

# **Lil-Lets UK Pension Fund**

## **Statement of Investment Principles**

# 1 Introduction

- 1.1 This is the Statement of Investment Principles prepared by the Trustee of the Lil-Lets UK Pension Fund (the Fund). This statement sets down the principles governing decisions about investments for the Fund to meet the requirements of the Pensions Act 1995, as amended by the Pensions Act 2004, and of the Occupational Pension Schemes (Investment) Regulations 2005.
- 1.2 In preparing this statement the Trustee have consulted Lil-Lets UK Limited, the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustee's investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority and licensed by the Institute and Faculty of Actuaries for a range of investment business activities.
- 1.3 This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.
- 1.4 The Trustee will review this statement at least every three years or if there is a significant change in the policy on any of the areas covered by the statement.
- 1.5 The investment powers of the Trustee are set out in Clause 18 of the Definitive Trust Deed & Rules, dated 20 December 2000. This statement is consistent with those powers.
- 1.6 Sections 2 to 9 below and Appendix 1 set out the Trustee's approach to the investments of the Fund's defined benefit ("DB") section. The Fund's defined contribution ("DC") section is covered in Sections 9 to 10 and Appendix 2.

## 2 Choosing Investments

- 2.1 The Trustee's policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustee considers the advice of their professional advisers, who it considers to be suitably qualified and experienced for this role.
- 2.2 The day-to-day management of the Fund's assets is delegated to one or more fund managers. The Fund's fund managers are detailed in the Appendix to this Statement. The fund managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights.
- 2.3 The Trustee reviews the appropriateness of the Fund's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the fund managers with respect to performance within any guidelines set. The Trustee will also consult the Employer before amending the investment strategy.

## 3 Investment Objectives

- 3.1 The Trustee's main investment objectives for the DB section are:
  - to ensure that they can meet the members' entitlements under the Trust Deed and Rules as they fall due;
  - to manage the expected volatility of the returns achieved in order to control the level of volatility in the Fund's required contribution levels;
  - to minimise the long-term costs of the Fund by maximising the return on the assets whilst having regard to the above objectives.

- 3.2 The Trustee is aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the DB section's liabilities at any time. The Trustee has obtained exposure to investments that they expect will meet the objectives as best as possible.
- 3.3 The Trustee's objectives for the defined contribution section are to:
- Provide a suitable default investment option that is likely to be suitable for a typical member;
  - Offer an appropriate range of alternative investment options so that members who wish to make their own investment choices have the freedom to do so, recognising that members may have different needs and objectives.
- 3.4 The Trustee is responsible for the design of the default investment option and for choosing which funds to make available to members. Members are responsible for their own choice of investment options.

## 4 Kinds of investments to be held

- 4.1 The Fund can invest in a wide range of asset classes including:
- Equities;
  - Bonds;
  - Cash;
  - Property;
  - Target Return funds;
  - Alternatives, including private equity, commodities, hedge funds, infrastructure, currency, high yield debt and derivatives;
  - Annuity policies.
- 4.2 Any investment in derivative instruments is only made to contribute to a reduction in the overall level of risks in the portfolio or for the purposes of efficient portfolio management.
- 4.3 The Trustee monitors from time-to-time the employer-related investment content of the portfolio as a whole and will take steps to alter this should they discover this to be more than 5% of the portfolio. Typically this check is carried out annually by the Fund's auditors.

## 5 The balance between different kinds of investments

- 5.1 The Fund invests in assets that are expected to achieve the Fund's objectives. The allocation between different asset classes within the DB section is contained within Appendix 1.
- 5.2 Appendix 2 sets out the range of assets available within the DC section. The allocation between different funds in the DC section is determined by members.
- 5.3 The Trustee considers the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the appendices.
- 5.4 From time to time the Fund may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate for any short term cashflows requirements or any other unexpected items.

- 5.5 The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and therefore the Fund's asset allocation will be expected to change as the Fund's liability profile matures.

## 6 Risks

- 6.1 The Trustee has considered the following risks for the Fund with regard to its investment policy and the Fund's liabilities:

Risk versus the liabilities	The Trustee will monitor and review the investment strategy of the DB section with respect to the liabilities in connection with each actuarial valuation. The investment strategy will be set with consideration of the appropriate level of risk required for the funding strategy as set out in the Fund's Statement of Funding Principles.
Asset Allocation Risk	The asset allocation is detailed in the Appendix to this Statement and is monitored on a regular basis by the Trustee.
Fund manager risk	The Trustee monitors each of the Fund's fund managers' performance on a regular basis in addition to having meetings with each manager from time to time as necessary. The Trustee has a written agreement with each fund manager, which contains a number of restrictions on how each fund manager may operate.
Concentration risk	Each fund manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.
Loss of investment	The risk of loss of investment by each fund manager and custodian is assessed by the Trustee. Each fund manager is responsible for monitoring counterparty credit risk and evaluating counterparty credit quality on a continuous basis.
Liquidity risk	The Fund invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Fund's cash flow requirements. The Fund's administrators assess the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.
Covenant risk	The creditworthiness of the Employer and the size of the pension liability relative to the employer's earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the employer covenant.
Solvency and mismatching	Risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustee is aware that the asset allocation required to minimise the volatility of the solvency position of the DB section may be different from that which would minimise the volatility on the Fund's funding basis.
Currency risk	The Fund's liabilities are denominated in sterling. The Fund may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management.

## 7 Expected return on investments

- 7.1 The Trustee has regard to the relative investment return and risk that each asset class is expected to provide. The Trustee is advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the fund managers.
- 7.2 The Trustee recognises the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.
- 7.3 In considering the expected return from investments, the Trustee recognises that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.
- 7.4 Having established the investment strategy, the Trustee monitors the performance of each fund manager against an agreed benchmark as frequently as appropriate according to market conditions and the Fund's funding position. The Trustee meets the Fund's fund managers as frequently as is appropriate, in order to review performance.

## 8 Realisation of investments

- 8.1 The Trustee has delegated the responsibility for buying and selling investments to the fund managers. The Trustee has considered the risk of liquidity as referred to above.
- 8.2 The Trustee is aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Fund accounts.

## 9 Socially Responsible Investment, Corporate Governance and Voting Rights

- 9.1 The Trustee believes that environmental, social and governance factors are potentially financially material. However, these factors do not take precedence over other financial and non-financial factors, including but not limited to historical performance or fees. The Trustee may consider both financial and non-financial factors when selecting or reviewing the Fund's investments and setting the default strategy for the DC section. At present, the Fund invests predominantly in passively managed funds that consider only market capitalisation when determining investments.
- 9.2 The Trustee believes that good stewardship and positive engagement can lead to improved governance and better risk-adjusted investor returns. The Trustee delegates the exercise of rights (including voting rights) attached to the Fund's investments to the investment managers, who are signatories of the UK Stewardship code or equivalent.
- 9.3 As the Fund's investments are held in pooled funds, social, environmental and governance considerations are set by each of the investment managers. The Fund's investment managers will ultimately act in the best interests of the Fund's assets to maximise returns for a given level of risk.
- 9.4 In selecting and reviewing their investment managers, where appropriate, the Trustee will consider investment managers' policies on engagement and how these policies have been implemented.
- 9.5 The Trustee has not taken into account individual member's views when establishing the policy on environmental, social and governance factors, engagement and voting rights.

## 10 AVCs

10.1 The Trustee recognises that the needs of members paying AVCs will vary according to their attitude to risk, investment sophistication and time to retirement. They have therefore put in place AVC arrangements with Equitable Life and Standard Life that give members access to a range of investment funds.

## 11 Agreement

11.1 This statement was agreed by the Trustee, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the Employer, the fund managers, the Scheme Actuary and the Fund's auditor upon request.

Signed: .....

Date: .....

28/6/2019

On behalf of the Lil-Lets UK Pension Fund

# Appendix 1 Note on investment policy of the Fund as at June 2019 in relation to the current Statement of Investment Principles – Defined Benefit Section

## Choosing investments

The Trustee has appointed Legal and General Investment Management (“L&G”) to manage the day-to-day running of the Defined Benefit section of the Fund.

L&G is authorised and regulated by the Financial Conduct Authority.

The Trustee has appointed Barnett Waddingham LLP to advise them on investment matters.

The fee arrangements with the investment managers are summarised below:

Fund	Fees
L&G UK Equity Index	0.1% on the first £10m
L&G World (ex UK) Equity Index	0.22% on the first £5m 0.19% on the next £10m
L&G Global Real Estate Equity Index	0.35% p.a.
L&G Over 15 Year Index Linked Gilt Index	0.1% on the first £5m 0.075% p.a. on the next £5m
L&G Over 5 Year Index Linked Gilt Index	0.1% on the first £5m
L&G All Stocks Index Linked Gilt Index	0.1% p.a. on the first £5m 0.075% p.a. on the next £5m

Fixed fees have been agreed with Barnett Waddingham for regular work and additional tasks are charged for on a time cost basis.

The Trustee has AVC contracts with Equitable Life and Standard Life for the receipt of members’ Additional Voluntary Contributions. The arrangement is reviewed from time to time.

## Kinds of investments to be held

The Trustee has considered all asset classes and has gained exposure to the following asset classes

- UK Equities;
- Overseas Equities;
- Index Linked Gilts;
- Global Real Estate Equity.

## The balance between different kinds of investment and rebalancing

The asset allocation has been agreed after considering the Fund’s liability profile, funding position, expected return of the various asset classes and the need for diversification.

The investment benchmarks and objectives for each fund manager are given below:

Fund	Benchmark	Objective
L&G UK Equity Index	FTSE UK Equity Index	Track the benchmark to within $\pm 0.25\%$ p.a. for two years out of three
L&G World (ex UK) Equity Index	FTSE All World (ex-UK) Equity Index	Track the benchmark to within $\pm 0.50\%$ p.a. for two years out of three
L&G Over 15 Year Index Linked Gilt Index	FTSE Over 15 Year Index Linked Gilt Index	Track the benchmark to within $\pm 0.25\%$ p.a. for two years out of three
L&G Over 5 Year Index Linked Gilt Index	FTSE Over 5 Year Index Linked Gilt Index	Track the benchmark to within $\pm 0.25\%$ p.a. for two years out of three
L&G All Stocks Index Linked Gilt Index	FTSE All Stocks Index Linked Gilt Index	Track the benchmark to within $\pm 0.25\%$ p.a. for two years out of three
L&G Global Real Estate Equity Index	FTSE EPRA/NAREIT Developed Real Estate Index	Track the benchmark to within $\pm 1.00\%$ p.a. for two years out of three

The performance of fund managers will be monitored as frequently as the Trustee consider appropriate in light of the prevailing circumstances. The monitoring takes into account both short term and long term performance.

The Fund has a target asset allocation as set out in the table below. Currently, the Fund is not in line with the below as the movement to this allocation has been staggered. As an interim measure the Trustee has decided to hold approximately 10% of assets in the LGIM Sterling Liquidity Plus Fund.

The Trustee recognises that the asset allocation of investments in different asset classes will vary over time as a result of market movements. The Trustee seeks to maintain a balance between maintaining the asset allocation in line with its benchmark and limiting the costs of rebalances.



Fund	Allocation
Equities (L&G)	65.00%
UK Equities	11.25%
Global Equities	33.75%
Real Estate Equity	20.00%
Index Linked Gilts (L&G)	35.00%
<b>Total</b>	<b>100.00%</b>

## Investment of new money and realisation of investments

Investments and disinvestments will normally be made so as to help maintain the asset allocation in line with the agreed benchmark allocation.

## Appendix 2 Note on investment policy of the Fund as at June 2019 in relation to the current Statement of Investment Principles – Defined Contribution Section

The Trustee has appointed Barnett Waddingham LLP to advise them on investment matters. The Trustee has taken advice from Barnett Waddingham in setting the default investment option and the range of funds.

### Choosing investments

The Trustee has appointed the following investment managers to carry out the day-to-day investment of the Defined Contribution section of the Fund:

- Legal and General;
- Standard Life;

The investment managers are authorised and regulated by the Financial Conduct Authority.

The fee arrangements with the investment managers are summarised below:

Fund manager	Annual Management Charges
Legal & General	See DB section for fixed fee arrangements
UK Equity Index Fund	0.10%
World (ex UK) Equity Index Fund	0.22%
Pre-Retirement Fund	0.15%
Over 15 Year Fixed Interest Gilts	0.10%
Over 5 year Index-Linked Gilts	0.10%
Cash Fund	0.125%
Standard Life	The Fund will be entering into a performance-based fee arrangement from July 2019. Base fee of 0.45% p.a. plus a 10% of fund performance fee if the fund performs in excess of LIBOR + 2% p.a. The Base fee plus the performance fee is capped at 0.85% p.a.

\*Different charges apply to different funds; this is an approximate weighted average.

The fund fees are deducted directly from the investments; the annual fixed fee associated with Legal & General is levied from the defined benefit section of the Fund since it is incurred in relation to the combined investments with Legal & General.

The performance of fund managers is monitored as frequently as the Trustee considers appropriate in light of the prevailing circumstances. The monitoring takes into account both short term and long term performance.

## Kinds of investments to be held, and the balance between different kinds of investment and rebalancing

The Trustee has made available several funds to members. These funds and their objectives are set out in the table below. The Trustee also has a default investment strategy for members that do not make an active decision as to how their assets should be invested.

Fund manager	Objective (all stated before fees)
Legal & General	
L&G UK Equity Index	FTSE All-Share Index within $\pm 0.25\%$ p.a. for two years in three
L&G World (ex UK) Index	FTSE All World (ex-UK) Index within $\pm 0.5\%$ p.a. for two years in three
Pre-Retirement Fund	The objective is to provide a diversified exposure to assets that reflect the investments underlying a typical traditional level annuity product.
L&G Over 15 Year Fixed Interest Gilts Index	FTSE A Government (Over 15Year) Index within $\pm 0.25\%$ p.a. for two years in three
L&G Over 5 Year Index Linked Gilt Index	FTSE A Index-Linked (Over 5Year) Index within $\pm 0.25\%$ p.a. for two years in three
Cash Fund	7-Day LIBID
Standard Life	
Global Absolute Return Strategies Fund	6 month GBP LIBOR +5% p.a. over rolling 3 year periods

## Default investment option

Members who are invested in the default option are invested using a 'lifestyle profile'. Initially, assets are invested in growth asset such as equities. As members near retirement, the profile will gradually switch into cash and bonds.

The graph below depicts this transition as members approach retirement:



The Trustee has agreed that growth assets are invested in the following funds:

- 50% Standard Life GARS Fund;
- 25% Legal & General UK Equity Fund;
- 25% Legal & General World (ex-UK) Equity Fund.

The bond allocation, which is built up as a member approaches retirement, is currently invested solely in the Legal & General Pre-Retirement Fund.

## Investment of contributions

Investments will be invested in line with the member's chosen asset allocation unless they have not made a choice in which case they will be invested into the default investment option.