



# Wightlink Pension Scheme

## Statement of Investment Principles

**September 2020**

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## 1. Introduction

This document constitutes the Statement of Investment Principles ("the SIP") required under Section 35 of the Pensions Act 1995 for the Wightlink Pension Scheme ("the Scheme"). This SIP details the matters that are required to be covered under Section 2 of the Occupational Pension Schemes (Investment) Regulations 2005 (the "Regulations"). It also has been prepared in accordance with the Government's voluntary code of conduct for Institutional Investment in the UK ("the Myners Principles").

The Investment Adviser is XPS Investment Limited.

The Trustees confirm that, in preparing this SIP, they have consulted with Wightlink Limited ("the Principal Employer") and the Scheme Actuary and have obtained and considered written advice from the Investment Adviser. The Trustees believe the Investment Adviser to be qualified by their ability and practical experience of financial matters and to have appropriate knowledge of the investment arrangements that the Scheme requires.

The Trustees are responsible for the investment of the Scheme's assets and the administration of the Scheme. The Trustees have decided to delegate investment decisions to Aberdeen Asset Managers Ltd (the "Investment Manager") in accordance with the provisions of Section 34 of the Pensions Act 1995. The Investment Manager is authorised and regulated by the Financial Conduct Authority and the Trustees have satisfied themselves that the Investment Manager has the appropriate knowledge and experience for managing the investments of the Scheme. The Trustees have a tripartite Investment Management and Custodian Agreement in place with the Investment Manager and State Street Bank and Trust Company (the "Custodian"). The Investment Manager has discretion to make all investment decisions in respect of the Portfolio, subject to the investment guidelines as set out in the Investment Management Agreement (the "Investment Guidelines") and subject to the provisions of Section 36 of the Pensions Act 1995.

In accordance with the Regulations this SIP will be reviewed at least every three years or on a significant change of investment policy.

### 1.1 Declaration

The Trustees confirm that this Statement of Investment Principles reflects the Investment Strategy they have decided to implement. The Trustees acknowledge that it is their responsibility, with guidance from the Advisers, to ensure the assets of the Scheme are invested in accordance with these Principles.

## 2. Scheme Governance

The Trustees are responsible for the governance and investment of the Scheme's assets. The Trustees consider that the governance structure set out in this SIP is appropriate for the Scheme as it allows the Trustees to make the important decisions on investment policy, while delegating the day-to-day aspects to the Investment Manager and seeking guidance from the relevant Advisers where necessary.

The Trustees have decided not to appoint an Investment Sub-Committee to deal with investment matters.

## 3. Investment Objectives

The principal aims are as follows:

- To ensure that the Scheme's assets and future contributions are invested in such a manner that the benefits due to members and their beneficiaries have a high probability of being paid from the Scheme as they arise.
- To ensure the Scheme's assets are invested in such a manner as to best assist in ensuring that the Statutory Funding Objective is met.
- To ensure that the investments take account of the nature of the Scheme's liabilities which are payable at future dates, linked to final salary and are subject to annual increases in payment.

Having regard to the primacy of the need to meet the objectives above, to seek to achieve returns so as to help with the affordability of any contributions required from the employer.

To avoid significant volatility in the funding position of the Scheme the Investment Manager is required to invest in a manner which ensures adequate diversification of investments and that the investments are sufficiently liquid to meet liabilities when they fall due.

The Trustees believe the investment objectives and the resultant investment strategy are consistent with the actuarial valuation methodology and assumptions used by the Scheme Actuary (and vice versa).

## 4. Asset Allocation Strategy

The Trustees have taken the view that the investment objective is best achieved by determining, and investing in accordance with, an appropriate split between the “Growth Portfolio” and the “Risk Management Portfolio”.

The allocation between the Growth Portfolio and the Risk Management Portfolio will vary over time, primarily to maintain sufficient collateral in the Risk Management Portfolio but also to reflect, amongst other factors, the profile of the liabilities and the perceived risk to the primary investment objective arising from any shortfall in the funding of the Scheme. The current benchmark and target allocation is set out in Appendix A and any changes in the benchmark allocation will only be made after receiving written advice from the Investment Advisers that such allocation remains consistent with the investment objectives.

### **Growth Portfolio**

The Investment Manager has discretion to make all asset allocation decisions within the Growth Portfolio, subject to the Investment Guidelines as set out in the Investment Management Agreement.

The Investment Manager sets a strategic asset allocation framework with range guidelines for each asset class as part of the Growth Portfolio optimisation process. These ranges ensure diversification and are subject to Investment Manager discretion and will change from time to time.

The Trustees will monitor the asset allocation strategy in the Growth Portfolio to ensure the assets appear suitable to meet the investment objectives, in consultation with the Advisers as necessary.

### **Risk Management Portfolio**

The Investment Manager shall manage the Risk Management Portfolio with the objective of:

1. Protecting against a significant proportion of the risks of adverse movements in interest rates and price inflation, with regard to the calculated value of the Scheme’s liabilities, using interest rate and inflation derivatives, UK government and government guaranteed bonds and cash; and
2. Providing additional expected return on the assets required in the Risk Management Portfolio for collateral purposes, by entering into equity derivatives and option contracts, in line with the Trustees instruction as set out in the agreed Schedule to the Investment Management Agreement.

To meet the Risk Management Portfolio objectives, the Investment Manager has discretion to make all asset allocation decisions within the Risk Management Portfolio, subject to the Investment Guidelines as set out in the Investment Management Agreement.

#### **4.1 Rebalancing Policy**

The Investment Manager shall maintain an allocation to the Risk Management Portfolio sufficient for collateral purposes. Subject to collateral sufficiency the Investment Manager will transfer funds between the Growth Portfolio to the Risk Management Portfolio guided by the agreed limits in the Investment Management Agreement.

#### **4.2 Rates of Return and Fees**

The benchmark and target rates of return expected together with the impact of fees and other expenses are detailed in Appendix A.

#### **4.3 Diversification**

The Investment Manager achieves diversification in the Growth Portfolio by primarily investing in a varied range of pooled funds which in turn can have investment restrictions (e.g. funds which work within guideline concentration limits on individual positions and limit the exposure to individual issuers). The Trustees will monitor the investments regularly to ensure that they are comfortable with the level of diversification.

#### **4.4 Liquidity**

The Trustees recognise that there is a risk in holding assets that cannot be easily realised should the need arise. The Growth Portfolio primarily invests in pooled funds with frequent dealing dates. The Investment Manager will have regard to the need for liquidity in the investments with less liquid assets being held in manageable proportions subject to Investment Manager discretion.

## 5. Strategy Implementation

Based on the structure set out in the Appendix, the Trustees consider the arrangements with the Investment Managers to be aligned with the Scheme's overall strategic objectives. Details of each specific mandate are set out in guidelines, agreements and pooled fund documentation with each Investment Manager.

The amounts allocated to any individual category or security will be influenced by the overall benchmark and objectives, varied through the Investment Managers' tactical asset allocation preferences at any time, within any scope given to them through any asset allocation parameters or guidelines set by the Trustees or governing the pooled funds in which the Scheme is invested.

The Trustees will ensure that the Scheme's assets are predominantly invested in regulated markets to maximise their security.

Investment Managers are incentivised to perform in line with expectations for their specific mandate as their continued involvement as Investment Managers as part of the Scheme's investment strategy – and hence the fees they receive – are dependent upon them doing so. They are therefore subject to performance monitoring and reviews based on a number of factors linked to the Trustees' expectations.

The Trustees encourage Investment Managers to make decisions in the long-term interests of the Scheme. The Trustees expect engagement with management of the underlying issuers of debt or equity and the exercising of voting rights in line with the investment mandate guidelines provided. This expectation is based on the belief that such engagement can be expected to help Investment Managers to mitigate risk and improve long term returns.

As covered in more detail in this document, the Trustees also require the Investment Managers to take ESG factors and climate change risks into consideration within their decision making as the Trustees believe these factors could have a material financial impact in the long-term. The Trustees therefore make decisions about the retention of Investment Managers, accordingly.

## 6. Monitoring and Assessment of Performance

### 6.1 Investment Managers

Appointments of Investment Managers are expected to be long-term, but the Trustees will review the appointment of the Investment Managers in accordance with their responsibilities.

The Trustees will regularly monitor the performance of the Portfolio against the investment objectives contained in the Investment Guidelines, as set out in the Investment Management Agreement. The Trustees, or the Investment Adviser on behalf of the Trustees, will regularly review the Portfolio to satisfy themselves that it remains suitable to meet the investment objectives.

The Trustees receive performance reports regularly from the Investment Managers and updates from the Investment Consultant on request. In addition, any significant performance issues and changes relating to the criteria below that the Investment Consultant is aware of will be highlighted, which may lead to a change in the Investment Consultant's rating for a particular mandate. These ratings help to determine an Investment Manager's ongoing role in implementing the investment strategy. If there are concerns, the Trustees may carry out a more in-depth review of a particular Investment Manager. Investment Managers will also attend Trustees' meetings as requested. If the Trustees are not satisfied with the performance of the Portfolio, or are not satisfied that it remains suitable to meet the investment objectives, they will ask the Investment Manager what steps they intend to take to rectify the situation. If the Portfolio still does not meet the Trustees' requirements, they will undertake a review and may consider a different manager - after consultation with the Investment Adviser.

Fund manager remuneration is considered as part of the manager selection process. It is also monitored regularly with the help of the Investment Consultant to ensure it is in line with the Trustees' policies and with fee levels deemed by the Investment Consultant to be appropriate for the particular asset class and fund type.

### 6.2 Advisers

The Trustees will monitor the advice given by their appointed advisers on a regular basis and will assess their performance on the basis of their ability to explain the expected return on investments, how the investments will help the Trustees meet their investment objectives and the risks that will impact on such return.

### 6.3 Portfolio turnover costs

The Trustees require the Investment Managers to report on actual portfolio turnover at least annually, including details of the costs associated with turnover, how turnover compares with the range that the Investment Manager expects and the reasons for any divergence.



## 7. Risks

The Trustees recognise a number of risks involved in the investment of assets of the Scheme, which include but are not limited to:

- i. The risk of failing to meet the objectives as set out in Section 3 – the Trustees have set an investment target for the Investment Manager and will monitor performance against the target. The trustees will monitor the risk that meeting this target implies and consult with the Investment Manager if they deem this risk inappropriate.
- ii. The risk of adverse consequences arising through a mismatch between the Scheme's assets and its liabilities. This is primarily addressed through the target level of protection against the risks of adverse movements in interest rates and price inflation in the Risk Management Portfolio, as well as regular actuarial and investment reviews and reviewing the expected volatility of the Portfolio managed by the Investment Manager.
- iii. Risk of lack of diversification of investments – addressed through primarily investing the Growth Portfolio in pooled funds with diversification requirements and through the Investment Guidelines.
- iv. Risk of holding assets that cannot be easily sold should the need arise – addressed through the use of pooled funds with frequent dealing dates and limiting less liquid assets to be held in manageable proportions subject to Investment Manager discretion.
- v. Underperformance risk – addressed through monitoring closely the performance of the Portfolio and taking necessary action when this is not satisfactory.
- vi. Derivatives risk – addressed through collateral arrangements and engaging with multiple counterparties..
- vii. Organisational risk – addressed through regular monitoring of the Investment Manager and the Advisers.
- viii. Sponsor risk – the risk of the Employer ceasing to exist, which for reasons of prudence, the Trustees have taken into account when setting the asset allocation strategy.

The Trustees will keep these risks under regular review.

The Trustees recognise that it is in the nature of return seeking assets that they may underperform liability matching assets in the short term and accordingly it is possible that the funding position could worsen from one actuarial valuation to the next. The Trustees are prepared to accept this risk because over the longer term the holding of return seeking assets is expected to improve the funding position.

## 8. Other Issues

### 8.1 Statutory Funding Requirement

The Trustees will obtain and consider proper advice on the question of whether the investments are satisfactory having regard to both the investment objectives and the requirement to meet statutory funding requirements. The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation every three years. The Trustees will consider with the Advisers whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the statutory funding requirement.

### 8.2 Environmental, social, corporate governance and ethical issues

The Trustees have considered their approach to environmental, social and corporate governance ("ESG") factors and believe there can be financially material risks relating to them. The Trustees have delegated the ongoing monitoring and management of ESG risks (including those related to climate change) to the Scheme's Investment Manager.

The Trustees require the Scheme's Investment Manager to take ESG risks (including climate change) into consideration within their decision-making, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest. The Trustees will engage further with the Investment Manager to explore ways in which the consideration of ESG risks can be incorporated further into their decision making.

The Trustees will seek advice from the Investment Adviser on the extent to which its views on ESG risks (including climate change) may be taken into account in any future investment manager selection exercises. Furthermore, the Trustees, with the assistance of the Investment Adviser, will monitor the processes and operational behaviour of the Investment Manager from time to time, to ensure they remain appropriate and in line with the Trustees' requirements as set out in this Statement.

The Trustees' policy is that non-financial matters should not be taken into account in the selection, retention and realisation of investments.

### 8.3 Voting rights

As the Scheme invests in pooled funds, the Trustees acknowledge that they cannot directly influence the policies and practices of the companies in which the pooled funds invest. The Trustees have therefore delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the Investment Managers.

The Trustees encourage them to engage with investee companies and vote whenever it is practical to do so on financially material matters such as strategy, capital structure, conflicts of interest policies, risks, social and

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environmental impact and corporate governance as part of their decision-making processes. The Trustees require the Investment Managers to report on significant votes made on behalf of the Trustees.

If the Trustees become aware of an Investment Manager engaging with the underlying issuers of debt or equity in ways that they deem inadequate or that the results of such engagement are mis-aligned with the Trustees' expectations and the investment mandate guidelines provided, then the Trustees may consider terminating the relationship with that Investment Manager.

The Trustees have delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the Investment Managers and encourage them to engage with investee companies and vote whenever it is practical to do so on financially material matters including those deemed to include a material ESG risk (including climate change) in relation to those investments.

## Appendix A – Investment Manager

### Delegation

The Trustees have appointed Aberdeen Asset Managers Limited (“Aberdeen Standard”) as the Scheme’s sole Investment Manager. The Investment Manager has discretion to make all investment decisions in respect of the Portfolio, subject to the Investment Guidelines as set out in the Investment Management Agreement.

### Expected Performance

The Trustees have agreed the following performance targets with Aberdeen Standard:

#### Growth Portfolio

- LIBOR (one-month) plus 5.5% per annum gross of fees over rolling 5 year periods.
- The risk implied by the return objective will vary from time to time depending on market conditions. The Investment Manager will report an ex-ante risk measure to the client on a quarterly basis.

#### Risk Management Portfolio

- Provide protection against interest rate and inflation risk, with a hedging target of 75% of the interest rate and 75% of the inflation sensitivity of the Scheme’s liabilities, as set out in the Investment Management Agreement.
- Provide exposure to equity markets with some downside protection, in line with Trustee instruction as set out in the agreed Schedule 1 to the Investment Manager Agreement.

### Benchmark Allocation

Having considered advice from the Advisers, and also having due regard for the objectives, the current liabilities of the Scheme together with their expected timing, the risks of and to the Scheme and the covenant of the Employer, the Trustees have decided upon the following benchmark allocation:

Portfolio	Benchmark Allocation	Objective(s) of portfolio
<b>Growth Portfolio</b>	70%	Target returns of LIBOR (one-month) + 5.5% p.a. (gross of investment management fees) by investing in a diversified range of asset classes (over rolling 5 year periods).
<b>Risk Management Portfolio</b>	30%	Has two objectives: <ul style="list-style-type: none"><li>• Provide significant protection against interest rate and inflation risk.</li><li>• Provide exposure to equity markets with some downside protection.</li></ul>

Subject to collateral sufficiency, the Investment Manager will transfer funds between the Growth Portfolio to the Risk Management Portfolio guided by the agreed limits set out in the Investment Management Agreement.



## Contact us

**xpsgroup.com**

### **Registration**

XPS Pensions Consulting Limited, Registered No. 2459442. XPS Investment Limited, Registered No. 6242672. XPS Pensions Limited, Registered No. 3842603. XPS Administration Limited, Registered No. 9428346. XPS Pensions (RL) Limited, Registered No. 5817049. Trigon Professional Services Limited, Registered No. 12085392

All registered at: Phoenix House, 1 Station Hill, Reading, RG1 1NB.

### **Authorisation**

XPS Investment Limited is authorised and regulated by the Financial Conduct Authority for investment and general insurance business (FCA Register No. 528774).