

BIG THINKING FOR SMALL SCHEMES

Statement of Investment Principles

ICAP Group Pension Scheme

September 2019



1. Introduction

Under the Pensions Act 1995, as amended by the Pensions Act 2004, trustees are required to prepare and review regularly a Statement of Investment Principles, dealing with certain specific matters.

This Investment Statement sets out the principles governing decisions about the investment of the assets of ICAP Group Pension Scheme ("the Scheme"). Before preparing it, the Trustee obtained and considered written professional advice from Barker Tatham Investment Consultants Limited. Prior to finalising this document, it also consulted with the sponsoring employer. Barker Tatham Investment Consultants Limited is licensed by the Institute and Faculty of Actuaries to provide investment advice.

The Trustee review this Statement on a regular basis and will also do so in response to any material changes to the investment arrangements of the Scheme. Formal reviews will be undertaken no less frequently than every 3 years. Any such review will again be based on written expert investment advice and will be in consultation with the Scheme's sponsoring employer.

The SIP was agreed and signed by the Trustee on 26 September 2019.

2. Governance Structure

The Trustee distinguishes between two types of investment decision:

Strategic investment decisions

These decisions are long-term in nature, and driven by an understanding of the objectives, needs and liabilities of the Scheme.

The Trustee takes all such decisions. Where appropriate this is after receiving written advice from the investment consultant, and consulting, as appropriate, with the employer.

Examples of such decisions include:

- setting investment objectives;
- setting strategic asset allocation;
- setting benchmarks;
- drafting the Statement of Investment Principles; and
- appointing and removing fund managers.

Work is charged for either by an agreed fee or on a time cost basis. In particular, the investment consultant does not receive commission or any other payments in respect of the Scheme that might affect the impartiality of their advice. The Trustee believes that this is the most appropriate fee structure for the Scheme.

Tactical investment decisions

Tactical investment decisions are based on views of future market movements.

The Trustee employs a fund manager to make such judgements, and does not interfere with their decisions. Examples of such decisions include:

- selecting individual stocks;
- temporarily deviating from the strategic asset allocation to take advantage of better market opportunities; and
- timing of entry or exit from a market.

The fund manager is remunerated by ad valorem charges based on the value of assets managed on behalf of the Scheme. The Trustee believes that this is the most appropriate fee structure for the Scheme.

The fund manager used by the Trustee is authorised and regulated by the FCA.

Principles of Investment Governance and New duties for DC Schemes

The Trustee is aware that adherence to the Principles for Investment Governance of Work Based DC Schemes is recommended and the Trustee and advisers work to ensure that the spirit of the Principles is implemented. These Principles are outlined in Section 4 of this Statement.

From April 2015, trustees of DC schemes need to meet new requirements on governance standards, charge controls and communicating about pension flexibilities.

These requirements include:

- meeting certain governance standards and explaining this in the annual chair's report
- appointing a chair of trustees who signs the annual statement
- meeting new charge controls for their default arrangements where the scheme is being used to comply with auto-enrolment duties
- Informing members about the increased range of options they have at retirement.

3. Trustee's Investment Objectives, Policy on Risk and Investment Beliefs

Trustee's investment objective

The Trustee recognises that members have differing investment needs and that these may change during the course of the members' working lives. The Trustee also recognises that members have different attitudes to risk. The Trustee believes that members should make their own investment decisions based on their individual circumstances and, therefore, see their duty as making available a range of suitable investment options, sufficient to allow members to tailor their own investments.

The Trustee also recognises that some members may not believe themselves able to make an investment decision and, as such, the Trustee makes available a default option.

The Trustee regularly reviews the suitability of the options provided and from time to time will change or introduce additional investment options, as appropriate.

Trustee's policy with regard to risk

The Trustee is mindful of their responsibility to provide members with an appropriate range of investment funds.

The Trustee recognises that in a defined contribution arrangement members assume the investment risks themselves. The Trustee further recognises that members are exposed to different types of risk at different stages of their working lifetimes. Broadly speaking, the following types of risk can be identified:

- **Investment-Return Risk**
This is the risk that the investment return over the members' working lives will not keep pace with inflation and does not provide adequate savings to meet members' retirement income needs.
- **Underperformance Risk**
This is the risk that the investment vehicles in which monies are invested underperform the expectations of the Trustee.
- **Annuity-Rate Risk**
This is the risk that a member's ability to purchase an adequate annuity at retirement is compromised by rising annuity prices.
- **Market Movement Risk**
The risk that investment market movements in the period immediately prior to retirement leads to a substantial reduction in the level of members' retirement savings.

- **Lump-Sum Risk**
When close to retirement, a member may still be fully invested in those asset classes (every type except Cash), which are subject to volatility in capital-value terms.
- **Market-Switching Risk**
If there is to be switching between investment vehicles and it is performed wholesale, members may be unnecessarily exposed to the fluctuations in the markets on a particular day.

Underlying investment principles

The Trustee, having taken investment advice, has adopted the investment strategy based on the following underlying principles:

- long term growth on investments options that invest predominantly in equities and other growth seeking asset classes (e.g. diversified growth funds) will exceed price inflation and general salary growth
- the long-term returns on bonds and cash options will be lower than the largely equity invested options
- bond funds broadly match the price of annuities, and so investing in a bond fund is expected to provide some protection for the amount of projected pension that a member could expect to purchase at retirement
- cash funds provide protection against changes in short term capital values, and may be appropriate for members taking all, or part, of their retirement benefits in the form of a cash lump sum (although it is not guaranteed that these funds will not fall in value).

In choosing the Scheme's investment options, the Trustee has considered:

- a full range of asset classes, including alternative asset classes;
- the suitability of each asset class within a defined contribution scheme;
- the need for appropriate diversification; and
- for the default strategy, the scheme membership.

The member options are invested predominantly on regulated markets (with investments not on regulated markets being kept to a prudent level) and properly diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings so as to avoid, as far as is reasonably possible, accumulations of risk in the individual member's portfolios as a whole. Investment in derivatives is only made by the managers in so far as they contribute to the reduction of investment risks or facilitate efficient portfolio management and are managed such as to avoid excessive risk exposure to a single counterparty or other derivative operations.

4. Principles for Investment Governance

These principles were designed by an Investment Governance Group to provide a framework which can be used as a practical checklist to benchmark a scheme's investment governance processes against "best practice".

Principle 1: Clear roles and responsibilities

"Roles and responsibilities in relation to investment decision making and governance are clearly defined and communicated to interested parties."

- This lays foundations for the process of investment governance and advocates that schemes have defined and documented roles and responsibilities for each element of the governance chain. The Trustee has outlined these roles in this Statement.

Principle 2: Effective decision making

"Decisions relating to investment governance are taken on a fully informed basis and the investment governance processes are sound."

- The Trustee makes investment decisions based on quality and timely information provided by professionals that they believe to be best equipped to give that advice.

Principle 3: Appropriate investment options

"The investment options provided take account of a range of member risk profiles and needs and are designed appropriately."

- The Scheme offers an appropriate default fund and a range of investment options, given the expected risk tolerances and requirements of Scheme members.

Principle 4: Appropriate default strategy

"An appropriately designed investment strategy is offered for members who prefer not to make a choice."

- A relatively straightforward default strategy is set up that caters for the majority of members, given the profile of the members.
- The lifestyling arrangement currently in place specifically targets the purchase of an annuity at retirement together with a cash lump sum.

Principle 5: Effective performance assessment

"The performance of investment options is monitored."

- The Trustees currently receive:
 - valuation reports from the fund managers
 - annual audited accounts.

Principle 6: Clear and relevant communication to members

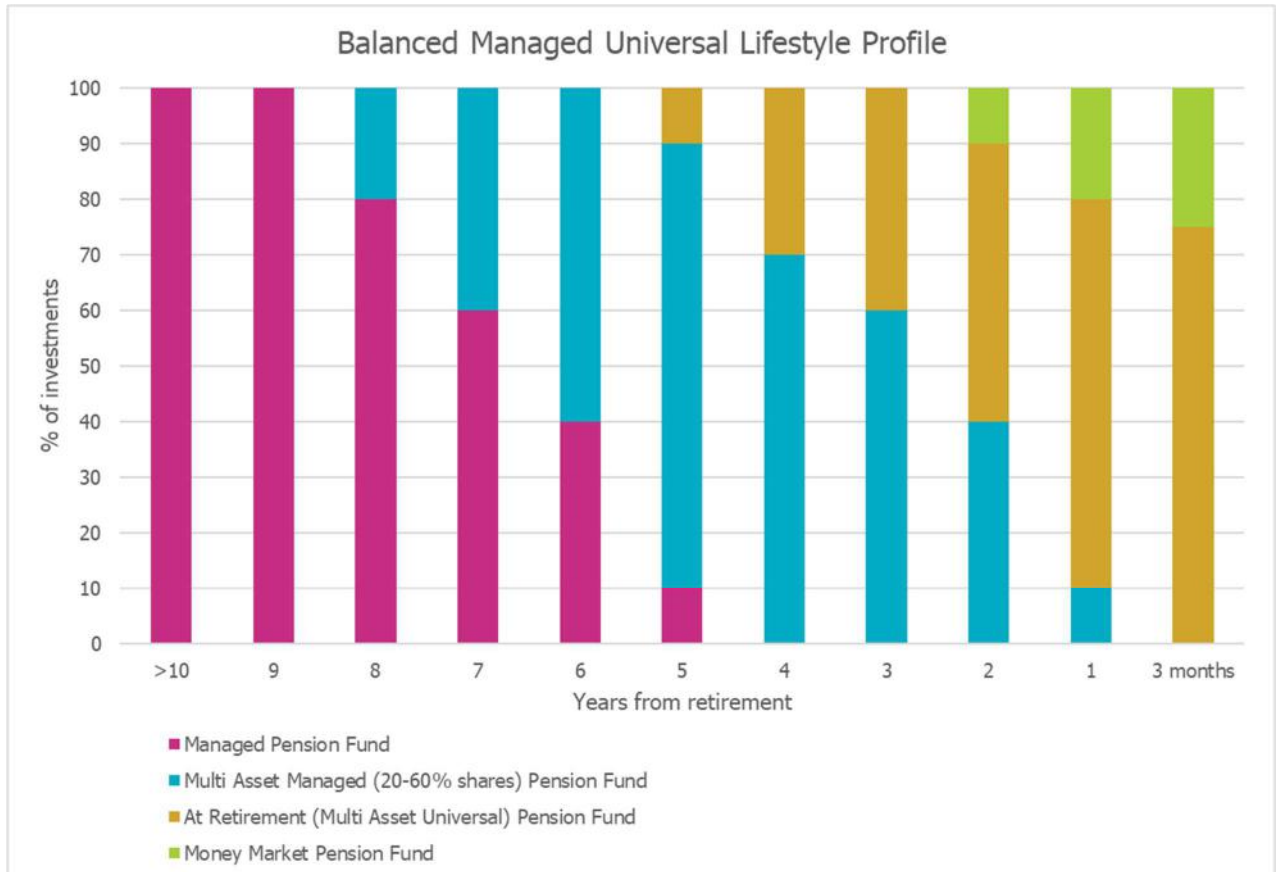
"Clear information on the investment options and their characteristics that will allow members to make informed choices is provided."

- Members are provided with annual summary funding statements, and also information on this is provided in the Scheme's annual report to members.
- A copy of this Statement of Investment Principles is available to members on request.

5. Implementation

Default Strategy: Standard Life Balanced Managed Lifestyle

The default strategy is a lifestyling arrangement where the investments are switched into lower risk assets as a member approaches retirement in accordance to the chart below.



Self-select investment options

All of the options in the Standard Life range have been available for members to select as alternatives to the default.

6. Other matters

Investment Management Structure

The Trustee has appointed Standard Life as investment manager for all lifestyling and self-select options.

Investment restrictions

As the assets of the Scheme are invested in pooled vehicles the investment restrictions applying to these funds are determined by the investment manager.

Balance between Investments

The Trustee recognises the advantages of diversifying across different asset classes in order to take advantage of different asset class characteristics.

- Reducing the risk that results from investment in any one particular market; and
- Enhancing return.

Expected Return on Investments

Gilts are the easiest asset class for which to predict the long-term returns. Providing that they are held to maturity, and ignoring reinvestment risk, the return on gilts over their lifetime will be the current Gross Redemption Yield (GRY).

The Trustee bases expected investment returns for other asset classes on this GRY as a starting point. Over the long-term, they expect the following returns per year over and above that of gilts:

Developed market equities	+3.0%
Diversified Growth Funds	+3.0%
Corporate bonds	+1.0%

Realisation of Investments

The Scheme's assets are invested in the investment manager's pooled vehicles, which in turn invest in securities traded on recognised exchanges. The Trustee concludes that the majority of the Scheme's investments can be realised at short notice if required.

Responsible Investment and Corporate Governance

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustee has elected to invest through pooled funds. It acknowledges that it cannot directly influence the environmental, social and governance ("ESG") policies and practices of the companies in which the pooled funds invest.

In principle, the Trustee believes that ESG factors can have an impact on the performance of its investments; and that the management of ESG risks and the exploitation of ESG opportunities, especially in relation to climate change, can add value to the portfolio. To that effect, the Trustee expects its fund manager, where appropriate, to have integrated ESG factors as part of their investment analysis and decision-making process.

Appropriate weight will be given to ESG factors in the appointment of fund managers.

The Trustee views that the stewardship responsibilities attached to the ownership of shares is important but recognises that investment in pooled funds limits their ability to be fully involved. The Trustee expects their investment manager to report in detail on how they have exercised voting rights attached to shares. The manager is expected to be a signatory to the FRC UK Stewardship Code.

Default Fund

In relation to the default option for members, the Trustee has selected component funds which state in their objectives that they have taken into account the same ESG factors which the Trustee believes are financially significant.

The Trustee will monitor these funds against the stated ESG policies.

Additional policies required in this document by October 2020

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations which expand the requirements for Statements of Investment Principles such as this. SIPs must be updated before 1 October 2020.

The Trustee's policies are set out below:

- **How they incentivise their appointed investment manager to align investment strategy and decisions with the Trustee's policies, including risk, return and ESG.**

The Scheme invests solely in pooled funds where fees charged are a combination of fixed fees and proportion to the assets under management. There are no performance-related components of the fees.

The only incentivisation that the Trustee can exert is through the decision to retain or to replace the fund manager.

The investment strategies of the pooled funds are aligned to the Trustee's investment objectives by selecting funds with suitable characteristics:

- Benchmarks
- Risk budgets
- Constraints
- Approaches (this includes ESG where appropriate)

The Trustee maximises the probability of their investment objectives being met by selecting an appropriate range of such funds, as well as a suitable combination of funds for the default strategy.

- **How the asset manager is incentivised to make decisions on assessments about medium to long term financial and non-financial performance of an issuer of debt or equity. Also, how the managers are incentivised to engage with the issuers in order to improve their performance.**

The fund manager is retained subject to, amongst other criteria, achieving adequate medium- to long- term performance. In order to do so, they will need to make assessments about the medium to long term financial performance of debt and equity issuers. They will also need to assess non-financial performance in as much as it may be a source of risk.

It also incentivises them to engage with issuers where this is in the financial interests of the Scheme (i.e. where it will make a material impact on the performance of the funds).

- **How the method and time horizon of the evaluation of the manager's performance and remuneration are in line with the Trustee's policies.**

The Trustee receives quarterly reports from the fund manager. The Trustee takes into account the performance of the fund manager but does not restrict their analysis to performance alone. More weight is given to longer-term performance than short-term. Performance is compared to the benchmark and outperformance target of each fund, in order to ensure that this is in alignment to the objectives and policies of the Trustee.

In selecting pooled funds, the Trustee takes into account the fees charged by the fund manager. These are judged in terms of value for money given the nature of the funds, particularly the asset class and outperformance target.

The fund manager needs to give the Trustee notice if they plan to change the level of the fees. If this occurs, the Trustee seeks advice from their investment consultant on whether to retain or replace the manager.

- **How the Trustee monitors portfolio turnover costs incurred by the manager (and how they define and monitor targeted portfolio turnover or turnover range).**

Given the size of the Scheme's investment it would not be cost effective to monitor the turnover or turnover costs directly. The performance figures that the Trustee analyses are net of transactions costs, so this is taken into account indirectly.

The Trustee does not believe that they should micro-manage the level of turnover provided that the net outcome to the scheme is acceptable.

- **The duration of their arrangement with the asset manager**

In order to maintain an incentive for the fund manager to performance well, the Trustee does not enter any fixed term arrangements with their manager. Investments in each pooled fund are only retained for as long as the aim of the fund is consistent with the overall investment objectives of the scheme, and the Trustee has confidence that the fund manager can credibly deliver that aim in a cost-effective manner.

Appendix: Third Party Arrangements

Advisors

The following advisors assist the Trustee:

Scheme Administrator & Fund Manager

Standard Life Assurance Limited
Standard Life House
30 Lothian Road
Edinburgh
EH1 2DH

Auditor

Wellers Accountants
1 Vincent Square
London
SW1P 2PN

Investment Consultant

Barker Tatham Investment Consultants Ltd
5th Floor, AMP House
Dingwall Road
Croydon CR0 2LX