optimal nor have a place in the default investment strategy or general fund range;
  - The manager appointed has been reviewed and the Trustee has decided to terminate the mandate.
- 5.17 For closed-ended funds, the Plan is invested in a manager's fund for the lifetime of the fund. 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 lifetime of the fund in line with the fund's governing documentation. In order to maintain a strategic allocation to an asset class, the Trustee may choose to stay with a manager in a new vintage of the fund or appoint a different manager.

## 6

# Strategic Asset Allocation

## DB Section

### Objectives and Policy

6.1 The Trustee has set the following long-term investment objectives in relation to the DB Section:

- The acquisition of suitable assets of appropriate liquidity that will generate income and capital growth to meet, together with any new contributions from the Company, the cost of current benefits that the Plan provides.
- To limit the risk of the assets failing to meet the liabilities, both over the long term and on a shorter-term basis.

6.2 The Trustee has agreed a target, as set out in the Climate Change-related Disclosures Report, with the aim of reducing the level of carbon intensity within the Plan's investment portfolio by 20% over the 3 years from 31 December 2021 (where carbon emissions data is available and can be reported). It should be noted that the target applies for the assets where Weighted Average Carbon Intensity (WACI) data is reportable<sup>2</sup>

6.3 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 DB Section of the Plan. Reflecting these considerations, a high-level strategic asset allocation has been set by the Trustee, having consulted the Company. This is detailed in the IPID along with the rebalancing policy and full details of the investment manager structure.

### Investment Strategy

6.4 When reviewing the Plan's investment strategy, the Trustee takes into account the long-term investment and funding objectives and as a result aims to balance the level of investment risk and required expected return within the investment strategy by investing in a diverse portfolio of "growth" assets, such as equities and other return seeking assets, and "matching" assets aiming to minimise the impact of changes in interest rates and inflation on the Plan's funding level.

6.5 The Trustee has set the following target allocations to growth and matching assets (these strategic allocations exclude the buy-in policy assets – Section 6.9 includes further details of the buy-in policy):

Asset Class	Strategic Target Allocation (%)
Private equity	0.5
UK property	

<sup>2</sup> This includes scope 1 and 2 weighted average carbon intensity emissions data where available for the following mandates (excluding sovereigns): DB Section – Global Bonds, Global Credit, Long-term UK Core Credit and Property.

Global bonds	
Global credit	
Long-term UK core credit	99.5
Liability matching assets	
Cash	
<b>Total</b>	<b>100.0</b>

- 6.6 The underlying allocations to the individual asset classes may vary over time.
- 6.7 The Trustee has implemented a liability hedging policy to hedge a significant amount of the interest rate and inflation risks inherent in the Plan's liabilities.
- 6.8 The Trustee has also implemented a currency hedging policy to mitigate the increased risk associated with investing in overseas assets.
- 6.9 The Trustee entered into a bulk annuity policy with Rothesay Life on the 14 December 2020. The bulk annuity policy was purchased to cover 50% of the DB Section's pensioner liabilities (excluding Data Sciences members).

## Risk Management

- 6.10 The Trustee recognises a number of risks involved in the investment of the assets of the DB Section and that the choice and allocation of investments can help to mitigate these risks:

Type of Risk	Description	How is the risk monitored and managed?
Solvency and mismatching risk	The risk that the assets of the Plan do not fulfil the current and future obligations of the Plan to its members. This is the combination of all other risks described below.	Managed and monitored in the ways described below for the specific risks.
Market risks	Interest rate and inflation risks	The risk arising from differences in the cash-flow profile of the gilts and other bonds held by the Plan from that of the Plan's projected benefit cash-flows due to members.
	Currency risk	The risk that changes in exchange rates affect the values of overseas assets compared to the Plan's sterling liabilities.
	Credit risk	The risk that the issuer of a financial asset, such as a bond, fails to make the contractual payments due.
	Equity, property and other risks	Risks additional to those above where the income or the capital value of an asset is uncertain owing to, for example, changes in the profitability of an issuing company.

Type of Risk	Description	How is the risk monitored and managed?
Demographic risks	The risk arising from uncertainty in the actual future benefits to be paid to members, for example related to member longevity.	Managed through triennial valuations to set Sponsor contributions and through rebalancing of the liability hedge.  A proportion of the Plan's pensioner liabilities are managed by an insurer (Rothesay Life plc) via a bulk purchase annuity, removing the demographic risks in relation to those liabilities.
Custodial risk	The risk that the custodian holding assets directly for the Plan fails to settle trades on time, fails to provide secure safekeeping of the assets under custody or otherwise fails to discharge its obligations to the Plan.	Managed by monitoring the custodian's activities and its creditworthiness.
Counterparty risk	A form of credit risk in that the counterparty to a transaction (such as a derivative) could fail to meet its obligations to the Plan.	Managed through collateral management, diversifying counterparty exposures, monitoring counterparty creditworthiness and the use of robust contracts.
Operational risks	The risk that derivative contracts are not purchased at a competitive price and that contracts are not correctly valued on an ongoing basis.	The management of this risk is delegated to the investment managers. The custodian provides independent valuations.
Legal risk	The risk that the legal terms of contracts are not properly reviewed.	Managed by taking appropriate advice when putting in place new, or in reviewing existing, contracts.
Day-to-day operational risks, including collateral risk	The risk that the Plan fails to meet its contractual obligations to counterparties, such as in the provision of collateral for derivative contracts.	Day-to-day management of these risks is delegated to the investment managers or custodian. The Trustee requires managers to monitor collateral sufficiency and specifies controls within the managers' legal agreements.

Type of Risk	Description	How is the risk monitored and managed?
Investment manager risk	The risk that the appointed investment managers underperform their objectives, fail to carry out operational tasks, fail to ensure safe keeping of assets (in pooled funds) or breach agreed guidelines.	Managed through diversification across investment managers and by the ongoing monitoring of the performance of the investment managers.
Liquidity risk	The risk that the Plan cannot meet short term cashflow requirements or incurs excessive costs doing so. This includes liquidity requirements of the Plan's currency and liability hedging programmes.	Managed by undertaking periodic reviews of the Plan's liquidity requirements to ensure sufficient cash is held to limit adverse impact on investment policy.
Political and regulatory risk	The risk that the impact of political instability or intervention on financial markets causes the value of the Plan's assets to fluctuate.	Managed through the chosen investment strategy.
Sponsor risk	The risk that the insolvency of the Sponsor impacts its ability to continue to support the Plan and make good any current or future deficit.	Covenant reviews are undertaken at least triennially to assess the interaction between the Plan and the Sponsor's business, the Sponsor's creditworthiness and its capacity to meet any current and potential future obligations.



Type of Risk	Description	How is the risk monitored and managed?
Climate risk	A systemic risk that may materially affect the financial performance of investments.	<p>The Trustee produces an annual Climate Change-related Disclosures Report, in compliance with the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021.</p> <p>The Trustee requests the Plan's investment managers to provide portfolio carbon risk metrics consistent with the regulations and the metrics agreed by the Trustee.</p> <p>As part of the triennial default investment strategy reviews, the Trustee considers opportunities to improve the ESG integration into the portfolio.</p>
Insurer insolvency risk	A risk that the insurance provider may default on their obligations under the bulk annuity policy.	<p>Before entering into the bulk annuity contract, the Trustee obtained and carefully considered the financial strength of the insurer and believed that the risk was acceptably low. The solvency of the insurer is reviewed on a quarterly basis at Trustee Management meetings.</p>

## DC Section

### Overall Aims and Objectives

- 6.11 The Trustee's principal mission is to help DC Section members to maximise their retirement outcomes with an appropriate level of investment risk, by providing an investment framework which represents value for members, considers climate-related risks and opportunities where feasible, and which is in line with recognised market "good practice", taking into account guidance from the Pensions Regulator and other appropriate industry and regulatory bodies.
- 6.12 In addition to the principal mission as stated above and the investment objectives below, the Trustee also aims to:

- Ensure that the DC Section's operational structure is suitable and cost effective.
- To make sure the Plans meet all regulatory requirements as set out by the Pensions Regulator.
- To ensure effective governance of climate-related risks and opportunities.
- Provide members with adequate tools and timely information to enable them to make informed contribution, investment and retirement decisions.

## Investment Objectives

6.13 The Trustee has the following investment objectives related to the DC Section:

- To offer default investment strategies that are suitable for the profile of defaulting members based on their expected risk tolerances and retirement objectives and embed climate change risk and opportunity considerations in their design.
- To offer a range of self-select investment options which are appropriate for the profile of most members and offer options for sustainable investment.

6.14 The Trustee has agreed a target, as set out in their Climate Change-Related Disclosures Report, with the aim of reducing the level of carbon intensity within the Main Plan's DC investment portfolio by 20% over the next 3 years from 31 December 2021. It should be noted that the target applies for the assets where Weighted Average Carbon Intensity (WACI) data is reportable<sup>1</sup>.

## Investment Policies

- 6.15 The Trustee recognises that the default investment strategy will not meet the needs of all members (who will have different personal preferences and retirement objectives) and as such, alternative investment options are available for members to choose from. This includes the Freestyle fund range. The Trustee's policy on investment return is to provide members with the ability to obtain a level of investment return commensurate with that achieved by the investment funds they select from the range of available offerings.
- 6.16 The fund range and default investment strategy are reviewed on at least a triennial basis, the last review having taken place in 2022.
- 6.17 Members are currently offered a range of four Lifecycle investment strategies and 28 Freestyle funds (of which four funds are closed to new member selections). The fund range is comprehensive and offers exposure to a wide range of asset classes which offer different levels of risk and return, the balance between which can be selected by the member. These include but are not limited to developed market equities, emerging market equities, real estate, listed infrastructure, annuity target funds, money market investments, gilts and index-linked gilts. Within the fund range, two multi-asset Funds, the Growth and Growth Plus Funds, are available to members and provide exposure to a diversified range of asset classes (including commodities). The Trustee also makes available two ethical equity funds, a Shariah equity fund and a range of sustainable funds as detailed in the IPID.

<sup>1</sup>This includes scope 1 and 2 weighted average carbon intensity emissions data where available for the DC popular arrangements (excluding sovereigns).

6.18 The Trustee notes that members' investment needs change as they progress towards retirement age; hence offering Lifecycle investment strategies which switch a member's pension savings into Funds with a lower risk profile, as the member approaches their target retirement age. These Lifecycle strategies are consistent with how members can access their pension savings at retirement. The four current Lifecycle strategies are:

- 'Lifecycle Balanced 2020' strategy is the default investment strategy for those DC members who do not make their own investment selection. The strategy aims to give members a 'balanced' investment strategy that incorporates a mixed annuity and drawdown target (in addition to the 25% cash target).
- 'Lifecycle to Annuity 2020' strategy. This strategy is aimed at members planning to take 25% of their defined contribution savings as tax-free cash on retirement, using the remainder to buy an annuity.
- 'Lifecycle to Lump Sum 2020' strategy. This strategy is aimed at members targeting a lump sum cash withdrawal at retirement.
- 'Lifecycle to Drawdown 2020' strategy. This strategy is aimed at members who intend to take 25% of their defined contribution savings as tax-free cash on retirement, leaving the remainder invested for growth while they draw an income during retirement.

More details regarding these Lifecycle investment strategies can be found in the IPID.

6.19 The Trustee is conscious of the impact of management fees on the ultimate value of a member's pension fund. The Trustee believes that both actively and passively managed funds can add value for members and therefore has opted for a Fund Range centred around passive management, but with the ability to use active or smart beta products where it is deemed appropriate and cost effective to do so.

6.20 In determining which investment options to make available, the Trustee with advice from its Investment Consultant, has considered the investment risk associated with DC pension investment. This risk can be defined as the uncertainty over the ultimate amount of savings available on retirement. A number of factors contribute to this uncertainty, some of which (such as the amount of contributions paid and the length of time these contributions are invested) cannot be managed by the investment options made available to members. The list below is not exhaustive but covers the main risks that the Trustee considers and how they are managed:

Type of Risk	Risk	Description	How is the risk monitored and managed?
Market risks	Inflation risk	The risk that the real returns (i.e., return above inflation) of the funds do not keep pace with inflation.	Members are able to set their own investment allocations, in line with their risk tolerances.
	Currency risk	The risk that fluctuations in foreign exchange rates will cause the value of overseas investments to fluctuate.	The Lifecycle investment strategies include an allocation to inflation-linked assets. Non-sterling exposure from developed markets within

Type of Risk	Risk	Description	How is the risk monitored and managed?
	Credit risk	The risk that the issuer of a financial asset, such as a bond, fails to make the contractual payments due.	many of the investment funds is largely hedged back to sterling to reduce the impact of currency movements.
	Equity, property and other risks	Risks additional to those above where the income or the capital value of an asset is uncertain owing to, for example, changes in the profitability of an issuing company.	For the multi-asset funds and Lifecycle investment strategies available, the Trustee periodically reviews the suitability of these options taking into consideration the risks listed.  The Trustee considers these risks and the appropriate level of diversification when setting the default investment strategy.
	Investment manager risk	The risk that the appointed investment managers underperform their objectives, fail to carry out operational tasks, do not ensure safe keeping of assets or breach agreed guidelines.	The Trustee regularly reviews the appropriateness of the level of the security of assets. The Trustee undertakes ongoing monitoring of the performance of the investment managers.
	Liquidity risk	The risk that the Plan's assets cannot be realised at short notice in line with member demand.	The Plan is invested in daily dealt and daily priced pooled funds.

Type of Risk	Risk	Description	How is the risk monitored and managed?
Pension Conversion risk		The risk that the value of a member's account does not enable the member to meet their objectives post retirement.	<p>The Trustee makes available a range of Lifecycle investment strategies for DC members.</p> <p>Lifecycle investment strategies automatically switch member assets into investments whose value is expected to be less volatile relative to how the member wishes to access their pension savings as they approach retirement age.</p> <p>Members can select a Lifecycle investment strategy in accordance with their personal preferences and retirement objectives.</p> <p>The default investment strategy is a Lifecycle strategy. As part of the triennial default investment strategy review, the Trustee reviews the appropriateness of the default retirement destination based on the membership profile and experience.</p>

Type of Risk	Risk	Description	How is the risk monitored and managed?
Climate risk		A systemic risk that may materially affect the financial performance of investments.	<p>The Trustee produces an annual Climate Change-related Disclosures Report in compliance with the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021.</p> <p>The Trustee requests the Plan's investment managers to provide portfolio carbon risk metrics consistent with the regulations and the metrics agreed by the Trustee.</p> <p>Climate scenario analysis is completed on a triennial basis in conjunction with the investment strategy review.</p> <p>As part of the triennial default investment strategy reviews, the Trustee considers opportunities to improve the ESG integration into the portfolio.</p>

- 6.21 The objectives set out above and the risks and other factors referenced in this Statement are those that the Trustee considers to be financially material considerations in relation to the DC Section as a whole. 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 retire.

## DC Section – Default Investment Strategy

### Aims and Objectives

- 6.22 The Trustee recognises that not all members will make investment decisions and as such the Trustee believes that it is appropriate to offer a default investment strategy.
- 6.23 The Trustee has selected the 'Lifecycle Balanced 2020' strategy as the default investment strategy for DC members of the Plan. This strategy aims to give members a 'balanced' investment strategy that incorporates a mixed annuity and drawdown target (in addition to the

25% cash target). The Lifecycle Balanced 2020 strategy is also the default strategy for ex - Data Science Limited Members<sup>3</sup>.

- 6.24 These objectives are in addition to the Overall Aims and Objectives and Investment Objectives stated for the general DC Section.

### Investment Policies

- 6.25 The default investment strategy is designed after careful analysis of the membership demographic and other characteristics in order to offer a suitable approach that is tailored, insofar as is practical, to the needs of the Plan's members. The Trustee will review the default investment strategy regularly, at least triennially or after significant changes to the Plan's demographic profile.
- 6.26 A range of asset classes are included within the default investment strategy including: developed market equities, emerging market equities, multi-asset funds, pre-retirement funds and money market investments.
- 6.27 The Trustee, with advice from its Investment Consultant, considers the trade-off between risk and expected returns. The default investment strategy balances between different kinds of investments to ensure that the expected amount of risk (and commensurately the expected return) is appropriate given the age of the member and their expected retirement date. The Lifecycle approach reflects that members' investment needs change as they progress towards retirement age by reducing the investment risk.
- 6.28 The Trustee has considered the investment risk associated with DC pension investment. This risk can be defined as the uncertainty over the ultimate amount of savings available on retirement. A number of factors contribute to this uncertainty some of which (such as the amount of contributions paid and the length of time these contributions are invested) cannot be managed by the investment strategies made available to members. The specific risks pertaining to the default investment strategy are identified in the table in 6.20.
- 6.29 Returns can be generated from different sources, including the illiquidity risk premium in the case of illiquid assets. Illiquid assets are assets of a type which cannot easily or quickly be sold or exchanged for cash and where assets are invested in a collective investment scheme, includes any such assets held by the collective investment scheme. Although the nature of DC investment limits the use of illiquid asset classes, where appropriate, the Trustee looks to incorporate illiquid assets into the investment range, albeit limited to liquid forms to ensure daily pricing for members. The Trustee believes there are diversification benefits from a risk and return perspective investing in illiquid asset classes and consider fund options as part of investment strategy reviews, as well as keeping up to date with the development and availability of illiquid asset classes within the DC landscape.
- 6.30 The objectives set out above and the risks and other factors referenced in this Statement are those that the Trustee considers to be financially material considerations in relation to the default investment strategy. 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 retire.

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<sup>3</sup> The Data Science Limited Lifecycle Balanced Strategy is invested in the same way as the Lifecycle Balanced 2020 Strategy but the investment management charges (IMCs) are paid by the Company.

## Members' Best Interests

- 6.31 The Trustee will carry out regular assessments (at least triennially or following any significant change in membership) not only of the performance of the default investment strategy, but also of its design to ensure that it continues to remain appropriate for the membership profile. This is in addition to more regular performance monitoring, which is expected to take place quarterly. The Trustee strives to ensure the strategy evolves in line with the Plan's membership characteristics in order to ensure that assets are invested in the best interests of the members.

## DC Section – Legacy Default Investment Strategies

### Aims and Objectives

- 6.32 The Trustee operates two legacy default investment strategies<sup>4</sup> which are no longer available as new options within the Plan. Members close to retirement, were allowed to remain invested in older default investment strategies and may also increase their allocations to said strategies. These strategies target the purchase of an annuity and reduce investment risk as a member's retirement date approaches.
- 6.33 These objectives are in addition to the Overall Aims and Objectives and Investment Objectives stated for the general DC Section.

### Investment Policies

- 6.34 The legacy default investment strategies are designed after careful analysis of the membership demographic and other characteristics in order to offer a suitable approach that is tailored, insofar as is practical, to the needs of the Plan's members. The Trustee will review the legacy default investment strategies regularly, at least triennially or after significant changes to the Plan's demographic profile.
- 6.35 A range of asset classes are included within the legacy default investment strategies including developed market equities, emerging market equities, gilts, multi-asset funds, annuity target funds and money market investments.
- 6.36 The Trustee, with advice from its Investment Consultant, considers the trade-off between risk and expected returns. These legacy default investment strategies balance between different kinds of investments to ensure that the expected amount of risk (and commensurately the expected return) is appropriate given the age of the member and their expected retirement date. The Lifecycle/Lifestyle approach reflects that members' investment needs change as they progress towards retirement age by reducing the investment risk.
- 6.37 The Trustee has considered the investment risk associated with DC pension investment. This risk can be defined as the uncertainty over the ultimate amount of savings available on retirement. A number of factors contribute to this uncertainty some of which (such as the amount of contributions paid and the length of time these contributions are invested) cannot be managed by the investment strategy made available to members. The specific risks pertaining to the legacy default investment strategies are identified in the table in 6.20.
- 6.38 The objectives set out above and the risks and other factors referenced in this Statement are those that the Trustee considers to be financially material considerations in relation to the

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<sup>4</sup> These are Lifecycle 2012 and Lifestyle 2002 as set out in the IPID.



legacy default investment strategies. 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 retire.

### Members' Best Interests

- 6.39 The Trustee will carry out regular assessments (at least triennially or following any significant change in membership) not only of the performance of the legacy default investment strategies, but also of their design to ensure that they remain appropriate for the membership profile. This is in addition to more regular performance monitoring, which is expected to take place quarterly.

## DC Section – Additional Default Arrangements

### Additional Default Arrangements

- 6.40 In accordance with the Occupational Pension Schemes (Charges and Governance) Regulations 2015, the Trustee has identified the investment options listed in the table below as 'default arrangements' (as defined by these regulations). These have been identified as 'default arrangements' as members' contributions have been automatically directed to these arrangements without members having instructed the Trustee where their contributions are to be invested; this is due to historic fund mapping exercises and is further explained in the table below. The performance of these funds is monitored on a quarterly basis, with a strategic review being carried out at least triennially.

Fund/Investment Strategy	Reason for identification as a 'default arrangement'	Date
<b>Growth Plus Fund (DSL)</b>	Following closure of the Consensus Fund by Legal & General, the Trustee received advice from the Plan's investment advisors and assets for DSL members were mapped to the Growth Plus Fund.	July 2016
<b>Money Fund</b>	As part of the transition of assets from Utmost Life & Pensions Limited to Legal & General (following the closure of the Equitable Life With Profits Fund). DB AVCs for members aged 55 or over who did not make an active selection were mapped to the Money Fund.	May 2020
<b>Lifecycle to Annuity 2020 Strategy</b>	As part of the implementation of the new investment arrangements in the first quarter of 2021, certain members who were over 8 years from retirement, and who did not make an active selection, were mapped from the Lifecycle to Annuity strategy to the Lifecycle to Annuity 2020 strategy. This included members who had transitioned from Utmost Life & Pensions to the Lifecycle to Annuity Strategy in May 2020, were over 8 years from retirement and did not make an active selection.	March & April 2021
<b>Lifecycle to Lump Sum 2020 Strategy</b>	As part of the implementation of the new investment arrangements in the first quarter of 2021, members over 8 years from retirement who did not make an active investment selection were mapped from the Lifecycle to Lump Sum strategy to the Lifecycle to Lump Sum 2020 strategy. This included members transitioned from Utmost Life & Pensions to the Lifecycle to Lump Sum Strategy in May 2020, who	March & April 2021

Fund/Investment Strategy	Reason for identification as a 'default arrangement'	Date
	<p>were over 8 years from retirement, and who did not make an active selection.</p> <p>Additionally, all members previously invested in the legacy default Lifecycle Plus 2012 strategy were mapped to the Lifecycle to Lump Sum 2020 strategy unless an alternative active selection had been made.</p>	
<b>Lifecycle to Drawdown 2020 Strategy</b>	<p>As part of the implementation of the new investment arrangements in the first quarter of 2021, members over 8 years from retirement who did not make an active investment selection, were mapped from the Lifecycle to Drawdown strategy to the Lifecycle to Drawdown 2020 strategy.</p>	<p>March &amp; April 2021</p>

## Aims and Objectives

- 6.41 The aims and objectives in respect of these additional 'default arrangements' are summarised in the table below. These objectives are in addition to the Overall Aims and Objectives and Investment Objectives stated for the general DC Section.

Fund	Trustees' aims and objective
<b>Growth Plus Fund (DSL)</b>	The fund's objective is to provide diversified exposure to a range of asset classes.
<b>Money Fund</b>	The fund is designed to provide capital stability by investing in a diversified portfolio of high credit quality short term fixed income and variable rate securities. All holdings in the fund are Sterling denominated.
<b>Lifecycle to Annuity 2020 Strategy</b>	This strategy is aimed at members planning to take 25% of their savings as tax-free cash on retirement, using the remainder to buy an annuity.
<b>Lifecycle to Lump Sum 2020 Strategy</b>	This strategy is aimed at members targeting a lump sum cash withdrawal at retirement.
<b>Lifecycle to Drawdown 2020</b>	This strategy is aimed at members who intend to take 25% of their defined contribution savings as tax-free cash on retirement, leaving the remainder invested for growth while they draw an income during retirement.

## Investment Policies

- 6.42 The Trustee, with advice from its Investment Consultant, considers the trade-off between risk and expected returns. The additional 'default arrangements' were created due to mapping exercises completed by the Trustee. As part of any mapping exercise, the Trustee considers the appropriateness of the 'default arrangement' to ensure that the expected amount of risk (and commensurately the expected return) is appropriate given the age of the member and their expected retirement date.
- 6.43 The Trustee has considered the investment risk associated with DC pension investment. This risk can be defined as the uncertainty over the ultimate amount of savings available on retirement. A number of factors contribute to this uncertainty some of which (such as the amount of contributions paid and the length of time these contributions are invested) cannot be managed by the investment strategies made available to members. The specific risks pertaining to the additional default arrangements are identified in the table in 6.20.

6.44 The objectives set out above and the risks and other factors referenced in this Statement are those that the Trustee considers to be financially material considerations in relation to the additional default arrangements. 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 retire.

**Members’ Best Interests**

6.45 The Trustee will carry out regular assessments (at least triennially or following any significant change in membership) of the additional default arrangements to ensure that they continue to remain appropriate for the membership profile. This is in addition to more regular performance monitoring, which is expected to take place quarterly. The Trustee strives to ensure the Plan’s arrangements evolve in line with the Plan’s membership characteristics in order to ensure that assets are invested in the best interests of the members.

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SIGNED FOR THE TRUSTEE by P Butler, Pensions Trust Manager & Company Secretary

DATED .....