

ESB Defined Contribution Pension Scheme

Statement of Investment Policy Principles

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Prepared for

The Trustees of the ESB DC Pension Scheme “RetireSmart”

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Statement of Investment Policy Principles

Purpose

The purpose of this Statement of Investment Policy Principles (SIPP) is to document the policies and guidelines that govern the management of the Scheme's assets. It has been reviewed and adopted by the Trustees and outlines their objectives, how they measure risk, their processes for managing risk and their current investment policy.

The Statement takes into account the Pension Authority 2016 DC Code: Investing Scheme Assets^[1] and the IAPF Guidelines for Trustees^[2].

The Trustees fulfil the requirements of the Occupational Pension Schemes (Investment) Regulation 2006 (as amended) which stipulate that such a Statement is put in place.

It describes:

- The **investment objectives** of the Trustees;
- The **investment policy** which has been adopted to achieve these objectives; and
- The **risk management processes** used to minimize the risk that the objectives are not met.

This Statement will be reviewed at least every three years, and also following any change in investment policy which affects the content of the Statement.

General Principles and Objectives

The ESB Defined Contribution Pension Scheme (the Scheme) is a defined contribution (DC) pension scheme. For the purposes of better communication, the Scheme is rebranded as "RetireSmart".

ESB Energy International Ltd is the Principal Employer. The Trustees are charged with primary responsibility for the management and oversight of the Scheme. The Trustees have taken expert advice from their advisors in setting out their Principles and Objectives.

The investment powers of the Trustees are set out in the Trust Deed & Rules governing the Scheme and this statement is consistent with these powers.

The main aim of the Trustees is to facilitate the investment of the members' contributions during their membership of the Scheme according to the direction given by such members and to facilitate that it should be invested in such a manner that is consistent with the members' investment objectives, if known, to provide for benefits in retirement subject to acceptable levels of risk.

The Trustees recognise that;

- Individual members will have differing investment needs and that these may change during the course of their membership of the Scheme, and
- Individual members have differing attitudes to risk.

The Trustees overarching objectives are:

- To provide **a range of investment funds** which will enable members to invest in the major asset classes and to protect themselves against the main investment risks that they face (see the risks highlighted in the Risk Management section).
- To ensure that these funds are **well managed** and provide **value for money** for members.
- To ensure that members have **sufficient information** about the funds to be able to make informed choices about how to invest their savings.
- To provide a **default option** for members who do not want to make investment decisions themselves.
- To comply with all **legislative requirements** relating to the investment of retirement savings.

The Trustees have decided on a range of investment funds (see Appendix A). These funds will have the following characteristics:

- Cover the risk/return spectrum (from low risk/low return to high risk/high return), and are distinguishable from one another;
- Managed by experienced, professional investment managers;
- Carry fees which are appropriate for the asset class; and
- The funds can be combined to achieve different risk/return characteristics.

Risk

The Trustees have identified the key investment risks as set out below together with an explanation of how these risks are being managed.

1. INSUFFICIENT GROWTH	2. INAPPROPRIATE DECISIONS
<p>Detail: The risk that the investments will not achieve a return sufficiently above inflation and therefore lose purchasing power</p>	<p>Detail: The risk that members choose inappropriate strategies or that the number and type of strategies offered is sub-optimal for the needs of some members.</p>
<p>Risk Mitigation: This risk has been addressed by offering strategies, which aim to outperform over the longer term, such as the Sustainability Focused Global Equity, Global Equity and Lifestyle / Multi Asset Strategies.</p>	<p>Risk Mitigation: The Trustees have addressed this risk by providing detailed, yet simple and straightforward, descriptions of the strategies utilising 'White Labelling' to help with member understanding. The Trustees provide the full spectrum of strategies in relation to risk/return profiles. The Trustees also use risk-based strategies and personalised lifestyling for members. The lifestyling approach decreases risk as members approach retirement. The Trustees are satisfied that the investment strategies offered are broadly appropriate for the majority of members.</p>

3. FUND VOLATILITY	4. INCOME VOLATILITY
<p>Detail: The risk that performance will be very volatile, giving unease to some investors.</p>	<p>Detail: The risk that unfavourable market movements in the years just prior to retirement lead to a substantial reduction in a member's retirement account and hence in the pension secured and the anticipated cash lump sum benefit.</p>
<p>Risk Mitigation: Most investments fluctuate in value and this could result in a reduction in retirement income. This risk is reduced by offering the Annuity Matching and Cash Strategies, which historically have lower levels of volatility relative to other asset classes. The three Lifestyle / Multi Asset Strategies invest across a wide range of asset classes including Diversified Growth Funds and Alternative Risk Premia funds which aims to lower the risk from investing in only equities over time. Currency hedging is also implemented to ensure that there is a general range of at least 40-70%. The currency hedging is assessed regularly.</p>	<p>Risk Mitigation: The Trustees offer the Annuity Matching and Cash Strategies to members. In addition, the three Lifestyle Strategies transfers member's accounts gradually into the Cash, Annuity Matching and Lower Risk Multi Asset Strategies as they approach retirement.</p>
5. MANAGER UNDERPERFORMANCE	6. RISK RATINGS
<p>Detail: The risk that the chosen investment manager underperforms the benchmark against which the manager is assessed.</p>	<p>Detail: The risk that the risk profile of the chosen manager deviates from the intended risk profile.</p>
<p>Risk Mitigation: agreeing performance targets for all the funds and regularly monitoring performance against these targets. Monitoring the risk factors that might lead to future underperformance using research provided by the scheme's investment advisors. Managers whose actual or prospective performance is unsatisfactory may be replaced.</p>	<p>Risk Mitigation: This risk has been addressed by regular monitoring and review of the individual manager's risk profile, ensuring it is in line with expectations.</p>
7. ENVIRONMENTAL SOCIAL AND GOVERNANCE (ESG)	8. LIQUIDITY
<p>Detail: The risk that Environmental, Social and Governance (ESG) factors adversely affect the sustainability of the investment options and/or the risk-adjusted returns available to members.</p>	<p>Detail: The risk that investments will not be able to be sold when the member wants.</p>
<p>Risk Mitigation: The Trustees delegate the management of Environmental, Social and Governance factors within each fund to professional investment manager(s). The Trustees have also made a sustainability focused global equity strategy available for members to choose.</p>	<p>Risk Mitigation: Offering strategies that invest in highly liquid funds to members.</p>

Governance

The Trustees of the Scheme are responsible for the investment of the Scheme assets. The Trustees take professional advice and on the basis of this advice, make decisions on the strategy choices (and fund options) to be made available to members and the investment managers to be appointed.

The Trustees have established the following decision-making structure:

Trustees

- Set structures and processes for carrying out their role;
- Select and monitor investment strategies, fund choices, including default fund;
- Select investment advisers and investment managers;
- Decide on the structure for implementing default investment strategy;
- Monitor investment advisers and investment managers;
- Make ongoing decisions relevant to the operational principles of the Scheme's investment strategy;
- Continue to ensure that the Trustees have sufficient training to enable them to make appropriate decisions with the help of the investment advisers;
- Monitor investment managers and investment risk.

Investment Advisers

- Advise on all aspects of the investment of the Scheme assets, as required;
- Advise on this statement;
- Provide required training.

Investment Managers

- Operate within the terms of this statement and their written contracts;
- Select individual investments with regard to their suitability and diversification;
- Advise Trustees on suitability of the indices in their benchmark.

Review of Investment Managers

The Trustees will review each investment manager at least once per year at their regular meetings along with getting regular consultant updates from their investment consultant which will include the following areas:

- Business Issues
- Organisation & Staff
- Investment Process
- Risk Management
- Systems
- Performance
- Client Service & Fees

The current investment managers, mandates and benchmarks for each manager are listed in Appendix A.

Member Communication

The Trustees are committed to providing members with timely and professional information on an ongoing basis to assist them in making

investment decisions. Members will be provided with information regarding all currently available investment options (including historical return, risk level, and fees) and will also receive information through a communications program designed to help them set specific retirement goals and effectively utilise the available investment options to help them meet those goals. The Trustees have in place a review process with members at critical intervention points to ensure they have reviewed their investment choices and are aware of the specific issues relevant to them because of their proximity to retirement.

Members will receive a copy of this Statement upon request.

ESG Considerations

The Trustees believe that environmental factors, social factors and corporate governance behaviour (referred to together as 'ESG issues' are potentially financially material for the value of the Scheme's investments. The Trustees are satisfied that the Scheme's current funds are managed in accordance with their views on financially material factors, as set out below:

Financially Material Considerations

The Trustees delegate the consideration of all financially material factors in relation to determining the underlying holdings within each of the funds, including ESG factors, to the Scheme's investment managers as part of their day-to-day management of scheme assets.

Exercise of Voting Rights and Shareholder Engagement Activity

The Trustees currently adopt a policy of delegating the exercising of the rights (including voting rights) to the investment managers. The Trustees also delegate undertaking engagement activities to the investment managers.

Policy Assessment and Monitoring

The Trustees will consider ESG, voting and engagement issues when appointing and reviewing their Scheme provider and/or investment manager (and reviewing the investment strategy) to ensure that they are appropriately considered. The Trustees will also review aspects such as, but not limited to, longer term performance and manager incentivisation in order to ensure alignment with the Scheme's investment policy.

The Trustees meet regularly with their investment manager's and consider how ESG issues are taken into account.

Implementation

The Trustees have implemented a sustainability focused global equity fund for the lifestyle/ multi asset strategies.

Additionally the Trustees also offer members a Sustainability Focused Global Equity Fund as a standalone option.

Review of this Statement

This Statement of Investment Policy Principles may be revised by the Trustees at any time. Trustees will formally review this Statement on an annual basis.

In addition, the investment managers are required to make any comments or request any changes to this Statement that they feel may be appropriate in assisting the Trustees to meet their objectives.

**Rebalancing Strategy /
Unitisation**

Monthly cash flows are invested on a reasonable endeavours basis to get the underlying fund splits as close as possible to the target fund split. Strategies are rebalanced back to the target split exactly each quarter end with a 0.25% threshold.

All of the Scheme's strategies are unitised by a third party provider in order to simplify communication for Scheme members with respect to strategy choice and performance reporting.

**Signed on behalf of the
Trustees**

Signed on behalf of the Trustees:

Trustee	DocuSigned by:  <small>9AE15F4A6BBD447...</small>	Date	15 April 2021 17:16 BST
Trustee	DocuSigned by:  <small>C09BBDEBF02B489...</small>	Date	13 April 2021 08:35 BST

This Statement of Investment Policy Principles is produced to meet the requirements of the Occupational Pension Schemes (Investment) Regulations, 2005.

Appendix A — Investment Options

Fund Name	Multi Asset Strategy	High Risk Multi Asset Strategy	Lower Risk Multi Asset Strategy	Global Equity Strategy	Annuity Matching Strategy	Cash Strategy	Sustainability Focused Global Equity Strategy
Irish Life Fund Code	ESB2	ESB6	ESB5	ESB1	3AA	ESB4 (no change)	ESB7 (new fund)
Fund Components	Allocation	Allocation	Allocation	Allocation	Allocation	Allocation	Allocation
Equity Components							
Indexed MSCI ACWI Equity (Unhedged) Fund				30.00%			
Indexed MSCI ACWI Equity (Developed World FX Hedged) Fund				70.00%			
Indexed MSCI World Minimum Volatility (Fully hedged) Fund	10.00%	9.00%	4.00%				
Indexed MSCI Emerging Markets Equity Fund	10.00%	11.00%	3.50%				
Indexed MSCI ESG Screened (Custom) (Fully Hedged) Fund	16.25%	32.00%	7.50%				60.00%
Indexed MSCI ESG Screened (Custom) (Unhedged) Fund							40.00%
Indexed Eurozone Equity Fund	3.75%	9.00%	2.50%				
Indexed Small Cap Equity Fund	5.00%	9.00%	4.00%				
Indexed Core Real Estate Equity Fund	10.00%	7.00%	3.00%				
Indexed Global Infrastructure Equity Fund	5.00%	5.00%	5.00%				
Externally Managed Strategies							
Insight Broad Opportunities Fund	5.00%	0.00%	7.50%				
Pinebridge Global Dynamic Asset Allocation Fund	5.00%	0.00%	7.50%				
Acadian Multi-Asset Absolute Return Strategy	5.00%	3.50%	5.00%				
CFM Alternative Risk Premia Fund	5.00%	3.50%	5.00%				
Fixed Income Components							
Indexed Emerging Market Debt Fund	7.50%	5.00%	6.50%				
Indexed Global High Yield Bond Fund	4.00%	2.00%	5.00%				
Indexed EMU HICP Linked Govt All Maturities Fund	2.50%	0.00%	5.00%				
Indexed EMU Corporate Bond Fund	6.00%	4.00%	14.00%				
Irish Life Annuity Matching Fund					100.00%		
Cash Components							
Irish Life Cash Fund			15.00%			100.00%	
Totals	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

* Please note that ILIM manage the quarterly rebalancing within each strategy where applicable.

Strategy Name	Benchmark
Lifestyle / Multi Asset (Default)	To achieve a net annualised return of 4.0% over the medium term.
Higher Risk Lifestyle / Multi Asset	To achieve a net annualised return of 4.6% over the medium term.
Lower Risk Lifestyle / Multi Asset	To achieve a net annualised return of 2.9% over the medium term.
Global Equity	To perform in line with the blended global equity benchmark.
Sustainability Focused Global Equity	To perform in line with the blended global equity benchmark (ESG Screened Index)
Annuity Matching	To perform in line with the blended benchmark of 60% Eurozone AAA/AA 15 Year Bonds and 40% 10 Year Corporate Bonds.

Cash	To perform in line with a cash benchmark				
De-Risking Paths	This strategy follows a de-risking path over the 7 years leading up to retirement where members the personalised lifestyle strategy will be derisked into the Cash, Annuity Matching or Lower Risk Multi Asset strategies depending on what options they might take at retirement based on a cash maximisation principle. This means that it is assumed that members will always want to maximise the cash they can take at retirement. Members are free to change their derisking paths.				
		Lifestyle Member Derisks From 58 to one of the following outcomes on a phased basis			
Outcome Type	Outcome Number	Cash	Annuity	ARF (Lower Risk MA)	Total
All Cash	1	100%	0%	0%	100%
Cash & Annuity	2	75%	25%	0%	100%
Cash & Annuity	3	60%	40%	0%	100%
Cash & Annuity	4	50%	50%	0%	100%
Cash & Annuity	5	40%	60%	0%	100%
Cash & Annuity	6	30%	70%	0%	100%
Cash & ARF	7	25%	0%	75%	100%
Note: The Irish Life Secured Performance Fund is no longer offered by ILIM to new contributions.					

Outline of the strategies offered as part of the scheme are as follows (further information on each strategy can be found in the RetireSmart “Investment Guide”):

Cash Strategy

This strategy aims to provide stable returns, while at the same time helping to protect the capital value of the member’s account. The strategy invests in short-term gilts, money market instruments and short-term deposits. This is a low risk strategy but there is no guarantee that the performance will be positive.

Annuity Matching Strategy

This strategy aims to broadly match the movement in the cost of buying a lifetime income from an insurance company. The strategy invests in loans issued by governments and corporates in the Eurozone, which may be less volatile than investing in ‘growth’ assets. This is a low risk strategy relative to annuity pricing and in the past, has been a low to medium risk strategy

Lower Risk Lifestyle / Lower Risk Multi-Asset Strategy

This strategy aims to achieve modest growth through increases in value and income in the long-term by investing across a broad range of asset classes with a lower allocation to equities than the Multi Asset/Lifestyle or Higher Risk Lifestyle/Higher Risk Multi Asset Strategies. The investments are exposed to a broad range of assets to reduce the risk and volatility in one asset class. This is a low to medium risk strategy.

The Lower Risk Lifestyle strategy follows a de-risking path over the 7 years leading up to retirement whereas the Lower Risk Multi Asset strategy does not derisk.

Lifestyle / Multi-Asset Strategy

This strategy aims to achieve moderate growth through increases in value and income in the long-term by investing across a broad range of asset classes with a higher allocation to equities than the Lower Risk Lifestyle /Lower Risk Multi Asset Strategies. The investments are exposed to equities and a broad range of assets to reduce the risk and volatility in one asset class. This is a medium risk strategy.

The Lifestyle strategy follows a de-risking path over the 7 years leading up to retirement whereas the Multi Asset strategy does not derisk.

Higher Risk Lifestyle / Higher Risk Multi-Asset Strategy

This strategy aims to achieve above average growth through increases in value and income in the long-term by investing across a broad range of asset classes with a higher allocation to equities than the Lifestyle/Multi Asset Strategies. The investments are exposed to equities and a broad range of assets to reduce the risk and volatility in one asset class. This is a medium to high risk strategy.

The Higher Risk Lifestyle strategy follows a de-risking path over the 7 years leading up to retirement whereas the Higher Risk Multi Asset strategy does not derisk.

Global Equity Strategy

This strategy aims to maximise growth through increases in value and income in the long-term by investing in shares of a wide range of international companies in all areas of the world. This is a high-risk strategy.

Sustainability Focused Global Equity Strategy

This strategy aims to maximise growth through increases in value and income in the long-term by investing in shares of a wide range of international companies in all areas of the world. An overlay is applied by the investment manager to exclude companies that are associated with controversial, civilian, conventional, nuclear weapons and tobacco, derive revenues from thermal coal and oil sands extraction or that are not in compliance with the United Nations Global Compact principles. This is a high-risk strategy.
