

# **Statement of Investment Principles – June 2024**

## **Arqiva Defined Benefit Pension Plan**

### **1. Introduction**

This Statement of Investment Principles (the “Statement”) has been prepared by the Trustee of the Arqiva Defined Benefit Pension Plan (the “Plan”) to comply with the requirements of the Pensions Act 1995 (“the Act”) and subsequent legislation. It sets out the principles that underlie the Trustee’s decisions about the investment of the Plan’s assets.

In preparing this Statement the Trustee has consulted the Principal Employer, Arqiva Limited, as sponsor of the Plan and has taken the Employer’s views into account in setting the objectives and strategy. The Trustee will continue to consult the Principal Employer whenever the Statement is reviewed.

Overall investment policy falls into two parts; the strategic management of the assets, which is fundamentally the responsibility of the Trustee, and the day-to-day management of the assets, which is delegated to professional investment managers.

The Trustee does not expect to revise this Statement frequently because it covers broad principles. They will review it at least every three years so as to ensure that it continues to represent the principles employed to invest the Plan’s assets, and without delay if there are relevant, material changes to the Plan and/or the Sponsor (Arqiva Limited). The asset allocation of the Plan will be changed by the Trustee as and when it is appropriate to do so and within the principles set out in this Statement.

### **2. Plan Governance**

The Trustee is accountable for the investment of the Plan’s assets. They have appointed a firm of professional investment consultants to provide investment advice to the Trustee. Advice is also taken as appropriate from the Plan Actuary and other professional advisers.

The Trustee makes decisions on a number of issues, including the Plan’s investment strategy.

Decisions relating to the day-to-day management of the Plan’s assets are delegated to investment manager(s) in accordance with guidelines agreed with the Trustee. The investment manager(s) has discretion to buy, sell or retain individual securities in accordance with these guidelines.

The safekeeping, monitoring and custody of the Plan’s assets have been delegated to custodians appointed by the Plan’s investment manager(s). The Trustee is satisfied that appropriate procedures are in place for selecting and monitoring the appointed custodians.

### **3. Investment Policy**

#### **3.1 Investment Objectives**

The Trustee's investment objectives guide them in their strategic management of the assets. These objectives aim to control the various risks to which the Plan is exposed.

The Trustee's primary funding objective is to ensure that the assets of the Plan are sufficient to meet their obligations to beneficiaries. To this end, the Trustee purchased a buy-in policy with Pension Insurance Corporation Plc (PIC) in April 2024, securing the Plan's full liabilities.

#### **3.2 Investment Strategy**

As noted, in April 2024, the Plan completed a buy-in transaction and the majority of the Plan's assets were transferred to PIC in order to meet the insurance premium.

The Plan's liabilities are met by the buy-in contract with PIC. PIC is responsible for the realisation of assets within the buy-in contract in order to make the payments due under the contract.

The residual invested assets are currently invested in Legal & General Investment Management's ("LGIM") Sterling Liquidity Fund. The LGIM Sterling Liquidity Fund's aim is to provide capital stability and a return in line with money market rates whilst providing daily access to liquidity and providing an income. The fund seeks to maintain an AAA rating, which is the highest fund rating available. The Sterling Liquidity Fund's performance is benchmarked against the Sterling Overnight Index Average rate.

#### **3.3 Risk**

The Trustee has discussed the following risks and further acknowledges this list is not comprehensive.

- The primary investment risk arises from a mismatch between the Plan's assets and liabilities. This is minimised by matching the liabilities with annuities held with a regulated insurance company (PIC).
- The annuities represent a concentration of risk that PIC as the provider does not make the required payments. As the policy is governed by insurance market solvency regulations, the Trustee believes this risk is low and has mitigated it by careful choice of provider and contract terms. The Trustee took appropriate advice and paid close attention to the financial strength, security and operational soundness of the chosen annuity provider at the point of purchase.
- Although bulk annuities are illiquid investments and cannot be traded on regulated markets, the Trustee is satisfied this is appropriate given the security they provide by paying members' benefits as they fall due. The Trustee has invested the residual assets in a low-risk cash fund, in order to meet expenses and other potential liquidity needs.

- A balancing payment to the insurer may be required. If material the Trustee will consider investing residual assets in such a way as to protect against fluctuations in the size of this payment (e.g. if the payment is indexed to gilt returns the Trustee may choose to invest in gilts).
- Considerations specific to Environmental, Social and Governance issues (“ESG”) issues are addressed in Section 3.4.

Should there be a material change in the Plan’s circumstances, the Trustee will review whether the current risk profile remains appropriate. Given the arrangements that are in place the likelihood of material change is considered to be low.

### **3.4 Policy on ESG, Stewardship and Climate Change**

The Trustee believes that environmental, social and governance (“ESG”) factors may 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. The Trustee also recognises that long-term sustainability issues, such as climate change, present risk and opportunities that increasingly may require explicit consideration.

The Trustee has implicitly delegated consideration of ESG issues, engagement and stewardship obligations to the PIC in relation to the majority of Plan assets via a bulk annuity contract. The annuity contract makes contractual payment to the Plan dependent only on the benefits payable under the contract. As a result, the Trustee has minimal direct exposure to risks arising from long-term sustainability issues, including climate change.

The Plan’s residual assets are invested in a multi-client pooled vehicle and the day-to-day management of the assets has been delegated to the investment manager including the selection, retention and realisation of investments within their mandate. In doing so, the Trustee has given the investment manager (where relevant to their mandate) full discretion when evaluating ESG issues, including climate change considerations. In addition they have delegated to the investment manager engagement with companies and stewardship obligations attached to the Plan’s investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and the UK Stewardship Code.

The Trustee has not set any investment restrictions on the appointed insurer PIC in relation to particular products or activities.

### **3.5 Non-Financial Matters and Risks**

The Trustee takes into consideration non-financial matters when assessing the overall investment strategy and investment manager. Members views on “non-financial matters” (where non-financial matters” includes members’ ethical views separate from financial considerations such as financially material ESG issues) are not explicitly taken into account in the selection, retention and realisation of investments.

### 3.6 Investment Manager Arrangements

#### *Aligning Objectives and Incentivisation*

PIC has been appointed with the aim of insuring the Plan's liabilities. The Trustee sought expert advice in relation to this appointment. This included an assessment of PIC's capabilities, knowledge and experience. The annuity policy is managed in line with the Plan's specific liabilities and investment requirements. Therefore, the policy is aligned with the Trustee's objectives and the terms of the policy and the regulatory regime under which PIC operates incentivises PIC to meet the Trustee's objectives. The Trustee understands that they have no ability to determine or influence the assets in which PIC invests. The Trustee recognises that the annuity investment is illiquid and should assume that it cannot be traded. Notwithstanding the above, the Trustee looks to keep informed of the continued strength of PIC via annual review of its financial statements.

LGIM have been appointed to manage the Plan's residual assets, which are held for the purpose of covering any future costs or balancing payments due to PIC. These are currently held in LGIM's Sterling Liquidity Fund. The Trustee sought expert advice in relation to investing in this Fund. This included an assessment of LGIM's capabilities, knowledge and experience. The Trustee will take advice before investing in any other vehicles.

The LGIM Sterling Liquidity Fund is a multi-investor pooled investment vehicle. The Trustee therefore accepts that it has little to no ability to specify, or incentivise the managers to adopt, a particular risk profile, return target, underlying asset classes or investment policies for the pooled fund which are set by the manager and apply to all investors in such vehicle. The Trustee has therefore selected a vehicle that best aligns with its own policies in terms of investment objectives and guidelines (as set out in relevant governing documents) and will review the appointment should there be any material changes in these terms.

For LGIM's appointment, retention is dependent on the Trustee having ongoing confidence that the investment manager will achieve its objective. The Trustee makes this assessment taking into account various factors which includes performance to date as well as an assessment of future prospects.

LGIM are therefore incentivised both to achieve the objectives set for them, which are consistent with the Trustee's policies and objectives, and to ensure that they remain capable of doing so on a rolling basis.

#### *Performance Assessment & Fees*

The Trustee receives reporting on asset class and investment manager performance on a regular basis, via a combination of independent updates from their investment consultant and reporting from the investment manager.

Residual asset investment returns (and volatility) are measured on an absolute basis and considered relative to the Sterling Overnight Index Average rate. Returns are considered net of fees and expenses.

As well as assessing investment returns the Trustee will consider a range of other factors, with the assistance of their investment consultant, when assessing the investment manager, which may include:

- Personnel and business change;
- Portfolio characteristics (including risk and compatibility with objectives) and turnover;
- Engagement activity;
- Service standards;
- Operational controls; and
- The investment consultant's research ratings.

The investment manager is remunerated by way of a fee calculated as a percentage of assets under management. The principal incentive is for the investment manager to retain their appointment (in full), by achieving its objectives, in order to continue to receive the associated fee. The investment manager is not remunerated based on portfolio turnover.

#### *Portfolio Turnover Costs*

Turnover costs arise from a) "ongoing" transactions within a portfolio and b) "cashflow" costs incurred when investing in or realising assets from a mandate.

The Trustee has not historically monitored the investment manager's ongoing transaction costs explicitly but measure these implicitly through ongoing performance assessments which are net of these costs.

The Trustee does not monitor regular cashflow costs. The Trustee monitors the costs of implementing strategic change via their investment consultant.

#### **4. Additional Voluntary Contributions ("AVCs")**

The Trustee also has an arrangement for members of the Plan to invest AVCs with Legal & General Investment Management. The Trustee will review the AVC arrangements from time to time.

#### **5. Compliance with this statement**

The Trustee will monitor compliance with this Statement on a regular basis and will review this Statement in response to any material change to any aspects of the Plan, its liabilities, finances and the attitude to risk of the Trustee and Sponsor which they judge to have a bearing on the stated policy.

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**Trustee**

**Date**

**Signed on behalf of the Trustee of the Arqiva Defined Benefit Pension Plan**