

Associated Press Defined Contribution Retirement Plan

Statement of Investment Principles – August 2020

1. Introduction

Under legislation set out in the Occupational Pension Plans (Investment) Regulations 2005 (S.I. 2005/3378) (“the Investment Regulations”), as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015, it is a requirement for trustees to prepare a statement of the principles that govern their investment decisions.

The Trustees of the Associated Press Defined Contribution Retirement Plan (the “Plan”) has drawn up this Statement of Investment Principles (the “Statement”) to comply with said requirements and those of the Pensions Act 1995 (the “Act”) and subsequent legislation, and to fulfil the spirit of the Pensions Regulator’s DC Code of Practice no. 13. As required under the Act, the Trustees have consulted a suitably qualified person and have obtained written advice from Mercer Limited (“Mercer”). In preparing this statement, the Trustees have given due consideration to the reasons why the Plan uses an insurance policy and their policy for securing compliance with the requirements of section 36 of the Act (*choosing investments*), and in addition the Trustees have consulted Associated Press Television News Limited and Associated Press Limited (the “Companies”).

The Plan’s invested assets are held in an insurance policy issued by Aviva Life and Pensions UK Limited (“Aviva”). The Plan is a registered pension scheme as defined in section 153 of the Finance Act 2004. The Plan operates for the exclusive purpose of providing retirement and death benefits to eligible participants and beneficiaries. Overall investment policy falls into two parts. The first is the strategic management of members’ assets, which is fundamentally the responsibility of the Trustees acting on advice from its investment consultant, Mercer, and is driven by the investment objectives as set out in Section 3 below. The second element of the policy is the day-to-day management of the assets which is delegated to professional investment managers via the arrangements set out in the separate Investment Policy Implementation Document (“IPID”).

The Trustees are committed to maintaining the accuracy of this Statement on an ongoing basis.

The Trustees’ investment responsibilities are governed by the Plan’s Trust Deed and this Statement takes full regard of its provisions. A copy of the Plan’s Trust Deed is available for inspection upon request.

2. Governance Structure

The Trustees have ultimate responsibility for the investment of the Plan’s assets. The Trustees take some decisions itself and delegates others. When deciding which decisions to take and which to delegate, the Trustees have taken into account whether they have the appropriate training and expertise in order to take an informed decision. The Trustees have established the following decision making structure:

2.1 Trustees

- Sets structures and processes for carrying out its role;
- Sets investment structures and their implementation
- Selects and monitors investment advisers and fund managers;
- Sets structures for implementing investment strategy;
- Selects and monitors direct investments (see below); and
- Makes on-going decisions relevant to the principles of the Plan’s investment strategy.

2.2 **Mercer, the investment adviser**

- Advises on all aspects of the investment of the Plan assets, including implementation, suitability of the default lifestyle strategy and each fund's structure, composition and benchmark;
- Advises on this Statement;
- Monitors investment managers; and
- Provides required training.

2.3 **Aviva, the bundled services platform provider**

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

2.4 **Underlying fund managers**

- Selects individual investments with regard to their suitability and diversification.

2.5 **Mercer Workplace Savings**

- Provides advice in selecting the bundled services platform provider;
- Provides on-going governance monitoring services (i.e. on the platform provider);
- Provides investment governance of the platform provider's fund range; and
- Provides investment management services via Smartpath lifestyle strategies.

3. **Investment Objectives**

- 3.1 The Trustees recognise that members have differing investment needs and that these may change during the course of members' working lives. The Trustees also recognise that members have different attitudes to risk. The Trustees believe that members should make their own investment decisions based on their individual circumstances. The Trustees regard their duty as making available a range of investment options sufficient to enable members to tailor their investment strategy to their own needs. The Trustees also recognise that members may not believe themselves qualified to take investment decisions. As such the Trustees make available a Default Lifestyle Strategy.

These objectives translate to the following principles:

- a. Offering members a 'Lifestyle' approach for the default investment option in which the investments are managed over the course of their working life;
- b. Ensuring that the other investment strategy options allow members to plan for their specific retirement objectives;
- c. Making available a range of pooled investment funds which serve to meet the varying investment needs and risk tolerances of Plan members. This includes offering both passively and actively managed investment funds;
- d. Adopting a framework which provides flexibility to change investment managers proactively and which allows efficient fund switching (e.g. without out-of-market risk) as required;
- e. Providing general guidance as to the purpose of each investment option;
- f. Encouraging members to seek independent financial advice from an appropriate party in determining the most suitable option for their individual circumstances;
- g. In determining an appropriate balance between providing flexibility and choice, as well as simplicity and cost control, the Trustees aim to make available a range of options which satisfy the needs of the majority of members.

The Trustees regularly review the suitability of the options provided and from time to time will change or introduce additional investment funds as part of the self-select fund range as

appropriate. Given their fiduciary duties, MWS will review the suitability of the lifestyle options provided and from time to time will change or introduce additional investment funds.

3.2 **Environmental, Social and Corporate Governance (ESG) including Climate Change**

The following encapsulates the Trustees' ESG beliefs:

- a. The Trustees believe that environmental, social, and corporate governance factors can have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole.
- b. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly require explicit consideration within the investment decision making process.
- c. The Trustees may take into account member views in the selection, retention and realisation of ESG investments, where there is no risk of significant financial detriment to the fund.

The Trustees have given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations. Similarly, the Plan's voting rights are exercised by its Investment Managers in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code. Managers are also expected to be signatories to the United Nations-supported Principle Responsible Investment (PRI) unless a suitable reason is provided for not being. As the Plan assets are invested in wholly insured arrangements with investments in pooled vehicles the Trustees accept that the assets are subject to the investment fund managers' own policies in this area.

The Trustees consider how ESG, climate change and stewardship is integrated within investment processes when appointing new investment managers and monitoring existing investment managers. The Trustees, in conjunction with their fiduciary manager have a target that all equity investment managers be highly rated for ESG integration and active ownership with a minimum Mercer rating of ESG3 or better, where possible. Monitoring is undertaken on a regular basis by the Trustees and MWS for those funds managed under the delegated relationship with MWS and is documented at least annually.

The Trustees also periodically review the appropriateness of offering individual ESG or sustainable investment choices available to members.

The Trustees believe that an understanding of, and engagement with, asset managers' arrangements is required to ensure they are aligned with Trustees' policy. It is the Trustees' policy to ensure that the following are understood and monitored:

- How asset manager arrangements incentivise asset managers to align their strategy and decisions with the Trustees' policies;
- How asset manager arrangements incentivise asset managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term;
- How the method (and time horizon) of the evaluation of asset managers' performance and their remuneration are in line with the Trustees' policies;

- Portfolio turnover costs incurred by the asset managers, in the context of the asset manager's targeted portfolio turnover (defined as the frequency within which the assets are expected to be bought or sold); and
- Duration of the arrangement with the asset manager.

Underlying investment managers are appointed by the Trustees in the case of non-delegated funds and by MWS for delegated funds based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected. The underlying investment managers are made aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustees or MWS (where applicable) are dissatisfied, then they will look to replace the manager. If the investment objective for a particular manager's fund changes, the Trustees and MWS (where applicable) will review the fund appointment to ensure it remains consistent with the Trustees' wider investment objectives and policies.

The Trustees consider the investment consultant's assessment of how each underlying investment manager embeds ESG into its investment process. This includes the underlying investment managers' policy on voting and engagement. The Trustees will seek to use this assessment in decisions around selection, retention and realisation of manager appointments. The Trustees and MWS (for the applicable funds) will challenge decisions made including voting history and engagement activity of the underlying investment managers with issuers of debt or equity securities held, to try to ensure the best performance over the medium to long term. If the Trustees and MWS (where applicable) are not satisfied with the answers provided by the manager or progress made in this regard they may seek to review the appointment of the investment manager.

The Trustees receive performance reports on a quarterly basis, which present performance information over three months, one year, three years, five years, and since inception. The Trustees review the absolute performance, relative performance against a suitable index or target used as the benchmark, and against the underlying manager's stated target performance (over the relevant time period) on a net of fees basis. Whilst the Trustees' focus is on long-term performance, they also take shorter-term performance into account. If an underlying manager is not meeting performance objectives, or their investment objectives for the fund have changed, the Trustees may review the suitability of the manager, and change managers where required. Where funds are delegated to MWS it is expected that MWS will review and monitor this on behalf of the Trustees.

The Trustees consider portfolio turnover costs indirectly through consideration of transaction cost data as part of the annual Value for Members assessment. Though the Trustees do not currently define target portfolio turnover ranges for funds, they will engage with managers if the portfolio turnover is higher than expected as a result of the monitoring undertaken. Where funds are delegated to MWS it is expected that MWS set these ranges and will do this on behalf of the Trustees.

All funds are open-ended with no set end date for the arrangement. The Fund Range and Default investment option are reviewed on at least a triennial basis. An underlying manager appointment may be terminated if it is no longer considered to be optimal nor have a place in the default investment option or general fund range. These decisions will be made by MWS for all delegated funds.

The Trustees believe that the investment managers have the necessary expertise and frameworks in place to effectively manage and monitor investments in line with the above areas. This does not mean that all investment managers will have the same principles with

regard to ESG and climate change, as these will specifically relate to the mandate of the investment fund which they are managing.

4. **The Trustees' Policy with Regard to Risk**

The Trustees have considered investment risk from a number of perspectives. These are:

- a. The risk that the investment returns over members' working lives will not keep pace with inflation and does not, therefore, secure an adequate pension. The Trustees measure this risk by considering the real returns expected from the various asset classes. The Trustees offer the Default Lifestyle Option, which has an explicit allocation to assets that are expected to outperform inflation over the long term. Members are also able to self-select funds which are expected to outperform with inflation;
- b. The risk that investment in overseas markets will be affected by changes in exchange rates leading to lower returns in pound sterling terms (e.g. due to appreciation of pound sterling relative to overseas currency). Currency risk is measured by considering the variability of returns from overseas markets in both local currency and pound sterling terms. The Trustees offer a number of funds which are currency hedged to the pound sterling, allowing members to choose whether they are exposed to this risk. The Default Lifestyle Option also makes use of such funds;
- c. The risk that investment market movements particularly in the period immediately prior to retirement leads to a substantial reduction in the anticipated level of retirement wealth. Investment risk is measured as the volatility of expected returns. The Trustees offer a Default Lifestyle Option, which reduces the level of investment risk members are exposed to as they approach retirement;
- d. The risk of a fall in the value of the members' funds. This risk is measured as the volatility of expected returns. The Trustees offer a range of self-select investment options with different levels of risk and return;
- e. The risk that the investment vehicles in which monies are invested under-perform the expectations of the Trustees. This risk is measured by the volatility of fund returns relative to their benchmark and compared to the investment manager's stated target/expected tracking error. The Trustees monitor the performance of the investment vehicles on a quarterly basis to ensure the Investment Managers are meeting expectations; and
- f. The risk that the pooled funds, through which the Trustees allow members to invest, do not provide the required level of liquidity. This risk is measured by the dealing and pricing frequencies of pooled funds. The Trustees access pooled funds via an investment platform, which is expected to provide daily pricing and liquidity.
- g. ESG factors present financially material risks for companies and investors. These risks can take many forms but are often operational and/or reputational in nature.
- h. Climate change is a systemic risk which may materially affect the financial performance of certain asset classes, sectors and companies.

The Trustees believe that the investment strategy outlined in the IPID is appropriate for minimising, where possible, the risks outlined above.

5. **The Trustees' Investment Beliefs**

The Trustees expect (but do not guarantee):

- The long-term return on the investment options that invest predominantly in equities and other growth-seeking asset classes (e.g. Diversified Growth Funds) to exceed price inflation and general salary growth;
- The long-term returns on the bond and cash options to be lower than the equity options;

- Money market funds to provide protection against changes in short-term capital values, and may be appropriate for members receiving part of their retirement benefits in the form of tax-free cash (although it is not guaranteed that these funds will not fall in value).

In choosing the Plan's investment options, it is the policy of the Trustees to consider:

- A full range of asset classes, including alternative asset classes;
- The suitability of different styles of investment management and the need for investment manager diversification;
- The suitability of each asset class for a defined contribution scheme;
- The need for appropriate diversification.

6. **Additional Voluntary Contributions**

Members can make Additional Voluntary Contributions (“AVCs”) in any of the available self-select funds.

7. **Use of an Insurance Policy**

The Plan's invested assets are held through an insurance policy with Aviva. It has no other investments other than this qualifying insurance policy. The Plan is, therefore, “wholly insured” for the purposes of regulation 8 of the Investment Regulations.

The reasons why the Trustees believe that an insurance policy is most suited to their circumstances, and those of the Plan beneficiaries, are as follows:

- a. The Aviva policy offers the Trustees the facility to design a good quality retirement package that enables members of the Plan to invest in a range of asset classes at a reasonable cost;
- b. The financial strength of Aviva is taken into account and its level of commitment displayed to the Plan;
- c. The security given by Aviva's regulation by the Financial Conduct Authority and the Financial Services Compensation Scheme;
- d. The professional management of the investment funds available through Aviva's contract and its willingness to keep the product competitive in the future;
- e. Aviva's capabilities in relation to pension plan administration and communication to employees; and
- f. The overall value-for-money offered by investing in a packaged product with Aviva. The Trustees believe that this approach is in the best interests of its members, but will regularly review this decision, with the assistance of their investment advisors, to ensure that it remains so.

8. **Day-to-Day Investment Management**

The fund range offered to members is accessed through Mercer Workplace Savings (“MWS”) on the platform provided by Aviva. The Trustees access the platform via a long-term insurance contract with Aviva.

The Trustees have selected funds on the Aviva platform, including those managed by Mercer Global Investments Europe Limited, to provide a range of funds for the members' contributions to be invested in. The investment funds may be changed at the Trustees' discretion.

Day-to-day management of the assets is delegated to professional Investment Managers who are all authorised or regulated. The Trustees expect the Investment Managers to manage the assets delegated to them under the terms of their contracts. The range of funds offered to members incorporates funds from a number of Investment Managers.

The Investment Managers have full discretion to buy and sell investments on behalf of the Plan, subject to agreed constraints and applicable legislation. They have been selected for their expertise in different asset classes.

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

The Investment Managers have appointed custodians for the safe custody of assets held within their pooled funds in which the Plan is invested. The custodians are responsible for the safekeeping of the assets held and for performing various administrative duties, such as the collection of interest and dividends and dealing with corporate actions.

The Trustees assess the continuing suitability of the Plan's Investment Managers on a periodic basis. The Trustees' investment adviser is available to provide help in monitoring the Investment Managers, both in the form of written reports and attendance at meetings as required by the Trustees.

9. Investment Options

9.1 The aims of the default investment option

- The default lifestyle strategy manages investment and other risks through a diversified strategic asset allocation consisting of traditional and alternative assets. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. Any investment in derivative instruments contributes to risk reduction, or efficient portfolio management.
- In deciding the default lifestyle strategy, the Trustees have explicitly considered the trade-off between risk and expected returns.
- If members wish to, they can opt to choose their own investment strategy on joining but also at any other future date.
- Assets in the default lifestyle strategy are invested in the best interests of members and beneficiaries, taking into account the profile of members.
- Assets in the default lifestyle strategy are invested in a manner which aims to ensure the security, quality, liquidity and profitability of a member's portfolio as a whole.
- Assets are invested mainly on regulated markets (those that are not must be kept to prudent levels).

Policies in relation to the default investment option

In addition to the Trustees' Investment Beliefs (covered in Section 5), the Trustees believe that:

- The default lifestyle strategy's growth phase structure which invests in equities and other growth-seeking assets will provide growth with some downside protection and some protection against inflation erosion.
- As a member's pot grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustees believe that the default lifestyle strategy that seeks to reduce investment risk as the member approaches retirement is appropriate.
- Based on their understanding of the Plan's membership, an investment strategy that targets income drawdown and a tax-free cash lump sum (up to 25% of a members' pot) at retirement is likely to meet a typical member's requirements for income in retirement. This does not mean that members have to take their benefits in this format at retirement – it merely determines the default investment option that will be in place pre-retirement. Members who intend to take their retirement benefits through other formats have the option of switching to an alternative lifestyle strategy prior to retirement or even choosing their own investment strategy. This position will be kept under review.

Taking into account the demographics of the Plan's membership and the Trustees' views of how the membership will behave at retirement, the Trustees believe that the current default investment option is appropriate and will continue to review this over time, at least triennially, or after significant changes to the Plan's demographic, if sooner.

9.2 **Self-Select Funds**

To cater for the different risk appetites of members, the Trustees also offer three lifestyle strategies and a range of actively managed and passively managed building block funds. The three lifestyle options available include the Lifestyle Strategy Targeting Annuity, Lifestyle Strategy Targeting Cash and Lifestyle Strategy Targeting Drawdown.

All members are free to choose between any of the options. If members do not actively choose one or more of these options, they will automatically be enrolled into the default lifestyle strategy.

Further information on the fund range and lifestyle options is provided in the IPID.

10. **Investment Manager and Platform Fees**

Details of Investment Manager and Platform fees can be found in the IPID. The fees are provided as total expense ratios (TERs) which are the total ongoing costs of running the funds.

11. **Buying and Selling Investments**

The Investment Managers have responsibility for buying and selling the underlying assets. As already mentioned, the day-to-day activities which the Investment Managers carry out for the Trustees is governed by the arrangements between the Investment Managers and Aviva.

12. **Compliance with this Statement**

The Trustees, Aviva and Mercer each have duties to perform to ensure compliance with this Statement. These are:

- The Trustees will review this Statement regularly on the advice of Mercer. The Trustees will monitor the arrangement with Aviva and MWS to ensure that the service continues to meet the Plan's needs and objectives. The Trustees will also consult with the Principal Employer over any changes to the Statement.
- Aviva will provide full information in respect of transactions in units in the underlying funds and valuations of the units held by the Plan from time to time as required by the Trustees.
- Mercer will provide the advice needed to allow the Trustees to review and update this Statement triennially (or more frequently if required).

Signed by Susan Gilkey on behalf of the Trustees of the Associated Press Defined Contribution Retirement Plan on 22 September 2020