

# **Satake UK Pension Scheme**

## **Statement of Investment Principles**

### **August 2023**

The following document outlines the Scheme's Statement of Investment Principles, which sets out the Scheme's investment objective, the Scheme's investment strategy, the Trustee's approach to risk management, issues concerning implementation of the strategy and the policy on governance.

The principles outlined in this section of the Statement of Investment Principles became effective following the delegation of certain decision-making powers by the Trustee to Aon Investments Limited ("AIL" the "Manager"). The Trustee has taken advice regarding the suitability of the Manager in this capacity.

#### **1. Consultations Made**

The Trustee has consulted with the Employer, Satake UK Pensions Employer Limited, prior to writing this Statement and will take the Employer's comments into account when they believe it is appropriate to do so.

The Trustee is responsible for the investment strategy of the Satake UK Pension Scheme. They have obtained written advice on the investment strategy appropriate for the Scheme and on the preparation of this Statement. This advice was provided by Aon Investments Limited ("Aon") who are authorised and regulated by the Financial Conduct Authority.

The day-to-day management of the Scheme's assets has been delegated to AIL who are authorised and regulated by the Financial Conduct Authority. The Employer has consented to the Trustee's delegation of investment management decisions as required under clause 46 of the Scheme's Trust Deed and Rules.

#### **2. Investment Objective**

The Trustee aims to invest the assets of the Scheme prudently to ensure that the benefits promised to members are provided. The asset allocation strategy the Trustee has selected is designed to achieve a return above the valuation discount rate, while maintaining a prudent approach to meeting the Scheme's liabilities (on the basis of gilt yields) and is, as follows:

To set an initial investment strategy which targets to outperform the liability benchmark by 2.35% per annum (net of fees) over rolling three-year periods.

### 3. Strategy

The strategy chosen to meet the objective above comprises of a Growth Portfolio and a Matching Portfolio (see Appendix for further information).

This strategy was decided upon following consideration of the Scheme's assets and liabilities and funding position as well as expert advice from the Trustee's investment advisers. The Trustee's investment advisers considered the Scheme's liability structure and a range of alternative asset class allocation strategies.

The Trustee recognises the potential volatility in growth returns, particularly relative to the Scheme's liabilities, and the risk that the fund managers chosen by the Manager ("Underlying Managers") do not achieve the targets set. When appointing the Manager, the Trustee considered advice from their investment advisers concerning the following:

- The need to consider a full range of asset classes (including alternative 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.

## 4. Risk Measurement and Management

The Trustee recognises that the key risk to the Scheme is that it has insufficient assets to make provisions for 100% of its liabilities ("funding risk"). The Trustee has 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 Trustee and its advisers considered this mismatching risk when setting the investment strategy.
- The risk of a shortfall of liquid assets relative to the Scheme's immediate liabilities ("cash flow risk"). The Trustee and its advisers will manage the Scheme's cash flows taking into account the timing of future payments in order to minimise the probability that this occurs.
- The failure by the Manager to achieve the rate of investment return assumed by the Trustee ("manager risk"). This risk was and will be considered by the Trustee and its advisers both upon the initial appointment of the Manager and on an ongoing basis thereafter.
- The failure to spread investment risk ("risk of lack of diversification"). The Trustee and its advisers considered this risk when setting the Scheme's investment strategy.
- The possibility of failure of the Scheme's sponsoring employer ("covenant risk"). The Trustee and its advisers considered this risk when setting the 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 Trustee has 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 all contracts for professional services received.

The Trustee considers investment risk to include ESG factors and climate change. These risks could negatively impact the Scheme's investments. The Trustee considers these risks by taking advice from its investment adviser. The Trustee has appointed Aon Investments Limited ("AIL") to manage the Scheme's assets. AIL invests in a range of underlying investment vehicles.

As part of AIL's management of the Scheme's assets, the Trustee expects AIL to:

- Where relevant, assess the integration of ESG factors in the investment process of underlying managers;
- Use its influence to engage with underlying managers to ensure the Scheme's assets are not exposed to undue risk; and
- Report to the Trustee on its ESG activities as required.
- Ensure that (where appropriate) underlying managers exercise the Trustee's voting rights in relation to the Scheme's assets; and
- Report to the Trustee on stewardship activity by underlying managers as required.

In setting and implementing the Scheme's investment strategy the Trustee does not explicitly take into account the views of 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>).

Due to the complex and interrelated nature of these risks, the Trustee considers the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review (normally triennially). Some of these risks may also be modelled explicitly during the course of such reviews.

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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

The Trustee's policy is to monitor, where possible, these risks periodically. The Trustee receives quarterly reports showing:

- Performance versus the Scheme's investment objective.
- The actual asset allocation versus the Scheme's strategic target weight.
- Detail and also any changes to the structure of the underlying funds invested in by the Scheme.
- Market review and outlook

In addition, the Trustee will be notified by Aon of any significant issues that arise.

## 5. Arrangements with Asset Managers

The Trustee recognises that the arrangements with their fiduciary manager, and correspondingly the underlying asset managers, are important to ensure that interests are aligned. In particular, the Trustee seeks to ensure that the fiduciary manager is incentivised to operate in a manner that generates the best long-term results for the Scheme and its beneficiaries.

The Trustee receives regular reports and verbal updates from the fiduciary manager on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustee focuses on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Scheme objectives and assess the fiduciary manager over 3-year periods.

The Trustee also receives annual stewardship reports on the monitoring and engagement activities carried out by their fiduciary manager, which supports the Trustee in determining the extent to which the Scheme's engagement policy has been followed throughout the year.

The Trustee shares the policies, as set out in this SIP, with the Scheme's fiduciary manager and request that they review and confirm whether their approach is in alignment with the Trustee's policies.

The Trustee delegates the ongoing monitoring of underlying asset managers to the fiduciary manager. The fiduciary manager monitors the Scheme's investments to consider the extent to which the investment strategy and decisions of the underlying asset managers are aligned with the investment objectives of the Scheme.

This includes monitoring the extent to which the underlying asset managers:

- make decisions based on assessments about medium- to long-term financial and non-financial performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

Before appointment of a new fiduciary manager, the Trustee reviews the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee's policies. Where necessary, the Trustee will seek to amend that documentation or express their expectations (such as through side letters, in writing, or verbally at Trustee's meetings) so that there is more alignment.

The Trustee believes that having appropriate governing documentation, setting clear expectations to the fiduciary manager, and regular monitoring of the fiduciary manager's performance and investment strategy, is sufficient to incentivise the fiduciary manager to make decisions that align with the Trustee's policies and are based on assessments of medium- and long-term financial and non-financial performance.

Where the fiduciary manager is considered to make decisions that are not in line with the Trustee's policies, expectations, or the other considerations set out above, the Trustee will typically engage with the fiduciary manager to understand the circumstances and materiality of the decisions made.

There is typically no set duration for arrangements with the fiduciary manager, although the continued appointment will be reviewed periodically. Similarly, there are no set durations for arrangements with the underlying asset managers that the fiduciary manager invests in, although this is regularly reviewed as part of the manager research and portfolio management processes in place.

## 6. Cost Monitoring

The Trustee is aware of the importance of monitoring their asset managers' total costs and the impact these costs can have on the overall value of the Scheme's assets. The Trustee recognises that in addition to annual management charges, there are other costs incurred by asset managers that can increase the overall cost incurred by their investments.

The Trustee receives annual cost transparency reports from their fiduciary manager. These reports present information in line with prevailing regulatory requirements for fiduciary managers. They clearly set out on an itemised basis:

- The total amount of investment costs incurred by the Scheme;
- The fees paid to the fiduciary manager;
- The fees paid to the investment managers appointed by the fiduciary manager;
- The amount of portfolio turnover costs (transaction costs) incurred by the investment managers appointed by the fiduciary manager;
  - The Trustee defines portfolio turnover costs as the costs incurred in buying and selling underlying securities held within the funds of the investment managers appointed by the fiduciary manager;
- Any charges incurred through the use of pooled funds (custody, administration, and audit fees); and
- The impact of costs on the investment return achieved by the Scheme.

The Trustee acknowledges that portfolio turnover costs are a necessary cost to generate investment returns and that the level of these costs varies across asset classes and manager. The fiduciary manager monitors the level of portfolio turnover (defined broadly as the amount of purchases plus sales) of all the investment managers appointed on behalf of the Trustee.

The Trustee benefits from the economies of scale provided by the fiduciary manager in two key cost areas:

- The ability of the fiduciary manager to negotiate reduced annual management charges with the appointed investment managers; and
- The ability of the fiduciary manager to monitor ongoing investment costs (including additional fund expenses and portfolio turnover) incurred by the investment managers and achieve efficiencies where possible.

### **Evaluation of performance and remuneration:**

The Trustee assesses the (net of all costs) performance of their fiduciary manager on a rolling three-year basis against the Scheme's specific liability benchmark and investment objective. The remuneration paid to the fiduciary manager and fees incurred by third parties appointed by the fiduciary manager are provided annually by the fiduciary manager to the Trustee. This cost information is set out alongside the performance of the fiduciary manager to provide context. The Trustee monitors these costs and performance trends over time.

## 7. Stewardship policy

The Trustee recognises the importance of their role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Scheme invests, as ultimately this creates long-term financial value for the Scheme and its beneficiaries.

The Trustee has delegated all voting and engagement activities to the Scheme's investment managers, via AIL. The Trustee accepts responsibility for how the manager stewards assets on its behalf, including the casting of votes in line with each managers' individual voting policies. The Trustee reviews manager voting and engagement policies on an annual basis from AIL to ensure they are in line with the Trustee's expectations and in members' best interests.

As part of AIL's management of the Scheme's assets, the Trustee expects AIL to:

- Ensure that (where appropriate) underlying asset managers exercise the Trustee's voting rights in relation to the Scheme's assets; and
- Report to the Trustee on stewardship activity by underlying asset managers as required.

Managers are expected to vote at company meetings and engage with companies on the Trustee's behalf in relation to ESG considerations and other relevant matters (such as the companies' performance, strategy, risks, capital structure, and management of conflicts of interest).

Where possible, the transparency for voting should include voting actions and rationale with relevance to the Scheme, in particular where: votes were cast against management; votes against management generally were significant; votes were abstained; voting differed from the voting policy of the Trustee.

Where voting is concerned, the Trustee expects the underlying managers to recall stock lending, as necessary, in order to carry out voting actions.

The Trustee will engage with AIL, which in turn is able to engage with the underlying managers, investee companies or other stakeholders, on matters including the performance, strategy, risks, social and environmental impact, corporate governance, capital structure, and management of actual or potential conflicts of interest, of the underlying investments made.

This engagement aims to ensure that robust active ownership behaviours, reflective of the Trustee's active ownership policies, are being actioned. This will take the form of annual reporting which will be made available to Scheme members on request.

Should the Trustee's monitoring process reveal that a manager's voting and engagement policies and actions are not aligned with the Trustee's expectations, the Trustee will engage with AIL to discuss how alignment may be improved to bring about the best long-term outcomes for the Scheme.

## 8. Implementation

The Trustee has delegated all day-to-day decisions in respect of the Scheme's investment to the Manager through a written contract including the allocation of assets between different asset classes and the appointment and monitoring of fund managers. When choosing asset classes and fund managers, the Trustee and Manager are required to have regard to the criteria for investment set out in the Occupational Pension Plans (Investment) Regulations 2005 (regulation 4). The manager's responsibilities include:

- Realisation of investments;

- Taking into account social, environmental or ethical considerations in the selection, retention and realisation of investments.
- Delegating voting and corporate governance as required for the underlying investment managers to meet the performance objectives of the investments they hold.

## 9. Governance

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

<b>Trustee</b> <ul style="list-style-type: none"> <li>• Set structures and processes for carrying out its role</li> <li>• Appoint the Manager</li> <li>• Agree the overall investment objective and the split between growth and matching assets</li> <li>• Monitor Investment Advisers and the Manager</li> <li>• Select direct investments</li> </ul>	
<b>The Manager ("AIL")</b> <ul style="list-style-type: none"> <li>• Set the strategy for investing in different asset classes in line with the investment objective</li> <li>• Determine strategy for selecting fund managers</li> <li>• Implement the investment strategy</li> <li>• Select and appoint investment managers</li> <li>• Monitor investment managers, including ESG factors</li> <li>• Adjust asset allocations to reflect medium term market expectations</li> <li>• Report on asset return versus the liability benchmark</li> <li>• Report on asset returns against objectives</li> <li>• Communicate any significant changes to investment arrangements</li> </ul>	<b>Investment Adviser ("Aon")</b> <ul style="list-style-type: none"> <li>• Advise on investment strategy</li> <li>• Advise on the investment liability benchmark</li> <li>• Review the Statement of Investment Principles</li> <li>• Advise on direct investments</li> <li>• Carry out further project work when required</li> <li>• Advise on appropriateness of service provided by the Manager</li> </ul>

### Direct investments

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager under a written contract and those where a product is purchased directly, e.g. the purchase of an insurance policy or units in a pooled vehicle. The latter are known as direct investments.

The Trustee's policy is to review its direct investments and to obtain written advice about them at regular intervals. When deciding whether or not to make any new direct investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the fund managers.



The written advice will consider the issues set out in the Occupational Pension Plans (Investment) Regulations 2005 and the principles contained in this statement. The regulations require all investments to be considered by the Trustee (or, to the extent delegated, by the fund managers) against the following criteria.

- The best interests of the members and beneficiaries
- Security
- Quality
- Liquidity
- Profitability
- Nature and duration of liabilities
- Tradability on regulated markets
- Diversification
- Use of derivatives

## **10. Relationship with Advisers**

Aon has been selected as investment adviser to the Trustee. They operate under an agreement to provide a service which ensures the Trustee is fully briefed to take decisions themselves and to monitor those they delegate.

The Trustee's investment adviser, Aon has the knowledge and experience required under the Pensions Act 1995 & 2004.

The Manager is paid based on assets under management and services are subject to minimum fees. These fees are outlined within the AIL Investment Management Agreement.

The Trustee expects the Manager to handle the assets delegated to them under the terms of the contract and to give effect to the principles in this statement so far as is reasonably practicable.

## **11. Review**

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

Dated: August 2023

Name:

Signed:

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Name:

Signed:

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# Satake UK Pension Scheme

## Appendix to Statement of Investment Principles

### Growth Portfolio

The following table shows the maximum exposure of the Growth Component to each asset category, excluding cash, expressed as a percentage of the Growth Component.

Asset category / strategy	Allowed	Maximum Growth Component allocation (%)
Equity Strategies – Multi-Factor Equity focussed	Yes	75
Active Credit	Yes	75
Liquid Alternatives – Diversified Alternatives and Active Diversifiers	Yes	60
Property	Yes	20
Medium Term Asset Allocation Opportunities	Yes	15
Asset categories excluding those above	Yes	10

Definitions of the different asset categories / strategies and the options within each are set out below. There is some overlap between the assets included within the various options. Cash may be held as part of the Portfolio and in the strategies described above.

- **Equity strategies** invest predominantly in investments on listed equity markets, including but not limited to listed alternatives such as REITs (real-estate investment trusts) and listed infrastructure. Private equity is excluded.
  - Multi-Factor equity focussed: This option mainly invests in rules-based equity strategies that the Manager expects to outperform passive market capitalisation weighted equities over the long term. Factors may include, without limitation: value, low volatility, and quality.
- **Active Credit** invests in debt related investments that may include, but are not limited to, government bonds, corporate bonds, bank loans, convertibles, mortgages, asset-backed securities, structured notes, hybrid securities, absolute return bond strategies, total return bond strategies, emerging market debt, multi-asset credit and derivatives. These securities and instruments may be investment grade, sub-investment grade, or not rated; and may be issued in developed or emerging markets.
- **Liquid Alternatives** refers to any liquid asset category that is used to diversify a portfolio away from traditional asset classes such as equities.
  - Diversified Alternatives and Active Diversifiers rely mainly on market exposures to generate returns, as well as more actively managed strategies. Some of the underlying assets held within these more actively managed strategies may have lock-up periods.
  - The Manager anticipates that any such lock-up periods would be less than three years in normal market conditions; in exceptional circumstances (for example, where the underlying asset is in the process of liquidation, or where there is a run on withdrawals), a lock-up period may be extended.
  - If a subsequent instruction results in an allocation that exceeds the maximum allocation, the Manager will realise existing holdings as soon as reasonably practicable to bring this component of the Portfolio to within the new maximum allocation.

- **Property** is an asset category where, fundamentally, returns are derived from capital values and rental income of investments in physical property. The illiquid nature of this asset category means that the allocation can only be assessed at the point of investment. If market fluctuations result in an allocation that exceeds the maximum allocation, the Manager cannot invest further in this asset category, and is not required to (but may) realise existing holdings.
- **Medium Term Asset Allocation Opportunities** may invest across a range of asset categories. As such, the other asset category restrictions in the table above do not apply to this strategy. Within Medium Term Asset Allocation Opportunities, the Manager will maintain daily liquidity.

## Matching Portfolio

The allocation of the Matching Portfolio is held with Insight Investment Funds Management Limited.

The aims of the matching funds are to provide returns in line with the Scheme's liabilities and mitigate the risks associated to the liabilities movements in interest rates and inflation.

In the normal course of events, the Funds will seek to achieve their investment objectives primarily by investing in a combination of a diversified portfolio of fixed income securities directly or through the use of derivatives and collective investment schemes which themselves invest primarily in these instruments.

The Manager will target 100% of the PV01 and 100% of the IE01 of the Liability Benchmark, scaled to the market value of the Portfolio. These percentage figures are the percentage figures for the purposes of the definition of 'Target Hedge Ratios'. PV01 is the change in value of the Liability Benchmark for a 1 basis point parallel shift in interest rates across the curve. IE01 is the change in value of the Liability Benchmark for a 1 basis point parallel shift in inflation rates across the curve.

The Manager has discretion to hedge more or less than the Target Hedge Ratios set out above, for tactical purposes.

## Cash investments and disinvestments

A working balance of cash is held for imminent payment of benefits, expenses, etc. Under normal circumstances it is not the Trustee's intention to hold a significant cash balance and this is carefully monitored by the Scheme's administrator.

The investment managers are not permitted to hold cash, other than within the funds themselves and subject to the constraints set by the investment managers.