

# **Keytec (GB) Limited Retirement Benefits and Life Assurance Scheme**

## **Statement of Investment Principles**

**August 2020**

### **1. Introduction**

The Trustee of The Keytec ( GB ) Limited Retirement Benefits and Life Assurance Scheme ("the Scheme") has drawn up this revised Statement of Investment Principles ("the Statement") to comply with the requirements of the Pensions Act 1995 ("the Act"), amended by Section 244 of the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005, the Pension Protection Fund (Pensionable Service) and Occupational Pension Scheme (Investment and Disclosure) (Amendment and Modification) Regulations 2018, and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019. The Statement is intended to reaffirm the investment principles that govern decisions about the Scheme's investments. This document was reviewed by the Trustee as part of a change in the investments of the Scheme.

The Trustee continues to seek to maintain a good working relationship with the Sponsoring Company and will discuss any proposed changes to the Statement with the Sponsoring Company. However the Trustee's fiduciary obligation is to the Scheme's members and will take precedence over the Sponsoring Company's wishes.

### **2. Defined Benefit Section**

The last full valuation of the Scheme was undertaken on 5 April 2016. The Scheme was 94% funded on an ongoing basis against technical provisions. The Scheme had a deficit of £547,000 against technical provisions of £8,799,000. The Trustee through the sponsoring Company put in place a schedule of contributions and associated recovery plan intent on restoring the scheme to 100% funding by 5 April 2026. A contribution of £76,500 is due to be paid annually from the year ending 5 April 2021, increasing by 2.8% each year until the year ending 5 April 2026.

#### **2.1 Process for Choosing Investments**

The process for choosing investments is as follows:

- Identify and review at least annually appropriate investment objectives,
- Agree the level of risk consistent with meeting the objectives set,
- Construct a portfolio of investments that is expected to maximise the return (net of all costs) in line with the investment risk set by the Trustee in conjunction with the Sponsoring Company (Principal Employer).

In considering the appropriate investments for the Scheme, the Trustee has obtained and considered the written advice of their investment advisers. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the necessary requirements.

The types of investments held and the balance between them is deemed appropriate given the liability profile of the Defined Benefit Section of the Scheme (which comprises preserved benefits and pensioners), its cash flow requirements, the extent of any surplus assets in the Scheme and the Trustee's objectives.

## **2.2 Investment Objectives**

The Trustee's objective is to invest the assets in the best interest of the members and beneficiaries and, in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries. Within this framework, the Trustee has agreed a number of objectives with the Sponsoring Company to help guide them in their strategic management of the assets and control of the various risks to which the Scheme is exposed. The Trustee's primary objectives are as follows:

- To ensure that it can meet its obligation to the beneficiaries of the Scheme.
- To restore the funding position of the Scheme to be 100% funded by 5 April 2026
- To pay due regard to the Sponsoring Company's interest in the size and incidence of contribution payments.

## **2.3 Risk**

The Trustee recognises that a number of risks are involved in the investment of the assets of the Scheme. It has identified the following principle risks which have the potential to cause deterioration in the Scheme's funding level:

- Solvency risk: The risk that the fund has insufficient assets to meet all its liabilities as they fall due
- Mismatching risk: The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors
- Manager risk: The failure by the Investment Managers to achieve the rates of investment return assumed
- Liquidity risk: The risk of a shortfall of liquid assets relative to the Scheme's immediate liabilities
- Custodian risk: The risk of failed or inadequate performance by the custodian
- Concentration Risk: The risk that the performance of any single investment that constituted a large proportion of the assets would disproportionately influence the overall level of assets
- Political risk: The financial risk that a country's government will suddenly change its policies
- Sponsor risk: The possibility of failure of the Scheme's sponsoring employers
- Counterparty risk: The risk that other parties in any trade or position will default, i.e. will renege on their contractual obligations, resulting in a financial loss to the Scheme

## 2.4 Risk Management and Measurement

The Trustee's policy on risk management is as follows:

- The primary risk upon which the Trustee's focus is that arising through a mismatch between the Scheme's assets and its liabilities.
- The Trustee recognises that whilst increasing risk increases 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 accruing liabilities as well as producing more short term volatility in the Scheme's funding position. The Trustee has taken advice on the matter and (in light of the objectives noted previously) considered carefully the implications of adopting different levels of risk.
- The Trustee recognises the risks that may arise from the lack of diversification of Investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustee aims to ensure the asset allocation policy in place results in an adequately diversified portfolio.
- The Trustee obtained written advice from their advisers, Broadstone Corporate Benefits, in December 2015. Consequently Legal & General Investment Management ('LGIM') was selected to be the sole investment manager for the Scheme. The Trustees entered into a contract with LGIM in April 2016.
- In formulating the current investment strategy the Trustee considered appointing a single investment manager or a platform provider to manage the investments of the Scheme. Prior to this the Scheme invested in four funds which were offered through the Aegon platform.
- The current portfolio allows the Scheme to potentially achieve a greater return than would be achieved through solely in investing in fixed income assets, which was a strategy used by the Scheme in the past. The portfolio is weighted 40% into Corporate Bonds, 35% into over 15 year UK Gilts via an index fund and 25% into a Diversified growth fund. This is a multi-asset fund with a pre-set mandate to achieve positive returns on the assets managed. The fund manager is given a wide investment mandate.
- The portfolio continues to maintain the previous objectives to match pensioner and deferred members essentially through bond fund holdings. The inclusion of a Diversified Growth fund was to diversify the assets and to seek a greater return than solely investing in Gilts and Corporate Bonds.
- The risk tolerance acceptable to the Trustee did not change by virtue of the changes made to the current fund strategy.
- The Scheme's investment managers are prevented from investing in asset classes out of their mandate without the Trustee's prior consent.

Arrangements are in place to monitor the Scheme's investments to help the Trustee check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustee meets regularly with the Scheme's investment managers and receives regular reports from the investment managers. Broadstone Corporate Benefits are the investment advisers and consult Legal & General Investment Management as appropriate in the review of

investment funds. The current funds are all provided by Legal & General Investment Management. The Trustee has no plans to divert from this investment process.

- The Trustee continues to understand that the failure of a suitable investment strategy could lead to a shortfall in assets to meet liabilities and that asset underperformance could impact on the Scheme's solvency position. The investment approach continues to relate these risks to the portfolio.

## **2.5 Portfolio Construction**

The Trustee has adopted the following control framework in structuring the Scheme's investments.

- All other things being equal there is a preference, in view of the amount involved, to invest via pooled funds.
- At the total Scheme level and within individual funds, investments should be broadly diversified to ensure there is not a concentration of investment in any one asset class.
- Investment in illiquid investments, such as property or pooled property funds, may be held.
- No investment in securities issued by the Scheme's Sponsoring Company or affiliated companies.
- No investment by an appointed investment manager in the securities issued by the relevant manager's company or any affiliated companies (other than any such securities held within a pooled fund in which the Trustee invests).
- Borrowing is not permitted.

## **2.6 Investment Strategy**

The Trustee appointed Broadstone Corporate Benefits as advisers in 2015 and to support the Trustee in their investment strategy. Atkin & Co were appointed as administrators and actuary in 2015.

## **2.7 Day-to-Day Management of the Assets**

The Trustee has a policy of delegating all day-to-day powers of investment to the investment manager, Legal & General Investment Management, who is authorised and regulated under the Financial Services and Markets Act 2000.

The safe custody of the Scheme's assets is delegated to professional custodians via the use of pooled vehicles. The assets are fully and readily realisable.

The Trustee in conjunction with Broadstone Corporate Benefits and the Scheme Actuary will review the funds periodically and make changes as considered appropriate.

New money will be invested (or disinvestments required for cash flow made) on a mechanical basis in line with the strategic benchmark asset allocation.

The Trustee is mindful of the need to rebalance the assets of the Scheme in line with the Scheme's strategic benchmark asset allocation. The Trustee will monitor the Scheme's actual asset allocation at least annually and will decide on a course of action which may involve redirecting cash flows, a switch of assets or taking no action, taking into account relevant advice.

## **2.8 Investment Structure**

The strategic benchmark asset allocation is:

- Corporate Bonds – LGIM Active Corporate Bond Fund – All Stocks 40%
- Over 15 year Gilts – LGIM Over 15 Year Gilt Index Fund 35%
- Diversified Growth – LGIM Dynamic Diversified Fund- 25%

The portfolio is targeting a return of around 1.6% per annum above long term gilt yields.

## **2.9 Voluntary Contributions**

Under the terms of the Trust Deed, the Trustee is responsible for the investment of any AVCs paid by members historically. The objective remains to achieve competitive returns.

The Trustee reviews regularly the choice of investments available to members to ensure that they remain appropriate to the members' needs.

## **2.10 Corporate Governance**

The Trustee accepts that by using pooled investment vehicles for its investments, the day-to-day selection of stocks within the funds chosen will be undertaken by the fund managers. The Trustee expects appropriate due diligence to be exercised in the context of this function.

## **2.11 Actuary**

The Actuary performs a valuation of the Scheme at least every three years, in accordance with regulatory requirements. The main purpose of the actuarial valuation is to assess the extent to which the assets cover the accrued liabilities and agree the Company's contribution rate.

## **2.12 Investment Consultation**

Whilst the day-to-day management of the Scheme's funds is delegated to Legal & General Investment Management all other investment decisions including strategic asset allocation and selection and monitoring of investment managers is based on advice received from the Trustee's appointed advisers, Broadstone Corporate Benefits.

The Investment Managers will supply the Investment Consultant with sufficient information when requested in order to monitor financial and non-financial performance.

## **2.13 Fee Structures**

The investment managers levy fees based on a percentage of the value of the assets under management. Details of the annual fees charged by the investment managers are available from the Trustee.

The appropriateness of the Investment Managers' remuneration will be assessed relative to market costs for similar strategies, the skill and resources required to manage the strategy, and the success or otherwise a manager has had in meeting its objectives both financial and non-financial.

## **2.14 Best Practice Principles**

In October 2008, the Government published the results of its consultation on revisions to the Myners' principles in response to recommendations made by the National Association of Pension Funds (NAPF) in 2007. This takes the form of six high level 'Best Practice' principles set out below, supported by best practice guidance and trustee tools that can be used to assess compliance.

1. Effective decision-making
2. Clear objectives
3. Risk and Liabilities
4. Performance assessment
5. Responsible ownership
6. Transparency and Reporting

The Trustee periodically reviews its compliance with the best practice Principles. The Trustee believes that it complies with the spirit of the Principles. There may be some instances of deviation from the published 'Best Practice Guidance' on the Principles where the Trustee believes this to be justified.

## **3. Defined Contribution Section**

### **3.1 Funding Objective**

The primary purpose of the Scheme is to provide benefits to Members on their retirement or death on a defined contribution basis, as set out in the Trust Deed and Rules.

### **3.2 Investment Objectives**

The Trustee's objectives with regard to investing Scheme assets are to adopt a relatively risk-averse approach but recognise the need to balance aversion to risk with the achievement of a satisfactory investment return. The Trustee has taken into consideration that:

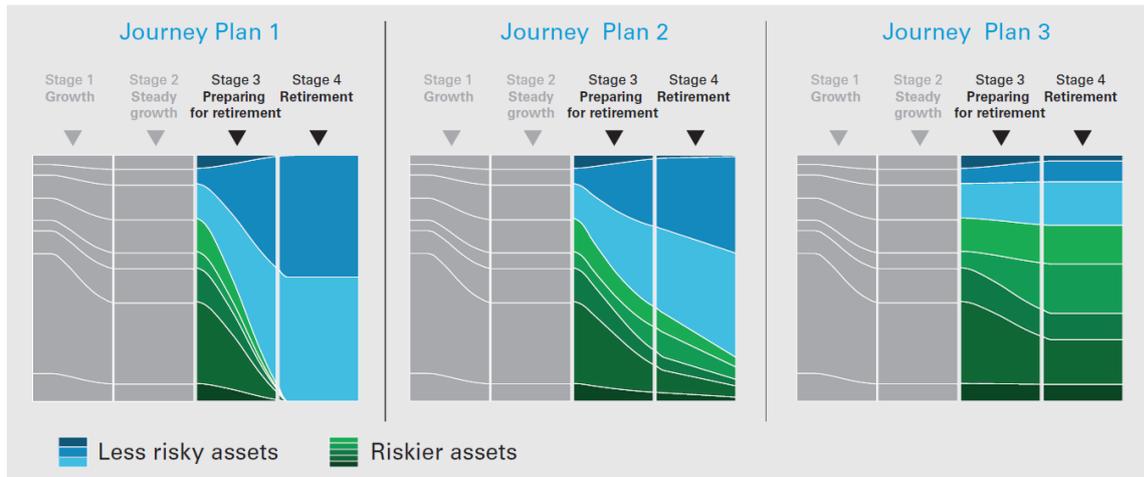
- the liabilities of the Scheme are equal to the assets since these define the benefit promise.
- Members' benefits are maximised by achieving maximum investment returns.
- individual Member's financial profiles and attitudes to risk may vary.

The Scheme's investment strategy is kept under regular review. The Trustee, with advice from the Investment Consultant, selected Legal & General Investment Management as Investment Manager for the Defined Contribution Section. The Trustees entered into a contract with Legal & General in April 2016.

### **3.3 Investment Funds**

The Trustee has made available three Journey Plan options for members to select. Each Journey Plan invests in a range of assets. As each Member moves towards their selected retirement date, the proportion of riskier investments, such as equities, decreases, and the proportion of less risky investments, such as government and corporate bonds increases. This, along with the differences between the three Journey Plans is illustrated below.

### Illustrative asset allocation<sup>1</sup>



**Journey Plan 1:** Aimed at members who are willing to sacrifice some potential for investment growth in retirement, in order to seek greater stability in their retirement income. To achieve this greater stability, an individual choosing this Fund is likely to purchase an annuity when they retire, which gives a guaranteed lifetime income, or invest primarily in cash and bond investments.

**Journey Plan 2:** Journey Plan 2 is the 'default' fund, designed for those who do not specifically choose Journey Plan 1 or 3. Individuals in this bracket are likely to hold some lower-risk investments in retirement such as cash, bonds or an annuity, while also allocating some money to higher-risk assets such as equities, property and alternative investments.

**Journey Plan 3:** This Fund is aimed at members who are comfortable taking a higher level of investment risk in retirement, in pursuit of a higher level of return. These individuals are unlikely to purchase an annuity but are more likely to invest their pension savings through a drawdown account in a wide range of assets including equities, property, bonds and alternative investments.

Within each Journey Plan, Members can select one of Legal & General's Pathway Funds:

- L&G Pathway 2015-2020
- L&G Pathway 2020-2025
- L&G Pathway 2025-2030
- L&G Pathway 2030-2035
- L&G Pathway 2035-2040
- L&G Pathway 2040-2045
- L&G Pathway 2045-2050

These target a range of retirement dates, for example L&G Pathway 2045-2050 is aimed at Members with an estimated retirement date between 2045 and 2050.

### 3.4 Default Option

The default option is Journey Plan 2 with a target retirement age of 65. The applicable Pathway Fund would therefore be determined based on each Member's date of birth.

Further information about the defined contribution section funds, and the Trustee's approach to managing these funds, can be found in the Trustee's governance statement, included in the Scheme's annual report and accounts

### **3.5 Fees**

The annual management charge for each fund is 0.3% per annum. An additional deduction of 0.4% is made from all Defined Contribution Members on 5 April each year to cover administration costs.

The appropriateness of the Investment Managers' remuneration will be assessed relative to market costs for similar strategies, the skill and resources required to manage the strategy, and the success or otherwise a manager has had in meeting its objectives both financial and non-financial.

## **4. Environmental, Social and Governance (ESG)**

The Trustee believes that the consideration of financially material Environmental (including climate change), Social and Governance (ESG) factors in investment decision making can lead to better risk adjusted investment returns. The Trustee expects its investment managers, when exercising discretion in investment decision making, to take financially material ESG factors into account. On an ongoing basis the Trustee (delegating to the Investment Consultant where appropriate) assesses the ESG integration capability of its investment managers.

Where ESG factors are non-financial (i.e. they do not pose a risk to the prospect of the financial success of the investment) the Trustee believes these should not drive investment decisions. The Trustee expects its Investment Managers, when exercising discretion in investment decision making, to consider non-financial factors only when all other financial factors have been considered and in such a circumstance the consideration of non-financial factors should not lead to a material reduction in the efficiency of the investment. Members' views are not sought on non-financial matters (including ESG, quality of life considerations and ethical views) in relation to the selection, retention and realisation of investments.

The Trustee believes that in order to protect and enhance the value of the investments, over the time horizon over which the benefits are paid, it must act as a responsible asset owner. The Trustee cannot exercise its responsibilities directly as it does not hold investments in its name. The Trustee expects its Investment Managers, to exercise voting rights on all resolutions at annual and extraordinary general meetings of companies. The Trustee has seen the policy objectives of each of the Investment Managers regarding voting and engagement and believes that they are compatible with its own policy. The Trustee expects the Investment Manager to report to it on the implementation of, and any changes to, their policies on voting and engagement.

The Trustee expects its Investment Managers, to exercise ownership rights attracted to investments, including voting and engagement rights, in order to safeguard sustainable returns over this time frame. On an ongoing basis the Trustee will assess the stewardship and engagement activity of its Investment Managers (delegating to the Investment Consultant where appropriate). This will be done by reviewing the Investment Manager's voting and engagement policy, summary reports detailing the engagement and voting activity undertaken by the Investment Managers, and asking questions directly to the Investment Managers.

Responsibility for monitoring the makeup and development of the capital structure of investee companies is delegated to the Investment Managers. The Trustee expects the

extent to which the Investment Managers monitor capital structure to be appropriate to the nature of the mandate.

## **5. Conflicts of Interest**

The Trustee maintains a separate conflicts of interest policy and register.

Subject to reasonable levels of materiality, these documents record any actual or potential conflicts of interest in relation to investee companies or the Investment Managers, while also setting out a process for their management.

## **6. Incentivisation of Investment Managers**

The Investment Managers are primarily remunerated based on an agreed fixed annual percentage of the asset value for each underlying fund.

The Trustee does not directly incentivise the Investment Managers to align the approach they adopt for a particular fund with the Trustee's policies and objectives. Instead, the Investment Managers and the funds are selected so that, in aggregate, the returns produced are expected to meet the Trustee's objectives.

Neither does the Trustee directly incentivise the Investment Managers to make decisions about the medium to long-term performance of an issuer of debt or equity, or to engage with those issues to improve their performance. The Trustee expects such assessment of performance and engagement to be undertaken as appropriate and necessary to meet the investment objectives of the funds used by the Scheme.

## **7. Portfolio Turnover Costs**

The Trustee expects the Investment Managers to change underlying holdings only to an extent required to meet their investment objectives. The reasonableness of such turnover will vary by fund and change according to market conditions.

The Trustee therefore does not set a specific portfolio turnover target for their strategy or the underlying funds.

The Investment Managers when requested by the Investment Consultant shall provide information on portfolio turnover and associated costs so that this can be monitored, as appropriate.

## **8. Compliance with this Statement**

The Trustee monitors compliance with this Statement annually and obtains written confirmation from the investment managers that they have given effect to the investment principles in this Statement 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.

## **9. Review of this Statement**

The Trustee will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustee reasonably believes 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.

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For and on behalf of the Trustee of the Keytec (GB) Limited Retirement Benefits and Life Assurance Scheme

28 August 2020

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Date