

## SONI Limited Pension Scheme ("the Scheme")

### Chair's annual statement regarding governance of defined contribution benefits

1 April 2018 to 31 March 2019

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#### 1. Introduction

- 1.1. This statement has been prepared by the Trustees of the Scheme ("the Trustees") and reports on how the Trustees comply with governance standards introduced under The Occupational Pension Schemes (Charges and Governance) Regulations (Northern Ireland) 2015.
- 1.2. These governance standards relate to defined contribution ("DC") benefits, also commonly referred to as money purchase benefits
- 1.3. The Trustees will publish this statement on a publicly accessible website. The web address for this website will be: <http://www.soni.ltd.uk/library/>.

#### 2. The Scheme's DC arrangements

- 2.1. The Scheme's DC arrangements comprise:
  - 2.1.1. The Options Section – this section holds the Scheme's main DC benefits, i.e. those arising from standard contributions and additional voluntary contributions ("AVCs"). These benefits are administered by Barnett Waddingham. Funds are invested through Aegon's investment-only platform
  - 2.1.2. Bonus Accounts within the Focus Section, the defined benefit section of the Scheme. These accounts hold historic "bonus" contributions made by SONI Limited ("the Company") and AVCs, and funds are invested alongside the Options Section assets with Aegon.
- 2.2. The Options Section is open to new joiners and future contributions and is used as a 'qualifying' workplace pension scheme for automatic enrolment purposes.

#### 3. Default arrangement

- 3.1. The Scheme has had four default investment arrangements throughout the reporting period for the purposes of the governance standards. These are as follows:
  - 3.1.1. The Lifestyle Strategy ("Legacy Default") served as both the Options Section and Focus Section Bonus Accounts' default arrangement until 30 April 2018. This used a lifestyling approach to automatically reduce risk in later years and was designed to be suitable for members who wished to take their maximum tax-free cash lump sum and purchase an annuity with the balance of their fund.
  - 3.1.2. Members are invested wholly in the Aegon BlackRock Diversified Growth Fund until 5 years from their target retirement age ("TRA"). In the 5 years prior to a member's TRA, investments gradually switched out of this fund so at TRA members had an investment allocation of 25% in the Aegon BlackRock Cash Fund and 75% in the Aegon BlackRock Index-linked Gilt Fund.

- 3.1.3. Aegon BlackRock LifePath Flexi ("New Default") has served as the Options Section default arrangement since 1 May 2018. This strategy uses a Target Date Fund ("TDF") approach to de-risk members' investments as they approach their TRA. Through the New Default, members invest in a single fund at all times, however BlackRock manage and adjust the underlying investment portfolio to provide an appropriate level of risk at each stage of the member journey, from the inception of the policy and to and through retirement.
  - 3.1.4. The New Default is a series of funds with 3 year vintages, which means that the underlying asset allocation is built around investors moving to retirement at some stage in that three year window. LifePath Flexi is designed to target drawdown at a member's TRA and has been structured to offer a strategy to and through retirement. The drawdown portfolio targets a holding of 40% in equities and 60% in bonds at TRA and is maintained throughout the decumulation phase.
  - 3.1.5. The Trustees considered that the New Default may not be appropriate for members who were already approaching retirement (i.e. were less than 5 years from their TRA). As such, the Trustees introduced Aegon BlackRock LifePath Retirement as the default arrangement for both the Options and Focus Section members (in this group) since 1 May 2018.
  - 3.1.6. For members who hold Focus Section Bonus Accounts, the Trustees introduced LifePath Capital as the default investment option as members are likely to use their DC pots to fund their Scheme cash entitlement.
  - 3.1.7. Like the New Default, both LifePath Capital and LifePath Retirement are a series of funds with 3 year vintages, which means that the underlying asset allocation is built around investors moving to retirement at some stage in that three year window. LifePath Capital is designed to target cash at a member's TRA which is deemed the likely benefit choice for members within the Focus Section. LifePath Retirement is designed to target fixed income in readiness for a member to buy an annuity. The retirement portfolio targets a holding of 25% cash and 75% in fixed income at the member's TRA.
  - 3.1.8. Alongside the defaults, the Trustees have made available all three variants of LifePath (Capital, Flexi and Retirement) available to members on a self-select basis. Six other individual funds are available that cover the major asset classes. These are managed by BlackRock and LGIM and are hosted on the Aegon platform. The investments available are the same for the Options Section and Focus Section Bonus Accounts
- 3.2. Further details of the New Default are set out in the 'Statement of Investment Principles' ("SIP"), which has been appended to this statement. The SIP covering the Scheme year was dated March 2019; Appendix 2 of that document relates to the Scheme's DC arrangements and covers the investment policy and objectives of the defaults. The SIP was updated in September 2019 to take account of the Trustees' view on the financial materiality of Environmental, Social and Governance ("ESG") factors.

#### Review of the default

- 3.3. The Trustees last undertook a review of the Legacy Default and wider investment options available in October 2017, and details of this were included in the previous Chair's Statement. As a result of this review, the Trustees made the following changes to the investment strategies for the Scheme's DC arrangements:
  - 3.3.1. LifePath Flexi was introduced as the New Default for the Options Section with effect from 1 May 2018, and would be used for all new joiners to the Options Section who do not make an alternative investment choice.

- 3.3.2. Existing assets held in the Lifestyle Strategy were transitioned to LifePath in May 2018.
- 3.3.2.1. Options Section members who were invested in the Lifestyle Strategy and were more than 5 years from their TRA had their accrued funds automatically switched into LifePath Flexi.
- 3.3.2.2. Focus Section members who were invested in the Lifestyle Strategy and were more than 5 years from their TRA had their accrued funds automatically switched into LifePath Capital.
- 3.3.2.3. Options Section and Focus Section members who were invested in the Lifestyle Strategy and were within 5 years of their TRA had their accrued funds automatically switched into LifePath Retirement.
- 3.3.2.4. No changes were made to the investments of Options Section and Focus Section members who had self-selected outside of the Legacy Default.
- 3.3.2.5. Communications were issued to all members prior to the asset transition and gave members the option to make an alternative investment choice than those prescribed by the Trustees
- 3.3.3. Members with Focus Section Bonus Accounts were given access to the same investment choices as are available in the Options Section.
- 3.4. With assistance from Barnett Waddingham LLP, the Scheme's investment advisors, the Trustees review the performance of all the DC Section investment options, including the defaults, on a quarterly basis. During the reporting period, the Trustees were satisfied that the performance of the defaults was consistent with its aims and objectives, which are outlined in the Statement of Investment Principles. These quarterly reviews are part of the good governance of the Scheme and do not constitute a formal review of the default investment arrangements which ordinarily follow a three year cycle.

#### 4. Core financial transactions

- 4.1. The Trustees have a specific duty to ensure that 'core financial transactions' are processed promptly and accurately.
- 4.2. Core financial transactions comprise the following:
- 4.2.1. Investment of contributions into the Options Section
- 4.2.2. Transfers into and out of the Scheme
- 4.2.3. Investment switches within the Scheme
- 4.2.4. Other payments out of the Scheme (e.g. retirement payments, death payments)

#### Controls in place

- 4.3. The Trustees have Service Level Agreements (SLAs) in place with Barnett Waddingham, the Scheme's administrator. Barnett Waddingham undertakes to ensure that core financial transactions are processed within the SLAs set out below:

Core financial transaction	Service Level Agreement
Contribution files	5 working days
Transfer payments (in or out)	5 working days
Investment switches	5 working days
Payments out of the Scheme	5 working days

- 4.4. Barnett Waddingham monitors that contributions are paid within regulatory timescales.

- 4.5. The controls in place in relation to the accuracy of core financial transactions are:
- 4.5.1. All tasks completed by an administrator go through a robust checking process and any payments or investment activities in relation to the Scheme are authorised by a senior member of the team.
  - 4.5.2. Barnett Waddingham operates a pooled banking facility. The Barnett Waddingham pension administration system is updated daily to show reconciled balances to the pooled banking system. Financial Conduct Authority regulations for holding client monies mean that Barnett Waddingham must carry out an internal and external reconciliation every day.
  - 4.5.3. the audit of the Scheme's annual report and accounts
  - 4.5.4. the Scheme's membership data is periodically reviewed
  - 4.5.5. Barnett Waddingham's administration processes are subject to a formal external audit for the annual assurance report on internal controls
- 4.6. During the scheme year, Barnett Waddingham provided the Trustees with three administration reports that included reporting of service performance against the SLAs and identified any issues arising regarding administration accuracy.
- 4.7. The Trustees believe that these measures enabled them to monitor the promptness and accuracy of core financial transactions.

#### Performance during the scheme year

- 4.8. The Trustees believe that core financial transactions were generally processed promptly and accurately during the scheme year.
- 4.9. Over the reporting period, Barnett Waddingham processed 95% of all tasks (including those relating to core financial transactions) within their target date which is the terms outlined in the SLA.
- 4.10. A reconciliation of members' records following the asset transition in May 2018 that accompanied the investment changes determined that four members were omitted from the bulk switch erroneously. Once the error had been identified, Barnett Waddingham switched these members to the correct investments and calculated whether they had lost out financially during the period their investments were incorrect. It was determined that 2 members had gained from the error, and two members had lost out. All members were communicated with to explain the error and how this would be rectified, and the two members that lost out were recompensed in full by way of additional unit purchases into their pension account.
- 4.11. The Trustees note that during the year there was also an error in relation to the Statutory Money Purchase Illustrations (SMPIs) for both the Options and Focus Section members. The issue related to how members' pension pots were projected to retirement and impacted members invested in the Legacy Default. SMPIs were issued to all members and members were made aware of the error at the Annual General Meeting in January 2019. Barnett Waddingham has put in robust procedures and controls to ensure that the error does not occur again.

## 5. Charges and transaction costs

5.1. Members bear charges deducted from the funds in which their DC pension savings are invested. The charges differ between the investment options available and consist of both explicit and implicit charges:

5.1.1. Explicit charges: these are collected by explicit deduction of investment units and are expressed as a percentage of the value of each member's holdings within an investment fund. We refer to these explicit charges as the Total Expense Ratio (TER).

5.1.2. Implicit charges: these relate to the charges and costs incurred within an investment fund arising from the trading activities of the fund, e.g. incurred in the buying and selling of securities, which are not accounted for in the explicit charges. These implicit charges vary according to each fund's investment approach and prevailing market conditions. We refer to these implicit charges as the Transaction Costs.

5.2. The table below provides details of the explicit and implicit charges applied to each of the investment options provided through both the Options Section and Focus Section over the Scheme year (data sourced from Aegon).

Investment option	TER (p.a.)	Transaction Costs (p.a.)
Lifestyle Strategy (legacy default)	0.31% – 0.61%	0.003% – 0.319%
Aegon BlackRock Cash Fund	0.28%	0.018%
Aegon BlackRock Diversified Growth Fund	0.61%	0.319%
Aegon BlackRock Index-Linked Gilt Fund	0.31%	-0.001%
Aegon BlackRock LifePath Capital 2019-2021	0.36%	-0.031%
Aegon BlackRock LifePath Capital 2022-2024	0.36%	0.048%
Aegon BlackRock LifePath Capital 2025-2027	0.36%	-0.028%
Aegon BlackRock LifePath Capital 2028-2030	0.36%	-0.039%
Aegon BlackRock LifePath Capital 2031-2033	0.36%	-0.039%
Aegon BlackRock LifePath Flexi 2025-2027	0.36%	0.024%
Aegon BlackRock LifePath Flexi 2028-2030, 2031-2033, 2034-2036, 2037-2039, 2040-2042, 2043-2045, 2046-2048, 2049-2051, 2052-2054	0.36%	-0.039%
Aegon BlackRock LifePath Flexi 2055-2057	0.36%	-0.150%
Aegon BlackRock LifePath Flexi 2058-2060	0.36%	-0.286%
Aegon BlackRock LifePath Flexi 2061-2063	0.36%	-0.146%
Aegon BlackRock LifePath Retirement 2019-2021	0.36%	0.004%
Aegon BlackRock Pre-Retirement Fund	0.31%	0.006%
Aegon BlackRock UK Equity Optimum Fund	0.61%	-0.184%
Aegon LGIM Global Equity (50:50) Index Fund	0.40%	-0.004%

- 5.3. In certain circumstances, the methodology for calculating transaction costs (known as 'slippage') can lead to negative costs being reported. This can be, for example, where other market activity pushes down the price of the asset being traded, whilst the transaction was in progress, resulting in the asset being purchased for a lower price than when the trade was initiated.
- 5.4. The Trustees are mindful that we are in the early stages of transaction cost disclosure and investment managers have not fully adapted to these disclosure requirements. The Trustees did receive transaction cost data in respect of the previous Scheme year however no direct comparison or evaluation can take place as these were not provided on the slippage cost basis. The Trustees believe that it will be better placed to provide commentary and assess the value of the transaction costs in future years as the market adapts to provide the information required by legislation.

#### Impact of the costs and charges applied through the Scheme

- 5.5. To demonstrate the impact of the costs and charges applied through the Scheme, in this year's Chair's Statement the Trustees have produced illustrations in line with September 2018 guidance from the Department for Work & Pensions entitled 'Reporting of costs, charges and other illustration: guidance for trustees and managers of relevant occupational schemes'. These illustrations are set out below, and are designed to cater for representative cross-sections of the membership of the Scheme's DC arrangements.
- 5.6. For each individual illustration, each savings pot has been projected twice; firstly to allow for the assumed investment return gross of the costs and charges of the fund, and then again, but adjusted for the cumulative effect of the costs and charges of the fund. To determine the parameters used in these illustrations, the Trustees have analysed the membership of those invested in the Options Section and Focus Section Bonus Accounts relevant to the reporting period of this statement and ensured that the illustrations take into account the following:
  - 5.6.1. A representative range of pot sizes.
  - 5.6.2. A representative range of real terms investment returns (gross of costs and charges), including the lowest, the highest and the most popular (by number of members).
  - 5.6.3. A representative range of costs and charges, including the lowest and the highest.
  - 5.6.4. Representative periods of Scheme membership, covering the longest period that a member would take to reach target retirement age.
- 5.7. The Trustees have included future contributions in the illustration for the Options Section as this section remains open to future contributions. As regular contributions are not paid into Focus Section Bonus Accounts, the illustration assumes no further contributions are paid.

#### Guidance to the illustrations

- 5.8. The following notes on the illustrations should also be read:
  - 5.8.1. Projected pension pot values are shown in today's terms, so recognise the effects of future inflation.
  - 5.8.2. Inflation is assumed to be 2.5% each year. This is why the real terms value of the savings pot for certain funds does not increase over time.
  - 5.8.3. The starting pot sizes of £28,000 and £16,000 have been selected as they reflect the median pot size for their respective section of the Scheme based on 2019 membership data.
  - 5.8.4. Pensionable salary is assumed to grow at 2.5% per year.
  - 5.8.5. Values shown are estimates and are not guaranteed.
  - 5.8.6. The starting date for the illustrations is 31 March 2019.

5.8.7. The projected growth rates, gross of costs and charges, for each fund or arrangement are in line with those produced for the 2019 Statutory Money Purchase Illustrations (SMPI).

5.7.8 The funds used in these illustrations have been chosen from the range used by scheme members using the rationale outlined in the table on the following page:

Fund Name	Rationale	Total Cost (p.a.)	Expected Return
Aegon BlackRock UK Equity Optimum	Most Popular (Options Section) Highest expected return (Options & Focus Sections)	0.43%	2.20% above inflation
Aegon BlackRock LifePath Capital 2022-24	Most Popular (Focus Section)	0.41%	1.11% below inflation
Aegon BlackRock Index-Linked Gilt	Lowest expected return (Options & Focus Sections)	0.31%	1.80% below inflation
Aegon BlackRock Diversified Growth Fund	Highest costs and charges (Options & Focus Section)	0.93%	1.70% above inflation
Aegon BlackRock LifePath Flexi 2058-60	Lowest costs and charges (Options Section)	0.07%	1.37% above inflation
Aegon BlackRock Cash	Lowest costs and charges (Focus Section) *	0.30%	1.75% below inflation

### Illustration 1 – Options Section

This set of illustrations has been prepared to represent the typical member in the Options Section.

**Assumed Starting Pot Size: £28,000; Assumed Contributions: £586 per month**

#### Projected Pension Pot in Today's Money

Years of future membership	Aegon BlackRock UK Equity Optimum		Aegon BlackRock Index-Linked Gilt	
	Before Charges	After Charges	Before Charges	After Charges
0	£28,000	£28,000	£28,000	£28,000
1	£35,629	£35,498	£34,401	£34,306
5	£67,817	£66,811	£58,898	£58,257
10	£112,095	£109,099	£87,178	£85,527
15	£161,332	£155,175	£113,059	£110,104
20	£216,086	£205,379	£136,747	£132,255
30	£344,680	£319,683	£178,268	£170,211
45	£596,807	£532,481	£228,259	£214,215

**Projected Pension Pot in Today's Money**

Years of future membership	Aegon BlackRock Diversified Growth		Aegon BlackRock Flexi 2058-2060	
	Before Charges	After Charges	Before Charges	After Charges
0	£28,000	£28,000	£28,000	£28,000
1	£35,475	£35,190	£35,374	£35,351
5	£66,638	£64,497	£65,870	£65,699
10	£108,588	£102,387	£106,339	£105,842
15	£154,134	£141,723	£149,586	£148,588
20	£203,584	£182,562	£195,801	£194,105
30	£315,565	£268,976	£297,966	£294,185
45	£522,173	£411,368	£479,047	£469,979

**Note on how to read this table:** If a member has invested £28,000 in the Aegon BlackRock UK Equity Optimum Fund on 31 March 2019, and £586 in contributions were paid each month, when they came to retire in 45 years, the fund could be worth £596,807 if no charges are applied but to £532,481 with charges applied.

**Illustration 2 – Focus Section**

This set of illustrations has been prepared to represent the typical member with a bonus account in the Focus Section.

**Assumed Starting Pot Size: £16,000; Assumed Contributions: Nil**

**Projected Pension Pot in Today's Money**

Years of future membership	Aegon BlackRock LifePath Capital 2022-2024		Aegon BlackRock Index-Linked Gilt		Aegon BlackRock Diversified Growth	
	Before Charges	After Charges	Before Charges	After Charges	Before Charges	After Charges
0	£16,000	£16,000	£16,000	£16,000	£16,000	£16,000
1	£15,827	£15,763	£15,719	£15,671	£16,265	£16,120
5	£15,152	£14,850	£14,644	£14,420	£17,372	£16,611
10	£14,349	£13,782	£13,402	£12,997	£18,861	£17,245
15	£13,589	£12,792	£12,266	£11,713	£20,478	£17,903
20	£12,869	£11,872	£11,226	£10,557	£22,233	£18,587

**Projected Pension Pot in Today's Money**

Years of future membership	Aegon BlackRock UK Equity Optimum		Aegon BlackRock Cash	
	Before Charges	After Charges	Before Charges	After Charges
0	£16,000	£16,000	£16,000	£16,000
1	£16,343	£16,277	£15,727	£15,680
5	£17,792	£17,433	£14,680	£14,464
10	£19,786	£18,995	£13,469	£13,076
15	£22,002	£20,697	£12,358	£11,821
20	£24,467	£22,551	£11,338	£10,686

**Note on how to read this table:** If a member has invested £16,000 in the Aegon BlackRock LifePath Capital 2022-24 Fund on 31 March 2019, when they came to retire in 20 years, the fund could be worth £12,869 if no charges are applied but £11,872 with charges applied.

Costs in relation to the investment transition

- 5.9. Whenever an investment manager moves asset, they incur costs which are passed on to members implicitly via an adjustment in the effective unit price used to value their assets at the point of the trade. These are known as spread costs and are reported as a percentage of the assets transferred. When assets are moved in bulk, the costs can be amplified.
- 5.10. The asset transition that accompanied the change in the Scheme's default strategy in May 2018 incurred such costs. These costs were calculated by Aegon following completion of the transition process and totalled £11,790.27. This amount includes £11,652.47 in relation to switches out of the Diversified Growth Fund and Aegon advised that this was due to an increase in the spread cost to 0.37% of the overall trade value.
- 5.11. The Company agreed to cover the spread costs suffered by members during the transition process. To reimburse the members, the portion of the overall transition cost attributable to each member was calculated, units were purchased of equal amount and applied to each members' fund.
- 5.12. Further "out of market" costs can arise where trades between funds cannot be made instantaneously. As a result of this, in rising markets members may miss out on investment returns they would have received had their funds been invested. It should be noted that opposite movements would be beneficial for members. As the investment changes was only in relation to intra-manager switches, no "out of market" costs were incurred.

Value for members

- 5.13. The Trustees are required to assess annually the extent to which the charges and transaction costs borne by members represent good value.
- 5.14. Analysis was undertaken by the Trustees' professional advisers, Barnett Waddingham LLP, and the findings set out in a report dated September 2019. The Trustees considered the report and confirms its value for members' assessment in this statement.

- 5.15. Recognising that low cost does not necessarily mean good value, the assessment considered whether the services for which members pay or share the costs are suitable for, relevant to and (likely to be) valued by members and whether performance of the services had been effective. Consideration was also made of the costs relative to other options available in the market.
- 5.16. Various investment-related services for which members do not directly bear the costs are nevertheless inextricably linked to creating the environment under which investment returns are delivered, e.g. strategy, monitoring and the investment governance structure, so these were included in the assessment.
- 5.17. Other services paid for by the Company were excluded but nevertheless deliver value to member, e.g. the services of professional advisers and the operation of the trustee board, with a duty to act in the best interest of members.
- 5.18. In relation to the Scheme's DC arrangements, the member-borne charges and transaction costs relate to the cost of provision of investment management and manager governance services for both the Options Section and the Focus Section Bonus Accounts. Administration, communications and broader scheme governance costs are paid for by the Company.
- 5.19. The annual Value for Members assessment was undertaken as at 31 March 2019.
- 5.20. The assessment considered:
- 5.20.1. in relation to investment services:
    - 5.20.1.1. the range of investment options available and the design of the default
    - 5.20.1.2. the arrangements for monitoring the performance of the investment funds
    - 5.20.1.3. the governance arrangements
  - 5.20.2. the value received from the investment services relative to other options available in the market.
- 5.21. The Trustees concluded that the Scheme's DC arrangements offer **excellent value** in relation to the charges and transaction costs borne by members. In reaching this conclusion, the Trustees recognised:
- 5.21.1. The Scheme has a governance structure that is appropriate relative to its size and structure. This is documented in the SIP, which has been updated to reflect the new investment options. Investment matters are considered by the full trustee board at meetings with assistance from Barnett Waddingham LLP, an FCA-regulated professional adviser.
  - 5.21.2. Changes were made to the investment strategy for the Scheme's DC arrangements to better meet member needs in light of the pension freedoms. Following a strategic investment review, a new default strategy was implemented that targets drawdown, as member demographic analysis indicated this would be the most likely retirement outcome. Members' accrued funds in the Legacy Default were switched into the new investment options in an exercise that incurred no costs for members.
  - 5.21.3. Investment performance monitoring is undertaken on a regular and ongoing basis with the assistance of Barnett Waddingham LLP, the Scheme's investment advisers, and this includes advice on long-term market conditions.
  - 5.21.4. No matters were identified as detracting value for members.

## 6. Trustee knowledge and understanding

### The Trustee Board

- 6.1. The Trustees comprise five trustees, two of whom are nominated by the members and three of whom are appointed by the Company.

### Trustee knowledge and understanding requirements

- 6.2. The Trustees are required to be conversant with the Scheme's main documents, and have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational schemes and investment of scheme assets to enable them to properly exercise their functions.
- 6.3. The Trustees address the requirements through a combination of training and taking professional advice.
- 6.4. During the Scheme year, in relation to the Scheme documentation, the Trustees:
  - 6.4.1. Reviewed the Scheme Trust Deed & Rules document to investigate the feasibility of allowing members to request partial transfers of benefits out of the Options Section of the Scheme. The Trustees asked their legal advisers to draft a Deed of Amendment to amend the rules to allow this functionality. This Deed was reviewed and signed by the Trustees, and the new provisions came into effect from January 2019.
  - 6.4.2. Updated the Statement of Investment Principles to reflect changes to the investment strategies of both the Options Section and the Focus Section.
  - 6.4.3. Undertook work during the year to update their Data Protection Policy in light of the introduction of the General Data Protection Regulation ("GDPR") and ensure that all Scheme activities were GDPR-compliant.
- 6.5. Trustee decisions are made in accordance with the Scheme rules and in line with trust law duties:
- 6.6. Trustees are able to challenge and question advisers, committees and other delegates effectively.
- 6.7. Trustees' decisions are not compromised by such things as conflicts or hospitality arrangements

### Trustee training

- 6.8. The Trustees have in place a training programme on which they consult with professional advisers. Training is undertaken regularly at trustee meetings and is formally documented within meeting minutes.
- 6.9. During the reporting period, the Trustees received training on :
  - 6.9.1. Changes to disclosure duties for trustees of DC schemes. This covered the disclosures of cost and charges information and illustrative examples, required to be made to members made via additional material in the Chair's Statement and publishing on a publicly available website, and forthcoming required changes to the SIP to record the Trustees policy on financially material considerations.
  - 6.9.2. DC Statutory Money Purchase Illustrations.
  - 6.9.3. Data protection, in light of the introduction of the General Data Protection Regulation in 2018.
- 6.10. The Trustees supplement the training programme with activities such as attending seminars and conferences, and reading pensions-related articles. The Trustees also receive regular topical literature from their advisers which detail legislative and market-based developments regarding DC pension provision.
- 6.11. New trustees are required to complete the trustee training toolkit modules provided by the Pensions Regulator. However no new trustees were appointed during the Scheme year.

Access to professional advice

- 6.12. The Trustees consult with professional advisers as and when required, for example on consultancy, governance and legal matters. Their professional advisers alert the Trustees, and where appropriate provide training, on relevant changes to pension and trust law.
- 6.13. The Trustees' professional advisers provide support in relation to understanding and application of the Scheme's documents, e.g. trust deed and rules and statement of investment principles.
- 6.14. During the period covered by this statement, the Trustees took professional advice on:
  - 6.14.1. The annual Value for Member assessment
  - 6.14.2. Changes to the trust deed and rules to allow partial transfers for members who hold DC arrangements in the Scheme.
  - 6.14.3. Assessing the Scheme's DC arrangements against the Pensions Regulator's Code of Practice 13
  - 6.14.4. Achieving compliance with GDPR

Assessment

- 6.15. The Trustee board comprises company-appointed and member-nominated trustees from different professional backgrounds who bring a diversity of experience and perspective, and allows for comprehensive consideration of the issues pertinent to the Scheme and its members.
- 6.16. The Trustees consider that their combined knowledge, skills and understanding together with the advice which is available to them from their advisers enables them to properly exercise their trustee functions in relation to the Scheme's DC arrangements.

*Aidan Skelly*  
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Aidan Skelly, Chair of the Trustees

*18/10/2019*  
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Date

# **SONI Limited Pension Scheme**

## **Statement of Investment Principles**

March 2019

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## 1. Introduction

- 1.1. This is the Statement of Investment Principles prepared by the Trustees of the SONI Limited Pension Scheme (the Scheme). This statement sets down the principles which govern the decisions about investments that enable the Scheme to meet the requirements of:
  - the Pensions Act 1995, as amended by the Pensions Act 2004; and
  - the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010 and the Occupational Pension Schemes (Charges and Governance) Regulations 2015.
- 1.2. In preparing this statement the Trustees have consulted SONI Limited, the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustees' investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority and licensed by the Institute and Faculty of Actuaries for a range of investment business activities.
- 1.3. This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.
- 1.4. The Trustees will review this statement at least every three years or if there is a significant change in any of the areas covered by the statement.
- 1.5. The investment powers of the Trustees are set out in Clause E of the Definitive Trust Deed & Rules, dated June 2009. This statement is consistent with those powers.
- 1.6. The Scheme consists of the Focus Defined Benefit (DB) Section, the Focus Defined Contribution (DC) Section and the Options DC Section.

## 2. Choosing investments

- 2.1. The Trustees' policy for the DB Section is to set the overall investment target and then monitor the performance of their managers against that target. For the DC Sections, the Trustees' policy is to offer a default investment arrangement suitable for the Scheme's membership profile plus a core range of investment funds into which members can choose to invest. In doing so, the Trustees consider the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.
- 2.2. The day-to-day management of the Scheme's assets is delegated to one or more investment managers. The Scheme's investment managers are detailed in the Appendices to this Statement. The investment managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights.
- 2.3. The Trustees review the appropriateness of the Scheme's DB and DC investment strategies on an ongoing basis. This review includes consideration of the continued competence of the investment managers with respect to performance within any guidelines set. The Trustees will also consult the employer before amending either the DB or DC investment strategy.

## 3. Investment objectives

- 3.1. The Trustees have discussed key investment objectives in light of an analysis of the Scheme's liability profile (for the DB Section) and the Scheme's membership profile (for the DC Section) as well as the constraints the Trustees face in achieving these objectives.

3.2. The Trustees' main investment objectives in respect of the Focus DB Section are:

- to ensure that they can meet the members' entitlements under the Trust Deed and Rules as they fall due;
- to achieve a long term positive real return;
- to manage the expected volatility of the returns achieved in order to control the level of volatility in the Scheme's required contribution levels;
- to invest in assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from members and the participating employer, the cost of current and future benefits which the Scheme provides;
- to reduce the risk of the assets failing to meet the liabilities over the long term;
- to minimise the long-term costs of the Scheme by maximising the return on the assets whilst having regard to the above objectives.

3.3. The Trustees are aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Focus DB Section's liabilities. The Trustees have obtained exposure to investments that they expect will meet the Focus Section's objectives as best as possible.

3.4. The Trustees' main investment objectives for the DC Sections are:

- to provide suitable default investment option(s) that are likely to be suitable for a typical member of the DC Sections;
- to offer an appropriate range of alternative investment options so that members who wish to make their own investment choices have the freedom to do so, recognising that members may have different needs and objectives;
- to maximise member outcomes;
- to manage the expected volatility of the returns achieved in order to control the level of volatility in the value of members' pension pots;
- to reduce the risk of the assets failing to meet projected retirement income levels.

3.5. Within the DC Sections, the Trustees are responsible for the design of the default investment option and for choosing which funds to make available to members. Members are responsible for their own choice of investment options.

## 4. Kinds of investments to be held

4.1. The Scheme is permitted to invest in a wide range of assets including equities, bonds, cash, property, annuity policies and other alternatives.

4.2. Any investment in derivative instruments is only made to contribute to a reduction in the overall level of risks in the portfolio or for the purposes of efficient portfolio management.

4.3. The Trustees monitor from time-to-time the employer-related investment content of their portfolio as a whole and will take steps to alter this should they discover this to be more than 5% of the portfolio. Typically this check is carried out annually by the Scheme's auditors.

## 5. The balance between different kinds of investments

- 5.1. The Focus DB Section invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained within Appendix 1 to this Statement.
- 5.2. DC Section members can choose to invest in the funds detailed in Appendix 2. Where members do not choose where their contributions, and those made on their behalf by the employer, are invested, the Trustees will invest these contributions according to the default investment strategy set out in Appendix 2.
- 5.3. The Trustees consider the merits of both active and passive management for the various elements of each Section's portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Appendices to this Statement.
- 5.4. From time to time the DB Section may deviate from its strategic or tactical asset allocation in order to accommodate for any short-term cashflow requirements or any other unexpected items.
- 5.5. The Trustees are aware that the appropriate balance between different kinds of investments will vary over time and therefore the asset allocation of the Focus DB Section will be expected to change as the Scheme's liability profile matures. The asset allocation of the DC Sections may change as the membership profile evolves.

## 6. Risks

- 6.1. The Trustees have considered the following risks for the Focus DB Section with regard to its investment policy and the Scheme's liabilities, and considered ways of managing/monitoring these risks:

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### **Risk versus the liabilities**

The Trustees will monitor and review the investment strategy with respect to the liabilities in conjunction with each actuarial valuation. The investment strategy will be set with consideration to the appropriate level of risk required for the funding strategy as set out in the Scheme's Statement of Funding Principles.

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### **Covenant risk**

The creditworthiness of the employer and the size of the pension liability relative to the employer's earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the employer covenant.

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### **Solvency and mismatching**

The risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustees are aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Scheme's funding basis.

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### **Asset allocation risk**

The asset allocation is detailed in Appendix 1 to this Statement and is monitored on a regular basis by the Trustees.

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### **Liquidity risk**

The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Scheme's cashflow requirements. The Scheme's administrators assess the level of cash held in order to limit the impact of the cashflow requirements on the investment policy.

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6.2. For the DC Sections, investment risk lies with the members themselves. However, the Trustees have considered the following risks when making available suitable investment choices:

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<b>Inflation risk</b>	The risk that the investments do not provide a return at least in line with inflation, thus eroding the purchasing power of the retirement savings. The Trustees make available investment options that are expected to provide a long-term real rate of return.
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<b>Conversion risk</b>	The risk that fluctuations in the assets held, particularly in the period before retirement savings are accessed, lead to uncertainty over the benefit amount likely to be received. In the default arrangements made available to members (see Appendix 2), the Trustees increase the proportion of assets that are expected to more closely match how they expect members to access their retirement savings as members move towards retirement.
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<b>Retirement income risk</b>	The risk that a member's retirement income falls short of the amount expected, whether this is due to lower investment returns than expected or insufficient contributions being paid. The Trustees periodically review the appropriateness of the fund range offered to members to support appropriate member outcomes, whilst providing communication to members from time to time explaining the importance of the level of contributions.
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6.3. The following risks have been considered in the context of both the Focus and Options Sections:

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<b>Investment manager risk</b>	The Trustees monitor the performance of each of the Scheme's investment managers on a regular basis in addition to having meetings with each manager from time to time as necessary. The Trustees have a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate.
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<b>Concentration risk</b>	Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.
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<b>Currency risk</b>	The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management. Currency hedging is employed in some cases to manage the impact of exchange rate fluctuations.
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<b>Loss of investment</b>	The risk of loss of investment by each investment manager and custodian is assessed by the Trustees. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud).
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## 7. Expected return on investments

7.1. The Trustees have regard to the relative investment return and risk that each asset class is expected to provide. The Trustees are advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the investment managers.

- 7.2. The Trustees recognise the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.
- 7.3. In considering the expected return from investments, the Trustees recognise that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities of the Focus DB Section.
- 7.4. Having established the investment strategy, the Trustees monitor the performance of each investment manager against an agreed benchmark as frequently as appropriate according to market conditions (and the Focus DB Section's funding position). The Trustees meet the Scheme's investment managers as frequently as is appropriate, in order to review performance.

## 8. Realisation of investments

- 8.1. The Trustees have delegated the responsibility for buying and selling investments to the investment managers. The Trustees have considered the risk of liquidity as referred to above.
- 8.2. Ultimately, the Focus DB Section investments will all have to be sold when the Scheme's life comes to an end. In this situation, the Trustees are aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Scheme accounts.

## 9. Socially Responsible Investment, Corporate Governance and Voting Rights

- 9.1. Social, environmental and ethical considerations are set by each of the investment managers, who also exercise the rights attaching to the investments in any pooled funds. Each of the Scheme's investment managers is expected to ultimately act in the best interests of the Scheme's assets to maximise returns for a given level of risk.

## 10. Agreement

- 10.1. This statement was agreed by the Trustees, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the employer, the investment managers, the actuary and the Scheme auditor upon request.

**Signed:**.....

**Date:**.....

**On behalf of the SONI Limited Pension Scheme**

# Appendix 1 Investment policy of the Scheme's DB section in relation to the current Statement of Investment Principles dated March 2019

## 1 Focus DB Section

The Trustees have appointed Legal & General Investment Management to carry out the day-to-day investment of the funds.

The fund managers are authorised and regulated by the Financial Conduct Authority.

The Trustees have appointed Barnett Waddingham LLP to advise on investment matters..

The fee arrangements with the fund managers are summarised below:

Fund manager	Fees
<b>Legal &amp; General</b>	
All funds	An amount based on the average offer value of the holdings in each fund during the quarter (ranging from 0.10% p.a. to 0.30% p.a.) plus a management fee of £1,000 p.a., payable quarterly in arrears, as long as the total offer value of credited units exceeds £10 million at the start of the calendar year.

Barnett Waddingham LLP is remunerated on a time-cost basis, or through fixed fees as agreed by the Trustees from time to time.

The Trustees have an AVC contract with Aegon for the receipt of members' Additional Voluntary Contributions and pensionable bonus payments. The arrangement is reviewed from time to time.

### Kinds of investments to be held

The Trustees have considered all asset classes and have gained exposure to the following asset classes in respect of the defined benefit assets:

- UK equities;
- Overseas equities;
- Long-dated index-linked gilts;
- Corporate bonds;
- Liability Driven Investment instruments
- Cash

## **The balance between different kinds of investment and rebalancing**

The asset allocation has been agreed following a formal investment review and the results of the Scheme's first actuarial valuation. The asset allocation has also been chosen with reference to the liability profile, expected return of the various asset classes and the need for diversification.

The investment benchmarks and objectives for each fund manager are given in the following table:

Fund	Target performance
<b>Legal &amp; General</b>	
UK Equity Index	FTSE All-Share Index
North America Equity Index	FTSE World North America Index
North America Equity Index – GBP Hedged	FTSE World North America Index on a currency hedged basis
Europe (ex UK) Equity Index	FTSE World Europe (ex UK) Index
Europe (ex UK) Equity Index – GBP Hedged	FTSE World Europe (ex UK) Index on a currency hedged basis
Japan Equity Index	FTSE World Japan Index
Japan Equity Index – GBP Hedged	FTSE World Japan Index on a currency hedged basis
Asia Pacific (ex Japan) Equity Index	FTSE World Asia Pacific (ex Japan) Developed Index
Asia Pacific (ex Japan) Equity Index – GBP Hedged	FTSE World Asia Pacific (ex Japan) Developed Index on a currency hedged basis
Over 15 Year Index-Linked Gilts Index	FTSE-A Index-linked (Over 15 Year) Index
Active Corporate Bond – All Stocks	Exceed the iBoxx £ Non-Gilt Index by 0.75% p.a. (before fees) over a three year rolling period
Matching Core Real Short Fund	To hedge a subset of the liabilities of a typical UK pension scheme with respect to changes in interest rates and inflation
Matching Core Real Long Fund	To hedge a subset of the liabilities of a typical UK pension scheme with respect to changes in interest rates and inflation
Sterling Liquidity Fund	To provide diversified exposure and a competitive return in relation to 7 Day LIBID.

All funds except the Active Corporate Bond – All Stocks Fund and the Matching Core Funds are passively managed and their target is therefore to track the performance of the respective index within a specified margin.

The performance of fund managers will be monitored as frequently as the Trustees consider appropriate in light of the prevailing circumstances. The monitoring takes into account both short term and long term performance.

The Trustees have set the strategic asset allocation as set out in the following table. The Trustees recognise that the allocation to different asset classes will vary over time as a result of market movements. The Trustees may choose to rebalance on an ad hoc basis as they see fit.

<b>Legal &amp; General</b>	<b>Allocation</b>
<b>Equities</b>	<b>45%</b>
UK equities	11.3%
North American equities	5.6%
North American equities (currency hedged)	5.6%
European (ex. UK) equities	5.6%
European (ex. UK) equities (currency hedged)	5.6%
Japanese equities	2.9%
Japanese equities (currency hedged)	2.9%
Asia-Pacific (ex. Japan) equities	2.9%
Asia-Pacific (ex. Japan) equities (currency hedged)	2.9%
<b>LDI portfolio*</b>	<b>25%</b>
<b>Corporate bonds</b>	<b>20%</b>
<b>Sterling Liquidity Fund</b>	<b>10%</b>
<b>Total</b>	<b>100%</b>

\*LDI portfolio currently includes Over 15 Year Index-Linked Gilts Index, Matching Core Real Short Fund and Matching Core Real Long Fund. The Trustees are in the process of switching out of the Over 15 Year Index-Linked Gilts Index fund and into the Matching Core Funds

## **Investment of new money and realisation of investments**

New money is generally invested in proportion to the assets already held but the Trustees keep this policy under review to assess its continued appropriateness. They may therefore decide to invest new money in a different manner in order to effect a change to the asset allocation. Similarly any investments realised to pay benefits will usually be in proportion to the investments held but this may be altered in order to effect a change in allocation or strategy.

## **Monitoring**

The performance of the investment managers will be monitored as frequently as the Trustees consider appropriate in light of the prevailing circumstances. The monitoring takes into account both short-term and long-term performance.

The AVC arrangement is reviewed from time to time.

## **Appendix 2 Note on investment policy of the Scheme's DC Sections in relation to the current Statement of Investment Principles dated March 2019**

### **2 Focus DC and Options DC Sections**

The Trustees have made available a range of funds to suit the individual needs of the Scheme's members.

These include lifestyle arrangements, whereby a member's assets are automatically invested in line with a pre-determined strategy that changes as the member gets closer to accessing their retirement savings. Emphasis is placed on medium to higher risk funds (i.e. investment largely in growth assets) in search of long-term inflation-protected growth whilst the member is a long way off accessing their retirement savings, switching progressively to protection assets over the years preceding the member's target retirement date so as to protect the purchasing power of the retirement savings. The Trustees have appointed AEGON/Scottish Equitable plc to carry out the day-to-day investment of the funds.

The fund managers are authorised and regulated by the Financial Conduct Authority.

The Trustees have appointed Barnett Waddingham LLP to advise on investment matters in addition to advice received from the fund managers on suitability of investments.

The fee arrangements with the fund managers are summarised in the table below:

<b>Fund manager</b>	<b>Total Expense Ratio (% p.a.)</b>
<b>AEGON/ Scottish Equitable plc</b>	
BlackRock Cash Fund	0.28
BlackRock Diversified Growth Fund	0.61
BlackRock Index-Linked Gilt Fund	0.31
BlackRock LGIM Global Equity 50:50 Fund	0.40
BlackRock LifePath Capital range	0.36
BlackRock LifePath Flexi range	0.36
BlackRock LifePath Retirement range	0.36
BlackRock Pre-Retirement Fund	0.31
BlackRock UK Equity Optimum Fund	0.61

Barnett Waddingham LLP is remunerated on a time-cost basis, or through fixed fees as agreed by the Trustees from time to time.

AVC investments in the Options Section are invested in the same way as ordinary contributions.

## **Default Option**

The Trustees acknowledge that members will have different attitudes to risk and different aims for accessing their retirement savings, and so it is not possible to offer a default investment option that will be suitable for all. However, having analysed the Scheme's membership profile, the Trustees decided that the lifestyle arrangements set out below represent suitable default investment options for the majority of members who do not make a choice about how their contributions (and those made on their behalf by the employer) are invested.

The default strategy for most Options Section members (unless otherwise notified) is BlackRock LifePath Flexi.

From June 2018, Options Section members more than five years from retirement were switched to the default option of BlackRock LifePath Flexi unless they requested an alternative. Options Section members less than five

years from retirement were switched to the default option of BlackRock LifePath Retirement unless they requested an alternative.

## Kinds of investments to be held

The Trustees have considered all asset classes and have gained exposure to the following asset classes in respect of the defined contribution assets:

- UK equities;
- Overseas equities;
- Fixed Interest Gilts;
- Index-Linked Gilts;
- Multi-Asset Pooled Investment Vehicles;
- Cash

## LifePath strategies

The Trustees have decided to introduce the LifePath Strategy which is made up of a series of target date funds with varying allocations of the above assets dependant on the member's target retirement date.

A summary of the target of each strategy is summarised in the table below:

Strategy	Target at retirement
BlackRock LifePath Capital range	For members who wish to take their DC pot as cash at retirement
BlackRock LifePath Flexi range	For members who wish to stay invested post-retirement and potentially draw down an income from their DC pot
BlackRock LifePath Retirement range	For members who wish to use all or the majority of their DC pot to purchase an annuity at retirement

The investment benchmarks and objectives for each fund manager are given in the following table:

Fund	Benchmark	Objective
<b>BlackRock</b>		
BlackRock Cash Fund	7 Day LIBID Rate	Aims to produce a return in excess of its benchmark principally from a portfolio of Sterling denominated cash, deposits and money market instruments
BlackRock Diversified Growth Fund	N/A	This Fund targets an investment return of 3.5% above the Bank of England base rate measured over rolling 3 year periods by utilising a multi-asset flexible

		investment approach. In aiming to achieve the target, this Fund will generally hold a variety of different types of assets at any one time.
BlackRock Index-Linked Gilt Fund	FTA Over 5 Year Index Linked Index	Invests mainly in index-linked UK government bonds and aims to produce a return in line with its benchmark
BlackRock LGIM Global Equity 50:50 Fund	Composite-using FTSE All-World sub-divisions	Invests mainly in UK equities (around 50%) and overseas equities (around 50%). The overseas equities are split between geographical regions in fixed percentages. The fund aims to track the return of its benchmark.
BlackRock LifePath Capital	Composite benchmark	The Fund will gain exposure to global equities, fixed income instruments, property and commodities and may invest in other permitted assets. The allocation will adjust over time nearer the maturity date towards a portfolio of mainly Sterling-denominated short-duration fixed income and cash-like assets.
BlackRock LifePath Flexi	Composite benchmark	The Fund will gain exposure to global equities, fixed income instruments, property and commodities and may invest in other permitted assets. The allocation will adjust over time nearer the maturity date towards a portfolio of approximately 40% equities and 60% fixed income.
BlackRock LifePath Retirement	Composite benchmark	The Fund will gain exposure to global equities, fixed income instruments, property and commodities and may invest in other permitted assets. The allocation will adjust over time nearer the maturity date towards a portfolio of approximately 25% cash and 75% fixed income.
BlackRock Pre-Retirement Fund	50% FTA Over 15 Year Gilt Index and 50% ML £ Non-Gilt AA/AAA Over 15 Year Index	Invests mainly in long-dated UK government bonds (around 50%) and long-dated UK corporate bonds (around 50%) and aims to produce a return in excess of its benchmark
BlackRock UK Equity Optimum Fund	FTSE All Share Index	A more concentrated portfolio of UK stocks than BlackRock's core UK equity funds, this Fund aims to invest in those shares where they have most investment conviction.

The performance of the investment managers will be monitored as frequently as the Trustees consider appropriate in light of the prevailing circumstances. The monitoring takes into account both short-term and long-term performance.

The Trustees review the suitability of the default strategies and fund range from time to time, taking into account the membership profile and advice from their advisors, and will make changes where they deem appropriate.