Urenco UK Pension Scheme

Statement of Investment Principles – March 2022

1. Introduction

The Directors of Urenco UK Pension Trustee Company Limited, the Trustee of the Urenco UK Pension Scheme (the “Scheme”), have drawn up this Statement of Investment Principles (the “Statement”) to comply with the requirements of the Pensions Act 1995 (the “Act”) and subsequent legislation. In preparing the Statement the Trustee has consulted a suitably qualified person in having obtained written advice from Mercer Limited and has also consulted the Principal Company, Urenco Limited, in particular on the Trustee’s objectives.

A separate document, the Scheme’s Investment Policy Implementation Document (“IPID”), details the specifics of the Scheme’s investment arrangements and is available on request.

The Scheme provides two types of benefit, one linked to a defined benefit (covered in Section 2) and the other a defined contribution / money purchase arrangement (covered in Section 3). A separate Statement, available to members, provides details of the Defined Contribution Section default investment option to meet the requirements of the Occupational Pension Schemes (Charges and Governance) Regulations 2015 and subsequent legislation.

In considering the appropriate investments for the Scheme, the Trustee has obtained and considered advice from the Scheme’s Investment Consultant. The advice received and arrangements implemented are, in the Trustee’s opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005 as amended.

2. Defined Benefit Section

2.1 Process for Choosing Investments

- Identify appropriate investment objectives based on the Trustee’s investment beliefs (contained in a separate document)
- Consider the broad level of risk consistent with meeting the objectives set
- Construct a portfolio of investments that is expected to maximise return (net of all costs) given the Trustee’s risk tolerance, liquidity requirements and expected cashflow needs

2.2 Investment Objectives

The Trustee’s primary investment objective is to invest the Section’s assets in the best interest of the members and beneficiaries, and in the case of a potential conflict of interest between them and the Principal Company, in the sole interest of the members and beneficiaries. In doing so the Trustee pays due regard to the Principal Company’s position with respect to the size and incidence of employers’ contribution payments.

The Trustee has an investment objective that targets full funding by 2025 on a low risk basis (gilts + 0.5% p.a.). The purpose of this objective is to reduce the reliance on the covenant of the Principal Company.

2.3 Investment Strategy

The Trustee and Principal Company recognise that at the current funding levels, a degree of investment risk will need to remain for the foreseeable future if the investment objective is to be achieved. Given the ongoing support of the Principal Company, investment risk is acceptable. The Trustee has decided on a Scheme specific mix of assets that is expected to produce long term investment returns in excess of the liabilities as required to meet the investment objective, while limiting the level of risk. Over the long term (ten years), the Trustee expects the current strategy, to return approximately 1.5% per annum above the growth of the liabilities, although this is not guaranteed.

The broad investment strategy is shown in the table below. Further details are outlined in the IPID. The Trustee undertakes a detailed review of investment strategy approximately every three years based on qualitative and quantitative analysis of the risks.

	Benchmark Allocation %	**Ranges %**
Growth Portfolio	**30**	**15 – 45**
Diversified Growth	20	4 – 25
Multi-Asset Credit	10	0 – 20
Defensive Portfolio	**70**	**55 – 85**
Corporate Bonds	20	15 – 35
Liability Driven Investment (“LDI”) [1]	35	-
Asset-Backed Securities [1]	5	-
UK High-Lease-to-Value Property (“HLV”)	10	-
Total	**100**	

[1] The allocations between LDI and asset-backed securities may deviate from the benchmark allocation, for example if there are more assets in the LDI portfolio than required to maintain the target level of liability hedging, in which case additional assets may be invested in asset backed securities.

The ranges have been set to allow “de-risking” if the development of the funding level exceeds expectations, thereby allowing a reduction in risk and increased security of benefits.

A breach of the range will act as a trigger for discussion rather than an automatic mechanism for rebalancing.

2.4 Financially Material Consideration, Risk Measurement and Management

The Trustee’s policies on the factors they consider to be financially material when making decisions relating to selection, retention and realisation of the Section’s investments, over its anticipated remaining timeframe, are outlined below:

- *Asset and Liability mismatch*. The primary risk upon which the Trustee focuses is that arising through a mismatch between the Section's assets and its liabilities. The Section faces a number of key risks in this respect, namely interest rate, inflation, growth asset (from equities and diversified growth funds), currency, property and credit.

  The Trustee recognises the importance of achieving a balance between risk and return and seeks to minimise risk for the required level of return. Therefore a funding level based framework is in place for considering switching assets from "growth" to "defensive" or matching asset classes to reduce risk when affordable.

  The risk of changes in future interest rates and expected inflation adversely impacting the funding position is mainly addressed via investment in UK government bonds and derivatives, within the LDI funds. Yield and time based triggers are also in place to increase interest rate sensitivity of the assets.

- *Sponsor risk.* The Trustee's willingness to take investment risk is dependent on the continuing financial strength and support of the Principal Company. Therefore, a key risk is the failure of the Principal Company to be able or willing to support the Scheme. As a result, the Trustee receives regular business plan updates from the Company, considers the Company's performance regularly, and formally assesses the support at least every three years as part of the actuarial valuation.

- *Lack of diversification risk.* The Trustee believes that diversification limits the impact of a single risk. Therefore, the Trustee aims to ensure that the asset allocation and manager structure policies in place result in an adequately diversified portfolio.

- *Risks arising from environmental, social and corporate governance ("ESG") issues including climate change and stewardship.* The Trustee believes that these factors present threats but also opportunities over certain timeframes. Section 4 provides dedicated comments on the Trustee's approach.

- *Active management risk*. The Trustee recognises the risk of underperformance introduced by the use of active management. This is managed and monitored by the Trustee undertaking quarterly monitoring of the managers and the Investment Consultant providing advice. The Trustee takes a long term view of manager performance.

- *Custody risk.* The safe custody of the Section's assets is delegated to professional custodians (either directly or via the use of pooled vehicles).

- *Liquidity Risk*. The Trustee recognises that the implementation of the High-Lease-to-Value property allocation is exposed to liquidity risk, both in terms of ability to invest and potentially to disinvest. However, the vast majority of Section assets are liquid and the Trustee has arrangements in place to manage liquidity needs that may arise from the funds within the Liability Driven Investment Portfolio, as well as to meet benefit payments. The Trustee understands that funds may, in extreme circumstances, be temporarily closed for investment or disinvestment.

The Trustee typically meet with their Investment Consultant each quarter to discuss investment matters. At these meetings the funding level development, investment strategy and manager performance are reviewed, thereby providing an opportunity to consider the impact of risks further and whether any changes are needed to further manage those risks.

In considering the selection, retention and realisation of investments the Trustee does not take account of non-financially material considerations, including member views.

Should there be a material change in the Scheme's circumstances, the Trustee will review whether and to what extent the investment arrangements should be altered.

2.5 Day to Day Management of the Assets

The Trustee delegates the day to day management of the Section's assets to professional investment management firms who are authorised by the appropriate regulators. Details of the appointed managers and their respective benchmarks can be found in the IPID.

2.6 Realisation of Assets and Cashflow Management

In general, the investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments. The DB Section is cashflow negative and therefore the Trustee has implemented a cashflow policy. The Trustee also has in place arrangements designed to meet the cashflow requirements that may arise from the LDI portfolio.

3. Defined Contribution Section

3.1 Process for Choosing Investments

The Trustee considers the characteristics of the range of members and their associated investment needs when choosing the types of investment to make available. The Trustee also recognises that members will be able to access other investment arrangements on a personal basis, outside of the Scheme, and therefore the DC Section does not need to cater for every possible area of interest. The Trustee aims to ensure members are provided with information to enable them to make informed decisions about their "at retirement" options, all of which are available outside of the Scheme.

The range of funds offered includes those that offer the prospect of growth ahead of inflation over the long term as well as funds that provide greater protection against volatility in nominal market values or the cost of securing retirement benefits.

3.2 Investment Objectives

The Trustee recognises that members have differing investment needs and that these may change during the course of members' working lives. It also recognises that members have differing attitudes to risk. The Trustee believes that members should make their own investment decisions based on their individual circumstances. The Trustee has established a set of beliefs for the Section. It regards its duty as making available a range of investment options sufficient to enable members to tailor the investment strategy to their own needs. This is achieved by:

- Ensuring there are appropriate investment options available to allow members to plan for retirement.
- Arranging for the provision of general guidance to members (as appropriate) as to the purpose of each investment option.
- Encouraging members to seek independent financial advice from an appropriate person in determining the profile of their own investments.

3.3 Investment Arrangements

For the DC Section the Trustee has appointed a "provider". Their role is to give access to investment funds from a range of investment managers via its investment platform, member administration and "member experience" services such as education and communication services. The Trustee is responsible for making decisions on the range of options to make available to members. The Trustee is also responsible for the monitoring and replacement of funds, taking advice from their Investment Consultant.

The Trustee makes available a default option, which is a lifestyle strategy, designed for members intending to withdraw parts of their pension pot as and when required throughout retirement (income drawdown). Within a lifestyle strategy, members' assets are de-risked as they approach retirement. More information on the default option is included in the Default Option Statement of Investment Principles, which is available to members, and the IPID.

Two additional lifestyle strategies and a range of asset classes are available to members who feel comfortable in making their own investment choices, including: a range of regional developed market equities, emerging market equities, a white-label diversified growth fund, government and corporate bonds, real estate, an annuity-targeting pre-retirement fund and cash. Both actively and passively managed funds are utilised, depending on the asset class. Members who are selecting their own investments determine the balance between the different kinds of investments they hold (the allocations within any lifestyles are defined by the Trustee). This balance will determine the expected return on member's assets and should be related to the member's own risk appetite and tolerances. Further detail on the fund range offered to members is included in the IPID which is available on request.

The Trustee's policy regarding the appointment of and engagement with providers can be found in Section 5 of this document.

3.4 Financially Material Considerations, Risk Management and Measurement

The Trustee's policy on the factors they consider to be financially material when making decisions relating to selection, retention and realisation of the Section's investments is outlined below. The Trustee believes the appropriate time horizon for which to assess these considerations should be viewed at a member level. This will be dependent on the member's age and when they expect to retire.

- *Contribution risk.* The risk that low contribution levels over members' working lives secure inadequate benefits. The Trustee makes available a range of contribution levels and, via the provider, access to software to model the potential impact of adopting different contribution levels with different asset allocations.

- *Pension Conversion risk.* The risks that the member is invested in a strategy that does not reflect the way in which they intend to take their benefits at retirement. As a result, lifestyle options are available covering the three at-retirement options.

- *Risk of erosion by inflation*. The Trustee makes available a range of funds, across various asset classes, with the majority expected to keep pace with or exceed inflation over the longer term.

- *Environmental, Social and Corporate Governance (ESG) risk.* The risk that environmental, social or corporate governance issues, including climate change, have a financially material impact on the return of members' investments. See Section 4 for further details.

- *Market risk.* The risk that low investment returns or unfavourable market movements in the years just prior to retirement will secure inadequate retirement benefits. This risk includes that arising from investment in growth assets (particularly equities), credit, currency exposure, active management. The Trustee makes available a range of funds, including passively managed funds, across the risk and return spectrum.

- *Lack of diversification risk.* The Trustee invests in pooled fund vehicles to ensure an adequately diversified portfolio for each fund option and designs the default option to not be concentrated in one asset class.

- *Custody risk.* The safe custody of the Section's assets is delegated to professional custodians appointed by the investment manager of each fund.

- The Trustee also aims to address the risk of members not understanding the choices available to them by working with the provider to offer clear and simple descriptions of the funds and the provision to members of an annual projection statement and periodic provider roadshows.

The Trustee monitors the funds offered to members each quarter and undertakes a detailed review of arrangements at least every three years. This includes assessing each fund against a measurable objective. The provider also provides data on their service levels and on website use. Together these monitoring arrangements provide the information to the Trustee to measure the risks and how well they are being managed.

The Trustee does make available an Ethical Equity Fund which restricts investment based on certain non-financial criteria. Non financially material considerations are not considered across all other funds.

3.5 Day to Day Management of the Assets

The Trustee delegates the day-to-day management of the platform and individual funds to professional investment management firms who are authorised by the appropriate regulators. Details of the appointed provider and investment funds and options and their respective benchmarks can be found in the IPID which is available to members upon request.

3.6 Realisation of Assets and Cashflow Management

In general, the investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments. They are also responsible, in conjunction with the provider and the administrator, for investing the monies or generating cash as and when required for benefit outgoings.

All funds are daily-dealt pooled investment arrangements. However, the Trustee is aware that the provider and underlying manager of the property fund may suspend trading in the fund in certain market conditions, and in extreme circumstances, any of the funds may be suspended.

4. Responsible Investment and Corporate Governance

The Trustee believes that environmental, social, and corporate 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, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

DB Section

Given the current low allocation to equities and long-term target of nil, the Trustee has focussed on how all of the Scheme's investment managers implement their policies (rather than invest in a dedicated ESG focussed equity investment strategy for example). In addition, specific opportunities arising from ESG factors tend to be in illiquid asset classes, often requiring assets to be held for in excess of ten years. Currently the Trustee does not consider this to be consistent with its target investment strategy.

Where applicable, managers are required to outline to the Trustee their stewardship policies, which the Trustee expects to reflect current UK best practice, including the UK Corporate Governance Code and UK Stewardship Code.

DC Section

At the current time, the Trustee does not offer dedicated ESG focussed funds with the exception of the Ethical Equity Fund which adopts a process of screening out certain stocks based on certain non-financial criteria. The Trustee will review this position at least every three years. However, many of the funds offered do consider ESG factors or demonstrate strong voting and engagement activity as part of their investment process. Further detail of how the Trustee monitors this is outlined below.

Both Sections

The Trustee has given the investment managers full discretion in evaluating ESG factors, including climate change considerations. In addition, it has delegated to the investment managers engagement with companies (including collaboration with others and escalation), and exercising voting rights and stewardship obligations attached to the investments, including considering climate change impacts.

When appointing, monitoring and withdrawing from investment managers, going forward, the Trustee considers, amongst other factors, how ESG, climate change and stewardship is integrated within investment processes, making use of the Investment Consultant's ESG ratings. These ratings are provided each quarter. The Trustee also receives an annual review of ratings versus competitors, with the latest review taking place at July 2021.

5. Trustee's policies with respect to arrangements with, and evaluation of the performance and remuneration of asset/investment managers and portfolio turnover costs

5.1 Aligning Manager Appointments with Investment Strategy

Both Sections

When engaging with investment managers to implement the Trustee's investment strategy outlined in sections 3 and 4, the Trustee is concerned that, as appropriate and to the extent applicable, the investment managers are incentivised to align their strategy and decisions with the objectives of the Section.

However, as the DC Section and the vast majority of the DB Section are invested in multi-client pooled funds, the Trustee accepts that they do not have the ability to determine the risk profile and return targets of specific Funds. The Trustee is able to make investment manager appointments in such a manner that the assets are managed consistent with the investment strategy for the Section. The investment managers are incentivised by the knowledge that the Trustee will review their appointment if, over time, they do not meet expectations.

Investment managers are appointed by the Trustee based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class they are selected to manage.

The Trustee looks to their Investment Consultant for their forward-looking assessment of a manager's ability to outperform over a full market cycle. This view will be based on the Consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the Scheme invests in. The Consultant's manager research ratings assist with due diligence and questioning the managers directly during presentations. These ratings are used in decisions around selection, retention and realisation of manager appointments.

If the investment objective for a particular fund changes, the Trustee will review the fund appointment to ensure it remains appropriate and consistent with the wider investment objectives.

The Trustee does not have a policy about making investment decisions based on its assessment about the performance of an issuer of debt or equity. Instead, assessments of the medium to long-term financial and non-financial performance of an issuer are made by the investment managers. Those managers are in a position to engage directly with such issuers in order to improve their performance in the medium to long term. The Trustee does, however, consider the Investment Consultant's assessment of how each investment manager embeds Environmental, Social and Governance issues into their investment process. This includes the investment manager's policies on voting and engagement. More detail is in Section 4.

Additional Information for the DC Section

The platform provider is appointed based on their capabilities and perceived likelihood of being able to deliver the requirements set out in Section 3.3 This includes an assessment of their investment fund range and flexibility, capabilities relative to peers, and service level standards in administration and services available to members, such as the quality of communications, and online services.

5.2 Manager Appointments and Performance

Both Sections

The Trustee receives, and considers, performance reports produced on a quarterly basis, which present performance information and commentary on the Funds they invest in over various time periods. The Trustee reviews the absolute performance, and relative performance against a suitable index used as the benchmark (where appropriate), and/or against the managers' stated target performance (over the relevant time period) on a net of fees basis.

The Trustee's focus is primarily on long-term performance but a manager's appointment may be reviewed at any time. Examples of why this may happen are:

a) There are sustained periods of underperformance;

b) There is a change in the portfolio manager or portfolio management team;

c) There is a change in the underlying objectives of the investment manager;

d) There is a significant change to the Investment Consultant's rating of the manager.

The investment managers are remunerated by way of a fee calculated as a percentage of assets under management.

If managers are not meeting performance objectives, or investment objectives for mandates have changed, the Trustee may ask managers to review the Annual Management Charge or, more likely, decide to switch managers.

Additional Information for the DC Section

The Trustee receives quarterly service reports from the provider, and will assess the provider's performance relative to agreed service levels on a regular basis. If the service level deteriorates, the Trustee may review the provider's appointment.

As part of the annual Value for Money assessment, the Trustee reviews the investment manager fees, including benchmarking against appropriate peer groups.

5.3 Portfolio Turnover Costs

Both Sections

The Trustee receives, where applicable, MiFID II reporting from investment managers for the DB Section, and the cost information from the platform provider for the DC Section, but does not currently analyse the information. The Trustee assesses investment performance net of the impact of the costs of such activities.

However, the Trustee will continue to monitor industry improvements concerning the reporting of portfolio turnover costs. In future, the Trustee will, at least on annual basis, ask managers to report on portfolio turnover costs.

Additional Information for the DC Section

Transaction costs, which include portfolio turnover costs, are monitored and assessed within the annual Value for Money assessment but the Trustee has not set portfolio turnover targets. However the Trustee will engage with the investment managers if portfolio turnover is consistently higher than expected.

5.4 Manager Turnover

Both Sections

The Trustee is a long-term investor and is not looking to change investment arrangements on a frequent basis. There is therefore no set duration for manager appointments. The Trustee will retain an investment manager unless:

- There is a change to the overall investment strategy that no longer requires exposure to that asset class or manager;
- The manager appointed has been reviewed and the Trustee has decided to terminate the mandate.

DC Section

The Trustee is not looking to change provider arrangements on a frequent basis. There is therefore no set duration for the provider's appointment. The Trustee will retain the provider unless there has been a material deterioration in the provider's ability to meet the Trustee's requirements.

The Fund Range and default option are reviewed on at least a triennial basis. A manager's appointment may be terminated if it is no longer considered to be optimal, nor have a place in the default option or general fund range.

6. Additional Assets

The Trustee is also responsible for offering and monitoring the Additional Voluntary Contributions arrangement. Assets in respect of members' Additional Voluntary Contributions are held in Unit-linked and With-Profit funds. In addition, the Scheme offers a Shift Pay Pension Plan investing in With-Profits. Further details are in the IPID.

7. Compliance and Review of This Statement

The Trustee will monitor compliance with this Statement at least annually. The Trustee will review this Statement in response to any material changes to any aspects of the Scheme, its liabilities, finances and the attitude to risk of the Trustee and the Principal Company which it judges to have a bearing on the stated Investment Policy. This review will occur no less frequently than every three years.