Fujitsu (FTS) Pension Scheme

Statement of Investment Principles

1. Introduction

The Trustee of the Fujitsu (FTS) Pension 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”), as amended by the Pensions Act 2004;
- The Occupational Pension Schemes (Investment) Regulations 2005, as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015; 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. A separate document entitled “Investment Policy Implementation Document” detailing the specifics of the Scheme’s investment arrangements is available upon request.

In preparing this Statement the Trustee has consulted the Sponsoring Company to ascertain whether there are any material issues of which the Trustee should be aware in agreeing the Scheme’s investment arrangements. The Trustee has also sought written professional advice from Mercer Limited (“Mercer”), regarding the Scheme’s investment arrangements.

The Scheme provides two types of benefit, one linked to salary (Defined Benefit) and the other a money purchase arrangement (Defined Contribution). The Defined Benefit and Defined Contribution sections of the Scheme are covered separately in Sections 2 and 3 respectively.

2. Defined Benefit (“DB”) Section

2.1 Process For Choosing Investments

The process for choosing investments is as follows:

- Identify appropriate investment objectives
- Agree the level of risk consistent with meeting the objectives set
- Construct a portfolio of investments that is expected to maximise the return (net of all costs) given the targeted level of risk

In considering the appropriate investments for the Scheme the Trustee has sought 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).

2.2 Investment Objectives

The Trustee's main objective is to invest the Scheme's assets in the best interests of the members and beneficiaries, and, in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries. Within this framework the Trustee has agreed a number of objectives to help guide them in their strategic management of the assets and control of the various risks to which the Scheme is exposed. The Trustee's primary objectives are as follows:

- To ensure that they can meet their obligations to the beneficiaries of the Scheme.
- To target a funding level of approximately 100% while managing investment risk through an investment policy which takes a low level of growth asset risk and hedges out most of the Scheme's liability related risks.

Additional objectives are as follows:

- To achieve a return on the total Scheme which is compatible with the level of risk considered appropriate.
- To pay due regard to the Sponsoring Company's interest in the size and incidence of contribution payments.

2.3 Risk Management and Measurement

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

- The primary risk upon which the Trustee's focus is that arising from a mismatch between the Scheme's assets and its liabilities.
- 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 short-term volatility in the Scheme's funding position. The Trustee has sought advice on the matter and (in light of the objectives noted previously) considered carefully the implications of adopting different levels of risk in conjunction with the Sponsoring Company.
- The targeted level of risk is defined by the objectives detailed in Section 2.2.
- The Trustee recognises the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustee aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. Due to the size of the Scheme's assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles.
- The documents governing the appointment of the investment manager include a number of guidelines, which, among other things, are designed to ensure that only suitable investments are held by the Scheme. The investment manager is prevented from investing in asset classes outside their mandate without the Trustee's prior consent.

Arrangements are in place to monitor the Scheme's investments to help the Trustee check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustee receives regular performance reports from the investment manager.

- Responsibility for the safe custody of the Scheme's assets is delegated to Mercer Global Investments Europe Limited ("MGIE") who has appointed State Street Bank and Trust Company ("State Street") as custodian of the assets invested in their pooled vehicles. MGIE is responsible for keeping the suitability of State Street under ongoing review.

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

2.4 Portfolio Construction

MGIE has the following control framework in place in terms of structuring the Scheme's investments subject to the overriding constraint that at the total Scheme level the expected level of risk is consistent with that detailed in Section 2.2:

- Both active and passive management are used by MGIE. Passive management will be used for one of a number of reasons, namely:
  - To diversify risk
  - Invest in markets deemed efficient where the scope for active management to add value is limited
  - To maintain the management fees at an appropriate level
- To help diversify manager specific risk, where deemed appropriate, multiple manager appointments within a single asset class can be used in the current arrangement.
- At the total Scheme level and within individual manager appointments investments are broadly diversified to ensure there is not a concentration of investment with any one issuer.
- Investment in derivatives is permitted within the pooled funds as long as they contribute to a reduction in risk or facilitate efficient portfolio management.
- Investment may be made in securities that are not traded on regulated markets. Recognising the risks (in particular liquidity and counterparty exposure), such investments will 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 will ensure that the assets of the Scheme are predominantly invested on regulated markets.
- No investment in securities issued by the Scheme's Sponsoring Company or affiliated companies (other than any such securities held within a pooled fund in which the Trustee invests).
- No investment by an appointed investment manager in the securities issued by the relevant manager's company or any affiliated companies (other than any such securities held within a pooled fund in which the Trustee invests).

- Borrowing is not permitted except to cover short term liquidity requirements.

2.5 Investment Strategy

Given the Scheme's investment objectives the Trustee has adopted the investment strategy detailed in the table below.

Asset Class	Target Benchmark Allocation (%)
Diversified Growth Fund ("DGF")	20.0
Liability Driven Investment	80.0
Total	**100.0**

The Trustee has implemented asset allocation ranges to ensure the actual allocations do not drift significantly from the target allocations. Details of these ranges can be found in the Investment Management Agreement and Scheme's Investment Policy Implementation Document. MGIE will seek to rebalance any allocations as soon as reasonably practicable after completing monthly reviews of the Scheme's asset allocation and in accordance with Mercer's best execution policy.

The Trustee has also agreed to invest/disinvest assets in such a way as to rebalance towards the target allocations.

2.6 Day–to-Day Management of the Assets

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. The Trustee has determined, based on expert advice, a benchmark mix of asset types.

The Trustee regularly reviews the continuing suitability of the Scheme's investments, with the aim of ensuring the overall level of risk is consistent with that being targeted as set out in Section 2.2.

Details of the Scheme's appointed manager can be found in a separate document produced by the Trustee entitled "Investment Policy Implementation Document", which is available to members upon request.

2.7 Additional Assets

Under the terms of the Trust Deed and Rules the Trustee is responsible for the investment of additional voluntary contributions ("AVCs") paid by members. The Trustee reviews the investment performance of the chosen providers on a regular basis and take advice as to the providers' continued suitability.

2.8 Realisation of Investments

The investment manager has discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation and pooled fund prospectuses.

The Trustee has delegated the monitoring of the allocation between the appointed managers to MGIE who rebalances the portfolio as set out in the "Investment Policy Implementation Document".

2.9 ESG, 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 MGIE as investment manager in respect of the Scheme's assets. MGIE in turn delegates responsibility for the investment of the assets to a range of underlying asset managers who 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 Corporate Governance Code and UK Stewardship Code.

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

Member views

Member views are taken into account in the selection, retention and realisation of investments by having Trustee Directors who are nominated by the members. The views of the wider membership on ESG matters have not been canvassed to date, but members have a variety of methods by which they can make views known to the Trustee.

Investment Restrictions

The Trustee has not set any investment restrictions in relation to particular Mercer Funds.

2.10 Corporate Governance

- The Trustee believes that good stewardship can enhance long-term portfolio performance, and is therefore in the best interests of the Scheme's beneficiaries and aligned with fiduciary duty.
- The Trustee is supportive of the UK Stewardship Code ("the Code") published by the Financial Reporting Council in July 2010 and they and MGIE expect the underlying managers who are registered with the FCA to comply with the Code.

- The Trustee expects their fund managers to have effective policies addressing potential conflicts of interest in matters of stewardship.

2.11 Trustee’s policies with respect to arrangements with, and evaluation of the performance and remuneration of asset managers and portfolio turnover costs

The Scheme’s assets are invested in Mercer Funds, which are multi-client collective investment schemes, and so, the Trustee accepts that it does 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 2.5. 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 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 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 or 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 2.9 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 its 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 2.2. 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 Fund's Supplements, the Report & Accounts and within the Scheme's annualised, 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, 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.

2.12 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 whom 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.

3. Defined Contribution ("DC") Section

3.1 Investment Objectives

To guide them in their strategic management of the assets and control of the various risks to which the Scheme and the members are exposed, the Trustee has considered its key investment objectives and adopted the following as its main priorities.

- To maximise the value of members' assets at retirement.
- To maintain the purchasing power of member's savings.
- To provide protection for members' accumulated assets in the years approaching retirement against:
    - Sudden (downward) volatility in the capital value.
    - Relative fluctuations in the (implicit and explicit) costs of retirement benefits.
- To allow members to tailor their investment choices to meet their own needs.

3.2 Investment Principles

The Trustee's objectives translate to the following principles:

a. Offering members a 'Lifestyle' approach as the default investment strategy and ensuring that the investment strategy options allow members to plan for retirement;

b. Making available a range of pooled investment funds which serve to meet the varying investment needs and risk tolerances of Scheme members;

c. Adopting a framework which provides flexibility to change investment managers proactively and which allows efficient fund switching (e.g. without out-of-market risk) as required;

d. Providing general guidance as to the purpose of each investment option;

e. Encouraging members to seek independent financial advice from an appropriate party in determining the most suitable option for their individual circumstances;

f. In determining an appropriate balance between providing flexibility and choice, as well as simplicity and cost control, the Trustee aims to make available a limited range of options which satisfy the needs of the majority of members.

The Trustee regularly reviews the suitability of the options provided and from time to time will change or introduce additional investment options as appropriate.

3.3 Risk Management

The Trustee recognises that there are a number of risks facing members of the Scheme and have taken these into consideration when determining the range of funds to offer to members (including the default arrangements). The Trustee has considered investment risk from a number of perspectives. The below list is not exhaustive but covers the main risks that the Trustee considers and how they are managed and measured in the Scheme as a whole.

Type of Risk	Risk	Description	How is the risk monitored and managed?
Market risks	Inflation risk	The risk that the investment return over members' working lives will not keep pace with inflation and does not, therefore secure an adequate pension.	The Trustee makes available a range of funds, across various asset classes, with the majority expected to keep pace with inflation. Please see the "Investment Policy Implementation Document" for further fund details.
	Currency risk	The risk that fluctuations in foreign exchange rates will cause the value of overseas investments to fluctuate.	Use of currency hedging in some assets to reduce the influence of currency fluctuation in foreign investments.
	Credit risk	The risk that the issuer of a financial asset, such as a bond, fails to make the contractual payments due.	Members are able to set their own investment allocations, in line with their risk tolerances. Within active funds management of many of these market risks are managed by the investment manager.
	Interest rate risk	The risk that unfavourable interest rate movements, particularly in the years just prior to retirement may lead to a reduction in the amount of income that the member's retirement account can secure.	
	Concentration risk	The risk that an adverse influence on investment values from the poor performance of a small number of individual investments	
	Equity, property and other price risk	The risk that investment market movements lead to a substantial reduction in the anticipated level of the benefit.	

Environmental, Social and Corporate Governance risk	The risk that environmental, social or corporate governance concerns, including climate change, have a financially material impact on the return of the Scheme's assets.	The management of ESG related risks is undertaken by the underlying investment managers. See Section 3.8 of this Statement for the Trustee's responsible investment and corporate governance statement.
Investment Manager risk	The risk that the investment manager underperforms its objectives, fails to carry out operational tasks, does not ensure safe-keeping of assets or breaches agreed guidelines.	The Trustee regularly reviews performance of investment funds.
Liquidity risk	The risk that the Scheme's assets cannot be realised at short notice in line with member demand.	The Scheme is invested in daily dealt and daily priced pooled funds. Units in the pooled funds in which the Scheme invests are believed to be readily redeemable.
Pension Conversion risk	The risk that the member is invested in a strategy that does not reflect the way in which they intend to take their benefits at retirement.	The Trustee makes available three lifestyle strategies for DC members. Lifestyle strategies automatically switch member assets into investments whose value is expected to be less volatile relative to how the member wishes to access their pension savings as they approach retirement age.
Pre-retirement downturn risk	The risk of a downturn in the markets in the period leading up to retirement. This could lead to members losing some or all the gains built up over their working life.	The Trustee has therefore offered a number of lifestyle investment options which de-risk a member's accumulated assets to a suitable portfolio as they near retirement. Please see section 3.5.1 for further details.

The Trustee believes that the investment objectives and risks outlined in this Statement are in relation to what the Trustee consider financially material considerations. The Trustee monitors and manages the risks set out above by keeping the investment arrangements of the Defined Contribution Section under regular review and take advice from their investment advisors on their continuing appropriateness.

In considering the range of funds to offer to members (including the default arrangements), the Trustee acknowledges that the investment time horizon of each individual member is different and will be dependent on their current age and when they expect to retire. In selecting the lifestyle options, the Trustee has taken the proximity to the target retirement date into account (through the use of target dated funds) and the associated financially material risks over the strategies' full time horizon.

3.4 Governance Structure

The Trustee has established the following decision making structure for the DC Section:

Trustee

- Set structures and processes for carrying out its role;
- Set and implement investment structures;
- Select and monitor investment advisers;
- Make on-going decisions relevant to the principles of the DC Section's investment strategy.

Mercer, the investment adviser

- Advises on all aspects of the investment of the DC Section assets, including implementation;
- Advises on this Statement;
- Provides required training; and
- Advises the Trustee on the suitability of each underlying fund's structure, composition and benchmark;
- Monitors underlying investment managers.

Scottish Widows Limited, the investment platform provider for the DC Section

- Operates within the terms of this Statement and the written contract;
- Provides access to a platform through which third party funds can be accessed by the Trustee, for the DC Section's members.

Mercer Workplace Savings

- Provides advice in selecting the investment platform provider;
- Provides on-going governance monitoring services (i.e. on the platform provider);
- Provides investment governance of the platform provider's fund range.

3.5 Investment Strategy

Range of Funds

The Trustee recognises that members have differing investment needs and that these may change during the course of a member's working life. The Trustee also recognises that members have different attitudes to risk. The Trustee believes that members should make their own investment decisions based on their individual circumstances.

In considering the range of funds to offer to members, the Trustee acknowledges that the investment time horizon of each individual member is different and will be dependent on their current age and when they expect to retire. In designing the lifestyle options, the Trustee has taken the proximity to the target retirement date into account when designing the strategy and the associated financially material risks over the strategy's full time horizon.

In order to encompass these factors the Trustee has agreed the following:

- To make available a range of investment funds that should enable members to tailor their own investment strategy to meet their own individual needs.
- To offer funds which allow diversification of risk and long term capital growth.
- To provide a default investment option for members who do not make their own investment decisions.
- To provide alternative lifestyle investment options which target different retirement benefits than that targeted by the default investment option.

The investment choices available under the DC Section have been chosen by the Trustee based on its understanding of different member needs. These have been grouped by the following approaches – 'do it for me', 'help me do it' and 'leave me to it'.

The Trustee regularly monitors and review the suitability of the funds provided and from time to time may change the investment options.

3.5.1 **Do it for me (the default investment option)**

'Do it for me' is the default option for the DC Section and is known as the Target Drawdown Retirement Path. It is suitable for members that do not feel comfortable making their own investment decisions and do not plan to purchase an annuity when they take their retirement benefits. If no choice of investment is made, members' contributions will be invested in this option.

In designing the default option, the Trustee has explicitly considered the trade-off between risk and expected returns. Risk is not considered in isolation, but in conjunction with expected investment returns and retirement outcomes for members, further details can be found in Section 3.3. In particular, when reviewing the investment strategy of the default investment option, the Trustee considers risk quantitatively in terms of the variability of investment returns and potential retirement outcomes for members. From a qualitative perspective, the Trustee also considers risk in terms of the (mis)alignment of investments with the retirement benefits targeted by the default investment option.

The default investment option aims to generate investment returns, in a risk-controlled manner, which are sufficient to provide a reasonable level of retirement benefits for members, given the level of contributions paid over their lifetime in the Scheme.

The objectives of the default investment option, and the ways in which the Trustee seeks to achieve these objectives, are detailed below.

- The Target Drawdown Retirement Path has been chosen as the default investment option by the Trustee. The strategy aims to maximise returns, at an appropriate level of risk, for the majority of the members' working lives before switching as retirement approaches into diversified funds to target income drawdown.

- The default strategy's growth phase invests in equities, and other growth-seeking assets that will provide growth with some downside protection and some protection against inflation erosion.

- As a member's DC pot grows, investment risk will have a great impact on member outcomes. Therefore the Trustee believes that a default strategy that seeks to reduce investment risk as a members approaches retirement is appropriate.

- An investment strategy that targets income drawdown (variable income) following retirement is likely to meet a typical member's requirements for income in retirement. This is based on the Trustee's understanding of the Scheme's membership profile. This does not mean that members have to take their benefits in this format at retirement – it merely determines the default investment strategy that will be in place pre-retirement. Members who intend to take their retirement benefits through other formats have the option of switching to an alternative Retirement Path prior to retirement or choosing their own investment strategy.

The Target Drawdown Retirement Path is implemented using a range of pooled funds managed by the Trustee's chosen investment managers. The underlying investment managers undertake the selection, retention and realisation of investments within these pooled funds. The investment managers incorporate environmental, social and corporate governance considerations; further details about ESG, Stewardship and Corporate Governance factors can be found in Section 3.8. Any investment in derivative instruments (either directly or within the underlying pooled funds) contributes to risk reduction, or efficient portfolio management.

The Target Drawdown Retirement Path adopts a Lifestyle approach to manage risk throughout a member's lifetime in the Scheme. As a member's pot grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustee believes that it is appropriate to utilise a Lifestyle approach to reduce investment risk as the member approaches retirement. The reduction of investment risk in the run up to retirement is expected to reduce the chance of market shocks producing unfavourable outcomes for members at retirement.

- If the member is more than eight years away from their expected retirement date and has opted for the default option, contributions will be invested in the Mercer Growth Fund. The Mercer Growth Fund invests in a diversified range of assets (equities, fixed income securities and non-traditional assets) with the objective of providing growth whilst mitigating inflation erosion and downside risk.

- Eight years before their target retirement date (or Normal Retirement Date if no target has been specified), members who have opted for the default option will have their holdings transferred into a Mercer Target Drawdown Retirement Fund based on the expected date of retirement. The Mercer Target Drawdown Retirement Funds aim to gradually move investments from growth-seeking assets to investments more suitable for reducing absolute volatility, whilst still generating moderate levels of growth above inflation, as members approach retirement.

- At the start of the year of their expected retirement, members' accumulated savings in the default investment option will be moved to the

Mercer Drawdown Retirement Fund. The Mercer Drawdown Retirement Fund aims to maintain the purchasing power of members' savings until they retire from the Scheme whilst also providing an element (25%) of capital preservation.

Within the Target Drawdown Retirement Path, units across the underlying pooled funds are bought and sold according to the lifestyle matrix set out in the IPID. Specific details on the pooled funds held within the Target Drawdown Retirement Path are also set out in the IPID.

Assets in the default investment option are invested in the best interests of members and beneficiaries, taking into account the profile of members.

In making the decision regarding which Target Retirement Path should be the default option, the Trustee considered their understanding of the Scheme's membership in July 2018 (based on data over 2017 and 2018). Based on this understanding of the membership, a default option that targets the withdrawal of savings at retirement flexibly (i.e. through income drawdown) and a tax-free cash lump sum (up to 25% of a members' pot) was chosen. The Trustee will continue to review this over time, at least triennially, or after significant changes to the Scheme's demographic, if sooner. Members will be supported by clear communications regarding the aims of the default and the access to alternative approaches. The default option does not mean that members have to take their benefits in this format at retirement. Prior to the de-risking period, members will be asked whether they wish to remain in the default option or to transfer to an alternative lifestyle strategy (details can be found in section 3.5.2).

3.5.2 Help me do it

The options in this category are aimed at members who wish to make a choice in where they invest, particularly in the lead up to retirement, but need help in choosing. The Trustee has chosen a simplified range of lifestyle arrangements, known as Target Retirement Paths, (including the default investment option detailed in 3.5.1) to assist members with their investment and retirement objectives.

In addition to the Target Drawdown Retirement Path, which is the default investment option, the Trustee has made available alternative Target Retirement Paths; the Target Annuity Retirement Path targets annuity purchase at retirement and the Target Cash Retirement Path targets cash-out at retirement.

The growth phase for all three Target Retirement Paths will be the same (the Mercer Growth Fund), whereas different Target Retirement Funds will be used within each path to achieve risk reduction as members approach retirement.

At retirement, members' investments in a Target Retirement Path will be moved to a suitable fund – the Mercer Annuity Retirement Fund for those targeting annuity purchase, or the Mercer Cash Retirement Fund for members wishing to withdraw 100% cash at retirement.

3.5.3 Leave me to it

The ‘Self-select’ funds are for members who are confident in making investment choices and want to tailor their investments to suit their own characteristics.

The Trustee has therefore chosen a simplified core range of funds which target a range of risk and return characteristics. Along with the Mercer Growth Fund (the fund used in the default option) detailed above, there are four risk-profiled options members can choose from; the Mercer High Growth, Mercer Moderate Growth and the Mercer Defensive Funds.

In addition to the funds noted above, there are three further funds available; the Mercer Active UK Equity, Mercer Active Global Equity and Mercer Active Money Market Funds. These funds are aimed at members with a higher level of confidence and investment knowledge who wish to further tailor their investment strategy.

Further details of all of the funds made available to members under the DC Section are provided in the Scheme’s Investment Policy Implementation Document (IPID).

3.6 Additional default arrangements

In accordance with the Occupational Pension Schemes (Charges and Governance) Regulations 2015, the Scheme has identified the investment options listed in the table below as ‘default arrangements’ (as defined by these regulations) in addition to the current default investment option (as detailed in 3.5.1). These have been identified as ‘default arrangements’ as members’ contributions have been automatically directed to these funds without members having instructed the Trustee where their contributions are to be invested; this is due to historic investment option removals and is further explained in the table below. The performance of these funds are monitored at least quarterly, with a strategic review being carried out at least triennially since falling under the categorisation of a ‘default arrangement’.

Fund	**Reason for identification as a ‘default arrangement’**	**Date categorised as a default arrangement**
Target Annuity Retirement Path	The Scheme’s default investment option was changed from this option to the Target Drawdown Retirement Path in March 2019. Members who were in the de-risking phase of this option were allowed to remain in this option and hence this prior default investment option is classified as a default arrangement.	March 2019
Defensive Fund	When the Mercer Active UK Bond Fund was removed, members who did not choose another investment option had their contributions automatically redirected to this option.	September 2016

The aims and objectives as well as the Trustee’s policies in respect of these ‘default arrangements’ is summarised in the table below.

	Defensive Fund	Target Annuity Retirement Path
Trustee's aims and objectives and types of investment primarily held	To provide members with a fund that ▪ adopts an investment strategy that is expected to be defensive across different market environments, whilst still providing some prospects of nominal growth; and ▪ invests a large part of its assets in a wide range of different fixed income assets, whilst maintaining a minor allocation to other diversifying assets.	To provide members with an investment option that ▪ is suitable for those who plan to buy an annuity and take a tax-free cash lump sum when they take their retirement benefits; ▪ automatically manages the asset allocation for members from when they join until their target retirement date; and ▪ is diversified in its asset allocation over time.
Balance between different kinds of investments	Primarily invests in bonds, with minor allocations to shares, and other assets for diversification	The asset allocation changes over time ▪ When a member is more than eight years from their target retirement date, the Path invests in the Mercer Growth Fund (which invests in shares, bonds, and other non-traditional/diversifying assets) ▪ When a member is within eight years of their target retirement date, the Path invests in a Mercer Target Annuity Retirement Fund, which gradually moves investments from high-risk growth-seeking assets to fixed-income assets that aim to move broadly in line with changes in annuity prices. ▪ When a member is in their retirement year, the Path invests in the Mercer Annuity Retirement Fund, which invests in short-term money market instruments (25%) and fixed-income assets that aim to move broadly in line with changes in annuity prices.
Expected risk and return	This fund aims to produce modest returns above short term interest rates at a lower level of risk than investments in shares and risk is measured by the absolute volatility of returns	This fund is expected to provide a real return over the long term with some downside protection relative to annuity prices as members approach retirement, with moderate levels of risk

<table>
<tr><th></th><th>Defensive Fund</th><th>Target Annuity Retirement Path</th></tr>
<tr><td>The extent (if at all) to which social, environmental or corporate governance considerations are taken into account in the selection, retention and realisation of investments</td><td colspan="2">The investment managers have full discretion (within the constraints of their mandates) on the extent to which social, environmental or corporate governance considerations are taken into account in the selection, retention and realisation of investments.</td></tr>
<tr><td>The realisation of investments</td><td colspan="2">The selection, retention and realisation of assets within the pooled funds are delegated to the respective investment managers in line with the mandates of the funds.</td></tr>
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3.7 Day-to-Day Management of the Assets

The fund range offered to members of the DC Section is accessed through Mercer Workplace Savings ("MWS") on the platform provided by Scottish Widows Limited ("Scottish Widows"). The Trustee accesses the platform via a long-term insurance contract with Scottish Widows.

The Trustee is responsible for the selection, appointment and retention of the Investment Managers. In this context Investment Managers refers to the Delegated Investment Manager for Mercer funds and external investment managers (when non Mercer funds are utilised). Delegated Investment Manager refers collectively to Mercer Global Investments Europe Limited (MGIE) and Mercer Limited.

The Trustee recognises that it is not possible to specify investment restrictions where assets are managed via pooled funds and furthermore, given that it is Scottish Widows that has the direct relationship with the third parties offering the funds (and not the Trustee).

The Pensions Act 1995 (and subsequent legislation) distinguishes between investments where the management is delegated to a fund manager with 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 policy of the Trustee is to review their 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.

The written advice will consider the issues set out in the Occupational Pension Plan (Investment) Regulations 2005 and the principles contained in this Statement. The advisor will have knowledge and experience required under section 36(6) of the Pensions Act 1995.

All the funds made available to members of the DC Section are blended funds-of-funds (with at least one constituent). These funds are blended by Mercer and use MGIE funds and using underlying funds managed by other investment management firms ("Investment Managers").

Day-to-day management of the underlying assets in the blended funds-of-funds is undertaken by the Investment Managers who are all authorised or regulated. The Trustee expects the Investment Managers to manage the assets under the terms of their contracts.

The Investment Managers will buy and sell investments within the underlying funds of the blended funds-of-funds (subject to agreed constraints and applicable legislation).

The Investment Managers have appointed custodians for the safe custody of assets held within underlying funds of the blended funds-of-funds. Where applicable, MGIE has also appointed custodians for the safe custody of assets held within the blended funds-of-funds. The custodians are responsible for the safekeeping of the assets held and for performing various administrative duties, such as the collection of interest and dividends and dealing with corporate actions.

The Trustee assesses the continuing suitability of the blended funds-of-funds made available under the DC Section on a periodic basis.

3.7.1 **Additional Voluntary Contributions ("AVCs")**

Members of the DC Section are able to invest AVCs within the same investment funds as the main DC Section assets.

3.7.2 **Monitoring the Fund Providers**

The Trustee regularly reviews performance, activity and wider issues. The Trustee also utilises Mercer as investment consultants to advise on investment strategy, provider appointments, provide assistance in monitoring the funds available, both in the form of written reports and attendance at meetings.

3.7.3 **Realisation of Investments**

The underlying investment managers decide on the timing of realisation of the underlying investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation.

3.8 **ESG, Stewardship and Climate Change**

The Trustee believes that environmental, social and corporate governance ("ESG") issues 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 explicitly consideration.

Due to the arrangement with Scottish Widows to access pooled funds through MWS, the Trustee recognises that they cannot direct the underlying investment managers when evaluating ESG factors, including climate change considerations, and in exercising rights and stewardship obligations attached to the DC Section's investments as well as the degree to which they are integrated into their investment processes.

Similarly, this includes undertaking engagement activities for example in respect of the Scheme's voting rights which are exercised by the underlying investment managers in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code. Manager's engagement polices are expected to include all relevant matters including performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance. The Trustee will review the underlying investment managers' policies and engagement activities (where applicable) on an annual basis.

The Trustee considers how ESG, climate change and stewardship is integrated within Mercer's investment processes and those of the underlying managers in the monitoring process. Mercer 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/or climate scenario analysis for diversified portfolios.

The Trustee will engage with the provider and the underlying investment managers as appropriate, and will ask investment managers to include appropriate risk metrics within their portfolio reporting within the framework of the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD) and report on voting behaviour.

Investment Restrictions

The Trustee has not set any investment restrictions on the underlying investment managers in relation to particular products or activities.

Member views

Member views are taken into account in the selection, retention and realisation of investments from the perspective that there are member nominated Trustees. The views of the wider membership have not been canvassed to date, but members have a variety of methods by which they can make views known to the Trustee.

DC Stewardship Policy

Further to the requirements imposed on the Trustee from 1 October 2019, the Trustee supports and expects the underlying investment managers who are registered with the FCA to comply with the UK Stewardship Code and UK Corporate Governance Code, including public disclosure of compliance via an external website.

The Scheme's underlying investment managers exercise voting rights and undertake engagement (collaborative or otherwise) in accordance with their own corporate governance policies and the Trustee will review the following reporting on an annual basis:

- UK Stewardship Code Review which assesses each underlying equity manager's compliance against the seven principles of the UK Stewardship Code.

- Stewardship monitoring reporting which assesses each underlying equity manager's record of executing and disclosing voting activity and the extent to which they are engaging with the underlying companies in which they invest.

- Mercer Manager Researcher's ESG ratings of all investment managers versus the asset class universe ESG ratings. In addition, ESG ratings are disclosed in the quarterly performance report reviewed by the Trustee.

The Trustee has and will continue to consider sustainability-themed investments.

Corporate Governance

The Trustee accepts that by offering pooled investment vehicles for members' equity investments, the day-to-day application of voting rights will be carried out by the investment managers.

3.9 Investment Manager Arrangements

Alignment with Trustee's Policies

The Delegated Investment Manager chooses the underlying investment managers based on their capabilities and, therefore the perceived likelihood of achieving the expected return and risk characteristics required. Mercer's manager research rating reflects Mercer's forward-looking assessment of a manager's ability to meet or exceed their objectives. The Manager's forward-looking rating is considered when choosing new managers as well as evaluating the performance of incumbent investment managers.

As the Trustee invests in pooled investment vehicles they accept that they have limited ability to influence investment managers to align their decisions with the Trustee's policies set out in this Statement. However, appropriate mandates are selected to align with the overall investment strategy.

The Trustee, MWS and the Delegated Investment Manager expect investment managers to incorporate the consideration of longer term factors, such as ESG factors, into their decision making process where appropriate. The extent to which this is the case will be considered during the selection, retention and realisation of manager appointments as well as through the consideration of advisor ESG ratings. The Trustee expects managers to disclose their voting and engagement activity in respect of actions taken in relevant issuers of debt and equity. The Delegated Investment Manager engages with investment managers on this activity and if dissatisfied may look to replace the manager.

Incentivising and Medium/Long-Term Decision Making

The underlying investment managers are aware that their continued appointment is based on their success in delivering the mandate they manage. If the Trustee is dissatisfied, then they may look to replace the manager.

For each appointment, retention is dependent upon the Trustee having ongoing confidence that the investment manager will achieve its investment objective. The Trustee make this assessment taking into account various factors, which include performance to date as well as an assessment of future prospects.

The investment managers are therefore incentivised both to achieve the objectives set for them, which are consistent with the Trustee's policies and objectives, and to ensure that they remain capable of doing so on a rolling basis. This encourages investment managers to take a suitably long-term view when assessing the performance prospects of, and engaging with, the equity and debt issuers in which they invest or seek to invest.

Evaluation and Remuneration

The Trustee's focus is on longer-term performance but shorter-term performance is monitored to ensure any concerns can be identified in a timely manner. The Trustee reviews both absolute and relative performance against a portfolio or underlying investment manager's benchmark on a quarterly basis, including assessments of both shorter and longer time horizons. The Trustee also relies upon Mercer's manager research capabilities in the process of monitoring for any concerns in performance.

The remuneration for investment managers used by the Scheme is based on assets under management; the levels of these fees are reviewed annually as part of the annual value for money assessment to ensure they continue to represent value for members. If performance is not satisfactory, the Trustee will ask the Delegated Investment Manager to provide additional rationale, and if not satisfied with this, may request further action be taken, including a review of fees. To ensure Investment manager's incentives are aligned with that of the Trustee's good performance, in respect to both return and Mercer's ESG rating will allow managers to retain the mandate on an ongoing basis.

Portfolio Turnover Costs

While the Trustee does not set formal portfolio turnover ranges, these are indirectly monitored through consideration of transaction cost data as part of the annual value for members assessment. The ability to assess the appropriateness of these costs is limited by the availability of data. The Trustee will monitor industry developments in how to assess these costs and incorporate this in future value for member assessments. Importantly, performance is reviewed net of portfolio turnover costs.

Duration of the Arrangements

The Trustee is a long term investor, all funds are open-ended and therefore there is no set duration for manager appointments. The Delegated Investment Manager is responsible for the selection, appointment, monitoring and removal of the underlying investment managers. The Trustee is responsible for the selection, appointment and removal of the Delegated Investment Manager. The Trustee may also choose to remove a fund from the fund range, if no longer considered appropriate. The overall suitability of the fund range is reviewed on at least a triennial basis.

3.10 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 whom 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.