Kingston Communications Pension Scheme

Statement of Investment Principles

September 2020

Introduction

This document is the Statement of Investment Principles (the 'Statement') for the Kingston Communications Pension Scheme (the 'Scheme'). It has been drawn up by Kingston Communications (Hull) Trustees Limited as trustee of the Scheme (the 'Trustee'), taking into account the relevant legislation.

The Statement sets out the high-level objectives, principles and policies governing the investment decisions of the Trustee.

Governance arrangements

The Trustee has ultimate responsibility for the management of the Scheme and its investments, but it delegates various decisions and responsibilities to specialist advisers and service providers. The Trustee ensures that appropriate guidelines and restrictions are agreed with each party to clearly set out their responsibilities and the scope of their powers. The Trustee takes all such steps as are reasonable to satisfy itself that the parties to whom it delegates responsibilities have the appropriate knowledge and experience required to take on their role.

A key investment appointment is the Fiduciary Manager, a professional investment firm with expertise in investment and risk management for pension funds. The Fiduciary Manager provides investment advice and investment management services to the Trustee, including advice on setting the Investment Objective (defined on the following page) and preparing this Statement. Many of the details of this document are reflected in the Investment Management Agreement between the Trustee and the Fiduciary Manager.

Objectives

Long Term Objectives

The primary objective of the Trustee is to pay members' benefits in full as they fall due.

The first milestone towards meeting this objective is to achieve full funding on the Technical Provisions basis. This is expected to be achieved through a combination of Sponsor contributions, as set out in the Recovery Plan, payments from the Central Asset Reserves and maximising investment returns relative to the change in the value of the liabilities using a risk-controlled approach.

Once full funding on the Technical Provisions basis has been achieved, the Trustee will continue to seek further improvements in the funding position, through a combination of payments from the Central Asset

Reserve and investment returns relative to the change in the value of the liabilities using a risk-controlled approach.

The investment risk may be adjusted over time reflecting funding level improvements and/or changes in the ability of the Sponsor to support the Scheme. These considerations will inform the Trustee's view of what is the most secure method at the time to meet the promised benefits for all members

Investment Objectives

A performance objective known as the "Investment Objective" is set and reviewed by the Trustee, ensuring consistency with the Trustee's Long Term Objective and Statement of Funding Principles. When setting the Investment Objective the Trustee also takes into account the trade-off between expected returns and investment risk:

Investment Objective

The Trustee aims to achieve a return on the Scheme's assets of 2.0% p.a. (net of fees) above the return of the Liability Benchmark over a rolling 5-year period.

The Liability Benchmark is a measure of the return of the Scheme's liabilities on a gilts-flat basis. It is agreed between the Trustee and the Fiduciary Manager and is periodically updated, such as after triennial actuarial valuations.

The Investment Return Objective is specified in the guidelines to the Investment Management Agreement of the Fiduciary Manager. The Fiduciary Manager is tasked with investing the Scheme's assets to target the Investment Objective over rolling 5-year periods, while reducing short-term volatility in the funding position and the chance of large losses.

A risk guideline of 16% p.a. has been set for the volatility of the Scheme's funding position and the Fiduciary Manager is required to monitor the realised (ex-ante) and forecasted (ex-post) risk levels to ensure they remain below this level. If the risk guideline is exceeded the Fiduciary Manager will notify the Trustee in writing, explain why the risk guideline has been exceeded and confirm either that it is comfortable running the portfolio at a risk level above the guideline or the actions it proposes to reduce the risk level below the guideline.

Central Asset Reserves (CAR)

The Scheme also has two tranches of investment in a Central Asset Reserve, a "Property CAR" and a "Network CAR". Further details on both assets are included below:

The Property CAR provides the Scheme with an asset producing an annual income of around £0.95m (increasing with CPI inflation) on an investment of c. £8.3m. The arrangement is designed to last for a 15-year period ending 31 March 2028. The annual income payments are dependent on the funding position of the Scheme being less than 110% (based on the technical provisions of the Scheme on the basis agreed at the 1 April 2010 valuation (or such other basis as agreed to update for financial conditions) and the market value of the Scheme's assets excluding the interest of the Scheme in the Property and Network CARs).

The Network CAR provides the Scheme with an asset producing an annual income of around £1.4m (increasing with CPI inflation (max 5%, min 0%)) on an investment of c. £14.2m. The arrangement is designed to last for a 15-year period ending 31 March 2029. The annual income payments are dependent on the funding position of the Scheme being less than 110% (based on the technical provisions of the Scheme on the basis agreed at the 1 April 2010 valuation (or such other basis as agreed to update for financial conditions) and the market value of the Scheme's assets excluding the interest of the Scheme in both the Property and Network CARs). Finally, the calculation of the funding level trigger for the Network CAR allows for the following year's coupon payment from the Property CAR.

Investment policies

Securing compliance with the duty to choose scheme investments under Section 36 of the Pensions Act

In advance of choosing or retaining any direct investments, the Trustee obtains and considers advice from the Fiduciary Manager. This advice considers the overall suitability of the investments in relation to a number of key investment principles.

Note that this advice is not required or sought where the investments are selected (or retained) on behalf of the Trustee by the Fiduciary Manager.

The kinds of investments held by the Scheme

The Scheme's assets are split between two sub-portfolios, detailed below. Responsibility for the management of the sub-portfolios and the balance between them is delegated by the Trustee to the Fiduciary Manager.

The full range of assets, detailed targets and restrictions are agreed between the Trustee and the Fiduciary Manager and may change over time. These are recorded in the legal agreement between the Trustee and Fiduciary Manager.

Liability Hedging Portfolio:

The purpose of these assets is to reduce the risk that the Scheme's funding position deteriorates as a result of changes in the value of its liabilities due to movements in long-term interest rates and inflation expectations.

This requires an asset portfolio which seeks to broadly match an agreed portion of the interest rate and inflation sensitivities of the Liability Benchmark. The assets are invested in a mixture of cash, physical gilts and leveraged gilts.

Investment Portfolio:

The purpose of these assets is to generate consistent, absolute returns while managing downside risks and reducing the chance of large losses in stress situations.

When combined with the Liability Hedging Portfolio, Investment Portfolio returns above short-term cash rates are intended to result in the total Scheme assets outperforming the Liability Benchmark, as targeted in the Investment Objective.

The assets are invested in a wide range of instruments to create a highly-diversified portfolio, with positions including:

- 'Beta' investments
  - These provide a diversified set of exposures where performance is mainly dependent on the economic outlook.
  - They include, but are not limited to, Equities and Equity Options, Government Bonds, Inflation swaps, Commodities, High Yield Bonds and Emerging Market Bonds.
  - The positions are typically accessed through derivative instruments to reduce costs, increase liquidity and support efficient portfolio management.
  - These positions are dynamically managed meaning they are frequently adjusted to reflect the prevailing market conditions. The aim is to take advantage of opportunities as they arise and to guard against risks that may materialise.
- Illiquid credit investments (the M&G Illiquid Credit Opportunities Fund)
  - Performance is driven primarily by the exposure to credit related assets, the illiquidity premium (the excess return investors expect when committing capital for an extended period) and manager skill as the third-party manager implements specialist investment strategies.

The balance between different kinds of investments

The Trustee has provided the Fiduciary Manager with guidelines setting out permissible ranges for each kind of investment. The Fiduciary Manager adjusts the balance of investments in response to evolving market conditions and ensures that:

- It stays within the guidelines;
- The balance is appropriate to achieving the Investment Objective over the long term;
- There is sufficient liquidity to meet cashflow requirements; and
- There is sufficient collateral available to manage the collateral risk of the derivative positions.

Risks, including the ways in which they are to be measured and managed

The key risk to the Scheme is that the value of assets is insufficient relative to the value of the liabilities. This is called solvency risk and ultimately could lead to there being insufficient assets to secure all benefits.

There are many other individual risk factors which have the potential to contribute to solvency risk. Due to the complex and interrelated nature of these risks, the Trustee considers most of these in a qualitative rather than a quantitative manner.

The Trustee works with the Fiduciary Manager to regularly monitor the risks affecting the investments and to manage them where possible to avoid the accumulation of excessive risk exposures. The main risk factors affecting the Scheme are described in Appendix B, along with a summary of how each risk factor is measured and managed.

The expected return on investments

The Trustee delegates assessment of the expected return on investments to the Fiduciary Manager. This is one of the factors taken into account by the Fiduciary Manager when selecting the balance of assets to target the Investment Objective.

The realisation of investments

The Trustee delegates decisions around the realisation of investments to the Fiduciary Manager. Assets are realised as part of the rebalancing of assets in response to changing market conditions and to meet the cashflow needs of the Trustee.

Financially material considerations over the appropriate time horizon of the investments

The Trustee has a long-term time horizon for its portfolio and, as such, the Trustee recognise that being a responsible investor should improve financial outcomes. The Trustee considers responsible investment to be the integration of environmental, social and governance (ESG) factors into investment decisions where financial risk and / or return could be materially affected. These considerations include the potential impact of climate change.

The Trustee delegates responsibility to take account of ESG factors in investment decision-making to the Fiduciary Manager. This includes investments made directly by the Fiduciary Manager as well as those in pooled funds managed by third parties. In the latter case, the Fiduciary Manager is responsible for ensuring that the external investment managers appropriately incorporate ESG factors within their investment process. The Trustee monitors how the Fiduciary Manager incorporates ESG factors on a regular basis.

The extent to which non-financial matters are taken into account in the selection, retention and realisation of investments

The Trustee believes that by being a responsible investor, it is managing investment risk with the aim of enhancing long-term portfolio returns, which is in the best interests of the members and beneficiaries of the Scheme. Beyond these requirements of responsible investing, the Trustee does not explicitly target any non-financial matters in its investment decision making.

Nevertheless, the Trustee recognises that individual members and beneficiaries may have views on non-financial matters (such as ethical views, views on social and environmental impact matters, or views on the present and future quality of life of members) and these views may have implications for the Scheme's investments. The Trustee does not pro-actively take these views into account when making investment decisions, but it does review communications of member views. The Trustee believes that the above policy of responsible investing is an appropriate reflection of the views of the membership in aggregate, given that individual members may have differing and conflicting views that cannot all be reconciled and incorporated directly.

The exercise of the rights (including voting rights) attaching to the investments

The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers. The Fiduciary Manager encourages the Scheme's investment managers to discharge their responsibilities in respect of investee companies in accordance with the Stewardship Code published by the Financial Reporting Council (and the Trustee monitors the Fiduciary Manager's activity in this regard).

Undertaking engagement activities in respect of the investments

The Trustee prefers its investment managers, where relevant, to have an explicit strategy, outlining the circumstances in which they will engage with a company (or issuer of debt or stakeholder) on relevant matters (including performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance matters) and how they will measure the effectiveness of this strategy.

The Fiduciary Manager is responsible for engaging with investment managers regarding those investment managers' voting records and level of engagement with the underlying investments, where this is expected to have meaningful impact (and the Trustee monitors the Fiduciary Manager's activity in this regard).

Arrangements with the Fiduciary Manager

The Trustee delegates various activities in relation to the Scheme's investments to the Fiduciary Manager as set out in this Statement. The Fiduciary Manager is responsible, in particular, for ensuring each underlying investment manager is aligned with the Trustee policies as set out below.

The Trustee keeps the Fiduciary Manager's performance under review, focusing on longer-term outcomes. The Trustee receives regular reports from the Fiduciary Manager, including on portfolio turnover costs incurred by the underlying investment managers. The Trustee's review process includes specific consideration of how the Fiduciary Manager has implemented the responsible investing policies and engagement activities included in this Statement.

Although the Trustee's arrangement with the Fiduciary Manager is expected by the Trustee to be a long-term partnership, the Fiduciary Manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team or where the Fiduciary Manager fails to ensure alignment between underlying investment managers and the Trustee's policies.

The Fiduciary Managers is paid using a combination of a fixed fee and an ad-valorem fee, in line with market practice, for a given scope of services which includes consideration of long-term factors, responsible investment and engagement. The Trustee reviews the costs incurred in managing the Scheme's assets annually.

Arrangements with all Investment Managers

The Trustee believes that an understanding of, and engagement with, Investment Managers' arrangements (including the Fiduciary Manager) is required to ensure they are aligned with Trustee policy, including its Responsible Investment policy. In accordance with latest regulation, it is the Trustee's policy to ensure that the Fiduciary Manager, in line with their responsibilities, understands and monitors the following:

- How investment manager arrangements incentivise investment managers to align their strategy and decisions with the Trustee's policies

- How investment manager arrangements incentivise investment managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term
- How the method (and time horizon) of the evaluation of investment managers' performance and their remuneration are in line with the Trustee's policies
- Portfolio turnover costs incurred by the investment managers, in the context of the investment manager's targeted portfolio turnover (defined as the frequency within which the assets are expected to be bought or sold)
- Duration of the arrangement with the investment manager

The responsibility for monitoring these aspects day to day has been delegated to the Fiduciary Manager. They are responsible for ensuring each underlying investment manager is aligned with the Trustee policies at the time of appointment or explaining why this is not the case. They are also required to report back to the Trustee on any areas of potential divergence between Trustee policy and investment manager practice on an ongoing basis, including their own.

Stewardship policies and voting records are reviewed (and discussed with the investment managers) at least annually by the Fiduciary Manager, who will collate the qualitative and quantitative information required to allow the Trustee to review all of the above aspects in sufficient detail each year. The Trustee will challenge any arrangements or stewardship practices that do not align with their Responsible Investment approach.

Additional Voluntary Contributions (AVC) Investments

The Trustee holds assets invested separately from the Scheme's other assets in the form of individual insurance policies securing additional benefits on a money purchase basis. These are legacy holdings for those members who had previously elected to pay Additional Voluntary Contributions.

The AVC providers are Zurich Assurance Limited and The Equitable Life Assurance Society.

Process for agreeing and reviewing this Statement

The Trustee has obtained written advice on the content of this statement from the Fiduciary Manager. The Trustee is satisfied that the Fiduciary Manager has the knowledge and experience required by the Pensions Act 1995 to perform this role. The Trustee has also consulted the sponsoring employer, KCH (Holdings) Limited, on the content of this Statement.

The Trustee monitors compliance with this Statement regularly and will review it at least every three years and immediately following any significant change in investment policy. At each review, further written advice from the Fiduciary Manager will be sought and consultation with the sponsoring employer will be undertaken.

Signed on behalf of the Kingston Communications (Hull) Trustees Limited as trustee of Kingston Communications Pension Scheme:

Signed: DocuSigned by: Hilary Salt AA44C9A04FEA476...

Name: Hilary Salt

Date: 28-Sep-2020

APPENDIX A – Investment responsibilities of different parties

The division of investment responsibilities for the Scheme is set out below. This list is not meant to be exhaustive.

Trustee

The Trustee has ultimate responsibility for decision-making on investment matters. The Trustee's investment responsibilities include:

- Deciding on an appropriate governance structure for the management of the Scheme including the role of advisers and other third parties
- Setting appropriate investment objectives, following advice from the Fiduciary Manager and Scheme Actuary
- Agreeing the range of investment types to be used to achieve the investment objectives, taking account of the need to manage risks
- Agreeing the policies for governing investment manager arrangements
- Monitoring the appropriateness of the Fiduciary Manager
- Reviewing the content of this Statement at least every three years and following any significant change in investment strategy
- Modifying this Statement, if deemed appropriate, in consultation with the Principal Employer and with written advice from the Fiduciary Manager
- Monitoring compliance with this Statement on an ongoing basis
- Identifying Trustee training needs

Fiduciary Manager

The Fiduciary Manager's role includes providing investment advice to the Trustee and investment management of the assets. A summary of the duties that fall into each category are shown below:

Fiduciary Manager – investment advice:

- Advice on setting the Investment Objective
- Risk modelling (including asset-liability analysis)
- Asset class, investment manager and risk reporting
- Advice and monitoring of any direct investments
- Trustee investment training and education
- Advice relating to investment governance and compliance
- Advice on this Statement

- Advice relating to potential conflicts of interest, including their own

Fiduciary Manager – investment management:

- Designing and implementing investment solutions appropriate to the investment objective for the Scheme, which has been set by the Trustee
- Appointing and removing investment managers
- Investment manager mandate definition and negotiation
- Designing and executing derivative strategies for and on behalf of the Trustee
- Portfolio monitoring, including checking consistency of investment manager arrangements with Trustee policies
- Adhering to and monitoring against the Trustee's Responsible Investment policy, including monitoring and reporting regularly on stewardship activities and total portfolio costs
- Appointing transition managers for and on behalf of the Trustee
- Advice relating to potential conflicts of interest, including their own
- Ongoing management of the assets delegated to them within the terms of their agreement with the Trustee
- Complying with this Statement

Scheme Actuary

The key aspects of the Scheme Actuary's role that have a bearing on investment decisions include:

- Liaising with the Fiduciary Manager on the suitability of the Scheme's Investment Objective given the liabilities of the Scheme
- Ensuring consistency between the Statement of Funding Principles and the Trustee's Investment Objectives and investment strategy
- Assessing the funding ratio of the Scheme by performing valuations and advising on the appropriate contribution levels
- Providing data to enable decisions about hedging liability risks to be taken and implemented
- Estimating the cashflows of the Scheme, to be used in the calculation of the value of liabilities on at least a triennial basis, or more frequently as required
- Advice relating to potential conflicts of interest, including their own

Investment managers

The investment managers' responsibilities include:

- Managing the assets delegated to them within the terms of their agreement

- Providing regular reports on their performance, including any agreed benchmark and performance targets
- Providing reports at least annually on portfolio turnover and costs, including their remuneration
- Instructing their custodian on corporate governance and voting issues, including issues relating to Responsible Investment
- Where relevant, providing information at least annually on how they are incentivised to consider both financial and non-financial risks over the medium to long term, including but not limited to detailing their engagement activities with investee companies
- Ensure that they are complying with the requirements applicable to them in this Statement. In particular, when investing the assets delegated to them they must be invested in the best interests of members and beneficiaries. Their powers of investments must be exercised so as to ensure the security, quality, liquidity and profitability of the portfolio as a whole

Providers of direct investments

Investments held directly by the Scheme are held in the form of units in pooled funds, insurance policies or other contractual arrangements. The responsibilities of the providers are set out in the legal documentation for each investment. There is then usually an agreement between the provider and an organisation which manages the assets underlying the direct investment on a day-to-day basis. This agreement sets out the responsibilities of this organisation to the provider

APPENDIX B

Risk factor	What is the risk?	How is the risk measured?	How is the risk managed?
Economic (or market) risk	Economic, financial or political conditions cause the return on investments to be worse than expected, reducing the chance of meeting the investment return objective	The Fiduciary Manager monitors the economic exposures and assesses the economic outlook and regularly reports the position to the Trustee	The assets are spread across a range of different investments in a highly diversified portfolio that manages downside risks and reduces the chance of large losses in stress situations
Investment manager risk	The investment managers fail to meet their performance expectations	The Fiduciary Manager monitors manager performance relative to suitable benchmarks and peers and regularly reports the position to the Trustee	Rigorous investment and operational due diligence is performed upon manager appointment and close monitoring is performed thereafter
Interest rate and inflation risk	The value of the Scheme's liabilities rises due to either or both of the interest rate falling or the inflation rate rising	The Fiduciary Manager monitors any mismatch between the interest rate and inflation sensitivities of the assets relative to the Liability Benchmark and regularly reports the position to the Trustee	The Liability Benchmark is designed to reflect the sensitivity of the liabilities to interest rate and inflation risk. The Liability Hedging Portfolio is designed to match an agreed portion of these sensitivities
Currency risk	Loss arising from the falling value of overseas investments due to strengthening Sterling	The Fiduciary Manager monitors the currency risk and regularly reports the position to the Trustee	Where investments are not denominated in Sterling and currency exposure is not desired as part of the thesis, currency derivatives are used to remove currency risk
Concentration risk	Underperformance in a section of the investments has an overly large adverse impact on the total portfolio return	The Fiduciary Manager monitors the portfolio concentration and reports the position to the Trustee as needed	The Fiduciary Manager operates to guidelines that ensure assets are spread across a range of investments
Liquidity risk	There is a shortfall in liquid assets relative to the Scheme's immediate cashflow requirements	The Fiduciary Manager monitors the cashflow needs and reports the position to the Trustee as needed	The Fiduciary Manager operates to guidelines that ensure assets are spread across a range of investments
Operational risk	Loss arising as a result of fraud, acts of negligence or lack of suitable processes	The Fiduciary Manager monitors the operational procedures of the collective investment schemes and bank counterparties and reports the position to the Trustee as needed	The Fiduciary Manager undertakes due diligence to identify the operational risks associated with each service provider. The Trustee ensures that all advisers and third-party service providers are suitably qualified and experienced. Suitable liability and compensation clauses are included in all contracts for professional services
Demographic risk	The mortality assumptions used to value the Scheme's liabilities strengthen, resulting in an increase in the value of the liabilities	Regular updates on changes in demographic assumptions are provided by the Scheme Actuary	The Trustee make an allowance for this risk by setting prudent actuarial assumptions
Sponsor risk	The sponsoring employer makes insufficient contributions to support payment of the Scheme benefits, leading to greater reliance on investment returns	Assessment of the ability and willingness of the sponsor to support the continuation of the Scheme and make good any current / future deficit	Sponsor risk has been taken into account when agreeing a suitable Recovery Plan and investment objective
ESG (including climate change risk)	The potential for non-financial factors to adversely impact the value of the assets or overall funding position	The Fiduciary Manager measures ESG risk based on the materiality of potential impact on each investment and distinguishes between high and low focus positions. ESG issues are quantified in the risk register	The Fiduciary Manager monitors the portfolio regularly to ensure ESG risks are being appropriately considered in ongoing investment decisions. The Trustee reviews ESG risks on a quarterly basis