

# PIMCO Europe Limited DC Pension Plan

## Statement of Investment Principles – March 2023

### 1. Introduction

Under legislation set out in the Occupational Pension Plans (Investment) Regulations 2005 (S.I. 2005/3378) (“the Investment Regulations”), as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015, it is a requirement for trustees to prepare a statement of the principles that govern their investment decisions.

The Trustee of the PIMCO Europe Limited DC Pension Plan (the “Plan”) has drawn up this Statement of Investment Principles (the “Statement”) to comply with said requirements and those of the Pensions Act 1995 (the “Act”) and subsequent legislation, and to fulfil the spirit of the Pensions Regulator’s DC Code of Practice no. 13. As required under the Act, the Trustee has consulted a suitably qualified person and has obtained written advice from Mercer Limited (“Mercer”). In preparing this statement, the Trustee has given due consideration to the reasons why the Plan uses an insurance policy and their policy for securing compliance with the requirements of Section 36 of the Act (*choosing investments*), and in addition the Trustee has consulted PIMCO Europe Limited (the “Principal Employer”).

The Plan’s invested assets are held in an insurance policy issued by Scottish Widows Limited (“Scottish Widows”). The Plan is a registered pension scheme as defined in section 153 of the Finance Act 2004. The Plan operates for the exclusive purpose of providing retirement and death benefits to eligible participants and beneficiaries. Overall investment policy falls into two parts. The first is the strategic management of members’ assets, which is fundamentally the responsibility of the Trustee acting on advice from its investment consultant, Mercer, and is driven by the investment objectives as set out in Section 3 below. The second element of the policy is the day-to-day management of the assets which is delegated to professional investment managers via the arrangements set out in the separate Investment Policy Implementation Document (“IPID”).

Additionally, the Principal Employer has established an investment governance sub-committee (the “Governance Committee”) to make recommendations to the Trustee on the range of funds available to members. The Governance Committee will, through its terms of reference, provide recommendations and support to the Trustee to ensure that the Plan is valued by employees, is administered to a good standard, and has a broad and appropriate range of investments.

The Trustee is committed to maintaining the accuracy of this Statement on an ongoing basis.

The Trustee’s investment responsibilities are governed by the Plan’s Trust Deed and this Statement takes full regard of its provisions. A copy of the Plan’s Trust Deed is available for inspection upon request.

### 2. Governance Structure

The Trustee has ultimate responsibility for the investment of the Plan’s assets. The Trustee takes some decisions itself and delegates others. When deciding which decisions to take and which to delegate, the Trustee has taken into account whether they have the appropriate training and expertise in order to take an informed decision. The Trustee has established the following decision making structure:

## 2.1 **Trustee**

- Sets structures and processes for carrying out its role;
- Sets investment structures and their implementation, including the structure of the blended funds and the default lifestyle strategy;
- Selects and monitors investment advisers and fund managers;
- Sets structures for implementing investment strategy;
- Selects and monitors direct investments (see below); and
- Makes on-going decisions relevant to the principles of the Plan's investment strategy.

## 2.2 **Governance Committee**

- Makes recommendations on the day-to-day management of the Plan's assets and on the structure of the blended funds and default lifestyle strategy;
- Makes on-going recommendations relevant to the principles of the Plan's investment strategy, including the range of funds available to members; and
- Provides recommendations and support to the Trustee to ensure that the Plan is valued by employees, is administered to a good standard, and has a broad and appropriate range of investments.

## 2.3 **Mercer, the investment adviser**

- Advises on all aspects of the investment of the Plan assets, including implementation, suitability of the default lifestyle strategy and each fund's structure, composition and benchmark;
- Advises on this Statement;
- Monitors investment managers; and
- Provides required training.

## 2.4 **Scottish Widows Limited, the bundled services platform provider**

- Operates within the terms of this Statement and the written contract;
- Provides access to a platform through which third party funds can be accessed by the Trustee, for the Plan's members;
- Provides pension administration services for the Plan.

## 2.5 **Underlying fund managers**

- Selects individual investments with regard to their suitability and diversification.

## 2.6 Mercer Workplace Savings (“MWS”)

- Conducts regular reviews of bundled services platform providers to support the Trustee in selecting an appropriate provider;
- Provides on-going governance monitoring services (i.e. on the platform provider);
- Provides investment governance of the platform provider’s fund range;
- Provides investment governance services in relation to the arrangements with the investment managers; and
- Provides investment management services via Smartpath lifestyle strategies.

## 3. Investment Objectives

The Trustee recognises that members have differing investment needs and that these may change during the course of members’ working lives. The Trustee also recognises that members have different attitudes to risk. The Trustee believes that members should make their own investment decisions based on their individual circumstances. The Trustee regards their duty as making available a range of investment options sufficient to enable members to tailor their investment strategy to their own needs. This is described in Section 8.3 of this Statement. The Trustee also recognises that members may not believe themselves qualified to take investment decisions. As such the Trustee makes available a default investment option. More details regarding the default investment option are available in Section 8.1 and 8.2 of this Statement. In addition to the default investment option, switching members between funds without their consent can result in funds also being determined to be ‘default’ arrangements requiring additional disclosures. An additional default arrangement has been created in this manner, this is set out in more detail in Section 8.4 of this Statement.

These objectives translate to the following principles:

- a. Offering members a ‘Lifestyle’ approach for the default investment option in which the investments are managed over the course of their working life;
- b. Ensuring that the other investment strategy options allow members to plan for their specific retirement objectives;
- c. Making available a range of pooled investment funds which serve to meet the varying investment needs and risk tolerances of Plan members. This includes offering both passively and actively managed investment funds;
- d. Adopting a framework which provides flexibility to change investment managers proactively and which allows efficient fund switching (e.g. without out-of-market risk) as required;
- e. Providing general guidance as to the purpose of each investment option;
- f. Encouraging members to seek independent financial advice from an appropriate party in determining the most suitable option for their individual circumstances;
- g. In determining an appropriate balance between providing flexibility and choice, as well as simplicity and cost control, the Trustee aims to make available a range of options which satisfy the needs of the majority of members.

The items in this Statement are in relation to what the Trustee considers ‘financially material considerations’. The financially material considerations in the default investment option are

provided in more detail in Sections 8.1 and 8.2. The Trustee believes the appropriate time horizon for which to assess these considerations within should be viewed at a member level. This will be dependent on the member's age and when they expect to retire. It is partly for this reason that the default investment option is a lifestyle strategy.

The Trustee believes that environmental social and corporate governance ("ESG") issues including climate change are important factors to be considered when setting investment strategy. More detail on this can be found under section 12.

The Governance Committee have noted a preference to use PIMCO funds where possible. As such, members are offered a range of PIMCO funds as self-select options. The Trustee understands this preference.

The Trustee regularly reviews the suitability of the options provided and from time to time will change or introduce additional investment funds as part of the self-select fund range as appropriate. Given their fiduciary duties, MWS will review the suitability of the lifestyle options provided and from time to time will change or introduce additional investment funds.

#### **4. The Trustee's Investment Beliefs**

The Trustee expects (but does not guarantee):

- the long-term return on the investment options that invest predominantly in equities and other growth-seeking asset classes (e.g. Diversified Growth Funds) to exceed price inflation and general salary growth;
- the long-term returns on the bond and cash options to be lower than the equity options;
- money market funds to provide protection against changes in short-term capital values, and may be appropriate for members receiving part of their retirement benefits in the form of tax-free cash (although it is not guaranteed that these funds will not fall in value).

In choosing the Plan's investment options, it is the policy of the Trustee to consider:

- A full range of asset classes, including alternative asset classes;
- The suitability of different styles of investment management and the need for investment manager diversification;
- The suitability of each asset class for a defined contribution scheme;
- The need for appropriate diversification.

#### **5. Additional Voluntary Contributions**

Members can invest additional voluntary contributions into the same funds that are available for the investment of regular contributions paid into the Plan. The Trustee regularly reviews the continuing suitability of the Plan's investment arrangements. The Trustee utilises Mercer as an investment consultant to advise on investment strategy and provider appointments, and to assist in monitoring the funds available, both in the form of written reports and attendance at meetings.

#### **6. Use of an Insurance Policy**

The Plan's invested assets are held through an insurance policy with Scottish Widows. It has no other investments other than this qualifying insurance policy. The Plan is, therefore, "wholly insured" for the purposes of regulation 8 of the Investment Regulations.

The reasons why the Trustee believes that an insurance policy is most suited to their circumstances, and those of the Plan beneficiaries, are as follows:

- a. The Scottish Widows policy offers the Trustee the facility to design a good quality retirement package that enables members of the Plan to invest in a range of asset classes at a reasonable cost;
- b. The financial strength of Scottish Widows and its level of commitment displayed to the Plan;
- c. The security given by Scottish Widows's regulation by the Financial Conduct Authority and the Financial Services Compensation Plan;
- d. The professional management of the investment funds available through Scottish Widows's contract and its willingness to keep the product competitive in the future;
- e. Scottish Widows's capabilities in relation to pension plan administration and communication to employees; and
- f. The overall value-for-money offered by investing in a packaged product with Scottish Widows. The Trustee continues to believe that this approach is in the best interests of its members, but will regularly review this decision, with the assistance of their investment advisors, to ensure that it remains so.

## **7. Day-to-Day Investment Management**

The fund range offered to members is accessed through Mercer Workplace Savings ("MWS") on the platform provided by Scottish Widows Limited ("Scottish Widows"). The Trustee accesses the platform via a long-term insurance contract with Scottish Widows.

The Trustee has selected funds on the Scottish Widows platform, including those managed by Mercer Global Investments Europe Limited, to provide a range of funds for the members' contributions to be invested in. The investment funds may be changed at the Trustee's discretion.

Day-to-day management of the assets is delegated to professional Investment Managers who are all authorised or regulated. The Trustee expects the Investment Managers to manage the assets delegated to them under the terms of their contracts. The range of funds offered to members incorporates funds from a number of Investment Managers. The Investment Managers have full discretion to buy and sell investments on behalf of the Plan, subject to agreed constraints and applicable legislation. They have been selected for their expertise in different asset classes.

The Trustee recognises that it is not possible to specify investment restrictions where assets are managed via pooled funds and furthermore, given that it is Scottish Widows that has the direct relationship with the third parties offering the funds (and not the Trustee).

The Investment Managers have appointed custodians for the safe custody of assets held within their pooled funds in which the Plan is invested. The custodians are responsible for the safekeeping of the assets held and for performing various administrative duties, such as the collection of interest and dividends and dealing with corporate actions.

The Trustee assesses the continuing suitability of the Plan's Investment Managers on a periodic basis. The Trustee's investment adviser is available to provide help in monitoring the Investment Managers, both in the form of written reports and attendance at meetings as required by the Trustee.

## 8. Investment Options

Members who do not indicate a preference are invested in the default investment option. Typically, a proportion of members will actively choose the default investment option because they feel it is the most appropriate option for them. However, the vast majority of members do not make an active investment decision and are, therefore, automatically invested in the default investment option.

### 8.1 The aims of the default option

In addition to the Trustee's Investment Beliefs (covered in Section 4), the Trustee believes that:

- The lifestyle strategy's growth phase structure which invests in equities and other growth-seeking assets, will provide growth with some downside protection and some protection against inflation erosion.
- As a member's pot grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustee believes that the default strategy that seeks to reduce investment risk as the member approaches retirement is appropriate.
- Based on their understanding of the Plan's membership, an investment strategy that targets income drawdown and a tax-free cash lump sum (up to 25% of a members' pot) at retirement is likely to meet a typical member's requirements for income in retirement. This does not mean that members have to take their benefits in this format at retirement, it merely determines the default investment strategy that will be in place pre-retirement. Members who intend to take their retirement benefits through other formats have the option of switching to an alternative lifestyle strategy prior to retirement or even choosing their own investment strategy. This position will be kept under review.

Taking into account the demographics of the Plan's membership and the Trustee's views of how the membership will behave at retirement, the Trustee believes that the current default strategy is appropriate and will continue to review this over time, at least triennially, or after significant changes to the Plan's demographic, if sooner.

### 8.2 Policies in relation to the default option

The default lifestyle strategy manages investment and other risks through a diversified strategic asset allocation consisting of traditional and alternative assets. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. Any investment in derivative instruments contributes to risk reduction, or efficient portfolio management.

- In deciding the default lifestyle strategy, the Trustee (in conjunction with the Governance Committee) has explicitly considered the trade-off between risk and expected returns. This is a consideration when determining the balance between the different kinds of investments.
- If members wish to, they can opt to choose their own investment strategy on joining but also at any other future date.
- Assets in the default lifestyle strategy are invested in the best interests of members and beneficiaries, taking into account the profile of members.
- Assets in the default lifestyle strategy are invested in a manner which aims to ensure the security, quality, liquidity and profitability of a member's portfolio as a whole.

- Assets are invested mainly on regulated markets (those that are not must be kept to prudent levels).

### 8.3 Self-Select Funds

To cater for the different risk appetites of members, the Trustee also offers three lifestyle strategies and a range of actively managed and passively managed funds (refer to Appendix A). This range of funds includes funds (“Mercer Building Block Funds”) whose management has been delegated by the Trustee to Mercer Limited and other funds (“external funds”) that have been deemed suitable. A range of asset classes have been made available, including: developed market equities, emerging market equities, real estate, multi-asset funds, gilts, bonds, property and pre-retirement funds.

In addition to the default investment option, there are two alternative lifestyle strategies available to members that reflect the alternative ways in which members might take their benefits at retirement (Annuity or Cash). The three lifestyle options available include the Lifestyle Strategy Targeting Annuity, Lifestyle Strategy Targeting Cash and Lifestyle Strategy Targeting Drawdown.

Within the Mercer Building Block Funds, Mercer is responsible for making decisions on asset allocations, selection, appointment, removal and monitoring of underlying external investment managers within this fund range.

All members are free to choose between any of the options. If members do not actively choose one or more of these options, they will automatically be enrolled into the default option.

Members determine the balance between the different kinds of investments they hold. This balance will determine the expected return on member’s assets and should be related to the member’s own risk appetite and tolerances.

Further information on the fund range and lifestyle options is provided in the IPID.

### 8.4 Additional default arrangement

The Trustee regularly reviews the default investment option and Self-Select Fund Range and, if deemed appropriate, makes changes to the managers available as part of these options.

Switching members between funds without their consent can result in funds also being determined to be ‘default’ arrangements requiring additional disclosures. An additional default arrangement has been created in this manner as follows:

Fund	Date of Change	Reason
Mercer Active Money Market/ Cash Fund	March 2020	<u>UK Property Fund</u> The Cash Fund was used on a temporary basis for member contributions while the UK Property Fund was temporarily suspended in order to preserve the capital value of those contributions.

In event of any future temporary fund closures, member contributions will be redirected to the Cash Fund, unless another fund is considered more suitable.

The aims of the additional default arrangement:

- In designing an additional default arrangement, the Trustee has explicitly considered the trade-off between risk and expected returns.
- Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members.
- If members wish to, they can opt to move assets away from the additional default arrangement and choose their own investment strategy at any time.
- Assets in the additional default arrangement are invested in the best interests of members and beneficiaries, taking into account the objectives of the arrangements.
- Assets in the additional default arrangement are invested in a manner which aims to ensure the security, quality, liquidity and profitability of a member's portfolio as a whole.
- Assets are invested in pooled funds which are daily dealing and readily realisable.

The Trustee's policy in respect of the additional default is summarised in the table below:

Fund	Fund Objective and Investments Held	Trustee Objective and Expected Risk and Return
Mercer Active Money Market/ Cash Fund	<p>The aim of the Cash Fund is to provide a cash-like rate of return by investing in money market instruments such as high quality, short term debt.</p> <p>The Cash Fund invests in high quality, short term money market and fixed income securities.</p>	<p>The Trustee's objective in using this fund as the additional default is to aim to preserve the value of any contributions invested rather than to seek long term investment growth. It is also appropriate as the cost of this fund is below the charge cap.</p> <p>The Cash Fund has the lowest expected volatility of the funds available in the Plan.</p>

**9. The Trustee's Policy with Regard to Risk**

Risks in a defined contribution scheme lie with a member themselves. The Trustee has considered risks from a number of perspectives when designing the investments for the Plan.

The list below is not exhaustive but covers the main risks that the Trustee considers and how they are managed.



Risk	Description	How is the risk monitored and managed?
Inflation risk	The risk that investment returns do not keep pace with inflation and does not, therefore, secure an adequate pension.	<p>The Trustee makes available a range of funds, across various asset classes, with the majority expected to keep pace with inflation. The Trustee also considers the real returns expected from the various asset classes.</p> <p>The default investment option has an explicit allocation to assets which are expected to outperform inflation over the long term.</p>
Currency risk	The risk that investment in overseas markets will be affected by changes in exchange rates leading to lower returns in pound sterling terms.	<p>The Trustee offers a number of funds which are currency hedged to pound sterling.</p> <p>The Trustee monitors the performance of investment funds on a quarterly basis, including quarterly market reviews considering the movements in foreign currencies relative to pound sterling.</p>
Credit risk	The risk that the issuer of a financial asset, such as a bond, fails to make the contractual payments due.	<p>This risk is partially mitigated by investment in a range of different credit instruments (via pooled funds). The Trustee is satisfied that the remaining risks are acceptable.</p> <p>The Trustee reviews the performance of the corporate bond assets on a quarterly basis.</p>

Equity, property and other market 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.	<p>Members are able to set their own investment allocations, in line with their risk tolerances.</p> <p>Mercer Building Block Funds are considered to have adequate diversification across asset class, region and within each asset class. Management of these funds is the responsibility of MWS and Mercer.</p> <p>Within active funds, management of many of these risks is the responsibility of the external investment manager. The trustee monitors the external funds.</p> <p>The Trustee regularly reviews performance of funds.</p>
Environmental, Social and Corporate Governance risk	The risk that environmental, social or corporate governance factors (including climate change) have a financially material impact on the return of the Plan's assets.	<p>The management of ESG related risks is the responsibility of the Investment Managers.</p> <p>See Section 12 of this Statement for the Trustee's responsible investment and corporate governance statement.</p>
Investment Manager risk	The risk that the investment manager of the investment vehicles underperform the expectations of the Trustee, fails to carry out operational tasks, does not ensure safe-keeping of assets or breaches agreed guidelines.	<p>For the external funds the Trustee considers advice from their investment adviser.</p> <p>Mercer takes responsibility for the management of this risk for the Mercer Building Block Funds.</p> <p>The Trustee monitors the performance of the investment vehicles on a quarterly basis to ensure the Investment Managers are meeting expectations.</p>
Liquidity risk	The risk that the pooled funds, through which the Trustee allows members to invest, do not provide the required level of liquidity.	<p>This is measured by the dealing and pricing frequencies of pooled funds.</p> <p>The Trustee access pooled funds via an investment platform, which is expected to provide daily pricing and liquidity.</p>

Pension Conversion risk	The risk that the member is invested in a strategy that does not reflect the way in which they intend to take their benefits at retirement.	The Trustee makes available three lifestyle strategies for members. Lifestyle 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.
		The asset allocation and management of these lifestyle strategies is the responsibility of MWS.
		Members can select a lifestyle strategy in accordance with their personal preferences and retirement objectives.
		The default option is a lifestyle strategy which automatically switches member assets as they approach retirement age into investments expected to be less volatile relative to variable income/drawdown and taking a 25% cash lump sum.
		As part of the triennial default review, the Trustee ensures the default destination remains appropriate.

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The Trustee believes that the investment strategy outlined in the IPID is appropriate for minimising, where possible, the risks outlined above.

**10. Investment Manager and Platform Fees**

Details of Investment Manager and Platform fees can be found in the IPID. The fees are provided as total expense ratios (TERs) which are the total ongoing costs of running the funds. They are also inclusive of the per capita charge paid to Scottish Widows by PIMCO.

**11. Investment Consulting Fees**

Mercer's investment consulting fees are either based on fixed quotes for particular projects or on a time cost basis. Mercer also receives an annual fee in respect of the MWS contract.

Mercer provides advice to the Trustee but does not have responsibility for decision making in any area.

**12. Responsible Investment and Corporate Governance (Voting & Engagement)**

The Trustee believes that environmental social and corporate governance ("ESG") issues can affect the performance of investment portfolios and should therefore be considered as part of the investment process.

The Trustee believes that good stewardship can enhance long-term portfolio performance, and is therefore in the best interests of the Plan's beneficiaries and aligned with fiduciary duty.

Once appointed, the Trustee gives appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising 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 Trustee notes that due to the structure of the long term insurance contract, Scottish Widows ultimately hold the direct relationship with managers. The Trustee also notes that they invest in pooled vehicles and as such they may have limited ability to impact the overall strategy of the managers. The Trustee therefore regularly reviews the investment adviser's ESG ratings of the external investment managers.

Where the Trustee has delegated day-to-day management of assets to Mercer, Mercer in turn delegates responsibility for the investment of the assets to a range of underlying investment managers. These investment managers are expected to evaluate ESG factors, including climate change considerations, and 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 Trustee considers how ESG, climate change and stewardship is integrated within Mercer's investment processes and those of the underlying managers in the monitoring process. The Trustee believes that Mercer has the necessary expertise and framework in place to effectively manage and monitor investments in line with these areas, and this is implemented through their four pillar framework: integration, stewardship, thematic investment and screening. The funds for the Plan incorporate these four pillars as far as is practical. Mercer is expected to provide reporting on a regular basis, at least annually, on ESG integration progress, stewardship monitoring results, and climate-related metrics such as carbon foot printing for equities and/or climate scenario analysis for diversified portfolios.

The Trustee has agreed the following stewardship priority areas for the Plan.

- Environmental: The Trustee will prioritise engaging on climate change-related issues, such as transitioning to a low-carbon economy and physical damages resilience. Additionally, engagements related to pollution and the degradation of natural resources will be a priority.
- Social: The Trustee will prioritise engaging on human rights issues including modern slavery, pay and safety in the workplace and supply chains, and abuses in conflict zones. Issues surrounding health and addictive products will also be reflected here.
- Governance: the Trustee will prioritise engagements focused on inclusive and diverse decision-making, aligned remuneration and incentives, and transparent disclosure of material ESG factors.

The Trustee has not set any investment restrictions on Mercer or the external investment managers in relation to particular products or activities.

Member views are not explicitly taken into account in the selection, retention and realisation of investments. The Trustee does however from time to time receive anecdotal feedback via the employer which they and their advisers take into consideration when reviewing the default investment strategy and wider fund range.

### 13. Investment Manager Arrangements

The Trustee believes that an understanding of, and engagement with, asset managers' arrangements is required to ensure they are aligned with the Trustee's policy, including its Sustainable Investment policy. It is the Trustee's policy to ensure that the following are understood and monitored:

- How asset manager arrangements incentivise asset managers to align their strategy and decisions with the Trustee's policies;
- How asset manager arrangements incentivise asset managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term;
- How the method (and time horizon) of the evaluation of asset managers' performance and their remuneration are in line with the Trustee's policies ;
- Portfolio turnover costs incurred by the asset managers, in the context of the asset manager's targeted portfolio turnover (defined as the frequency within which the assets are expected to be bought or sold); and
- Duration of the arrangement with the asset manager.

Underlying investment managers are appointed by the Trustee in the case of non-delegated funds and by MWS for delegated funds based on their capabilities, and therefore the perceived likelihood of achieving the expected return and risk characteristics required. Mercer's manager research rating reflects Mercer's forward-looking assessment of a manager's ability to meet or exceed their objectives.

As the Trustee invests in pooled investment vehicles they accept that they have no ability to influence investment managers to align their decisions with the Trustee's policies set out in this Statement. However, appropriate mandates can be selected to align with the overall investment strategy. The underlying investment managers are made aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustee or MWS (where applicable) is dissatisfied, then they will look to replace the manager. If the investment objective for a particular manager's fund changes, the Trustee and MWS (where applicable) will review the fund appointment to ensure it remains consistent with the Trustee's wider investment objectives and policies.

The Trustee and MWS expect third party investment managers to incorporate the consideration of longer term factors, such as ESG, into their decision making process where appropriate. The extent to which this is so will be considered during the selection, retention and realisation of manager appointments. Voting and engagement activity should be used by investment managers to discuss the performance of an issuer of debt or equity. The Trustee and MWS (for the applicable funds) will challenge decisions made including voting history and engagement activity of the underlying investment managers with issuers of debt or equity securities held, to try to ensure the best performance over the medium to long term. If the Trustee and MWS (where applicable) is not satisfied with the answers provided by the manager or progress made in this regard they may seek to review the appointment of the investment manager.

The Trustee's focus is on longer-term performance but shorter-term performance is monitored to ensure any concerns can be identified in a timely manner. The Trustee reviews both absolute and relative performance against a portfolio or underlying investment manager's benchmark on a quarterly basis, including assessments of both shorter and longer time horizons. The Trustee also relies upon Mercer's manager research capabilities.

If an underlying manager is not meeting performance objectives, or their investment objectives for the fund have changed, the Trustee may review the suitability of the manager, and change managers where required. Where funds are delegated to MWS it is expected that MWS will review and monitor this on behalf of the Trustee. The remuneration for investment managers used by the Plan is based on assets under management; the levels of these fees are reviewed annually as part of the annual value for money assessment to ensure they continue to represent value for members.

The Trustee considers portfolio turnover costs indirectly through consideration of transaction cost data as part of the annual value for money assessment. Though the Trustee does not currently define target portfolio turnover ranges for funds, they will engage with managers if the portfolio turnover is higher than expected as a result of the monitoring undertaken. Where funds are delegated to MWS it is expected that MWS set these ranges and will do this on behalf of the Trustee. The Trustee is a long-term investor, all funds are open-ended and therefore there is no set duration for manager appointments. The Delegated Investment Manager is responsible for the selection, appointment, monitoring and removal of the underlying investment managers. These decisions will be made by MWS for all delegated funds. The Trustee is responsible for the selection, appointment and removal of the externally managed funds if it is no longer considered to be optimal nor have a place in the default strategy or general fund range. The Trustee may also choose to remove a fund from the fund range, if no longer considered appropriate, and the fund range is reviewed on at least a triennial basis.

The Trustee believes that the investment managers have the necessary expertise and frameworks in place to effectively manage and monitor investments in line with the above areas. This does not mean that all investment managers will have the same principles with regard to ESG and climate change, as these will specifically relate to the mandate of the investment fund which they are managing.

#### **14. Buying and Selling Investments**

The Investment Managers have responsibility for buying and selling the underlying assets. As already mentioned, the day-to-day activities, which the Investment Managers carry out for the Trustee is governed by the arrangements between the Investment Managers and Scottish Widows.

The funds are themselves regulated and daily-dealt with underlying investments mainly in regulated markets, and therefore are believed to be readily redeemable based on Trustee or member demand.

#### **15. Compliance with this Statement**

The Trustee, Scottish Widows and Mercer each have duties to perform to ensure compliance with this Statement. These are:

- The Trustee will review this Statement regularly on the advice of Mercer. The Trustee will monitor the arrangement with Scottish Widows and MWS to ensure that the service continues to meet the Plan's needs and objectives. The Trustee will also consult with the Principal Employer over any changes to the Statement.
- Scottish Widows will provide full information in respect of transactions in units in the underlying funds and valuations of the units held by the Plan from time to time as required by the Trustee.
- Mercer will provide the advice needed to allow the Trustee to review and update this Statement tri-annually (or more frequently if required).

## Appendix A: Mercer and Externally Managed Funds

Mercer has been selected as the Delegated Investment Manager for the DC Section of the Plan, and is responsible for the day-to-day management of the assets in funds provided by Mercer. The Trustee has selected five externally managed funds to be made available for Plan members, the Trustee is responsible for the management of these funds. The funds as managed by Mercer as Delegated Investment Manager and by the Trustee are laid out in the following table:

Mercer funds	Externally managed funds
Mercer Diversified Growth Fund	Scottish Widows Aquila Corporate Bond All Stocks Index
Mercer Passive Shariah Fund	Scottish Widows Aquila Emerging Markets Equity Index
Mercer Active Global Equity	Scottish Widows Aquila European Equity Index
Mercer Active Global Small Cap Equity	Scottish Widows Aquila IL Over 5 Year Gilt Index
Mercer Passive Sustainable Global Equity Fund	Scottish Widows Aquila Japanese Equity Index
Mercer Active Money Market	Scottish Widows Aquila Over 15 Years UK Gilt Index
Mercer Growth Fund	Scottish Widows Aquila Pacific Rim Equity Index
Mercer Global Listed Infrastructure	Scottish Widows Aquila UK Equity Index
	Scottish Widows Aquila US Equity Index
	Scottish Widows Aquila World ex UK Equity Index
	Scottish Widows L&G Future World Annuity Aware
	Scottish Widows Threadneedle Pension Property
	Scottish Widows PIMCO Diversified Income
	Scottish Widows PIMCO Emerging Market Debt
	Scottish Widows PIMCO Global High Yield Bond
	Scottish Widows PIMCO Global Investment Grade Credit
	Scottish Widows PIMCO Income Strategy
	Scottish Widows PIMCO Dynamic Multi Asset Fund

Further information regarding these funds can be found in the Plan's IPID.