

# **The Chanel Limited Pension Plan (the “Plan”) Statement of Investment Principles (the “Statement”)**

## **1. Scope of Statement**

This Statement has been prepared in accordance with section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004, and the Occupational Pension Plans (Investment) Regulations 2005). This Statement documents the principles and policies by which the Trustees manage the assets in the Plan.

The effective date of this Statement is 30 September 2020. The Trustees will review this Statement and the Plan’s investment strategy no later than three years after the effective date of this statement and without delay after any significant change in investment policy.

## **2. Consultations Made**

As required by the Act, the Trustees have consulted with the two participating employers, Chanel Limited and Croydon Logistics Limited, prior to writing this Statement and will take the employers’ comments into account when they believe it is appropriate to do so.

The Trustees are responsible for the investment strategy of the Plan. They have obtained written advice on the investment strategy appropriate for the Plan and on the preparation of this Statement. This advice was provided by Aon Solutions UK Limited (“Aon”) who are authorised and regulated by the Financial Conduct Authority.

The day to day management of the Plan’s assets has been delegated to investment managers who are authorised and regulated by the Financial Conduct Authority. A copy of this Statement is available to the appointed investment managers and to the members of the Plan on request.

## **3. Objectives and Policy for Securing Objectives**

The Trustees’ objectives for setting the investment strategy of the Plan have been set with regard to the Plan’s Statutory Funding Objectives as set out in the Statement of Funding Principles.

The Trustees’ primary investment objectives are:

- “funding objective” - to ensure that the Plan is fully funded using assumptions that contain a margin for prudence. Where an actuarial valuation reveals a deficit, a recovery plan will be put in place which will take into account the financial covenant of the employers;
- “stability objective” – to have due regard to the likely level and volatility of required contributions when setting the Plan’s investment strategy; and
- “security objective” – to ensure that the solvency position of the Plan (as assessed on a gilt basis) is expected to improve. The Trustees will take into account the strength of the employers’ covenant when determining the expected improvement in the solvency position of the Plan.

## **4. Choosing Investments**

The types of investments held and the balance between them is deemed appropriate given the liability profile of the Plan, its cashflow requirements, the funding level of the Plan and the Trustees’ objectives.

The assets of the Plan are invested in the best interests of the members and beneficiaries.

The Trustees exercise their powers of investment and delegation (where these powers have been delegated to the fund manager) in a manner calculated to ensure the security, quality, liquidity and profitability of the portfolio as a whole. In order to avoid an undue concentration of risk a spread of assets is held. The diversification is both within and across the major asset classes.

Assets held to cover the Plan's technical provisions (the liabilities of the Plan) are invested in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the Plan.

The assets of the Plan are invested predominantly on regulated markets (with investments not on regulated markets being kept to a prudent level) and properly diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings so as to avoid accumulations of risk in the portfolio as a whole.

Investment in derivatives is only made in so far as they contribute to the reduction of investment risks, or to facilitate efficient portfolio management and are managed such as to avoid excessive risk exposure to a single counterparty or other derivative operations.

## **5. The Balance Between Different Kinds of Investments**

The asset allocation set out in the Appendix is currently considered appropriate, bearing in mind the results of the actuarial valuation dated 5 April 2018.

A broad range of available asset classes has been considered including so called "alternative" asset classes (namely property, private equity and hedge funds).

## **6. Investment Risk Measurement and Management**

To understand what an acceptable degree of risk is, the Trustees take expert advice, and this has resulted in an investment strategy laid out in detail in the Appendix of this Statement.

The key investment risks are recognised as arising from asset allocation. These are assessed triennially in conjunction with the actuarial valuation of the Plan, following which the Trustees take advice on the continued appropriateness of the existing investment strategy.

Risks associated with changes in the employers' covenant are assessed by the Trustees by continuous monitoring of the strength of the employers. One way of doing this is by monitoring the Failure Scores (as defined for the purposes of calculating the risk-based element of the Pension Protection Fund levy). The Trustees also have an agreement with the employers to receive notification of any events which have the potential to alter the creditworthiness of the sponsoring employers. In particular, the Trustees will be informed of Type A events, as defined in appropriate guidance issued by the Pensions Regulator and employer-related Notifiable Events. On receipt of such notification, the Trustee will re-consider the continued appropriateness of the Plan's existing investment strategy.

The Trustees monitor the risks arising through the selection, or appointment of fund managers on a regular basis. Expected deviation from the benchmark is detailed in the Appendix to this statement. The Trustees have appointed Aon to alert them on any matters of material significance that might affect the ability of the fund managers to achieve their objectives.

The Trustees acknowledge that investment returns achieved outside the expected deviation (positive, or negative) may be an indication that the investment manager in question is taking a higher level of risk than originally stated.

For due diligence purposes, the Trustees will meet periodically with the fund managers.

## **7. Custody**

Investment in pooled funds gives the Trustees a right to the cash value of the units, rather than to the underlying assets. The managers of the pooled funds are responsible for the appointment and monitoring of the custodians of the funds' assets.

The custodians are independent of the employers.

## **8. Expected Returns on Assets**

In relation to the major asset classes, the Trustees' long-term expectations are:

- for the "growth" assets (UK equities, overseas equities, multi asset credit, UK property), to achieve a return which at least keeps pace with the increase in national average earnings over the same period. The Trustees are willing to incur short-term volatility in asset price behaviour with the expectation that, over the long term, these assets will outperform other asset classes which may be regarded as matching the liabilities;
- for any matching assets;
  - for index-linked bonds or index linked LDI funds, to achieve a rate of return in excess of price inflation, and short-term price behaviour in line with the cost of providing index-linked annuities;
  - for monetary assets (UK and overseas bonds, gilts, cash and fixed LDI funds) to achieve a rate of return which is at least in line with changes in the cost of providing fixed income annuities;

Returns achieved by the fund managers are assessed against performance benchmarks set by the Trustees in consultation with their advisers and the fund managers.

## **9. Realisation of Investments/Liquidity**

The Trustees recognise that there is a risk in holding assets that cannot be easily realised should the need arise.

The majority of the assets held are realisable at short notice through the sale of units in pooled funds.

## **10. Arrangements with Asset Managers**

The Trustees monitor the Plan's investments to consider the extent to which the investment strategy and decisions of the asset managers are aligned with the Trustees' policies, including those on non-financial matters. This includes monitoring the extent to which asset managers:

- make decisions based on assessments about medium- to long-term financial and non-financial performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

The Trustees are supported in this monitoring activity by their investment consultant.

The Trustees receive regular reports and verbal updates from the investment consultant on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustees focus on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Plan objectives and assess the asset managers over 3-year periods.

The Trustees also receive annual stewardship reports on the monitoring and engagement activities carried out by their asset manager, which supports the Trustees in determining the extent to which the Plan's engagement policy has been followed throughout the year.

The Trustees share the policies, as set out in this SIP, with the Plan's asset managers, and request that the asset managers review and confirm whether their approach is in alignment with the Trustees' policies.

Before the appointment of a new asset manager, the Trustees review the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustees' policies. Where possible, the Trustees will seek to amend that documentation so that there is more alignment. Where it is not possible to make changes to the governing documentation, for example if the Plan invests in a collective vehicle, then the Trustees will express their expectations to the asset managers by other means.

The Trustees believe that having appropriate governing documentation, setting clear expectations to the asset managers and regular monitoring of asset managers' performance and investment strategy, is in most cases sufficient to incentivise the asset managers to make decisions that align with the Trustees' policies and are based on assessments of medium- and long-term financial and non-financial performance.

Where asset managers are considered to make decisions that are not in line with the trustees' policies, expectations, or the other considerations set out above, the trustees will typically first engage with the manager but could ultimately replace the asset manager where this is deemed necessary.

There is typically no set duration for arrangements with asset managers, although the continued appointment all for asset managers will be reviewed periodically, and at least every three years.

## **11. Costs and Performance**

The Trustees are aware of the importance of monitoring their investment managers' total costs and the impact these costs can have on the overall value of the Plan's assets. The Trustees recognise that in addition to annual management charges, there are a number of other costs incurred by the Plan's investment managers that can increase the overall cost incurred by their investments.

The Trustees collect annual cost transparency reports covering all their investments and ask that the investment managers provide this data, in line with templates appropriate for each asset class such as those of Cost Transparency Initiative ("CTI"). This allows the Trustees to understand exactly what the Plan is paying the investment managers. The Trustees work with their Investment Consultant and investment managers to understand these costs in more detail where required.

Targeted portfolio turnover is defined as the expected frequency with which each underlying investment managers' fund holdings change over a year. The Plan's investment consultant monitors this on behalf of the Trustees as part of the manager monitoring they provide to the Trustees and flags to the Trustees where there are concerns.

The Trustees evaluate the performance of their asset managers relative to their respective objectives on a regular basis via their investment monitoring reports and updates from the asset managers. The Trustees also review the remuneration of the Plan's asset managers on at least a triennial basis to ensure that these costs are reasonable in the context of the kind and balance of investments held.

The Trustees acknowledge that portfolio turnover costs are a necessary cost in order to generate investment returns and that the level of these costs varies across asset classes and pooled funds. A high level of transaction costs is acceptable so long as it is consistent with the asset class characteristics, manager's style and historic trends. Where the Trustees' monitoring identifies a lack of consistency, the mandate will be reviewed.

The Trustees are supported in their cost transparency monitoring activity by their investment consultant.

## **12. Social, Environmental or Ethical Considerations**

In setting the Plan's investment strategy, the Trustees' primary concern is to act in the best financial interests of the Plan's beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. These include the risk that environmental, social and governance factors, including climate change, negatively impact the value of investments held if not understood and evaluated properly. The Trustees consider this risk by taking advice from their investment adviser when setting the Plan's asset allocation, when selecting managers and when monitoring their performance.

In setting and implementing their investment strategy, the Trustees do not explicitly take into account the views of Plan members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors").

## **13. Activism, and the Exercise of the Rights Attaching to Investments**

The Trustees recognise the importance of their role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Plan invests, as this ultimately this creates long-term financial value for the Plan and its beneficiaries.

The Trustees review the suitability of the Plan's appointed asset managers and take advice from their investment consultant regarding any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. The Trustees will review the alignment of the trustees' policies to those of the Plan's asset managers and ensure their managers, or other third parties, use their influence as major institutional investors to carry out the Trustees' rights and duties as a responsible shareholder and asset owner. This will include voting, along with – where relevant and appropriate – engaging with underlying investee companies and assets to promote good corporate governance, accountability, and positive change.

If an incumbent manager is found to be falling short of the standards the Trustees have set out in their policy, the Trustees undertake to engage with the manager and seek a more sustainable position but may look to replace the manager.

The Trustees may engage with their investment managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned. This will take the form of annual reporting which will be made available to Plan members on request.

The transparency for voting should include voting actions and rationale with relevance to the Scheme, in particular, where: votes were cast against management; votes against management generally were significant, votes were abstained; voting differed from the voting policy of either the Trustees or the asset manager. Where voting is concerned the Trustees expect their asset managers to recall stock lending as necessary, in order to carry out voting actions.

From time to time, the Trustees will consider the methods by which, and the circumstances under which, they would monitor and engage with an issuer of debt or equity, an asset manager or another holder of debt or equity, and other stakeholders. The Trustees may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest where they become known to the Trustees.

**14. Effective Decision Making**

The Trustees recognise that decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. They also recognise that where they take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.

Given the size of the Plan, the Trustees do not believe that a separate investment sub-committee is appropriate. Therefore, all investment issues are discussed by the whole Trustee body with assistance from the Plan's advisers before decisions are taken.

**15. Additional Voluntary Contributions ("AVC") Arrangements**

Some members obtain further benefits by paying AVCs to the Plan. The liabilities in respect of these AVC are equal to the value of the investments bought by the contributions. The AVC provider is detailed in the appendix to this statement. Returns achieved by the AVC provider are assessed against performance benchmarks set by the Trustees in consultation with their advisers and the AVC provider.

From time to time the Trustees review the suitability of the AVC provider and the choice of investments available to members to ensure that they remain appropriate to the members' needs.

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Name (Print)

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Signature

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Date

**The Chanel Limited Pension Plan (the “Plan”)  
Appendix to the Statement of Investment Principles**

This Appendix sets out the Trustees’ current investment strategy, and is supplementary to the Trustees’ Statement of Investment Principles (the “attached Statement”).

The Trustees’ investment strategy has been established in order to maximise the likelihood of achieving the primary objectives set out in the attached Statement. The details are laid out below:-

**1. Asset Allocation Strategy**

The Plan’s assets are invested with Legal & General Investment Management ("LGIM"), JP Morgan Asset Management ("JP Morgan") and Schroders Investment Management ("Schroders").

- a) Matching Assets – the matching assets are invested in a range of Liability Driven Investment (LDI) funds managed by LGIM on their Matching Plus Platform. The matching assets are designed to hedge a portion of the Plan's interest rate and inflation risks (initially set at 80% of the Plan's Technical Provisions).
- b) Growth Assets – the growth assets are invested in a range of equity, bond and property funds managed by LGIM, JP Morgan and Schroders. The target allocations within the growth portfolio, excluding any assets held in cash, are as follows:

<b>Fund</b>	<b>Asset Class</b>	<b>Allocation</b>	<b>Range</b>
LGIM UK Equity Index	UK Equity	35%	+/-5%
LGIM World (ex UK) Equity Index	Overseas Equity	12.5%	+/-5%
LGIM World (ex UK) Equity Index Hedged	Overseas Equity (currency hedged)	37.5%	+/-5%
JP Morgan Multi-Sector Credit	Bonds	7.5%	+/-2.5%
Schroders UK Real Estate	Property	7.5%	+/-2.5%
<b>Total</b>		<b>100%</b>	

The Plan also can invest in a cash fund, the LGIM Sterling Liquidity Fund, although no long term tactical allocation is made to cash.

**2. Investment Management Arrangements**

The following describes the mandates given to the fund managers.

<b>Fund</b>	<b>Benchmark</b>	<b>Target</b>
LGIM UK Equity Index Fund	FTSE All Share Index	To track the benchmark gross of fees

LGIM World (ex UK) Equity Index	FTSE AW-World (ex-UK) Index	To track the benchmark gross of fees
LGIM World (ex UK) Equity Index Hedged	FTSE World (ex UK) Index - GBP Hedged (excluding the advanced emerging markets)	To track the benchmark gross of fees
J.P Morgan Multi-Sector Credit Fund	No benchmark due to the fund's total return approach	Total Return: 3-7% over rolling 3-year periods gross of fees  Target Volatility: 5-10%
Schroders UK Real Estate Fund	IPD UK Pooled Fund Indices – All Balanced Funds Weighted Average	To outperform its benchmark by 0.5% per annum (net of fees) over rolling 3-year periods
LGIM Sterling Liquidity Fund	Libid 7 day	N/A
LGIM LDI Funds (Matching Plus Platform)	Appropriate market index for each fund	N/A

The aim of the LDI funds is to provide interest rate and inflation risk hedging initially set at 80% of liabilities in each case. This hedging will be reviewed regularly, at least following each triennial valuation.

## 2.1 Cash balances

A working balance of cash is held for imminent payment of benefits, expenses, etc in the Plan bank account. Under normal circumstances it is not the Trustees' intention to hold a significant cash balance on the Plan bank account and this is carefully monitored by the Plan's administrator.

## 2.2 Re-balancing arrangements

The Trustees review the balance of the assets held with LGIM, JP Morgan and Schroders from time to time to ensure that the allocation and interest rate and inflation hedge ratios remain appropriate for the Plan.

If the Growth Portfolio allocations fall outside the stated ranges, the Trustees will be notified and will consider the appropriate action to be taken.

## 3. Fee structure for advisers and managers

### 3.1 Advisers

The Trustees' investment advisers are paid for advice received on the basis of the time spent by the adviser. For significant areas of advice (e.g. one-off special jobs, or large jobs, such as asset and liability modelling), the Trustees will endeavour to agree a project budget.



These arrangements recognise the bespoke nature of the advice given and that no investment decisions have been delegated to the adviser.

### 3.2 Investment managers

The investment manager is remunerated as a set percentage of the assets under management. This is in keeping with market practice.

### 3.3 Summary of investment management fee arrangements

Manager	Annual Management Charge	Performance Fee
LGIM UK Equity Index Fund	0.115% p.a.*	None
LGIM World (ex UK) Equity Index	0.115% p.a.*	None
LGIM World (ex UK) Equity Index Hedged	0.115% p.a.*	None
JP Morgan Multi -Sector Credit Fund	0.35% p.a.	None
Schroders UK Real Estate Fund	0.70% p.a.	None
Legal & General Matching Plus Platform	0.22% p.a.	None

\*Subject to the Plan maintaining investment at a similar level as at outset with LGIM

### 4. Additional Voluntary Contributions

The Trustees have appointed Clerical Medical as their AVC provider.