

## ***Urenco UK Pension Scheme ('the Scheme')***

### ***Statement of Investment Principles - Default Option (November 2020)***

#### **1. INTRODUCTION**

The Trustee of the Scheme has drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of the Occupational Pension Schemes (Charges and Governance) Regulations 2015 and subsequent legislation.

For members in the DC Section of the Scheme who do not wish to take an active role in investment decisions, the Trustee offers a default option, which is a lifestyling arrangement ("the Drawdown Path"). This is a pre-set strategy whereby asset allocation changes at defined points relative to a member's nominated retirement age (or 65 if no age is selected).. The lifestyle arrangement de-risks investments to an asset allocation designed to be appropriate for a typical member who intends to access their benefits via income drawdown, withdrawing parts of their pension pot as and when required throughout retirement.

#### **2. AIMS AND OBJECTIVES**

The aims of the default option are:

- To provide an income for members in retirement.
- To generate returns in excess of inflation during the "growth" phase of the strategy whilst managing downside risk.
- To reduce risk as a member's nominated retirement age approaches, but return growth potential above inflation. As a member's pot grows and they get closer to retirement, investment risk (defined as volatility of returns) will typically have a greater impact on member outcomes than contributions.
- To provide a mix of assets at retirement that is broadly appropriate for an individual planning an income drawdown approach with their pension pot.

#### **3. INVESTMENT POLICIES**

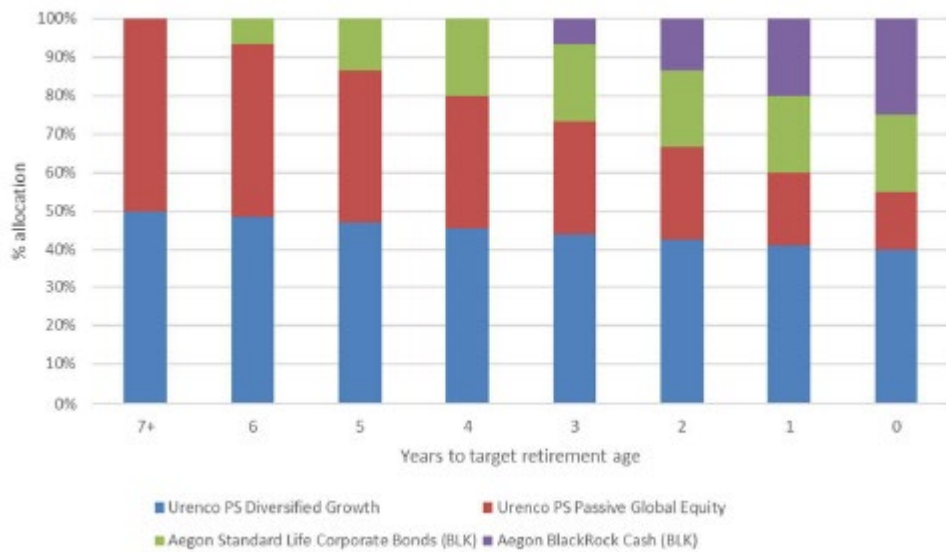
The Trustee has appointed Aegon as provider of the DC arrangement. The Drawdown Path is implemented using a range of pooled funds made available via Aegon's platform. The Trustee is responsible for the selection, appointment, monitoring and removal of these investment managers and funds. The Trustee delegates the selection, retention and realisation of individual investments within each fund to the chosen investment manager.

Assets in the Drawdown Path are invested in a manner that aims to ensure the security, quality, liquidity and profitability of a member's portfolio as a whole. All funds are daily-dealt pooled investment arrangements, with assets mainly invested in regulated markets, and therefore should be realisable at short notice, based on member demand, under normal market conditions.

A range of asset classes are included within the Drawdown Path including: developed market equities, emerging market equities, a diversified growth fund, corporate bonds and cash. Both actively and passively managed funds are utilised, depending on the asset class.

The Drawdown Path adopts a lifestyle approach to manage risk throughout a member's lifetime in the Scheme. As a member's pot grows, investment risk will have a greater impact on retirement outcomes. Therefore, the Trustee believes that it is appropriate to reduce investment risk as members approach retirement; this is expected to reduce the chance of market shocks producing unfavourable retirement outcomes. The Trustee is responsible for the lifestyle asset allocation phasing, with implementation delegated to the provider and the investment managers of the selected investment funds.

- When members within the Drawdown Path are more than 7 years from their expected retirement date, their contributions are invested in the 'growth phase' of the strategy. The growth phase is formed of a white-label diversified growth fund, and a white-label equity fund, at a 50% / 50% allocation. The provider rebalances assets to this mix each quarter.
- The objective of this phase is to provide growth whilst mitigating inflation erosion and downside risk. The diversified growth fund provides exposure to a wide variety of different assets and investment management strategies, which seeks to provide growth but with lower variability in returns than equities. The appointed investment managers are responsible for day-to-day management of the assets making up the units and for meeting any cash flow requirements.
- Once the member is within 7 years of their expected retirement date, the Drawdown Path sells units from the equity and diversified growth funds, and buys units in two funds - one fund providing exposure to corporate bonds, and one to money market instruments. The target mix at members' nominated retirement age is 25% money market instruments, 20% corporate bonds, 15% passive global equities and 40% in a diversified growth fund. Members do not have to take their benefits in this format at retirement.



- Full details of the underlying pooled funds and the lifestyle matrix are set out in the separate Investment Policy Implementation Document.

#### 4. RISK

In designing the default option, 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 retirement outcomes for members. In particular, when reviewing the investment strategy of the default investment option, the Trustee considers risk quantitatively, in terms of the variability of investment returns and potential retirement outcomes for members. From a qualitative perspective, the Trustee also considers risk in terms of the (mis)alignment of investments with the retirement benefits targeted by the default investment option. Non-financial matters are not considered in the design of the Drawdown Path.

The Trustee has considered risks from a number of perspectives. The list below covers the main risks that the Trustee considers financially material to the default arrangement and how they are managed.

- *Contribution risk.* The risk that low contribution levels over members' working lives secure inadequate benefits. The Trustee makes available a range of contribution levels and, via the provider of the arrangement, provides access to software to model the potential impact of adopting different contribution levels with different asset allocations.
- *Pension Conversion risk.* The risks 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 default option is a lifestyle strategy that automatically switches member assets into investments that are expected to provide above-inflation growth throughout

retirement. For members that do not believe income drawdown is suitable for their circumstances, annuity and cash lifestyle options, and single fund options are made available and are clearly communicated. As part of the triennial default strategy review, the Trustee considers whether the lifestyle strategy remains appropriate.

- *Risk of erosion by inflation.* The risk that the investment return over members' working lives will not keep pace with inflation and will not secure an adequate income during retirement. The Trustee invests the growth phase of the Drawdown Path in assets expected to exceed inflation over time. It reviews performance against various benchmarks, including inflation.
- *Environmental, Social and Corporate Governance ("ESG") risk.* The risk that environmental, social or corporate governance issues, including climate change, have a financially material impact on the return of members' investments. The Trustee reviews how well the investment managers integrate such issues into their investment approach. Where funds are passively managed, the Trustee acknowledges that the focus will be on voting and engagement practices.
- *Currency risk.* The risk that fluctuations in foreign exchange rates will cause the value of overseas investments to fluctuate. The global equity fund hedges its currency risk within developed equity markets, whilst the diversified growth fund actively considers its currency exposure in managing risk and seeking return.
- *Active management risk.* The risk that the investment vehicle in which monies are invested underperforms the expectation of the Trustee. By its nature the diversified growth fund is actively managed. The Trustee reviews performance each quarter with a focus on longer term returns. This risk is managed within the equity holding by investing in a passively managed fund.
- *Lack of diversification risk.* The Trustee recognises the risks that may arise from the lack of diversification of investments. The Trustee therefore invests in pooled fund vehicles to ensure an adequately diversified portfolio for each fund option and also designs the default to not be concentrated in one asset class.
- *Custody risk.* The safe custody of the Scheme's assets is delegated to professional custodians appointed by the investment manager of each fund.

The details in Sections 3 and 4 are in relation to what the Trustee believes are 'financially material considerations'. The Trustee's view is that 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.

## **5. IMPLEMENTATION AND ENGAGEMENT POLICY**

The Trustee selects funds from those made available by Aegon. The Trustee does not have a direct relationship with the investment managers of those funds.

When deciding on the funds and investment managers to implement the Trustee's Drawdown Path, the Trustee is concerned that, as appropriate and to the extent applicable, the investment managers are incentivised to align their strategy and decisions with the objectives of the Drawdown Path. However, as the underlying funds used within the Drawdown Path are invested in multi-client pooled funds, the Trustee acknowledges that it does not have the ability to determine the risk profile of each individual fund, so the Trustee has created a blend of funds to closer align with the overall investment strategy.

The Trustee selects investment managers from the Aegon platform based on their capabilities and therefore, their perceived likelihood of achieving the expected risk and return characteristics for their portion of the Drawdown Path. The investment managers are incentivised by the knowledge that the Trustee will review their appointment if, over time, they do not meet expectations. The Trustee receives reports from Aegon on a quarterly basis giving performance figures of the underlying pooled funds of the Drawdown Path over both short and long periods, which is compared to a suitable index as a benchmark. The Trustee focuses on long-term performance, but will review an investment manager if short-term performance creates concerns. The Trustee will seek to meet with the investment manager, noting the Trustee is not a direct client of the investment manager.

The Trustee's investment consultant provides a forward-looking assessment of the managers' ability to deliver over a full market cycle. This view will be based on the consultant's assessment of the managers' idea generation, portfolio construction, implementation and business management in relation to the default. The consultant's manager research ratings assist with due diligence and questioning the managers directly during any presentations received. These ratings are used in decisions around selection, retention and realisation of manager appointments.

Transaction costs, which include portfolio turnover costs, are monitored and assessed within the annual Value for Money assessment but the Trustee has not set portfolio turnover targets. However the Trustee will engage with the investment manager if portfolio turnover is higher than expected.

If the investment objective for a particular fund changes, the Trustee will review the fund appointment to ensure it remains appropriate and consistent with the objectives set out in Section 2.

The funds used within the Drawdown Path are open-ended with no set end date. A review of the investment is carried out on at least a triennial basis. A manager's appointment may be terminated if it is no longer considered to be optimal nor have a place in the default option.

## **6. RESPONSIBLE INVESTMENT AND CORPORATE GOVERNANCE (VOTING AND ENGAGEMENT)**

The Trustee believes that good stewardship is in the best interests of the Scheme's beneficiaries and aligned with fiduciary duty, as it can enhance long-term portfolio performance and preserve value for companies and markets as a whole.

The Trustee believes that environmental, social and corporate governance ("ESG") issues can have a material impact on investment risk and return outcomes and should therefore be considered as part of the Scheme's investment process alongside other risks.

The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration. At the current time the Trustee has not set any ESG (including climate change) related investment criteria for the investment strategy or restrictions on the selected investment managers in the default arrangement. The Trustee will review this decision periodically and at least every three years as part of the triennial review of the default.

The Trustee has given the investment managers full discretion in evaluating ESG factors, including climate change considerations. In addition, they have delegated to the investment managers' engagement with companies (including collaboration with others and escalation), and exercising voting rights and stewardship obligations attached to the investments, including considering climate change impacts. The Trustee reviews their Investment Consultant's ESG ratings for the funds each quarter, reflecting how well the Investment Consultant believes the manager has integrated such factors into the investment process.

When appointing, monitoring and withdrawing from investment managers, the Trustee considers, amongst other factors, how ESG, climate change and stewardship is integrated within investment processes, making use of the Investment Consultant's ESG ratings.

## **7. MEMBERS' INTERESTS**

The Trustee is aware that no default option can be appropriate for all members because of members' varying needs and attitudes to risk.

The Trustee will continue to review the default option formally at least triennially, or after significant changes to the Scheme's demographic profile, if sooner. This will take account of the demographics of the Scheme membership, industry offering, Scheme development (for example, assets under management) and how the Trustee believes members will take their benefits at retirement.

Member views are not explicitly taken into account in the selection, retention and realisation of investments within the Drawdown Path.

Members are able to opt out of the Drawdown Path at any time.

Aegon is responsible for transacting member instructions including switches, investments and withdrawals.