

# Universal Office Supplies Pension Scheme

## Statement of Investment Principles

### 1. Introduction

- 1.1 The purpose of the Statement of Investment Principles (“the Statement”) is to document the principles and policies governing decisions about the investment of the assets of the Universal Office Supplies Pension Scheme (“the Scheme”). This statement has been prepared by the Trustee of the Scheme (“the Trustee”). It sets out the Trustee’s policy for complying with the Pensions Act 1995 and subsequent legislation. The Statement is intended to affirm the investment principles that govern decisions about the Scheme’s investments.
- 1.2 The Trustee has consulted Corporate Express Holdings Limited (“the Company”) on the Statement, and the Trustee has received written advice from the Scheme’s investment consultants, Mercer, which is regulated by the Financial Conduct Authority (“FCA”) in relation to investment services.
- 1.3 The Trustee seeks to maintain a good working relationship with the Company and will discuss any proposed changes to the Statement with the Company. The Trustee’s fiduciary obligations are, however, to the Scheme’s members and will take precedence over the Company’s wishes.
- 1.4 The Scheme is governed by its Trust Deed and Rules, which sets out all of the benefits in detail and specifies the Trustee’s investment powers. The investment powers do not conflict with this Statement.
- 1.5 A copy of this Statement will be sent to the Scheme’s investment manager(s) on request. The Trustee is committed to review the Statement at least once every three years and without delay upon a material change to the Scheme or the Company.

### 2. Decision Making Structure

#### 2.1 Overall investment policy falls into two parts:

- a) The *strategic management* of the assets is fundamentally the responsibility of the Trustee acting on expert advice and is driven by the investment objectives. The Trustee reviews the investment policy on a regular basis, although it is not expected to change frequently. Details are set out in Section 3.
- b) The *implementation* of the investment policy is the day to day management of the assets, which is delegated to the Trustee’s selected investment manager(s). Details are outlined in Section 4.

### **3. Strategic Management**

#### **Investment Objectives**

- 3.1 To guide them in their strategic management of the assets and control of the various risks to which the Scheme is exposed, the Trustee has considered and adopted the objective of minimising risk as far as possible while maintaining an appropriate level of expected return, where both risk and return are measured relative to the liabilities.
- 3.2 In particular, the Trustee acknowledges that the assets need to achieve, over the long term, a return on the investments which is over and above the long-term assumptions made by the Actuary in determining the ongoing funding of the Scheme.
- 3.3 The Trustee recognises that a portfolio of bonds (or bond-like investments) is the strategy which will best protect against changes in the value of the liabilities. With this in mind, the Trustee's investment strategy focuses on bond or bond-like investments, albeit that some of these are expected to generate outperformance versus the liabilities (and therefore involve some risk relative to the liabilities) by investing in a diverse range of bond instruments.

#### **Investment Risk**

- 3.4 The Trustee pays regard to the risks which may arise through a mismatch between the Scheme's assets and its liabilities, and the risks which may arise from the lack of diversification of investments. Subject to satisfying the risk from a mismatch of assets and liabilities, the Trustee believes that the asset allocation in place provides an adequately diversified distribution of assets.
- 3.5 The Trustee's willingness to take on investment risk is dependent on the continuing financial strength of the Company and its willingness to contribute to the Scheme. The strength of the Company and its commitment to the Scheme is monitored by the Trustee and risk will be reviewed if either of these deteriorates.
- 3.6 There are various risks to which any pension scheme is exposed.
- 3.7 The Trustee has considered the following risks which it deems to be financially material (and are assessed over a long time horizon given the nature of the Scheme's liabilities):
- 1) The risk of deterioration in the Scheme's funding levels over the long-term.
  - 2) The risk of a shortfall of assets relative to the liabilities as determined if the Scheme were to wind up.
  - 3) The risk that the day-to-day management of the assets will not achieve the rate of investment return expected by the Trustee.
  - 4) Interest rate risk - the risk that the assets do not move in line with the value placed on the Scheme's liabilities in response to changes in interest rates.
  - 5) Inflation risk - similar to interest rate risk but concerning inflation.
  - 6) Credit risk - the risk that payments due to bond investors might not be made.
  - 7) Currency risk - the risk that the value of the overseas assets changes relative to the Sterling based liabilities due to exchange rate fluctuations.

- 8) Liquidity Risk - the ease with which assets are marketable and realisable.
  - 9) Active manager risk – the risk that managers underperform their specified performance objectives.
- 3.8 The Trustee has decided to hedge a number of the risks above. In particular, the Trustee specifically aims to hedge the majority of interest rate risk and inflation risk (such that the value of the Scheme’s assets and liabilities will respond similarly to changes in these two variables) while overseas currency risk is also largely hedged within the investment vehicles.
- 3.9 The Trustee believes that proper diversification of investments is of the utmost importance. It is the Trustee’s policy that investments should only be made in assets which are suitable for achieving the above objectives within the above risk framework. As such, the assets are held in collective investment vehicles that invest in a number of underlying stocks, diversified by company, sector and country (where appropriate).

#### 4. **Asset Allocation Strategy**

##### **Day-to-Day Management of the Assets**

- 4.1 The Scheme assets are split between those relating to the main Scheme and those relating to Additional Voluntary Contributions (“AVCs”).

##### **Main Scheme Assets**

- 4.2 The Trustee has delegated the implementation of the investment strategy to Mercer through the use of Mercer’s implemented investment solutions (“Mercer IIS”).
- 4.3 This means that the Trustee delegates the day-to-day management of the Scheme assets to Mercer who in turn delegate responsibility for the investment of the assets to a range of underlying specialist investment managers. The Trustee will however select the asset classes and strategies that it believes will deliver on its overall investment objectives.
- 4.4 Mercer is specifically responsible for the selection, appointment, removal and monitoring of underlying investment managers.
- 4.5 It is expected that the assets invested via the Mercer platform will broadly be invested in line with the “target” allocation set out below. However, there is no formal rebalancing in place to maintain the allocation in line with the below, instead the target allocation (and overall objectives) will be reviewed by the Trustee over time. The Trustee will then only take action as and when it feels rebalancing is appropriate.

<b>Asset Class</b>	<b>Target Allocation (%)</b>
Multi Asset Credit Fund	8.8
Absolute Return Fixed Income Fund	7.5
<b>Total Alternative Fixed Income</b>	<b>16.3</b>
Tailored Credit Fund	35.8
<b>Total Corporate Bonds</b>	<b>35.8</b>
Long Fixed Flexi	17.2
Short Real Flexi	8.2
Medium Real Flexi	5.5
Long Real Flexi	2.3
Cash	14.8
<b>Total Liability Hedging</b>	<b>47.9</b>
<b>Total</b>	<b>100.0</b>

### Fund Specific Performance Objectives

	<b>Benchmark Index</b>	<b>Investment Objective</b>
Multi-Asset Credit	50% Bank of America Merrill Lynch Global High Yield Constrained Index (Currency Hedged), 50% S&P US Loans Index (Currency Hedged)	To outperform the benchmark index over the medium-term; to generate cash + 4-6% (gross of fees) over 5 year rolling periods
Absolute Return Fixed Income Fund	Cash: Citigroup 1 month Deposit Index	To outperform the benchmark by +3% (gross of fees) over 3 year rolling periods
Tailored Credit Fund	n/a	Harvest efficient credit spread premium (buy and maintain investment approach)
Long Fixed Flexi	n/a (liability hedging funds providing leveraged exposure to various underlying gilts or swaps)	To achieve leveraged exposure to nominal interest rates through the use of a broad range of techniques
Short Real Flexi		To achieve leveraged exposure to real interest rates through the use of a broad range of techniques
Medium Real Flexi		
Long Real Flexi		
Cash	n/a	Preservation of capital and provision of liquidity

## 5. **Cashflow Policy**

### **Investments (Inflow of cash)**

- 5.1 If the Trustee instructs an investment into the Scheme's assets held with Mercer, these will typically be allocated to the Absolute Return Fixed Income Fund, however this will be monitored to ensure that this remains appropriate and any amendments can be made as and when required.

### **Disinvestments (Outflow of cash)**

- 5.2 Any income received in respect of the Tailored Credit Fund will automatically be paid into the Trustee Bank Account and therefore these funds should be used to meet any cashflow requirements in the first instance.
- 5.3 However, if the Trustee requires a further disinvestment from the Scheme's assets held with Mercer, it is expected that these will be met by redeeming assets from the Cash Fund; however this will be monitored and amended as appropriate.

### **Recapitalisations**

- 5.4 In the event of a recapitalisation (of LDI funds), the investment strategy will be reviewed and any necessary rebalancing will be processed via subscription and redemption instructions from the Trustee.

## 6. **Selection, Monitoring and Retention of the Scheme's Investments, Investment Managers and Advisors**

- 6.1 Underlying investment managers are appointed by Mercer based on the strength of their capabilities and the perceived likelihood of achieving the expected return and risk profile required for the asset class in which they are appointed.
- 6.2 The Trustee delegates the continual forward-looking assessment of the ability of the appointed underlying investment managers to carry out their stated investment objectives over a full market cycle to Mercer, as the investment manager of the funds in which the Scheme invests. This view will be based on Mercer's assessment of the manager's idea generation, portfolio construction, implementation and business management (amongst other things), in relation to the strategic objectives agreed between Mercer and the underlying investment managers.
- 6.3 The Trustee is notified of any changes to Mercer's assessment of the underlying investment managers and changes and use this to inform their decision making around the selection, appointment, retention and removal of Mercer funds.
- 6.4 The Trustee accepts that as it is invested in pooled funds, there is limited scope for its views to be incorporated into the selection, retention and realisation of underlying investment managers. If the Trustee believes that the investment objectives of the strategies in which it is invested are no longer in line with the Trustee's overall objectives, it will review the appointment of Mercer as the investment manager.
- 6.5 Mercer as the investment manager is aware that its continued appointment is based on the success of delivering the mandates for which they have been appointed.
- 6.6 The Trustee is a long term investor and is therefore not looking to change investment arrangements on a frequent basis. The Scheme's assets are invested in open-ended funds and there is not set duration for the appointment of the investment manager.

- 6.7 It is the Trustee's policy that investment managers should report in writing each quarter on the Scheme's investment performance in line with the performance targets as set out above.
- 6.8 Mercer will provide a report to the Trustee including this information on a quarterly basis. For clarity, the Trustee utilises Mercer as its Investment Consultant to assist the Trustee in fulfilling its responsibility for monitoring the Scheme's underlying investment managers accessed via the Mercer Platform.
- 6.9 Mercer as the investment manager is remunerated by way of a fee calculated as a percentage of assets under management. The Trustee delegates the function of remunerating underlying investment managers to Mercer, but is aware of the fees payable by the Scheme to both Mercer and the underlying investment managers each quarter.
- 6.10 The Trustee does not currently actively monitor portfolio turnover costs but does receive annual MiFID II reporting from Mercer. Investment manager performance is generally reported net of transaction costs, and therefore managers are incentivised in this way to keep portfolio turnover costs to the minimum required to meet or exceed their objectives.
- 6.11 The Trustee will continue to monitor industry improvements concerning the reporting of portfolio turnover costs. In the future, the Trustee may ask the manager to report on portfolio turnover costs explicitly. The Trustee may assess this by comparing portfolio turnover across the same asset class, on a year-on-year basis for the same fund, or where relevant, relative to the manager's specific portfolio turnover range in the investment guidelines or prospectus.
- 6.12 Mercer, as investment consultant, is remunerated on an execution basis for individual projects as and when agreed between the Trustee and Mercer.
- 6.13 From time to time, the Trustee will review its appointed advisers and the effectiveness of its own decision making.

## **7. Responsible Investment and Corporate Governance**

- 7.1 The Trustee believes that good Stewardship and environmental, social and governance ("ESG") issues, including climate change, may have a material impact on investment risk and return outcomes.
- 7.2 As the assets with the managers are managed in pooled funds, the Trustee accepts the assets are subject to the underlying investment manager's own policy when evaluating ESG issues, including climate change, and in exercising rights and Stewardship obligations attached to the Scheme's investments. Mercer, where applicable on behalf of the Trustee, will review the underlying investment managers' policies and engagement activities and report back to the Trustee on an annual basis.
- 7.3 Similarly, the Trustee accepts that the Scheme's voting rights are exercised by the investment managers in accordance with its own corporate governance policy, and taking account of current best practice including the UK Corporate Governance Code and UK Stewardship Code.
- 7.4 The Scheme invests predominantly in fixed income instruments, including corporate bonds, where whilst ESG issues are still relevant to risk control, there is less opportunity to influence investee company behaviour compared to equity holdings.

- 7.5 The Trustee does not take into account non-financially material factors or members' views, including their ethical views, in the selection, retention and realisation of investments. However, the Trustee believes that the designation of portfolio construction to Mercer will lead to ESG considerations that are in the best interests of the Scheme as a whole.
- 7.6 The Trustee will consider how the underlying managers' approach to ESG integration, climate change, stewardship and responsible investment aligns with the Trustee's policies when determining future investment strategy decisions including the selection, retention and realisation of appointments.
- 7.7 Mercer has given their appointed investment managers restrictions in relation to particular products or activities for all fixed income portfolios. Mercer is also a signatory of the Principles of Responsible Investment and engages with the UN Compact.
- 7.8 The Trustee has not currently set any additional investment restrictions but may do so in the future.
- 7.9 The Trustee is comfortable with the arrangements in place.
- 8. Additional Voluntary Contributions ("AVCs")**
- 8.1 Assets in respect of members' AVCs are held in a choice of unit trusts, with profit policies and deposit funds operated by Prudential.
- 9. Compliance and Review of Statement**
- 9.1 In line with the Occupational Pension (Investment) Regulations (2005), the Trustee is required to review the Statement at least every three years and without delay after any significant changes in investment policy.
- 9.2 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 Company which it judges to have a bearing on the stated Investment Policy.
- 9.3 Any such review will again be based on written expert investment advice and the Company will be consulted.

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