

# USAA Limited Pension and Life Assurance Scheme

## Statement of Investment Principles – September 2020

### Introduction

The Trustee of the USAA Limited Pension and Life Assurance Scheme (“the Scheme”) has drawn up this Statement of Investment Principles (“the Statement”) to comply with the requirements of the Pensions Act 1995, the Pensions Act 2004, and the Occupational Pension Funds (Investment) Regulations 2005, and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2018 and 2019. The Statement is intended to affirm the investment principles that govern decisions about the Scheme’s investments. In preparing this Statement the Trustee has consulted USAA Limited (“the Employer”) on the Trustee’s investment principles.

### Governance

The Trustee makes all major strategic decisions including, but not limited to, the Scheme’s asset allocation and the appointment and termination of investment managers. The process for making investment decisions is as follows:

- Identify appropriate investment objectives;
- Agree the level of risk consistent with meeting the objectives and the covenant of the sponsoring employer; and
- Implement an investment strategy and investment manager structure in line with the level of risk and objectives agreed.

When making such decisions, and when appropriate, the Trustee must take professional advice. The Trustee’s investment consultants, Capita Employee Solutions (“Capita”), are qualified by their ability in and practical experience of financial matters, and have the appropriate knowledge and experience to provide such advice.

### Investment Objectives

The Trustee is required to invest the Scheme’s assets in the best interests of members, and its main objectives with regard to investment policy are:

- To achieve, over the long term, a return on the Scheme’s assets which is sufficient (in conjunction with the Scheme’s existing contributions) to pay all members’ benefits in full.
- Consistent with the assumptions made by the Scheme Actuary in determining the funding of the Scheme.
- To ensure that sufficiently liquid assets are available to meet benefit payments as they fall due.
- To consider the interests of the Employer in relation to the size and volatility of the Employer’s contribution requirements.

The Trustee understands, following discussions with the Employer, that it is willing to accept a degree of volatility in the Employer's contribution requirements in order to aim to reduce the long-term cost of providing the Scheme's benefits.

### **Risk Management and Measurement**

The Trustee is aware of and pays close attention to a range of risks inherent in investing the assets of the Scheme. The Trustee believes that the investment strategy provides for adequate diversification both within and across different asset classes. The Trustee further believes that the current investment strategy is appropriate given the Scheme's liability profile. The Trustee's policy on risk management is as follows:

- The primary investment risk faced by the Scheme arises as a result of a mismatch between the Scheme's assets and its liabilities. This is therefore the Trustee's principal focus in setting investment strategy, taking into account the nature and duration of the Scheme's liabilities.
- The Trustee recognises that whilst increasing risk would be expected to increase potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's liabilities as well as producing more short-term volatility in the Scheme's funding position. The Trustee has taken advice on the matter and (in light of the objectives noted previously) considered the implications of adopting different levels of risk.
- The Trustee recognises the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustee aims to ensure the asset allocation strategy in place results in an adequately diversified portfolio. Due to the size of the Scheme's assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles.
- The documents governing the investment manager's appointment include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme.
- The safe custody of the Scheme's assets is delegated to professional custodians via the use of pooled vehicles.

Should there be a material change in the Scheme's circumstances, the Trustee will review whether the current risk profile remains appropriate.

## Investment Strategy

Given their investment objectives, the Trustee has agreed upon the asset allocation detailed in the table below. Further details are shown in the appendix. The Trustee believes that the investment risk arising from this investment strategy is consistent with the overall agreed level of risk.

| <b>Asset Class</b>                 | <b>Asset Allocation (%)</b> |
|------------------------------------|-----------------------------|
| Equity-Linked Bond Funds - Nominal | 25.0                        |
| Diversified Growth Funds           | 30.0                        |
| Absolute Return Bonds              | 10.0                        |
| <b>Total Return-seeking Assets</b> | <b>65.0</b>                 |
| Nominal LDI                        | 11.0                        |
| Real LDI                           | 24.0                        |
| <b>Total Matching Assets</b>       | <b>35.0</b>                 |
| <b>Total</b>                       | <b>100.0</b>                |

Further details on the investment funds can be found in the Appendix.

## Expected Return

The Trustee expects the return on assets to be consistent with the investment objectives and investment strategy outlined above.

The Trustee expects to generate a return, over the long term, of circa 2.0% per annum, net of expenses, above a portfolio of long-dated UK Government bonds – which are considered to change in value in a similar way to the Scheme’s liability value. This return is a “best estimate” of future returns that has been arrived at given the Scheme’s longer term asset allocation and in the light of advice from the investment consultant.

The Trustee recognises that performance may deviate significantly from this long term expectation. This “best estimate” will also generally be higher than the estimate used for the actuarial valuation of the Scheme’s liabilities. For this purpose a more prudent estimate of returns will generally be used, as agreed by the Trustee on the basis of advice from the Scheme Actuary.

## Investment Managers

The Trustee has selected Insight Investment (“Insight”), BNY Mellon Investment Management (“BNY Mellon”) formerly Newton, Payden & Rygel Global Limited (“Payden & Rygel”) and BMO Global Asset Management (“BMO”) as the appointed Investment Managers (“the Investment Managers”). The investment managers are regulated under the Financial Services and Markets Act 2000.

The Trustee has rolling contracts with its Investment Managers.

The Trustee monitors the performance of its Investment Managers on a quarterly basis. This monitoring is contained in a report provided by its investment consultants.

The Trustee has set performance objectives, including time periods, consistent with the investment strategy set out in this statement.

## **Investment Manager Remuneration**

The Trustee monitors the remuneration and incentives, that are paid to its Investment Managers and how it rewards its key staff who manage client funds, along with how remuneration and incentives motivate employees who manage client funds.

As part of the monitoring that the Trustee carries out on a regular basis, they ensure that this policy is in line with its investment strategy.

## **Investment Manager Philosophy and Engagement**

The Trustee monitors the Investment Managers' process for assessing the businesses they invest in, and whether business performance over the medium to long-term involves a holistic look beyond mainly accountancy measures. The Trustee considers if the Investment Managers are incentivised to make decisions on a short-term basis or on a medium to long-term basis and whether this coincides with the business assessments being made. The Trustee is conscious of whether the Investment Managers are incentivised by the agreement with the Trustee to engage with the investee business and to what extent any engagement focuses on improving medium to long-term performance.

## **Investment Manager Portfolio Costs**

The Trustee will monitor costs of buying, selling, lending and borrowing investments and it will look to monitor the costs breakdown annually, as long as the Investment Managers provide these costs using the Cost Transparency Initiative template. They will also ensure that, where appropriate, its Investment Managers monitor the frequency of transactions and portfolio turnover. If there are any targets then they will monitor compliance with these targets.

## **Environmental, Social and Governance (“ESG”) Considerations**

The Trustee believes that its main duty, reflected in the investment objectives, is to protect the financial interests of the Scheme's members. The Trustee believes that ESG considerations (including but not limited to climate change) and stewardship in the selection, retention and realisation of its investments is an integral part of this duty and can contribute to the generation of good investment returns. Legislation requires that the Trustee forms a view of the length of time that it considers is needed for the funding of future benefits by the investments of the Scheme. The Trustee recognises that this is a DB scheme open to new entrants with an ageing membership. Nevertheless, the Trustee believes that an appropriate time horizon for the Scheme could still be over 15 years, which gives plenty of scope for ESG considerations to be financially material.

The Trustee has elected to invest predominantly in pooled funds and it is difficult to, therefore, directly influence the ESG policies, including the day-to-day application of voting rights, of the funds in which they invest (especially where assets are managed passively). However, the Trustee will consider the manager policies in all future selections and will deepen their understanding of their existing manager policies by reviewing these at least annually. The Trustee will also seek to understand what other options might be available at their managers and in the wider market. In cases where they are dissatisfied with a managers' approach it will take this into account when reviewing them. It is also keen that all its managers are signatories of the UN Principles of Responsible Investment, which is currently the case.

The Trustee believes that stewardship is important, through the exercising of rights (including voting rights) attaching to investments. The Trustee is keen that its managers can explain when, and by what practical methods, the managers monitor and engage with relevant persons about relevant matters in this area. It will be liaising with its managers (including its passive managers) to obtain details of the voting behaviour

(including the most significant votes cast on the Trustee's behalf). The Trustee is also keen that its managers are signatories of the UK Stewardship Code. This is currently the case.

The Trustee will monitor the voting being carried out by Investment Managers and custodians on their behalf. They will do this by receiving reports from its Investment Managers which should include details of any significant votes cast and proxy services that have been used.

The Trustee is aware that ESG and stewardship considerations involve an ongoing process of education for themselves and engagement with its investment managers. To that end it dedicates time regularly to the discussion of this topic and intend to review and renew its approach periodically with the help of its investment consultants, where required. Consequently, the Trustee expects the Scheme's Investment Managers to have effective ESG policies (including the application of voting rights) in place and look to discuss the investment managers' ESG policies with them when the managers attend Trustee meetings.

Non-financial matters, including members' views are currently not taken into account.

### **Employer-Related Investments**

The Trustee's policy is not to hold any direct employer-related investments as defined in the Pensions Act 1995, the Pensions Act 2004 and the Occupational Pension Funds (Investment) Regulations 2005.

### **Fee Structures**

The investment managers are paid a management fee on the basis of assets under management. The investment consultant is paid on a fixed fee basis for providing 'core services'. The Trustee can also request that Capita undertake 'out-of-scope' projects, which may be undertaken on a fixed fee or time-cost basis – as agreed between the Trustee and Capita.

### **Review of this Statement**

The Trustee will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustee reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension Scheme investments.

**COLIN RICHARDSON**

On behalf of the Trustee

28 September 2020

Date

**For and on behalf of the PTL Governance Ltd as Trustee of the USAA Limited Pension and Life Assurance Scheme**

## Appendix – Investment Mandates

The Trustee has appointed the Investment Managers to manage the majority of the assets of the Scheme. The Investment Managers are regulated under the Financial Services and Markets Act 2000. The Investment Managers' mandates are set out below:

| Asset Class                   | Investment Manager | Fund Name                           | Active / Passive Management | Strategic Allocation % |
|-------------------------------|--------------------|-------------------------------------|-----------------------------|------------------------|
| <b>Return Seeking Assets</b>  |                    |                                     |                             | <b>65.0</b>            |
| Equity-Linked Bonds - Nominal | BMO                | UK Equity-Linked UK Gilt Fund       | Passive                     | 12.5                   |
| Equity-Linked Bonds - Nominal | BMO                | Overseas Equity-Linked UK Gilt Fund | Passive                     | 12.5                   |
| Diversified Growth            | BNY Mellon         | Real Return Fund                    | Active                      | 15.0                   |
| Diversified Growth            | Insight            | Broad Opportunities Fund            | Active                      | 15.0                   |
| Absolute Return Bonds         | Payden & Rygel     | Absolute Return Bond Fund           | Active                      | 10.0                   |
| <b>Matching Assets</b>        |                    |                                     |                             | <b>35.0</b>            |
| Nominal LDI                   | Insight            | Enhanced Selection – Longer Nominal | Passive                     | 11.0                   |
| Real LDI                      | Insight            | Enhanced Selection – Longer Real    | Passive                     | 24.0                   |
| <b>TOTAL</b>                  |                    |                                     |                             | <b>100.0</b>           |