Rexel UK Pension Scheme

Statement of Investment Principles

Date prepared: September 2019

Date signed: September 2019

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1. Introduction

1.1 This is the Statement of Investment Principles prepared by the Trustee of the Rexel UK Pension 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; and the Occupational Pension Schemes (Investment) (Amendment) Regulations 2018

1.2 In preparing this Statement the Trustee has consulted Rexel UK Limited, the principal employer. In producing this statement the Trustee has obtained advice from Barnett Waddingham, the Trustee's Investment Consultants ("the Advisers"). 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 The Trustee will take responsibility for the appointment and monitoring of the Advisers.

1.4 This Statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.

1.5 The Trustee 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.

1.6 The Trustee's investment powers are set out under the section "Application of the Fund" in the Definitive Trust Deed & Rules, dated 28 February 2001. This Statement is consistent with those powers.

1.7 The Scheme consists of the defined benefit (DB) section and the defined contribution (DC) section. The DB section was closed to new members and to new accrual with effect from April 2002, The Rexel Senate Scheme was merged into the Rexel UK Scheme with effect on 22 March 2012.

2 Choosing investments

2.1 The Trustee's policy process for choosing investments for the DB section is as follows

- Identify appropriate investment objectives;
- Agree the level of risk consistent with meeting the objectives set;
- Construct a portfolio of investments that is expected to maximise the return (net of all costs) given the maximum level of acceptable risk;
- Identify Managers of investment funds who can provide the specific portfolio of investments
- Monitor the performance of their managers against that target.

2.2 For the DC section, the Trustee's 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 their contributions and those contributions made by the employer.

2.3 In choosing appropriate investments for the Scheme, the Trustee considers the advice of their professional Advisers, who they consider to be suitably qualified and experienced for this role.

2.4 The day-to-day management of the Scheme's assets is delegated to the investment managers. The Scheme's investment managers are detailed in a separate document, the Summary of Investment Arrangements. The investment managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock and asset selection and the exercise of voting rights.

2.5 The Trustee reviews 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 Trustee will also consult the employer before amending either the DB or DC investment strategy.

3 Investment objectives

3.1 The Trustee has 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 Trustee faces in achieving these objectives.

DB Section

3.2 The Trustee's main investment objectives for the DB section are:

- To restore the funding position of the Scheme on an ongoing basis to at least 100% in line with the Recovery Plan;
- To reduce the volatility of the assets versus the liabilities and to generate excess returns over the liabilities over the longer term;
- To ensure that it can meet its obligation to the beneficiaries of the Scheme;
- To pay due regard to the employer's interest in the size and incidence of contribution payments;
- To maintain a low and stable employer contribution rate and to avoid volatility in the employer accounts;
- Subject to the preceding objectives, to maximise the rate of return earned on the assets over the long term subject to an acceptable degree of risk.

DC Section

3.3 The Trustee's main investment objective for the DC section is to invest members' accumulated contributions under the Scheme appropriately, taking into account:

- The risk that the investment return achieved on a member's account over the member's working life will not keep pace with price and wage inflation;
- The risk that investment market movements in the period immediately prior to retirement may lead to a substantial reduction in the anticipated level of benefits;
- The risk that relative market movements in the period immediately prior to retirement lead to a substantial reduction in the anticipated cash lump sum benefit;
- Having regard of the various methods that members are able to take their benefits from the Scheme.

3.4 Within the DC section, the Trustee is 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.

Additional Voluntary Contributions (AVCs) and Defined Contribution Transfer-ins

3.5 Members of the DB section have the opportunity to pay AVCs, which are invested and used to increase pension benefits at retirement, or in the event of death. The Trustee establishes the arrangements under which these contributions are invested. The Trustee's objectives are to maximise the value of the members' contributions plus investment returns, within the constraints imposed by the members' choice of investments, and to provide members with a choice of investment.

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 and alternatives.

4.2 The Trustee monitors from time-to-time the employer related investment content of the portfolio as whole and will take steps to alter this should they discover this to be more than 5% of the portfolio. The Trustee expects only a de-minimis holding in any employer related investment within this portfolio. Typically this check is carried out annually by the Scheme's auditors.

5 The balance between different kinds of investments

5.1 The Trustee has implemented an investment strategy for the DB section that will seek to achieve real returns via a growth portfolio, whilst maintaining risk reducing elements within the overall portfolio. The Trustee believes that the investment risks arising from the investment strategy are consistent with the overall level of risk being targeted.

5.2 The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and therefore the asset allocation of the DB section will be expected to change as the Scheme's liability profile matures. Similarly, the asset allocation of the DC section may change as the membership profile evolves. The specific asset split will alter in line with advice from the Advisers.

5.3 The Trustee considers 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 Scheme's Summary of Investment Arrangements.

5.4 The Trustee will take responsibility for any changes in investment structure and asset allocation.

DB Section

5.5 The DB section invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained within the Scheme's Summary of Investment Arrangements.

5.6 From time to time the DB section may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate for any short-term cashflow requirements or any other unexpected items.

DC Section

5.7 DC section members can choose to invest in any of the funds detailed in the Scheme's Summary of Investment Arrangements or can elect to invest in a lifestyle strategy. Where members do not choose where their contributions are invested, the Trustee will invest these contributions according to the default investment strategy.

5.8 The Trustee recognises the different investment requirements of the assets held in respect of members' entitlements within the DC section and employs two investment managers; Legal & General Investment Management and Aberdeen Standard Investments ("the DC managers") to manage the assets of the DC section of the Scheme.

5.9 Following the merger with the Rexel Senate Scheme, members also hold assets within the With-Profits Fund with Friends Life. Members are not able to make further contributions to the Friends Life arrangement. Members are able to transfer their assets within the Friends Life arrangement to the fund operated by the DC managers at their discretion.

Additional Voluntary Contributions (AVCs) and Defined Contribution Transfer-ins

5.10 The Trustee has agreed that from April 2006, AVC contributions should be invested alongside the defined contribution section assets. In addition, the Trustee currently has AVC arrangements with Clerical Medical Investment Group, Woolwich, Norwich Union and Friends Life.

5.11 The Trustee reviews these arrangements regularly having regard to their performance, the objectives and investment advice.

6 Risks

6.1 The Trustee has considered the following risks for the DB section with regard to its investment policy and the Scheme's liabilities, and considered ways of managing/monitoring these risks:

Risk versus the liabilities	The Trustee 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.
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.
Solvency and mismatching	The risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustee is 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.
Asset allocation risk	The asset allocation is detailed in the Scheme's Summary of Investment Arrangements and is monitored on a regular basis by the Trustee.
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.

6.2 For the DC section, the member bears the investment and benefit conversion risk and the individual investment requirements will vary, particularly between members of different ages. The Trustee, having taken expert advice, believes that the decision to offer members the funds as detailed in the Scheme's Summary of Investment Arrangements will help members to control the risks identified below:

Conversion risk	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 lifestyle arrangement made available to members (see the Scheme's Summary of Investment Arrangements), as members approach retirement the Trustee increases the proportion of assets that more closely match how they expect members to access their retirement savings.
Retirement income risk	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 Trustee periodically reviews the appropriateness of the fund range offered to members to ensure member outcomes can be maximized, whilst providing communication to members from time to time explaining the importance of the level of contributions.
Inflation risk	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 Trustee makes available investment options that are expected to provide a long-term real rate of return.

6.3 The following risks have been considered in the context of both the DB and DC section:

Investment manager risk	The Trustee monitors the performance of each of the Scheme's investment managers on a regular basis in addition to having meetings with each investment manager as necessary. The Trustee has a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate.
Concentration risk	Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.
Currency risk	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 to manage the impact of exchange rate fluctuations.
Loss of investment	The risk of loss of investment by each investment manager and custodian is assessed by the Trustee. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud).
Sponsor risk	The risks of the Sponsoring Company ceasing to exist, which for reasons of prudence, the Trustee has taken into account when setting the asset allocation strategy. This can be difficult to quantify. The Trustee is monitoring the sponsor covenant on an ongoing basis.
Environmental, Social and Governance factors	The Trustee has set policies in relation to the following matters: financially material considerations, non-financial matters, the exercise of voting rights, and engagement activities. These policies are set out in Appendix 1.

6.4 The Trustee keeps these risks under regular review.

6.5 The degree of investment risk the Trustee is willing to take also depends on the financial position of the Scheme. The Trustee will monitor the financial level of the Scheme and its liability profile, with a view to altering the investment objectives, risk tolerance or return target should there be a significant change in either. It is expected that the appropriate level of investment risk in the DB section will change over time and the investment strategy implemented is designed to evolve to allow for this.

6.6 The safe custody of the Scheme's assets is delegated to professional custodians (either directly or via the use of pooled vehicles).

7 Manager agreements

7.1 The Trustee and the Investment Managers have agreed, and will maintain, formal Investment Manager Agreements setting out the scope of the Manager's activities, their charging basis and other relevant matters.

8 Expected return on investments

8.1 The Trustee has regard to the relative investment return and risk that each asset class is expected to provide. The Trustee is advised by the Advisers 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.

8.2 The Trustee recognises the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

8.3 In considering the expected return from investments, the Trustee recognises that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities of the DB section.

8.4 For the DB section, the Trustee expects to generate a return, over the long term, above that which would have been achieved had no investment risk been taken within the portfolio, for example if the Scheme had been invested solely in a portfolio of UK long-dated Government debt. It is recognised that over the short-term performance may deviate significantly from the long-term target. The expected level of outperformance relative to government debt will move dynamically downwards as the liabilities mature.

8.5 Having established the investment strategy, the Trustee monitors the performance of each investment manager against an agreed benchmark as frequently as appropriate according to market conditions (and the DB Section's funding position). The Trustee meets the Scheme's investment managers as frequently as is appropriate, in order to review performance.

9 Financially material considerations, non-financial matters, the exercise of voting rights, and engagement activities

9.1 The Trustee has set policies in relation to these matters. These policies are set out in Appendix 1.

10 Realisation of investments

10.1 The DB members' assets are held in assets that are sufficiently liquid to be realised easily if the Trustee so requires. The DC members' accounts are held in funds which can be realised to provide pension benefits on retirement or earlier on transfer to another pension arrangement.

10.2 In both the DC and the DB section, the Trustee has delegated the responsibility for buying and selling the underlying investments to the investment managers. The Trustee has considered the risk of liquidity as referred to above.

10.3 Ultimately, the DB section investments will all have to be sold when the Scheme's life comes to an end. In this situation, the Trustee is 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.

11 Agreement

11.1 The Trustee monitors compliance with this Statement on a regular basis. Any change to this Statement will only be made after having obtained the written advice of someone who the Trustee reasonably believes to be qualified by their practical experience of financial matters and to have the appropriate knowledge, ability and experience of the management of pension scheme investments.

11.2 This Statement was agreed by the Trustee, 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:** 30th September 2019

Ken Mullen
On behalf of the Rexel UK Pension Scheme

Appendix 1

The Trustee's view on the financial materiality of ESG considerations

The Trustee has considered the financial risks to the Scheme and believes that environmental, social and governance ("ESG") issues, including but not limited to climate change, are potentially financially material and therefore has a policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments.

The Trustee believes that ESG factors will potentially be financially material for the Scheme over the length of time until Scheme's life comes to an end. The extent to which these factors will be financially material will depend upon the lifetime of the Scheme.

The Trustee has received training from its Investment Advisor on ESG factors. The Trustee considered the research findings presented at this training to form their views on the financial materiality of ESG factors as they apply to the Scheme's current investments. Based on their discussions, the Trustee believes that these factors have the potential to impact the risk and/or return profile of the Scheme's investments. However, the Trustee appreciates that this impact will vary between different asset classes.

Assessment and monitoring of investments

As an investor in pooled funds, the Trustee delegates the consideration of all financially material factors in relation to determining the underlying holdings within the pooled funds, including ESG factors, to the Scheme's investment managers as part of their day-to-day management.

The Trustee will take into account how ESG factors are integrated into the Scheme's managers' fund management processes when selecting, monitoring, engaging with and replacing funds and managers as follows:

Selection of investments

When selecting new investments, the Trustee may request information on ESG integration credentials as part of the selection process. However, an investment manager's excellence in this area will not necessarily take precedence over other factors, including (but not limited to) historical performance or fees.

Monitoring investments

Each of the Scheme's investment managers has its own ESG policy, ESG integration process and ESG resources as part of its wider management processes and capability. From time to time, the Trustee may ask the Scheme's investment managers to attend meetings and provide updates on the funds, which the Trustee may request to include an update on ESG considerations.

Realisation of investments

If any significant ESG integration related issues are identified for a fund or a manager, the Trustee may choose to replace them. However, as per the appointment of funds and managers, the investment manager's shortcomings in this area will not necessarily be seen as sufficient reason for replacement and will not necessarily take precedence over consideration of other factors.

Policy on non-financial matters

The Trustee does not currently take into account the Scheme members' and beneficiaries' views on ethical considerations, social and environmental impact, or present and future quality of life of the members and beneficiaries in the selection, retention and realisation of investments.

The Trustee will review the policy on whether to take account of non-financial matters periodically.

Policy on stewardship

The Trustee believes that good stewardship and positive engagement can lead to improved governance and better risk-adjusted investor returns.

As an investor in pooled funds, the Trustee currently adopts a policy of delegating the exercising of the rights (including voting rights) attached to the Scheme's investments to the investment managers.

The Trustee also delegates undertaking engagement activities, which include entering into discussions with company management in an attempt to influence behaviour, to the investment managers.

The Trustee will monitor and engage with the investment managers in relation to stewardship activities as follows:

- The Trustee will, with support from the investment consultant, review the stewardship policies, voting and engagement activities of the Scheme's investment managers periodically. In the case of any specific issues or questions being identified through this monitoring process, the Trustee will engage with the Scheme's investment managers for more information and discuss any remedial actions taken.
- The Trustee will also ask managers to attend meetings from time to time to present and discuss their stewardship activities, which may include details of any voting rights exercised.
- When selecting investment managers, where appropriate and applicable, the Trustee will consider the investment managers' policies on stewardship and engagement, and how those policies have been implemented.

DB Section

Accounting for financially material considerations in the selection, retention and realisation of investments

The Trustee's views on how the ESG factors are taken into account for the Scheme's DB investments are set out below

Target-return funds

The Trustee believes that ESG issues could be financially material to the risk-adjusted returns achieved by the Scheme's target-return fund managers. The investment process for each target-return fund manager should take ESG into account in the selection, retention and realisation of investments. The Trustee also supports engagement activities and, where relevant, the exercise of rights attaching the investments by the Scheme's target-return fund managers. However, the incorporation of ESG issues, the exercise of rights and engagement activities should be consistent with, and proportionate to, the rest of the investment process

Passive equities

The Trustee believes that ESG issues could be financially material to the risk-adjusted returns achieved by the Scheme's exposure to passive equities. The Trustee accepts that the fund manager must invest in line with the specified index and therefore may not be able to select, retain or realise investments based on ESG related risks and opportunities. The Trustee has not considered ESG when selecting which indices to track.

The Scheme's current passive equity manager, UBS Asset Management (UK) Ltd, is a large and long-term investor, and engages with companies (including those in the indices that the Scheme invests in) on matters including wider ESG factors and climate change on a regular basis.

Credit

The Trustee believes that ESG issues could be financially material to the risk-adjusted returns achieved by the Scheme's credit holdings. The Trustee recognises that fixed income assets do not include voting rights, however, they support engagement with companies by their managers. However, the incorporation of ESG issues and engagement activities should be consistent with, and proportionate to, the rest of the investment process.

LDI and money market

The Trustee believes there is less scope for the consideration of ESG issues to improve risk-adjusted returns within these asset classes because of the nature of the instruments used within the LDI funds and the fact that money market investments are short term.

DC Section

Accounting for financially material considerations in the selection, retention and realisation of investments

The Trustee's views on how the ESG factors are taken into account for the Scheme's DC investments are set out below

Target-return funds

The Trustee believes that ESG issues could be financially material to the risk-adjusted returns achieved by the Scheme's target-return fund managers. The investment process for each target-return fund manager should take ESG into account in the selection, retention and realisation of investments. The Trustee also supports engagement activities and, where relevant, the exercise of rights attaching the investments by the Scheme's target-return fund managers. However, the incorporation of ESG issues, the exercise of rights and engagement activities should be consistent with, and proportionate to, the rest of the investment process

Passive equities and bonds

The Trustee believes that ESG factors will be financially material to the risk-adjusted returns for passive equities but that there is less scope for the consideration of ESG issues to improve risk-adjusted returns for passive bonds. The Trustee has not considered ESG when selecting which indices to track.

However, the Trustee accept that for passively managed funds the managers must invest in line with the specified index and therefore may not be able to select, retain or realise investments based on ESG related risks and opportunities.

The Scheme's current passive manager, Legal & General Investment Management, is a large and long-term investor, and engages with companies (including those in the indices that the Scheme invests in) on matters including wider ESG factors and climate change on a regular basis.

Money market

The Trustee believes there is less scope for the consideration of ESG issues to improve risk-adjusted returns within this asset class because of the fact that money market investments are short term.

DC implementation report

The Trustee has instructed its Investment Adviser to review how ESG issues are taken into account for each of the DC Scheme's mandates, and to report back against their beliefs so that this can form part of the Trustee's implementation report which will be produced annually going forwards.