

# Statement of Investment Principles

## Premier Farnell UK Pension Scheme (September 2020)

### Introduction

- 1 This document is the Statement of Investment Principles (the 'SIP') made by Premier Farnell Pension Trustees Limited (the 'Trustee') as the Trustee of the Premier Farnell UK Pension Scheme (the 'Scheme') in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and regulations made under it).
- 2 The Trustee will review this SIP at least every three years and without delay after any significant change in investment policy. Before finalising this SIP, the Trustee took advice from a suitably qualified firm and consulted Premier Farnell Limited (the 'Company'). The ultimate power and responsibility for deciding investment policy, however, lies solely with the Trustee.
- 3 The Scheme is a Registered Pension Scheme for the purposes of the Finance Act 2004.
- 4 The Trustee adheres to the Pensions Regulator's Code of Practice.

### Defined Contribution (DC)

#### *Investment objectives*

- 5 The Trustee has the following investment objectives:
  - To make available a range of investment funds to enable members to tailor their own investment strategy to meet their own needs.
  - To offer funds that facilitate long-term capital growth in order to maximise the value of members' assets.
  - To offer funds to protect the capital value of members' assets as they approach retirement.
  - To provide a suitable default investment option for members who do not make their own investment decisions.

#### *Investment strategy*

- 6 The Trustee appointed an investment consultant to provide advisory services to the Trustees (the "Investment Consultant").
- 7 The Trustee has received advice from the Investment Consultant to determine appropriate opportunities for defined contribution members.

### *Self select options*

8 Defined contribution members will be offered the opportunity to invest in the following funds:

- Legal & General Investment Management ('LGIM') Cash Fund
- LGIM Pre-Retirement Fund
- LGIM World Emerging Markets Equity Index Fund
- LGIM AC World Adaptive Capped ESG Universal Index Fund (GBP Hedged)
- LGIM Diversified Fund
- LGIM All Stocks Index-Linked Gilts Index Fund
- HSBC Islamic Global Equity Index Fund

### *Lifestyle strategies (including default)*

9 A default option for asset allocation will operate on a 'lifestyle' basis with members invested wholly in the LGIM AC World Adaptive Capped ESG Universal Index Fund (GBP Hedged) until 20 years from their Target Retirement Age. At this point assets are gradually transferred into the LGIM Diversified Fund over the next 10 years when an individual would hold all of their investments in the fund. Investments are then partly transferred into the Pre-Retirement fund and Cash fund as members approach their Target Retirement Age (age 65 unless a member selects an alternative age). These changes will operate so that, at Target Retirement Age, a member's fund will be 20% Diversified Fund, 25% bonds and 55% cash.

10 A second lifestyle operates for former Link members, which operates in a similar way. The assets are invested in the LGIM AC World Adaptive Capped ESG Universal Index Fund (GBP Hedged) until 15 years from members' Target Retirement Age. The fund then switches into the LGIM Diversified Fund over the next 10 years and switches into the Cash fund over the last 5 years as members approach their Target Retirement Age. At their Target Retirement Age, a member's fund will be 100% invested in the cash fund. The Target Retirement Age is 60 unless a member selects an alternative age.

11 There are also three voluntary lifestyle strategies that members have the option of selecting:

- Cash focussed lifestyle – the assets are invested wholly in the LGIM AC World Adaptive Capped ESG Universal Index Fund (GBP Hedged) until 20 years from their Target Retirement Age. The assets are then gradually switched into the LGIM Diversified Fund over the next 10 years, when the individual would hold all of their investments in this fund. Investments are then gradually transferred into the Cash fund until 1.25 years from retirement, when an individual would hold 38.75% in the Diversified Growth Fund and 61.25% in the Cash. The assets are then switched to be wholly invested in the Cash fund at Target Retirement Age.
- Drawdown focussed lifestyle – the assets are invested wholly in the LGIM AC World Adaptive Capped ESG Universal Index Fund (GBP Hedged) until 20 years from Target Retirement Age. At this point assets are gradually transferred into the LGIM Diversified Fund over the next 10 years when an individual would hold all of their investments in the fund. The assets then switch to the Pre-Retirement and

Cash funds until, at Target Retirement Age, an individual is invested 60% in the Diversified Fund, 15% in the Pre-Retirement fund and 25% in the Cash fund.

- Annuity focussed lifestyle – the assets are invested wholly in the LGIM AC World Adaptive Capped ESG Universal Index Fund (GBP Hedged) until 20 years from their Target Retirement Age. At this point assets are gradually transferred into the LGIM Diversified Fund over the next 10 years when an individual would hold all of their investments in the fund. Investments are then gradually transferred into the Pre-Retirement fund and Cash fund as members approach their Target Retirement Age (age 65 unless a member selects an alternative age). These changes will operate so that, at Target Retirement Age, a member's fund will be 75% bonds and 25% cash.

### ***Expected return on investments***

12 Over the long term, the Trustee's expectations are:

- For units representing "growth" assets (UK equities, overseas equities and multi-asset or diversified funds), to achieve a real return (in excess of inflation) over the long term. The Trustees consider short-term volatility in equity price behaviour to be acceptable, given the general expectation that over the long term equities will outperform the other major asset classes.
- For units representing annuity price matching assets (UK gilts, for example in Pre-Retirement funds), to achieve a rate of return which is expected to be approximately in line with changes in the cost of providing fixed income annuities.
- For units representing cash, to protect the capital value of the investment and achieve a rate of return in line with money market interest rates.

### ***Day to day management***

13 In accordance with the Financial Services and Markets Act 2000, the selection of specific investments will be delegated to investment managers. The investment managers will provide the skill and expertise necessary to manage the investments of the Scheme competently.

14 The Trustee is not involved in the investment managers' day-to-day method of operation and does not directly seek to influence attainment of their performance targets. The Trustee will monitor and assess the performance and risk against measurable objectives for each investment manager, consistent with the achievement of the Scheme's long term objectives.

### ***Responsible investing, stewardship and sustainability***

15 The Trustee takes account of all financially material risks and opportunities in consultation with its advisers. All risks and opportunities are considered for materiality and impact within a risk management framework, which takes account of members' investment time horizons and objectives. The Trustee considers sustainable investment factors, such as (but not limited to) those arising from Environmental, Social and Governance (ESG) considerations, including climate change, in the context of this broader risk management framework. The Trustee's policy at this time is not to take into account non-financial matters.

- 16 The Trustee's policy is that day-to-day decisions relating to the investment of Scheme assets is left to the discretion of its investment managers. This includes consideration of all financially materially factors, including ESG-related issues where relevant. The Trustee explores these issues with its managers to understand how they exercise these duties in practice and receives reports on how these issues are addressed.
- 17 When considering the appointment of new managers, and reviewing existing managers, the Trustee, together with its investment consultant, looks to take account of the approach taken by managers with respect to sustainable investing including voting policies and engagement where relevant. This has led to a switch to an ESG focused global equity fund as part of the lifestyle and self-select investments.
- 18 The Trustee encourages the Scheme's investment managers to discharge their responsibilities in respect of investee companies in accordance with the Stewardship Code published by the Financial Reporting Council. The Trustee recognises the UK Stewardship Code as best practice and encourages their investment managers to comply with the UK Stewardship Code.

### *Investment Manager appointment, engagement and monitoring*

- 19 Alignment between an investment manager's management of the Scheme's assets and the Trustee's policies and objectives is a fundamental part of the appointment process of a new investment manager. As the DC Section only invests in pooled investment funds, the Trustee cannot directly influence or incentivise investment managers to align their management of the funds with the Trustee's own policies and objectives. However, the Trustee will seek to ensure that the investment objectives and guidelines of any investment fund used are consistent with its own policies and objectives. The Trustee will also seek to understand the investment manager's approach to sustainable investment (including engagement).
- 20 The Trustee is responsible for monitoring the investment funds and managers. As part of this, the Trustee will provide investment managers with the most recent version of the SIP on an annual basis and ask managers to explicitly confirm whether they believe there is any misalignment between the objectives and guidelines of the fund(s) they manage on behalf of the Scheme, or the manager's approach to sustainable investment, and the Trustee's policies as documented in the SIP. Should the Trustee's monitoring process reveal that an investment fund's objectives and guidelines, or an investment manager's approach to sustainable investment, do not appear to be sufficiently aligned with the Trustee's policies, the Trustee will engage with the investment manager to ascertain the reasons for this and whether closer alignment can be achieved. If this is not possible the Trustee may look to replace the fund.
- 21 The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. For most of the DC Section investments, the Trustee expects the investment managers to invest with a medium to long term horizon, and to use their engagement activity to drive improved performance over these periods.
- 22 When assessing an investment manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate an investment manager's appointment based purely on short term performance. However, an investment manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in the business structure or the investment team.
- 23 Investment managers are paid a fee expressed as a percentage of assets managed, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement.

- 24 The Trustee benchmarks the costs as part of the selection of the investment managers and then reviews the costs incurred in managing the Scheme's assets on an annual basis, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual investment manager level, the Trustee will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that type of fund.

#### *Liquidity and realisation of investments*

- 25 The responsibility for buying and selling investments has been delegated to the investment managers. The Scheme's assets are in policies which can be realised to provide benefits when a member makes a valid request to withdraw them, or earlier on transfer to another pension arrangement.

## Defined Benefit (DB)

### *Investment objectives*

26 The Trustee has the following investment objectives:

- The acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from the Employer, the cost of current and future benefits which the Scheme provides;
- To limit the risk of the assets failing to meet the liabilities, both over the long-term and on a shorter-term basis;
- To minimise the long term costs of the Scheme by maximising the return on the assets whilst having regard to the objective shown under the point above; and
- The Scheme has a long-term objective of self-sufficiency, which is articulated as achieving full funding on a gilts + 0.25% per annum measure of the liabilities with a target date of 30 June, 2031.

### *Investment strategy*

27 The Trustee has received advice to determine an appropriate investment strategy for the Scheme. The Trustee has a desire to diversify risk exposures and to manage its investments effectively.

28 The investment strategy makes use of two key types of investments:

- a range of instruments that provide a broad match to changes in liability values; and
- a diversified portfolio of return-seeking assets.

29 The Trustee appointed an investment manager to manage Scheme assets on a discretionary basis and to provide advisory services to the Trustee (the "Fiduciary Manager"). The balance within and between these investments will be determined from time-to-time at the discretion of the Fiduciary Manager, with the objective of maximising the probability of achieving the Scheme's investment objective set by the Trustee. The Fiduciary Manager's discretion is subject to guidelines set by the Trustee within its Fiduciary Management Agreement (the Agreement) with the Trustee dated 02 November 2015. The Fiduciary Manager considers the Agreement, the guidelines and the Trustee's policies set out within this statement when carrying out its role and responsibilities, which ensures appropriate incentivisation and alignment of decision-making with the Trustee's overall objectives, strategy and policies.

30 The Trustee has agreed to an initial target a return of gilts + 2.4% per annum. This decision considered the Scheme's long-term investment strategy, investment advice from the Fiduciary Manager and the covenant of the Company.

31 The Scheme will hold assets in cash and other money market instruments from time to time as may be deemed appropriate.

- 32 The Trustee will monitor the liability profile of the Scheme and will regularly review, in conjunction with the Fiduciary Manager and the Scheme actuary, the appropriateness of its investment strategy.
- 33 The expected return of an investment will be monitored regularly and will be directly related to the Scheme's investment objective.
- 34 The Trustee's policy is that there will be sufficient investments in liquid or readily realisable assets to meet cash flow requirements in foreseeable circumstances so that the realisation of assets will not disrupt the Scheme's overall investments, where possible.

### *Investment managers*

- 35 The Trustee has delegated investment manager selection, de-selection and the ongoing management of relationships with asset managers to the Fiduciary Manager within Investment Guidelines set by the Trustee. The Trustee considers the Fiduciary Manager's performance in carrying out these responsibilities as part of its ongoing oversight of the Fiduciary Manager. The Trustee expects the Fiduciary Manager to ensure that, the portfolio, in aggregate, is consistent with the policies set out in this statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). Where relevant to the mandate, the Trustee expects the Fiduciary Manager to:
- ensure that the investment objectives and guidelines of any pooled vehicle are consistent with the Trustee's policies;
  - use its discretion, where appropriate, to set explicit guidelines within the Investment Management Agreement for segregated investments to ensure consistency with the Trustee's policies.
- 36 In accordance with the Financial Services and Markets Act 2000, the selection of specific investments will be delegated to investment managers. The investment managers will provide the skill and expertise necessary to manage the investments of the Scheme competently.
- 37 The Trustee and Fiduciary Manager are not involved in the investment managers' day-to-day method of operation and do not directly seek to influence attainment of their performance targets. The Fiduciary Manager will maintain processes to ensure that performance and risk are assessed on a regular basis against measurable objectives for each investment manager, consistent with the achievement of the Scheme's long term objectives.
- 38 The Trustee expects the Fiduciary Manager to appoint investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. When assessing a manager's performance, the Trustee expects the Fiduciary Manager to focus on longer-term outcomes, commensurate with the Trustee's position as a long term investor. Consistent with this view, the Trustee does not expect that the Fiduciary Manager would terminate a manager's appointment based purely on short term performance but recognises that a manager may be terminated within a short timeframe due to other factors such as a significant change in business structure or the investment team. The Trustee adopts the same long term focus as part of its ongoing oversight of the Fiduciary Manager.
- 39 For most of the Scheme's investments, the Trustee expects the Fiduciary Manager to appoint managers with a medium to long time horizon, consistent with the Scheme. In particular areas such as equity and credit, the Trustee expects the Fiduciary Manager to work with managers who will use their engagement activity to drive improved performance over medium to long

term periods within the wider context of long-term sustainable investment. The Trustee notes that the Fiduciary Manager may invest in certain strategies where such engagement is not deemed appropriate or possible, due to the nature of the strategy and/or the investment time horizon underlying decision making. The Trustee expects that the appropriateness of the Scheme's allocation to such mandates is determined in the context of the Scheme's overall objectives.

- 40 The Trustee has delegated responsibility for the selection, retention and realisation of investments to the Fiduciary Manager and in turn to the Scheme's investment managers. However, the Trustee and Fiduciary Manager recognise that an investment's long-term financial success is influenced by a range of factors including Environmental, Social and Governance (ESG) issues.
- 41 Consequently the Trustee (through the selection of the Fiduciary Manager and its associated approach to environmental, social and governance issues, as set out in 30 and 31 below) seeks to be an active long-term investor. The Trustee's focus is explicitly on financially material considerations. The Trustee's policy at this time is not to take into account non-financial matters.
- 42 The Fiduciary Manager has a dedicated Sustainable Investment resource and a network of subject matter experts. The consideration of ESG issues is fully embedded in the investment manager selection and portfolio management process, with oversight undertaken on an ongoing basis. The Trustee expects the Fiduciary Manager to assess the alignment of the Scheme's underlying managers' approach to sustainable investment (including engagement) with its own before making an investment on the Scheme's behalf. The Trustee expects the Fiduciary manager to engage with underlying managers where appropriate regarding their approach to stewardship with respect to relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings. In addition, the Trustee expects the Fiduciary Manager to review the managers' approach to sustainable investment (including engagement) on a regular basis and engage with the manager to encourage further alignment as appropriate. The outcome of the Fiduciary Manager's assessment should be reported back to the Trustee on a regular basis.
- 43 The Fiduciary Manager considers a range of sustainable investment factors, such as, but not limited to, those arising from ESG considerations, including climate change, in the context of a broader risk management framework. The degree to which these factors are relevant to any given strategy is a function of time horizon, investment style, philosophy and particular exposures which the Fiduciary Manager takes into account in the assessment.
- 44 The Fiduciary Manager encourages and expects the Scheme's investment managers to sign up to local or other applicable Stewardship Codes, in keeping with good practice, subject to the extent of materiality for certain asset classes. The Fiduciary Manager itself is a signatory to the Principles for Responsible Investment (PRI) and the UK Stewardship Code and is actively involved in external collaborations and initiatives.
- 45 The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers. The Fiduciary Manager has appointed Hermes EOS to undertake public policy engagement on its behalf as well as company-level engagement.

The Trustee expects the Fiduciary Manager to consider the fee structures of asset managers and the alignment of interests created by these fee structures as part of its investment decision making process, both at the appointment of an asset manager and on an ongoing basis. Asset managers are generally paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement. The



Trustee expects the Fiduciary Manager to review and report on the costs incurred in managing the Scheme's assets regularly, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustee expects the Fiduciary Manager to have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

## Other matters

- 46 Additional Voluntary Contributions ('AVCs') are invested in the same fund options as the DC Section arrangement. In addition, a small number of DB Section members retain investments with Utmost Life & Pensions (previously policies with Equitable Life) and Scottish Widows (under the trading name of Clerical Medical). At the start of 2020, the transfer of Equitable Life's UK policies to Utmost Life & Pensions took place. As a result, assets previously held in the Equitable Life With Profits Fund were converted to unit-linked policies and transferred into the Utmost Secure Cash Fund (as a temporary measure) and assets previously held in the Equitable Life Money Fund were transferred into the Utmost Money Market Fund. Following advice from the investment consultant, the assets in the Utmost Secure Cash Fund were gradually moved into the Utmost Money Market Fund by 30 June 2020. The Utmost Money Market Fund is classed as a new default arrangement, as per the broader definition of a default in the Occupational Pension Scheme (Preservation of Benefit and Charges and Governance) (Amendment) Regulations 2018. The assets held with Scottish Widows are all in the Clerical Medical With Profits Fund.
- 47 The Trustee recognises a number of risks involved in the investment of the Scheme's assets, and, where applicable, monitors these risks in conjunction with the Fiduciary Manager.

### **Solvency risk and mismatch risk:**

- are measured through a qualitative and quantitative assessment of the expected development of the funding level.
- are managed through the development of a portfolio consistent with delivering the Scheme's investment objective.

### **Investment Manager risk:**

- is measured by the expected deviation of the return relative to the benchmark set.
- is managed by considering when to employ active versus passive management given prospective net of fees returns, consideration of the appropriate amount of the Scheme to allocate to any active portfolios and by monitoring the actual deviation of returns relative to the benchmark and factors supporting the managers' investment process.

### **Liquidity risk:**

- is measured by the level of cash flow required by the Scheme over a specified period.
- is managed by assessing the level of cash held and time needed to liquidate positions in order to limit the impact of the cash flow requirements on the investment policy and through holding assets of appropriate liquidity.

### **Currency risk:**

- is measured by the level of exposure to non-Sterling denominated assets.

- is managed by the implementation of a currency hedging programme (carried out within some of the pooled investment vehicles) which reduces the impact of exchange rate movements on the Scheme's asset value.

**Custodial risk:**

- is addressed through investment in pooled vehicles, with the investment managers being responsible for selection of suitable custodians. In addition the Scheme's global custodian, is responsible for sweeping un-invested cash balances into pooled cash funds, which will be managed by an investment manager who, in line with other investment managers of pooled vehicles for the Scheme is responsible for selecting the custodian for the cash funds.

**Interest rate and inflation risk:**

- are measured by comparing the likely movement in the Scheme's liabilities and assets due to movements in inflation and interest rates.
- are managed by holding a portfolio of matching assets (physical bonds and/or derivatives) that enable the Scheme's assets to broadly match movements in the value of the liabilities due to inflation and interest rates.

**Political risk:**

- is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention.
- is managed by regular reviews of the actual investments relative to policy and through the level of country diversification within the policy.

**Sponsor risk:**

- is measured by receiving regular financial updates from the Company and Central Asset Reserve and periodic independent covenant assessments.
- is managed through an agreed contribution and funding schedule.

**Fiduciary manager risk:**

- is recognised by the Trustee due to the level of delegation to the fiduciary manager
- is managed through:
  - documentation of the fiduciary manager's powers and duties within the agreement with the fiduciary manager;
  - detailed investment guidelines determined by the Trustee under which the fiduciary manager will operate and against which the fiduciary manager will report its compliance. The investment guidelines include parameters and constraints around: the investment objective, geographic restrictions, permitted financial instruments, asset allocation constraints, currency exposure, liability hedging, diversification limits, liquidity, securities lending/borrowing/overdrafts, and strategic dynamic de-risking and downside risk management. These parameters and constraints are reviewed on an annual basis and as required;
  - regular review of the investment strategy decisions and process;
  - regular review of performance against the agreed objectives;
  - external independent advice, including supporting the Trustee in monitoring the fiduciary manager; and
  - ultimately through the notice period agreed in the fiduciary management agreement.

**Derivatives risk:**

- Counterparty risk – this risk is mitigated through collateral management, diversifying exposure across counterparties, and the use of robust GMRA/ISDA, or other relevant derivatives documentation.
- Basis risk – the returns from backing assets used to meet the payable leg of a derivative contract may not match exactly. This risk is addressed through the investment policy adopted by the Trustee for the backing assets and the investment managers' asset management capabilities.
- Liability risk – pension liabilities can only be estimated and there is a risk of divergence between the performance of the derivatives and the actual value of the liabilities (for example, due to changes in assumptions or demographics). This risk is mitigated by updating the liability hedging benchmark at appropriate regular intervals.
- Legal and operation risk – the successful operation of derivatives depends on the various legal documents governing the derivative contracts and the correct completion of some operational tasks. The Trustee takes appropriate advice when putting in place legal documents, reviewing legal documents already in place and appointing and monitoring providers capable of carrying out the required operational tasks.
- The Trustee is also aware of the risks relating to the initial terms of entry in derivative contracts (for example, purchasing the contracts at a competitive price) and the valuation of the derivatives on an ongoing basis. With the help of their advisors, the Trustee monitors these positions on a regular basis.