

# Delco Remy UK Employee Pension Scheme Defined Benefit Section

Statement of Investment Principles

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## 1 Background

<b>Purpose of Statement</b>	This Statement sets out the principles governing decisions relating to the investment of the assets of the Defined Benefit Section (the Defined Benefit Section) of the Delco Remy UK Employee Pension Scheme (the Scheme).
<b>Nature of Scheme</b>	The Scheme is set up under trust and registered with HM Revenue and Customs (HMRC). The Scheme has a separate Defined Benefit Section and Defined Contribution Section. This statement relates to the Defined Benefit Section, and a separate statement has been prepared for the Defined Contribution Section.
<b>Compliance with Legislation</b>	This Statement has been prepared to meet the requirements of Section 35 of the Pensions Act 1995, Section 244 of the Pensions Act 2004, the Occupational Pension Scheme (Investment) Regulations 2005, the Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018, and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.
<b>Availability to Members</b>	A copy of this Statement will be made available to Scheme members on request to the Trustees of the Scheme.
<b>Investment Advice</b>	<p>The Trustees have obtained and considered professional advice on the content of this Statement from BBS Consultants &amp; Actuaries Ltd (BBS), their appointed investment adviser, as well as from previous advisers. The Trustees' advisers have confirmed that they have the appropriate knowledge and experience to give the advice required under legislation.</p> <p>The Trustees will thereafter obtain such advice as they consider appropriate and necessary whenever they intend to review or revise this Statement.</p>
<b>Consultation with the Sponsoring Employer</b>	<p>The Trustees have consulted the Sponsoring Employer, Remy Automotive UK Limited, when setting their investment objectives and strategy, and in the preparation of this Statement.</p> <p>Responsibility for maintaining the Statement and determining the Defined Benefit Section's investment strategy rests solely with the Trustees.</p>
<b>Investment Powers</b>	The Trustees' investment powers are set out in Rule 61 of the Definitive Deed and Rules, dated 7 April 1998, as amended. The powers granted to the Trustees under this Rule are wide and this Statement is consistent with those powers.

## 2 Investment Objectives

<b>Strength of Employer Covenant</b>	<p>In determining their investment objectives and strategy, the Trustees have considered the strength of the Sponsoring Employer's willingness and ability to support the Scheme. They have determined that it is reasonable to take a long-term view in determining their investment objectives and strategy.</p>
<b>Key Funding Measure</b>	<p>The Scheme is subject to the Statutory Funding Objective (SFO) introduced by the Pensions Act 2004, i.e. that it should have sufficient and appropriate assets to cover its Technical Provisions, as calculated in accordance with the Trustees' Statement of Funding Principles.</p> <p>In determining their investment objectives and strategy, the Trustees have agreed that the funding position measured under the SFO is the assessment of scheme funding that is of most importance to the Trustees, the Sponsoring Employer and members, as it determines the Scheme's funding requirements and members' long-term benefit security.</p>
<b>Investment Objectives</b>	<p>The Trustees' investment objectives are as follows:</p> <ul style="list-style-type: none"><li>• To ensure that the assets are of a nature to enable the Trustees to meet benefit payments as they fall due.</li><li>• To achieve or maintain funds at a level required to meet the SFO and documented in the Trustees' Statement of Funding Principles (SFP), as revised from time to time.</li><li>• To have due regard to the dynamic membership profile of the Scheme, and in particular duration and nature of the liabilities.</li><li>• To maintain a low risk of the ongoing funding position, as measured by the Trustees' SFP, deteriorating significantly.</li><li>• To have due regard to the Employer's interests regarding the size and incidence of contribution payments required to achieve or maintain the SFO.</li><li>• To ensure that the broad asset allocation is appropriate in the context of the Trustees' perception of the strength of the Employer's covenant, as reviewed by the Trustees from time to time.</li></ul>
<b>Paying Regard to the Sponsoring Employer's Views</b>	<p>The Trustees will have regard to the Sponsoring Employer's views on the potential costs and risks associated with the investment objectives set and their implementation through the practical strategy.</p>

### 3 Principles for Setting the Investment Strategy

#### **Selection of Investments**

The Trustees may select investments from a wide range of asset classes from time to time, including, but not restricted to, UK equities, overseas equities, government bonds, corporate bonds, commercial property and alternative asset classes, such as hedge funds, private equity and infrastructure.

The investments selected will generally be traded on regulated markets and, where this is not the case, any such investments will be kept to a prudent level.

The Trustees may invest in products that use derivatives where this is for the purpose of risk management or to improve the efficiency of the management of the Scheme's investments.

The Trustees may hold insurance policies such as deferred or immediate annuities which provide income to the Scheme, matching part or all of the future liabilities due from it.

The Trustees may hold a working cash balance for the purpose of meeting benefit payments due to members and the expenses of running the Scheme.

#### **Balance of Investments**

The Trustees will set a Target Asset Allocation from time to time, determined with the intention of meeting their investment objectives.

The Target Asset Allocation will be set taking account of the characteristics of different asset classes available and will be reviewed in light of any changes to the Trustees' view of the employer covenant, the nature of the Defined Benefit Section's liabilities or relevant regulations governing pension scheme investment.

#### **Delegation to Investment Managers**

The Trustees will delegate the day-to-day management of the Defined Benefit Section's assets to professional investment managers and will not be involved in the buying or selling of investments.

#### **Realising Investments**

The Trustees make disinvestments from the Investment Manager with the assistance of their administrators, Capita Employee Benefits, as necessary, to meet the cashflow requirements.

## 4 Setting the Strategy

### Target Asset Allocation

The Target Asset Allocation is as follows:

Asset Class	Target Asset Allocation	Asset Allocation Range
UK equities	30%	25% - 35%
Overseas equities	30%	25% - 35%
Corporate bonds	12%	10% - 15%
Index-linked gilts	28%	25% - 30%
<b>Total</b>	<b>100%</b>	

### Investment Manager

The Trustees entered into a contract with Legal & General Investment Management (LGIM) in January 1999. LGIM will undertake day-to-day investment management of the Defined Benefit Section's invested assets.

The Investment Manager is authorised and regulated by the Financial Conduct Authority (FCA) under the Financial Services and Markets Act 2000.

### Strategies Used

The Trustees use the following funds operated by the Investment Manager:

Fund
<b>UK equities</b>
LGIM UK Equity Index Fund
<b>Overseas equities</b>
LGIM North America Equity Index Fund (GBP Hedged)
LGIM Europe (ex UK) Equity Index Fund (GBP Hedged)
LGIM Asia Pacific (ex Japan) Developed Equity Index Fund
LGIM Japan Equity Index Fund (GBP Hedged)
<b>Corporate bonds</b>
LGIM Active Corporate Bond - Over 10 Year - Fund
<b>Index-linked gilts</b>
LGIM Over 5 Year Index-Linked Gilts Index Fund

### Maintaining the Target Asset Allocation

The Trustees have responsibility for maintaining the overall balance of the asset allocation relative to the Target Asset Allocation. The Trustees monitor the asset allocation with the assistance of their adviser, BBS, and will consider changing the holdings as necessary.

**Performance Benchmarks and Objectives**

The equity and index-linked gilt funds are index-tracking funds, meaning that their objective is to track the total return on a specified market index within an agreed margin over a specified time-scale. The benchmark and tracking criterion for these funds is given below:

Strategy	Benchmark	Tracking Criterion
LGIM UK Equity Index Fund	FTSE All-Share Index	±0.25% p.a., gross of fees, for two years in every three
LGIM North America Equity Index Fund (GBP Hedged)	FTSE North America Index - GBP Hedged	±0.50% p.a., gross of fees, for two years in every three*
LGIM Europe (ex UK) Equity Index Fund (GBP Hedged)	FTSE Developed Europe ex UK Index - GBP Hedged	±0.50% p.a., gross of fees, for two years in every three*
LGIM Asia Pacific (ex Japan) Developed Equity Index Fund	FTSE Developed Asia Pacific ex Japan Index	±0.75% p.a., gross of fees, for two years in every three*
LGIM Japan Equity Index Fund (GBP Hedged)	FTSE Japan Index - GBP Hedged	±0.50% p.a., gross of fees, for two years in every three*
LGIM Over 5 Year Index-Linked Gilts Index Fund	FTSE Actuaries UK Index-Linked Gilts Over 5 Years Index	±0.25% p.a., gross of fees, for two years in every three

\*Net of withholding taxes charged by overseas governments, where appropriate.

The corporate bond fund used by the Trustees is actively managed, with an objective to outperform a specified market benchmark. Its objective is summarised below:

Fund name	Benchmark	Performance target
LGIM Active Corporate Bond - Over 10 Year - Fund	iBoxx GBP Non-Gilts Over 10 Years Index	To exceed the benchmark by 0.75% p.a. (gross of fees) over a rolling period of three years

**Investment Management Charges**

The annual management charges for each of the funds used, based on the assets under management at the date of this Statement, are given below:

Fund	Annual Management Charge
LGIM UK Equity Index Fund	0.100% p.a.
LGIM North America Equity Index Fund (GBP Hedged)	0.225% p.a. for the first £1 million 0.200% p.a. for the next £1.5 million
LGIM Europe (ex UK) Equity Index Fund (GBP Hedged)	0.275% p.a. for the first £1 million 0.250% p.a. for the next £1.5 million
LGIM Asia Pacific (ex Japan) Developed Equity Index Fund	0.275% p.a.
LGIM Japan Equity Index Fund (GBP Hedged)	0.250% p.a.
LGIM Active Corporate Bond - Over 10 Year - Fund	0.250% p.a.
LGIM Over 5 Year Index-Linked Gilts Index Fund	0.100% p.a.

In addition, LGIM charge a flat fee of £1,000 per annum.

**Employer Related Investment**

Neither the Trustees nor the Investment Manager directly hold any employer-related investments.

**Additional Voluntary Contributions (AVCs)**

The Defined Benefit Section holds AVCs separately from the assets backing defined benefits via investments held with LGIM under the Defined Contribution Section of the Scheme.

## 5 Expected Returns and Risks

**Overall Return Target** The Trustees' objective is for the assets to produce a return in excess of the growth in the value of the Defined Benefit Section's liabilities calculated under the SFO.

The Trustees expect the assets to produce a return in excess of the long-term growth in the value of the funded Technical Provisions over the medium to longer term, depending on the level of prudence adopted in assessing future expected returns.

**Expected Returns** Over the long term, the Trustees' expectations are to achieve the following rates of return from the asset classes they make use of:

Asset class	Expected return
Equities	In excess of UK price inflation, as measured by the Retail Prices Index, and in excess of the yield currently available on long-dated gilts.
Corporate bonds	To achieve a long-term return in excess of the yield available on a comparable portfolio of UK gilts to compensate for the additional risk associated with investing in a diversified portfolio of corporate bonds.
Index-linked gilts	In line with the market yields available on the relevant underlying securities, assuming that those investments are held to redemption.

**Consideration of Risks** The Trustees have considered the various risks that the Defined Benefit Section faces, including market risk, interest rate risk, inflation risk, default risk, concentration risk, manager risk and currency risk, and consider that their Investment Objectives and Target Asset Allocation strike a reasonable balance between risk mitigation and seeking an appropriate level of return, taking account of their assessment of the Sponsoring Employer's covenant strength and the long-term nature of the Scheme.

**Risk Relative to the Value of the Defined Benefit Section's Key Funding Measure** The Target Asset Allocation has been determined with due regard to the characteristics of the Defined Benefit Section's Technical Provisions.

The calculation of the Technical Provisions uses assumptions for future investment returns and price inflation expectations that are based upon market values of financial securities such as fixed interest and index-linked government bonds. This means that the Technical Provisions are sensitive to changes in the price of these assets as market conditions vary, and can have a volatile value.

The Trustees accept that their investment strategy may result in volatility in the Defined Benefit Section's funding position. Furthermore, the Trustees also accept that there is a risk that the assets will not achieve the rates of investment return assumed in the calculation of the Defined Benefit Section's Technical Provisions.

<b>Concentration of Risk and Diversification</b>	To reduce the risk of concentration within the portfolio, the Trustees will monitor the overall mix of asset classes and stocks in the investment strategy with their investment adviser, BBS.
	The Trustees invest in a wide range of asset classes through the funds and strategies they use and consider the strategy to be well diversified.
<b>Manager Controls and Custodianship</b>	The day-to-day activities that the Investment Manager carries out for the Trustees are subject to regular internal reviews and external audits by independent auditors to ensure that operating procedures and risk controls remain appropriate.
	Safe-keeping of the assets held with the Investment Manager is performed by custodians appointed by them.
<b>Manager Security</b>	The Trustees have considered the financial security of the holdings with the Investment Manager, together with its status as a regulated firm, and consider the associated protection offered to be reasonable and appropriate.
<b>Monitoring and Management of Risks</b>	The Trustees will monitor the investment and funding risks faced by the Defined Benefit Section with the assistance of their investment advisers and the Scheme Actuary. The Trustees will consider the appropriateness of implementing additional risk mitigation strategies as part of such reviews.
	In addition, the Trustees will review wider operational risks as part of maintaining their risk register.

## 6 Responsible Investing, Governance and Engagement

### **Financially Material Considerations Related to Environmental, Social and Governance Considerations**

The Trustees recognise that Environmental, Social and Governance (ESG) issues may have a material impact on the companies, governments and other organisations that issue or otherwise support the assets in which the Defined Benefit Section invests. In turn, ESG issues may have a material financial impact on the returns provided by those assets over the medium to long-term, including the expected lifetime of the Scheme.

The Trustees delegate responsibility for day-to-day decisions on the selection, retention and realisation of investments to the Investment Manager. The Trustees have an expectation that the Investment Manager will consider ESG issues in making decisions concerning the selection, retention and realisation of the investments of the Defined Benefit Section, or will otherwise engage with the issuers of the Defined Benefits Section's underlying holdings on such matters in a way that is expected to improve the long-term return on the associated assets.

The Trustees do not currently impose any specific restrictions on the Investment Manager with regard to ESG issues, but will review this position from time to time. The Trustees receive information from the Investment Manager, on request, on its approach to selecting investments and engaging with issuers with reference to ESG issues.

With regard to the specific risk to the performance of the Scheme's investments associated with the impact of climate change, the Trustees take the view that this falls within their general approach to ESG issues. The Trustees regard the potential impact of climate change on the Defined Benefits Section's assets as a longer term risk and likely to be less material in the context of the short to medium term development of the Scheme's funding position than other risks. The Trustees will continue to monitor market developments in this area in conjunction with their investment adviser at least every three years, or whenever the investment strategy of the Defined Benefit Section is reviewed.

### **Views of Members and Beneficiaries**

The Scheme is comprised of a diverse membership, expected to hold a broad range of views on ethical, political, social, environmental, and quality of life issues. The Trustees do not explicitly solicit members' views on non-financial matters and therefore do not take these views into account in the selection, retention or realisation of investments of the Defined Benefit Section.

<b>Engagement and Voting Rights</b>	<p>The Trustees acknowledge that engagement with the issuers of the Defined Benefit Section’s underlying investment holdings is expected to support the long-term returns of the asset classes they use. Responsibility for engagement with the issuers of the Defined Benefit Section’s underlying investment holdings and the use of voting rights has been delegated to the Investment Manager. The Trustees can therefore only influence engagement and voting policy indirectly.</p> <p>The Investment Manager can provide, on request, information to the Trustees on its actions in relation to engagement and use of voting rights, whilst the Investment Manager provides a summary of its actions on these aspects to the Trustees each quarter, both via its quarterly performance report to the Trustees, and as a separate document.</p> <p>Furthermore, the Trustees will request any training on how the Investment Manager takes ESG issues into account when managing the investments of the Defined Benefit Section, as and when it is required.</p>
<b>Capital Structure of Investee Companies</b>	<p>Responsibility for monitoring the make up and development of the capital structure of investee companies is delegated to the Investment Manager. The Trustees expect the extent to which the Investment Manager monitors these capital structures to be appropriate to the nature of the mandate.</p>
<b>Conflicts of Interest</b>	<p>The Trustees maintain a separate conflicts of interest policy and register.</p> <p>Subject to reasonable levels of materiality, these documents record any actual or potential conflicts of interest in relation to investee companies or the Investment Manager, while also setting out a process for their management.</p>
<b>Incentivisation of Investment Manager</b>	<p>The Investment Manager is primarily remunerated based on an agreed fixed annual percentage of the asset value for each underlying fund.</p> <p>The Trustees do not directly incentivise the Investment Manager to align the approach it adopts for a particular fund with the Trustees’ policies and objectives. Instead, the Investment Manager and funds are selected so that, in aggregate, the returns produced are expected to meet the Trustees’ objectives.</p> <p>Neither do the Trustees directly incentivise the Investment Manager to make decisions about the medium to long-term performance of an issuer of debt or equity, or to engage with those issues to improve their performance. The Trustees expect such assessment of performance and engagement to be undertaken as appropriate and necessary to meet the investment objectives of the funds used by the Defined Benefit Section.</p>

## 7 Review and Monitoring

<b>Frequency of Review</b>	<p>The Trustees will review this Statement at least every three years or if there is a significant change in the Defined Benefit Section's circumstances or the regulations that govern pension scheme investment.</p>
<b>Monitoring the Investment Strategy and Manager</b>	<p>The Trustees employ BBS to assist them in monitoring the performance of the Defined Benefit Section's investment strategy and Investment Manager.</p> <p>The Trustees receive quarterly reports from the Investment Manager and meet with their representatives periodically to review their investment performance and processes.</p> <p>The Trustees and BBS will monitor the Investment Manager's performance against their stated performance objectives.</p> <p>The appropriateness of the Investment Manager's remuneration will be assessed relative to market costs for similar strategies, the skill and resources required to manage the strategy, and the success or otherwise a manager has had in meeting its objectives, both financial and non-financial.</p>
<b>Portfolio Turnover Costs</b>	<p>The Trustees expect the Investment Manager to change underlying holdings to an extent required to meet its investment objectives. The reasonableness of such turnover will vary by fund and change according to market conditions.</p> <p>The Trustees therefore do not set a specific portfolio turnover target for their strategy or the underlying funds.</p> <p>The Investment Manager can provide information on portfolio turnover and associated costs to the Trustees so that this can be monitored, as appropriate.</p>
<b>Review of Investment Manager and AVC provider</b>	<p>The Trustees will consider on a regular basis whether or not the Investment Manager remains appropriate to continue to manage the Defined Benefit Section's investments and AVCs.</p>
<b>Information from Investment Manager</b>	<p>The Investment Manager will supply the Trustees with sufficient information each quarter to enable them to monitor financial and non-financial performance.</p>

Signed

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**MICHAEL CARUSO, TRUSTEE**

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Date

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**NOVEMBER 26, 2019**

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On behalf of the Trustees of the Delco Remy UK Employee Pension Scheme