

# HarperCollins Pension and Life Assurance Scheme (the "Scheme")

## Statement of Investment Principles – May 2024

### 1. Introduction

HarperCollins Publishers Pension Trustee Company Limited as Trustee of the HarperCollins Pension and Life Assurance Scheme (the "Scheme") has drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of the Pensions Act 1995 (the "Act") and associated legislation including the Occupational Pension Schemes (Investment) Regulations 2005 (as amended). The Statement is intended to affirm the investment principles that govern decisions about the Scheme's investments. The Trustee's investment responsibilities are governed by the Scheme's Trust Deed and Rules, of which this Statement takes full regard.

There is also a Statement of Investment Arrangements ("SIA") which provides more detail on the underlying investment arrangements.

In preparing this Statement, the Trustee has consulted a suitably qualified person by obtaining written advice from Mercer Limited ("Mercer"). In addition, consultation has been undertaken with the Sponsoring Employer (the "Sponsor") to ascertain whether there are any material issues of which the Trustee should be aware in agreeing the Scheme's investment arrangements and, in particular, on the Trustee's objectives.

### 2. Process For Choosing Investments

The Trustee has decided to implement a Cashflow Driven Investment ("CDI") strategy whereby the Scheme invests in such a way that expected cashflows should broadly match a proportion of the Scheme's expected liability cashflow profile, whilst targeting a return in excess of gilts (noting that the intention is to match as high a proportion as possible, subject to the level of expected return required and associated risks)

After consideration of the professional advice received, the Trustee appointed Mercer to act as discretionary investment manager to the Scheme and to implement the CDI strategy. In this capacity, and subject to agreed restrictions, the Scheme's assets are invested in multi-client collective investment schemes ("Mercer Funds") managed by a management company (Mercer Global Investments Management Limited ("MGIM")). MGIM has appointed Mercer Global Investments Europe Limited ("MGIE")) as investment manager of the Mercer Funds. In practice, MGIE delegates the discretionary investment management for the Mercer Funds to third party investment managers based in countries such as Ireland, UK and USA and those sub-investment managers will manage either a sub-fund or certain segments of a sub-fund. Mercer has expertise in identifying; selecting and combining highly rated fund managers who are best placed and resourced to manage the Scheme's assets on a day-to-day basis.

Under this framework, the Trustee retains control of the most important strategic decisions, whilst many of the day-to-day actions are delegated to Mercer.

In considering appropriate investments for the Scheme, the Trustee has obtained and considered the written advice of Mercer, whom the Trustee believes to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

### 3. Investment Objectives

The Trustee's primary investment objective is to invest the Scheme's assets in such a manner as to ensure that members' benefit entitlements can be paid as and when they fall due. In meeting this objective, the Trustee's further objective is:

- To achieve an asset return above the return from gilts over the long term, whilst recognising the need to balance risk control and return generation.

- To ensure consistency between the Scheme's investment strategy and the return assumptions used by the Scheme actuary.
- To pay due regard to the Sponsor's interests in the size and incidence of employer contribution payments.

The objectives set out above and the risks and other factors referenced in section 4 of this Statement are those that the Trustee determines to be financially material considerations. Non-financial considerations are discussed in section 9.

#### **4. Risk Management and Measurement**

There are various risks to which any pension scheme is exposed. The Trustee's policy on risk management over the Scheme's anticipated lifetime is as follows:

- The primary risk upon which the Trustee focuses is that arising through a mismatch between the Scheme's assets and its liabilities and the Sponsor's ability to support this mismatch risk.
- The Trustee recognises that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's accruing liabilities, as well as producing more volatility in the Scheme's funding position.
- To control the risk outlined above, the Trustee, having taken advice, has set the initial asset allocation such that the expected return on the portfolio is expected to meet the objectives outlined in Section 3.
- The Trustee recognises that even if the Scheme's assets are invested in hedge management assets there may still be a mismatch between the interest-rate and inflation sensitivity of the Scheme's assets and the Scheme's liabilities due to the mismatch in duration between assets in the Matching Portfolio and actuarial liabilities.
- The Scheme's investment strategy targets an interest rate and inflation hedge ratio of 100% but the Trustee recognises that the actual ratio may drift slightly from that target from time to time. The Trustee also recognises that while the strategy is designed to approximately match expected cashflow requirements, changes in demographic assumptions, membership profile or other factors could lead to a mismatch between the investment strategy and required cashflow.
- The Trustee recognises that risks may arise from a lack of diversification of investments. To control this risk, the Trustee has agreed upon a suitably diversified asset allocation policy. Mercer aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. Investment exposure is obtained via pooled vehicles.
- To help the Trustee ensures the continuing suitability of the investments, Mercer provides the Trustee with regular reports regarding the performance of the underlying asset managers appointed within the relevant Mercer Funds to enable the monitoring of differences between the expected and experienced levels of risk and return.
- There is a risk that the day-to-day management of the assets will not achieve the expected rate of investment return expected by the Trustee.
- The Trustee recognises that the use of active investment managers introduces additional risk. However, for specific asset classes it believes that this risk is outweighed by the potential gains from successful active management. Likewise, passive management will be used for one of a number of reasons, namely to diversify and reduce risk and when investing in certain asset classes where, due to relatively efficient markets, the scope for active managers to outperform is more limited.

- To help diversify manager-specific risk, the Trustee expects that the Scheme's assets are managed by appropriate underlying asset managers.
- By investing in Mercer Funds, the Trustee does not make investments in securities that are not traded on regulated markets. However, should the Scheme's assets be invested in such securities, in recognition of the associated risks (in particular liquidity and counterparty exposure), such investments would normally only be made with the purpose of reducing the Scheme's mismatch risk relative to its liabilities or to facilitate efficient portfolio management. In any event, the Trustee would ensure that the assets of the Scheme are predominantly invested on regulated markets.
- The Trustee recognises the risks inherent in holding illiquid assets. The Trustee has carefully considered the Scheme's liquidity requirements and time horizon when setting the investment strategy and liquidity risk is managed by ensuring illiquid asset classes represent an appropriate proportion of the overall investment strategy.
- The Scheme is subject to currency risk because some of the investment vehicles in which the Scheme invests are denominated or priced in a foreign currency. Within the context of the Mercer Funds used in the Scheme's Portfolios, to limit currency risk, a target non-sterling currency exposure is set and the level of non-sterling exposure is managed using currency hedging instruments.
- The Trustee recognises that environmental, social and corporate governance concerns, including climate change, have a financially material impact on return. Section 9 sets out how these risks are managed.

Should there be a material change in the Scheme's circumstances, the Trustee will advise Mercer, who will review whether and to what extent the investment arrangements should be altered; in particular whether the current CDI strategy remains appropriate.

## 5. Governance

The Trustee retains stewardship and high level strategic asset allocation decisions, whilst some sub-asset allocations and the day-to-day decisions are delegated. When deciding which decisions to take itself and which to delegate, the Trustee has taken into account whether it has the appropriate training and expert advice in order to take an informed decision. The Trustee has established the following decision making structure:

Trustee	Investment Sub-Committee
<ul style="list-style-type: none"> <li>• Monitor actual returns versus the Scheme's investment objectives.</li> <li>• Set structures and processes for carrying out their role.</li> <li>• Select and monitor planned long term asset allocation strategy.</li> <li>• Necessary confirmation of suitable recommendations from Investment Committee.</li> </ul>	<ul style="list-style-type: none"> <li>• Make recommendations to the Trustee on:                             <ul style="list-style-type: none"> <li>○ Suitable investment objectives</li> <li>○ Structure for implementing investment strategy.</li> <li>○ Selection of investment advisers.</li> </ul> </li> <li>• Monitor investment advisers.</li> </ul>

<p><b>Fiduciary Manager</b></p> <ul style="list-style-type: none"> <li>• Advise on the long term asset allocation (i.e. Non-Hedge Management and Hedge Management split)</li> <li>• Implement all aspects of the Scheme's investment strategy with a diverse range of managers</li> <li>• Select custodian and administrator</li> <li>• Negotiate all contracts with underlying managers</li> <li>• Monitor the funding level</li> <li>• Advise on this statement.</li> <li>• Provide required training.</li> </ul>	<p><b>Investment Managers</b></p> <ul style="list-style-type: none"> <li>• Operate within the terms of their written contracts agreed with Mercer.</li> <li>• Select individual investments with regard to their suitability and diversification and in line with the guidelines agreed.</li> </ul>
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## 6. Investment Strategy

The Trustee, with advice from the Scheme's investment consultant and the Scheme Actuary, reviewed the Scheme's investment strategy most recently in 2024. This review considered the Trustee's investment objectives, their ability and willingness to take risk (the "risk budget") and how this risk budget should be allocation and implemented.

The Trustee engaged with Mercer to design and implement a CDI strategy. The CDI strategy aims to:

- Match a high proportion of the Scheme's expected liability cashflows by investing in predominantly income-generating asset classes such that expected asset cashflows should broadly match the Scheme's expected liability cashflow profile.
- Initially support a discount rate of gilts+0.33% p.a.

With this in mind, the Trustee has agreed that the Scheme's investment portfolio should be constructed so that it provides a broad liability hedge through a range of diversified investments managed by Mercer rather than accumulate exposure in any single part of the interest rate or inflation curve (i.e. to avoid "curve" risk). The Trustee has delegated the responsibility for constructing, managing and monitoring the Scheme's liability hedging arrangements and further information on target hedge ratios for interest rate and inflation hedging is included in the SIA

The result is expected to be better cashflow management, lower expected transaction costs over the lifecycle of the Scheme, a more stable long-term funding position, and an investment strategy which helps facilitate a smoother path to the Trustee's endgame objective.

## 7. Realisation of Investments

The Trustee on behalf of the Scheme holds shares in the Mercer Funds. In its capacity as investment manager to the Mercer Funds, MGIE, and the underlying third-party asset managers appointed by MGIE, within parameters stipulated in the relevant appointment documentation, have discretion in the timing of the realisation of investments and in considerations relating to the liquidity of those investments.

## 8. Cashflow and Cashflow Management

In the event of cashflows into, or out of, the Scheme, Mercer will invest or disinvest these as soon as reasonably practicable from the underlying funds at Mercer's discretion. Further detail on this process is set out in the SIA.

## **9. Environmental, Social, and Corporate Governance, Stewardship, and Climate Change**

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

As noted above, the Trustee has appointed Mercer to act as discretionary investment manager in respect of the Scheme's assets and such assets are invested in a range of Mercer Funds managed by MGIE. Asset managers appointed to manage the Mercer Funds are expected to evaluate ESG factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Stewardship Code.

The United Nations' Sustainable Development Goals (SDGs) inform Mercer's long term investment beliefs and direct Mercer's and the Trustee's thinking when it comes to converting systemic risks into transformational investment opportunities as outlined in Mercer's [Sustainability Policy](#).

The Trustee considers how ESG, climate change and stewardship is integrated within Mercer's, and MGIE's, investment processes and those of the underlying managers in the monitoring process. Mercer, and MGIE, is expected to provide reporting on a regular basis, at least annually, on ESG integration progress, stewardship monitoring results, and climate-related metrics such as carbon foot printing for equities and other asset classes where relevant and data is available and/or climate transition analysis for diversified Non-Hedge Management portfolios. Mercer undertake climate scenario modelling and stress testing on the Mercer multi sector funds used by the Scheme, in line with the Task Force on Climate Related Financial Disclosures (TCFD) recommendations. The results of the latest climate scenario modelling are within the TCFD compliant Climate Change Management Report. The findings of the modelling are integrated into the asset allocation and portfolio construction decisions, with portfolios increasingly aligned with a 2°C scenario, where consistent with investment objectives and for consistency with the Paris Agreement on Climate Change.

The Trustee recognises the conflict of interest which may arise in the context of responsible investment. Mercer and MGIE make investment decisions with the aim of improving long-term risk adjusted returns and assesses whether selected sub-investment managers have policies and procedures that manage conflicts in relation to stewardship. Sub-investment managers are required to report on any conflicts of interest and demonstrate that they have adhered to their conflicts of interest policies and reported any breaches.

The Trustee considers how ESG, climate change and stewardship is integrated within Mercer's, and MGIE's, investment processes and those of the underlying asset managers in the monitoring process. Mercer, and MGIE, is expected to provide reporting to the Trustee on a regular basis, at least annually, on ESG integration progress, stewardship monitoring results, and climate-related metrics such as carbon foot printing.

### ***Member Views***

Member views are currently not taken into account in the selection, retention and realisation of investments. However, the Trustee believes that the delegation of portfolio construction to Mercer will lead to ESG considerations that are in the best interests of the Scheme as a whole.

### ***Investment Restrictions***

MGIE has given their appointed investment managers restrictions in relation to particular products or activities for all equities and fixed income portfolios. Mercer is also a signatory of the Principles of Responsible Investment and engages with the UN Compact.

The Trustee has not set any additional investment restrictions but may consider this in future.

## **10. Trustee's Policies with Respect to Arrangements With, and Evaluation of the Performance and Remuneration of, Asset Managers and Portfolio Turnover Costs**

When engaging Mercer as discretionary investment manager to implement the Trustee's investment strategy outlined in section 6, the Trustee is concerned that, as appropriate and to the extent applicable, Mercer is incentivised to align its strategy and decisions with the profile and duration of the liabilities of the Scheme, in particular, long-term liabilities.

As Mercer manages the Scheme's assets by way of investment in Mercer Funds, which are multi-client collective investment schemes, the Trustee accepts that they do not have the ability to determine the risk profile and return targets of specific Mercer Funds but the Trustee expects Mercer to manage the assets in a manner that is consistent with the Trustee's overall investment strategy as outlined in section 3. The Trustee has taken steps to satisfy themselves that Mercer has the appropriate knowledge and experience to do so and keeps Mercer's performance under ongoing review.

Should Mercer fail to align its investment strategies and decisions with the Trustee's policies, it is open to the Trustee to disinvest some or all of the assets invested managed by Mercer, to seek to renegotiate commercial terms or to terminate Mercer's appointment.

To evaluate performance, the Trustee receives, and considers, investment performance reports produced on a quarterly basis, which presents performance information and commentary in respect of the Scheme's funding level and the Mercer Funds in which the Trustee is invested. Such reports have information covering fund performance for the previous three months, one-year, three years and since inception. The Trustee reviews the absolute performance and relative performance against a portfolio's and underlying investment manager's benchmark (over the relevant time period) on a net of fees basis. The Trustee's focus is on the medium to long-term financial and non-financial performance of Mercer and the Mercer Funds.

Neither Mercer nor MGIE make investment decisions based on their assessment about the performance of an issuer of debt or equity. Instead, assessments of the medium to long-term financial and non-financial performance of an issuer are made by the underlying third party asset managers appointed by MGIE to manage assets within the Mercer Funds. Those managers are in a position to engage directly with such issuers in order to improve their performance in the medium to long term. The Trustee is, however, able to consider Mercer's and MGIE's assessment of how each underlying third party asset manager embeds ESG into their investment process and how the manager's responsible investment philosophy aligns with the Trustee's own responsible investment policy. This includes the asset managers' policies on voting and engagement.

Section 9 provides further details of the steps taken, and information available, to review the decisions made by managers, including voting history and the engagement activities of managers to identify decisions that appear out of line with a Mercer Fund's investment objectives or the objectives/policies of the Scheme.

The asset managers are incentivised as they will be aware that their continued appointment by MGIE will be based on their success in meeting MGIE's expectations. If MGIE is dissatisfied then it will, where appropriate, seek to replace the manager.

The Trustee is a long-term investor and is not looking to change his investment arrangements on an unduly frequent basis. However, the Trustee does keep those arrangements under review, including the continued engagement of Mercer using, among other things, the reporting described above.

The Trustee monitors and evaluates the fees it pays for asset management services on an ongoing basis taking into account the progress made in achieving its investment strategy objectives as outlined in section 6. Mercer's and MGIE's fees are based on a percentage of the value of the Scheme's assets under management which covers the design and annual review of the de-risking

strategy, and investment management of the assets. In addition, the underlying third party asset managers of the Mercer Funds also charge fees based on a percentage of the value of the assets under management. In some instances, some of the underlying managers may also be entitled to charge fees based on their performance.

MGIE reviews the fees payable to third party asset managers managing assets invested in the Mercer Funds on a regular basis with any negotiated fee savings passed directly to the Scheme. Mercer's, MGIE's, and the third party asset managers', fees are outlined in a quarterly investment strategy report prepared for the Trustee, excluding performance-related fees and other expenses involved in the Mercer Funds not directly related with the management fee.

Details of all costs and expenses are included in the Mercer Funds' Supplements, the Report & Accounts and within the Scheme's annualized, MiFID II compliant Personalised Cost & Charges statement. The Scheme's Personalised Cost & Charges statement also include details of the transaction costs associated with investment in the Mercer Funds.

The Trustee does not have an explicit targeted portfolio turnover range, given the de-risking mandate, but rebalancing ranges have been designed to avoid unnecessary transaction costs being incurred by unduly frequent rebalancing. Performance is reviewed net of portfolio turnover costs, with the review of portfolio turnover of the underlying investment managers undertaken by MGIE.

## **11. Additional Assets**

Under the terms of the Scheme's Trust Deed, the Trustee is responsible for the investment of any Additional Voluntary Contributions paid by members. The Trustee reviews the investment performance of the chosen providers as appropriate and takes advice as to the providers' continued suitability.

Members' AVC options are invested with Scottish Widows, Abbey National, Friends Provident and Equitable Life (no longer accepting contributions).

## **12. Employer Related Investments**

The Trustee has provided Mercer with a list of companies through which a debt or equity investment would be considered an employer related investment. Mercer reports on the Scheme's exposure to these investments on a quarterly basis.

## **13. Review of this Statement**

The Trustee will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustee reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments and after consultation with the Sponsor.

**For and on behalf of HarperCollins Publishers Pension Trustee Company Limited as Trustee of the HarperCollins Pension and Life Assurance Scheme.**