Scotia Gas Networks Pension Scheme – DC Section
Statement of Investment Principles

September 2020

Contents

Introduction

The law requires the trustees to produce a formal “Statement of Investment Principles” for the Scheme’s default arrangement and its other investment options. These Statements set out what the trustees aim to achieve with the investment options and their investment policies which guide how members’ money is invested.

This document is a compendium of the Statements of Investment Principles for the Scotia Gas Networks Pension Scheme (the “Scheme”). These Statements must cover a number of technical points to comply with legislation as well as meet the expectations of the Pensions Regulator and needs of the Scheme’s Auditors which, as far as possible, are shown separately in “for the record” boxes.

The trustees began publishing the Statements of Investment Principles from 1 October 2019 and will publish a statement each year from 1 October 2020 describing how these Statements have been followed in the last year.

Statements of Investment Principles

The trustees’ Statements of Investment Principles for the DC Section contained in this document include the:

1 Statement of the aims and objectives for the default arrangement*;

2 Statement of the aims and objectives for investment options outside the default arrangement*; and

3 Statement of investment beliefs, risks and policies**.

The Statement of Investment Principles for the DC Section of the Scheme ** comprises items 1, 2 and 3.

The Statement of Investment Principles for the Scheme’s default arrangement *** comprises items 1 and 3.

Appendices

A. Investment implementation for the default arrangement;

B. Investment implementation for the investment options outside the default arrangement; and

C. Summary of the approach to investment governance.

For the record

* In accordance with Regulation 2A(1) of the Occupational Pension Schemes (Investment) Regulations 2005.

** In accordance with Regulation 2 of the Occupational Pension Schemes (Investment) Regulations 2005 as modified by subsequent Regulations and section 35 of the 1995 Act.

*** As required by the Occupational Pension Schemes (Charges and Governance) Regulations 2015

The trustees have taken proper written advice and consulted the Employer in the preparation of these Statements of investment Principles.

These Statements will be reviewed at least every three years or more frequently as required by the Regulations.

For and on behalf of the trustees of the Scheme

Name	Signed	Date
[redacted]		

1 Statement of the aims and objectives for the default arrangement

Reasons for the Default Arrangement

The trustees have decided that the Scheme should have a default investment arrangement because:

- The Scheme is a qualifying scheme for auto-enrolment purposes and so must have a default arrangement;
- It should be easy to be a member of the Scheme and start building retirement benefits without the need to make any investment decisions; and
- A majority of the Scheme's members are expected to have broadly similar investment needs.

Choosing the default arrangement

The default options for the DC (and AVC) sections of the Scheme were revised in 2018 following a review of investment strategy.

Members who did not wish to follow the automatic switch into the new default option were given the option to move to a self-select basis and could elect to remain invested how they were (with no future lifestyling).

Following the implementation of the default option, the legacy lifestyle options (SGN 10 Year Lifetime (the old default option), SGN 5 Year Lifetime and SGN 10 Year Lifecycle) were closed to new money however members who were within 3 years of retirement in October 2018 were defaulted to remain in their current strategy unless they actively chose to move into the new default or chose to self-select.

The trustees believe that understanding the Scheme's membership is essential to designing and maintaining a default arrangement which meets the needs of the majority of members.

The trustees have taken into account a number of aspects of the Scheme's membership including:

- The members' age and salary profile;
- The likely sizes of pension pots at retirement; and
- Members' likely benefit choices at and into retirement.

Objectives for the default arrangement

The main objective of the default arrangement is to provide good member outcomes at retirement. The trustees believe that it is in the best interests of the majority of members to offer a default which:

- Manages the principal investment risks members face during their membership of the Scheme;
- Maximises investment returns relative to inflation while taking an appropriate level of risk during membership of the Scheme for the majority of members who do not make investment choices; and
- Reflects members' likely benefit choices at retirement.

The default arrangement

The default arrangement is therefore a lifestyle strategy (Aviva's My Future Consolidation Lifestyle) which:

- Invests in the Aviva My Future Growth fund in the growth phase with the aim to grow members' assets in real terms when they are many years from retirement, then gradually moves investments to the Aviva My Future Consolidation fund which broadly targets income drawdown at retirement.

- Targets members who are expected to use Flexible Access Income Drawdown during their retirement. Members of the Scheme also have the option to choose lifestyles targeting both annuity purchase and cash withdrawal at the point of retirement.

The expected levels of investment returns (after the deduction of charges) and risks for the funds used are consistent with the trustees' objectives for the default arrangement. The expected investment returns and approach to managing investment risks including financially material considerations such as climate change are described in Section 3.

Full details of the current default arrangement are given in Appendix B "Investment implementation for the default arrangement".

2 Statement of the aims and objectives for investment options outside the default arrangement

Reasons for the investment options

In addition to the default arrangement, the Scheme offers members a choice of investment options because:

- While the default arrangement is intended to meet the needs of a majority of the Scheme's members, it may not meet the needs of a wider cross-section of members;
- Attitudes to investment risks and the need for investment returns will vary from member to member and will also vary for each member over time and, in particular, as they approach retirement;
- Members have differing investment needs and these needs change during their working lives; and
- Some members will want to be more closely involved in choosing where their contributions are invested.

Choosing the investment options

Membership analysis

The trustees believe that understanding the Scheme's membership is important to maintaining an appropriate range of investment options and have taken into account a number of aspects including:

- The members' age and salary profile;
- The likely sizes of members' pension pots at retirement;
- Members' retirement dates and likely range of benefit choices at retirement;
- The levels of investment risk and return members may be willing to take; and
- The degree to which members are likely to take an interest in where their contributions are invested.

Costs of investment options

The investment costs are borne by members and so a balance needs to be struck between choice and costs.

Objectives for the investment options

The Scheme offers members a choice of investment options as an alternative to the default arrangement.

Self-select funds

The objectives of the self-select fund range are to:

- Provide a choice of individual funds for members who want to be more closely involved in choosing where their pension pots are invested;
- Complement the objectives of the Default Arrangement;
- Provide a broader choice of levels of investment risk and return;
- Provide a broader choice of investment approaches;
- Help members more closely tailor how their pension pots are invested to their personal needs and attitude to risk;
- Help members more closely tailor how their pension pots are invested to reflect the benefits they intend to take at retirement.

Nevertheless, the self-select fund range cannot be expected to cover all the investment needs of all members.

Risk and return

The expected levels of investment returns (after the deduction of charges) and risks for the funds used are consistent with the trustees' objectives for these investment options. The expected investment returns and approach to managing investment risks including financially material considerations such as climate change are described in Section 3.

Full details of the current investment options are provided in the documents Appendix B "Investment implementation for investment options outside the default arrangement" and Appendix A "Investment implementation for the default arrangement".

3 Statement of investment policies

Introduction

This Statement sets out the investment policies which guide the trustees' decision making.

For the record

This Statement of investment beliefs, risks and policies should be read in conjunction with the Statements of the aims and objectives for both the default arrangement and the investment options outside the default arrangement. Collectively, these respectively form the Statements of Investment Principles for the Scheme and the default arrangement.

This Statement of investment beliefs has been prepared in accordance with the Occupational Pension Scheme (Investment) Regulations 2005 as amended by the Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the Occupational Pension Schemes (Investment and Disclosure) Regulations 2019.

Risks

Principal investment risks

The trustees believe that the three principal investment risks most members will face are:

1) Inflation risk – investment returns over members' working lives may not keep pace with inflation and, as a result, do not produce adequate retirement benefits.

Further from retirement, this risk should be countered by funds investing in equities and other growth orientated assets which are expected to produce returns well in excess of inflation over the longer term. Approaching retirement, the impact of this risk needs to be balanced against the other main risks members face.

2) Benefit conversion risk – investment conditions just prior to retirement may increase the cost of turning members' fund values into retirement benefits.

For members taking cash at retirement, funds investing in cash deposits and other short-term interest-bearing investments provide a high degree of (but not complete) capital security. Funds investing in a mix of different assets are expected to be broadly suitable for members planning income drawdown during retirement. For members buying an annuity at retirement, the value of funds investing in longer-dated bonds may be expected to broadly follow changes in annuity rates caused by long-term interest rates.

3) Volatility/Market risk – falls in fund values prior to retirement lead to a reduction in retirement benefits.

Shifts in market sentiment (for example, in response to economic news or geopolitical events) or momentum in general market trading can lead to widespread changes and/or volatility in asset values over the short-term.

This can include short-term changes in the normally expected correlations of the behaviour of risks and returns seen between different asset classes, when standard approaches to mitigating risks such as diversification are temporarily ineffective.

Funds investing in bonds or a mix of assets or investment techniques intended to manage short-term risks may be expected to be subject to lower levels of short-term fluctuations in values - although there may be occasions when this does not hold good.

Other investment risks

The trustees believe that other investment risks members may face include:

Active management risk – a fund manager's selection of holdings may not lead to investment returns in line with the fund's objectives and investment markets generally.

Currency risk – changes in exchange rates will impact the values of investments outside the UK when they are being bought or sold.

Interest rate risk – the value of funds which invest in bonds will be affected by changes in interest rates.

Default risk – for bond funds (where money is lent in return for the payment of interest), the company or government borrowing money fails to pay the interest due or repay the loan.

Liquidity risk – funds which invest in assets which cannot be easily bought or sold (such as property) may at times not be able to accept new investments or disinvestments of existing holdings.

Counterparty risk – the financial institutions holding a fund's assets may get into financial difficulties leading to a reduction in a fund's value.

Market risks - Shifts in market sentiment (for example, in response to economic news or geopolitical events) or momentum in general market trading can lead to widespread changes and/or volatility in asset values over the short-term.

This can include short-term changes in the normally expected correlations of the behaviour of risks and returns seen between different asset classes, when standard approaches to mitigating risks such as diversification are temporarily ineffective.

Environmental, Social and Governance (ESG) risks – the extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations.

Climate risk - The extent to which climate change causes a material deterioration in asset values as a consequence of factors including, but not limited to: policy change, physical impacts and the expected transition to a low-carbon economy.

Legislative/Regulatory - Changes in government policy or taxation may have a long-term positive or negative impact on certain sectors of a country's economy or one country relative to its neighbours over the medium to longer-term. Changes in Regulations can also affect the operational costs, tax efficiency and security of one investment vehicle relative to other vehicles over the shorter-term.

Managing risks

The trustees have developed and maintain a framework for assessing the impact of all investment risks on long-term investment returns.

Time horizon

The trustees monitor the age profile of the Scheme's membership to arrive at an appropriate investment horizon when considering all investment risks:

- The Scheme has been closed to new entrants since 2007;
- As a result, the youngest members in the Scheme are c.35 years old and investment risks need to be considered over a 30 year time horizon;
- A majority of members are expected to take income drawdown in retirement and provision is offered for income drawdown from the Scheme;

- Some members may choose to buy an annuity from age 55 and investment risks for this group need to be considered carefully. There may be a difference between the member's time horizon and the time horizon for underlying investment which are expected to reflect the maturity profile (and interest rate sensitivity) of the assets backing an insurer's annuity business.

Principal investment risks

The lifestyle option manages the three main investment risks as members grow older by automatically switching from funds which are expected to give long-term growth relative to inflation into funds whose values should fluctuate less in the short-term relative to the benefits members are expected to take at retirement.

The self-select fund range provides members with a choice of funds with differing risk and return characteristics which are expected to meet the investment needs of a majority of members.

Ability to invest/disinvest promptly

The trustees recognise that it is important that members' contributions can be invested promptly in selected investment funds, and that these can be sold promptly for example when members wish to change where they are invested, transfer to another arrangement or if they wish to draw on their pension pot. The trustees manage this risk by selecting pooled investment funds which can be dealt on a daily basis.

The platform provider is responsible for monitoring the ability for members to invest and disinvest promptly and is expected to notify the trustees if a situation develops whereby there is any restriction on the ability for members to do so. For example, this situation could occur in the event of significant economic uncertainty impacting on the ability for fund managers to value the underlying assets.

Other investment risks

The trustees manage the other investment risks as part of the process for selecting and ongoing monitoring of the funds used by the Scheme.

The funds used give a good spread of investments which will help manage risks associated with market conditions, fund manager actions and default.

At this time, the trustees have not made explicit allowances for climate change within the development or implementation of its investment strategy. The trustees do discuss the potential impact of climate risks with their adviser on a periodic basis and will monitor developments in this area including the availability of solutions to mitigate climate-related risks.

Financially material considerations

The trustees recognise that:

- The consideration of financially material considerations, including ESG factors and climate risk, over the appropriate time horizon are relevant at different stages of the investment of members' defined contribution benefits; and
- The financial materiality of any factor, including ESG factors and climate risk, may be relevant to different degrees according to the asset class or classes in which a fund invests.

The trustees will consider financially material considerations, including ESG factors and climate risk in the development and implementation of the Scheme's investment arrangements for the purposes of determining the selection, retention and realisation of investments where there is sufficient data or evidence to allow them to systematically do so. The trustees expect that the investment platform provider will engage with their investment managers to ensure they take such considerations into account within their decision making.

Implementation

The Scheme uses standard pooled funds offered by investment platform providers and fund managers. This gives access to a range of funds while keeping down costs to members, but means that the trustees cannot adopt an approach to managing financially material considerations specific to the Scheme. The trustees nevertheless seek to manage financially material considerations to protect long-term returns by:

- Choosing an investment platform provider who has adopted effective processes for the selection and governance of fund managers' policies and practices for financially material considerations including climate change;
- Choosing fund managers who have clearly articulated policies for managing financially material considerations including climate change;
- Considering the extent to which ESG issues including climate risk, where relevant, are integrated into the platform provider's investment processes; and
- For actively managed funds (where the fund manager decided where to invest), expect the fund managers to take financially material considerations in to account when selecting which companies and markets to invest in;
- For passively managed funds, the trustees recognise that the choice of benchmark dictates the assets held by each fund and that the investment manager has minimal freedom to take account of factors that may be deemed to be financially material. The trustees accept that the role of the passive manager is to deliver returns in line with the benchmark index (which may or may not include ESG factors) and which the trustees believe will deliver appropriate risk adjusted returns in line with their current investment strategy. The trustees will review periodically the choice of fund and index benchmarks used;
- For all funds, expect fund managers to engage with companies in which the fund invests to encourage business strategies which should improve or protect the value of those investments; and
- Prefer fund managers who are signatories to the Financial Reporting Council's Stewardship Code in the UK and the United Nations supported Principles for Responsible Investment.

Expected returns on investments

The trustees believe that it is important to balance investment risks with the likely long-term returns from different types of assets used in funds (taking the funds' costs and charges into account).

Asset class	Expected long-term investment returns relative to inflation	Expected shorter- term volatility in fund values
Equities (i.e. company shares)	Strong return relative to inflation	Most volatile in the short-term
Property (e.g. offices, shops and warehouses)	Positive, but lower than equities	Lower than equities
Corporate Bonds (i.e. loan stocks issued by companies)	Positive, but lower than equities and property	Lower than equities or property
Fixed Interest Government Bonds (e.g. UK Gilts)	Lower than equities, property or corporate bonds	Lower than equities, property or corporate bonds
Index-Linked Government Bonds (e.g. UK Index-Linked Gilts	In line with inflation	Lower than equities, property or corporate bonds

Cash (and other short-term interest-bearing investments)	Return may not keep pace with inflation	Minimal with high degree (but not complete) of capital security

Long-dated Bonds (e.g. UK Gilts and Corporate Bonds with a duration of 15 years or more) – should give fund values which move broadly in line with the financial factors influencing annuity rates.

Multi-asset funds (i.e. investing in a varying mix of asset classes) - should deliver positive returns relative to inflation over the longer-term, with lower short-term volatility than equities.

Types of funds used

Structure of the investment arrangements

The Scheme invests contributions for members through the provider's investment platform. Contributions buy units in the provider's funds. The provider in turn backs the value of its funds by buying units in funds from a selection of fund managers where investments are pooled with other investors. This enables the Scheme to invest in a range of funds giving a good spread of investments in a cost-effective manner.

The Scheme's asset, and the trustees' contract with the provider, is the policy of insurance issued by the provider. As a result, the trustees do not have any contractual arrangement with the investment managers or title to the underlying funds' assets.

Delegation of investment decisions

Due to the structure of the investment arrangements as outlined above, the trustees have delegated day to day investment decisions including the management of financially material considerations to the fund managers.

Selection of funds

The trustees will invest in funds on the provider's platform which in turn invest in the investment managers' pooled funds. The objectives of the funds and the policies of the investment managers will be evaluated by the trustees to ensure that they are appropriate for the needs of the Scheme.

The trustees' choice of funds, and hence choice of approaches to aspects such as responsible investment and shareholder engagement, are constrained by the choice of funds available on the provider's platform. While the trustees will endeavour as far as possible to select a platform provider and funds on that provider's platform which are consistent with the Scheme's investment objectives, this needs to be balanced against the wider benefits of access to the other funds on the platform and the other services from the platform provider as well as taking into consideration the costs of change to the Scheme and its members.

The trustees will seek to engage with the platform provider to obtain funds which meet the trustees' investment beliefs, and are expected to improve outcomes for members, but this is subject to being commercially viable for the provider and consistent with the charge cap for the default arrangement. The trustees expect the provider to encourage the investment managers to adopt appropriate practices for responsible investment and shareholder engagement.

The trustees will periodically review the choice of platform provider, at which time the suitability of the provider's fund range and effectiveness of its governance of the investment managers on its platform will be key criteria.

Manager incentives

The basis of remuneration of the investment managers by the platform provider may be subject to commercial confidentiality, however, the trustees will seek transparency of all costs and charges borne by members. Nevertheless, the trustees expect that it will be in the interests of both the platform provider and the investment managers on the provider's platform to produce growth in asset values in line with the funds' investment objectives. For passively managed funds this should be within an acceptable margin of the index the fund tracks. For actively managed funds the investment return should be commensurate with the level of investment risk implied by the fund's objectives.

When selecting funds, the trustees will ask their investment advisor to consider the investment managers' remuneration strategies and appropriateness of each fund's investment guidelines to ensure that there is no inducement or scope to take an undue level of risk and that the investment managers will act in line with the interests of the Scheme's members.

In accordance with the 2015 Regulations, the trustees conduct an annual Value for Members assessment and will take action should the provider be found to be giving poor value. In addition, in accordance with guidance from the Pensions Regulator, the trustees will periodically review the Scheme's choice of provider to ensure their charges and services remain competitive. The trustees believe that these steps are the most effective way of incentivising the provider to deliver Value for Members, of which investment management charges and investment performance are key considerations.

The trustees also undertake a review at least every three years in which the appropriateness of the investment options at which time the suitability of the Scheme's investment management arrangements are also considered.

The trustees will monitor the investment managers against a series of metrics on a regular basis over a long-term time horizon of over 5 years including:

- Short term performance and since inception of their funds' respective benchmarks or performance targets;
- Relative tracking error where appropriate;
- The exercise of stewardship responsibilities (including engagement with issuers); and
- The management of risks.

The platform provider or investment managers are expected to provide explanations for any significant divergence from a fund's objectives. A material deviation from performance and risk targets or approach to portfolio management is likely to result in the fund being formally reviewed.

Portfolio turnover

The trustees do not expect investment managers to take excessive short-term risk and will monitor the investment manager's performance against the benchmarks and objectives on a short, medium and long terms basis.

For passively managed funds the turnover of holdings is driven by changes in the index a fund seeks to track and hence is outside the control of the investment manager except where a fund's total assets under management are relatively small where the investment manager does not fully replicate the index or where a fund invests in less liquid stocks.

When selecting actively managed funds, the trustees will consider, with the help of their investment advisers, the expected level of turnover commensurate with a fund's investment objectives, the investment manager's investment processes and the nature of the fund's assets.

Whilst the trustees expect performance to be delivered net of costs, including the costs of trading within the portfolio, the trustees will ask the investment platform provider or investment managers on the platform to report on at least an annual basis on the underlying assets held within fund with details of any transactions and turnover costs incurred over the Scheme's reporting year. The trustees will seek to compare portfolio turnover and the resultant costs against peer groups or portfolio turnover and costs for an appropriate index.

Where a fund has significantly under or outperformed its benchmark, the trustees will seek to ascertain where necessary whether higher or lower than normal turnover has been a contributory factor. The trustees will challenge the platform provider and/or investment managers if there is a sudden change in portfolio turnover or if the level of turnover seems excessive.

Portfolio duration

The trustees recognise the long-term nature of defined contribution pension investments and chooses funds which are expected to deliver sustainable returns over the Scheme members' investment horizon. The trustee will carry out necessary due diligence on the underlying investment decision making process, to ensure the manager makes investment decisions over an appropriate time horizon aligned with the objectives for the related investment option.

The trustees expect that each fund will be used for at least three years, this being the period over which performance of the fund can be appropriately evaluated and the costs of change amortised, although all funds are subject to ongoing review against various financial and non-financial metrics in addition to their continued appropriateness within the investment strategy.

Security of assets

The funds are provided through a policy of insurance issued to the trustees by the platform provider. As a result, the value of the funds may be affected in the event of the provider getting into financial difficulties.

In the event of a fund manager getting into financial difficulties, the values in these underlying funds will depend upon the nature of the contract with the platform provider and the fund vehicles used by the fund managers' funds.

Realisation of investments

The trustees expect that the investment platform provider and the fund managers will normally be able to sell the funds within a reasonable timescale. There may, however, be occasions where the investment platform or fund managers need to impose restrictions on the timing of sales and purchases of funds (most notably for funds investing in property) in some market conditions to protect the interests of all investors in that fund.

Nevertheless, the trustees recognise that most members' pension pots have a long investment timeframe, during which assets which are less easily traded (such as property or infrastructure) can be managed to deliver good long-term returns while avoiding the impact of liquidity issues at retirement.

Balance of investments

Overall, the trustees believe that the Scheme's investment options:

- Provide a balance of investments; and
- Are appropriate for managing the risks typically faced by members.

Stewardship

The trustees recognise that stewardship encompasses the exercise of voting rights, engagement by and with investment platform and fund managers and the monitoring of compliance with agreed policies.

The Scheme offers members the default arrangement and a choice of self-select funds. The trustees' stewardship activities are to be focused on the default arrangement which is used by the largest number of members and accounts for the majority of the DC assets.

Members' financial interests

The trustees expect that the investment platform provider and fund managers will have the members' financial interests as their first priority when choosing investments.

Conflicts of interest

When appointing platform providers and choosing investment managers' funds on the provider's platform, the trustees will seek to establish that the platform provider and each investment manager has an appropriate conflicts of interest policy in place. This includes any provisions to disclose any potential or actual conflict of interest in writing to the trustees.

When given notice the trustees will consider the impact of any conflicts of interest arising in the management of the funds used by the Scheme.

Responsibility for investment decisions has been delegated to the investment managers which includes consideration of the capital structure of investments and the appropriateness of any investment made. Where managers are investing in new issuance, the trustees expect the investment manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors.

The trustees will consider any conflicts of interest arising in the management of the funds used by the Scheme and will ensure that the platform provider and each investment manager has an appropriate conflicts of interest policy in place. Platform providers and investment managers are required to disclose any potential or actual conflict of interest in writing to the trustee.

Voting and engagement

The trustees believe that engagement with the companies in which the Scheme invests, including the proactive use of shareholder voting rights, can improve the longer-term returns on the Scheme's investments.

The Scheme invests via an investment platform provider, who in turn invest in funds which are pooled with other investors to keep costs down and ensure adequate diversification. As a result, the trustees have adopted a policy of delegating voting decisions on stocks to the underlying fund managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. The fund managers are expected to exercise the voting rights attached to individual investments in accordance with their own house policy.

Where relevant, the trustees have reviewed the voting and engagement policies of the fund managers as well as the approach to governance of the investment platform provider and determined that these policies are appropriate. On an annual basis, the trustees will request that the investment platform provider provide details of any change in their house policy.

Where appropriate, the trustees will engage with and may seek further information from the investment platform provider and fund managers on how portfolios may be affected by a particular issue.

The trustees do not engage directly but believe it is sometimes appropriate for the fund managers to engage with key stakeholders which may include corporate management, regulators and governance bodies, relating to their investments in order to improve corporate behaviours, improve performance and mitigate financial risks. The trustee aims to review engagement activity undertaken by the fund managers as part of its broader monitoring activity.

The trustees expect the investment platform provider to adopt similar practices with regards to the inclusion and ongoing oversight of fund managers on their platform. The trustees also expect the platform provider to be able to evidence their own governance practices on request.

Monitoring

The trustees expect the platform provider to monitor adherence of their investment managers to stated voting and engagement policies, engage with managers where concerns are identified and to report on these issues. The trustees will request reports from the investment platform provider on the fund managers' voting activity on a periodic basis. The trustees will also periodically review the fund managers voting patterns and may also monitor voting on particular companies or issues affecting more than one company.

The trustees review the fund managers' voting activity annually in conjunction with their investment adviser and use this information as a basis for discussion with the investment platform provider and fund managers.

The trustees aim to meet with Aviva on a periodic basis. The trustees will provide Aviva with an agenda for discussion, including issues relating to individual holdings voting record and, where appropriate, ESG issues. Aviva are challenged both directly by the trustees and by their investment advisers on the impact of any significant issues including shareholder voting record, conflicts of interests and, where appropriate, ESG issues that may affect the prospects for return from the portfolio.

Non-financial factors

The trustees note that a large majority of members have not made active investment choices in actively managed funds and so the trustees believe that most members are unlikely to have strong views on where their savings are invested. The trustees have not considered any non-financially material factors in the development and implementation of their investment strategy

The trustees note that non-financial factors can affect various investment risks which are borne by members and may under-perform other funds with broader-based investment approaches.

Fund managers are otherwise only expected to take non-financial factors into account when these do not conflict with the financial interests of members and the Scheme's investment objectives.

For the record

The trustees obtain and consider proper advice from suitably experienced and qualified persons when choosing investments and preparing the Statement of Investment Principles.

Funds are chosen by the trustees to give an expected level of return with an appropriate level of investment risk which meets the objectives of each default arrangement and other investment options.

The funds used at each stage of the default arrangement are intended to deliver good member outcomes at retirement from an appropriate balance of investment growth relative to inflation and the then pertinent investment risks.

The investment platform uses a life insurance company based legal vehicle for its funds. The fund managers used by the platform use a variety of different legal vehicles for their funds. The funds may invest in quoted and unquoted securities traded in regulated UK and overseas markets:

- Equities (company shares);
- Fixed interest and index-linked bonds issued by governments and companies;
- Cash and other short-term interest bearing deposits;
- Commercial and residential property;
- Illiquid assets including infrastructure, forestry, private equity and private debt;
- Commodities through collective investment vehicles; and
- Derivatives to facilitate changes in where funds are invested or to help control investment risks.

Funds provided through a life insurance company must comply with the Financial Conduct Authority (“FCA”) “Permitted Links” rules, which place limits on the degree of leverage a fund can use. Fund managers using other fund vehicles subject to the European “UCITS IV” and the FCA’s “Non-UCITS” regulations have to meet requirements on the security and concentrations of assets. Exchange Traded Funds may be used directly or indirectly to gain access to less easily traded and illiquid asset classes.

Subject to the funds’ benchmarks and guidelines, the fund managers are given full discretion over the choice of securities and, for multi-asset funds, choice of asset classes. Fund managers are expected to maintain well-diversified and suitably liquid portfolios of investments.

The trustees consider that these types of investments are suitable for the Scheme. The trustees are satisfied that the funds used by the Scheme provide adequate diversification both within and across different asset classes.

Appendix A

Investment implementation for the default arrangement

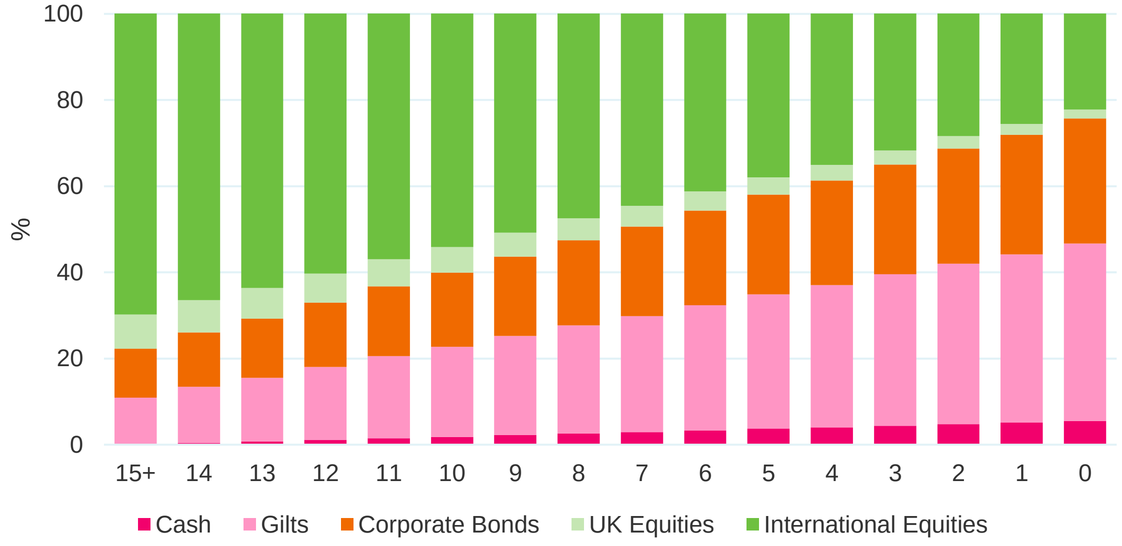
Default arrangement

The default arrangement is a lifestyle strategy which targets income drawdown at retirement.

Members are invested in funds expected to give higher returns relative to inflation up to 15 years before their retirement date.

Members are gradually switched into funds which are expected to give good returns relative to inflation while consolidating past investment gains between 15 and their retirement date.

Please note that the underlying asset allocations are dynamic.



Source: Aviva 31 March 2020

Fund allocation

The allocation to each fund in the default arrangement at yearly intervals up to a member's retirement date is:

Years to retirement	My Future Growth Fund	My Future Consolidation Fund
15 or more	100	0
14	93	7
13	87	13
12	80	20
11	73	27
10	67	33
9	60	40
8	53	47

7	47	53
6	40	60
5	33	67
4	27	73
3	20	80
2	13	87
1	7	93
0	0	100

Rebalancing between these funds takes place on a quarterly basis.

Funds and charges

The funds used by the default arrangement and their charges (expressed as a percentage annual management charge ("AMC") and Total Expense Ratio ("TER") as at 31st March 2020 are:

Fund name	AMC %	TER %
Aviva Pension My Future Growth IE	0.47%	0.47%
Aviva Pension My Future Consolidation IE	0.47%	0.47%

Members in the default option will see TERs of 0.47% p.a.

Investment costs

Fund charges

The investment platform provider's and fund managers' charges for the investment options are borne by the members.

The Scheme is a "qualifying scheme" for auto-enrolment purposes, which means that the Default Option is subject to the charge cap introduced by the government from April 2015.

Transaction costs

Transaction costs arise when the fund managers buy and sell the assets held by each fund. Costs may also be incurred when units in the funds are bought and sold. These costs are taken into account when calculating the funds' unit prices and members' fund values.

Review

The present default arrangement was introduced in October 2018.

Appendix B
Investment implementation for investment options outside the default arrangement

Self-select fund range

The Scheme offers members a choice of self-select funds options as an alternative to the default option.

Fund range

The choice of self-select funds and their charges (expressed as a percentage [annual management charge] ("AMC") and Total Expense Ratio ("TER") as at 31st March 2020 are:

Fund name	AMC %	TER %
Aviva Pension Property FP	0.49%	0.49%
Aviva Pension BlackRock Over 5 Year Index-Linked Gilt Index Tracker IE	0.45%	0.45%
Aviva Pension BlackRock Sterling Liquidity IE	0.45%	0.45%
Aviva Pension BlackRock Corporate Bond All Stocks Index Tracker IE	0.45%	0.45%
Aviva Pension BlackRock Emerging Markets Index IE	0.85%	0.85%
Aviva Pension BlackRock European Equity Index Tracker IE	0.45%	0.45%
Aviva Pension BlackRock (30:70) Currency Hedged Global Equity Index Tracker IE	0.49%	0.49%
Aviva Pension BlackRock Over 15 Year Gilt Index Tracker IE	0.45%	0.45%
Aviva Pension BlackRock UK Equity Index Tracker IE	0.45%	0.45%
Aviva Pension BlackRock World ex UK Equity Index Tracker IE	0.45%	0.45%
Aviva Pension Schroder Life Intermediated Diversified Growth IE	1.14%	1.14%
Aviva Pension My Future Growth IE	0.47%	0.47%
Aviva Pension My Future Consolidation IE	0.47%	0.47%
Aviva Pension My Future Cash Lump Sum XE	0.47%	0.47%
Aviva Pension My Future Drawdown XE	0.47%	0.49%
Aviva Pension My Future Annuity XE	0.49%	0.50%

Investment costs

The investment platform provider's and fund managers' charges for the investment options are borne by the members.

Transaction costs arise when the fund managers buy and sell the assets held by each fund. Costs may also be incurred when units in the funds are bought and sold. These costs are taken into account when calculating the funds' unit prices and members' fund values and are borne by members.

Review

The updated self-select fund range was introduced in October 2018.

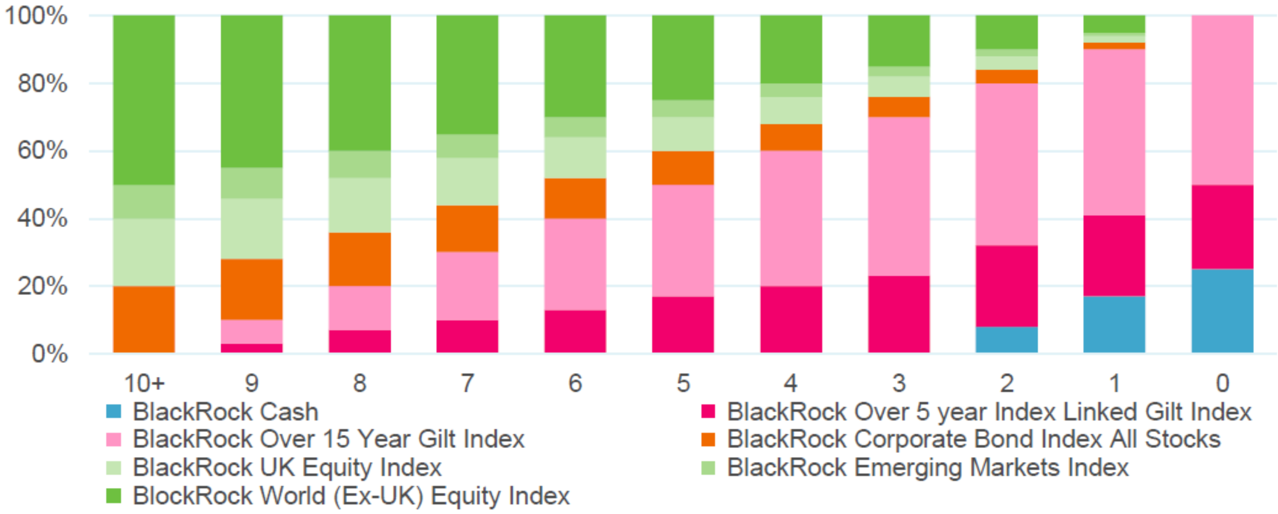
Legacy investment options

Closed lifestyle option

There is one legacy lifestyle option which is now closed to new entrants. Those members who had 3 years until retirement in September 2018 were automatically left in this lifestyle option and not moved across to the new default arrangement. Please note that there were two other legacy lifestyle options, however these are now closed and do not have any members invested so we have not provided details of these strategies below.

Details of the one remaining legacy lifestyle option with members invested are provided below.

SGN 10 Year Lifecyle 2014



The SGN 10 Year Lifecycle was introduced following the DC Section review in 2013 as an additional optional lifestyle strategy with a more diversified global equity exposure. It begins de-risking ten years from retirement but includes investments in corporate bonds and gilts in the de-risking phase. Members have had to opt in to the new strategy and take up of the new offering has been low.

Appendix C

Summary of the approach to investment governance

For the record

The trustees' approach to investment governance complies with the provisions of the Scheme's Trust Deed and Rules as well as legislative requirements.

The Scheme's investment governance is also intended to meet the expectations set out in the Pensions Regulator's 2016 Code of Practice 13.

Exercising the trustees' Powers

The trustees will always act in the best interests of the members.

The trustees have delegated day-to-day work on the Scheme's administration and investments.

Conflicts of interest

In the event of a conflict of interests, the trustees will ensure that contributions are invested in the sole interests of members and beneficiaries.

Monitoring

The trustees regularly monitor and review:

Investment Performance - The performance of the funds in which the Scheme invests against both the funds' stated performance objectives and the investment objectives of the Scheme.

This will also include monitoring the levels of portfolio turnover in the event that significant under or out-performance occurs.

Value for Members - The member borne charges for the default option against the charge cap for auto-enrolment purposes and the funds' charges and transaction costs to ensure that they represent value for members.

Suitability - The suitability of the default option and investment options outside the default arrangement at least every three years and without delay after any significant change in investment policy or the demographic profile of the Scheme's membership.

The Statements of Investment Principles - at least every three years and without delay after any significant change in investment policy or the demographic profile of the Scheme's membership. The trustees will consult the Employer on any changes.

Compliance with Statement of Investment Principles

The trustees will monitor compliance with the Statement of Investment Principles annually and publish a report to members with effect from the Scheme year ending after 1 October 2020.

Investment process - The processes for investing contributions and taking money from the investment options to pay benefits to ensure that they are carried out promptly and accurately.

Security of assets - The security of funds' assets when choosing a fund provider/manager and thereafter.

Voting – The fund managers' records of exercising shareholder voting rights.

Conflicts of Interest – Instances where the actions of the platform provider or fund managers may be in conflict with the best interests of the Scheme's members.

Reporting

The trustees arrange for the preparation of:

- The Scheme's audited Annual Report and Accounts (which includes the Annual Governance Statement);
- The Annual Governance Statement by the Chair of trustees describing the Scheme's investment costs, value for members and governance during the previous year;
- An annual Implementation Statement describing how the policies and practices described in the Statement of Investment Principles have been followed during the previous year;
- Publication of an extract from the Annual Governance Statement by the Chair of trustees, Statement of Investment Principles and Implementation Statement (from 1 October 2020) in a publicly searchable location on-line; and
- An annual return to the Pensions Regulator.