# Scania Staff Pension Plan

## Statement of Investment Principles

June 2022

# Contents

# 01 **Introduction**

This document constitutes the Statement of Investment Principles (the 'SIP') required under Section 35 of the Pensions Act 1995 for the Scania Staff Pension Plan ('the Plan'). It describes the investment policy being pursued by the Trustees of the Plan ('the Trustees') and is in accordance with the Government's voluntary code of conduct for Institutional Investment in the UK (the 'Myners Principles'). This SIP also reflects the requirements of Occupational Pension Schemes (Investment) Regulations 2005.

The Scheme Actuary is Douglas Primrose FIA, of XPS Pensions Limited and the Investment Adviser is XPS Investment Limited (collectively termed 'the Advisers').

The Trustees confirm that, before preparing this SIP, they have consulted with the employer, Scania (Great Britain) Limited (the 'Employer') and have obtained and considered written advice from the Investment Adviser. The Trustees believe the Investment Adviser to be qualified by their ability and practical experience of financial matters and to have appropriate knowledge of the investment arrangements that the Plan requires.

The Trustees are responsible for the investment of the Plan's assets and the administration of the Plan. Where it is required to make an investment decision in accordance with s36 of the Pensions Act 1995, the Trustees always receive advice from the Investment Adviser first. The Trustees believe that this ensures that this constitutes proper advice as such term is defined within the Pensions Act 1995 because the Investment Adviser is authorised and regulated by the Financial Conduct Authority and is understood to be appropriately familiar with the issues concerned.

Given the size of the Plan, the Trustees have decided the most cost effective way of investing the Plan assets is to invest in pooled funds, rather than directly appointing an individual investment manager. Decisions about which pooled funds to invest in are made after receiving investment advice from the Investment Adviser.
In accordance with the Regulations, this SIP will be reviewed at least every three years or on a significant change of implementing policy.

## 01.01 Declaration

The Trustees confirm that this Statement of Investment Principles reflects the Investment Strategy it has decided to implement. The Trustees acknowledge that it is their responsibility, with the assistance of the Investment Advisers, to ensure the assets of the Plan are invested in accordance with these Principles.

Richard Gray — 31 October 2022

**Signed** — **Date**

**For and on behalf of the Trustees of Scania Staff Pension Plan**

# 02 **Plan governance**

The Trustees are responsible for the governance and investment of the Plan's assets. The Trustees consider that the governance structure set out in this SIP is appropriate for the Plan as it allows the Trustees to make the important decisions on investment policy, while delegating the day-to-day aspects to the Investment Managers of the pooled funds held. The Trustees have decided not to appoint an investment committee to which certain investment decisions may be delegated.

# 03 Investment objectives and key considerations

The Trustees' main priority is to invest the Plan's assets in the best interest of the members and beneficiaries. Within this framework the Trustees have agreed a number of objectives to help guide them in their strategic management of the assets and control of the various risks to which the Plan is exposed.

The Trustees' primary quantitative objectives are as follows:

i. To ensure that it can meet its obligations to the Plan beneficiaries.

ii. To restore the funding position of the Plan on an ongoing basis to at least 100%.

The Trustees' additional objectives are as follows:

i. Generate a return over the long term above that which would have been achieved had no investment risk been taken within the portfolio i.e. invested solely in a portfolio of long dated Government debt.

ii. The Plan's assets should be held in a wide range of different asset classes to minimise the risk of failing to meet the liabilities in the long term.

iii. Assets must be sufficiently liquid to avoid the risk of being unable to disinvest funds at a predictable price as and when required to meet immediate benefit outgo.

iv. Having regard to the primary investment objective, the Trustees will seek to achieve a balance between return-seeking assets and liability matching assets consistent with the profile of the members of the Plan, the funding level, the strength of the Employer covenant and the Trustees' attitude to risk.

v. The Trustees will seek to keep the costs and manager risk in implementing the investment strategy to a minimum.

vi. The long term return expectations used within the actuarial valuation should be consistent with the level of risk taken and return expectations of the strategy.

# 04 **Asset allocation strategy**

The Trustees have adopted the following control framework in structuring the Plan's investments:

- All other things being equal there is a preference to invest via pooled funds, however segregated investments will be considered as circumstances require.

- At the total Plan level (and within individual manager appointments) investments should be broadly diversified to ensure there is not a concentration of investment with any one issuer. The restriction does not apply to investment in UK Government debt.

- Active should be used where passive management isn't viable or as means of allocating between mainstream and specialist asset classes to improve governance and diversification.

- Investment may be made in securities that are not traded on regulated markets. Recognising the risks (in particularly liquidity and counterparty exposure) such investments will normally only be made with the purpose of reducing the Plan's mismatch risk relative to its liability or to facilitate efficient portfolio management. In any event the Trustees will ensure that the assets of the Plan are predominantly invested in regulated markets.

- No investment will be made in securities issued by the Plan's Sponsoring Employer or affiliated companies (other than any such securities held within a pooled fund in which the Trustees invest).

- No investment will be made by an appointed investment manager in the securities issued by the relevant manager's company or any affiliated companies (other than any such securities held within a pooled fund in which the Trustees invest).

- Borrowing is not permitted except as to cover short term liquidity requirements.

The Trustees have taken the view that the investment objectives are best achieved by determining, and investing in accordance with, an appropriate split between "return-seeking" assets (e.g. equities and 'rotational' funds) and "matching-assets" assets (e.g. corporate bonds, fixed and index-linked gilts that move broadly in line with movements in the Plan's liabilities).

The allocation between the asset classes making up the return-seeking and matching-assets will vary over time to reflect, amongst other factors, the profile of the liabilities, the perceived relative value of the different asset classes and the perceived risk to the primary investment objectives arising from any shortfall in the funding of the Plan. The target allocation is set out in Appendix A and any strategic changes in such allocations will only be made after receiving written advice from the Investment Adviser that such allocation remains consistent with the investment objectives.

The funds that the Trustees have selected to achieve the investment objectives are detailed in Appendix B. If any changes are required to be made to the pooled funds, the Trustees will first consult with the Investment Adviser but for the avoidance of doubt any such change will not, in and of itself, constitute a change of investment policy requiring a revision to this SIP.

## 04.01 Alignment of incentives

Based on the structure set out in the Appendix, the Trustees consider the arrangements with the Investment Managers to be aligned with the Plan's overall strategic objectives. Details of each specific mandate are set out in agreements and pooled fund documentation with each Investment Manager.

The amounts allocated to any individual category or security will be influenced by the overall benchmark and objectives, varied through the Investment Managers' tactical asset allocation preferences at any time, within any scope given to them through any asset allocation parameters set by the Trustees or governing the pooled funds in which the Plan is invested.
The Trustees will ensure that the Plan's assets are predominantly invested in regulated markets to maximise their security.

Investment Managers are incentivised to perform in line with expectations for their specific mandate as their continued involvement as Investment Managers as part of the Plan's investment strategy – and hence the fees they receive – are dependent upon them doing so. They are therefore subject to performance monitoring and reviews based on a number of factors linked to the Trustees' expectations.

The Trustees encourage Investment Managers to make decisions in the long-term interests of the Plan. The Trustees expect engagement with management of the underlying issuers of debt or equity and the exercising of voting rights on the basis that such engagement can be expected to help Investment Managers to mitigate risk and improve long term returns.

As covered in more detail in this document, the Trustees also require the Investment Managers to take ESG factors and climate change risks into consideration within their decision-making as the Trustees believe these factors could have a material financial impact in the long-term. The Trustees therefore make decisions about the retention of Investment Managers, accordingly.

## 04.02 Rebalancing Policy

There is currently no automatic rebalancing policy applied to the Plan's assets. From time-to-time the Trustees will review the Plan's asset allocation and may undertake rebalancing to the central benchmark if they believe this is required.

## 04.03 Rates of Return

The Trustees expect to generate a return over the long term, above that which would have been achieved had no investment risk been taken within the portfolio i.e. invested solely in a portfolio of long dated Government debt. It is recognised that over the short term performance may deviate significantly from the long term target.

The targets for each of the asset classes and specific funds are detailed in Appendix B.

## 04.04 Diversification

The choice of asset classes is designed to ensure that the Plan's investments are adequately diversified given the Plan's circumstances. The Trustees will monitor the strategy regularly to ensure that they are comfortable with the level of diversification.

## 04.05 Suitability

The Trustees have taken advice from the relevant Advisers to ensure that the asset allocation strategy is suitable for the Plan, given its investment objectives.

The Trustees have chosen to hold a significant proportion of the Plan's assets in 'return-seeking' assets with the aim of providing a long term rate of return on the Plan's assets that will help to help reduce the funding deficit.

Whilst return-seeking assets may offer higher returns than bonds, their returns tend to be volatile. However, this volatility can be reduced or smoothed by holding a diversified portfolio of return-seeking assets.

Matching assets represent a larger allocation as compared to return-seeking assets, with the aim of improving the link between the assets and the liabilities of the Plan.

Recognising that non-sterling investments carry an element of currency risk, the Trustees have a policy of holding the majority of the assets in Sterling-denominated investments.

## 04.06 Liquidity

The majority of the Plan assets are held in asset classes that are sufficiently liquid to be realised easily if the Trustees require.

# 05 **Strategy Implementation**

The Trustees' investment strategy is detailed in Appendix A. The investment strategy is reviewed regularly by the Trustees to ensure it remains appropriate for meeting the objectives set out in Section 3 and for controlling the risks identified in Section 8.

## 05.01 Custody

Custody of the underlying assets is at the discretion of the funds held, whilst shares and/or units in the funds are held in book form only. Cash is held securely in separate accounts with approved counterparties.

# 06 **Monitoring**

## 06.01 Investment Manager

The Trustees, or the Advisers on behalf of the Trustees, will regularly review the performance of the Investment Managers to satisfy themselves that the Investment Managers continue to carry out their work competently and in line with their mandate.

## 06.02 Advisers

The Trustees will monitor the advice given by the Advisers on a regular basis.

## 06.03 Portfolio turnover costs

The Trustees require the Investment Managers to report on actual portfolio turnover at least annually, including details of the costs associated with turnover, how turnover compares with the range that the Investment Manager expects and the reasons for any divergence.

## 06.04 Investment manager duration

Appointments of Investment Managers are expected to be long-term, but the Trustees will review the appointment of the Investment Managers in accordance with their responsibilities.

## 06.05 Performance and remuneration reporting

The Trustees receive regular investment performance reports from the Investment Managers to help inform their understanding of the long term performance of the portfolio and will discuss these with the Investment Adviser when it is deemed appropriate. In addition, any significant changes relating to the Trustees' selection and deselection criteria that the Investment Adviser is aware of may be taken into account by the Investment Adviser in recommending that a particular fund is/continues to be used as part of the overall portfolio.

If there are concerns about an Investment Manager's ongoing role in implementing the investment strategy, the Trustees may carry out a more in depth review of a particular Investment Manager. Investment Managers may also attend Trustees' meetings as requested.

Fund manager remuneration is considered as part of the manager selection process. It is also monitored regularly with the help of the Investment Adviser to ensure it is in line with the Trustees' policies and with fee levels deemed by the Investment Adviser to be appropriate for the particular asset class and fund type.

## 06.06 Trustees

The Trustees maintain a record of all decisions taken, together with rationale in each case.

The Trustees are required to review this SIP on a triennial basis, or, without undue delay, following any changes to the investment strategy.

# 07 Fees

## 07.01 Funds

The Trustees, assisted by the Investment Adviser, will ensure that the fees charged by funds and their expense ratios are consistent with levels typically available in the industry for passive or active funds, as relevant. The current fee basis for each of the funds is set out in Appendix B.

## 07.02 Advisers

Fees paid to the Advisers are based either on actual time spent and hourly rates for relevant individuals, or on fixed fees for specifically defined projects.

# 08 **Risks**

The Trustees recognise a number of risks involved in the investment of assets of the Plan:

i. Investment objectives risk – the risk of failing to meet the objectives as set out in Section 3. This is addressed by the Trustees regularly monitoring performance and the funding level of the Plan.

ii. Plan's assets/liabilities risk – the risk of adverse consequences arising through a mismatch between the Plan's assets and its liabilities. This can be addressed through the asset allocation strategy – in particular allocating a significant proportion of the Plan's assets to funds whose values are expected to help provide some protection against increases in the value of the Plan liabilities.

iii. Diversification risk – the risk that the Plan is exposed to a significant loss from esoteric factors relating to a single investment. This is addressed through each Investment Manager's portfolio construction process, by investing in a range of asset classes and reviewing the Plan's asset allocation policy. In addition, the assets are invested in pooled funds that have minimum diversification requirements.

iv. Liquidity risk – the risk of holding assets that cannot be easily sold should the need arise. This can be addressed through the use of pooled funds, the majority of which have frequent redemption dates.

v. Organisational risk – the risk of losses arising through operational mistakes or errors. This is measured by reference to the number of past such operational losses and can be addressed by seeking to minimise the number of changes to the pooled funds.

vi. Sponsor risk – the risk that the Employer's covenant weakens (including the possibility that it might weaken to the extent that it ceases to exist), which for reasons of prudence, the Trustees have taken into account when setting the asset allocation strategy.

vii. Credit risk – the risk that a bond issuer will default on its obligations. This is measured by reference to the exposure of pooled funds to corporate or emerging market debt and is addressed by investing in pooled funds with a diversified list of credits.

viii. Insurance risk – the risk that any insurance contract fails to deliver the expected benefits to pensioner members. This can be addressed by acquiring insurance contracts with insurers with a strong credit rating.

ix. Solvency risk – the risk that the life policy platform provider becomes insolvent. This can be addressed by buying a policy with a provider that has no general insurance risks.

x. ESG risk – the risk of environmental, social and governance factors that materializes when these are not given significant consideration. This can be addressed by having a policy whereby such factors should be given appropriate consideration in relation to current and future investment decisions made.

xi. Volatility risk – the risk that arises from seeking to increase potential returns over a long period, that can give rise to short-term volatility in the Plan's funding position.

xii. Regulatory risk – the risk that arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those environments subject to unstable regimes.

xiii. Concentration risk – the risk that arises when a high proportion of the Plan's assets are invested in securities, whether debt or equity, of the same or related issuer. This can be addressed through the overall investment arrangements which are intended to provide an appropriate spread of assets by type and spread of individual securities within each asset class.

The Trustees seek to take on certain risks where they expect to be rewarded for them over time, in the form of excess returns, in a diversified manner.

The Trustees will keep these risks under regular review but acknowledge that it is not possible to monitor all the risks listed above at all times.

# 09 **Other issues**

## 09.01 Statutory Funding Requirement

The Trustees have obtained and considered proper advice on the question of whether the investments are satisfactory having regard to both the investment objectives and statutory funding requirements. The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation every three years.

The Trustees will consider with the Advisers whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the statutory funding requirement.

## 09.02 Environmental, social and governance issues

The Trustees have determined their approach to financially material considerations over the Plan's long-term funding horizon – including environmental, social and corporate governance ("ESG") factors - by acknowledging that there can be risks relating to them. The Trustees have delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Plan's investment managers. The Trustees require the Plan's investment managers to take ESG and climate change risks into consideration within their decision-making, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest.

The Trustees will seek advice from the Investment Adviser on the extent to which its views on ESG and climate change risks may be taken into account in any future investment manager selection exercises. Furthermore, the Trustees, with the assistance of the Investment Adviser, will monitor the processes and operational behaviour of the investment managers from time to time, to ensure they remain appropriate and in line with the Trustees' requirements as set out in this Statement.
Further, the Trustees' policy is that non-financial matters should not be taken into account in the selection, retention and realisation of investments.

## 09.03 Voting rights

As the Plan invests in pooled funds, the Trustees acknowledge that they cannot directly influence the policies and practices of the companies in which the pooled funds invest. They have therefore delegated responsibility for the exercise of rights (including voting rights) attached to the Plan's investments to the Investment Managers.

The Trustees encourage them to engage with investee companies and vote whenever it is practical to do so on financially material matters such as strategy, capital structure, conflicts of interest policies, risks (including climate change risk), social and environmental impact and corporate governance as part of their decision-making processes. The Trustees require the Investment Managers to report on significant votes made on behalf of the Trustees.

If the Trustees become aware of an Investment Manager engaging with the underlying issuers of debt or equity in ways that they deem inadequate or that the results of such engagement are mis-aligned with the Trustees' expectation, then the Trustees may consider terminating the relationship with that Investment Manager.

# Appendix A
# Strategic asset allocation

The Trustees have appointed Royal London and Legal & General Investment Management to manage the assets of the Plan.

The Trustees have decided upon the following benchmark allocation:

**Table 1: Strategic benchmark allocation**

<table>
<tr><th>Asset Class</th><th>Benchmark (%)</th></tr>
<tr><td>Return Seeking Assets</td><td></td></tr>
<tr><td>Diversified Growth Fund</td><td>30.0</td></tr>
<tr><td>Sub-Total</td><td>30.0</td></tr>
<tr><td>Matching Assets</td><td></td></tr>
<tr><td>Single Gilts Fund</td><td rowspan="2">35.0</td></tr>
<tr><td>Matching Core Funds</td></tr>
<tr><td>Buy and Maintain Fund</td><td>35.0</td></tr>
<tr><td>Cash</td><td>0.0</td></tr>
<tr><td>Sub-Total</td><td>70.0</td></tr>
</table>

The Plan assets are split between those relating to the main Plan and those relating to Additional Voluntary Contributions (‘AVC’s’). The above benchmark allocations apply to non AVC assets only.

## Additional Voluntary Contributions (‘AVCs’)

Under the terms of the trust deed the Trustees are responsible for the investment of AVC’s paid by members. The Trustees review the investment performance of the chosen providers on a periodic basis and take advice as to the providers’ continued suitability.

Members’ additional voluntary contributions are invested with a number of providers including Henderson, Equitable Life and Royal London.

# Appendix B
# Implementation details

## Investments

The Trustees have agreed the following performance target with the Investment Managers:

| Asset class | Fund Name | Benchmark asset allocation (%) | Active / Passive | Target / Objective | Expected return p.a. (Gross of fees) | Annual Management Charge (AMC) p.a. | Additional charges p.a. | Expected return p.a. (Net of fees) |
|---|---|---|---|---|---|---|---|---|
| **Diversified Growth Fund** | LGIM Dynamic Diversified Fund | 30.0 | Active | To outperform the Bank of England Base Rate by 4.5% p.a. over a full market cycle (5-7 years) gross of management fees (4.1% p.a. net of fees) | Gilts + 3.69% | Flat charge: 0.38% | 0.01% for exposure to commodities and property usually | Gilts + 3.3% |
| **Credit** | LGIM Buy & Maintain Credit Fund | 35.0 | Active | Markit iBoxx GBP Non-Gilts Total Return | Gilts + 1.45% | 0.15% | 0.06% | Gilts + 1.24% |
| **Liability Driven Investment (LDI)** | LGIM Single Gilt Funds | 35.0 | Passive | Specific Treasury Gilt Comparator | Gilts + 0.0% | 0.18% | - | Gilts - 0.18% |
| | LGIM Matching Core Fixed Long Fund | | Passive | To deliver nominal returns / Markit iBoxx - Fixed Long | Gilts + 0.0% | 0.20% | 0.05% | Gilts - 0.25% |
| | LGIM Matching Core Fixed Short Fund | | Passive | To deliver nominal returns /Markit iBoxx – Fixed Short | Gilts + 0.0% | | | |
| | LGIM Matching Core Real Long Fund | | Passive | To deliver inflation-linked returns / Markit iBoxx - Real Long | Gilts + 0.0% | | | |
| | LGIM Matching Core Real Short Fund | | Passive | To deliver inflation-linked returns / Markit iBoxx – Real Short | Gilts + 0.0% | | | |
| **Cash** | LGIM Sterling Liquidity Fund | | Passive | SONIA | Gilts + 0.0% | 0.125% | - | Gilts - 0.125% |

Note: Expected returns are based on XPS Investment's internal asset class assumptions as at 30 March 2022.

# Contact us

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