

# **Stena Drilling Limited Money Purchase Scheme**

**Statement of Investment Principles  
Ninth Edition**

Date prepared: July 2020

6 August 2020

## Contents

1.	Introduction .....	3
2.	Choosing investments .....	3
3.	Investment objectives .....	3
4.	Kinds of investments to be held .....	4
5.	The balance between different kinds of investments.....	4
6.	Risks .....	5
7.	Expected return on investments .....	6
8.	Realisation of investments .....	6
9.	ESG Considerations .....	6
10.	Stewardship .....	7
11.	Non-Financial factors.....	7
12.	Agreement .....	8
Appendix		
1.	The balance between different kinds of investment .....	9
2.	Default option.....	9
3.	Choosing investments .....	10
4.	Fee agreements .....	14

## 1. Introduction

- 1.1. This is the Statement of Investment Principles prepared by the Trustee of the Stena Drilling Limited Money Purchase Scheme (the Scheme). This statement sets down the principles which govern the decisions about investments that enable the Scheme to meet the requirements of:
  - the Pensions Act 1995, as amended by the Pensions Act 2004; and
  - The Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010 and the Occupational Pension Schemes (Charges and Governance) Regulations 2015; and the Occupational Pension Schemes (Investment) (Amendment) Regulations 2018, and the Occupational Pension Schemes (Investment) (Amendment) Regulations 2019.
- 1.2. In preparing this statement the Trustee has consulted Stena Drilling Limited, the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustee's investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority and licensed by the Institute and Faculty of Actuaries for a range of investment business.
- 1.3. This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates).
- 1.4. The Trustee will review this statement at least once every three years or if there is a significant change in any of the areas covered by the statement or the demographic profile of the members.
- 1.5. The investment powers of the Trustee are set out in clause 9A of the Scheme Rules dated 08/2006 as amended by the Deed of Amendment dated 10 January 2012. This statement is consistent with those powers.

## 2. Choosing investments

- 2.1. The Trustee's policy is to offer a default investment arrangement suitable for the Scheme's membership profile, four alternative lifestyle arrangements with different risk profiles, plus a core range of investment funds into which members can choose to invest their contributions and those contributions made by the employer. The Trustee considers the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.
- 2.2. The day-to-day management of the Scheme's assets is delegated to one or more investment managers through the administrator's investment platform. The Scheme's investment managers are detailed in the Appendix to this statement. The investment managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights.
- 2.3. The Trustee reviews the appropriateness of the Scheme's investment options on an ongoing basis. This review includes consideration of the continued competence of the investment managers with respect to performance within any guidelines set. The Trustee will also consult the employer before amending the investment strategy.

## 3. Investment objectives

- 3.1. The Trustee has discussed key investment objectives for the Scheme in light of its membership profile as well as the constraints the Trustee faces in achieving these objectives. These are set out below. Further information is provided in the Appendix.

- to provide a default investment option that is likely to be suitable for a typical member of the Scheme;
  - to offer an appropriate range of alternative investment options so that members who wish to make their own investment choices have the freedom to do so, recognising that members may have different needs and objectives;
- 3.2. The Trustee is responsible for the design of the default investment option and for choosing which funds to make available to members. Members are responsible for their own choice of investment options.
- 3.3. The Trustee intends to maintain a regular dialogue with the members and in particular when a member is approaching a switch stage within the default investment option.

## **4. Kinds of investments to be held**

- 4.1. The Scheme is permitted to invest in a wide range of assets including equities, bonds, cash, property and alternatives.

## **5. The balance between different kinds of investments**

- 5.1. Members can choose to invest in a range of funds set out in the Appendix or can elect to invest in a lifestyle strategy. Where members do not choose where their contributions (and those made on their behalf by the employer) are invested, the Trustee will invest these contributions according to the default investment strategy set out in the Appendix.
- 5.2. The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and the asset allocation may change as the membership profile evolves.
- 5.3. The Trustee considers the merits of both active and passive management and may select different approaches for different arrangements and asset classes. The current arrangements as at the date of signing this Statement are set out in the Appendix. However for an up to date description the Trustee recommends that reference should be made to the booklet and notices on the administrator's platform rather than this Statement as this Statement will only be updated for significant changes or changes required by legislation.

## 6. Risks

- 6.1. Investment risk lies with the members themselves. However, the Trustee has considered a number of risks when making available suitable investment choices, as set out below. Some of these risks will be more relevant to particular cohorts of members.

---

<b>Inflation risk</b>	The risk that the investments do not provide a return at least in line with inflation, thus eroding the purchasing power of the retirement savings. The Trustee makes available investment options that are expected to provide a long-term, real rate of return.
<b>Liquidity risk</b>	The risk that members cannot access investments quickly or incur costs of selling assets. The Trustee offers funds that are daily dealt to offer a high level of liquidity.
<b>Conversion risk</b>	The risk that fluctuations in the assets held, particularly in the period before retirement savings are accessed, lead to uncertainty over the benefit amount likely to be received. In the default arrangement made available to members (see Appendix), the Trustee increases the proportion of assets that more closely match how they expect members, who want certainty as to the level of income they receive, will access their retirement savings as the member gets closer to retirement.
<b>Retirement income risk</b>	The risk that a member's retirement income falls short of the amount expected, whether this is due to lower investment returns than expected or insufficient contributions being paid. The Trustee periodically reviews the appropriateness of the fund range offered to members.
<b>Investment manager risk</b>	The Trustee monitors the performance of each of the Scheme's investment managers on a regular basis in addition to having meetings with the Scheme's administrator from time to time as necessary. The Trustee has a written agreement with the Scheme's administrator, which sets out the terms and conditions on which the Trustee invests on behalf of the Scheme in the underlying investment manager's funds.
<b>Concentration risk</b>	Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities depending upon the objectives and parameters of the particular Fund.
<b>Currency risk</b>	Members' retirement savings are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management. Currency hedging may be employed to manage the impact of exchange rate fluctuations. The extent to which this is undertaken is set out in the particulars of each Fund on offer.
<b>Loss of investment</b>	The risk of loss of investment by each investment manager and custodian is assessed by the Trustee. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud). The Trustee undertakes a review of the internal controls and processes of the Scheme administrator.

---

## 7. Expected return on investments

- 7.1. The Trustee has regard to the relative investment return and risk that each asset class is expected to provide. The Trustee is advised by their professional advisers on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the investment managers.
- 7.2. The Trustee recognises the need to distinguish between nominal and real returns and to make appropriate allowance for inflation and charges when making decisions and comparisons.
- 7.3. In considering the expected return from investments, the Trustee recognises that different asset classes have different long-term expected returns and expected volatilities appropriate for different stages of the lifestyle profile.
- 7.4. The Trustee monitors the performance of each investment manager against an agreed benchmark as set out in the quarterly governance report received from the Scheme's administrators. This report is reviewed by the Trustee's investment advisor who will highlight key points for consideration. The report also contains a metric used to indicate whether an individual fund should be reviewed as to whether it is appropriate to continue to offer that fund to the membership. The Trustee meets the Scheme's administrators as frequently as is appropriate in order to review performance.

## 8. Realisation of investments

- 8.1. The Trustee has delegated the responsibility for buying and selling investments to the investment managers. The Trustee has considered the risk of liquidity as referred to above.

## 9. ESG Considerations

- 9.1. The Trustee undertook training with their investment advisors to consider the financial materiality of environmental, social and governance issues, including climate change (referred to together as "ESG issues"), within their default investment strategy and self-select member options. The Trustee views ESG issues within an investment context as potentially financially material over the long-term, however, the Trustee believes that ESG factors should be taken into account alongside other financially material factors.
- 9.2. ESG factors will be taken into account in the selection, retention and realisation of investments as follows:
  - 9.2.1. **Selection:** When adding a new fund or investment manager, the Trustees will consider the due diligence undertaken by their investment platform in making funds available to the Scheme. The Trustees will then consider whether any additional review of a manager's ESG credentials is required alongside other financially material factors.
  - 9.2.2. **Retention:** The Trustee will request information regarding the ESG practices of the Scheme's investment managers, and will review this periodically, to consider whether these remain appropriate.
  - 9.2.3. **Realisation:** If any significant breach of ESG policy is identified the Trustee may choose to replace the manager. However, failure in this area will not necessarily be sufficient reason or replacement, and will not necessarily take precedence over other factors.
- 9.3. The Trustee is also cognisant of the different investment timeframes that members will have. The Trustee believes that ESG issues, and particularly climate change issues have the potential to be more important

for members who are further from retirement, as the financial materiality of such issues will have a greater impact over a longer timeframe.

- 9.4. The Trustee will produce an annual implementation report which will include details of how the Trustee has followed and acted on these policies.

## **10. Stewardship**

- 10.1. Stewardship encompasses the exercise of rights (including voting rights) attaching to the Scheme's investments, and the engagement by and with investment managers and other stakeholders on all relevant matters. This includes matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance.
- 10.2. The Trustee delegates responsibility for stewardship activities attaching to the Scheme's investments to its investment managers. Managers are expected to exercise voting powers with the objective of preserving and enhancing long term shareholder value. In addition to the exercise of voting rights, managers are expected to engage with key stakeholders (which may include issuers of debt or equity, corporate management, regulators and governance bodies) relating to their investments in order to improve corporate behaviours and governance, improve performance and social and environmental impact and to mitigate financial risks.
- 10.3. The Trustee periodically reviews engagement activity undertaken by their investment managers to ensure that the policies outlined above are being met.
- 10.4. The Trustee is supportive of the UK Stewardship Code published by the Financial Reporting Council and expects the Scheme's investment managers to have corporate governance policies in place which comply with these principles.
- 10.5. The Trustee expects all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. This reduces the risk of potential conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustees/investment manager and the investee companies.

## **11. Non-Financial factors**

- 11.1. The Trustee does not take account of non-financial matters (such as member ethical views) within the default investment strategy. However, it considers that it is important to ensure that a suitable range of funds are offered for members who wish to express an ethical preference in their pension saving.
- 11.2. The Scheme offers a range of funds including ethical funds for members who self-select their investments.
- 11.3. The Trustee will review its policy on whether or not to take account of non-financial matters on an annual basis.

## **12. Manager arrangements**

- 12.1. The Scheme invests via an investment platform, and the platform selects the funds on their platform based on their internal criteria. Therefore the Trustee selects managers from the available fund range, and expects the platform provider to undertake some due diligence on the overall fund selection.

- 12.2. The Trustee selects the funds to be made available to members based on a range of criteria set by the Trustee. This includes the managers' fund range and performance, fees, ESG and stewardship policies. The funds are not made available for a set time period, but all factors are regularly reviewed and the funds can be replaced at any time if the Trustee's criteria is not met. This incentivises the managers to maintain, develop and communicate their approach.
- 12.3. The Trustee monitors performance of the invested funds quarterly, but focus on longer term performance trends over investment cycles. The Trustee believes the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon. This incentivises the manager to consider all risks and engage with investee companies to improve performance over the long-term. The Trustee also monitors the managers' approach to Stewardship annually to check that this aligns with their agreed approach.
- 12.4. The annual charges on the invested funds are a fixed percentage of the assets invested. There is no incentive for the managers to take additional risks to outperform their targets to achieve a higher fee. The managers need to maintain the expected level of performance and approach to investing in order to retain the Scheme's assets over the long-term.
- 12.5. The Trustee acknowledges that portfolio turnover costs can impact on the performance of its investments. Overall performance is assessed as part of the regular investment monitoring process. In addition, total costs, including turnover costs, are reported annually in the Chair's Statement.

During the investment manager appointment process, the Trustee considers both past and anticipated portfolio turnover levels. When underperformance is identified deviations from the expected level of turnover may be investigated with investment manager concerned if it is felt they may have been a significant contributor to the underperformance. Assessments reflect the market conditions and peer group practices.

## 13. Agreement

- 13.1. This statement was agreed by the Trustee, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the employer, the investment managers and the Scheme auditor upon request.

Signed:  .....

**Date: 6 August 2020**

**On behalf of the Stena Drilling Limited Money Purchase Scheme**

# Appendix 1 Note on investment policy of the Scheme

## 1. The balance between different kinds of investment

The Trustee has made available a range of funds to suit the individual needs of the Scheme's members. For example, a range of equity funds is available for those members willing to accept a greater level of volatility in pursuit of higher expected retirement savings. Bond and cash funds are also offered for those members who are less comfortable with the likely volatility of the equity funds.

Alternatively, the Trustee has made available 4 lifestyle arrangements, whereby a member's assets are automatically invested in line with a pre-determined strategy that changes as the member gets closer to accessing their retirement savings. Each lifestyle arrangement has a different risk profile so that members can follow the strategy that best suits their attitude to risk. In each arrangement emphasis is placed on medium to higher risk funds (i.e. investment largely in growth assets) in search of long-term inflation-protected growth whilst the member is a long way off accessing their retirement savings, switching progressively to protection assets over the years preceding the member's target retirement date so as to protect the purchasing power of the retirement savings.

The lifestyle arrangements are constructed from some of the funds mentioned above that are offered to members wanting to manage their own asset allocation decisions.

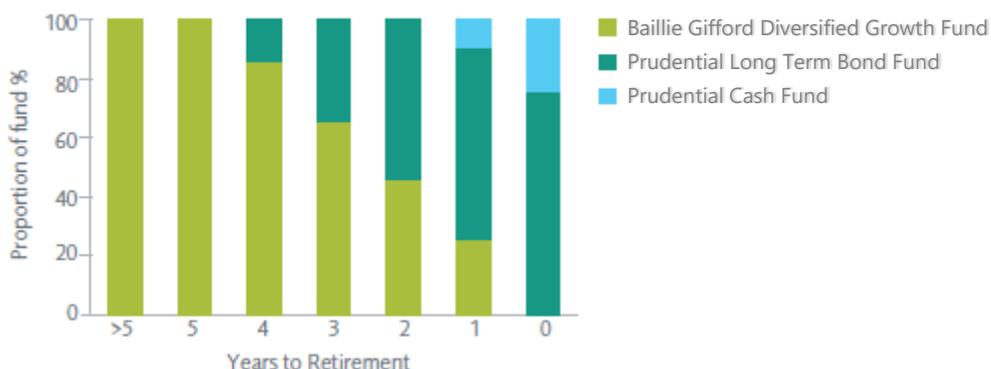
## 2. Default option

The Trustee acknowledges that members will have different attitudes to risk and different aims for accessing their retirement savings, and so it is not possible to offer a default investment option that will be suitable for all. However, having analysed the Scheme's membership profile, the Trustee decided that the lifestyle arrangement set out below represents a suitable default investment option for the majority of members who do not make a choice about how their contributions (and those on behalf of their employer) are invested, taking into account:

- Kinds of investments to be held;
- Balance between different kinds of investments;
- Investment risks;
- Expected return on investments;
- Realisation of investments;
- Socially Responsible Investment, Corporate Governance and Voting Rights.

Further information on the Trustee's policies in regard to the above is detailed in the main body of this statement.

## Default Lifestyle option



Up until 5 years before retirement, the default option invests in a diversified growth fund which aims to provide growth whilst controlling risk. The Trustee believes that this provides a suitable growth stage for Scheme members. From 5 years to retirement, the funds are gradually switched into funds which aim to reduce risk for members who wish to purchase an annuity and take a cash lump sum at retirement. The Trustee considers that providing a stable income in retirement is the most suitable outcome for members who do not make an active decision on how they wish to take their retirement benefits.

The Trustee is however aware that Pension Freedoms could change this attitude. The Trustee has reviewed the default arrangement against the backdrop of these new freedoms and has decided to retain the existing default arrangement. However they will continue to monitor how members access their savings and may make changes if such a change is warranted, more importantly they will contact each member in the period prior to the first switch to ensure that the member still wants to proceed or whether they wish to switch to an alternative approach.

## 3. Choosing investments

The Trustee offers a number of funds provided by Prudential and external investment managers through the Prudential investment platform. The funds offered as at the date of this statement are shown below, however an up to date list of funds can be found in the Scheme's booklets provided by Prudential.

The investment benchmarks and objectives for each investment manager are given below:

<b>Fund</b>	<b>Benchmark</b>	<b>Objective</b>
Prudential Europe Equity Passive Fund	FTSE World Europe ex UK Index	Meet the benchmark
Prudential UK Equity Fund	FTSE All Share Index	Outperform the index by 0.75% to 1.0% p.a. gross of fees over rolling 3 year periods.
Prudential Japan Equity Passive Fund	FTSE Japan Index	Meet the benchmark
Prudential North America Equity Passive Fund	FTSE World North America Index	Meet the benchmark
*Prudential Pacific Basin (ex Japan) Equity Passive Fund	FTSE World Asia Pacific ex Japan Index	Meet the benchmark
Prudential UK Smaller Companies Fund	FTSE Smaller Companies (ex-Investment Trusts) Index	Outperform the benchmark by 2% p.a. gross of fees over rolling 3 year periods.
BlackRock Aquila Emerging Markets Equity Fund	MSCI Emerging Markets Index	Meet the benchmark
Prudential International Equity Fund	Composite regional indices	Outperform the benchmark by 1.0% p.a. gross of fees over rolling 3 year periods.
HSBC Amanah Fund	Dow Jones Islamic Titans 100 Index	Meet the benchmark
Prudential Global Equity Fund	Internal composite benchmark	Outperform the benchmark by 1% p.a. gross of fees over rolling 3 year periods.
Baillie Gifford Global Stewardship Fund	MSCI All Countries World Index	Outperform the benchmark by 2.0% to 3.0% p.a. gross of fees over rolling 5 year periods.

Legal & General Ethical Global Equity Index Fund	FTSE4Good Global Index	Track the benchmark index to within +/-0.5% p.a. for 2 years out of 3.
Prudential Discretionary Fund	BNY Mellon CAPS Balanced Fund median	Outperform the benchmark by 1.15% to 1.4% p.a. gross of fees over rolling 3 year periods.
Prudential UK Property Fund	AREF/ IPD All Balanced Property Index	Outperform the benchmark by 1.05% p.a. gross of fees over rolling 3 year periods.
Prudential Fixed Interest Fund	FTSE A British Government All Stocks index	Outperform the benchmark by 0.75% p.a. gross of fees over rolling 3 year periods.
Prudential With-Profits Fund	N/A	N/A
Prudential All Stocks Corporate Bond Fund	iBoxx Sterling Non-Gilts Index	Outperform the benchmark by 0.8% p.a. gross of fees over rolling 3 year periods.
Baillie Gifford Diversified Growth Fund	UK BOE Base Rate	Outperform the benchmark by at least 3.5% p.a. over rolling 5 year periods.
Prudential Long Term Bond Fund	50% FTSE A British Government Over 15 Years Gilts index, 50% iBoxx Sterling Over 15 Years Non-Gilts Index	Meet the benchmark
Prudential Cash Fund	LIBOR 7 day rate	Outperform the benchmark
**Prudential Threadneedle Property Fund	AREF/ IPD All Balanced Property Index	Outperform the benchmark over rolling 3 year periods.
Prudential Dynamic Growth I	ABI Mixed Investment 0% - 35% shares	Deliver long term growth by investing in a diversified range of assets in the UK and globally
Prudential Dynamic Growth II	ABI Mixed Investment 0% - 35% shares	Deliver long term growth by investing in a diversified range of assets in the UK and globally
Prudential Dynamic Growth III	ABI Mixed Investment 20% - 60% shares	Deliver long term growth by investing in a diversified range of assets in the UK and globally

Prudential Dynamic Growth IV	ABI Mixed Investment 40% - 80% shares	Deliver long term growth by investing in a diversified range of assets in the UK and globally
Prudential Dynamic Growth V	ABI Flexible Investment	Deliver long term growth by investing in a diversified range of assets in the UK and globally
LGIM Ethical UK equity Fund	FTSE4Good UK Equity Index	Track the index to within +/-0.5% p.a. for two years out of three
Prudential M&G High Yield Bond Fund	ML Global High Yield	To maximise total return whilst generating a high level of income
Prudential All Stocks Corporate Bond Fund	iBoxx Sterling Non-Gilts Index	Outperform the benchmark by 0.8% p.a. gross of fees over rolling 3 year periods.
Prudential Fixed Interest Fund	FTSE Actuaries UK Gilts All Stocks Index	Outperform the benchmark by 0.75% p.a. gross of fees over rolling 3 year periods.
Prudential Dynamic Global Equity Passive	Internal benchmark set by the M&G Treasury & Investment Office.  Proposed strategic allocation at launch is 40% UK, 5% Emerging Markets, 55% Overseas Developed	Deliver long term (more than five years) growth by investing in underlying funds offered by M&G plc and/or external fund managers that track UK and overseas equities.
Prudential Positive Impact Fund	MSCI ACWI Index	To outperform the benchmark net of fees over any 5 year period. Also, to invest in companies having a positive social or environmental impact.

\*Prudential have advised that the intention is to close this fund, but no date has been agreed.

\*\* Prudential have advised that this fund will remain open whilst the Prudential UK Property Fund is closed, but will be reviewed again when the latter Fund opens.

The performance of the investment managers will be monitored as frequently as the Trustee considers appropriate in light of the prevailing circumstances. The monitoring takes into account both short-term and long-term performance.

The Trustee reviews the appropriateness of the Scheme's investment options on a periodic basis. This review includes consideration of the continued competence of the investment managers with respect to performance within any guidelines set.

## 4. Fee agreements

The fee arrangements with the investment managers are summarised below:

<b>Fund</b>	<b>Annual Management Charge (% p.a.)</b>
Prudential Europe Equity Passive Fund	0.15
Prudential UK Equity Fund	0.25
Prudential Japan Equity Passive Fund	0.15
Prudential North America Equity Passive Fund	0.15
Prudential Pacific Basin (ex Japan) Equity Passive Fund	0.15
Prudential UK Smaller Companies Fund	0.25
BlackRock Aquila Emerging Markets Equity Fund	0.4
BNY Mellon UK Equity Fund	0.5
Prudential International Equity Fund	0.25
BlackRock Aquila (30:70) Global Equity Index Fund	0.3
HSBC Amanah Fund	0.4
Legal & General Ethical Global Equity Index Fund	0.45
Prudential Discretionary Fund	0.25
Prudential UK Property Fund	0.25
Prudential Fixed Interest Fund	0.25
Prudential With-Profits Fund	The fees vary depending on performance of this fund, but are expected to be 0.8% based on an expected return of 5% p.a.
Prudential All Stocks Corporate Bond Fund	0.25
Baillie Gifford Diversified Growth Fund	0.75
Prudential Long Term Bond Fund	0.15
Prudential Cash Fund	0.25
Prudential Threadneedle Property Fund	0.9
Prudential Dynamic Growth Funds (I to V)	0.22

Prudential Schroder QEP Global Core Fund	0.40
Prudential Global Equity Fund	0.25
Baillie Gifford Global Stewardship Fund	0.5
LGIM Ethical UK equity Fund	0.25
Prudential M&G High Yield Bond Fund	0.4
Prudential All Stocks Corporate Bond Fund	0.25
Prudential Fixed Interest Fund	0.25
Prudential Dynamic Global Equity Passive	0.14
Prudential Positive Impact Fund	0.25

As well as the annual management charges, additional fund expenses will apply (covering custodian, legal, accounting and auditing fees for each fund). The additional fund expenses will vary from quarter to quarter. The Trustee monitors the overall level of costs periodically to ensure members are receiving good value for money.