

# Trustee Statement of Investment Principles

## Defined Contribution Elements

**Reviewed by the Investment Oversight Committee:** 26 September 2024

**Approved by the Trustee Board:** 14 October 2024

### 1. Introduction

- 1.1. TPT Retirement Solutions administers two occupational pension schemes, The Pensions Trust (TPT) and The Pensions Trust 2016 (TPT 2016). TPT is an occupational pension scheme providing Defined Contribution (DC) pension benefits. This Statement of Investment Principles (SIP) governs decisions about investments in respect of the defined contribution elements of TPT, including the "default arrangement" (DC SIP). The default arrangement is, broadly, the fund into which members' accounts are invested if they do not exercise a choice of investments.
- 1.2. In considering the appropriate investments and preparing this DC SIP, the Corporate Trustee, Verity Trustees Limited (the Trustee), has obtained and considered the written advice of its Investment Consultant, 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 the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005. The Trustee has consulted the participating employers about this DC SIP.
- 1.3. For the purposes of this DC SIP, references to 'default arrangement' include the TPT Cash Fund (for as long as it is a default arrangement), unless otherwise stated.

### 2. Appointments and Delegation

- 2.1. The Trustee has delegated investment decisions and compliance stewardship of the default arrangement to the investment manager (AllianceBernstein) that reports back to the Trustee via an Investment Oversight Committee (IOC).

The investment manager has delegated day-to-day investment management of the default arrangement to authorised managers and has taken steps to satisfy itself that the managers have the appropriate knowledge and experience for managing the Trustee's investments. The managers are not appointed for a fixed period of time but these appointments are regularly reviewed as part of the monitoring and review processes already in place. The continued appointment of an investment manager who fails to comply with the Trustee's policies and fails to give a satisfactory explanation will be reviewed. The details of individual managers are published

each year in the investment report within the Trustee's Annual Report.

### **3. Investment Beliefs**

3.1. The Trustee has agreed a set of Investment Beliefs that the investment manager uses as a framework when making decisions and agreeing investment strategy with respect to the default arrangement. The Investment Beliefs are reviewed annually and published each year and are available on TPT Retirement Solutions' website. The Trustee regularly reviews the asset allocation of its DC investments in line with its Responsible Investment Framework (RI Framework), available on TPT Retirement Solutions' website, to ensure the security, liquidity, quality and performance of the DC portfolio as a whole and to ensure DC investments are appropriately diversified.

### **4. Investment Strategies**

4.1. The Trustee recognises that individual members have differing investment needs, that these may change during the course of members' working lives and that members have differing attitudes to risk. The Trustee has established a suite of funds based on the 'target date fund' concept, i.e. funds that do not require members to make their own investment decisions and are designed to be suitable given for members' own individual expected retirement dates.

4.2. The Trustee invests TPT's DC assets via a unit-linked insurance policy with Phoenix Life (the "provider"), who provides the DC investment platform and manages the default arrangement and self-select funds. By investing in this way, the Trustee has no direct ownership of the underlying funds, which has implications for stewardship and aspects of other policies referred to in this SIP. The Trustee has appointed a third-party manager, Alliance Bernstein (the "investment manager"), to appoint underlying investment managers, monitor investment performance and vary the asset allocation of the underlying funds with a view to enhance investment returns.

4.3. For those members who do wish to make their own investment decisions, self-select investment funds are available. The Trustee offers a range of self-select funds with diversification of asset class and risk to reflect the full range of membership. A suite of ethical target date funds is available within the default option for members who wish to invest in accordance with ethical considerations and the Trustee's Ethical Investment Framework. The Framework is reviewed annually and published each year and is available on TPT Retirement Solutions' website.

4.4. All funds are made available after the provision to the Trustee of appropriate written advice from its investment consultant. In doing this the Trustee has taken into account the risk that the investments might not, over a member's working life, produce adequate returns and that during the period preceding retirement a change in investment market conditions might lead to a reduction in anticipated benefits.

4.5. The performance of the default arrangement and the self-select funds is monitored on a quarterly

basis by the IOC and reviewed annually in conjunction with the managers of the funds.

- 4.6. The on-going suitability and objectives of the default arrangement and the range of self-select funds are also reviewed annually by the Trustee Board in conjunction with its Investment Consultant, taking into account member feedback and benchmarking material provided by the Investment Consultant.
- 4.7. The aims and objectives of the default arrangement and default investment strategy are to provide an investment return in excess of inflation (measured by CPI). The investment manager seeks to dampen the impact of short-term market moves by adjusting the asset allocation tactically. Over the life of the funds, the strategic asset allocation shifts so that as a member approaches retirement the exposure to growth assets (such as equities) is reduced in favour of more defensive, less volatile assets (such as bonds). This default strategy and the aims and objectives of the default arrangement are intended to ensure that assets are invested in the best interests of members and their beneficiaries. The self-select funds are chosen by members who bear the risks associated with their chosen fund(s).
- 4.8. The range of default funds consists of unitised products which are dealt on a daily basis and so are readily realisable. The relevant number of units are purchased with the underlying funds on a bulk basis and allocated to each individual member. Reconciliations of investments take place through the daily investment cycle, with money sent for investment reconciled against unit information returned to the scheme's administrator at a member level.
- 4.9. The default arrangement does not yet invest in illiquid assets and the Trustee currently has a policy of not investing in illiquid assets. The Trustee does not consider that the members' best interests are currently met by the use of this asset class. However, the Trustee plans to keep its policy on illiquid investments under regular review.
- 4.10. The aims and objectives of the TPT Cash Fund as a default arrangement for relevant members are different from the aims and objectives of the overall default arrangement and default investment strategy. The Trustee takes the view that diverting members' contributions to the TPT Cash Fund during a suspension of trading in a self-select Fund is in the best interests of the relevant members because the TPT Cash Fund is a low risk, liquid option with diversified exposure to a range of high quality financial institutions and a total expense ratio well below the statutory charge cap.

## **5. Investment Return**

- 5.1. The Trustee Board determines the targets for the default arrangement and self-select funds. The long-term performance of the target date funds comprising the default depends on the asset allocation strategy and the Trustee Board has appointed the investment manager to oversee the asset allocation of the passive funds comprising the default arrangement to ensure appropriate

risk-adjusted returns. The passive self-select funds are designed to match the performance of the underlying index tracking funds (before allowing for fees).

## 6. Management and Risk

6.1. The default funds and the self-select options invest in a range of (mainly) index tracking funds which are provided by leading investment houses. Regular meetings are held with the provider and the investment manager to assess protection for members and contingency plans. All funds are accessible on a daily basis.

6.2. The following risks, which are not exhaustive, are assessed and monitored regularly.

Risk	Description	Mitigation
Counterparty	Exposure to credit risk of insurance provider	Maintain regular reporting from provider and regular meetings to assess credit worthiness
Costs and charges	The charging structure of the self- select funds (and transaction costs) are disproportionately high compared to the type of investment	Regular review of the charging structure; benchmarking process against charging structures of similar funds and providers in the market; and annual value for money assessment
Diversification	A high proportion of the assets are invested in securities of the same, or related, issuer or in the same or similar industry sector	Regularly review and monitor the composition of the default arrangement and self-select funds to ensure diversity of asset class and risk profile
ESG & Climate Change	Downside risk that result from environmental, social and governance (ESG) related factors including climate change	RI Framework sets out ESG risk management strategy as an integral part of investment decision making process, with specific reference to climate change and the Trustee's approach to engaging with and monitoring its investment managers in relation to ESG
Illiquidity	Inability of assets to be sold quickly or sold at fair market value	Set a prudent limit for the proportion of illiquid assets to be held in the portfolio and monitor the exposure on a regular basis
Managers / Product provider	Investment managers / product provider persistently underperform their performance objectives	Maintain a robust manager selection and monitoring process, manager diversification, tracking error limits and performance targets. This is delegated to the investment manager for the default arrangement

Operational	Loss arising from insufficient internal processes, people or systems and external events. This includes risk arising from the custody or transfer of assets, either internally or from new schemes entering TPT	Ensure processes and procedures are robust, documented and operated by trained personnel. Appropriately test systems and put in place appropriate business continuity plans
Strategic Investment	The selected long-term investment strategy fails to deliver the level of expected return or risk characteristics necessary to meet members' objectives	Set risk measures and limits, to be monitored regularly. Consider valuation metrics for investments, review strategic allocations on a regular basis

6.3. The Trustee acknowledges and accepts that portfolio turnover (which means the frequency with which scheme assets are expected to be bought or sold) and associated transaction costs are a necessary part of investment management. The Trustee also accepts that the impact of portfolio turnover costs (which means the costs of buying, selling, lending or borrowing investments), which are incurred by the investment managers, is reflected in performance figures provided by the investment managers.

## 7. Decumulation phase

7.1. Whilst the Trustee does not currently offer a drawdown facility within TPT, members are able to take multiple lump sums at retirement and they have access to a drawdown service provided by Mercer for a fee.

## 8. Responsible Investment (including ESG factors) and non-financial matters

### 8.1. Introduction

8.1.1. The Investment Regulations require that trustees disclose their policies in relation to:

- A. financially material considerations over the appropriate time horizon of the investments, including how those considerations are taken into account in the selection, retention and realisation of investments;
- B. the exercise of the rights (including voting rights) attaching to the investments;
- C. undertaking engagement activities in respect of investments (including methods by which, and the circumstances under which, trustees would monitor and engage with relevant persons about relevant matters); and
- D. the extent (if at all) to which non-financial matters (the views of members and beneficiaries including their ethical views) are taken into account in the selection,

retention and realisation of investments.

- 8.1.2. The Investment Regulations also require trustees to be transparent about their scheme's arrangements with their asset managers including how (if at all) the arrangement incentivises the asset manager to act in accordance with trustee policies and the duration of the arrangement.

## **8.2. Financially material considerations**

- 8.2.1. Financially material considerations are defined in the Investment Regulations as environmental, social and governance (ESG) considerations, including but not limited to climate change.
- 8.2.2. The Trustee is committed to being a responsible investor in line with its legal duties under the Investment Regulations. Responsible Investment is an approach which seeks to integrate ESG considerations into investment management and ownership practices.
- 8.2.3. The Trustee believes that certain ESG factors can have an impact on financial performance and that it is part of its fiduciary and its legal duties to incorporate this information into its investment decisions to reduce investment risk and enhance portfolio returns over the appropriate time horizon for an individual scheme in a way which reflects the demographics of members and beneficiaries. This view is expressed formally as a statement (number 10) in the Trustee's Investment Beliefs.
- 8.2.4. In order to formalise the activities that the Trustee undertakes to demonstrate its commitment to being a responsible investor, it has put in place a RI Framework. The RI Framework covers the key activities undertaken by the Trustee in managing the assets of the scheme and ultimately allows it to communicate its approach to both key suppliers and members.
- 8.2.5. Responsible Investment forms an integral part of the governance and risk management framework used to protect the long-term value of the assets we manage on behalf of our members and beneficiaries.
- 8.2.6. The Trustee Board delegates responsibility for implementation of the RI Framework to the investment manager. In order to ensure the ongoing suitability of the Trustee's approach to Responsible Investment the RI Framework is reviewed annually by both the IOC and the Trustee Board.

## Fund Manager Selection and Monitoring

- 8.2.7. The Trustee's RI Framework applies to all of its investments although it tailors its expectations according to the different asset classes and the investment styles of its managers (e.g. active or passive strategies).
- 8.2.8. The third-party manager selects a number of underlying investment managers who share key attributes, including: a long-term mind-set; appropriate remuneration structures; robust risk management; and integration of ESG factors into their decision-making process. The Trustee's monitoring process for asset managers is robust and it monitors performance and the manager's remuneration on an ongoing basis which allows it to make decisions about a manager's value throughout that manager's appointment.
- 8.2.9. The Trustee incorporates its expectations on ESG and climate change in the manager selection process to ensure that it understands the extent to which ESG is integrated into the investment philosophy and process. It also incorporates specific requirements for ESG capabilities and reporting into its operational due diligence and into the Investment Management Agreements put in place which are tailored according to the particular mandate.
- 8.2.10. The Investment Management Team (IMT) discusses the approach of the Trustee's incumbent managers to stewardship, climate change and ESG risks as part of the manager monitoring process and requires the managers to report back on their Responsible Investment activities on a regular basis.
- 8.2.11. Each manager's approach is assessed using the Trustee's rating system, with four key areas considered: Values, Stewardship, RI Integration and RI Reporting and Transparency. Each investment manager is then assigned a Responsible Investment rating.
- 8.2.12. The Trustee agrees the Responsible Investment manager rating at least annually of the appointed investment manager.
- 8.2.13. The Trustee does not offer individual incentives to managers but managers are incentivised by various other means. For example, the robust processes for selecting, monitoring and reviewing managers (together with the overriding possibility of their appointment being terminated) ensure that managers are incentivised to provide a high quality service that is aligned with the Trustee's policies and objectives, as outlined in this SIP and in the Investment Beliefs and RI Framework. In addition, if the managers are not aligned with the Investment Beliefs and the Investment Committee's objectives, their appointment could be terminated.

## Environmental, Social and Governance Factors

- 8.2.14. As part of its approach to Responsible Investment, the Trustee considers a range of ESG risks, including corporate governance, human rights, bribery and corruption as well as labour and environmental standards. Of the environmental and social issues that we consider, we believe that climate change presents a material financial risk to the assets held in our portfolios.
- 8.2.15. The Trustee therefore supports the goals of the Paris Agreement and has signed the Global Investor Statements to Governments on Climate Change.
- 8.2.16. The Trustee has developed an approach to ensure that climate change risk, including physical, regulatory and transition risks are more explicitly considered through the investment process, from portfolio construction through to asset allocation. The Trustee's approach to climate change is set by its Climate Change Policy and commitments towards net zero.
- 8.2.17. The Trustee is taking action to tackle the risks of climate change through a commitment to net zero by 2050. Climate considerations are an integral part of the Trustee's Responsible Investment (RI) Principles and set our RI and stewardship approach in portfolio construction and monitoring, advocacy and reporting. Investments in thermal coal, oil sands and arctic drilling activities are not aligned with an ambition for net zero emissions.
- 8.2.18. The Trustee is a member of the Institutional Investors Group for Climate Change and part of the Global Steering Group of the Paris Aligned Investment Initiative. Due to the interdependence of climate change with nature and society, it is a signatory of Climate Action 100+, the Investor Statement on Just Transition (World Benchmarking Alliance) and the Investors Policy Dialogue on Deforestation (IPDD) initiative. This means that the Trustee is a part of the public discourse on climate change risks and opportunities and can influence change collaboratively.
- 8.2.19. The investment manager provides regular updates to the IOC and Trustee Board on its activities related to climate change considerations and it is committed to reporting on its progress as part of its annual update on Responsible Investment.

## Social Factors

- 8.2.20. The Trustee considers that companies it invests in have a responsibility to support and uphold the observance of basic human and labour rights in accordance with the United Nations Global Compact. The Trustee does not condone any activity which constitutes modern slavery or human trafficking under the Modern Slavery Act 2015.
- 8.2.21. The Trustee expects investment managers to choose an investment that has a positive social impact when compared to a similar investment with the same expected return and risk.



- 8.2.22. The Trustee recognises that the Defence sector poses particular risks to the value of the assets held within its portfolio, specifically with regard to the status of certain weapons, and that investments in the sector have to be informed by the restrictions set out in international conventions. As a result, the Trustee does not invest in companies involved in certain controversial weapons.
- 8.2.23. The Trustee defines corporate involvement in controversial weapons as development, production, stockpiling, maintenance and offering for sale of controversial weapons and their key components.
- 8.2.24. In order to identify companies involved in controversial weapons the Trustee uses external data to compile an Exclusions List. Total avoidance of companies identified on the Exclusions List may not however always be practicable from an implementation perspective, partly because of the range of asset classes and investment strategies in which the Trustee invests and in particular the use of derivatives in the portfolio.
- 8.2.25. The exclusion of companies involved in controversial weapons as defined above therefore applies to investments in physical equities and corporate bonds where the Trustee also has the ability to direct which assets are held within the fund structure.
- 8.2.26. The Trustee does not restrict investments in sovereign bonds based on states' commitment or adherence to the above international legal instruments.
- 8.2.27. The Trustee carries out regular reviews of its portfolio to ensure adherence with its approach to restricting investments in controversial weapons.

### **Governance Factors**

- 8.2.28. The Trustee considers that companies it invests in have a responsibility to comply with the UK Corporate Governance Code and international best practice pertaining corporate governance such as G20/OECD Corporate Governance Principles and the ICGN Global Governance Principles.
- 8.2.29. Where a company's activities are found clearly to conflict with relevant English law or guidance from the UK government, or with international treaties ratified by the British parliament, this may result in one of two outcomes:
- A. A decision to engage with the company with a view to having the company desist from that activity. Such engagement should be held at an appropriate level and be subject to ongoing review as to its progress. If after a reasonable time engagement has been unsuccessful then divestment might be the response.

- B. In exceptional circumstances where conduct is overtly unacceptable and/or there seems no reasonable prospect of engagement success, an immediate decision by the Trustee to divest from the company.

### **8.3. Voting**

- 8.3.1. The Trustee aims to vote its shares in all markets where practicable. In the normal course of events it delegates this activity to its investment managers. That said, the Trustee retains the right (where possible) to direct its investment managers to vote in a particular way that it believes is in the best interest of its members. The Trustee expects its managers to use their best endeavours to facilitate the implementation of client voting decisions. This right is most noteworthy in situations where the voting decision taken on a resolution would enable the Trustee to better implement the commitments set out in its RI Framework. The Trustee Board delegates judgement on these matters to the investment manager.
- 8.3.2. The Trustee expects its investment managers to exercise its voting rights, on behalf of the Trustee, in line with this DC SIP and/or consistent with the Corporate Governance Policy and Voting Guidelines issued by the Pension and Lifetime Savings Association (PLSA). Although the PLSA guidelines focus solely on voting at UK companies, they reference support for the G20/OECD Corporate Governance Principles and the ICGN Global Governance Principles. The Trustee expects its investment managers to use these guidelines when voting in markets outside the UK. In some cases where the Trustee deems the investment manager to have Voting policies that better reflect the Trustee's approach to Responsible Investment than those set out by the PLSA, the IMT may choose to instruct the investment manager to vote in line with the investment manager's own policies.
- 8.3.3. Where an investment manager intends to vote at variance with this policy, the manager is asked to inform the Trustee as far in advance as possible to afford the best possible chance for the IMT to review the appropriateness of that manager's voting intentions on behalf of the Trustee.
- 8.3.4. The Trustee has an active securities lending programme which can sometimes prevent it from voting all of its shares. The Trustee may choose to recall or restrict the amount of stock lent in case of a contentious vote or a vote relating to the Trustee's engagement activities. This decision will be considered on a case-by-case basis with counsel from the relevant investment manager(s).

### **8.4. Engagement**

- 8.4.1. The Trustee's approach to engagement applies to equity and corporate bond holdings and consists of four elements:

- A. **Engagement by investment managers:** The Trustee delegates primary responsibility for its corporate engagement activities to its investment managers. The Trustee believes that investment managers are best placed to engage with invested companies on ESG matters, given their knowledge of the company and the level of access they have to company management. This is a pragmatic approach because of the number of stocks owned by the Trustee, and the amount of time corporate entities have available for single investors. Engagement, with the aim of improving the medium to long-term performance of investor companies, is one of the factors taken into account by the Trustee in the selection, monitoring and review of managers. The Trustee expects its managers to engage on ESG matters where they are considered material and relevant to the investment case. It also expects its managers to respond to specific requests the Trustee might have.
  
- B. **Joint engagements with investment managers:** There may be occasions when engagement topics identified by the Trustee overlap with the engagement efforts of its investment managers. In these situations, the Trustee will seek to undertake joint engagement activities with investment managers.
  
- C. **Collaborative engagements:** The Trustee recognises that as a responsible asset owner, it should, wherever practicable given time and resources, support initiatives which aim to improve the regulatory and operational environment for all investors. As part of this, the Trustee will participate in collaborative engagements with other asset owners which it sees as furthering the aims and objectives of its investment beliefs and its RI Framework. As part of its efforts in this area the Trustee is committed to joining collaborative engagements through its association with organisations such as the PRI, 30% Club, Investors Policy Dialogue on Deforestation (IPDD) and the Institutional Investors Group on Climate Change (IIGCC). This list is not considered to be exhaustive.
  
- D. **Direct engagements:** On occasions, an issue may arise where the Trustee believes it is necessary to directly engage with companies on particular ESG related issues.

In each case, the Trustee's approach to engagement is designed so that there is effective stewardship over the investments. It therefore requires an investment manager to consider a range of financial and non-financial considerations concerning the Trustee's investments, including performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance.

- 8.4.2. The Trustee's engagement activities will include written, oral and electronic communication and personal meetings with a company's senior policy makers.

### **Codes and industry initiatives**

- 8.4.3. The Trustee supports industry wide initiatives to promote Responsible Investment and Stewardship and is a signatory to the Principles for Responsible Investment (PRI and the Montreal Pledge).
- 8.4.4. The Trustee does not insist that current and potential future investment managers are themselves PRI signatories, but it will discuss with its investment managers how they are implementing the spirit of these principles and whether they are signatories. The Trustee does not insist the investment managers publicly support the UK Stewardship Code but it will seek detail from its investment managers on how they demonstrate their support for the code (for asset classes where it is appropriate).
- 8.4.5. The Trustee also aims to engage on relevant policy issues alongside other like-minded, responsible investors. To support the Trustee's work in this regard it is a member of the IIGCC and the UK Sustainable Investment and Finance Association (UKSIF).

### **Communicating and reporting**

- 8.4.6. The Trustee shares information on its Responsible Investment activities via regular member and employer reporting channels.
- 8.4.7. As a substantial investor in both UK and non-UK listed companies, the Trustee accepts its responsibilities as a shareholder and owner, whether that ownership is directly or indirectly held. This responsibility includes ensuring, where possible, that the companies in which it invests are run by executive officers and directors in the best long-term interests of shareholders.

### **8.5. Non-financial matters**

- 8.5.1. Non-financial matters are taken into account in the selection, retention and realisation of investments. Non-financial matters for the purposes of the Occupational Pension Schemes (Investment) Regulations 2005 means the views of the members and beneficiaries including (but not limited to) their ethical views and their views in relation to social and environmental impact and present and future quality of life of the members and beneficiaries of TPT and TPT2016.
- 8.5.2. The Trustee recognises that by delegating the selection, retention and realisation of its DC investments to its investment managers, there are limitations to the extent to which it can take into account non-financial matters in its DC investments. However, the Trustee has adopted a practical and holistic approach to non-financial matters in relation to DC investment as set out in its Ethical Investment Framework. Further, the Trustee Board

requires its relevant investment managers to report regularly on the application of the Ethical Investment Framework in the selection, retention and realisation of ethical investments across all asset classes and how they seek to exclude companies with business interests and activities that conflict with members' moral and ethical preferences (e.g. tobacco).

8.5.3. The Trustee will review its policy on non-financial matters on an annual basis.

## **9. Compliance**

9.1. The Trustee Board requires all investment managers to confirm, through their reporting, that the investments are diversified and suitable, and that they have complied with the principles set out in this DC SIP. The Trustee will review this DC SIP annually and without delay after any significant change in investment policy and in addition, the default strategy and funds after any significant change in the demographic profile of members invested in these funds.

9.2. Consultation with participating employers will be undertaken if these investment principles change.

9.3. A common investment policy is offered to all employers, with the target date funds being offered as the default and members able to choose from a range of self-select options. Fact sheets on all the funds are available to members on TPT's website.