

Annual Implementation Statement – for scheme year ending 30 June 2020

Sky Pension Plan

1. Introduction

This document is the Annual Implementation Statement (“the statement”) prepared by the Trustees of the Sky Pension Plan (the “Plan”) covering the year to 30 June 2020. The purpose of this statement is to:

- Set out the extent to which, in the opinion of the Trustees, the Scheme’s Statement of Investment Principles (“SIP”) required under section 35 of the Pensions Act 1995 has been followed during the year
- Detail any reviews of the SIP the Trustees have undertaken, and any changes made to the SIP over the year as a result of the review
- Describe the voting behaviour by, or on behalf of, the Trustees over the year.

A copy of this implementation statement will be/has been made available on the following website: www.skypensionplan.com.

2. Review of, and changes to the SIP

The SIP was reviewed and updated during the Plan year, with a revised version being published as at August 2019. The changes reflected regulation with regards to the Trustees’ policies in relation to:

- Financially material considerations, including Environmental, Social and Governance considerations, and the extent to which these are taken into account in the selection, retention and realisation of investments
- The extent to which (if at all) non-financial factors, including members’ views, are taken into account in the selection, retention and realisation of investments
- Undertaking engagement activities in respect of the investments

The SIP has been updated again since the end of the last Plan year, in August 2020, to take account of further regulatory requirements. This implementation statement does not cover details of those changes since this most recent SIP was not formally agreed to during the Plan year.

3. Adherence to the SIP

Overall the Trustees believe the policies outlined in the SIP have been adhered to during the Plan year. The remaining parts of this implementation statement set out details of how this has been achieved for the Plan. These details relate to those parts of the SIP which set out the Trustees’ policies, and not those which are statements of fact.

Investment Principles

Defined Contribution assets

For the Defined Contribution assets the Trustees give members a choice of investments via pooled funds.

The Plan also offers three pre-determined lifestyle strategies open to new members and one lifestyle strategy closed to new members. The aim of the lifestyle strategies is for members to achieve a reasonable level of long-term growth on the investments over the majority of their working life, and then to provide an automated de-risking process as members approach their target retirement age. One of the lifestyle strategies – the Cash lifestyle – has been chosen as the default option for members who do not make any alternative choice. The Trustees consider that the Cash Lifestyle is likely to be appropriate for a typical Plan member in the normal course of events, although members are encouraged to at least select the target retirement age. Under the default Cash Lifestyle, a member's assets are automatically invested in line with a pre-determined strategy that switches the investments from global equities and diversified growth assets to an increasingly diversified allocation and finally into money market instruments as the member approaches retirement.

Details of all the investment options are shown in Appendix A.

A triennial strategy review of all the options began in 2018, and has continued during the last Plan year. As part of this review the Trustees have considered a number of changes that could be made to the investments, taking account of the profile of the membership and the appropriate balance of expected return and risk across different types of investment fund. However, they have also been mindful of the uncertain market conditions caused firstly by the Brexit transition and more recently by the impact of the COVID-19 pandemic. This has meant the Trustees have been careful over the timing of any changes; however, a new range of lifestyle options with a revised fund mix in the growth phase will be introduced in early 2021 – further details will be provided to members in future communications.

Unallocated assets

For the Unallocated assets the Trustees have invested in two pooled bond funds, details of which are shown in Appendix B. These funds have been chosen to closely match the duration of the underlying liabilities, and the split between fixed and inflation linked liabilities, as well as to provide the appropriate degree of liquidity.

There were no changes made to these funds or to the strategic asset allocation of the Unallocated assets.

Suitability of investments

The Trustees received regular reports from its investment consultant during the Plan year to monitor the funds and managers, and to assess their overall suitability

Financially material considerations

The Trustees recognise that environmental (including climate), social and governance (ESG) matters are financially material over the long-term. The Trustees have had engagement with

their main investment managers during the year, and Schroders and BlackRock attended meetings with the Investment Sub-Committee to discuss their approach.

The quarterly monitoring report provided by the investment consultant includes ratings of all managers. These are research reports that provide a rating on the investment manager, with a focus on culture and a sustainability assessment embedded. Socially responsible investment is built into the investment consultant's research process which the Trustees have access to.

The Trustees intend to extend their policy and engagement with managers in this area during the current Plan year. The Trustees will also continue to investigate whether ESG should be more explicitly integrated into the Plan's investment funds, and whether this can be done without financial detriment to members.

Managing risk

The Trustees consider risk from a number of perspectives:

- Inflation Risk
- Annuity Conversion Risk
- Opportunity Cost Risk
- Capital Risk
- Manager Risk
- Insolvency Risk
- Operational Risk

The 'Cash Lifestyle' is selected as the Plan's default investment strategy to manage the risks which members are exposed to.

During the Plan year the Trustees have considered, monitored and managed these risks in a number of ways:

- Through the range of funds offered to members, which, taken together, enable members to manage risk appropriately through their Plan membership.
- Through the quarterly monitoring reports from its investment consultant, which include an assessment of the risks carried within the Schroders Diversified Growth fund. The reports received during the Plan year indicated that the level of risk in the fund was appropriate and consistent with its objectives. The reports also include ongoing monitoring of the fund managers.
- Through the triennial investment strategy review, which assessed the Plan's Lifestyle options against a number of risk metrics, to ensure these are being managed appropriately.

The Trustees provide the members with a member factsheet on a quarterly basis and information on all the investment funds, which includes an explanation of the risks associated with investing.

Monitoring

The Trustees monitor the performance of all the investment funds via the quarterly monitoring report provided by their investment consultant.

Through these reports the Trustees monitor the markets, asset movements and their managers' performance over the year via the following reports in the quarterly report from the investment consultant:

- ManagerWatch
- MarketWatch
- Multi-AssetWatch.

Fees are monitored throughout the year, and the Trustees also received details on costs and charges from their fund managers, to assist in their governance responsibilities. There were no fee changes throughout the year in question, however since the Plan year ended, the M&G Recovery fund fee has reduced by 0.10% p.a.

4. Voting and engagement

The Trustee has delegated the day to day voting and engagement activity to its investment managers. Trustees expect their fund managers to have effective stewardship, both through voting and engagement.

In the current Plan year, the Trustees will seek to develop their monitoring of investment managers' voting activities, across all relevant investment managers.

Appendix A: Defined Contribution fund options

List of investment funds, weightings and fees as at 30 June 2020:

	Fund name	AMC (%)	Benchmark name	Performance target	Weight (%)
Lifestyle funds					
Growth phase	Schroders Diversified Growth	0.35	CPI	+5%	50.0
	Aegon BlackRock Aquila Life 30:70 Global Hedged	0.09	Composite Benchmark	Indexation	50.0
Cash (at retirement allocation)	Schroders Diversified Growth	0.35	CPI	+5%	10.0
	Aegon BlackRock Aquila Life 30:70 Global Hedged	0.09	Composite Benchmark	Indexation	10.0
	Aegon BlackRock Aquila Life Cash	0.13	London Interbank Bid Rate	Indexation	80.0
Drawdown (at retirement allocation)	Schroders Diversified Growth	0.35	CPI	+5%	30.0
	Aegon BlackRock Aquila Life 30:70 Global Hedged	0.09	Composite Benchmark	Indexation	30.0
	Aegon BlackRock Aquila Life Over 15 years' UK Gilts	0.10	FTSE Gilts Over 15 Years	Indexation	5.0
	Aegon BlackRock Aquila Life Over 15 years' Corporate Bonds	0.08	iBoxx £ Non-Gilts Over 15 Years	Indexation	10.0
	Aegon BlackRock Aquila Life Cash	0.13	London Interbank Bid Rate	Indexation	25.0
Annuity (at retirement allocation)	Aegon BlackRock Aquila Life Over 15 years' UK Gilts	0.10	FTSE Gilts Over 15 Years	Indexation	25.0
	Aegon BlackRock Aquila Life Over 15 years' Corporate Bonds	0.08	iBoxx £ Non-Gilts Over 15 Years	Indexation	50.0
	Aegon BlackRock Aquila Life Cash	0.13	London Interbank Bid Rate	Indexation	25.0

Freestyle funds					
Aegon BlackRock Aquila Life Over 5 years' UK IL Gilts	0.08	FTSE Index-Linked Gilts Over 5 Years	Indexation	100.0	
Aegon BlackRock Aquila Life 50:50 Global Equity	0.09	Composite Benchmark	Indexation	100.0	
Aegon BlackRock Aquila Life UK Equity	0.10	FTSE All-Share	Indexation	100.0	
M&G Property	0.55	IPD UK Pooled Property AB median	+0.5% pa	100.0	
M&G UK Equity Recovery	0.75	FTSE All-Share	-	100.0	
MFS Global Equity	0.65	MSCI World	-	100.0	
Schroders Climate Change*	0.75	MSCI World	-	100.0	
Veritas Global Focus Strategy	0.60	MSCI World	OECD G7 CPI+6%	100.0	

Note: The Growth phase is the same allocation for all three open Lifestyle strategies and the closed Lifestyle strategy. For the open Lifestyle strategies the Consolidation phase will vary over the 10 years pre-retirement and the weights shown above represent the at retirement portfolio. The closed Lifestyle strategy employs a 5 year Consolidation phase, and its at retirement portfolio has the same allocation as the open Annuity Lifestyle.

* This fund is closed to contributions from new members.

Appendix B: Unallocated Assets – asset allocation and manager benchmark

The following table sets out the current strategic asset allocation benchmark for the Plan's Unallocated Assets.

Fund name	AMC (%)	Benchmark name	Performance target	Weight (%)
Aegon BlackRock Aquila Life Over 25 Years UK Gilt Index	0.10	FTSE Actuaries UK Conventional Gilts over 25 years	Indexation	85.0
Aegon BlackRock Aquila Life Over 25 Years Index-Linked Gilt Index	0.10	FTSE Actuaries UK Index-Linked Gilts over 25 years	Indexation	15.0