***URENCO UK Pension Scheme ('the Scheme')***

***Statement of Investment Principles - Default Option (August 2019)***

## 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 Default Lifestyle Option"). This is a pre-set strategy whereby asset allocation changes at defined points relative to a member's nominated retirement age. 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 an annuity and cash at 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 provide protection as a member's nominated retirement age nears. As a member's pot grows, 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 to take their benefits as an annuity and cash.

## 3. INVESTMENT POLICIES

The Trustee has appointed Aegon as provider of the DC arrangement. The Default Lifestyle Option 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 Default Lifestyle Option are invested in a manner which 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 Default Lifestyle Option, including: developed market equities, emerging market equities, a diversified growth fund, a preretirement fund and cash. Both actively and passively managed funds are utilised, depending on the asset class.

The Default Lifestyle Option 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 member outcomes. Therefore, the Trustee believes that it is appropriate to reduce investment risk as the member approaches retirement; this is expected to reduce the chance of market shocks producing unfavourable outcomes for members at retirement. 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.

- If the member is more than 6 years and 9 months from their expected retirement date contributions will be invested in units of an equity fund and units of a diversified growth fund, with the objective of providing growth whilst mitigating inflation erosion and downside risk. The target mix is 30% equity fund, 70% diversified growth fund. The provider rebalances assets to this mix each quarter. The diversified growth fund provides exposure to a wide variety of different assets and investment management strategies which seek 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 of the Scheme administrators.

- Once the member is within 6 years and 9 months from their expected retirement date, the Default Lifestyle Option sells units from the equity and diversified growth funds, and buys units in two funds; one fund providing exposure to money market instruments and one expected to broadly track a non-increasing retirement income. The latter fund seeks to broadly reflect the changing cost (up or down) of an annuity that would provide this income. The target mix is 25% money market fund, 75% retirement income 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 Default Lifestyle Option.

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 which automatically switches member assets into investments whose value is expected to move broadly in line with the cost of a non-increasing annuity income and cash. The strategy is clearly outlined with alternative approaches available should members not believe this is appropriate for them. 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 returns over members' working lives will not keep pace with inflation and does not, therefore, secure an adequate pension. The Trustee invests the growth phase of the Default Lifestyle Option 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. 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.

## 6. 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 is currently reviewing the DC arrangement, including the default arrangement. Whilst the full review is to be concluded, the Trustee has provisionally made the decision that the default arrangement will be changed to one where the asset mix reflects a retirement target broadly consistent with member's taking their retirement income via an income drawdown arrangement. The Trustee believes that this change will be in the member's interests given member pot sizes have grown over the increased life of the DC Section and the changed demographic of the membership following the partial closure of the DB Section. The Trustee currently expects the revised DC arrangements to be in place in the first half of 2020 following the conclusion of the review.

The Trustee will continue to review the default strategy 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 Default Lifestyle Option.

Members are able to opt out of the Default Lifestyle Option at any time.

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

The Default Lifestyle Option and wider arrangement is currently under review and changes will be made.