

## **LV= Employee Pension Scheme**

### **Statement of Investment Principles**

This is the Statement of Investment Principles made by The LV= Pension Trustee Ltd, the Trustee of the LV= Employee Pension Scheme (the "Scheme"), in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended), the Occupational Pension Schemes (Investment) Regulations 2005 (as amended) and the Occupational Pension Schemes (Charges and Governance) Regulations 2015. It is subject to periodic review by the Trustee at least every three years and without delay after any significant change in investment policy. The Trustee has consulted with the Principal Employer (Liverpool Victoria Financial Services Limited) regarding the investment policy set out in this document, but with the stipulation that the Principal Employer may not limit the Trustee's powers of investment.

In establishing the Scheme's investment arrangements, the Trustee has had regard to the requirements of the Pensions Act, in particular those concerning diversification and suitability of investments and the frequency by which these matters are reviewed. The Trustee has had regard to the Principles set out in the Myners Review of Institutional Investment (the "Myners Review"). In preparing this Statement, the Trustee has complied with the requirements of the Pensions Act 1995 regarding the content of Statements of Investment Principles. The Trustee incorporated where applicable the recommendations in the Myners Review regarding the content of Statements of Investment Principles and has received written advice from the investment consultant.

The Scheme operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries. The Scheme provides a Defined Benefit pension arrangement.

This SIP has been prepared after obtaining and considering written professional advice from Redington. Redington are appointed investment advisors to the Scheme whom the Trustee believes to be suitably qualified and experienced to provide such advice. The advice considers the suitability of investments including the need for diversification given the circumstances of the Scheme and the principles contained in this SIP.

#### **A. Defined Benefit Section – "DB Section"**

##### **DB Section Objectives**

The Trustee's primary responsibility is to manage this section of the Scheme so that members receive their benefits as and when they fall due. The benefits payable are defined by the Scheme's Trust Deed and Rules.

The Trustee recognises the need to take some risk in order to generate a sufficient investment return over the long term to make the DB Section affordable, as measured by the contributions payable. In assessing this, the Trustee takes into account factors such as the employer's attitude to funding the DB Section and the employer's financial strength relative to the DB Section, thus its understanding of the contributions likely to be received from the employer and the DB Section members. The Trustee also considers its own willingness to accept underperformance due to market conditions.

##### **Investment Strategy**

In determining and reviewing the DB Section's investment strategy the Trustee adopts a Pensions Risk Management Framework ("PRMF"). This framework translates the principal goal of paying member benefits

into measurable funding objectives and risk constraints, agreed by the Trustee. The PRMF is reviewed and monitored by the Trustee on at least a quarterly basis.

The Trustee's primary funding objective is to reach full funding on the Technical Provisions basis, with a long term target of achieving full funding on a Gilts +0.25% liability valuation basis by 2028.

In setting the investment strategy, the Trustee aims to:

- Target an expected return on assets close to that required to meet the funding objectives within the PRMF.
- Manage the investment risk including that arising due to mismatch between assets and liabilities by hedging to the DB Section's funding level on a Gilts +0.25% liability valuation basis, as well as limit the total risk on the DB Section below the risk budget set in the PRMF.
- Maintain suitable liquidity of assets such that the DB Section is not forced to buy and sell investments at particular times to pay member benefits or meet potential collateral calls.

### **Strategic Asset Allocation**

The current overall benchmark allocation of the DB Section's assets between the major asset classes is detailed in the table below. In practice, the Trustee analyses expected versus required target risk and return levels when considering portfolio asset allocations. Therefore, the target ranges outlined below are based on the Scheme's actual asset allocation as at 30<sup>th</sup> June 2023.

<b>Asset Class</b>	<b>Target Benchmark (%)</b>	<b>Target Range (%)</b>
<b>LDI</b>	<b>55%</b>	<b>50%-60%</b>
<b>Liquid Market Assets</b>	<b>25%</b>	<b>20%-30%</b>
<i>Volatility Controlled Equities<sup>1</sup></i>	<i>25%</i>	<i>20%-30%</i>
<b>Liquid Credit Assets</b>	<b>35%</b>	<b>30%-40%</b>
<i>Corporate Bonds</i>	<i>35%</i>	<i>30%-40%</i>
<b>Illiquid Market Assets</b>	<b>5%</b>	<b>0%-10%</b>
<i>Infrastructure Equity</i>	<i>5%</i>	<i>0%-10%</i>
<b>Total<sup>1,2</sup></b>	<b>120%</b>	<b>N/A</b>

<sup>1</sup>Please note that the Volatility Controlled Equities is achieved synthetically using leverage, therefore the total allocation is above 100%.

<sup>2</sup>The strategic asset allocation above is represented as a proportion of total assets excluding the value of the buy-in contract as at 30<sup>th</sup> June 2023 on a gilts +25bps basis. As at this date this value of the contract accounted for 48% of the Scheme's overall assets.

To achieve the DB Section's objectives the Trustee has agreed the following:

### ***Balance between different kinds of investments***

The DB Section will hold a mix of investments within major markets to ensure that the overall portfolio is well diversified. This includes avoiding excessive reliance on any particular asset, issuer or group of undertakings and avoiding accumulations of risk in the portfolio as a whole.

### ***Kinds of investment to be held***

The DB Section may invest in quoted and unquoted securities of UK and overseas markets including (but not limited to) equities and fixed interest and index-linked bonds, property, insurance contracts, cash and pooled funds. The DB Section may also make use of derivatives and contracts for difference for the purpose of efficient portfolio management or to hedge specific risks. The DB Section may not invest in securities directly issued by the Principal Employer, which would imply "self-investment". The DB Section's assets must consist predominantly of investments admitted to trading on regulated markets and investment in assets which are not admitted to trading on such markets must in any event be kept to a prudent level.

### ***Choosing Investments***

All day-to-day investment duties have been delegated to the DB Section's investment managers.

### ***Risks***

The Trustee recognises a number of risks involved in the investment of the DB Section's assets and keeps them under regular review:

- *Sponsor risk* is measured by the level of ability and willingness of the sponsor to support the continuation of the DB Section and to make good any current or future deficit. It is managed by assessing the interaction between the DB Section and the sponsor's business, as measured by a number of factors, including the creditworthiness of the sponsor and the size of the pension liability relative to a number of metrics reflecting the financial strength of the sponsor.
- *Solvency risk and mismatching risk* are measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment strategies. They are managed through assessing the progress of the actual growth of the liabilities relative to the selected investment strategies.
- *Credit risk* is the risk that one party to a financial instrument will cause a loss to the DB Section by failing to repay an obligation, amongst other things. This risk is managed at the discretion of the relevant investment manager acting within defined limits set by the Trustee regarding credit quality and size of exposure.
- *Market risk/other price risk* is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or

currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. This risk is managed at a strategic and manager level through diversification. Outright loss protection is also used where appropriate.

- *Currency risk* is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates. This risk is mitigated through currency hedging, where appropriate.
- *Interest rate risk* is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates. Exposure to interest rate risk is gained intentionally to hedge and offset liability interest rate risk. This is managed by the investment manager within defined limits set by the Trustee.
- *Liquidity risk* is measured by the level of cashflow required by the DB Section over a specified period. It is managed by the DB Section's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.
- *Manager risk* is measured by the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy. It is managed by monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment process.
- *Counterparty risk* is measured through the level of concentration with any one counterparty, leading to the risk of an influence on investment values, arising from a default on obligations. It is managed through the investment manager guidelines, counterparty diversification and collateralisation, where appropriate.
- *Political risk* is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention. It is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.
- *Environmental, social and governance (ESG) risks*  
Environmental, social and corporate governance (ESG) factors are sources of risk to the Scheme's investments which could be financially material, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Trustee seeks to appoint investment managers who will manage these risks appropriately on their behalf and regularly reviews how these risks are being managed in practice. Additionally climate-related metrics, including carbon emissions metrics, are monitored on a regular basis to understand the Scheme's exposure to climate-related risks.
- *Default risk* is the risk of default of the chosen insurer, Phoenix Life. The Trustee undertook significant due diligence via their advisor to understand the potential default risks with the insurer before proceeding with the Scheme's buy-in. The Trustee relies on the regulatory framework that Phoenix Life operates under to mitigate this risk, governed by the Prudential Regulatory Authority, e.g. the regulatory capital requirements. In addition, in the event of default by the insurer, members may be eligible for compensation from the Financial Services Compensation Fund ("FSCS"), based on the current FSCS rules.

### **Custody**

The Trustee may arrange for the appointment of a custodian in relation to all or any part of the portfolio.

### **Monitoring**

When applicable, the terms of the long-term relationship between the Trustee and its managers are set out in separate Investment Management Agreements (IMAs). These document the Trustee's expectations of their managers; alongside the investment guidelines they are required to operate under. When the Trustee decides to invest in pooled investment vehicles, it recognises that due to the collective nature of these investments, there is less scope to directly influence how the asset manager invests. In such instances, the Trustee's investment advisers ensure the investment objectives and guidelines of the manager are consistent with that of the Trustee.

When relevant, the Trustee requires its investment managers to invest with a medium to long-term time horizon, and use any rights associated with the investment to drive better long-term outcomes. For some asset classes, the Trustee does not expect the respective asset managers to make decisions based on long-term performance. These may include investments that provide risk reduction through diversification or through hedging, consistent with the Trustee's strategic asset allocation.

The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. When assessing a manager's performance, the focus is on longer-term outcomes and is assessed over a medium to longer-term timeframe, subject to a minimum of three years. The Trustee would not expect to terminate a manager's appointment based purely on short-term performance. However, a manager's appointment could be terminated within a shorter timeframe than three years due to other factors such as a significant change in business structure or the investment team.

Managers are paid an ad valorem fee for a defined set of services. The Trustee reviews the fees annually to confirm they are in line with market practices, notably when the Trustee expects the manager to take an active ownership approach and consider long-term ESG factors.

The Trustee reviews the portfolio transaction costs and portfolio turnover range of managers annually, where the data is disclosed and available. The Trustee will then determine whether the costs incurred were within reasonable expectations.

The Trustee's policy towards monitoring non-financial performance is set out in the Responsible Investment section of the SIP.

### **Additional Assets**

Member's additional voluntary contributions (AVCs) are invested with the main DB Section's assets, and the value changes in line with the quarterly return on the DB Section's assets. The return to be applied to the AVCs is reviewed and provided to the administrators on a quarterly basis.

## **B. Responsible Investment**

### **Environmental, Social and Governance Factors**

The Trustee incorporates all financially material considerations into decisions on the selection, retention and realisation of investments through strategic asset allocation decisions and the appointment of investment managers, so far as possible.

The Trustee believes that environmental, social and governance factors (including but not limited to climate risk) will be financially material over the time horizon of the Scheme but will have varying levels of importance for different types of assets invested by the Scheme.

The Trustee is currently working towards integrating climate-related risks and opportunities within the Scheme's risk management process. These include ensuring compliance with the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 based upon disclosures in line with the current recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD").

The Trustee does not factor non-financial decisions (such as ethical or moral beliefs) into their investment decision making nor do they appoint investment managers that consider these factors.

### **Governance and Responsibilities**

The processes for identifying, assessing and managing climate-related risks are in line with the Scheme's wider Risk Management Framework. The ultimate responsibility for identifying, assessing, and monitoring climate-related risks and opportunities sits with the Trustee; however, the Trustee has delegated the day-to-day responsibilities to the Funding and Investment Sub Committee ("FISC").

In order to effectively carry out this responsibility, the FISC (and separately the Trustee) receive sufficient training, from the relevant advisors, on an ongoing basis in respect of climate-related risks and opportunities. The FISC monitor ESG reporting provided to them on an annual basis by their DB Investment Advisor, Redington. The FISC are also working to obtain relevant climate metrics as set out under DWP's adoption of the recommendations of the TCFD (the results of which will be disclosed in the Scheme's annual TCFD report). As part of this ongoing monitoring the FISC will consider whether to retain or replace any targets set in relation to these metrics.

The FISC also rely on the manager research and internal modelling capabilities of their Investment Advisors to effectively assess climate-related risks and opportunities, this includes, for example, carrying out climate change scenario analysis. This analysis is performed in relation to the Scheme's assets, liabilities, and covenant by the Trustee's advisors. Specifically:

- the DB asset and liability analysis is performed by Hymans, the Scheme actuary;
- and the covenant analysis by EY Parthenon, the Scheme's Covenant advisor.

This analysis will be performed triennially; interim updates may be performed, for example if there are material changes to the Scheme's strategy, member demographics or if there are significant changes to the

methodology and industry practice relating to the analysis. To this end, the Trustee will consider annually whether a refresh of the analysis is required. The results of these climate scenarios are aligned where possible to ensure a consistent approach is taken across the Scheme's entire funding strategy.

The FISC meet four times during the year. Its role includes consideration and advice to the Trustee Board on investment strategy and risks associated with the DB Section of the Scheme, this includes risks associated with climate change. The FISC also monitors investment performance, along with the Trustee Board, and is responsible for reviewing investment items on the Scheme risk register and reporting its findings to the Board.

Finally, active engagement with companies in which the Scheme is invested, specifically relating to climate-related risks and opportunities, is delegated to the Scheme's investment managers. To monitor this the FISC meet with each of their investment managers at least once every 18 months to receive an update of their climate-related reporting and to discuss any areas for improvement. The FISC delegate the monitoring of climate related risks and opportunities in the first instance to their investment advisors, who provide at least an annual update on how each manager incorporates climate change considerations into their investment process. In the interim the Scheme's Investment Advisors raise points to note as appropriate and any key takeaways from this day-to-day monitoring are reported back to the Trustee. Meetings between the Trustee, FISC, and its DB Investment Advisor take place quarterly. At the Trustee Board meetings, the relevant work the FISC has undertaken over the period since the last meeting is relayed back to the Trustee.

## **Stewardship**

The Trustee understands good stewardship to be the responsible allocation, management, and oversight of capital to create long-term value for our members, leading to sustainable benefits for the economy, the environment and society. The Trustee will aim to use their influence as an owner of assets to ensure that as far as possible best practices are reflected in terms of environmental, social and governance ("ESG") factors, and they will hold our investment managers to account for the effective use of their influence as owners of assets.

## **Resourcing stewardship**

The Trustee's approach to stewardship reflects their broad investment approach: their role is to hire appropriately skilled investment managers, set clear expectations, assess the quality of their performance, and hold them to account where we identify deficiencies or areas for further improvement. The Trustee, via the Funding and Investment Sub Committee (FISC), carries out their stewardship through oversight and challenge of their investment managers rather than operating as active stewards directly of the underlying assets in which they invest.

## **Our key areas of focus**

To best channel their stewardship efforts, the Trustee believes that they should focus on a key theme. The Trustee's key theme has been selected by assessing relevance to the Scheme and its members, the financially material risks that it poses, and the maturity and development of thinking within the industry that allows for ease of integration into their approach. The Trustee's key theme is climate change.

The Trustee may choose to focus on other themes in the future as they recognise there are other sustainability-related challenges facing global societies and the natural environment.

### **Significance of stewardship in appointment and monitoring of investment managers**

It is the responsibility of the FISC to lead the Trustee's engagements with investment managers. The Trustee will not appoint new investment managers that cannot demonstrate the standards to which they hold existing investment managers. These expectations can be summarised as:

- Effective processes for and delivery of stewardship activity, alignment with leading standards, and evidence of positive engagement outcomes related to our key themes;
- Provision of tailored reporting on stewardship activities and outcomes;

The Trustee expects their investment managers to provide specific evidence they have acted in accordance with these expectations which should provide the Trustee with enough insight to ascertain whether their investment managers are practising effective stewardship that is best aligned with their long-term interests. Where the Trustee identify deficiencies they will escalate accordingly, with the ultimate response being the removal of mandates where they believe it is in the interests of our members to do so. The Trustee views incremental improvements by their investment managers as the key success measure of their own stewardship activities.

### **Engagement: expectations and process**

The Trustee expects investment managers to engage with issuers to maintain or enhance long-term value of their investments and limit negative externalities on the planet and society. The Trustee recognises that there is no 'one-size-fits-all' stewardship approach and instead encourages their investment managers to prioritise stewardship opportunities and apply the most suitable/influential engagement strategies based on their in-depth knowledge of a given asset class, sector, geography and/or specific company or other asset.

Investment managers are expected to have robust ESG, climate change, and stewardship policies and processes in place. These are used to define how underlying companies are monitored and engaged with, how progress is measured, and when escalation is required. The Trustee expects manager engagement with companies to be underpinned by engagement on public policy matter where relevant. They expect that these assessments and progress in stewardship activities are tracked over time, to maintain continuity of activity and to assess the effectiveness of stewardship delivery. The Trustee will challenge their investment managers when they feel their engagements are not of sufficient quality.

In order to drive corporate change, and where initial engagement has made little progress, the Trustee expects their investment managers to escalate engagement accordingly. The Trustee allows their investment managers discretion over the appropriate tools to deploy; however, the Trustee expects these to be communicated with issuers' management teams. Should there still be little progress made after escalation, the Trustee expects their investment managers to consider divestment as a final course of action.



### **Voting: expectations and process**

The Trustee expects their managers to use as appropriate all the tools arising from their investments, including the rights and responsibilities associated with the instruments or other assets in which they invest. While the Scheme does not currently have any direct equity investments and so do not have the voting rights that are associated with such instruments, the Trustee recognises that there are rights and responsibilities associated with other asset classes.

### **Monitoring climate-related risks and opportunities**

The Trustee believes that climate change is likely to be a financial risk affecting the Scheme's investments to some degree. The Trustee will monitor appropriate climate risk metrics related to the Scheme and considers these when making investment decisions.

The Trustee believes that climate-related factors may create investment opportunities that the Scheme should do its best to take advantage of, where it is appropriate as part of the wider strategic objectives and/or its fiduciary responsibilities.

The Trustee believes that although markets are likely to partially price in climate related risks, it cannot rely solely on markets to react quickly or accurately enough. The risks arising from climate change should therefore be actively managed where this is possible, appropriate and consistent with the Scheme's wider investment strategy.

The Trustee believes that climate-change risk needs to be considered alongside and balanced against the other relevant investment risks and considerations when evaluating investments. The Trustee therefore acknowledges that it may not always be able to minimise climate-related risk if doing so would be to the detriment of wider strategic objectives and/or its fiduciary responsibilities.