

# The Cadogan Estates Limited 1995 Pension and Assurance Scheme

## Statement of Investment Principles

November 2017

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# 1 Introduction

## Scheme background

- This Statement of Investment Principles (the "Statement") details the principles governing investment decisions for The Cadogan Estates Limited 1995 Pension and Assurance Scheme (the "Scheme").
- The Scheme:
  - operates for the exclusive purpose of providing retirement and death benefits to eligible participants and beneficiaries,
  - provides benefits calculated on a defined contribution (DC) basis,
  - is open to new members.
- Conduent HR Services are investment consultants to the Trustees.
- Contributions are directed to an occupational money purchase pension policy with Threadneedle.

## Regulatory requirements and considerations

- This statement covers the requirements of, and the Scheme's compliance with, the provisions of the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005 as well as additional non-statutory information recommended to be included following the Myners review of "Institutional Investing in the UK", the results of which were first published in 2001 (referred to as the "Myners Principles").
- The Myners Principles require Trustee Boards to act in a transparent and responsible manner. The information set out in this document helps ensure that the Trustees are complying with this requirement.
- The Trustees have taken into account the requirements and recommendations within the Pension Regulator's DC code and regulatory guidance. Information on the Trustees' approach to investment matters within the Scheme, and in particular in setting the default arrangement, are included within this document.

# 2 Statement of Investment Principles

## Introduction

- This section of the Statement covers the requirements of the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005.
- In accordance with section 35 of the Pensions Act 1995, the Trustees have reviewed and considered written advice from the investment consultant prior to the preparation of this Statement and have consulted the Sponsoring Employer.
- The investment manager will prepare detailed quarterly reports on its activities and the Trustees will meet with them periodically.
- The Trustees will review this Statement, in consultation with the investment consultant and the Sponsoring Employer, at least once every three years, or more frequently if there are any significant changes in the Scheme's circumstances. However, ultimate power and responsibility for deciding investment policy lies solely with the Trustees.

## Key investment principles

### Kind of investments to be held

- The Trustees have full regard to their investment powers under the Trust Deed and Rules and the suitability of the various types of investments, the need to diversify, the custodianship of assets and any self-investment.
- The Scheme may invest in quoted and unquoted securities of UK and overseas markets including equities, fixed interest and index-linked bonds, cash, property and pooled investment vehicles considered appropriate for tax-exempt registered occupational pension schemes. The Trustees have considered the attributes of the various asset classes, these attributes being:
  - security (or quality) of the investment,
  - yield (expected long-term return),
  - spread (or volatility) of returns,
  - term (or duration) of the investment,
  - exchange rate risk,
  - marketability/liquidity (i.e., the tradability on regulated markets),
  - taxation.
- The Trustees consider all of the stated classes of investment to be suitable to the circumstances of the Scheme.

## Investment Decisions

- All investment decisions are taken by the Trustee Board as a whole. The Trustees believe that collective responsibility is the appropriate structure, given the size of the board. The Trustees will examine regularly whether additional investment training is desirable for any individual Trustee.
- Investment decisions relating to the Scheme are under the Trustees' control without constraint by the Sponsoring Employer. The Trustees are obliged to consult with the Sponsoring Employer when changing this Statement.
- Day-to-day investment decisions are delegated to properly qualified and authorised investment managers of pension scheme portfolios. An insurance contract has been exchanged with the platform provider and is reviewed from time-to-time. In addition, the underlying managers accessed via the platform provider are reviewed regularly to ensure that the manner in which they make investments on the Trustees' behalf is suitable for the Scheme, and appropriately diversified.

## Investment Objectives and Suitability of Investments

- The Trustees believe that fund selection is an important decision for all members since it is likely to have an important influence on the risk taken and return achieved on members' pension savings. The Trustees regularly communicate with members to enable them to understand the importance of this area and to provide them with education to help them to make informed choices about their selection of funds.
- However, the Trustees also recognise that in practice many members do not actively make an investment choice and are instead invested in the default option. The Trustees therefore recognise the importance of designing an appropriate default option for the Scheme's membership.
- Whilst the Trustees believe the chosen default option is a reasonable choice for a lot of the membership, ultimately each member should take into account their own personal circumstances when determining whether the default option or an alternative strategy would best meet their needs.
- The default option has been designed having taken due regard to the membership profile of the Scheme, including consideration of:
  - the size of members' retirement savings within the Scheme,
  - members' current level of income and hence their likely expectations for income levels post retirement,
  - the fact that members may have other retirement savings invested outside of the Scheme, and
  - the ways members may choose to use their savings to fund their retirement.

These factors have also been considered when setting the range of alternative investment options from which members can choose.

- The objective of the default option is to provide a balanced investment strategy for members who do not make an active investment choice. The strategy aims to maximise the level of return (net of fees) that a member could expect to receive from the Scheme over the course of their working lifetime, while reducing the risk of them having income provision in retirement significantly below what may reasonably be expected.

- The objective of the alternative investment options available is to allow members to tailor their investments based on their individual investment requirements, while avoiding complexity. The range should assist members in achieving the following:
  - maximising the value of retirement benefits, to ensure a reasonable standard of living in retirement,
  - protecting the value of benefits in the years approaching retirement against equity market falls and (should they decide to purchase an annuity) fluctuations in annuity costs, and
  - tailoring a member's investments to meet his or her own needs, and to how the member intends to make use of their benefits at and through retirement.
- The Trustees recognise that members using the default option are likely to be less financially aware than those using self-select options and have taken this into account in the strategy design.
- The Trustees' investment consultant provides advice regarding the suitability of both the default option and the self-select options available.
- Details of the default and self-select options chosen (including the investment objectives of the individual funds), are shown in the appendices.
- Members are advised to take independent financial advice before choosing between these funds.
- The Trustees are satisfied that the funds offered to members and the appointed investment manager are consistent with the objectives of the Scheme, particularly in relation to diversification, risk, expected return and liquidity.

## Risk

- The Trustees have considered risk from a number of perspectives. These are the risk that:
  - the investment return over members' working lives will not keep pace with inflation and does not, therefore, secure an adequate retirement income,
  - investment market movements in the period prior to retirement lead to a substantial reduction in the anticipated level of pension or other retirement income,
  - investment market movements in the period just prior to retirement lead to a substantial reduction in the anticipated cash lump sum benefit,
  - the default option is not suitable for members who invest in it, and
  - fees and transaction costs reduce the return achieved by members by an inappropriate extent.
- The investment strategy for the default option has been chosen with the aim of reducing these risks. The self-select funds available have been chosen to provide members with the flexibility to address these risks for themselves.
- To mitigate some of these risks, the Trustees have made available a lifestyle option, which transitions members' investments from higher risk orientated

investments to lower risk bond and cash investments as members approach retirement.

- To help address these risks, the Trustees also review the lifestyle option used and the fund range offered at least every three years, taking into account changes to the membership profile, developments within DC markets (including both product development and trends in member behaviour) and changes to legislation.

### Expected Return on investments

- The default option is expected to provide an appropriate return on members' investments, based on the Trustees' understanding of the Scheme's membership and having taken into account the risk considerations set out above. The Trustees have also considered the return expectations of each of the alternative fund options offered.

### Balance between different types of investments

- The investment manager will maintain a diversified portfolio of stocks or bonds within each of the funds offered under the Scheme (both within the default and self-select options).

In addition, the design of the default option provides further diversification through the use of multiple funds throughout a member's working lifetime.

### Investment Manager Monitoring

- The Trustees will assess the performance, processes and cost effectiveness of the investment manager by means of regular, but not less than annual, reviews of the results and other information, in consultation with the investment consultant.
- All investment decisions, and the overall performance of the investment manager, are monitored by the Trustees with the assistance of the investment consultant.
- The investment manager will provide the Trustees with quarterly statements of the assets held along with a quarterly report on the results of the past investment policy and the intended future policy, and any changes to the investment processes applied to the portfolios. The investment manager will also report verbally on request to the Trustees.
- The investment manager will inform the Trustees of any changes in the internal performance objective and guidelines of any pooled funds used by the Scheme as and when they occur.
- The Trustees will assess the quality of the performance and processes of the investment manager by means of a review at least once every three years in consultation with the investment consultant.
- Appropriate written advice will be taken from the investment consultant before the review, appointment or removal of the investment manager.

### Performance Monitoring

- Each of the funds in which the Scheme invests has a stated performance objective against which the performance is measured.
- The Trustees will review the performance of the investment manager from time to time, based on the results of their performance and investment process.

- The investment manager is expected to provide written reports on a quarterly basis.
- The Trustees receive an independent investment performance monitoring report from their investment consultant on a six-monthly basis.

### Realisation of investments

- In the event of an unexpected need to realise all or part of the assets of the portfolio, the Trustees require the investment manager to be able to realise the Scheme's investments in a reasonable timescale by reference to the market conditions existing at the time the disposal is required and subject to the best interests of the Scheme. The majority of the assets are not expected to take an undue time to liquidate. This applies both to the default option and to the alternative fund options offered.

### Social, Environmental and Ethical Issues

- The Trustees' objective is to ensure that the investment manager has the financial interests of the Scheme members as their first priority when choosing investments. They may take social, environmental or ethical considerations into account only when these factors do not contradict the primary objective or where these considerations are specified within the mandate of the funds used.
- The Trustees have reviewed the investment manager's policies in respect of Socially Responsible Investment and are satisfied that it is consistent with the above approach.
- This approach applies to both the default option and to the alternative fund options offered.

### Voting Rights attaching to Investments

- The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment manager and to encourage the manager to exercise those rights. The investment manager is expected to provide regular reports for the Trustees detailing their voting activity. The Trustees will take corporate governance policies into account when appointing and reviewing such investment managers.



# 3 Appointments & Responsibilities

This section sets out the key appointments and responsibilities with respect to the investment aspects of the Scheme.

## Trustees

The Trustees' primary responsibilities include:

- preparation of this Statement, reviewing its contents and modifying it if deemed appropriate, in consultation with the Sponsoring Employer and the investment consultant, at least every three years. The Statement will also be reviewed following a significant change to investment strategy and/or the investment manager,
- appointing investment consultants, a platform provider and investment manager as necessary for the good stewardship of the Scheme's assets,
- reviewing the investment strategy on a regular basis, taking advice from the investment consultant,
- assessing the processes (and therefore the performance) of the investment manager by means of regular, but not less than annual, reviews of information obtained (including investment performance),
- monitoring compliance of the investment arrangements with this Statement on a regular basis, and
- monitoring risk and the way in which the investment manager has cast votes on behalf of the Trustees in respect of the Scheme's equity holdings.

## Investment Consultant

The main responsibilities of the investment consultant include:

- assisting the Trustees in the preparation and periodic review of this Statement in consultation with the Sponsoring Employer,
- undertaking project work including reviews of investment strategy, investment performance and manager structure as required by the Trustees,
- advising the Trustees on the selection and review of the investment manager and platform provider,
- providing training or education on any investment related matter as and when the Trustees see fit.

## Investment Managers

The investment manager's main responsibilities include:

- investing assets in a manner that is consistent with the objectives set,
- ensuring that investment of the Scheme's assets is compliant with prevailing legislation and the constraints detailed in this Statement,
- providing the Trustees with quarterly reports including any changes to their investment process and a review of the investment performance,
- attending meetings with the Trustees as and when required,
- informing the Trustees (or platform provider) of any changes in the fee structure, internal performance objectives and guidelines of any pooled fund used by the Scheme as and when they occur, and
- exercising voting rights on shareholdings in accordance with their general policy.

## Custodian

The custodians used are responsible for the safe-keeping of the Scheme's assets.

- The custodianship arrangements are those operated by the investment manager for all clients investing in their pooled funds.

## Administrators

- The administrator's primary responsibilities are the day to day administration of the Scheme and the submission of specified statutory documentation, as delegated by the Trustees.
- The Scheme's administrator is Conduent HR Services.

Signed on behalf of the Trustees of the Scheme:

R. J. GRANT ..... 

Name

Signature

8 Nov 2017 .....

Date

I. M. LOUTIT ..... 

Name

Signature

8. 11. 2017 .....

Date

# Appendix 1– Fund Range and Objectives

## Fund options

The funds available to members are included in the below table.

| Manager      | Fund                                  | Benchmark Index                             | Objective<br>% p.a.   |
|--------------|---------------------------------------|---|---|
| Threadneedle | UK Equity High Alpha Fund             | FTSE All Share Index                        | To outperform the benchmark by 3.5% p.a. over rolling three year periods                                    |
|              | Global Equity                         | MSCI AC World Index                         | To outperform the benchmark by 3.0% p.a. over rolling three year periods                                    |
|              | Corporate Bond                        | iBoxx GBP Non-Gilt Index                    | To outperform the benchmark by 0.75% p.a. over rolling three year periods                                   |
|              | Property                              | AREF/IPD UK Quarterly Property Fund Index   | To outperform the benchmark by 1.0 to 1.5% p.a. over rolling three year                                     |
|              | Cash Fund                             | LIBID 7 days                                | To provide investors with an investment return similar to that of cash deposits.                            |
|              | Dynamic Real Return Fund              | UK CPI                                      | To outperform benchmark over the medium to long term and generate positive return over a three year period. |
|              | Balanced Pathway                      | Composite equity, fixed income and property | To outperform the benchmark over rolling three year periods   |
| BlackRock    | BlackRock Aquila Life UK Equity Index | FTSE All Share Index                        | To track the benchmark index  |
|              | Aquila Life Over 15 Year Gilts        | FTSE UK Gilts Government Over 15 Years      | To track the benchmark index  |

The Scheme normal retirement age is set to age 65, but the Trustees allow members to select their own retirement age. The Trustees also allow members to opt-out of the lifestyle investment strategies and select from a range of funds that suit their individual circumstances.

To aid their decisions, information about the funds offered will be made available to members. Members are advised to take financial advice before choosing between these funds.

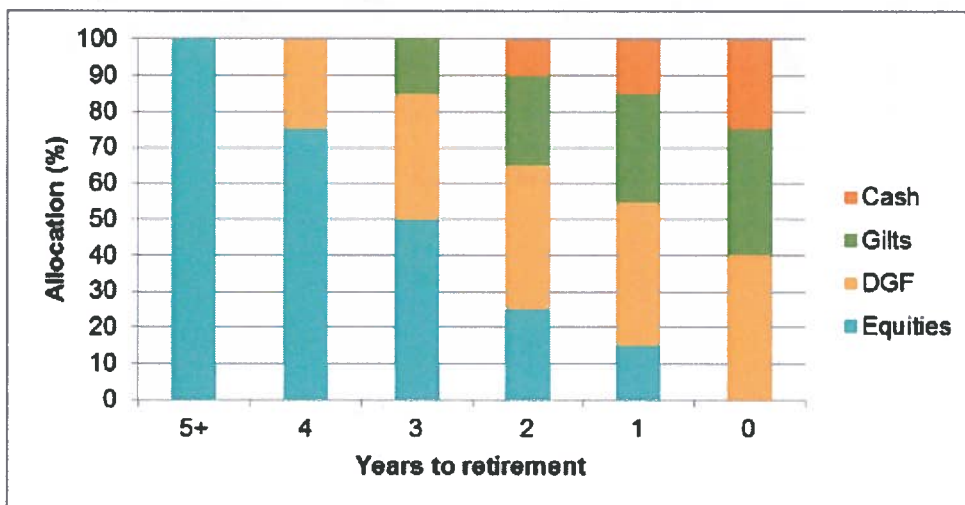
## Lifestyle strategy

The lifestyle strategy entails members' assets being switched between funds as they approach their target retirement date.

There are three Lifestyle Plans used by the Scheme as described below. These progressively phase members' assets out of the Threadneedle Global Equity Fund into funds which may be more suitable for members as they approach retirement, depending on their stated goals.

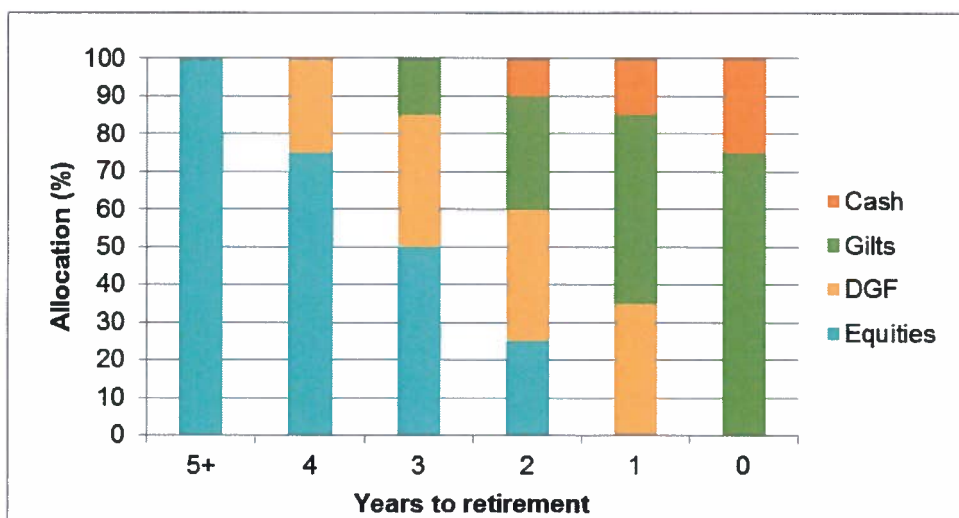
### Drawdown Lifestyle Plan (Default option)

The chart below demonstrates how the transition under the Lifestyle Plan will take place in the years leading up to members' chosen retirement age:



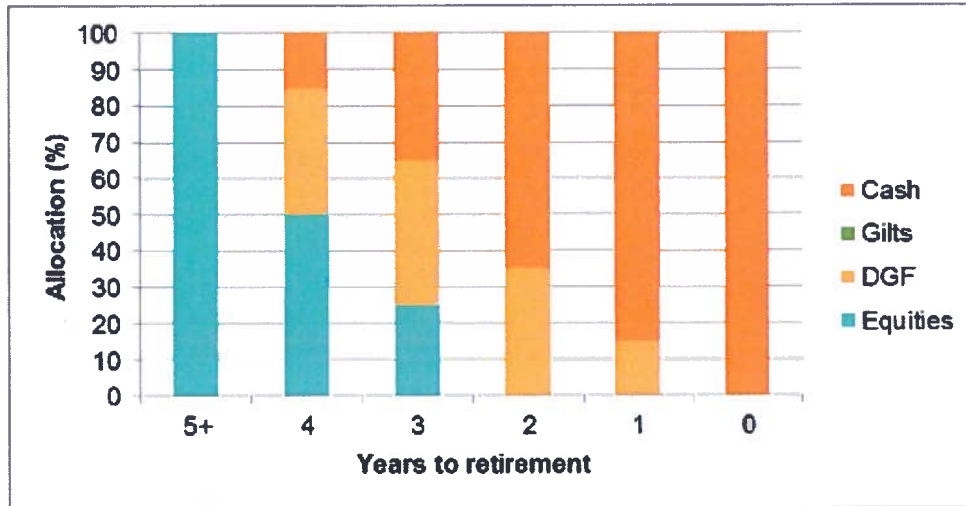
### Annuity Lifestyle Plan

The chart below demonstrates how the transition under the Lifestyle Plan will take place in the years leading up to members' chosen retirement age:



## Cash Lifestyle Plan

The chart below demonstrates how the transition under the Lifestyle Plan will take place in the years leading up to members' chosen retirement age:



# Appendix 2 – Fees

## Investment manager fees

| Manager      | Fund                                  | Investment Style | Management Fee % p.a. |
|--------------|---------------------------------------|------------------|-----------------------|
| Threadneedle | UK Equity High Alpha Fund             | Active           | 0.60                  |
|              | Dynamic Real Return                   | Active           | 0.50                  |
|              | Global Equity                         | Active           | 0.50                  |
|              | Corporate Bond                        | Active           | 0.25                  |
|              | Property                              | Active           | 0.75                  |
|              | Balanced Pathway                      | Active           | 0.44                  |
|              | Cash Fund                             | Passive          | 0.10                  |
| BlackRock    | BlackRock Aquila Life UK Equity Index | Passive          | 0.20                  |
|              | Aquila Life Over 15 Year Gilts        | Passive          | 0.15                  |

## Investment consultancy fees

The investment consultant provides agreed services on a fixed fee basis, with additional projects provided on a time cost basis subject to agreement in advance.

The basis of remuneration is kept under review.

