# Statement of Investment Principles

## Swiss Re GB Pension Scheme (DB Section)

***September 2020***

# Statement of Investment Principles
# Swiss Re GB Pension Scheme

# 1 Introduction

**Scheme details**

1. This document describes the investment policy pursued by the Trustees of the DB Section of the Swiss Re GB Pension Scheme (the Scheme).

2. The Scheme operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries.

3. Administration of the Scheme is managed by the Trustees, who are responsible for the investment of the Scheme's assets.

4. The Scheme is registered with Her Majesty's Revenue and Customs under Chapter 2 of Part 4 of the Finance Act 2004.

**Pensions Act**

5. Under the Pensions Act 1995 and 2004, the Trustees are required to prepare a statement of the principles governing investment decisions. This document fulfils that requirement.

6. Before preparing this document the Trustees have had regard to the requirements of the Pensions Act concerning diversification of investments and suitability of investments and the Trustees will consider those requirements on any review of this document or any change in their investment policy. The Trustees will refer to this document where necessary to ensure that they exercise their powers of investment so as to give effect to the principles set out in it as far as is reasonable.

7. Before adopting this document, the Trustees have consulted with the Principal Employer and the Trustees will consult the Principal Employer on changes in investment policy as set out in this document, and on the employment or removal of investment managers. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustees.

8. In drawing up this document, the Trustees have sought advice from the Scheme Actuary and its investment consultant, Willis Towers Watson Limited. The Trustees will review this document, in consultation with the Scheme Actuary and investment consultant, at least once every three years and without delay after a significant change in investment policy.

9. The Trustees have also given consideration to the principles of investment as contained in the Myners Review of Institutional Investment in the United Kingdom as amended (now referred to as the Investment Governance Group Principles).

**Financial Services and Markets Act 2000**

10. In accordance with the Financial Services and Markets Act 2000, the Trustees will set general investment policy, but will delegate the responsibility for selection of specific investments, subject to the restrictions in sections 4.6 and 4.7 of this document, to an appointed investment manager or managers, which may include an insurance company or companies. The investment manager(s) shall provide the skill and expertise necessary to manage the investments of the Scheme competently.

**Socially responsible investment and the exercising of rights**

11. The Occupational Pension Scheme’s (Investment) Regulations 2005 require the Trustees to disclose the following in the statement of investment principles;

- The extent (if any) to which social, environmental or ethical considerations are taken into account in its investment policy, and
- The policy (if any) on exercising rights attaching to investments.

The Trustees' policy is set out within this document accordingly.

# 2. Investment objectives and policy

**Objectives**

1. The objectives of the Scheme are:

   - To invest in a range of suitable assets of appropriate liquidity which will generate, in the most effective manner possible, income and capital growth to ensure that, with any new contributions from members and the Company, there are sufficient assets to meet the cost of the current and future benefits which the Scheme provides. In doing this, the Trustees' view is that relevant social, environmental and ethical factors should be included amongst the criteria taken into account when considering the purchase, retention or sale of investments, and they have instructed the investment managers to do this, in accordance with their respective practices as disclosed to the Trustees from time to time.
   - To limit the risk of the assets failing to meet the liabilities over the long term, and of underfunding in relation to ongoing actuarial valuations and the Scheme Specific funding test as laid down in the Pension Act 2004.
   - To control the long-term costs of the Scheme by maximising the return on the assets whilst having regard to the objectives described above.
   - To avoid excessive short-term volatility of investment returns.

2. The Trustees aim to meet the long-term objectives by:

   - Ensuring that the asset allocation and funding policies of the Scheme take into account the liability profile and the Scheme Specific Funding test.
   - Identifying appropriate investment managers for the Scheme’s assets.
   - Monitoring, by regular meetings, the investment managers to ensure that they comply with the guidelines and that there is a reasonable expectation that they can meet the performance objectives going forward.
   - Seeking advice, as appropriate, from the Scheme's professional advisers.

**Policy**

3. The Trustees' Policy is to seek to achieve the Schemes objectives through investing in a suitable mixture of real and monetary assets. They recognise that the returns on real assets, while expected to be greater over the long term than those on monetary assets, are likely to be more volatile. A mixture across asset classes should nevertheless provide the level of returns required by the Scheme to meet its liabilities at an acceptable level of risk for the Trustees and an acceptable level of cost to the employer. The precise allocation between asset classes will be reviewed from time to time by the Trustees and consequently may vary.

4. The strong funding position of the Scheme has led to the Trustees adopting a low-risk investment strategy targeting a return of 0.5% pa in excess of the Scheme’s liabilities. The following target asset allocation is expected to achieve this target return over the long-term:

| Asset class | % |
|---|---|
| LDI portfolio | 47 |
| Long-term buy-and-maintain credit | 38 |
| Secure income assets | 15 |
| **Total** | **100%** |

5. The choice of asset allocation policy, together with the investment manager guidelines are designed to ensure that the Scheme's investments are adequately diversified. A more detailed description of the Scheme's investment managers and their mandates is given in appendix A.

6. The Scheme's allocation will be allowed to drift within acceptable ranges around the target asset allocation as outlined in the table above. This would generally occur if the Trustees believe that the asset class assumptions used in setting the long-term strategy are now in doubt.

7. The Trustees have taken advice from the Scheme Actuary, and investment consultant from the Scheme's professional advisers, Willis Towers Watson Limited regarding the suitability of the policy with respect to the objectives of the Scheme given its liability profile. They have also consulted with the Principal Employer.

**Financially material considerations, stewardship and engagement**

8. The Trustee's policy is to take account of all financially material considerations including capital structure of investee companies, actual and potential conflicts, other stakeholders, and ESG impact of underlying holdings, in consultation with its advisers. Risks and opportunities are assessed for materiality and impact within a broader risk management framework, which takes account of the Trustee's investment and funding time horizon along with sponsor covenant. The Trustee will consider financially material factors, such as (but not limited to) those arising from Environmental, Social and Governance (ESG) considerations, including climate change, in the context of this broader risk management framework. The Trustee does not currently have an active policy of considering non-financial matters in its investment decision making.

9. The Trustee's policy is that day-to-day decisions relating to the selection, retention, and realisation of the Scheme's assets is left to the discretion of the investment managers. This includes consideration of all financially materially factors, including ESG-related issues where relevant. The Trustee explores these issues with its advisers to understand how the investment managers exercise these duties in practice.

10. The Scheme uses many different managers and mandates to implement its investment policies. The Trustee ensures that, in aggregate, its portfolio is consistent with the policies set out in this Statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). The Trustee will also ensure that the investment objectives and guidelines of any particular pooled vehicles are consistent with its policies, where relevant to the mandate in question. Where segregated mandates are used, the Trustee will use its discretion, where

appropriate to set explicit guidelines within the Investment Management Agreement to ensure consistency with the Trustee’s policies, where relevant to the mandate.

11. Managers are paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement. It is the Trustee’s view that fees linked to investment performance increase complexity and in most cases do not materially improve alignment with long-term objectives. Such fee structures are not in place with any of the Scheme’s current investment managers.

12. For most of the Scheme’s investments, the Trustee expects the investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods.

13. To maintain alignment, managers are provided with the most recent version of the Scheme’s Statement of Investment Principles on a regular basis and are required to confirm that the management of the assets is consistent with those policies relevant to the mandate in question.

14. When considering the appointment of new managers, and reviewing existing managers, the Trustee, together with its investment consultant, looks to take account of the approach taken by managers with respect to sustainable investing including voting policies and engagement where relevant. The Trustee’s policy is to delegate responsibility for the exercising of ownership rights (including voting rights) attaching to investments to the investment managers. The Trustee recognises the UK Stewardship Code as best practice and encourages its investment managers to comply with the UK Stewardship Code or explain where they do not adhere to this policy.

# 3. Division of responsibilities

**The Trustees**

1. The Trustees of the Scheme are responsible for:

   1. Reviewing, when the Trustees consider it necessary, the content of this Statement of Investment Principles and for modifying it if deemed appropriate, in consultation with the Scheme Actuary and investment consultant.
   2. Reviewing the investment policy following the results of each actuarial review, and/or asset/liability modelling exercise, in consultation with the Scheme Actuary and investment consultant.
   3. Appointing (and dismissing) investment managers.
   4. Assessing the quality of the performance and processes of the investment managers by means of regular reviews of the investment results and other information, in consultation with the Scheme Actuary and investment consultant, and selecting/deselecting managers as appropriate.
   5. Allocating assets and cash flow between the investment mandates.
   6. Monitoring the Scheme's cash flow requirements and managing the cash balances.
   7. Notifying the relevant authorities when the Scheme's aggregate holdings exceed disclosable amounts.
   8. Assessing their own procedures and decisions as Trustees.
   9. Engaging with the investment managers about their preferred benchmarks and policies for shareholder activism and transaction cost minimisation.
   10. Monitoring compliance of the investment arrangements with this Statement on an ongoing basis.
   11. Consulting with the Principal Employer when reviewing investment policy issues.
   12. Reviewing the effectiveness in practice of the policies in place.

**Investment managers/platform provider**

2. The investment managers will be responsible, in connection with their portfolios, for:

   1. At their discretion, but within any guidelines given by the Trustees, implementing changes in the asset mix and selecting securities within each asset class.
   2. Providing the Trustees with quarterly statements of the assets along with a quarterly report on actions and future intentions, and any changes to the processes applied to their portfolios.
   3. Informing the Trustees of any changes in the internal performance objectives and guidelines of any pooled fund used by the Scheme as and when they occur.
   4. Having regard to the need for diversification of investments so far as appropriate and to the suitability of investments.
   5. Investing cash in a suitably low risk manner consistent with the Trustees' guidelines.
   6. Giving effect to the principles contained in the Statement as far as reasonably practicable.

7. Providing custody services for the pooled funds in which the Scheme invests.

**Investment consultant**

3. The investment consultant will be responsible for:

1. Participating with the Trustees in regular reviews of this Statement of Investment Principles.
2. Advising the Trustees as requested by them on:
    - Through consultation with the Scheme Actuary, how any changes within the benefits, membership, and funding position may affect the manner in which the Scheme's assets should be invested
    - Any changes in the investment managers' or platform provider's organisations that could affect the interests of the Scheme
    - Any changes in the investment environment that could present either opportunities or problems for the Scheme.
3. Undertaking project work as required including:
    - Reviews of Scheme's asset allocation policy
    - Research reviews of investment managers.
4. Advising on the selection of new managers and/or custodians.

**Scheme Actuary**

4. The Scheme Actuary will be responsible for:

1. Liaising with the investment consultant as requested by the Trustees on the suitability of the Scheme's investment strategy given the financial characteristics of the Scheme.
2. Assessing the position of the Scheme on the basis of Scheme Specific test outlined in the Pensions Act 2004, and advising on the appropriate response to any shortfall.
3. Performing the triennial (or more frequently as required) valuations and advising on the appropriate contribution levels.

# 4. Investment management arrangements and risk controls

**Manager structure**

1. Currently the Scheme employs Legal & General (L&G) to manage a Liability Driven Investment (LDI) portfolio consisting of levered and unlevered fixed gilt, index-linked gilt and real swap funds. AXA is employed to manage a portfolio of long-dated credit that exhibits a similar cashflow profile to that of the Scheme's liabilities. Macquarie is employed to manage a portfolio of infrastructure debt assets on an active basis. Towers Watson Investment Management is employed to manage a diverse portfolio of secure income assets that will provide stable cashflows through time. This should ensure sufficient diversification by asset class, by manager and by style of management.

**Performance benchmarks and targets**

2. Each manager/portfolio in the Scheme's portfolio is set a specific set of performance objectives that are consistent with the overall objectives of the Scheme, the level of skill and risk being exhibited by the managers and the overall risk tolerance of the Trustees.

3. Details of the current manager structure for the Scheme and their specific performance targets are included in appendix A.

**Realisation of investments**

4. The Scheme's administrators estimate the amount of benefit outgo on a regular basis so that, together with the investment managers, they can arrange to have sufficient cash and other liquid assets available to meet the outgoings as they fall due.

5. The Scheme's investment strategy has been constructed with the aim of producing cashflows that broadly match the Scheme's benefit outgo through time. In conjunction with this, the Scheme has a large LDI holding which is made up of assets that can be easily liquidated when required.

**Risk management**

6. The Trustees recognise a number of risks involved in the investment of the assets of the Scheme:

   *Solvency risk and mismatching risk*

   - Are measured through a qualitative assessment of the expected development of the liabilities relative to the current investment policy.
   - Are managed through assessing the progress of the actual growth of the liabilities relative to the selected investment policy and through ongoing triennial actuarial valuations.

   *Manager risk*

   - Is measured by the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy.
   - Is managed by monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment process.

*Liquidity risk*

- Is measured by the level of cash flow required by the Scheme over a specified period.
- Is managed by the administrators who monitor and calculate the monthly benefit outgo to ensure that sufficient cash balances are available.

*Political risk*

- Is measured by the level of concentration in any one market leading to the risk of an adverse influence on investment values arising from political intervention.
- Is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.

*Sponsor risk*

- Is measured by the level of ability and willingness of the employer to support the continuation of the Scheme and to make good any current or future deficit.
- Is managed by assessing the interaction between the Scheme and the employer's business.

7. The Trustees undertake to monitor these risks on a regular basis.

# 5. Investment manager monitoring and selection

**Ongoing monitoring**

1. The Trustees believe in the importance of monitoring the investment managers as a means of creating long-term relationships which should increase the likelihood of meeting the performance objectives. The Trustees must also satisfy themselves that the investment managers continue to carry out their work competently and have the appropriate knowledge and experience to manage the investments of the Scheme.

2. The Trustees believe in developing a disciplined framework for monitoring the investment managers. The Trustees meet the investment managers at regular intervals to review performance, investment policy and compliance.

3. The Trustees monitor the performance of the Scheme's investment managers on a quarterly basis. The appointment of the investment managers will be reviewed by the Trustees from time to time, based on the results of its monitoring of performance and process.

4. The Trustee reviews the costs incurred in managing the Scheme's assets regularly, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustee will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

5. The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate a manager's appointment based purely on short term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

**Selection criteria**

6. The Trustees have identified the criteria by which managers should be selected (or deselected). These include:

    - *Past performance*
    - *Quality of the Investment Process, including ESG considerations*
    - *Role suitability*
        - level of fees
        - reputation of the manager
        - familiarity with the mandate
        - internal objectives and restrictions of any pooled funds
    - *Service*
        - reporting
        - administration

- *Team proposed*
    - The individual fund managers working for the Scheme.

De-selection criteria

7. Managers may be replaced if:

- They fail to meet their long term performance objectives.
- The Trustees believe that the manager is not capable of achieving the performance objectives in the future.
- The manager is the subject of a reorganisation, sale or merger which could give rise to the concern in the points above.
- The Trustees consider that changes in the investment policy or asset allocation of the Scheme require changes of managers or adjustment of a particular mandate.

# A Current investment management arrangements for the Defined Benefit Section

Investment structure

The target investment manager structure is:

| Manager | Mandate | Allocation% |
|---|---|---|
| Legal & General | Liability driven investments portfolio | 47 |
| Macquarie | Infrastructure debt | 5 |
| AXA | Long Term Credit | 38 |
| Towers Watson | Secure Income Fund | 10 |
| | **Matching assets** | **100** |
| Total | | 100 |

The mandates, benchmarks and performance targets are given below.

***Legal and General – LDI portfolio***

**Performance targets**

To obtain a return in each underlying portfolio in line with its benchmark

**Asset allocation and benchmark indices**

| Asset class | Benchmark | Central position |
|---|---|---|
| Various levered and unlevered fixed gilt, index-linked gilt and real swap funds | n/a | 100.0% |

***Macquarie – Infrastructure debt***

**Performance targets**

To obtain, by the end of the investment period, a weighted average spread of at least 3% over applicable base rates across the portfolio.

**Asset allocation and benchmark indices**

| Asset class | Benchmark | Central position |
|---|---|---|
| Infrastructure Debt | FTSE A Over 15 Years Index Linked Gilts | 100.0% |

***AXA – Long Term Credit***

**Performance target**

To invest in a diversified portfolio of fixed income securities in an efficient manner that will, over the life of the Fund, broadly seek to deliver and distribute annual cashflows

**Asset allocation and benchmark indices**

| Asset class | Benchmark | Central position |
| --- | --- | --- |
| Long Term Credit | ICE BAML Sterling Non-Gilt Index | 100.0% |

***Towers Watson Investment Managers – Secure Income Fund***

**Performance target**

To achieve a target return of FTSE Actuaries Index-Linked Gilts Over 15 years Index plus 2-3% p.a. net of fees and provide investors with a diverse portfolio of secure long-term cash flows.

**Asset allocation and benchmark indices**

| Asset class | Benchmark | Central position |
| --- | --- | --- |
| Secure Income | FTSE Actuaries Index-Linked Gilts Over 15 years Index plus 2-3% p.a. net of fees and costs | 100.0% |

**Fee basis**

Each investment manager is paid a fee for their services, based on a combination of assets under management and/or performance related fees. These fees have been negotiated and the Trustee believes they represent competitive rates for the types of mandates.