

# Wincanton Plc Pension Scheme (Defined Contribution Section)

## Statement of Investment Principles

### 1. Introduction

- 1.1. The Trustee of the Wincanton plc Pension Scheme (“the Scheme”) has produced this Statement of Investment Principles (“the Statement”) to comply with the requirements of the 1995 Pensions Act (“the Act”) and subsequent regulations.
- 1.2. In preparing this Statement, the Trustee has consulted with the principal employer to the Scheme (Wincanton plc / “the principal employer” and nominated representative of the sponsoring employers) and, under the requirements of the Act, has taken and considered appropriate advice from its professional investment adviser, Mercer.
- 1.3. The Statement covers the Defined Contribution (“DC”) section of the Scheme and the AVCs in relation to DB membership.
- 1.4. The Statement sets out the general principles underlying the investment policy. Details of how the policy is implemented are set out in a separate “Investment Policy Implementation Document” (“IPID”).

### 2. Overall Policy

- 2.1. There are two DC sections in the Scheme, namely the Retirement Savings Section (“RSS”) and the Pension Builder Plan (“PBP”). For the avoidance of doubt, the RSS includes members who have been automatically enrolled.
- 2.2. When deciding on the arrangements for the two DC sections, the Trustee recognises that members have differing investment needs and that these may change during the course of members’ working lives. The Trustee also recognises that members have different attitudes to risk, and believes that members should have the opportunity to make their own investment decisions based on their individual circumstances.
- 2.3. The strategic management of the Scheme’s assets is the responsibility of the Trustee acting on expert advice. The day to day management of the Scheme’s assets is delegated to independent investment managers who execute the investment strategy. The Trustee is responsible for the appointment and performance monitoring of the investment managers.

### 3. Investment Objectives

- 3.1. The Trustee’s investment objectives for the DC section of the Scheme are as follows:
  - i. To make available a range of investment funds to PBP members that should enable members to tailor their investment choices to meet their own individual needs;
  - ii. To offer funds which facilitate diversification and long term capital growth;
  - iii. To offer funds which have competitive total expense ratios relative to similar funds which members might access directly;

- iv. To offer funds that enable members to reduce volatility in the value of their investments as they approach retirement;
- v. To restrict the number of funds to avoid unnecessarily complicating members' investment decisions;
- vi. To provide a suitable default Lifestyle investment option for those members who do not wish to make their own investment decisions, particularly taking into account each member's remaining period of service until normal retirement age and the form in which the benefits are anticipated to be taken;
- vii. To provide alternative Lifestyle option(s) should the Trustee determine that there is sufficient demand from members for such alternative(s) or based on demographic / attitudes of the members.

#### **4. Risk**

- 4.1. The Trustee has considered risk from a number of perspectives. These risks, along with policies to mitigate these where possible, are:
- i. *Risk of capital loss in nominal terms.* The protection of capital is fundamental in supporting the long-term growth of the members' individual accounts. However, members who have considerable time until retirement may be more prepared to accept a capital fall in order to obtain a potentially higher long-term return.
  - ii. *Risk of erosion by inflation.* If investment returns lag inflation over the period of membership, the real (i.e. post inflation) value of members' individual accounts will decrease. The Trustee has provided a default option, which has an explicit allocation to assets that are expected to outperform inflation over the long term.
  - iii. *Market risk.* The value of securities, including equities and interest bearing assets, can go down as well as up. Members may not get back the amount invested. However, the Trustee realises that this risk is implicit in trying to generate returns above that earned by cash and accept this when investing in assets other than cash. In the lifestyle investment options, the Trustee mitigates short term market risk in the years immediately prior to each member's retirement by incorporation of a "lifestyling" element.
  - iv. *Risk of returns from day-to-day management not meeting expectations whether due to poor underlying investment returns or high charges.* This will lead to lower than expected returns to members. The Trustee recognises that the use of active investment management increases such a risk. The Trustee monitors the performance of the investment vehicles on a regular basis to ensure funds are meeting expectations.
  - v. *Liquidity risk.* The Scheme invests its assets on behalf of its members in a range of relatively liquid pooled investment vehicles that facilitate the availability of assets to meet redemption requests.
  - vi. *Uncertainty of future annuity rates.* Even with satisfactory investment performance, the value of any member's fund at retirement may be insufficient to secure the level of retirement income which the member expects. The Trustee cannot directly control this risk but attempts to mitigate it by informing members of their current situation and by undertaking communications and training for members in cooperation with the employer.

- vii. The risk associated with Environmental, Social and Governance (“ESG”). The risk that ESG issues, including climate change, may have substantive impacts on the global economy and subsequently investment returns that affect members’ outcomes. The Trustee cannot directly control these but has put a policy in place that relies on the investment managers’ processes.
- 4.2. The Trustee has considered the potential impact of these and other risks over the Scheme and acknowledges that they can be financially material to the Scheme.
- 4.3. The Trustee also takes into consideration non-financial matters when setting the investment objectives and strategy, but members’ views on non-financial matters (where non-financial matters includes members’ ethical views separate from financial considerations) are not explicitly taken into account in the selection of investments.

## **5. Range of funds**

- 5.1. The Trustee makes available a range of equity, bond, diversified growth, cash and lifestyle fund options. Within these funds the Trustee delegates investment decisions to the investment managers of the Scheme. The Trustee regularly obtains professional advice, monitors and reviews the suitability of the funds provided and from time to time may change the funds available and/or investment managers.
- 5.2. Members within the PBP may select to invest in either one of the two lifestyle options or a range of self-select options.
- 5.3. Members within the RSS may only select from one of the two lifestyle options.

## **6. Default Investment Option**

### **6.1. Investment Strategy**

- 6.1.1. In the PBP and RSS, the default investment option for all new members is the Cash at Retirement Lifestyle Option.
- 6.1.2. For legacy AVC members the Cash at Retirement Lifestyle option is also a designated default investment option
- 6.1.3. The Trustee currently makes available two lifestyle investment options for members in the PBP and the RSS:
  - i. The Cash at Retirement Lifestyle Option
  - ii. The Income at Retirement Lifestyle Option
- 6.1.4. For both lifestyle options, all contributions are initially invested in the Global Equity Fund. Then a phased allocation to a diversified growth fund (“DGF”) is introduced from 26 years to retirement. As members approach retirement, their pension fund is gradually switched into assets that aim to reduce risk relative to the type of retirement benefit targeted by each lifestyle option (i.e. annuity or cash). This switching process automatically starts after members’ reach six years before retirement for the Cash at Retirement Lifestyle Option and nine years before retirement for the Income at Retirement Lifestyle Option.
- 6.1.5. Further information about the mechanics of the lifestyle options is available in the IPID.

## 6.2. **The objectives of the lifestyle investment options**

- i. The lifestyle strategies manage investment and other risks through a diversified strategic asset allocation consisting of traditional and alternative assets. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. In designing the lifestyle strategies, the Trustee has explicitly considered the trade-off between risk and expected returns.
- ii. Assets in the lifestyle strategies are invested in the best interests of members and beneficiaries, taking into account the demographic profile and attitudes of the membership.
- iii. Assets in the lifestyle strategies are invested in a manner which aims to ensure the security, quality and liquidity of a member's portfolio as a whole.
- iv. Assets are invested mainly on regulated markets.
- v. The growth phase structures of the lifestyle strategies, which invests in equities and other growth-seeking assets (i.e. a diversified growth fund), will provide growth with some protection from falls in equity markets and some protection against inflation erosion. Put another way the aim of the growth phase is to deliver members an efficient and cost effective way of growing their DC fund in real terms.
- vi. As a member's fund grows, investment risk will have a greater impact on member outcomes. Having considered the switching period and the risks faced by members as they approach retirement, the Trustee believes that a strategy that seeks to reduce investment risk as the member approaches retirement is appropriate.
- vii. Having considered the likely projected size of members' funds at retirement and the choices made by those members who have recently retired, the Trustee believes that the majority of members will wish to take their DC benefits as a cash lump sum at retirement. Accordingly, the Trustee believes that the current default option has an appropriate investment strategy that targets cash at retirement. This does not mean that members have to take their benefits in this form at retirement – it merely determines the default investment strategy that will be in place pre-retirement. The Trustee will continue to monitor members' decisions at retirement to confirm that this assumption is supported by actual behaviour.

## 7. **Additional Voluntary Contributions in relation to DB membership**

The Trustee gives members the opportunity to invest in a range of vehicles at the individual member's discretion.

## 8. **Responsible Investment and Corporate Governance**

- 8.1. The Trustee believes that environmental, social and governance ("ESG") factors may have a material impact on investment returns and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognizes that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

- 8.2. The Trustee has given the appointed investment managers full discretion when evaluating ESG-factors, including climate change considerations, and in exercising rights and stewardship obligations attached to the Scheme's investments, in accordance with their own corporate governance policies and current best practice, including UK Corporate Governance Code and UK Stewardship Code.
- 8.3. The Trustee considers how ESG, climate change and stewardship is integrated within investment processes and how the managers' responsible investment philosophy aligns with the Trustee's responsible investment policy. This includes the investment managers' policy on voting and engagement. The Trustee will use this assessment in decisions around selection, retention and realisation of manager appointments.
- 8.4. The Trustee has not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future.
- 8.5. These policies apply across the range of investment options made available to members including the default investment arrangement and the self-select investment fund range.
- 8.6. The Trustee has not sought members' opinions on ESG matters at this time but maintains the right to consider this option in future.

## **9. Investment Manager Appointment, Engagement, and Strategy**

### **9.1. Aligning Manager appointments with investment strategy**

- 9.1.1. The underlying investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected. These expectations will differ across asset classes.
- 9.1.2. The underlying investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustee is dissatisfied, then they will look to replace the manager.
- 9.1.3. If the investment objective for a particular manager's fund changes, the Trustee will review the fund appointment to ensure it remains appropriate and consistent with the Trustee's wider investment objectives.
- 9.1.4. The Trustee considers the investment consultant's assessment of how each underlying investment manager embeds ESG into its investment process and how the manager's responsible investment philosophy aligns with the Trustee's responsible investment policy. This includes the underlying investment managers' policy on voting and engagement. The Trustee will use this assessment in decisions around selection, retention and realisation of manager appointments.

### **9.2. Evaluating investment manager performance**

- 9.2.1. The Trustee receives investment manager performance reports on a quarterly basis, which present performance information over three months, one year, three years and five years. The Trustee reviews the absolute performance, relative performance against a suitable index used as the benchmark, and against the underlying manager's stated target performance (over the relevant time period) on a gross of

fees basis. Whilst the Trustee's focus is on long-term performance (i.e. three years or longer), they also take shorter-term performance into account.

9.2.2. If an underlying manager is not meeting performance objectives, or their investment objectives for the fund have changed, the Trustee may review the suitability of the manager, and change managers where required. The performance objectives will be reviewed over a three-year period.

### 9.3. **Portfolio Turnover costs**

9.3.1. The Trustee considers portfolio turnover costs as part of the annual value for member's assessment using the costs and charges disclosure data provided by the managers.

9.3.2. The Trustee monitors portfolio turnover ranges for funds, and will engage with a manager if portfolio turnover is higher than expected. The Trustee will monitor industry developments in how to assess these costs and incorporate this in future assessments.

### 9.4. **Manager turnover**

9.4.1. All the funds are open-ended with no set end date for the arrangement. The Fund Range and Default Strategy are reviewed on at least a triennial basis. An underlying manager's appointment may be terminated if it is no longer considered to be optimal nor have a place in the default strategy or general fund range.

## 10. **Exercise of voting rights**

The Trustee has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the investment managers have produced written guidelines of their process and practice in this regard. The investment managers are encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies and are required to provide periodic written reports to the Trustee regarding their exercise of voting rights on the Trustee's behalf

## 11. **Review of this Statement**

11.1. The Trustee will review this Statement in response to any material changes to any aspects of the Scheme which they judge to have a bearing on the stated investment policy.

11.2. This review will occur no less frequently than every three years.

**July 2020**

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Signed

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Date

**For and on behalf of Wincanton Pension Scheme Trustees Limited**