

# Unionamerica (1993) Pension Scheme

## Statement of Investment Principles

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## 1. Introduction

- 1.1. This is the Statement of Investment Principles prepared by the Trustee of the Unionamerica (1993) Pension Scheme (the "Scheme"). This statement sets down the principles which govern the decisions about investments that enable the Scheme to meet the requirements of:
  - the Pensions Act 1995, as amended by the Pensions Act 2004; and
  - the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010, the Occupational Pension Schemes (Charges and Governance) Regulations 2015 and incorporates changes as required by The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018; and
  - the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019
- 1.2. In preparing this statement the Trustee has consulted Travelers Special Services Limited, the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustees' investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.
- 1.3. This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.
- 1.4. The Trustee will review this statement at least every three years or if there is a significant change in any of the areas covered by the statement.
- 1.5. The investment powers of the Trustee is set out in Rule 2 of the Scheme's Definitive Trust Deed & Rules, dated 27 October 2010. This statement is consistent with those powers.
- 1.6. The Trustee may from time to time decide that there are some kinds of investments that it may not choose to make. There are no current self-imposed restrictions.

## 2. Choosing investments

- 2.1. The Trustee's policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustee considers the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.
- 2.2. The day-to-day management of the Scheme's assets is delegated to one or more investment managers. The Scheme's investment managers are detailed in the Appendix to this Statement. The investment managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights.
- 2.3. The Trustee reviews the appropriateness of the Scheme's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the investment managers with respect to performance within any guidelines set. The Trustee will also consult the employer before amending the investment strategy.

## 3. Investment objectives

- 3.1. The Trustee has discussed key investment objectives in light of an analysis of the Scheme's liability profile as well as the constraints the Trustee faces in achieving these objectives. As a result, the Trustees' main investment objectives are:
- to ensure that the Scheme can meet the members' entitlements under the Trust Deed and Rules as they fall due;
  - to manage the expected volatility of the returns achieved in order to control the level of volatility in the Scheme's required contribution levels;
  - to minimise the long-term costs of the Scheme by maximising the return on the assets whilst having regard to the above objectives.
- 3.2. The Trustee is aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Scheme's liabilities. The Trustee has obtained exposure to investments that they expect will meet the Scheme's objectives as best as possible.

## 4. Kinds of investments to be held

- 4.1. The Scheme is permitted to invest in a wide range of assets including equities, bonds, cash, property and alternatives.
- 4.2. The Trustee monitors from time-to-time the employer-related investment content of their portfolio as a whole and will take steps to alter this should they discover this to be more than 5% of the portfolio. Typically this check is carried out annually by the Scheme's auditors.

## 5. The balance between different kinds of investments

- 5.1. The Scheme invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained within the Appendix 1 to this Statement.
- 5.2. The Trustee considers the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Appendix to this Statement.
- 5.3. From time to time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate any short-term cashflow requirements or any other unexpected items.
- 5.4. The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and therefore the Scheme's asset allocation will be expected to change as the Scheme's liability profile matures.

## 6. Risks

- 6.1. The Trustee has considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities, and considered ways of managing/monitoring these risks:

<b>Risk versus the liabilities</b>	The Trustee will monitor and review the investment strategy with respect to the liabilities in conjunction with each actuarial valuation. The investment strategy will be set with consideration to the appropriate level of risk required for the funding strategy as set out in the Scheme's Statement of Funding Principles.
<b>Covenant risk</b>	The creditworthiness of the employer and the size of the pension liability relative to the employer's earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the employer covenant.
<b>Solvency and mismatching</b>	This risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustee is aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Scheme's funding basis.
<b>Asset allocation risk</b>	The asset allocation is detailed in the Appendix 1 to this Statement and is monitored on a regular basis by the Trustee.
<b>Investment manager risk</b>	The Trustee monitors the performance of each of the Scheme's investment managers on a regular basis in addition to having meetings with each manager from time to time as necessary, usually on an annual basis. The Trustee has a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate.
<b>Governance risk</b>	Each asset manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustees monitor these and will report on the managers' practices in their annual Implementation Statement.
<b>ESG/Climate risk</b>	The Trustees have considered long-term financial risks to the Scheme and ESG factors as well as climate risk are potentially financially material and will continue to develop its policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments in order to avoid unexpected losses.
<b>Concentration risk</b>	Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.
<b>Liquidity risk</b>	The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Scheme's cashflow requirements. The Scheme's administrators assess the level of cash held in order to limit the impact of the cashflow requirements on the investment policy.
<b>Currency risk</b>	The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management. Currency hedging may be employed to manage the impact of exchange rate fluctuations.

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### **Loss of investment**

The risk of loss of investment by each investment manager and custodian is assessed by the Trustee. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud). The Trustee also undertakes an annual review of the internal controls and processes of each of the investment managers.

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## **7. Expected return on investments**

- 7.1. The Trustee has regard to the relative investment return and risk that each asset class is expected to provide. The Trustee is advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the investment managers.
- 7.2. The Trustee recognises the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.
- 7.3. In considering the expected return from investments, the Trustee recognises that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.
- 7.4. Having established the investment strategy, the Trustee monitors the performance of each investment manager against an agreed benchmark as frequently as appropriate according to market conditions and the Scheme's funding position. The Trustee meets the Scheme's investment managers as frequently as is appropriate, normally on an annual basis, in order to review performance.

## **8. Realisation of investments**

- 8.1. The Trustee has delegated the responsibility for buying and selling investments to the investment managers. The Trustee has considered the risk of liquidity as referred to above.
- 8.2. Ultimately, the investments will all have to be sold when the Scheme's life comes to an end. In this situation, the Trustee is aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Scheme accounts.

## **9. Financially material considerations, the exercise of voting rights and engagement activities, and non-financial matters**

- 9.1. The Trustee has set policies in relation to these matters and these are set out in Appendix 2.

## **10. Governance**

- 10.1. The Trustee of the Scheme is responsible for the investment of Scheme 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 it has the appropriate training and expert advice in order to make an informed decision. The Trustee has established the following decision making structure

<b>Trustee</b>	
<ul style="list-style-type: none"> <li>• Select structures and processes for carrying out its role</li> <li>• Select and monitor planned asset allocation</li> <li>• Select direct investments (see below)</li> <li>• Consider: <ul style="list-style-type: none"> <li>○ Selection of investment advisers and investment managers</li> <li>○ Investment structures and their implication</li> </ul> </li> <li>• Monitor investment advisers and investment managers</li> <li>• Monitor direct investments</li> <li>• Make day to day decisions relevant to the operation of the Scheme’s investment strategy</li> </ul>	
<p style="text-align: center;"><b>Investment Adviser</b></p> <ul style="list-style-type: none"> <li>• Advice on all aspects of the investment of the Scheme assets, including implementation</li> <li>• Advise on this statement</li> <li>• Provide required training</li> </ul>	<p style="text-align: center;"><b>Investment Manager and AVC Providers</b></p> <ul style="list-style-type: none"> <li>• Operate within the terms of their written contracts</li> <li>• Select individual investments with regard to their suitability and diversification</li> </ul>

## 11. Agreement

11.1. This statement was agreed by the Trustee, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the employer, the investment managers, the actuary and the Scheme’s auditor upon request.

**Signed:**.....

**Date:**.....

**On behalf of the Trustee of the Unionamerica (1993) Pension Scheme**

# Appendix 1 Note on investment policy of the Scheme in relation to the current Statement of Investment Principles

## 1. The balance between different kinds of investment

The Scheme has a strategic asset allocation as set out in the table below, which has been agreed after considering the Scheme's liability profile, funding position, expected return of the various asset classes and the need for diversification.

### Rebalancing

The Trustee recognises that the asset allocation of investments in different asset classes will vary over time as a result of market movements. The Trustee seeks to maintain a balance between maintaining the asset allocation in line with its benchmark and limiting the costs of rebalances. The Scheme rebalances on a regular basis, using the control ranges detailed in the table:



Portfolio	Asset class	Allocation	Control Range
	<b>Equities</b>	<b>25%</b>	
Growth portfolio	UK Equity	6.25%	+ 0.88%
	North American Equity	3.13%	± 0.63%
	North American Equity (Hedged)	3.13%	± 0.63%
	Europe	3.13%	± 0.63%
	Europe (Hedged)	3.13%	± 0.63%
	Japan	1.13%	± 0.63%
	Japan (Hedged)	1.13%	± 0.63%
	Asia Pacific (ex Japan) Developed	1.00%	± 0.63%
	Asia Pacific (ex Japan) Developed (Hedged)	1.00%	± 0.63%
	Emerging Markets	2.00%	± 0.63%
	<b>Bonds</b>	<b>75%</b>	
Protection portfolio	Gilt Portfolio	37.5%	n/a
	Corporate Bonds	37.5%	n/a
<b>Total</b>		<b>100%<sup>1</sup></b>	

<sup>1</sup>Total may not sum to 100% due to rounding

## 2. Choosing investments

The Trustee has appointed the following investment manager Legal and General Investment Management to carry out the day-to-day investment of the Scheme. The Plan holds all the assets on the Legal and General Investment Platform. The transition onto the platform occurred in February 2022. As all assets were held with Legal & General, the move was purely operational and allowed for material investment manager fee savings.

The Scheme is closed to new contributions and no further AVCs can be paid. The Trustee also has AVC contracts with Standard Life, Equitable Life and Legal & General for the receipt of members' Additional Voluntary Contributions (AVCs). The AVC arrangement is reviewed from time to time.

The investment manager and AVC providers are authorised and regulated by the Financial Conduct Authority

The investment benchmarks and objectives for each investment manager are given below:

## Equities

Investment manager	Fund	Benchmark	Objective
	UK Equity Index	FTSE All Share	Track the index within +/- 0.25% p.a. for two years in three
	North America Equity Index	FTSE AW - Developed North America	Track the index within +/- 0.5% p.a. for two years in three
	North America Equity Index – GBP Hedged	FTSE AW - Developed North America – GBP Hedged	Track the index within +/- 0.5% p.a. for two years in three
	Europe (ex UK) Equity Index	FTSE AW - Developed Europe (ex UK)	Track the index within +/- 0.5% p.a. for two years in three
	Europe (ex UK) Equity Index – GBP Hedged	FTSE AW - Developed Europe (ex UK) – GBP Hedged	Track the index within +/- 0.5% p.a. for two years in three
Legal & General Equities	Japan Equity Index	FTSE AW - Japan	Track the index within +/- 0.5% p.a. for two years in three
	Japan Equity Index – GBP Hedged	FTSE AW - Japan – GBP Hedged	Track the index within +/- 0.5% p.a. for two years in three
	Asia Pacific (ex Japan) Developed Equity Index	FTSE AW - Developed Asia Pacific (ex Japan)	Track the index within +/- 0.75% p.a. for two years in three
	Asia Pacific (ex Japan) Developed Equity Index – GBP Hedged	FTSE AW - Developed Asia Pacific (ex Japan) – GBP Hedged	Track the index within +/- 0.75% p.a. for two years in three
	World Emerging Markets Equity Index	FTSE AW - All Emerging Markets Index	Track the index within +/- 1.5% p.a. for two years in three
	Core Plus Fund	iBoxx Sterling Non Gilts Index	The Fund aims to exceed the return of the benchmark by 1.15% p.a. over a rolling three year period (gross of fees).
	Gilt Portfolio	Respective individual gilt indices	Track respective gilt index within stated tracking error

The performance of the investment manager will be monitored as frequently as the Trustee considers appropriate in light of the prevailing circumstances. The monitoring takes into account both short-term and long-term performance.

### 3. Fee agreements

The fee arrangement with the investment manager is summarised below:

Investment manager	Fund	Annual Management Charge (p.a.)
Legal & General	UK Equity Index	0.050%
	North America Equity Index	0.090%
	North America Equity Index – GBP Hedged	0.115%
	Europe (ex UK) Equity Index	0.090%
	Europe (ex UK) Equity Index – GBP Hedged	0.115%
	Japan Equity Index	0.090%
	Japan Equity Index – GBP Hedged	0.115%
	Asia Pacific (ex Japan) Developed Equity Index	0.090%
	Asia Pacific (ex Japan) Developed Equity Index – GBP Hedged	0.115%
	World Emerging Markets Equity Index	0.260%
Legal & General	Core Plus Fund	0.270%
	Gilt Portfolio	0.045%

The Trustee has appointed Barnett Waddingham LLP to advise on investment matters. Barnett Waddingham are normally remunerated on a time-cost basis, although fixed fees may be agreed for specific tasks.

### 4. Investments and disinvestments

Investments and disinvestments are usually made so as to move the actual asset allocation more in line with the target asset allocation.

## **Appendix 2 Note on Environmental, Social and Governance considerations, non-financial matters, the exercise of voting rights and engagement activities and manager arrangements in relation to Statement of Investment Principles**

### **1 Policy on financially material considerations**

The Trustee believes that environmental, social and governance (“ESG”) factors are potentially financially material over the life of the Scheme and therefore has a policy to consider these, alongside other factors, when selecting or reviewing the Scheme’s investments. The Trustee will be reliant on the information presented by the investment managers and their investment advisors regarding the extent to which an investment manager allows for ESG in making their investment decisions. Furthermore, an investment manager’s capabilities in this area will not take precedence over other factors, including (but not limited to) historical performance or fees.

As the investments are held in pooled funds, ESG considerations are set by each of the investment managers. The Scheme’s investment managers will ultimately act in the best interests of the Scheme to maximise returns for a given level of risk.

### **2 Non-financially material considerations**

The Trustee does not make specific allowance for non-financial matters (such as member ethical views) within the investment strategy.

### **3 Stewardship**

The Trustee believes that good stewardship and positive engagement can lead to improved governance and better risk-adjusted investor returns. The Trustee delegates the exercise of the rights (including voting rights) attaching to the Scheme’s investments.

The Trustee acknowledges the importance of ESG and climate risk within its investment making framework. When delegating investment decision making to their investment managers they provide their investment managers with a benchmark they expect the investment managers to either follow or outperform. The investment manager has discretion over where in an investee company’s capital structure it invests (subject to the restrictions of the mandate), whether directly or as an asset within a pooled fund.

The Trustee is firmly of the belief that ESG and climate risk considerations extend over the entirety of a company’s corporate structure and activities i.e. that they apply to equity and credit holdings. The Trustee also recognises that ESG and climate related issues are constantly evolving and along with them so too are the products available within the investment management industry to help manage these risks. The Trustee considers it to be a part of their investments managers’ roles to assess and monitor developments in the capital structure for each of the companies in which the manager invests on behalf of the Scheme or as part of the pooled fund in which the Scheme holds units.

In selecting and reviewing their investment managers, where appropriate, the Trustee will consider the

investment managers' policies on engagement (including exercise of voting rights) and how these policies have been implemented.

The Trustee also considers it to be part of their investment managers' roles to assess and monitor how the companies in which they are investing are managing developments in ESG related issues, and in particular climate risk, across the relevant parts of the capital structure for each of the companies in which the managers invest on behalf of the Scheme. The Trustee uses pooled funds, but expects the investment manager to employ the same degree of scrutiny. Should an investment manager be failing in these respects, this should be captured in the Scheme's regular performance monitoring.

The Scheme's investment managers are granted full discretion over whether or not to hold the equity, debt or other investment in the Sponsoring employer's business. Through their consultation with the Sponsoring Employer when setting this Statement of Investment Principles the Trustee has made the Sponsoring Employer aware of their attitude to ESG and climate related risks, how they intend to manage them and the importance that the pensions industry as a whole, and its regulators, place on them.

The Trustee has taken into consideration the UK Stewardship Code, and the investment managers all have stated corporate governance policies which comply with many or all of these principles. The Trustee will consider ESG, voting and engagement issues when appointing and reviewing managers to ensure that they are appropriately taken into account given the asset class involved.

## 4 Manager arrangements

### Conflicts of Interest

The Scheme's investment consultants, Barnett Waddingham, are independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes the Trustee confident that the investment manager recommendations they make are free from conflict of interest.

The Trustee expects all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so the Trustee believe they have managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustee/investment manager and the investee companies.

### Policy on arrangements with asset managers

Prior to appointing the investment manager, the Trustee discusses the investment manager's benchmark and approach to the management of ESG and climate related risks with the Scheme's investment consultant, and how they are aligned with the Trustee's own investment aims, beliefs and constraints.

When appointing an investment manager, in addition to considering the investment manager's investment philosophy, process and policies to establish how the manager intends to make the required investment returns, the Trustee also considers how ESG and climate risk are integrated into these. If the Trustee deems any aspect of these policies to be out of line with their own investment objectives for the part of the portfolio being considered, they will use another manager for the mandate.

The Trustee carries out a strategy review at least every 3 years where they assess the continuing relevance of the strategy in the context of the Scheme and their aims, beliefs and constraints. The Trustee monitors the investment managers' approach to ESG and climate related risks on a periodic basis.

In the event that the investment manager ceases to meet the Trustee's desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment may be terminated. The investment managers have been informed of this by the Trustee.

Investment manager ESG policies are reviewed in the context of best industry practice and feedback is/will be provided to the investment manager.

## Time horizon for making decisions and engagement

The Trustee is mindful that the impact of ESG and climate change may have a long-term nature. However, the Trustee recognises that the potential for change in value as a result of ESG and climate risk may occur over a much shorter term than climate change itself. The Trustee has acknowledged this in its investment management arrangements.

When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustee assesses these over an agreed predetermined rolling timeframe. The Trustee believes the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon. Where a fund may have an absolute return or shorter term target, this is generally supplementary to a longer term performance target. In the case of assets that are actively managed, the Trustee expects this to be sufficient to ensure an appropriate alignment of interests.

The Trustee expects investment managers to vote and engage on behalf of the Scheme's holdings and the monitors this activity within the Implementation Statement in the Scheme's Annual Report and Accounts. The Trustee does not expect ESG considerations to be disregarded by the investment manager in an effort to achieve any short term targets.

## Manager performance and remuneration

The Trustee monitors the performance of their investment managers over the medium to long time periods that are predetermined and consistent with the Trustee's investment aims, beliefs and constraints.

The Scheme invests exclusively in pooled funds. The investment manager is remunerated by the Trustee based on the assets they manage on behalf of the Trustee. As the funds grow, due to successful investment by the investment manager, they receive more and as values fall they receive less.

The Trustee believes that this fee structure, including the balance between any fixed and performance related element, enables the investment manager to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.

The Trustee asks the Scheme's Investment Consultant to assess if the asset management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered every three years as part of the review of the Statement of Investment Principles.

## Portfolio turnover costs

The Trustee acknowledge that portfolio turnover costs can impact on the performance their investments. Overall performance is assessed as part of the regular investment monitoring process.

During the investment manager appointment process, the Trustee considers both past and anticipated portfolio turnover levels. When underperformance is identified deviations from the expected level of turnover may be investigated with investment manager concerned if it is felt they may have been a significant contributor to the underperformance. Assessments reflect the market conditions and peer group practices.

## Duration of arrangements

For the open-ended pooled funds in which the Scheme invests, there are no predetermined terms of agreement with the investment managers.

The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustee's investment aims, beliefs and constraints is assessed every three years, or when changes deem it appropriate to do so more frequently. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.