

# **GATX UK Pension Scheme (“the Scheme”)**

## **Statement of Investment Principles**

### **INVESTMENT OBJECTIVE**

The Trustees aim to invest the assets of the Scheme prudently to ensure that the benefits promised to members are provided. The Trustees have purchased an annuity policy to insure these benefits and minimise the risk that the Scheme is unable to meet this objective

### **STRATEGY**

The Scheme invests in a Bulk Purchase Annuity Agreement (“Annuity Policy”) with Aviva. The Annuity Policy is intended to provide a return which matches the liabilities insured for the membership of the Scheme, and remove unrewarded risks such as interest rates, inflation and longevity, that are associated with those liabilities insured.

In addition to the Annuity Policy, the Scheme holds some residual assets, expected to remain less than 25% of total assets.

The Scheme’s assets do not have an explicit return objective, rather the assets aim to deliver the benefits promised to members.

The current asset allocation strategy was determined with regard to the actuarial characteristics of the Scheme, in particular the strength of the funding position, liability profile of the Scheme, its cashflow requirements and the Trustees’ objectives. The assets of the Scheme are invested in the best interests of the members and beneficiaries.

When choosing the Scheme’s asset allocation strategy, the Trustees considered written advice from their investment advisers and, in doing so, addressed the following:

- The need to consider a full range of asset classes.
- The risks and rewards of a range of alternative asset allocation strategies.
- The suitability of each asset class.
- The need for appropriate diversification.

In addition, the Trustees also consulted with the sponsoring employer when setting this strategy.

## **RISK**

The Trustees recognise that the key risk to the Scheme is that it has insufficient assets to make provisions for 100% of its liabilities (“funding risk”). The Trustees have identified a number of risks which have the potential to cause deterioration in the Scheme’s funding level and therefore contribute to funding risk. These are as follows:

- The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors (“mismatching risk”). The Trustees considered this mismatching risk when setting the investment strategy, however this risk has reduced significantly with the Annuity Policy now in place.
- The risk of a shortfall of liquid assets relative to the Scheme’s immediate liabilities (“cash flow risk”). Aviva is responsible for providing the cash for benefit payments covered by the Annuity Policy, the risk that it defaults on this obligation is covered under ‘Annuity Policy default risk’ below.
- The possibility of failure of the Scheme’s sponsoring employer (“covenant risk”). The Trustees considered this risk when setting investment strategy and consulted with the sponsoring employer as to the suitability of the proposed strategy.
- The risk of fraud, poor advice or acts of negligence (“operational risk”). The Trustees have sought to minimise such risk by ensuring that all advisers and third-party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in contracts for professional services received.
- The risk that Aviva fail to make the pension payments covered by the Annuity Policy as they fall due (‘Annuity Policy default risk’). Having considered the credit strength of the insurer as part of their due diligence process, in addition to other factors such as the regulatory environment and other protections available (e.g., the Financial Services Compensation Scheme), the Trustees considered this to be an appropriate investment for the Scheme.

Due to the complex and interrelated nature of these risks, the Trustees consider the majority of these risks in a qualitative rather than quantitative manner.

The Trustees’ policy is to monitor these risks periodically.

## **IMPLEMENTATION**

Aon has been selected as investment adviser to the Trustees. The investment advisor is paid for advice received on a time cost basis for the work they undertake for the Trustees.

The majority of the Scheme's assets are invested in an Annuity Policy with Aviva. The day-to-day management of these assets is delegated to Aviva.

The Trustees have delegated all day-to-day decisions about the investments that fall within the mandate, including the realisation of investments, to Aviva through a written contract.

### **Stewardship – Voting and Engagement**

Following the purchase of the Annuity Policy, the Trustees have delegated the management of the collateral backing the policy to Aviva. This includes responsibility for stewardship activities, including voting and engagement. The Trustees accept responsibility for how Aviva stewards assets on its behalf, including the casting of votes in line with their voting policies. The Trustees do not attempt to influence the ESG integration or stewardship policies and practices of Aviva in managing these assets but did consider the policies of the insurer at the point of purchasing the buy-ins, to the extent it was practical, to ensure the policies were in line with the Trustees' beliefs.

The Trustees periodically review the stewardship activity of Aviva and how they take issues such as ESG and climate change into account.

The Scheme's residual assets are currently held in cash in the Trustee Bank Account. The Trustees do not have a formal stewardship policy in place for these assets.

### **Members' Views and Non-Financial Factors**

In setting and implementing the Scheme's investment strategy the Trustee does not explicitly take into account the views of individual Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors"<sup>1</sup>).

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<sup>1</sup> The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018

## GOVERNANCE

The Trustees have overall responsibility for the investment of the Scheme's assets. The Trustees take some decisions themselves and delegate others. When deciding which decisions to take themselves and which to delegate, the Trustees have taken into account whether they have the appropriate training and expert advice in order to take an informed decision. The Trustees have established the following decision-making structure:

<p><b>Trustees</b></p> <ul style="list-style-type: none"> <li>• Determine investment objective, select and monitor planned asset allocation strategy, and evaluate success of the overall investment strategy ·</li> <li>• Select / Monitor / retain / terminate investment advisors, fund managers, trustee and other service providers</li> <li>• Set structures and processes for carrying out its role</li> <li>• Select direct investments</li> <li>• Consult with the sponsoring employer</li> </ul>
<p><b>Investment Adviser</b></p> <ul style="list-style-type: none"> <li>• Advise as required on aspects of the investment of the Scheme assets.</li> <li>• Advise on this statement.</li> <li>• Provide training as requested.</li> </ul>
<p><b>Investment Managers</b></p> <ul style="list-style-type: none"> <li>• Operate within the terms of this statement and their written contracts</li> <li>• Buy and sell individual investments with regard to their suitability and diversification</li> <li>• Advise the Trustees on the suitability of the indices in their benchmark</li> </ul>
<p><b>Annuity Provider</b></p> <ul style="list-style-type: none"> <li>• Manage annuity policy to pay the agreed liabilities of the Scheme</li> </ul>

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager with a written contract and those where a product is purchased directly, eg the purchase of an insurance policy or units in a pooled vehicle. The latter are known as **direct investments**. The Trustees' policy is to review their direct investments and to obtain written advice about them at regular intervals. These include vehicles available for members' AVCs. When deciding whether or not to make any new direct investments the Trustees will obtain written advice and consider whether future decisions about those investments should be delegated to the fund managers

The Trustees will review this SIP at least every three years and following any significant change in investment policy. The Trustees will take investment advice and consult with the Sponsoring Employer over any changes to the SIP.