

# **NEWBURY INVESTMENTS (UK) LIMITED DC PENSION SCHEME**

## **STATEMENT OF INVESTMENT PRINCIPLES – AUGUST 2020**

### **1. Introduction**

The Trustee Directors (“the Trustees”) of the Newbury Investments (UK) Limited DC Pension Scheme (“the Scheme”) have prepared this Statement of Investment Principles (the “Statement”) to comply with the requirements of the Pensions Act 1995 (the “Act”) and subsequent legislation. As required under the Act, the Trustees have consulted a suitably qualified person and have obtained written advice from their investment consultant, Mercer Limited (“Mercer”). The Trustees in preparing this Statement have consulted Newbury Investments (UK) Limited, as Sponsor of the Scheme.

Overall investment policy falls into two parts. The strategic management of members’ assets is fundamentally the responsibility of the Trustees acting on advice from their investment consultant, Mercer, and is driven by their investment objectives as set out in section 2. The remaining elements of policy are part of the day to day management of the assets which are delegated to professional investment managers and described in section 4.

### **2. Overall Policy**

#### **2.1. Process for choosing investments**

The Trustees have considered their objectives and have chosen investment arrangements consistent with this. In considering the appropriate investments, the Trustees have obtained written advice from their investment consultant, whom the Trustees believe to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustees’ opinion, consistent with the requirements of section 36 of the Pensions Act 1995 (as amended).

The Trustees have set up an Investment Sub-Committee to assist with the governance of choosing investments, although the ultimate decisions for choosing investments rests with the Trustees.

#### **2.2. Investment Objectives**

As the Scheme is a defined contribution arrangement, the principal decision is over the range of asset classes available for investment.

The Trustees recognise that members of the Scheme have differing investment needs and that these may change during the course of members’ working lives. They also recognise that members have different attitudes to risk.

The Trustees believe that members should make their own investment decisions based on their individual circumstances and therefore 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.

The Trustees objective therefore is to make available a range of lifestyle investment options and self-select options that enable members to maximise the value of retirement benefits and protect against the risks identified in 2.3 below. However, they also recognise that some members will not wish to make their own decisions so offer a default investment option for these members, which is described in section 3. The Trustees will make available options that allow non-financial considerations to be taken into account where they believe this is likely to be valued by a proportion of members.

### 2.3. Risk Management and Measurement

In choosing appropriate funds to make available to members, the Trustees have considered risk from a number of perspectives. The list below is not exhaustive but covers the main risks that the Trustees consider and how they are managed.

Type of Risk	Risk	Description	How the risk is monitored and managed
Market risks	Inflation risk	The risk that returns over the members' working lives do not keep pace with inflation.	The Trustees make available a range of funds, across various asset classes, with the majority expected to keep pace with inflation.  Members are able to set their own investment allocations, in line with their risk tolerances.  Within active funds, management of many of these market risks is delegated to the investment manager.
	Currency risk	The risk that fluctuations in foreign exchange rates will cause the value of overseas investments to fluctuate.	
	Credit risk	The risk that the issuer of a financial asset, such as a bond, fails to make the contractual payments due.	
	Equity, property and other price risk	The risk that market movements leads to a substantial reduction in the value of a member's savings.	
Liquidity risk		The risk that the Scheme's assets cannot be realised at short notice in line with member demand.	The Scheme invests in daily dealt and daily priced pooled funds.
Investment Manager risk		The risk that the appointed investment managers underperform the benchmark return, fail to carry out operational tasks, do not ensure safe-keeping of assets or breach agreed guidelines.	The Trustees regularly review the level of the security of assets and monitors the performance of the investment managers on a quarterly basis.

Type of Risk	Risk	Description	How the risk is monitored and managed
Benefit 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.	<p>The Trustees make available three lifestyle strategies which allow members to plan for their specific retirement benefit.</p> <p>Lifestyle strategies automatically switch member assets into investments whose value is expected to be less volatile relative to how they wish to access their pension savings as they approach retirement age.</p>
Environmental, Social and Corporate Governance (“ESG”) risk		The risk that ESG concerns, including climate change, have a financially material impact on the return of the Scheme’s assets.	<p>The management of ESG related risks is delegated to investment managers.</p> <p>See section 4.4 of this Statement for the Trustees responsible investment and corporate governance statement.</p>

Unless stated otherwise, the above items listed in sections 2.2 and 2.3 of this Statement are in relation to what the Trustees consider ‘financially material considerations’. The Trustees believe 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 for this reason that three lifestyle strategies are available to members.

## 2.4. Investment Strategy

In choosing the Scheme’s investment options, it is the policy of the Trustees to consider:

- The potential risk and rewards of a range of asset classes including alternative asset classes
- How members might take their benefits in retirement and make available options to prepare for this
- The suitability of each asset class in the lifestyle strategies
- The suitability of different styles of investment management and the need for investment manager diversification
- The need for appropriate diversification both across and within asset classes

- The likely appeal of options that take into account non-financially material considerations

To meet the investment objectives and control the risks set out above, the Trustees have made available a range of funds for members allowing exposure to the following asset classes. These include equity, property, bonds, diversified growth and money market funds with both active and passive management options offered depending on asset class. Members can combine the investment funds in any proportion to determine the balance between different kinds of investments. This will also determine the expected return on a member's assets and should be related to the member's own risk appetite and tolerances. Each of the available funds is considered to be diversified across an appropriate number of underlying holdings / issuers.

The Trustees expect the long-term return on the investment options that invest predominantly in equities to exceed price inflation and general salary growth.

The long-term returns on multi-asset funds are expected to be reasonably close to those on equities. However, multi-asset funds are expected to experience lower volatility due to their exposure to a diversified range of investments.

The long-term returns on the bond and cash options are expected to be lower than those options that are either predominantly or entirely exposed to growth investments (equity or multi-asset options for example). However, bond funds, which are expected to experience lower volatility relative to annuity prices than growth investments, should help reduce the potential mismatch in relation to the price of annuities (assuming a member opts to access their DC savings via annuity purchase). The Trustees appreciate that bonds cannot provide a complete hedge against factors that contribute to the movement in annuity prices for example longevity assumptions.

Cash (including Money market funds) is expected 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.

#### **2.4.1. Lifestyle Strategies**

The Scheme offers members the option of three different lifestyle investment options, which are pre-determined investment arrangements. These lifestyle investment options are suitable for a member who wishes to take either cash, an annuity or follow income drawdown at retirement.

The lifestyle investment options invest members' savings in higher risk assets such as equities and multi-asset funds when members are further away from retirement (more than 8 years), before switching into funds designed match how they intend to access their pension savings. The three strategies are summarised in the Statement of Investment Arrangements ("SIA").

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#### **2.4.2. Self-select fund range**

The Trustees offers a range of self select funds to provide flexibility for members who do not wish to invest in one of the lifestyle strategies. The range of self-select funds is set out in the SIA..

### 3. The Default Investment Option

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

Having taken written professional advice from a suitably qualified person from Mercer, the Trustees set the income drawdown targeting lifestyle strategy as the default investment option as it reflects the option that is considered likely to be the most appropriate for members who are unable to decide how they wish to take their retirement benefits.

#### 3.1. Objectives of the Default Investment Option

The Trustees objectives in relation to the default investment option, and the ways in which the Trustees seek to achieve these, are detailed below:

- To generate returns in excess of inflation during the “growth” phase of the strategy whilst managing downside risk.

*The default investment option growth phase structure invests in equities and other growth-seeking assets through diversified growth funds. These investments are structured to maximise real returns over the long-term with some downside protection and some protection against inflation erosion.*

- To provide a strategy that reduces investment risk for members as they approach retirement.

*As a member’s pot grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustees believe that a default strategy that seeks to reduce investment risk as the member approaches retirement is appropriate. This is achieved by switching investments from the growth assets to a Diversified Retirement Income Fund and a Cash and Money Market Fund over an 8 year switching period prior to a member’s target retirement date.*

- To offer to members a mix of assets at retirement that is broadly appropriate for an individual planning to drawdown an income through retirement.

*At the selected retirement date, 75% of the member’s assets will be invested in an actively managed Diversified Retirement Income Fund and 25% in a Cash and Money Market Fund. The Trustees expect this asset allocation to provide reasonable growth at reduced risk to deliver sustainable income through retirement.*

Based on the Trustees’ understanding of the Scheme’s membership, a default investment option that targets drawdown of income at retirement is expected to be broadly appropriate 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 option that will be in place pre-retirement. Members who intend to take their retirement savings by other means are able to choose their own investment options.

Taking into account the demographics of the Scheme's membership and the Trustees' views of how the membership might behave at retirement, the Trustees believe that the current default option is appropriate and they will continue to review this regularly, and more strategically at least triennially, or after significant changes to the Scheme's demographic, if sooner.

### 3.2. Policies in relation to the Default Investment Option

- The default investment option manages investment and other risks through a strategic asset allocation consisting of equities, multi-asset funds, bonds and money market. Risk is not considered in isolation but in conjunction with expected investment returns and outcomes for members.
- In designing the default investment option, the Trustees have explicitly considered the trade-off between risk and expected returns. The default investment option balances between different kinds of investments to ensure that the expected amount of risk (and commensurately the expected return) is appropriate given the age of the member and their expected retirement date
- Assets in the default investment option are invested in the best interests of members and beneficiaries, taking into account the investment objectives set out in sections 2.3 and 2.4 of this Statement.
- The investment manager has responsibility for buying and selling the underlying assets. All of the pooled funds used operate daily dealing cycles.
- Assets are invested mainly on regulated markets.
- The Trustees policy on "ESG, Stewardship and Climate Change" and "Realisation of investments" – both in relation to the default investment option and the Scheme as a whole, can be found in sections 4.4 and 4.3 of this Statement respectively.

### 3.3. Risk and Risk Management of the Default Investment Option

The Trustees regard "risk" as the likelihood of failing to achieve the objectives set out above and seeks to minimise these risks, so far as is possible. In arriving at their investment strategy for the default investment option and the production of this Statement, the Trustees have considered the following risks:

Type of Risk	Risk	Description	How the risk is monitored and managed
Market risks	Inflation risk	The risk that returns over the members' working lives do not keep pace with inflation.	The Trustees monitor performance on a quarterly basis.

Type of Risk	Risk	Description	How the risk is monitored and managed
	Currency risk	The risk that fluctuations in foreign exchange rates will cause the value of overseas investments to fluctuate.	<p>The default investment option is set with the intention of diversifying these risks to reach a level of risk deemed appropriate. This is set with advice from the investment adviser.</p> <p>Within active funds management of many of these market risks is delegated to the investment manager.</p>
	Credit risk	The risk that the issuer of a financial asset, such as a bond, fails to make the contractual payments due.	
	Equity, property and other price risk	The risk that market movements leads to a substantial reduction in the value of a member's savings.	
Liquidity risk		The risk that the Scheme's assets cannot be realised at short notice in line with member demand.	The default investment option invests in daily dealt and daily priced pooled funds.
Investment Manager risk		The risk that the appointed investment managers underperform the benchmark return, fail to carry out operational tasks, do not ensure safe-keeping of assets or breach agreed guidelines.	<p>The Trustees measure risk in terms of performance of the underlying funds compared to the relevant benchmarks on a quarterly basis, along with monitoring any significant issues with the investment managers that may impact their ability to meet their performance objectives.</p> <p>This risk is considered by the Trustees and its advisers both upon the initial appointment of the fund manager and on an ongoing basis thereafter.</p>

Type of Risk	Risk	Description	How the risk is monitored and managed
	Benefit 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.	<p>The default investment option is a lifestyle strategy which automatically switches 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.</p> <p>As part of the triennial default strategy review, the Trustees consider if the default target destination remains appropriate.</p>
	Environmental, Social and Corporate Governance (“ESG”) risk	The risk that ESG concerns, including climate change, have a financially material impact on the return of the Scheme’s assets.	<p>The management of ESG related risks is delegated to investment managers.</p> <p>See section 4.4 of this Statement for the Trustees’ responsible investment and corporate governance statement.</p>

The above items listed in section 3.2 and 3.3 of this Statement are in relation to what the Trustees consider ‘financially material considerations’. The Trustees believe 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.

## 4. Day to Day Management of Assets

### 4.1. Main Assets

Day-to-day management of the assets is delegated to professional Investment Managers who are all regulated by the Financial Conduct Authority (the “FCA”). 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 Scheme, subject to agreed constraints and applicable legislation. They have been selected for their expertise in different specialisations.

The Trustees recognise that it is not possible to specify investment restrictions where assets are managed via pooled funds. Nevertheless, notwithstanding how the assets are managed, the



Trustees will take appropriate legal and investment advice regarding the initial and ongoing suitability of the investment management agreements and relevant investment vehicles.

The fund range offered to members is accessed through an investment platform via Mercer Workplace Savings in an insurance policy issued by Scottish Widows. The Trustees are satisfied that the range of funds offered provides adequate diversification of investments, given the objectives of each fund, and believe that the funds are consistent with the Scheme's objectives as described in section 2.2.

#### **4.2. Other Assets**

Assets in respect of members' additional voluntary contributions can be invested in the same pooled funds as the main assets. In addition, the Trustees hold cash in a bank account to facilitate Scheme administration.

#### **4.3. Realisation of Investments**

All funds, including those in the default strategy, are daily-dealt pooled investment arrangements. These pooled investment arrangements are themselves regulated and underlying investments are mainly invested in regulated markets. Where pooled investment arrangements do not invest assets in regulated markets these are not expected to account for a material proportion of assets. Therefore, assets should be realisable at short notice, based on member and Trustees demand.

#### **4.4. Environmental, Social and Governance ('ESG') considerations**

The Trustees apply the following beliefs to the whole Scheme including the Default investment option.

The Trustees believe that environmental, social and governance ("ESG") factors do have a material impact on investment risk and return outcomes, and that good stewardship helps creates and preserve value for companies and markets as a whole.

The Trustees also recognise that long-term sustainability issues, particularly climate change present risks and opportunities that increasingly may require explicit considerations.

The Trustees have given the Investment Managers full discretion when evaluating ESG factors and in exercising rights and stewardship obligations attached to the Scheme's investments. Where investments are made on a passive basis, whilst the manager has limited discretion over the selection of individual shares or bond issues (as the manager seeks to match the composition of the benchmark index as closely as possible), the Trustees expect the manager to vote in line with its own corporate governance policy.

However, the Trustees consider how ESG, climate change and stewardship is integrated within investment process when appointing new investment managers and assess how the manager's responsible investment philosophy aligns with the Trustee's responsible investment policy. In particular, where appropriate, the Trustees will review:

- The ESG ratings assigned by Mercer to each of the strategies used within the Scheme. Mercer's ratings represent their view on the extent to which ESG and active ownership practices (voting and engagement) are integrated into the manager's investment process and decision making across asset classes.
- Mercer's assessment of the underlying equity managers against the seven principles of the UK Stewardship Code, including the extent to which they are engaging with the underlying companies in which they invest.
- Carbon foot printing and or climate scenario analysis on a more ad-hoc basis, if and when the Trustees consider this may be beneficial in appointing or reviewing any of the Scheme's investments.

#### **4.5. Member Views**

Member views have not explicitly been taken into account with regards to non-financial matters in the selection, retention and realisation of investments, although feedback received from members is welcomed and considered by the Trustees, and the Trustees will consider the likely appeal of investment options that take into account non-financially material considerations.

### **5. Arrangements with Asset Managers**

- 5.1** The Trustee appoints investment managers of externally managed funds based on the managers' capabilities and, therefore the perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected. 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 policies set out in this Statement. However, appropriate mandates can be selected to align with the overall investment strategy.
- 5.2** The underlying investment managers are expected to incorporate the consideration of longer term factors, such as ESG factors, into their decision making process where appropriate. The extent of this will be considered during the selection, retention and realisation of manager appointments. Voting and engagement activity should be used by investment managers as a means to positively influence the performance of an issuer of debt or equity. The Trustee engages with investment managers on this activity and if dissatisfied will look to replace the manager.
- 5.3** 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. The remuneration for investment managers used by the Scheme is based on assets under management; the levels of these fees are reviewed annually as part of the annual value for member assessment to ensure they continue to represent value for members.

**5.4** Portfolio turnover costs for each of the funds are reviewed on an annual basis as part of the annual value for members assessment. The ability to assess the appropriateness of these costs is limited by the availability of data. The Trustee will monitor industry developments in how to assess these costs and incorporate this in future value for members assessments. Importantly, performance is reviewed net of portfolio turnover costs.

**5.5** The Trustee is a long term investor, all funds are open-ended and therefore there is no set duration for manager appointments. The Trustee is responsible for the selection, appointment and removal of the externally managed funds. The Trustee may also choose to remove a fund from the fund range, if no longer considered appropriate, and the fund range reviewed on at least a triennial basis.

## **6. Advisors**

### **6.1. Custodian**

The role of a custodian is to ensure the safe keeping of the assets and facilitate all transactions entered into by the appointed investment managers. The investment managers are responsible for arranging the safe custody of assets held in the pooled arrangements in which the Scheme invests.

### **6.2. Investment Consultant**

Whilst the day-to-day management of the Scheme's assets is delegated to the investment manager, all other investment decisions including the range of funds, default investment strategy, manager structure and selection are taken by either the Trustees or the ISC, after taking advice from the Investment Consultant. Mercer has been appointed for this purpose.

## **7. Compliance with this Statement**

The Trustees will monitor compliance with this Statement regularly and in any event will review this statement at least once every three years and without delay after any significant change in investment policy. Any such review will be based on written expert investment advice and in consultation with the Sponsor.

Steven Westbrook.....  
**Name**

...**Steven Westbrook**.....  
**Signature**

...22 September 2020  
**Date**

...Leo Yu.....

**Name**

...*Leo Yu*.....

**Signature**

.....22 September 2020.....

**Date**

**For and on behalf of the Trustee Directors of the Newbury Investments (UK) Limited DC Pension Scheme**