The Thomson-Leng Provident Fund (DC Section)

Statement of Investment Principles

1. Introduction

The Trustee of the Thomson-Leng Provident Fund (DC Section) ("the DC Section") has prepared this Statement of Investment Principles ("the Statement") to comply with the requirements of:

- The Pensions Act 1995, as amended by the Pensions Act 2004;
- The Occupational Pension Schemes (Investment) Regulations 2005, as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015; and,
- Subsequent legislation.

The Statement sets out the principles that govern the decisions about the investment of the DC Section's assets. A separate document entitled "Summary of Investment Arrangements" detailing the specifics of the DC Section's investment arrangements is available upon request.

In preparing this Statement, the Trustee has consulted with the sponsoring employer, DC Thomson & Company Limited, and obtained and considered written professional advice from Mercer Limited ("Mercer"), the DC Section's investment consultant, regarding the DC Section's investment strategy. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

The DC Section is a contracted-in defined contribution arrangement. Administration and other services are provided in a bundled arrangement with Mercer Workplace Savings ("MWS"), via the Trustee's long-term insurance contract with Scottish Widows, the DC Section's investment platform provider.

The Trustee believes that the objectives and policies set out in this Statement ensures that the DC Section's assets are invested in the best interests of the members and beneficiaries of the DC Section.

2. Investment Objectives

The Trustee recognises that members have differing investment needs and that these may change during the course of a member's working life. The Trustee also recognises that members have different attitudes to risk. The Trustee believes that members should make their own investment decisions based on their individual circumstances.

In order to encompass these factors the Trustee has agreed the following objectives:

- To make available a range of investment funds that should enable members to tailor their own investment strategy to meet their own individual needs.
- To offer funds which allow diversification of risk and long term capital growth.
- To provide a default investment option for members who do not make their own investment decisions.

MWS has selected funds on the Scottish Widows platform, managed by Mercer Global Investments Europe Limited, to provide a range of funds for the members to invest their contributions. Mercer, as the delegated investment manager, is responsible for making decisions on asset allocation, selection, appointment, removal and monitoring of underlying investment managers.

3. Risk Management

The Trustee recognises that there are a number of risks facing members of the DC Section and have taken these into consideration when determining the range of funds to offer to members. The Trustee has considered risk from a number of perspectives. These are:

Type of Risk	**Risk**	**Description**	**How is the risk monitored and managed?**
Market risks	The management of the market risks below are all monitored and managed in line with the principles here. Specific monitoring and management is set out below.		Members are able to set their own investment allocations, in line with their risk tolerances. Mercer Building Block Funds are considered to have adequate diversification across asset class, region and within each asset class. Management of these funds is the responsibility of MWS and Mercer. Within active funds, management of many of these risks is the responsibility of the external investment manager. The Trustee monitors the MWS funds. The Trustee regularly reviews performance of the funds.

Market Risks (cont.)	Inflation risk	The risk that investment returns do not keep pace with inflation and does not, therefore, secure an adequate pension.	The Trustee makes available a range of funds, across various asset classes, with the majority expected to keep pace with inflation. The Trustee considers the real returns expected from the various asset classes. The default investment option has an explicit allocation to assets which are expected to outperform inflation over the long term.
	Currency risk	The risk that investment in overseas markets will be affected by changes in exchange rates leading to lower returns in pound sterling terms.	The Trustee provides diversified investment options that invest in local as well as overseas markets and currencies.
	Credit risk	The risk that the issuer of a financial asset, such as a bond, fails to make the contractual payments due.	Within active funds, management of many of this risk is the responsibility of the external investment manager. The Trustee monitors the MWS funds.
	Equity, property and other risks	Risks additional to those above where the income or the capital value of an asset is uncertain owing to, for example, changes in the profitability of an issuing company.	Within active funds, management of many of these risks is the responsibility of the external investment manager. The Trustee monitors the MWS funds.

Environmental, Social and Corporate Governance risk	The risk that environmental, social or corporate governance factors (including climate change) have a financially material impact on the return of the DC Section's assets.	See Section 6 of this Statement for the Trustee's responsible investment and corporate governance statement.
Investment Manager risk	The risk that the investment manager of the investment vehicles underperform the expectations of the Trustee, fails to carry out operational tasks, does not ensure safe-keeping of assets or breaches agreed guidelines.	For the external funds the Trustee considers advice from their investment adviser. Mercer takes responsibility for the management of this risk for the Mercer Building Block Funds. The Trustee monitors the performance of the investment vehicles on a quarterly basis to ensure the Investment Managers are meeting expectations.
Liquidity risk	The risk that the pooled funds, through which the Trustee allows members to invest, do not provide the required level of liquidity.	This is measured by the dealing and pricing frequencies of pooled funds. The Trustee access pooled funds via an investment platform, which is expected to provide daily pricing and liquidity.

Pension Conversion risk	The risk that the member is invested in a strategy that does not reflect the way in which they intend to take their benefits at retirement.	The Trustee makes available three lifestyle strategies for members which automatically switch member assets into investments whose value is expected to be less volatile relative to how the member wishes to access their pension savings as they approach retirement age. The asset allocation and management of these lifestyle strategies is the responsibility of MWS. Members can select a strategy in accordance with their personal preferences and retirement objectives. The default option is a lifestyle strategy which automatically switches member assets as they approach retirement age into investments expected to be less volatile relative to variable income/drawdown and taking a 25% cash lump sum. As part of the triennial default review, the Trustee ensures the default destination remains appropriate.

The risks identified in the table above are considered by the Trustee to be ‘financially material considerations’. The Trustee believes the appropriate time horizon for which to assess these considerations within should be viewed at a member level. This will be dependent on the member’s age and their selected retirement age. It is for this reason that a number of Retirement Strategies targeting the various outcomes at retirement have been made available to members.

4. Investment Strategy

4.1 Range of Funds

The Trustee is responsible for deciding the range of funds to offer, but have no influence on the investment aims of each fund or how the investment managers choose the underlying investments within the funds as the assets are pooled with other investors. Notwithstanding how the assets are managed, the Trustee has taken investment advice regarding the suitability of the relevant investment vehicles.

The Trustee makes available a range of funds and options from Mercer’s Investment Management business for the DC Section which they believe provides appropriate strategic choices for members’ different saving objectives, risk profiles and time horizons. Each fund used in the DC Section has a benchmark and/or target return that the Trustee considers to be the expected return for that fund. Members themselves determine the fund(s) in which they choose to invest. As members are able to make their own investment decisions the balance between the different kinds of investments can be their decision. This balance will determine the expected return on a member's assets.

Members who do not indicate a preference are invested in the default option which is a lifestyle strategy designed for members intending to take their benefits at retirement via income drawdown. Members' assets are de-risked as they approach retirement via the use of target date funds. More information on the default strategy is included in section 4.2.

In addition, two alternative lifestyle strategies are available to members that reflect the alternative ways in which members might take their benefits at retirement (Annuity or Cash). Assets will be switched into investments which seek to more closely match how the member wishes to access their pension savings as they approach retirement.

The Trustee also offers members a choice of funds. The Trustee believes that the fund range offered to members is consistent with the investment objectives outlined in section 2 and the risks outlined in section 3. The funds offered are classified as High Growth, Growth, Moderate Growth, Defensive, Active Global Equity and Active Money Market. The underlying asset allocation of these funds includes UK equities, global equities, fixed income bonds, index-linked bonds, cash and alternative assets, such as property. The delegated investment manager is responsible for making decisions on asset allocation, selection, appointment, removal and monitoring of underlying external investment managers in these funds. Details of the funds, including benchmarks and targets, are set out in the document entitled “Investment Policy Implementation Document”.

The Trustee regularly obtains professional advice, and monitor and review the suitability of the funds provided. As a result, from time to time the Trustee may change the investment options.

4.2 Default Investment Option

For members who do not wish to take an active role in investment decisions, the Trustee offers a **default option** which includes lifestyling arrangements to de-risk investments. The default investment option is currently the Target Drawdown Retirement Path. It is designed to be suitable for members who plan to access their benefits via income drawdown at retirement.

Aims and Objectives of the default option

The aims of the default option, and the ways in which the Trustee seeks to achieve these aims, are detailed below:

- To generate returns in excess of inflation during the growth phase of the strategy whilst managing downside risk.

The default option's growth phase invests in equities and other growth-seeking assets. These investments are expected to provide equity-like growth over the long term with some downside protection and some protection against inflation erosion.

- To provide a strategy that reduces investment risk for members as they approach retirement.

  As a member's pot grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustee believes that a strategy that seeks to reduce investment risk as the member approaches retirement is appropriate. Moreover, as members approach retirement, the Trustee believes the primary aim should be to provide protection against a mismatch between asset values and the expected costs of retirement benefits.

  In view of the above, the Trustee considers the level of risk within the default option in the context of the variability of returns relative to cash rates.

- To provide exposure, at retirement, to assets that are broadly appropriate for an individual planning to access their benefits via an income drawdown product and to take a 25% tax free cash lump sum.

- At the member's selected retirement date, 75% of the member's assets will be invested in a specialist diversified retirement fund that aims to provide a degree of growth and protection against changes in market values, allowing members to remain invested beyond retirement, and 25% in a money market fund.

<u>*Policies in relation to the default option*</u>

- The default option manages investment and other risks throughout a member's lifetime via a strategic asset allocation consisting of equities, a diversified retirement fund, growth fixed income, corporate bonds and cash. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members.

- In selecting the default option, the Trustee has explicitly considered the trade-off between risk and expected returns.

- Assets in the default option are invested in a manner which aims to ensure the security, quality, liquidity and profitability of a member's portfolio as a whole.

- The investment manager has responsibility for buying and selling the underlying assets. All of the pooled funds used within the DC Section and the default option operate daily dealing cycles.

- Assets are invested mainly on regulated markets.

- The Trustee has considered investment risk from a number of perspectives. The risks (and how they are measured and managed) set out in Section 3 of this Statement are also applicable to the default investment option.

- The items set out in Section 3 of this Statement are also those that the Trustee considers to be financially material considerations in relation to the default investment option. The Trustee believes that the appropriate time horizon within which to assess these considerations should be viewed at the member level. This will be dependent on the member's age and when they expect to retire.

- The Trustee's policy in relation to Environmental, Social and Corporate Governance factors, stewardship and Climate Change for the default is in line with the main DC Section and is set out in section 6.

Suitability of the default option

- Based on the Trustee's understanding of the DC Section's membership, an investment strategy that targets drawdown and a tax-free cash lump sum (up to 25% of a member's pot) at retirement is expected to be broadly appropriate to meet a typical member's requirements for income in retirement. This is because:

    - Members seeking an adequate income in retirement will likely need to achieve real investment returns for most of their period as pension savers. The use of a fund with significant weightings in global equities during the accumulation phase addresses that requirement.

    - The Trustee believes that most members who save into a pension plan wish to be able to access their assets flexibly at retirement, giving the member the choice of how and when they choose to withdraw their pension savings.

    - The default arrangement is aimed largely at members who do not feel capable of taking investment decisions. Again, the Trustee believes that drawdown at retirement is likely to be the preferred course for such members.

    - Almost all members withdraw tax free cash at retirement. The use of the cash fund as part of the lifestyle strategy addresses that requirement.

This does not mean that members have to take their benefits in this format at retirement, it merely determines the investment strategy that will be in place pre-retirement. Members who intend to take their retirement savings through other formats have the option of choosing their own investment strategy.

The Trustee believes that the current default option is appropriate and will continue to review this regularly, and more strategically at least triennially, or after significant changes to the DC Section's demographic, if sooner.

The Trustee reviews investment performance and risk on a quarterly basis, and takes professional advice as appropriate.

The Trustee believes that this strategy meets the investment objective outlined in section 2 and controls the risks identified in section 3.

5. Day-to-Day Management of the Assets

5.1 Main Assets

The day-to-day management of the funds offered to members is delegated to professional investment managers selected by Mercer's Investment Management business. Details of the day-to-day management of the assets are set out in the document entitled "Investment Policy Implementation Document".

5.2 Additional Voluntary Contributions (AVCs)

Members of the DC Section are able to invest AVCs within the same investment funds as the main DC Section assets.

The Trustee has also delegated the responsibility for the investment arrangements of the AVC assets to Mercer's Investment Management business. Mercer reviews the investment performance of the chosen providers on a regular basis and takes advice as to the providers' continued suitability.

5.3 Monitoring the DC Section Providers

The Trustee meets representatives of Mercer's Investment Management business at least once a year to discuss performance, activity and wider issues. The Trustee uses Mercer's Investment Consulting business as investment consultants to advise on investment strategy, provider appointments, provide assistance in monitoring the funds available, both in the form of written reports and attendance at meetings.

Long term returns are expected to be in line with the performance objectives of each of the funds open to members.

5.4 Realisation of Investments

The investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation.

6. Responsible Investment and Corporate Governance (Voting and Engagement)

The Trustee applies the following beliefs to the whole DC Section including the Default strategy.

6.1 Financially material considerations

The Trustee believes that environmental, social, and corporate governance ("ESG") factors have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly require explicit consideration.

The Trustee has delegated day to day management of the assets to MWS who in turn delegates responsibility for the investment of the assets to a range of underlying investment managers. These investment managers are expected to evaluate ESG factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

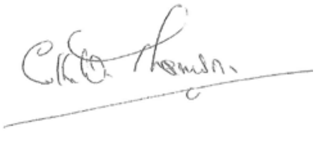
The Trustee considers how ESG, climate change and stewardship is integrated within Mercer's investment processes and those of the underlying managers in the monitoring process. The Trustees believe that Mercer has the necessary expertise and framework in place to effectively manage and monitor investments in line with these areas, and this is implemented through their four pillar framework: integration, stewardship, thematic investment and screening. The funds for the DC Section incorporate these four pillars as far as is practical. Mercer is expected to provide reporting on a regular basis, at least annually, on ESG integration progress, stewardship monitoring results, and climate-related metrics such as carbon foot printing for equities and/or climate scenario analysis for diversified portfolios

Member views – Non-financial matters

The views of members and other beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life, are taken into account in the selection, retention or realisation of investments within the DC Section and the Trustees may offer funds in line with the members views in the future.

7. Review of this Statement

The Trustee will review this Statement at least once every three years and after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustee reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

Signed: 

For and on behalf of DC Thomson & Co Pension Trustee Limited

Dated: 25th September 2019