

Statement of Investment Principles for the Assicurazioni Generali SpA (UK Branch) Pension Fund

September 2020

1. Introduction

This Statement of Investment Principles (“SIP”) sets out the policy of the Trustees of the Assicurazioni Generali SpA (UK Branch) Pension Fund (the “Trustees”) on various matters governing decisions about the investments of the Assicurazioni Generali SpA (UK Branch) Pension Fund (the “Fund”), a Defined Benefit Scheme. This SIP replaces the previous SIP dated September 2019.

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 (the “Act”), the Occupational Pension Schemes (Investment) Regulations 2005 (as amended) and the Pension Regulator’s guidance for defined benefit pension schemes (March 2017).

This SIP has been prepared after obtaining and considering written professional advice from LCP, the Fund’s investment adviser, whom the Trustees believe to be suitably qualified and experienced to provide such advice. The advice considers the suitability of investments including the need for diversification, given the circumstances of the Fund, and the principles contained in this SIP. The Trustees have consulted with the relevant employer in producing this SIP.

The Trustees will review this SIP from time to time and, with the help of their advisers, will amend it as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy and at least once every three years.

- **Appendix 1** sets out details of the Fund’s investment governance structure, including the key responsibilities of the Trustees, investment advisers and investment managers. It also contains a description of the basis of remuneration of the investment adviser and the investment managers.
- **Appendix 2** sets out the Trustees’ policy towards risk appetite, capacity, measurement and management.

2. Investment objectives

The Trustees’ primary objective is to ensure that the Fund should be able to meet benefit payments as they fall due. In addition to this primary objective, the Trustees have additional objectives. These are as follows:

- that the expected return of the Fund’s assets is maximised whilst managing and maintaining investment risk at an appropriate level. What the Trustees determine to be an appropriate level of risk is set out in Appendix 2.
- that, should the Fund be discontinued at any point in time, there would be sufficient assets to meet the discontinuance liabilities. The Trustees are aware that there are various measures of funding, and have given due weight to those considered most relevant to the Fund.

3. Investment strategy

The investment strategy has been implemented via five portfolios, as follows:

- LDI and Money Market Portfolio – consisting of:
 - a portfolio of money market instruments (fixed income and debt securities with short maturities); and
 - a portfolio of liability matching assets ie liability driven investments (“LDI”).
- Corporate Bond Portfolio – an actively managed pooled portfolio of long-dated corporate bonds;
- UK Equity Portfolio – a passively managed pooled portfolio of UK equities;
- Overseas Equity Portfolio – a passively managed pooled portfolio of overseas equities, partly currency hedged; and
- Diversified Growth Portfolio – an actively managed pooled portfolio.

The Trustees, with the help of their advisers and in consultation with the employer, last reviewed the investment strategy in 2020, taking into account the objectives described in Section 2 above. Following discussion with the employer, the Trustees adopted the strategic asset allocation below:

Asset class	Strategic allocation	Permitted ranges
LDI and money market	40	35 – 45
Corporate bonds	25	20 – 30
UK equities	10	5 – 15
Overseas equities	10	5 – 15
Diversified growth	15	10 - 20
Total	<u>100</u>	

The future investment strategy will continue to be to hold:

- a portfolio of bonds (invested c65% in LDI and money market funds and c35% in corporate bonds) to back benefit payments in respect of existing pensioners and 35% of the benefit payments in respect of non-pensioners; and
- a portfolio of return-seeking assets (invested c60% in equities and c40% in diversified growth funds) for other benefit payments.

The Trustees maintain the strategic allocation by allocating net cash flow to bring the assets in line with the central benchmark, and will rebalance if the asset allocation moves outside the permitted ranges.

4. Considerations made in determining the investment arrangements

When deciding how to invest the Fund’s assets, the Trustees consider several risks, including, but not limited to, those set out in Appendix 2. Some of these risks are more quantifiable than others, but the Trustees have tried to allow for the relative importance and magnitude of each risk.

The Trustees considered a wide range of asset classes for investment, taking account of the expected returns and key individual risks associated with those asset classes as well as how these risks can be

mitigated where appropriate. The key financial assumption made by the Trustees, as at 31 March 2020, is that equity-type investments will, over the long term, outperform gilts by 5.5% pa.

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In setting the strategy the Trustees also considered:

- the Fund's investment objectives, including the target return required to meet the Trustees' investment objectives;
- the Fund's cash flow requirements in order to meet benefit payments in the near to medium term;
- the best interests of members and beneficiaries;
- the circumstances of the Fund, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the strength of the employer covenant;
- the risks, rewards and suitability of a number of possible asset classes and investment strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken;
- the need for appropriate diversification between different asset classes to ensure that both the Fund's overall level of investment risk and the balance of individual asset risks are appropriate;
- any other considerations which the Trustees consider financially material over the time horizon that the Trustees consider is needed for the funding of future benefits by the investments of the Fund; and
- the Trustees' investment beliefs about how investment markets work, and which factors and most likely to impact investment outcomes.

The Trustees' key investment beliefs, which influenced the setting of the investment arrangements, are as follows:

- asset allocation is the primary driver of long-term returns;
- risk-taking is necessary to achieve return, but not all risks are rewarded;
- equity, credit and illiquidity are the primary rewarded risks;
- risks that do not have an expected reward should generally be avoided, hedged or diversified;
- investment managers who can consistently spot and profitably exploit market opportunities are difficult to find and therefore passive management, where available, is usually better value;
- long-term environmental, social and economic sustainability is one factor that trustees should consider when making investment decisions; and
- costs have a significant impact on long-term performance and therefore obtaining value for money from the investments is important.

5. Implementation of the investment arrangements

Before investing in any manner, the Trustees obtain and consider proper written advice from their investment adviser on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.



The Trustees have signed agreements with the investment managers setting out in detail the terms on which the portfolios are to be managed. The investment managers' primary role is the day-to-day investment management of the Fund's investments.

The Trustees and investment managers to whom discretion has been delegated exercise their powers to giving effect to the principles in this Statement of Investment Principles, so far as is reasonably practicable.

The selection of custodians and their supervision is delegated to the investment managers. The Trustees do not have any direct relationships with the custodians.

The Trustees have limited influence over managers' investment practices because all the Fund's assets are held in pooled funds, but they encourage their managers to improve their practices where appropriate.

The Trustees' view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high-quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

It is the Trustees' responsibility to ensure that the managers' investment approaches are consistent with their policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustees expect investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. They assess this when selecting and monitoring managers.

The Trustees evaluate investment manager performance by considering performance over both shorter and longer-term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. Generally, the Trustees would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustees' policy is to evaluate each of their investment managers by reference to the manager's individual performance as well the role it plays in helping the Fund meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustees recognise that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustees expect their investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Fund's investment mandates.

6. Realisation of investments

The investment managers have discretion over the timing of realisation of investments of the Fund within the portfolios that they manage, and in considerations relating to the liquidity of investments.



When appropriate, the Trustees, on the recommendation of the administrators, LCP, decide on the amount of cash required for benefit payments and other outgoings and inform the investment managers of any liquidity requirements. In general, the Trustees' policy is to use cash flows to rebalance the Fund's assets towards the strategic asset allocation, and also receive income from some of the portfolios where appropriate.

7. Financially material considerations and non-financial matters

The Trustees have considered how environmental, social, governance ("ESG") and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Fund and its members.

The Trustees expect their investment managers to take account of financially material considerations (including climate change and other ESG considerations). The Trustees seek to appoint managers that have appropriate skills and processes to do this, and from time to time review how their managers are taking account of these issues in practice.

The Trustees have limited influence over managers' investment practices where assets are held in pooled funds, but they encourage their managers to improve their practices where appropriate.

The Trustees do not otherwise take into account any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

8. Voting and engagement

The Trustees recognise their responsibilities as owners of capital, and believe that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments. The Trustees have delegated to their investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations.

The Trustees do not monitor or engage directly with issuers or other holders of debt or equity. They expect the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustees from time to time, considering the long-term financial interests of the beneficiaries. The Trustees have limited influence over managers' stewardship practices where assets are held in pooled funds, but they encourage their managers to improve their practices where appropriate.

SIP signed for and on behalf of the Trustees of the Fund:

Signed: **Huw Evans**

Date: **30 September 2020**

Investment governance, responsibilities, decision-making and fees

The Trustees have decided on the following division of responsibilities and decision-making for the Fund. This division is based upon the Trustees' understanding of the various legal requirements placed upon them, and their view that this division allows for efficient operation and governance of the Fund. The Trustees' investment powers are set out within the Fund's governing documentation.

1. Trustees

In broad terms, the Trustees are responsible in respect of investment matters for:

- developing a mutual understanding of investment and risk issues with the employer;
- setting the investment strategy, in consultation with the employer;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- setting the policy for rebalancing between asset classes;
- setting a policy on the exercise of rights (including voting rights) and undertaking engagement activities in respect of the investments;
- putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- appointing, monitoring, reviewing and (when necessary) dismissing investment managers, investment advisers, the actuary and other service providers;
- monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Act;
- communicating with members as appropriate on investment matters;
- reviewing the investment policy as part of any review of the investment strategy;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employer when reviewing the SIP.

2. Investment managers

In broad terms, the investment managers will be responsible for:

- managing the portfolios of assets according to their stated objectives, and within the guidelines and restrictions set out in their respective investment manager agreements and/or other relevant governing documentation;
- taking account of financially material considerations (including climate change and other ESG considerations) as appropriate when managing the portfolios of assets;
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments;
- providing the Trustees with regular information concerning the management and performance of their respective portfolios; and

- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so. **Appendix 1 (cont)**

Page 7 of 12 The custodians of the portfolios (whether there is a direct relationship between the custodian and the Trustees or not) are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

3. Investment adviser

In broad terms, the investment adviser will be responsible, in respect of investment matters, as requested by the Trustees, for:

- advising on how material changes within the Fund's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;
- advising on the selection, and review, of the investment managers, incorporating its assessment of the nature and effectiveness of the managers' approaches to financially material considerations (including climate change and other ESG considerations); and
- participating with the Trustees in reviews of this SIP.

4. Fee structures

The Trustees recognise that the provision of investment management and advisory services to the Fund results in a range of charges to be met, directly or indirectly, by deduction from the Fund's assets.

The Trustees have agreed Terms of Business with the Fund's actuarial and investment advisers, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis.

The investment managers receive fees calculated by reference to the market value of assets under management. The fee rates are believed to be consistent with the managers' general terms for institutional clients and are considered by the Trustees to be reasonable when compared with those of other similar providers.

The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustees' view as to the most appropriate arrangements for the Fund. However, the Trustees will consider revising any given structure if and when it is considered appropriate to do so.

5. Performance assessment

The Trustees are satisfied, taking into account the external expertise available, that there are sufficient resources to support their investment responsibilities. The Trustees believe that they have sufficient expertise and appropriate training to carry out their role effectively.

It is the Trustees' policy to assess the performance of the Fund's investments, investment providers and professional advisers from time to time. See Section 5 of the SIP. The Trustees will also periodically assess the effectiveness of their decision-making and investment governance processes and will decide how this may then be reported to members.

6. Working with the Fund's employer

When reviewing matters regarding the Fund's investment arrangements, such as the SIP, the Trustees seek to give due consideration to the principal employer's perspective. While the requirement to consult



does not mean that the Trustees need to reach agreement with the employer, the Trustees believe that better outcomes will generally be achieved if the Trustees and employer work together collaboratively.

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Appendix 1 (cont)

1. Risk appetite and risk capacity

Risk appetite is a measure of how much risk the Trustees' are willing to bear within the Fund in order to meet their investment objectives. Taking more risk is expected to mean that those objectives can be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action. Risk capacity is a measure of the extent to which the Trustees can tolerate deviation from their long term objectives before attainment of those objectives is seriously impaired. The Trustees aim to strike the right balance between risk appetite and risk capacity.

When assessing the risk appetite and risk capacity, the Trustees considered a range of qualitative and quantitative factors, including:

- the strength of the employer's covenant and how this may change in the near/medium future;
- the Fund's funding targets;
- the Fund's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged;
- the Fund's cash flow and target return requirements; and
- the level of expected return and expected level of risk (as measured by Value of Risk ("VaR")), now and as the strategy evolves of inadequate returns.

As at 31 December 2019, the Fund's revised investment strategy was expected to result in a 1 year 95% Value at Risk of around £12m¹. This means that it was estimated to be a 1 in 20 chance that the Fund's funding position will worsen by £12m or more, compared to the expected position, over a one year period. The Trustees believe this level of risk to be appropriate given the Trustees' and employer's risk appetite and capacity, given the Fund's objectives.

2. Approach to managing and monitoring investment risks

The Trustees consider that there are several different types of investment risk that are important for the Fund. These include, but are not limited to:

2.1. Risk of inadequate returns

A key objective of the Trustees is that, over the long-term, the Fund should generate its target return so that it has adequate assets to meet its liabilities as they fall due. The Trustees therefore invest the assets of the Fund to produce a sufficient long-term return in excess of the liabilities. There is also a risk that the performance of the Fund's assets and liabilities diverges in certain financial and economic conditions in the short term. This risk has been considered in setting the investment strategy and is monitored by the Trustees on a regular basis.

2.2. Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Fund's assets. The Trustees

¹ More details, including the underlying assumptions, available on request.

believe that the Fund's assets are adequately diversified between different asset classes and within each asset class. This was a key consideration when determining the Fund's investment arrangements and is monitored by the Trustees on a regular basis.

2.3. Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, the Trustees receive written advice from a suitably qualified individual, and will typically undertake an investment manager selection exercise. The Trustees monitor the investment managers on a regular basis to ensure they remain appropriate for their selected mandates.

2.4. Counterparty risk

This is the risk that one party to a contract (such as a derivative instrument) causes a financial loss to the other party by failing to discharge a contractual obligation. This risk applies in particular for those contracts that are traded directly between parties, rather than traded on a central exchange.

In particular, LDI makes use of derivative and gilt repos contracts and this is used by the Trustees to match efficiently a portion of the Fund's liabilities. Counterparty risk is managed within the fund through careful initial selection and ongoing monitoring of trading counterparties, counterparty diversification and a robust process of daily collateralisation of each contract, to ensure that counterparty risk is limited, as far as possible, to one day's market movements.

2.5. Illiquidity/marketability risk

This is the risk that the Fund is unable to realise assets to meet benefit cash flows as they fall due, or that the Fund will become a forced seller of assets in order to meet benefit payments. The Trustees are aware of the Fund's cash flow requirements and believe that this risk is managed by maintaining an appropriate degree of liquidity across the Fund's investments.

2.6. Environmental, social and governance (ESG) risks

Environmental, social and corporate governance (ESG) factors are sources of risk to the Fund's investments which could be financially material, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Trustees seek to appoint investment managers who will manage these risks appropriately on their behalf and from time to time review how these risks are being managed in practice.

2.7. Collateral adequacy risk

The Fund is invested in leveraged LDI arrangements to provide protection ("hedging") against adverse changes in interest rates and inflation expectations. The LDI manager may from time to time call for additional cash to be paid to the LDI portfolio in order to support a given level of leverage. Collateral adequacy risk is the risk that the Trustees when requested to do so will not be able to post additional cash to the LDI fund within the required timeframe. A potential consequence of this risk is that the Fund's interest rate and inflation hedging could be reduced and that the funding level could suffer subsequently as a result. In order to manage this risk,



the Trustees ensure that the Fund has a sufficient allocation to highly liquid assets which can be readily realised, so that cash can be posted to the LDI manager at short notice.

2.8. Credit risk

This is the risk that a borrower will cause a financial loss for the other party by failing to meet required payments for a contractual obligation.

The Fund is subject to credit risk because it invests in bonds via pooled funds. The Trustees manage the Fund's exposure to credit risk by investing in pooled funds that have a diversified exposure to different credit issuers, and primarily investing in bonds that are classified as "investment grade".

2.9. Equity risk

Equity represents (part) ownership of a company. Equity risk is the risk that the value of this holding falls in value.

The Trustees believe that equity risk is a rewarded investment risk, over the long term.

The Trustees consider exposure to equity risk in the context of the Scheme's overall investment strategy and believe that the level of exposure to this risk is appropriate.

2.10. Currency risk

Whilst the majority of the currency exposure of the Fund's assets is to Sterling, the Fund is subject to currency risk because some of the Fund's investments are held in overseas markets. The Trustees consider the overseas currency exposure in the context of the overall investment strategy, and believe that the currency exposure that exists diversifies the strategy and is appropriate.

The Trustees currently hedge the majority of the Fund's exposure to foreign currency back to GBP within their equity portfolio.

2.11. Interest rate and inflation risk

The Fund's assets are subject to interest rate and inflation risk because some of the Fund's assets are held in bonds and swaps. However, the interest rate and inflation exposure of the Fund's assets hedges part of the corresponding risks associated with the Fund's liabilities.

The Trustees consider interest rate and inflation risks to be generally unrewarded investment risks.

As a result, the Trustees aim to hedge a proportion of the Fund's exposure to interest rate and inflation risk, in line with its funding level, by investing in a mixture of bonds as well as leveraged LDI arrangements.

The net effect of the Trustees' approach to interest and inflation risk will be to reduce the volatility of the funding level, and so the Trustees believe that it is appropriate to manage exposures to these risks in this manner and to review them on a regular basis.

2.12. Other non-investment risks

Appendix 2 (cont)

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The Trustees recognise that there are other, non-investment, risks faced by the Fund, and takes these into consideration as far as practical in setting the Fund's investment arrangements.

Examples include:

- longevity risk (the risk that members live, on average, longer than expected); and
- sponsor covenant risk (the risk that, for whatever reason, the sponsoring employer is unable to support the Fund as anticipated).

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Fund's funding position falls below what is considered an appropriate level. By understanding and considering the key risks that contribute to funding risk, the Trustees believe that they have appropriately addressed and are positioned to manage this general risk.