

Statement of Investment Principles (SIP): EQUANS Defined Benefit Pension Scheme

This is the Statement of Investment Principles (the “Statement”) made by EQUANS Services Trustee Limited, as Trustee (the “Trustee”) of the EQUANS Defined Benefit Pension Scheme (“the Scheme”) in accordance with the Pensions Act 1995 (as amended). The Statement, which was approved by the Trustee in August 2020, is subject to periodic review at least every three years and without delay after any significant change in investment policy.

In preparing this Statement, the Trustee has consulted the employer to the Scheme (EQUANS Services Limited) and has taken and considered written advice from the Investment Practice of Hymans Robertson LLP.

The Scheme is a defined benefit scheme which is open to further accruals but is closed to new members.

The Trustee is supportive of the UK Stewardship Code which seeks to improve the quality of engagement between institutional investors and investee companies. Where appropriate, the Trustee expects investment managers to comply with the code and to produce a statement of their commitment to the code.

Scheme objective

The primary objective of the Scheme is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, for their dependants, on a defined benefits basis. The Trustee’s over-riding funding principles for the Scheme are to set the employer contribution at a level which is sufficient:

- to build up assets to provide for new benefits of active members as they are earned;
- to recover any shortfall in assets relative to the value placed on accrued liabilities over the longer term; and
- to ensure that there are always sufficient assets of the Scheme (at their realisable value) to meet 100% of benefits as they fall due for payment to members.

For employee members, benefits are based on service completed but take account of future salary increases. The value of liabilities is calculated by the Scheme Actuary on the basis agreed by the Trustee and the Employer. The funding position is monitored regularly by the Trustee and formally reviewed at each triennial actuarial valuation, or more frequently as required by the Pensions Act 2004.

Investment strategy

The Trustee has translated its objectives into a suitable strategic asset allocation benchmark (“strategic benchmark”) for the Scheme. As a result of an investment strategy review conducted during 2018, the Scheme’s strategic benchmark was revised. This benchmark is set out in the appendix.

The strategic benchmark is consistent with the Trustee’s view on the appropriate balance between reducing short-term volatility and risk while still seeking to maintain an appropriate long-term return on investments.

The strategic benchmark is reflected in the choice and mix of funds in which the Scheme invests.

The investment strategy takes account of the maturity profile of the Scheme (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used) and the Trustee's view of the covenant of the principal employer. It is intended that the investment strategy will be reviewed formally at least every three years in conjunction with actuarial valuations of the Scheme; it will also be considered annually as part of the Trustee's regular monitoring.

The Trustee has appointed each of the Scheme's investment managers to deliver a specific performance target, which together will deliver the overall investment strategy. The Trustee ensures that all manager engagements have clearly defined benchmarks, objectives and management parameters. The Trustee regularly reviews the performance of each of its managers and mandates against a series of metrics, including financial performance against the benchmark and objectives of the mandate, the exercise of stewardship responsibilities (including engagement with issuers) as set out in greater detail below, and the management of risks. Managers are expected to provide explanation for any significant deviations away from benchmarks or targets and material deviation is likely to result in the mandate being reviewed formally.

The duration of each mandate is determined by the Trustee at its inception. For open-ended investments, the Trustee generally engages managers on an ongoing basis with no pre-determined term of appointment. For such mandates, the Trustee expects the minimum duration of the appointment will be three years, this being the period over which performance of the mandate can be appropriately evaluated. Notwithstanding this, all mandates are subject to ongoing review against various financial and non-financial metrics in addition to their continued appropriateness within the investment strategy. For close-ended investments, the Trustee expects the term of the appointment to be the lifetime of the investment.

Remuneration for each mandate is determined at the inception of each mandate based on commercial considerations and typically set on an ad valorem basis. Where appropriate to the nature and term of the mandate and the role the mandate plays within the investment strategy, the Trustee may agree to a fee structure where the manager is incentivised to deliver outperformance relative to an agreed benchmark, typically in conjunction with a lower ad valorem fee. The Trustee periodically reviews the fees paid to the Scheme's managers against industry standards.

The Trustee regularly monitors the performance of Scheme investments relative to agreed criteria with particular reference to suitability and diversification. The Trustee seeks and considers written advice from a suitably qualified person when determining the appropriateness of each manager and mandate for the Scheme, particularly in relation to diversification, risk, expected return and liquidity. If, at any time, investment in a security or product not previously known to the Trustee is proposed, appropriate advice is sought and considered to ensure its suitability.

Choosing investments

The Trustee has delegated all day-to-day investment decisions to authorised investment managers. The Trustee recognises the long-term nature of its liability profile and appoints its managers to invest in such a way that generates long-term sustainable returns. The Trustee carries out necessary due diligence on the underlying investment decision-making process, to ensure the manager makes investment decisions over an appropriate time horizon aligned with the Scheme objective.

The Trustee, after taking appropriate advice, has appointed three investment managers to manage Scheme investments. All investment managers are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The investment managers should follow the agreed mandates and are expected to maintain diversified portfolios.

The Trustee has decided to invest through a number of individual pooled funds. The Trustee is satisfied that the selected pooled funds are consistent with the objectives of the Scheme, particularly in relation to diversification, risk, expected return and liquidity.

Kinds of investment to be held

The Scheme may invest in quoted and unquoted securities of UK and overseas markets including equities, fixed interest, index linked bonds and cash either directly or through pooled funds.

The Scheme may also make use of contracts of insurance, derivatives and contracts for difference (or in pooled funds investing in these products) for the purpose of efficient portfolio management or to hedge specific risks. The Trustee considers all of these classes of investment to be suitable in the circumstances of the Scheme.

The Scheme's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks or return targets. Within each major market each manager will maintain a diversified portfolio of assets.

The manager of the passive funds in which the Scheme invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

Risk

The Scheme is exposed to a number of risks which pose a threat to the Scheme meeting its objectives. The principal risks affecting the Scheme are:

Funding risks

- Financial mismatch – The risk that Scheme assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics –The risk that longevity improves and other demographic factors change, increasing the cost of the Scheme benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Scheme's liabilities. Climate change is a particular systemic risk that has the potential to cause economic, financial and demographic impacts.

The Trustee measures and manages financial mismatch in two ways. As indicated above, the Trustee has set a strategic benchmark for the Scheme. The Trustee assesses risk relative to that benchmark by monitoring the Scheme's asset allocation and investment returns relative to the benchmark. The Trustee also assesses risk relative to liabilities by monitoring the delivery of returns relative to liabilities.

The Trustee keeps mortality and other demographic assumptions, which could influence the cost of benefits, under review. These assumptions are considered formally at triennial valuations and the Trustee may enter into insurance contracts (bulk annuities or longevity swaps) to reduce these demographic risks.

The Trustee seeks to mitigate systemic risks through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.

- Illiquidity - The risk that the Scheme cannot meet its immediate liabilities because it has insufficient liquid assets.
- Currency risk – The risk that the currency of the Scheme’s assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.
- Environmental, Social and Governance (ESG) risks – the extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations.
- Climate risk - The extent to which climate change causes a material deterioration in asset values as a consequence of factors including but not limited to policy change, physical impacts and the expected transition to a low-carbon economy.

The Trustee manages asset risks as follows. The Trustee provides a practical constraint on Scheme investments deviating greatly from the intended approach by investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within expected parameters.

By investing across a range of assets, including quoted equities and income strategies, the Trustee recognises the need to access funds in the short term to pay benefits. For some asset classes (e.g. equities), the risk of manager underperformance is mitigated by the inclusion of passive investment mandates within the investment portfolio.

In appointing several investment managers, the Trustee has considered the risk of underperformance by any single investment manager.

The Trustee does not expect managers to take excessive short-term risk and monitors the managers’ performance against the benchmarks and objectives set on a short, medium and long-term basis.

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers.
- Custody risk - The risk of loss of Scheme assets or loss of economic rights to Scheme assets when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

The Trustee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Scheme, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). When carrying out significant transitions, the Trustee seeks professional advice.

Expected return on investments

The investment strategy aims to achieve a return on Scheme assets which, taken in conjunction with contributions, is sufficient over time to match growth in the Scheme’s pension liabilities. Further information on the target return of investments is included in the appendix.

Realisation of investments

The majority of the Scheme's investments may be realised quickly if required.

Portfolio turnover

The Trustee has expectations of the level of turnover within each mandate which is determined at the inception of the mandate, based on the Trustee's knowledge of the manager, investment process and the nature of the portfolio. Whilst the Trustee expects performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustee expects managers to report on at least an annual basis on the underlying assets held within the portfolio and details of any transactions over the period.

The Trustee will challenge its managers if the level of turnover seems excessive.

Consideration of financially material factors in investment arrangements

The Trustee recognises that the consideration of financially material factors, including ESG factors, is relevant at different stages of the investment process.

Strategic considerations

The strategic benchmark has been determined using appropriate long-term economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered implicitly to reflect all financially material factors.

Given the inherent uncertainty, the Trustee has not made explicit allowance for the risks of climate change in setting its strategic benchmark.

Structural considerations

Given the discretion afforded to the active investment managers, the Trustee expects that the managers will take account of all financially material factors including the potential impact of ESG factors in the implementation of their mandates.

Selecting investment managers

Within active mandates, the Trustee has delegated responsibility for the consideration of stock-specific issues to its individual investment managers.

In passive mandates, the Trustee recognises that the choice of benchmark dictates the assets held by the investment manager and that the manager has minimal freedom to take account of factors that may be deemed to be financially material. The Trustee accepts that the role of the passive manager is to deliver returns in line with the benchmark and believes the choice of benchmarks will deliver appropriate risk-adjusted returns.

The Trustee requires that its selected investment managers are committed to the United Nations' Principles for Responsible Investment.

Consideration of non-financially material factors in investment arrangements

The Trustee has not imposed any restrictions or exclusions on the investment arrangements based on non-financially material factors.

Stewardship

The Trustee recognises that stewardship encompasses the exercise of voting rights, engagement by and with investment managers and the monitoring of compliance with agreed policies.

Voting and engagement

The Trustee has adopted a policy of delegating voting decisions on stocks to its investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long-term shareholder value. The investment managers are expected to exercise the voting rights attached to individual investments in accordance with their own house policy.

Where relevant, the Trustee will monitor investment managers' voting policies and activity and may periodically review managers' voting patterns. Where necessary, investment managers are expected to notify the Trustee of any issue on which it may be beneficial for the Trustee to undertake further engagement.

The Trustee does not engage directly but believes it is sometimes appropriate for its investment managers to engage with key stakeholders (which may include corporate management, regulators and governance bodies) relating to their investments in order to consider the management of conflicts of interest and to improve corporate behaviours, improve performance and mitigate financial risks.

Responsibility for investment decisions has been delegated to the investment managers which includes consideration of the capital structure of investments and the appropriateness of any investment made. Where managers are responsible for investing in new issuance, the Trustee expects the manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors.

Monitoring

The Trustee aims to engage with all its investment managers on a periodic basis. The Trustee provides its managers with an agenda for discussion, including, where appropriate, ESG issues.

Approved by the Trustee of the EQUANS Defined Benefit Pension Scheme

25 July 2023

Appendix – Strategic Asset Allocation

The Scheme's Strategic Asset Allocation is as follows:

Strategic Asset Allocation

	Allocation
Growth	10%
Income	60%
Protection	30%

Target Return (p.a.) of the Strategic Asset Allocation: 1.5% in excess of gilts

The Growth portfolio is invested in:

- LGIM World Equity Index Fund (benchmark: FTSE World Total Return GBP Index)

The Income portfolio is invested in:

- LGIM Active Corporate Bond All Stocks Fund (target return: Market Iboxx £ Non-Gilts Index + 0.75% p.a.)
- M&G High Grade Asset-Backed Securities Fund (target return: Libor + 1.75%-2.00% p.a.)
- Barings Global High Yield Credit Strategies Fund (target return: Libor + 5% p.a.).

The Protection portfolio is invested in:

- LGIM Over 5 Year Index-Linked Gilts Index Fund (benchmark: FTSE Actuaries UK Gilts Index-Linked (Over 5 Year Index))
- LGIM Leveraged Gilt Fund Range (benchmark: to match liabilities of the Scheme)
- LGIM Sterling Liquidity Fund (benchmark: 7 days LIBID)