

# 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

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## 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<sup>[1]</sup> and the IAPF Guidelines for Trustees<sup>[2]</sup>.

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><b>Detail:</b> The risk that the investments will not achieve a return sufficiently above inflation and therefore lose purchasing power</p>	<p><b>Detail:</b> 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><b>Risk Mitigation:</b> 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><b>Risk Mitigation:</b> 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>

<p style="text-align: center;"><b>3. FUND VOLATILITY</b></p>	<p style="text-align: center;"><b>4. INCOME VOLATILITY</b></p>
<p><b>Detail:</b> The risk that performance will be very volatile, giving unease to some investors.</p>	<p><b>Detail:</b> 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><b>Risk Mitigation:</b> 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><b>Risk Mitigation:</b> 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>
<p style="text-align: center;"><b>5. MANAGER UNDERPERFORMANCE</b></p>	<p style="text-align: center;"><b>6. RISK RATINGS</b></p>
<p><b>Detail:</b> The risk that the chosen investment manager underperforms the benchmark against which the manager is assessed.</p>	<p><b>Detail:</b> The risk that the risk profile of the chosen manager deviates from the intended risk profile.</p>
<p><b>Risk Mitigation:</b> 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><b>Risk Mitigation:</b> 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>
<p style="text-align: center;"><b>7. ENVIRONMENTAL SOCIAL AND GOVERNANCE (ESG)/SUSTAINABILITY</b></p>	<p style="text-align: center;"><b>8. LIQUIDITY</b></p>
<p><b>Detail:</b> 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><b>Detail:</b> The risk that investments will not be able to be sold when the member wants.</p>
<p><b>Risk Mitigation:</b> 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><b>Risk Mitigation:</b> 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/Sustainability Policy

Under IORP II, trustees need to disclose how their investment policy takes ESG (environmental, social and governance) factors into account. While the underlying managers have different ESG policies, the trustees have considered ESG factors in their investment policy and 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. More details of the risk mitigation taken by the Trustees is outlined in the risk section of this document.

## Shareholder Rights Directive (SRD) Policies

### Engagement Policy

The Trustees engage an investment manager (Irish Life Investment Managers) through which they invest scheme assets. A range of funds managed by this investment manager are made available to members for investment. All funds made available to members are pooled/unitized funds managed by this external manager.

The investment manager exercises shareholder voting rights on behalf of investors in accordance with their own voting policies. When the Trustees engage a new manager, part of the procurement and assessment process involves enquiring how they exercise voting rights and stewardship obligations attached to the investments and considering the response in accordance with their own corporate governance policies.

The scheme's investment manager monitors investee companies on relevant matters, including strategy, financial and non-financial performance and risk, capital structure, social and environmental impact and corporate governance on behalf of the Trustees. The investment manager reports on at least an annual basis to the Trustees on such matters. Due to the collective nature of the investments undertaken by the Trustees, the Trustees do not: enter direct dialogue with investee companies or their relevant stakeholders; exercise voting or other rights attached to shares; or engage with other shareholders. Due to the nature of a pension scheme, shareholder engagement is integrated into the Trustees' investment strategy indirectly through the engagement with investment managers. The Trustees manage any actual or potential conflicts of interest in relation to its engagement responsibilities with its own and the relevant investment manager's conflict of interest policies.

### Annual Update on engagement policy

In line with its engagement policy and this SIPP the Trustees do not directly exercise any voting rights during the year. The investment manager engaged by the Trustees excises those votes in accordance with their own voting policies through proxy systems (and advisors where applicable)

### **Investment strategy and arrangements with investment managers**

rather than directly on behalf of the Trustees. Such information as is publicly available in relation to how the investment manager casts votes can be found at the investment manager's website.

The overall investment objective of the Trustees is to provide members with a range of funds for investment, having regard to the varying nature and duration of members' liabilities and optimize the level of investment return appropriate to the Scheme's long term objective achieved by the Scheme's assets subject to taking an acceptable level of risk, through adopting a prudent, carefully planned and well-executed investment policy. It is on this basis that the Trustees appoint investment managers. In turn, the Trustees expect the appointed investment manager to make investment decisions with the objective of preserving and enhancing long-term shareholder value.

In general, the Trustee's contractual relations with investment managers are open ended (subject to termination provisions which are negotiated as part of the appointment terms) in order to build long term partnership with investment managers. The investment manager's report is usually considered by the Trustees on a quarterly basis. Through this assessment and as a result of the terms of the contractual arrangement with the investment manager, the investment manager is incentivized to make investment decisions based on the medium to long-term financial and non-financial performance of their investee companies and engage with them, where appropriate, to improve their performance in the medium to long-term. Any such engagement is subject to the investment manager's own internal corporate governance policies and best practice. The evaluation of the investment manager and in general, the remuneration for investment management services is in line with the long-term nature of pension scheme investments and takes into account the long-term performance of the investment manager.

The Trustees engage separate investment advisers to review the performance of the manager against the benchmark expectations, as part of its regular investment management monitoring and the impact on the overall performance of the assets under management during the reporting period. When selecting a new investment manager or new fund option the Trustees enquire as to the expected turnover for any given fund. Where relevant for particular fund options, as part of the regular manager review process, the Trustees monitor levels of turnover to ensure they remain in line with expectations for that particular mandate.

### **Sustainable Finance Disclosure Regulation (SFDR)**

#### **Sustainable Finance Disclosure Regulation (Regulation (EU) 2019/2088) related disclosures**

Investment managers are required to publish information on how they consider the principal adverse impact of investment decision on sustainability factors. To the extent that information is publicly available, such information as to how the investment manager considers sustainability risks when making investment decisions is available on their website.

A review of remuneration policies (for example the long-term nature of them and how they incentive key investment management personnel) is included in the appointed investment adviser's independent research and review of appointed investment managers.

#### **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:

	DocuSigned by:			
		Mark Eldridge	07 January 2022   10:49 GMT	
Trustee	9AE15E4A6BBD447...		Date	
	DocuSigned by:			
		Joseph Hegarty	07 January 2022   11:01 GMT	
Trustee	C09BBDEBF02B489...		Date	

*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 Irish Life Fund Code	Multi Asset Strategy ESB2	High Risk Multi Asset Strategy ESB6	Lower Risk Multi Asset Strategy ESB5	Global Equity Strategy ESB1	Annuity Matching Strategy 3AA	Sustainability Focused Global Equity Strategy ESB7
Fund Components	Allocation	Allocation	Allocation	Allocation	Allocation	Allocation
<b>Equity Components</b>						
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%			
<b>Multi Asset Funds</b>						
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%			
<b>Fixed Income Components</b>						
Indexed Emerging Market Debt Fund	7.50%	5.00%	6.50%			
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%			
BNY Mellon Efficient US Fallen Angel Beta Fund	4.00%	2.00%	5.00%			
Irish Life Annuity Matching Fund					100.00%	
<b>Cash Components</b>						
Irish Life Cash Fund			15.00%			
<b>Totals</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

\* 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)

<b>Annuity Matching</b>	To perform in line with the blended benchmark of 60% Eurozone AAA/AA 15 Year Bonds and 40% 10 Year Corporate Bonds.				
<b>Cash</b>	To perform in line with a cash benchmark				
<b>De-Risking Paths</b>	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			
<b>Outcome Type</b>	<b>Outcome Number</b>	<b>Cash</b>	<b>Annuity</b>	<b>ARF (Lower Risk MA)</b>	<b>Total</b>
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%
<b>Note:</b>	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.

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