

# M.A.G Defined Contribution Pension Scheme

## Statement of Investment Principles

August 2019

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# 1 Introduction

## Scheme background

- This Statement of Investment Principles (the “Statement”) details the principles governing investment decisions for the M.A.G. Defined Contribution Pension 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.
- The Scheme has multiple membership categories with different contribution rate structures, namely Leadership members, Stansted members Colleague members and auto-enrolled members.
- Buck<sup>1</sup> is the appointed investment consultant to the Trustee.

## 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 Trustee is complying with this requirement.
- The Trustee has taken into account the requirements and recommendations within the Pension Regulator’s DC code and regulatory guidance. Information on the Trustee’s approach to investment matters within the Scheme, and in particular in setting the default arrangement, is included within this document.

<sup>1</sup> Buck is a trading name in the UK for Buck Consultants Limited (registered number 1615055), Buck Consultants (Administration & Investment) Limited (registered number 1034719), and Buck Consultants (Healthcare) Limited (registered number 172919), which are private limited liability companies registered in England and Wales. All have their registered office at 160 Queen Victoria Street, London EC4V 4AN. Buck Consultants (Administration & Investment) Limited and Buck Consultants (Healthcare) Limited are authorised and regulated by the Financial Conduct Authority.

# 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 Trustee Directors have reviewed and considered written advice from the investment consultant prior to the preparation of this Statement and have consulted the Sponsoring Employer.
- The Trustee Directors 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 Trustee.

## Key investment principles

### Kind of investments to be held

- The Trustee has full regard to its 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, private equity and other pooled investment vehicles considered appropriate for tax-exempt registered occupational pension schemes. The Trustee has considered the attributes of the various asset classes (including derivative instruments), 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 Trustee considers all of the stated classes of investment to be suitable to the circumstances of the Scheme.

- Investment Decisions All investment decisions are discussed by the whole Trustee body with assistance from the Scheme investment consultant before decisions are taken. The Trustee Directors will examine regularly whether additional investment training is desirable for any individual Trustee Director.
- Investment decisions relating to the Scheme are under the Trustee's control without constraint by the Sponsoring Employer. The Trustee is 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 Trustee's behalf is suitable for the Scheme, and appropriately diversified.

### Investment Objectives and Suitability of Investments

- The Trustee believes 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 Trustee regularly communicates with members to enable them to understand the importance of this subject and to provide them with education to help them to make informed choices about their selection of funds.
- However, the Trustee also recognises that in practice many members do not actively make an investment choice and are instead invested in the default option. The Trustee therefore recognises the importance of designing appropriate default options for the Scheme's membership. Due to the heterogeneous nature of the Scheme's membership, two different default options have been designed, each applying to a different segment of the Scheme's membership.
- Whilst the Trustee believes the chosen default options are a reasonable choice for a lot of the membership, ultimately each member should take into account their own personal circumstances when determining whether either the default option they have been allocated or an alternative strategy would best meet their needs.
- The default options have been designed having taken due regard of 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 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 options is to provide a balanced investment strategy for members who do not make an active investment choice. The strategies aim 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 is intended to 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 plan 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 Trustee recognises 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 Trustee's investment consultant provides advice regarding the suitability of both the default options 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 Trustee is satisfied that the funds offered to members and the appointed investment managers are consistent with the objectives of the Scheme, particularly in relation to diversification, risk, expected return and liquidity.

## Risk

- The Trustee has 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 used 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 options 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 help address these risks, the Trustee also reviews the default 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 Trustee's understanding of the Scheme's membership and having taken into account the risk considerations set out above. The Trustee has also considered the return expectations of each of the alternative fund options offered.

### Balance between different types of investments

- The investment managers 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 options provides further diversification through the use of multiple funds throughout a member's working lifetime.

### Investment Manager Monitoring

- The Trustee will assess the performance, processes and cost effectiveness of the investment managers 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 managers, are monitored by the Trustee with the assistance of the investment consultant.
- The platform provider will provide the Trustee 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 managers will also report verbally on request to the Trustee.
- The platform provider will inform the Trustee of any changes in the internal performance objective and guidelines of any pooled funds used by the Scheme as and when they occur.
- The Trustee will assess the quality of the performance and processes of the investment managers 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 managers.

### Performance Monitoring

- Each of the funds in which the Scheme invests has a stated performance objective against which the performance is measured.
- The Trustee will review the performance of the investment managers from time to time, based on the results of their performance and investment process.
- The platform provider is expected to provide written reports on a quarterly basis.

## Realisation of investments

- In the event of an unexpected need to realise all or part of the assets of the portfolio, the Trustee requires the investment managers 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 options and to the alternative fund options offered.

## The Trustee's policy in relation to financially material considerations

- The Trustee expects its investment managers, where appropriate, to have taken account of financially material considerations, including environmental, social and governance (ESG) factors as part of their investment analysis and decision-making process.
- The Trustee has reviewed the investment manager's policies in respect of financially material considerations and is satisfied that it is consistent with the above approach.
- This applies both to the default option and to the alternative fund options offered.

## The Trustee's policy in relation to the extent to which non-financial matters are taken into account

- The Trustee's objective is that the financial interests of the Scheme members are their first priority when choosing investments. The Trustee will take members' preferences into account if they consider it appropriate to do so.
- This applies both to the default option and to the alternative fund options offered.
- The Trustee offers both an ethical and a Shariah-compliant fund options for those members who wish to adopt an ethical approach to their investing.

## Stewardship in relation to the Scheme's assets

- The Trustee has a fiduciary duty to consider their approach to the stewardship of the investments, to maximise financial returns for the benefit of members and beneficiaries over the long term. Trustee can promote an investment's long term success through monitoring, engagement and/or voting, either directly or through their investment managers
- This applies both to the default option and to the alternative fund options offered.

## The Trustee's policy in relation to engagement and monitoring

- The Trustee's policy is to delegate responsibility for engaging and monitoring investee companies to the investment managers and expects the investment managers to use their discretion to maximise financial returns for members and others over the long term.
- This applies both to the default option and to the alternative fund options offered.

## Voting Rights attaching to Investments

- The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and

to encourage the managers to exercise those rights. The Trustee will take corporate governance policies into account when appointing and reviewing such investment managers.

### **Additional Voluntary Contribution Arrangements**

- Some members supplement their account within the Scheme by paying Additional Voluntary Contributions (AVCs) to the Scheme. These are held in the same fund range as members' main Scheme investments. From time to time the Trustee reviews the choice of investments available to members to ensure that they remain appropriate to the members' needs.

# 3 Appointments & Responsibilities

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

## Trustee

The Trustee's 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 managers,
- appointing an investment consultant, a platform provider and investment managers 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 managers by means of regular, and 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 managers have cast votes on behalf of the Trustee in respect of the Scheme's equity holdings.

## Investment Consultant

The main responsibilities of the investment consultant include:

- assisting the Trustee 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 Trustee,
- advising the Trustee on the selection and review of the investment managers and platform provider,
- providing training or education on any investment related matter as and when the Trustee sees fit.

## Investment Managers

The investment managers' 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,
- attending meetings with the Trustee as and when required,
- informing the Trustee (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.

## Platform provider

The platform provider's main responsibilities include:

- ensuring that investment of the Fund's assets is compliant with prevailing legislation and the constraints detailed in this Statement,
- providing the Trustee with quarterly reports including any changes to their investment process and a review of the investment performance,
- attending meetings with the Trustee as and when required, and
- informing the Trustee of any significant changes in the fee structure, internal performance objectives and guidelines of any pooled fund used by the Fund as and when they occur.

## Custodian

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

- The custodianship arrangements are those operated by the investment managers 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 Trustee.
- The Scheme's administrator is Buck.

**The Trustee of the M.A.G Defined Contribution Pension Scheme**

**Implemented by the Trustee on 9 August 2019**

# Appendix 1– Fund Range and Objectives

## Fund options

The Trustee has appointed Zurich Life to manage the Scheme's assets. The funds available to members are included in the below table.

Asset Class	Fund	Benchmark Index
Equity	BlackRock Aquila 50/50 Global Equity Index	50% FTSE All-Share Index / 50% Overseas Equities Composite Index <sup>1</sup>
	BlackRock Aquila UK Equity Index	FTSE All-Share Index
	Baillie Gifford UK Equity	FTSE All-Share Index
	BlackRock Aquila US Equity Index	FTSE All-World USA Index
	BlackRock Aquila Japanese Equity Index	FTSE All-World Japan Index
	BlackRock Aquila Pacific Rim Equity Index	FTSE All-World Developed Asia Pacific Ex-Japan Index
	BlackRock Aquila European Equity Index	FTSE All-World Developed Europe Ex-UK Index
	Schroder Global Emerging Markets Equity	MCSI Emerging Markets Index
Specialist equity	Legal & General Ethical Global Equity Index	FTSE4Good Global Equity Index
	HSBC Islamic	Dow Jones Islamic Titans 100 Index
Multi-asset	Newton Real Return	Libor GBP 1m + 4.0% p.a.
	BlackRock Aquila Consensus	Composite Index <sup>2</sup>
Property	Property	ABI UK Direct Property GBP
Fixed Interest	BlackRock Aquila Over 15 Years UK Gilt Index	FTSE British Government Over 15 Years index
	BlackRock Aquila Index-Linked Over 5 Year Gilt Index	FTSE British Government Index-Linked Over 5 Years index
Money Market	BlackRock Institutional Sterling Liquidity	7-Day LIBID

### Notes:

<sup>1</sup> 16.50% FTSE All-World Developed Europe ex UK / 16.50% FTSE All-World USA Index / 8.50% FTSE Japan Index / 8.50% FTSE All-World Developed Asia Pacific Ex-Japan Index

<sup>2</sup> 35.6% CAPS Pooled Fund Survey Balanced Fund asset weights (excluding property and emerging markets) multiplied by the relevant asset class returns / 21.3% FTSE All-Share FTSE All-World Developed Europe ex UK / 19% FTSE All-World USA / 9.1% FTSE Developed Asia Pacific ex Japan / 5.8% FTSE All-World Japan / 3.5% JPM GBI Global ex-UK / 2.7% FTSE Actuaries UK Conventional Gilts All Stocks / 2.5% IBOXX UK Sterling Non-Gilts All Maturities / 0.5% FTSE Actuaries UK Index-Linked All Stocks

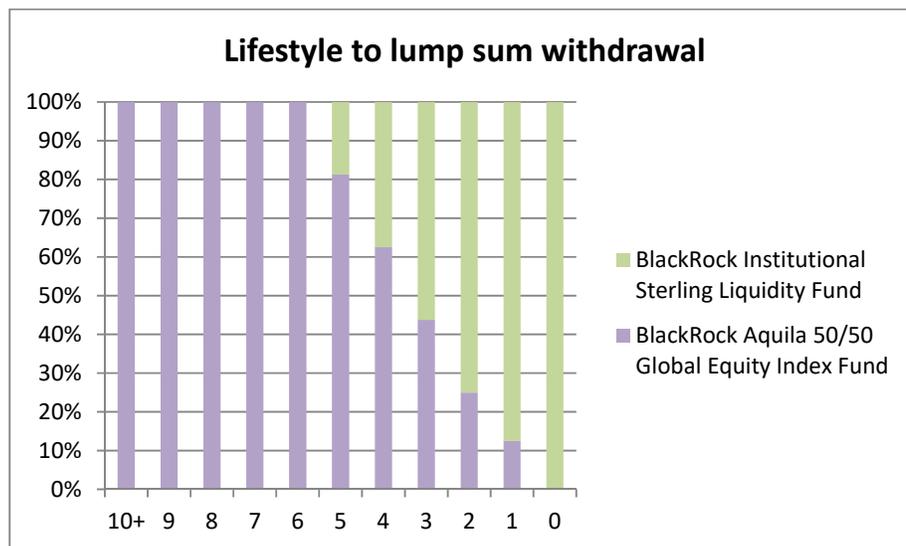
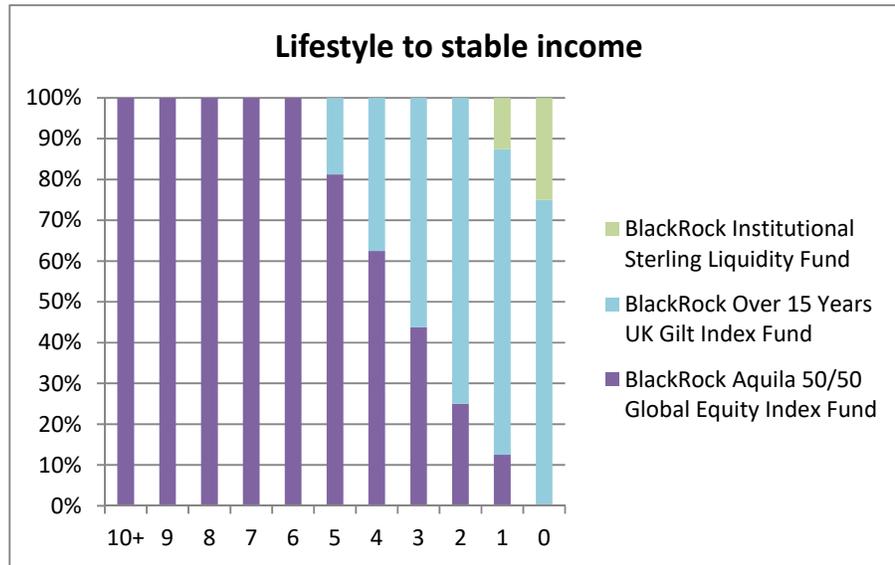
## Lifestyle strategies

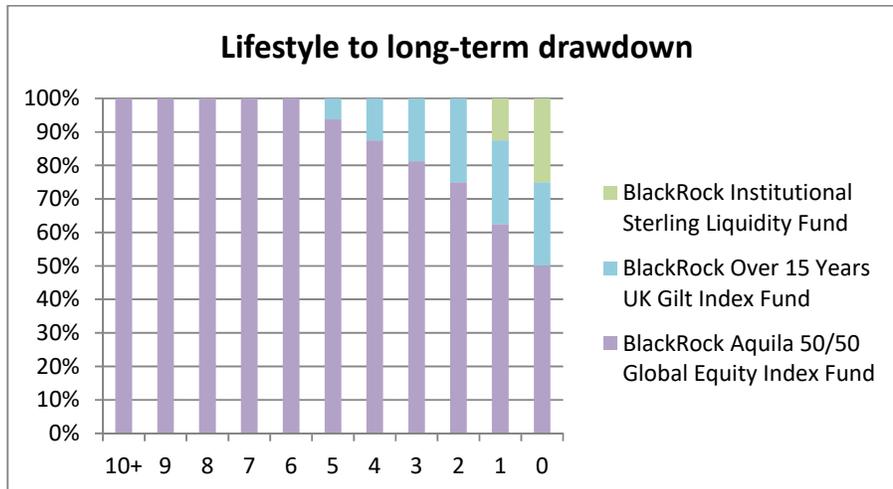
The lifestyle strategies entail members' assets being switched between funds as they approach their target retirement date.

The Scheme offers three different lifestyle strategies in order to meet the differing circumstances of members:

- Lifestyle to Stable Income
- Lifestyle to Lump Sum Cash Withdrawal
- Lifestyle to Long-Term Drawdown

The three Lifestyle switching profiles are shown below:





## Default option

There are two default options in place, each applying to different sections of the membership.

For Leadership members & Stansted Section members who benefit from the BAA contribution structure, the default option is the 'Glide path to long-term drawdown' lifestyle strategy.

For all other members (including Colleague members, auto-enrolled members and Stansted members who do not benefit from the preferential BAA contribution structure) the default option is the 'Glide path to lump-sum withdrawal' lifestyle strategy.

Members who had a deferred status at the time these changes were introduced were defaulted into the second membership category. However, in the future members' investments will not automatically be changed if they leave employment.

# Appendix 2 – Fees

Asset Class	Fund	Investment Style	Charges % p.a.*
Equity	BlackRock Aquila 50/50 Global Equity Index	Passive	0.43
	BlackRock Aquila UK Equity Index	Passive	0.42
	Baillie Gifford UK Equity	Active	0.85
	BlackRock Aquila US Equity Index	Passive	0.43
	BlackRock Aquila Japanese Equity Index	Passive	0.43
	BlackRock Aquila Pacific Rim Equity Index	Passive	0.44
	BlackRock Aquila European Equity Index	Passive	0.44
	Schroder Global Emerging Markets Equity	Active	1.54
Specialist equity	Legal & General Ethical Global Equity Index	Passive	0.63
	HSBC Islamic	Passive	0.70
Multi-asset	Newton Real Return	Active	1.16
	BlackRock Aquila Consensus	Passive	0.44
Property	Property	Active	1.01
Fixed Interest	BlackRock Aquila Over 15 Years UK Gilt Index	Passive	0.42
	BlackRock Aquila Index-Linked Over 5 Year Gilt Index	Passive	0.42
Money Market	BlackRock Institutional Sterling Liquidity	Active	0.49

\* Figures quoted include both the Total Expense Ratio (including annual management charges and fund expenses) as well as the administration charges. Whilst these charges are not fixed, they are not expected to vary significantly.

The Trustee has confirmed that the default option offered has total fees payable by members of less than The Pension Regulator's charge cap of 0.75% p.a. and will monitor compliance with this on an ongoing basis.

## Investment consultancy fees

The investment consultant provides services on an ad hoc basis, on request. These are subject to agreement in advance and are undertaken on either a fixed fee basis or a time cost basis, as agreed from time to time. The basis of remuneration is kept under review.