

CDC Pensions Scheme

Statement of Investment Principles

July 2023

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1 Introduction

Scheme Details

- 1.1 This document describes the investment principles pursued by the Trustee of the CDC Pensions Scheme (*the "Scheme"*).
- 1.2 The Scheme operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries.
- 1.3 The Scheme is a Registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004.
- 1.4 Administration of the Scheme is managed by the Trustee, who has overall responsibility for the investment of the Scheme's assets.

Pensions Act

- 1.5 Under the Pensions Act 1995 (as amended), the Trustee is required to prepare a statement of the principles governing investment decisions. This document fulfils that requirement.
- 1.6 The Trustee has consulted British International Investment plc ("BII"), in its capacity as Principal Employer in respect of the Scheme, on the content of this document. They will consult BII on any changes to this document. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.
- 1.7 In drawing up this document, the Trustee has obtained advice from the Scheme's Investment Consultant. The Trustee will review this document regularly and without delay following any significant change in investment policy.
- 1.8 Copies of this Statement, as updated from time to time, are available to Scheme members on request. The Trustee reviews from time to time how key information from this Statement and from the results of their monitoring may best be communicated to members.

Financial Services and Markets Act

- 1.9 In compliance with the Financial Services and Markets Act 2000, the Trustee sets general investment policy and delegates the responsibility for day-to-day management of investments to appointed Investment Manager(s), which may include an insurance company or companies. The Investment Manager(s) shall be authorised under the Financial Services and Markets Act 2000 and shall provide the skill and expertise necessary to manage the investments of the Scheme competently.

Document Control

- 1.10 The prior version of this Statement was dated September 2020. The changes incorporated into this version are due to:
 - Changes in the investment management arrangements in place, namely that the Trustee will no longer actively rebalance the portfolio towards the previous target benchmark allocation, which

consisted in a 1/3 allocation to each of the funds held (the Over 5 year Index-Linked Gilts fund, the Over 15 year Index-Linked Gilts fund and the Liquidity fund).

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Advisors and Interested Parties

The Trustee:	CDC Pensions Scheme Trust Ltd First Floor, 123 Victoria Street, London, SW1E 6DE
Secretary to the Trustee:	Helen Quilty First Floor, 123 Victoria Street, London, SW1E 6DE Tel: 020 7963 4736
Sponsoring Employer:	British International Investment plc (formerly CDC Group plc) First Floor, 123 Victoria Street, London, SW1E 6DE Tel: 020 7963 4700
Scheme Actuary:	Martin Bell, FIA Willis Towers Watson Watson House, London Road, Reigate, Surrey RH2 9PQ
Solicitors:	Sacker & Partners LLP 20 Gresham Street, London EC2V 7JE
Investment Consultant:	Mercer Ltd 1 Tower Place West, Tower Place, London EC3R 5BU
Investment Managers:	Legal & General Investment Management One Coleman Street, London EC2R 5AA State Street Global Advisors Limited 20 Churchill Place, Canary Wharf, London, E14 5HJ Utmost Life and Pensions (AVCs) PO Box 177, Walton Street, Aylesbury, Bucks HP21 7QW Clerical Medical (AVCs) 15 Dalkeith Road, Edinburgh EH16 9AS
Auditor:	AssureUK 107 Cheapside, London EC2V 6DN
Banker:	National Westminster Bank plc, 42 High Street, South Yorkshire S1 2GE
Administrator:	Capita Pension Solutions Limited PO Box 555, Stead House, Darlington DL1 9YT

Bulk Annuity Provider: Rothesay Life Plc
100 Museum Street, London WC1A 1PB

**Custodian and
Collateral Manager:** State Street Global Services
20 Churchill Place, Canary Wharf. London E14 5HJ

3 Division of Responsibilities

Trustee

3.1 The Trustee of the Scheme is responsible in respect of investment matters for:

- a. Reviewing the content of this Statement of Investment Principles on a regular basis and modifying it, if deemed appropriate.
- b. Reviewing the Scheme's investment policy following the results of each actuarial valuation, or in response to relevant changes in other circumstances.
- c. Appointing (and when necessary, dismissing) Investment Managers for the Scheme's assets.
- d. Appointing (and, when necessary, dismissing) custodians and the collateral manager.
- e. Monitoring the exercise of the investment powers which they have delegated to the Investment Managers and monitoring compliance with Section 36 of the Pensions Act.
- f. Assessing the quality of the performance and processes of the Investment Manager(s) by reviewing the quarterly reports provided by the Investment Consultant and by regular meetings with the Investment Manager(s).
- g. Monitoring the security and efficiency of the custodian(s) and the collateral manager.
- h. Consulting with the employer when reviewing investment policy issues.

Investment Managers

3.2 The Investment Managers will be responsible as appropriate for:

- a. Provision of appropriate pooled funds for the investment of the Scheme's assets.
- b. Providing the Trustee with quarterly statements of the Scheme's assets, together with a quarterly report on transactions and cashflows and on their future intentions, and any changes to the processes applied to their portfolios.
- c. Instructing the custodian in respect of any corporate governance activity which the Investment Manager deems necessary in the interests of the Scheme.
- d. Compliance with Section 36 of the Pensions Act.

3.3 The Investment Managers are remunerated by a fee based upon the value of the assets under their management; these fees are charged quarterly by invoice, and not by deduction from the value of each unit held.

Custodian

3.4 The custodian will be responsible for:

- a. Safekeeping of the assets within the Scheme's investment portfolio(s).

- b. Providing the Trustee, the bulk annuity provider and the collateral manager with regular statements of the assets, transactions, income, other cashflows and corporate actions.
- c. Undertaking all appropriate administration relating to the Scheme's assets.
- d. Processing all dividends and tax reclaims in a timely manner.
- e. Dealing with corporate actions.

3.5 The custodian is remunerated on a fixed fee basis.

Collateral Manager

3.6 The collateral manager will be responsible for ensuring that the bulk annuity provider posts collateral in line with the requirements set out in 3.7 and that the collateral is marked to market on a regular basis involving:

- a. Daily collateral moves for changes in interest rates and inflation
- b. Monthly collateral moves for changes in membership e.g. deaths, retirements etc.
- c. Annual collateral moves for changes in longevity assumptions

3.7 The collateral assets are to be held in a portfolio of corporate bonds, gilts and cash; the value at outset was set equal to the initial premium plus additional collateral (as either bonds or cash) provided by the bulk annuity provider to give further security. The Scheme's cash collateral is invested in the SSgA GBP Liquidity Fund.

There are rules on the maximum allocation to certain asset classes and individual securities as well as the amount of additional collateral required depending on type of assets held.

Actuary

3.8 The Actuary will be responsible in respect of investment matters, as requested by the Trustee, for:

- participating with the Trustee in reviews of this Statement of Investment Principles;
- advising the Trustee on how any changes within the Scheme's benefits, membership and funding position may affect the manner in which the assets should be invested; and
- preparing cashflow projections in respect of the Scheme's benefit outgo.

3.9 The Actuary is remunerated by a fee based upon the time and resources devoted to the advice and assistance provided.

Investment Consultant

3.10 The Investment Consultant will be responsible, as requested by the Trustee, for:

- a. Participating with the Trustee in reviews of this Statement of Investment Principles.
- b. Monitoring of the collateral assets posted by the bulk annuity provider.
- c. Advising the Trustee on:

- how any changes within the Scheme's benefits, membership, and funding position may affect the manner in which the assets should be invested;
 - the choice of investment management structure for the Scheme's assets; and
 - any changes in the Investment Managers' or collateral manager's organisation that could affect the interests of the Scheme.
- d. Undertaking project work as required including:
- reviews of asset allocation policy;
 - research reviews of Investment Managers;
 - advising on the selection of new Investment Manager(s), collateral manager and/or custodian; and
 - the selection of organisations for the investment of members' additional voluntary contributions and money purchase contributions.
- 3.11 The Investment Consultant is remunerated by a fee based upon the time and resources devoted to the advice and assistance provided.

4 Long Term Policy

Investment objectives and policies

- 4.1 The principal objective of the Trustee has always been and remains to ensure, so far as they are able, the security of the members' accrued benefits. To achieve this objective, the Trustee has entered into an agreement dated 13 November 2009 with Rothesay Pensions Management Limited to purchase a collateralised bulk annuity policy from Rothesay Life Limited, a life assurance company authorised and regulated by the Financial Conduct Authority, to secure the entitlements of all beneficiaries of the Scheme.
- 4.2 This insurance policy was subsequently extended on 17 December 2015 to include additional accrual for the small number of remaining active members since the date of the previous agreement.
- 4.3 Liabilities such as additional accrual for the one remaining active member at the time of the policy extension and other "discretionary" liabilities are not covered by the bulk annuity policy. The Scheme will hold assets as a reserve to meet these liabilities as and when they fall due.

Additional Voluntary Contributions (AVCs)

- 4.4 The Scheme provided a facility for members to pay AVCs to enhance their benefits at retirement. Members were offered a range of funds in which to invest their AVC payments on a money-purchase basis. The Scheme no longer has any active members, but the Trustee continues to monitor the AVC providers with the objective of providing suitable long-term return for members, consistent with members' reasonable expectations. The Trustee periodically reviews the results and continued suitability of the AVC funds offered.

5 Investment Management Arrangements

Investment Management Structure

- 5.1 Following the Trustee's decision to improve the security of the accrued non-money purchase liabilities, the principal asset of the Scheme is a collateralised bulk annuity policy underwritten by Rothesay Life Limited, a life assurance company authorised and regulated by the Financial Conduct Authority. This policy covers the Trustee's liability to pay accrued members' benefits in accordance with the Rules of the Scheme.
- 5.2 The Scheme will hold assets as a reserve in respect of liabilities not met by the bulk annuity and ongoing administration costs. Following the bulk annuity purchase, these assets were transferred to LGIM with the majority invested in the LGIM Sterling Liquidity Fund and the remainder split between the LGIM Over 15 year Index Linked Gilt Index Fund and the LGIM Over 5 year Index Linked Gilt Index Fund. There is no formal benchmark allocation established.
- 5.3 A dynamic switching mechanism based on a series of yield triggers was set up to transfer monies from the LGIM Sterling Liquidity Fund to the respective Gilt funds. However, the triggers were subsequently removed following significant falls in bond yields. Going forward, Mercer will act upon investment instructions received from the Trustee. The investment of funds will be made in the proportions advised by the Trustee. These investments will be made into the LGIM Over 5 year Index-Linked Gilts Fund, the LGIM Over 15 year Index-Linked Gilts Fund and the LGIM Sterling Liquidity Fund. Any disinvestments are to be made from the Liquidity fund. The Scheme does not target any particular benchmark allocation albeit the proportions allocated to each fund will be reviewed periodically by the Trustee.
- 5.4 The Trustee is a long-term investor and is not looking to change the investment arrangements on a frequent basis. As such there is no set duration for the manager appointments. The Trustee will retain the Investment Managers unless:
 - The manager appointment has been reviewed and the Trustee has decided to terminate.
 - The Scheme is wound up.

6 Investment Guidelines

Asset Ranges

- 6.1 The Trustee may not borrow money or otherwise leverage the Scheme's assets.

Realisation of assets

- 6.2 The cashflows arising from the bulk annuity policy and the reserve provide an income that meets the Trustee's cashflow requirements.

General Restrictions

- 6.3 The Trustee has agreed with the Investment Managers' restrictions appropriate to each of the Scheme's portfolios; these restrictions are not intended to prevent the use of financial instruments appropriate to each Investment Manager's role. In particular, no direct investment is permitted in securities issued by the Investment Manager or any associated companies.

In addition, there are restrictions on the extent and purpose of the use of derivatives within the portfolios.

7 Environmental, social and governance (ESG) issues

Policy on environmental, social and governance (ESG) issues

- 7.1 The Trustee believes that the integration of environmental, social and governance (“ESG”) factors including climate change may have a material impact on the overall investment outcome. The Trustee notes that as most of the Scheme’s assets are invested in bulk annuities with the rest invested in cash and gilts, the integration of ESG factors may be difficult in practice.
- 7.2 The Trustee does not 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 Investment Managers, who are in a position to engage directly with such issuers in order to improve their performance.
- 7.3 The Trustee expects details of voting and engagement activities associated with the funds in which the Scheme invests in, to be available if requested. Should the need arise, the Trustee may challenge the Investment Manager decisions that appear out of line with the investment fund’s objectives or the objectives/policies of the Scheme.
- 7.4 The Trustee has not set any ESG-related investment restrictions on the Investment Managers.
- 7.5 Member views are not taken into account in the selection, retention and realisation of investments.

8 Monitoring

- 8.1 The Trustee will receive and consider written advice from the Investment Consultant at such intervals as the Trustee determines from time to time. The Trustee also receives regular performance reports from the Investment Managers and meets them on a periodic basis to review and discuss the operation of their portfolios, including past and future policy decisions. The Trustee will thus monitor the competence with which the Investment Managers are carrying out the responsibilities delegated to them and their compliance with this Statement. However, it should be noted that, given the low risk, long-term passive nature of the LGIM mandate, the level of active monitoring is lower than it would be for a more complex strategy.
- 8.2 The Investment Managers are appointed based on their capabilities and their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected. The appointments will be reviewed by the Trustee from time to time, based on the results of their monitoring of performance and process. The Trustee will also be advised of and keep under review any material changes in the Investment Managers' organisations. Investment Managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustee is dissatisfied, then they will look to place the Investment Manager on watch, ask them to review their fees or replace them.
- 8.3 As the Trustee invests in pooled investment vehicles they accept that they have no ability to specify the risk profile and return targets of the Investment Manager, but appropriate mandates can be selected to align with the overall investment strategy.
- 8.4 The Trustee considers from time to time the effectiveness of the decisions they have made and the contributions to those decisions made by the Scheme's Investment Managers and Investment Consultant.
- 8.5 The appointment of the custodian will also be reviewed from time to time to ensure that the responsibilities listed in 3.4 are being fulfilled.
- 8.6 The Trustee will monitor the collateral manager regularly to ensure that the responsibilities listed in 3.6 are being fulfilled.
- 8.7 The Trustee does not currently actively monitor portfolio turnover costs, but investment manager performance is generally reported net of all fees and costs, including transaction costs, and therefore the Investment Managers are incentivised in this way to keep portfolio turnover costs to the minimum required to meet or exceed their objectives. The Trustee expects turnover costs information to be available from the Investment Managers upon request.

9 Risk

Risk

9.1 The Trustee recognises that a number of risks are involved in the investment of the assets of the Scheme, including:

- *Custodian risk* - addressed through the agreement with the custodian and ongoing monitoring of the custodial arrangements. Restrictions are applied to who can authorise transfer of cash and the account to which transfers can be made.
- *Concentration risk* – there is a risk of concentrated exposure to a single/limited number of counterparties. Although this risk is increased under the buy-in arrangement, it is mitigated by the collateral arrangement and the Financial Services Compensation Scheme (“FSCS”).
- *Liquidity risk* – the risk of being unable to realise assets to pay accrued benefits has been removed through the bulk annuity policy, although there is a residual risk for the benefits not covered by the policy. In addition, the insurance policy itself is illiquid.
- *Sponsor risk* – the risk that the sponsor is unable to make additional contributions if/when needed, though this risk has been reduced by the bulk annuity policy
- *Counterparty risk* – there is a risk that the bulk annuity provider defaults resulting in insufficient assets to meet the benefits. This risk is mitigated by the collateral arrangement and protection provided by the FSCS.
- *ESG risk* – the risk arises from investing in assets that have a high exposure to ESG related matters which could have a material negative impact on the investment returns. However, the Scheme’s exposure to this risk is minimal given the principal asset of the Scheme is a collateralised bulk annuity policy.

The Trustee recognises that the risks set out in 9.1 above also apply to the residual i.e. non bulk annuity defined benefit assets and the corresponding liabilities. These risks are comparatively small given the amount of these assets and liabilities.

9.2 The Trustee continues to monitor the risks and to reduce them as far as reasonably possible.

10 Compliance with the Myners Principles

- 10.1 In accordance with the 'Myners Principles', the Trustee has drawn up a business plan setting out the actions required in addition to the normal operation and management of the Scheme. This plan will be updated regularly.
- 10.2 The Scheme generally complies with the 'Myners Principles', except in respect of the following areas:
- The Trustee has decided that it is inappropriate for their functions related to investment matters to be delegated to an investment sub-committee.