Sky Pension Plan

Statement of Investment Principles

September 2020

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Section 1: Introduction

1.1 Under the Pensions Act 1995 (as amended by the Pensions Act 2004), trustees are required to prepare a statement of the principles governing investment decisions. This document contains that statement and describes the investment principles pursued by the Trustees ("the Trustees") of The Sky Pension Plan ("the Plan").

1.2 In preparing this document, the Trustees have consulted the Company, Sky UK Limited ("the Company"), and the Trustees will consult the Company before revising this document. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustees.

1.3 Before drawing up this statement, the Trustees have obtained and considered written advice from the Plan's investment consultants (currently Willis Towers Watson), and have consulted the Scheme Actuary. The Trustees will review this document, in consultation with the Plan's investment consultants and Scheme Actuary, at least every three years, and without delay following a significant change in investment policy.

Plan details

1.4 The Plan operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries. The Plan is a registered pension plan under the Finance Act 2004.

1.5 The majority of the Plan's benefits are provided on a purely money purchase (Defined Contribution) basis for individual Plan members ("the Members"). The members' accounts are held in funds which can be realised to provide pension benefits on retirement, or earlier on transfer to another pension arrangement.

1.6 In addition, the Plan provides benefits to some Defined Contribution members who have a defined benefit underpin resulting from contracting-out of the State Earnings-Related Pension Scheme (SERPS) up until 5 April 1997. Any additional liability relating to these underpins is funded by the Trustees' Unallocated Assets.

1.7 This document sets out the investment strategy for the Defined Contribution Assets, as well as the Plan's Unallocated Assets.

Section 2: Investment principles

Choosing investments

2.1 For the Defined Contributions assets, the Trustees make available a range of pooled funds in which members of the Plan are able to invest. In selecting this range, the Trustees have considered the relevant regulatory framework, including the activities, behaviour and control measures that are more likely to deliver good member outcomes, as set out in the Pensions Regulator's DC Code of Practice.

2.2 For the Unallocated Assets, the Trustees set general investment policy in accordance with the Financial Services and Markets Act 2000. After seeking appropriate investment advice, the Trustee Directors specify an overall asset allocation, invest in pooled vehicles or appoint investment managers to manage segregated accounts within specific investment guidelines, and delegate the responsibility for selection of specific investments to the investment managers.

2.3 The Trustees have appointed investment managers who are authorised under the Financial Services and Markets Act 2000 to undertake investment business. After gaining (and, periodically reconfirming) appropriate investment advice, the Trustees have specified the asset allocation for each manager. Investment choice has been delegated to the managers subject to defined tolerances relative to their respective benchmarks.

Suitability of investments

2.4 The Trustees have taken advice from the investment consultant to ensure that the investment options specified above are suitable for the Plan. The Trustees continue to monitor, and take advice on, the various options on an ongoing basis.

2.5 The Trustees' policy is to obtain advice, usually annually, on whether the funds in which the Plan invests are satisfactory as required by the Pensions Act when reviewing managers. In this context, investment advice is defined by Section 36 of the Pensions Act 1995 (as amended).

Financially material considerations

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

The Trustees expect their fund managers to have effective stewardship, both through voting and engagement.

ESG factors are not currently integrated into the majority of the Plan's exposure to equities and bonds, which are invested passively in line with broad market indices. Where active mandates are employed, the Trustees expect ESG factors to be integrated into the managers' investment process. The Trustees are currently investigating whether the integration of ESG factors would improve member outcomes and will keep this policy under review.

Non-financial ESG considerations do not influence Plan investments currently, with the exception of a self-select fund that is now closed to new investment.

The Trustees monitor compliance with this policy annually. ESG is important to the Plan Sponsor and the membership. The Trustees will seek to reflect this where they are confident it can be implemented without financial detriment to the members.

This policy and broader integration of ESG factors, as well as the managers' approach to stewardship, are criteria used as an input for the selection of new asset managers.

Liquidity and realisation of investments

2.7 The Trustees, together with the Plan's Administrators, will ensure that they hold sufficient cash to meet the likely benefit outgo from time to time. The Trustees' policy is that there should be sufficient investments in liquid, or readily realisable assets, to meet unexpected cashflow requirements in the majority of foreseeable circumstances, so that realisation of assets will not disrupt members' retirement plans or the Plan's overall investment policy where possible.

2.8 The members' Defined Contribution accounts are held in funds which can be realised to provide benefits on retirement, or on earlier transfer to another pension arrangement.

Diversification

2.9 Before preparing this document the Trustees have had regard to the requirements of Section 36 of the Pensions Act 1995 concerning diversification of investments and suitability of investments, and the Trustees will consider those requirements on any review of this document or any change in their investment policy. The Trustees will refer to this document where necessary to ensure that they exercise their powers of investment so as to give effect to the principles set out in it as far as is reasonable. The Trustees believes that the provision of the investment funds and the three lifestyle strategies meet the Plan's investment needs and that these investment funds provide adequate diversification of investments.

Managing risk

2.10 The Trustees have considered risk from a number of perspectives. These are:

Inflation Risk:

- The risk that the investment returns over Defined Contribution members' working lives will not keep pace with inflation.
- Is managed by ensuring members have access to asset classes which have the potential to keep track or outpace inflation, such as equities.

Annuity Conversion Risk:

- The risk that relative market movements in the period prior to retirement lead to a substantial reduction in the annuity secured, for those Defined Contribution members intending to buy an annuity at retirement.
- Is managed by ensuring members have access to asset classes which match the rises and falls of annuity prices, such as fixed interest.

Opportunity Cost Risk:

- The risk that Defined Contribution members end up with insufficient funds at retirement, through not having taken enough risk.
- Is addressed through communication to Defined Contribution members and the recommendation that Defined Contribution members seek independent financial advice.

Capital Risk:

- The risk of a fall in the value of the Defined Contribution members fund.
- Is managed by ensuring the investment options are appropriately diversified and Defined Contribution members are able to construct a balanced and diverse portfolio using a number of different asset classes.

Manager Risk:

- The risk that the chosen investment manager does not perform in line with the objectives which the manager is assessed.
- Is managed by the ongoing monitoring of the performance of the investment managers as well as a number of qualitative factors supporting the managers' investment process.

Insolvency Risk:

- The risk that the chosen investment and administration provider becomes insolvent.
- Is addressed though taking appropriate advice from a suitably qualified person and ensuring that the chosen investment and administration provider has a sufficient degree of financial strength and a contract which is suitable for the Plan's specific needs. The Trustees are aware that a currently strong financial assessment doesn't guarantee future solvency.

Operational Risk:

- The risk of fraud, poor advice or acts of negligence.
- Is addressed though ensuring that all advisers and third party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.

In determining the investment options within the Plan, the Trustees have selected a range of funds which attempt to address the risks above. The Trustees measure the effectiveness of the investment choices to address these risks on an ongoing basis.

Arrangements with fund managers

2.11 Alignment between an investment manager's management of the Plan's assets and the Trustees' policies and objectives is a fundamental part of the appointment process of a new investment manager. As the Plan only invests in pooled investment funds, the Trustees cannot directly influence or incentivise investment managers to align their management of the funds with the Trustees' own policies and objectives. However, before selecting any investment fund or other investment arrangement, the Trustees' will seek to ensure that the investment objectives and guidelines of the fund are consistent with their own policies and objectives. The Trustees' will also seek to understand the investment manager's approach to sustainable investment (including engagement).

2.12 The Trustees are responsible for monitoring the investment funds and managers. As part of this, the Trustees will provide investment managers with the most recent version of this Statement of Investment Principles (SIP) on an annual basis and ask managers to explicitly confirm whether they believe there is any misalignment between the objectives and guidelines of the fund(s) they manage on behalf of the Plan, or the manager's approach to sustainable investment, and the Trustees' policies as documented in the SIP.

2.13 Should the Trustees' monitoring processes reveal that an investment fund's objectives and guidelines, or an investment manager's approach to sustainable investment, do not appear to be sufficiently aligned with the Trustees' policies, the Trustees will engage with the investment manager to ascertain the reasons for this and whether closer alignment can be achieved. If this is not possible the Trustees will look to replace the fund.

2.14 The Trustees appoint their investment managers (some of which are accessed via an investment platform) with an expectation of a long-term partnership, which encourages active ownership of the Plan's assets. For most of the Plan's investments, the Trustees expect the investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods.

2.15 When assessing an investment manager's performance, the focus is on longer-term outcomes, and the Trustees would not expect to terminate an investment manager's appointment based purely on short term performance. However, an investment manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

2.16 Investment management charges are deducted from members' Defined Contribution assets and the Unallocated Assets by the managers. These fees are charged by adjustment to the unit prices within the funds, calculated daily on the value that day. The Trustees believe the charging structure is appropriate and in line with standard market practice.

2.17 Fees are taken into consideration when reviewing and appointing managers. The Trustees review the costs incurred in managing the Plan's assets on an annual basis, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual investment manager level, the Trustees will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that type of fund.

Section 3: Objectives and long-term policy for the Defined Contribution Assets

Investment Objective

3.1 The Plans defined contribution arrangement is solely dependent on the amount and timing of money paid into or out of members' individual accounts, performance of investments and, if purchasing an annuity, the annuity rates at retirement.

3.2 The Trustees' objective is to make available to members a choice of investments via pooled funds which seek to generate income and capital growth which, together with new contributions from members and the Company, will provide pension savings at retirement which members can withdraw in accordance with their requirements.

Investment Strategy

3.3 The Trustees' policy is to seek to achieve the objectives through providing a suitable range of funds to suit the reasonable needs of the majority of members. A full list of the current fund range is set out in Appendix C.

3.4 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. The lifestyle strategies automatically switch assets between investment funds as members approach their selected retirement age. The lifestyle strategies are also detailed in Appendix C.

Default Option

3.5 The Trustees offer members the option to invest in the range of investment funds described in Appendix C entirely at their discretion. If members fail to make a choice, the "Cash Lifestyle' option acts as a default investment option and 65 years of age acts as the default target retirement age. This option aims to achieve capital growth ahead of inflation while providing increasing levels of capital protection as the member approaches retirement.

3.6 The Trustees consider that the lifestyle arrangement is likely to be in the best interests of a typical member in the normal course of events, although members are encouraged to at least select the target retirement age. To ensure assets in the default lifestyle arrangement are invested in the best interests of members and beneficiaries, the Trustees periodically conduct a membership analysis exercise, considering a variety of demographic variables, to better understand the risk profile of the membership and members' likely retirement decisions. Based on this understanding of the membership, a default lifestyle arrangement that targets lump sum withdrawal at retirement is considered appropriate. In addition, the Trustees consider that members are further supported by clear communications regarding the aims of the default option and the access to alternative investment options.

3.6 Under the default lifestyle arrangement, a member's assets are automatically invested in line with a pre-determined strategy that invests in a diversified pool of growth assets before gradually switching into money market instruments as the member approaches retirement. The Trustees recognise that this lifestyle design may not be suitable for all members, but believe that it will provide a useful tool for those who feel unable or simply forget to amend their investment strategy as they approach their target retirement age.

3.7 In addition, two alternative lifestyles are available to those members who like the lifestyle concept, but want to target different outcomes at retirement. The drawdown lifestyle is available for members who seek income drawdown at retirement whilst the annuity lifestyle has been developed for those members who wish to purchase an annuity at retirement.

Expected Risk and Return

3.8 The investment options available are in the following assets and have the following expected risk and expected return characteristics:

Equities – expected to produce returns in excess of rates of salary and price inflation in the medium to long term. Capital values may be highly volatile in the short term.

Diversified assets – expected to produce returns in excess of rates of salary and price inflation in the medium to long term. Capital values may be volatile in the short term although this is expected to be less than for equities.

Bonds – capital values are likely to be less volatile than equities but tend to produce lower returns in the medium to long term. The value of bonds are expected to move broadly in line with the price of annuities, providing some protection to the ‘purchasing power’ of a member’s account near target retirement age, for the purpose of securing underpin benefits and/or for buying an annuity at retirement.

Cash – low risk to capital and asset values are easily realisable with limited investment returns associated with the low risk nature of the assets.

Additional Contributions

3.9 The Plan provides a facility for members to pay additional regular contributions and one-off additional voluntary contributions into the Plan to enhance their benefits at retirement. Members have the choice of investing their additional regular contributions and additional voluntary contributions in any combination of self-select or lifestyle investment options. The Trustees’ objective is to provide investment funds which will offer a suitable long term return for members, consistent with members’ investment needs as they approach retirement age.

Performance objectives and monitoring

3.10 Whilst the Trustees are not involved in the pooled funds' day to day method of operation and therefore cannot directly influence the performance target, they will assess performance and review the investment managers' appointments on an annual basis. The table in Appendix C provides details of the fund options offered to members including the benchmark and performance objective for each fund.

3.11 Should a fund underperform the performance objectives, or be seen by the Trustees as unlikely to deliver on the policies and objectives of the Plan, it may be closed to future contributions and/or be disinvested of the accumulated value of past contributions.

Section 4: Objectives and long-term policy for the Unallocated Assets

Investment objectives

4.1 The Unallocated Assets are primarily held to cover the shortfall (the "GMP shortfall") between the value of the defined benefit underpin liabilities as calculated by the Scheme Actuary and the value of the Defined Contribution Assets, for those members where an underpin applies.

4.2 The objectives of the Trustees in respect of the Unallocated Assets are:

4.3 To manage the risk of the assets being insufficient to cover the GMP shortfall over the long term, in particular in relation to regulatory funding requirements, by closely matching the profile and duration of the underlying liabilities.

4.4 Invest in sufficiently liquid funds so as to be able to meet liabilities when they fall due.

Investment strategy

4.5 Based on a review of investment strategy in 2017, it was agreed that the investment objectives could be met by investing in a portfolio of long dated government bonds. This agreed strategic asset allocation benchmark is set out in Appendix A.

4.6 The government bond investments will be through pooled funds which are selected to closely match the duration of the underlying liabilities, and the split between fixed and inflation linked liabilities.

4.7 The Trustees' policy is not to leverage the portfolio. Some short-term borrowing for settlement is allowed, but is strictly limited and for the purpose of trade settlement only (which is standard practice in investment management).

4.8 The Trustees consider that the investment policy described in this document is consistent with the funding plan and objectives agreed at the last valuation of the Plan.

4.9 The Trustees will review this investment policy in the light of the results of actuarial valuations (and funding updates undertaken) and certificates and schedules of contributions produced in order to comply with the Pensions Act 2004.

Expected Risk and Return

4.10 The Unallocated Assets are invested in the following assets and have the following expected risk and expected return characteristics:

Bonds –The value of bonds are expected to move broadly in line with the price of annuities, providing some protection to the 'purchasing power' of a member's account near target retirement age, for the purpose of securing underpin benefits and/or for buying an annuity at retirement.

4.11 In setting investment strategy, the Trustees endeavor to identify prospective rates of return on the various classes of asset available for investment. In this regard, the Trustees will consider historical data and future return expectations as provided by their investment consultants.

4.12 The Trustees' investment consultants' expectations for the long-term returns on the asset classes in which the Unallocated Assets are principally invested, which were taken into account when setting the current investment strategy, are set out in Appendix B.

Unallocated Assets – Performance objectives and monitoring

4.13 Whilst the Trustees are not involved in the investment manager's day to day method of operation and therefore cannot directly influence attainment of the performance target, they will assess performance and review the investment manager on a regular basis.

4.14 The Trustees have been advised that the objectives of the funds in which the Trustees invest are consistent with the achievement of the Plan's longer-term objective. The Trustees monitor the investment manager's performance against the following specific objective:

To perform in line with the benchmarks assigned for each fund, as set out in Appendix A.

4.16 The investment objective will be treated as a target only and will not be considered as an assurance or guarantee of the performance or risk of the Plan or any part of it.

4.17 Investment/disinvestment of monies should be applied to maintain the Plan's asset allocation within any specified ranges, or as otherwise agreed by the Trustees with advice from the investment consultants.

Appendix A: Unallocated Assets – asset allocation and manager benchmark

The following table sets out the current strategic asset allocation benchmark for the Plans 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

Appendix B: Willis Towers Watson Investment Model assumptions

Assumptions as at 31 March 2020

	Arithmetic average 1 year real return %pa	1 year standard deviation %pa	10 year median real return %pa
Equity Investments			
Global equities, ex UK (hedged)	5.4	23.2	3.0
Global equities, ex UK (unhedged)	7.7	24.7	3.7
UK equities	4.5	23.8	2.4
Bonds and cash			
All Stocks corporates	-0.4	10.0	0.2
Fixed interest gilts	-1.7	10.4	-1.0
Index-linked gilts	-1.8	8.3	-2.2
Cash	-1.4	1.3	-1.1
Inflation (CPI)	1.0	1.5	1.5

Note: Assumptions provided above based on the Willis Towers Watson Investment Model. Real returns are expressed relative to CPI Inflation.

Appendix C: Defined Contribution fund options

	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	0.00	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	0.00	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	0.00	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.