

# **Magnet Group Pension Scheme**

## **Statement of Investment Principles – September 2020 (replaces September 2019)**

### **1. Introduction**

The Trustee Directors (“Trustees”) of the Magnet Group Pension Scheme (“the Scheme”) have drawn up this Statement of Investment Principles (“the Statement”) to comply with the requirements of the Pensions Act 1995 (“the Act”), subsequent legislation and associated requirements. The Statement is intended to affirm the investment principles that govern decisions about the Scheme’s investments. A separate document, the Investment Policy Implementation Document (“IPID”) detailing the specifics of the Scheme’s investment arrangements has also been drawn up and is available on request.

In preparing this Statement the Trustees have consulted Nobia Holdings UK limited as Scheme Sponsor to ascertain whether there are any material issues of which the Trustees should be aware in agreeing the Scheme’s investment arrangements. The Trustees have also received and considered written advice from Mercer Limited (“the Investment Consultant”), which is regulated by the Financial Conduct Authority (“FCA”) in relation to investment services. The Trustees believe that the Investment Consultant meets the requirements of Section 35(5) of the Pensions Act (as amended).

### **2. Process For Choosing Investments**

The Trustees have considered their objectives for investing the Scheme assets. They have considered their Investment and Funding objectives together and in light of the Sponsor covenant to ensure that the two are compatible and supportable.

They have then constructed a portfolio of investments consistent with these objectives and which they hope will deliver the maximum level of return (net of all costs) for the level of risk taken on (taking into account limitations on the overall complexity of arrangements they are prepared to manage).

In doing so the Trustees take into account what they believe to be financially material considerations, which can include risk and return expectations as well as Environmental, Social and Governance (“ESG”) issues where these are considered to have a material impact on income, value or volatility of an investment held or the overall portfolio of investments held by the Scheme over the Trustees’ investment time horizon. Specific considerations are detailed throughout this Statement.

In considering the appropriate investments for the Scheme the Trustees have obtained and considered the written advice of Mercer whom the Trustees believe to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustees’ opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

### 3. **Investment Objectives**

The Investment objectives set out here are those that the Trustees determine to be financially material considerations in relation to the Scheme.

The Trustees have agreed a number of objectives to help guide them in their strategic management of the assets and control of the various risks to which the Scheme is exposed. The Trustees' primary objectives are as follows:

- *To make sure that the Trustees can meet their obligations to the beneficiaries of the Scheme, principally on an ongoing, i.e. "Technical Provisions" basis.*
- *To operate funding and investment strategies in a coordinated approach. Variation in the funding position (in particular improvements) may be reflected in the level of risk in the investment strategy.*
- *To pay due regard to the Scheme Sponsor's interests on the size and incidence of employers' contribution payments and the impact of the Scheme on the Scheme Sponsor's accounts.*

Given the nature of the liabilities, the investment time horizon of the Scheme is potentially long-term (i.e. several decades). However, any future opportunities to transfer liabilities (fully or partially) to an insurance company (e.g. through the purchase of bulk annuities with an insurance company) may shorten the Scheme's investment horizon significantly.

The Trustees understand, following discussions with the Sponsor, that the Sponsor is willing to accept some degree of volatility in its contribution requirements in order to reduce the long-term cost of the Scheme's benefits.

### 4. **Risk Management and Measurement**

There are various risks to which any pension scheme is exposed. The Trustees' policy on risk management is set out below. The Trustees believe these to be financially material considerations over their investment time horizon. The Trustees are aware of and pay close attention to these risks when investing the assets of the Scheme.

The Trustees recognise that whilst increasing risk may increase potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's accrued liabilities as well as producing more short-term volatility in the Scheme's funding position. The Trustees have taken advice on the matter and (in light of the objectives noted previously) considered carefully the implications of adopting different levels of risk.

The primary investment risk faced by the Scheme is a deterioration in the value of assets relative to the value of the liabilities, as assessed on the Trustees' funding basis, beyond the level that the Sponsor is comfortable rectifying through additional payments. This has therefore been the Trustees' primary focus when setting investment strategy.

Key strategic investment risks that impact on the above primary risk are as follows:

- **Equity Market Risk** – the risk that asset valuations fluctuate in an uncorrelated way with the value of the liabilities;

- Interest Rate Risk – the risk that changes in the value of the assets do not move in line with changes in the value placed on the Scheme’s liabilities in response to changes in interest rates;
- Inflation Risk – similar to interest rate risk but concerning inflation;
- Credit Risk – the risk that one party to a financial instrument will cause a financial loss to the Scheme by failing to discharge an obligation.
- Currency Risk – the risk that foreign currency exposure causes asset valuations to fluctuate in an uncorrelated way with the value of the liabilities which are denominated in Sterling.
- Liquidity Risk – the risk that the Scheme doesn’t have sufficient liquid assets to meet payments.

Considerations specific to Environmental, Social and Governance issues are addressed in Section 11.

To manage investment risks the Trustees have established an investment policy designed to reduce risk, without damaging the Scheme’s long term return prospects, using asset-liability modelling conducted by Mercer which measures the contribution of different risk factors to overall Value at Risk (“VaR”).

In particular:

- Equity market risk is managed via the strategic allocation and by holding a diversified portfolio of companies globally by stock, sector and market region. Overseas currency risk resulting from equity investment is partially hedged back into Sterling.
- The Trustees have also developed a Liability Driven Investment (“LDI”) framework which seeks to reduce the mismatch between the sensitivity of the assets and the liabilities to changes in interest rates and inflation. The LDI portfolio targets a funded liability hedge ratio of 95% for both interest rates and inflation, based on point in time modelling analysis that is refreshed periodically. The Trustees recognise that the target LDI portfolio will not produce a perfect match for the liability exposures it is aiming to hedge. Furthermore, The Trustees recognise that there are different measures for calculating the liabilities that may not be closely matched by the LDI assets held.
- The Scheme’s LDI portfolio is invested on a pooled fund basis. However, the underlying investments include derivative exposures that introduce other specific risks that are additional to the risks presented from investing in the equivalent physical asset. These include:
  - basis risk (the risk that the derivative invested in does not perfectly match the physical asset that the derivative has replaced);
  - roll risk (the risk that the terms available when the derivative is taken out are not available when the contract expires and is replaced);
  - recapitalisation risk (the risk that adverse price movements require payment of capital in order to maintain the position);

- collateral and counterparty risk (the risk that the party with whom the LDI manager has contracted defaults and that any collateral is insufficient to make good any resulting loss);

These risks are mitigated through the specific arrangements that are implemented so that the likelihood of the risks is low and/or the impact of them is low.

- Credit risk is managed via the strategic allocation and investing in pooled fund(s) with diversified holdings of bonds that are predominantly of investment grade quality.
- Currency risk is managed through the total allocation to overseas markets and consideration of currency hedging.
- Regarding liquidity risk, the Trustees believe that the majority of the Scheme's investments are realisable at short notice in most prevailing market conditions.

The Trustees recognise the following additional risks and take the following steps to manage risk:

- The risk of the Scheme winding up with insufficient assets to secure accrued liabilities in full with an insurance company.
- Risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustees aim to ensure the asset allocation policy in place results in an adequately diversified portfolio. Due to the size of the Scheme's assets and recognising the need to diversify, investment exposure is mostly obtained via pooled vehicles.
- The risk that the day-to-day management of the assets will not achieve the rate of return expected by the Trustees. As well as having exposure to the market risks outlined above, the Trustees recognise that the use of active management involves such a risk. The Trustees believe that this risk is outweighed by the potential gains from successful active management.
- The documents governing the manager appointments include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme.
- Arrangements are in place to monitor the Scheme's investments to help the Trustees check that nothing has occurred that would bring into question the continuing suitability of the current investments. The Trustees meet periodically with the Scheme's active managers and receive regular reports from all the investment managers and Mercer.
- The safe custody of the Scheme's assets is delegated to professional custodians (either directly or via the use of pooled vehicles).
- Across all of the Scheme's investments, the Trustees are aware of the potential for regulatory and political risks. Regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those environments subject to unstable regimes.

Overall, the Trustees primarily measure and manage investment risk through the investment strategy (outlined in Section 6) and review the appropriateness of this strategy on a regular basis.

The Trustees' willingness to take investment risk is dependent on the continuing financial strength of the Sponsor and its willingness to contribute appropriately to the Scheme. The financial strength of the Sponsor and its perceived commitment to the Scheme is monitored and the Trustees would expect to reduce investment risk relative to the liabilities should either of these significantly deteriorate.

The degree of investment risk that the Trustees are willing to take also depends on other circumstances, including the financial health of the Scheme, the Scheme's liability profile and investment time horizon. The Trustees will monitor these with a view to altering the investment objectives, risk tolerance and/or return target and asset mix, should there be a significant change in these factors.

## 5. Portfolio Construction

The Trustees have adopted the following principles subject to the overriding constraint that at the total Scheme level the expected level of risk is consistent with that detailed in Section 4 and subject to the Trust Deed & Rules:

- There is a role for both **active and passive management**. Passive management involves employing investment managers who aim to deliver a return equal to a chosen benchmark appropriate to the asset class held. Active management involves employing investment managers who aim to outperform a benchmark but with a risk that they will underperform. By employing both the Trustees aim to take advantage of active management where they believe it is likely to lead to outperformance net of fees, while using passive management in other areas or alongside active management to control overall manager risk and to manage overall fee levels.
- Decisions on **segregated vs pooled** investments will be taken based on the particular circumstances, including the available vehicle, investment restrictions contained in pooled funds, the need for and availability of an independent custodian, ease of administration and portability of underlying investments.
- **Specialist managers** are preferred over generalists because of the potential to access a higher level of expertise.
- At the total Scheme level investments should be broadly **diversified** to ensure there is not a concentration of exposure to any one issuer, to the extent that this is not protected (e.g. by collateral). This restriction does not apply to investment in UK Government debt. Appropriate diversification between markets will also be ensured.
- The amount invested in highly **concentrated portfolios** will take into account the level of risk this represents taking into account the Scheme's assets overall.
- The Trustees recognise that there is **liquidity risk** in holding assets that are not readily marketable and realisable. Given the long-term investment horizon of the Scheme, the Trustees believe that a degree of liquidity risk is acceptable because it expects to be rewarded for assuming it. The amount invested in **illiquid investments**, such as pooled property and/or credit funds, will take into

account the implications of not being able to readily liquidate a proportion of the Scheme's investment on the operation of the Scheme.

- Investment in **derivatives** is permitted directly or within pooled funds for risk reduction purposes or to facilitate efficient portfolio management (including the reduction of cost or the generation of additional capital or income with acceptable level of risk).
- Investment may be made in securities that are not traded on **regulated markets**. Recognising the risks (in particular liquidity and counterparty exposure), such investments will normally only be made with the purpose of reducing risk or to facilitate efficient portfolio management. In any event the Trustees will ensure that the assets of the Scheme are predominantly invested on regulated markets.
- The Trustees will not invest directly in the **Scheme sponsor** or associated companies, but acknowledge that indirect investment is possible as a result of the investment policies of the Scheme's pooled investment manager(s). The Trustees will invest in such a way that indirect exposure will not exceed 5% of total assets.

**Direct Borrowing** (such as the use of an overdraft facility) is not permitted except to cover short term liquidity requirements. The use of **borrowing within pooled funds** is reviewed by the Trustees as part of the onboarding process for new investments.

## 6. Investment Strategy

The Trustees' key strategic aim is to reduce risk in the Scheme's assets relative to its liabilities over time. To date this has been undertaken using a funding level de-risking trigger framework and yield based LDI implementation framework. The framework is currently suspended pending further review in 2020/2021. In the interim, the Trustee has set a single funding trigger of 84% on a gilts + 0.5% p.a. basis to prompt further consideration of any scope to de-risk the asset allocation.

The current strategic allocation was agreed by the Trustees based on expert advice and is, in the Trustees' view, consistent with the principles outlined in this Statement. The split of assets within each asset class (excluding any cash held separately to meet day-to-day cash flow requirements) is set out in the table below.

<b>Asset Class</b>	<b>Current Strategy (%)</b>
<b>Growth Assets</b>	<b>25.0</b>
Equities*	12.5
Alternatives	12.5
<b>Matching Assets</b>	<b>75.0</b>
UK Gilts/LDI**	37.0
UK Credit	38.0
<b>Total</b>	<b>100.0</b>

\*Includes small allocation to cash collateral as part of currency hedging mandate

\*\* Liability Driven Investment. Includes small allocation to gilt collateral as part of currency hedging mandate

The Trustees will monitor the overall asset allocation on a regular basis. Any significant breach of current strategy will trigger a discussion and potentially rebalancing towards the benchmark position.

The Scheme's IPID outlines more detailed information on the Scheme's current investment strategy, manager benchmarks and control ranges.

## 7. **Day-to-Day Management of the Assets**

The Trustees delegate the day to day management of the investment arrangements, including selection, retention and realisation, to a number of investment managers in accordance with Section 5 and detailed in the IPID. The Trustees have taken steps to satisfy themselves that the managers have the appropriate knowledge and experience for managing the Scheme's investments and that they are carrying out their work competently.

The Trustees have determined, based on expert advice, a benchmark mix of asset types and ranges within which each appointed investment manager may operate.

The Trustees regularly review the continuing suitability of the Scheme's investments, including the appointed managers and the balance between active and passive management, which may be adjusted from time to time. They do so via regular reports and periodic presentations from the appointed managers with the assistance of the Scheme's appointed investment advisor. However, any such adjustments would be done with the aim of ensuring consistency with this Statement.

Section 13 sets out how the Trustees incentivise investment managers, where applicable, to operate in line with the Trustees' objectives.

## 8. **Expected Return**

The Trustees expect to generate a return, over the long term, at least in line with that of the actuarial assumptions under which the Scheme's funding has been agreed. It is recognised that over the short term performance may deviate significantly from the long term target.

## 9. **Additional Voluntary Contributions ("AVCs")**

Members of the Scheme have the opportunity to pay AVCs, which are invested and used to increase pension benefits at retirement, or in the event of death. The Trustees establish the arrangements under which these contributions are invested, details of which are contained in the IPID.

## 10. **Selection, Retention and Realisation of Investments**

The selection, retention and realisation of assets is carried out in a way consistent with maintaining the Scheme's overall strategic allocation and consistent with the overall principles set out in this Statement.

The Trustees have implemented a policy to manage the Scheme's net cash in/out flow, details are contained in the IPID. Within individual managers, the investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments subject to the relevant appointment documentation and pooled fund prospectuses.

In addition the Trustees monitor the allocation between the appointed managers and between asset classes and will rebalance (or delegate this to individual investment managers) as set out in the IPID.

## 11. **ESG, Stewardship and Climate Change**

The Trustees believe that financially material factors, including environmental, social and governance (“ESG”) factors, may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, including climate change, present risks and opportunities that may apply over the Scheme’s investment time horizon and increasingly require explicit consideration.

The strategic benchmark has been determined using appropriate economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors.

The Scheme’s assets are invested in pooled vehicles and the day-to-day management of the assets has been delegated to investment managers including the selection, retention and realisation of investments within their mandates. In doing so these investment managers are expected and encouraged to undertake engagement activities on relevant matters including ESG factors (including climate change considerations) and to exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code. The Trustees engage with existing investment managers on these issues through (amongst other things) meetings and periodic correspondence. Managers who are FCA registered are expected to report on their adherence to the UK Stewardship Code on an annual basis. This applies to both equity and debt investments, as appropriate, and covers a range of matters including the issuers’ performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance.

Notwithstanding the above, the Trustees recognise that in passive mandates the choice of benchmark dictates the assets held by the investment manager and that the manager has limited freedom to take account of factors that may be deemed to be financially material as part of stock selection decision-making. The Trustees accept that the primary role of its passive manager(s) is to deliver returns in line with the market and believes this approach is in line with the basis on which the current strategy has been set.

The Trustees consider, amongst other factors, how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers, monitoring existing investment managers and retaining or withdrawing from investment managers. The relative importance of these factors compared to other factors will depend on the asset class being considered. Monitoring of existing investment managers is undertaken on a regular basis and this makes use of the Investment Consultant’s ESG ratings. This is documented at least annually and the Trustees are informed of any changes to ESG ratings, usually on a quarterly basis. The Trustees will challenge managers who they believe are taking insufficient account of ESG considerations in implementing their



mandates. The Trustees will also monitor investment manager engagement activity (such as voting) at least annually.

The Trustees have not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future.

The Trustees will not consider the ESG policies of Additional Voluntary Contributions provider(s) and associated investment funds as these are a small proportion of total assets.

## 12. **Non-Financial Matters**

“Non-financial matters” (where non-financial matters includes members’ ethical views separate from financial considerations such as financially material ESG issues) are not explicitly taken into account in the selection, retention and realisation of investments. The Trustees would review this policy in response to significant member demand.

## 13. **Investment Manager Arrangements**

### *Alignment of Investment Manager Objectives and Incentivisation*

Investment managers are appointed based on their perceived capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics for the asset class or specific investment strategy they are selected to manage over a suitably long time horizon. This includes, in relation to active management, appropriate levels of outperformance, and in relation to passive management suitable levels of “tracking error” against a relevant benchmark.

The Trustees seek expert advice in relation to these appointments. This advice may consider factors such as the manager’s idea generation, portfolio construction, implementation, business management, timeliness and quality of reporting, as well as the investment manager’s approach to ESG and engagement activity, as they apply to the specific investment strategy being considered.

Where relevant, the Trustees specify the investment objectives and guidelines in an Investment management Agreement (“IMA”) and set these so that they are in line with the Trustees’ specific investment requirements. In relation to pooled investment vehicles, the Trustees accept that they have no ability to specify the risk profile and return targets of the manager other than through the choice of specific vehicles. They will therefore select vehicles that best align with the Trustees’ own policy in terms of investment objectives and guidelines (as set out in relevant governing documents) and, once appointed, will review the appointment should there be any material changes in these terms.

The Trustees make appointments with the view to them being long term (to the extent this is consistent with the Trustees’ overall investment time horizon) and there is typically no set duration for the manager appointments. However, appointments can typically be terminated at relatively short notice (up to three months).

For each appointment retention is dependent upon the Trustees having ongoing confidence that the investment manager will achieve the mandated investment

objective. The Trustees make this assessment taking into account various factors, which includes performance to date as well as an assessment of future prospects.

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

#### *Performance Assessment and Fees*

The Trustees receive reporting on asset class and investment manager performance on a regular basis, via a combination of formal independent reports and presentations from the investment managers.

Investment returns are measured on both an absolute basis and relative to one or more suitable benchmarks and targets. Returns are considered net of fees and ongoing transaction costs. A combination of absolute and relative volatility measures is also used to assess manager performance.

As well as assessing investment returns the Trustees will consider a range of other factors, with the assistance of the investment advisor, when assessing investment managers, which may include:

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

The majority of investment managers are remunerated by way of a fee calculated as a percentage of assets under management. In each case, the principal incentive is for the investment manager to retain their appointment (in full), by achieving their objectives, in order to continue to receive their fee in full. On some mandates, performance related fees may also be in operation. Performance related fees incentivise the manager to outperform their target as they take a share of the outperformance. The Trustees will consider introduction of performance related fees on a case by case basis where not in operation and would also consider requesting fee reductions. Investment managers are not remunerated based on portfolio turnover.

#### *Portfolio Turnover Costs*

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

The Trustees have not historically monitored investment managers' ongoing transaction costs explicitly but measure these implicitly through ongoing performance assessments which are net of these costs. The Trustees will now seek explicit reporting on ongoing costs for all appointed managers.

The Trustees do not monitor regular cashflow costs (but seek to minimise them through ongoing cashflow policy). The Trustees monitor the costs of implementing strategic change via the investment consultant.

**14. Compliance with this Statement**

The Trustees will monitor compliance with this Statement annually. The Trustees will periodically check that the investment managers have given effect to the investment principles in this Statement and the Investment Policy Implementation Document where relevant, so far as reasonably practicable, and that in exercising any discretion the investment managers have done so in accordance with Section 4 of The Occupational Pension Schemes (Investment) Regulations 2005.

**13. Review of this Statement**

The Trustees will review this Statement at least once every three years and without delay after any significant change in investment policy. Any changes to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believe to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments. Any such review will be undertaken in consultation with the Sponsor.

**Magnet Group Trustees Limited, Trustee for the Magnet Group Pension Scheme**

**September 2020**