



## **Sky Pension Plan Statement of Investment Principles September 2024**

### **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 Trustee ("the Trustee") of The Sky Pension Plan ("the Plan").
- 1.2 In preparing this document, the Trustee has consulted the Company, Sky UK Limited ("the Company"), and the Trustee will consult the Company before revising this document. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.
- 1.3 Before drawing up this statement, the Trustee has obtained and considered written advice from the Plan's investment consultants (currently WTW), and has consulted the Scheme Actuary. The Trustee 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 Trustee's 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 Trustee makes available a range of pooled funds in which members of the Plan are able to invest. In selecting this range, the Trustee has 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. Investment choice within each pooled fund has been delegated to the investment managers.
- 2.2 For the Unallocated Assets, the Trustee sets general investment policy in accordance with the Financial Services and Markets Act 2000. After seeking appropriate investment advice, the Trustee specifies an overall asset allocation strategy, and invests in pooled vehicles that are managed on a passive basis, with the overall aim of delivering a return consistent with the specified asset allocation.
- 2.3 All pooled funds chosen by the Trustee for both the Defined Contribution assets and the Unallocated assets are managed by investment managers who are authorised under the Financial Services and Markets Act 2000 to undertake investment business.
- 2.4 All funds are established as "white-labelled" funds and hosted on an insured investment platform operated by Legal & General Investment Management (LGIM). Each white-labelled fund consists of one or more underlying fund. Where more than one underlying fund is used the Trustee will decide on the proportion of the total fund to allocate to each, having taken appropriate advice.

### Suitability of investments

- 2.5 The Trustee has taken advice from the investment consultant to ensure that the investment options specified above are suitable for the Plan. The Trustee continues to monitor, and take advice on, the various options on an ongoing basis.
- 2.6 The Trustee's policy is to obtain advice 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

- 2.7 The Trustee recognises that environmental (including climate), social and governance (ESG) matters are financially material over the long-term.

ESG factors are currently integrated into the equity and multi-asset portfolios used within the Plan's default and other lifestyle strategies. For other funds, where active mandates are employed, the Trustee expects ESG factors to be integrated into the managers' investment process.

Non-financial considerations do not influence Plan investments currently.

The Trustee expects their fund managers to have effective stewardship, both through voting and engagement. The Trustee expects managers to vote on and engage with companies on a variety of issues, but within the context of ESG the Trustee has agreed a number of factors which they consider to be priorities for stewardship:

**E - Climate Change:** For example engaging with companies on their climate change policies, and/or voting on resolutions requiring publication of a business strategy that is aligned with the Paris Agreement on climate change.

**S - Modern Slavery:** For example engaging with companies on their modern slavery policies, especially with regards to their supply chains.

**G - Diversity and Inclusion:** For example voting against a director appointment where the board is not sufficiently gender diverse.

The Trustee monitors compliance with this policy annually.

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**

- 2.8 The Trustee, together with the Plan's Administrators, will ensure that it holds sufficient cash to meet the likely benefit outgo from time to time. The Trustee's 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.
- 2.9 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**

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

### **Managing risk**

- 2.11 The Trustee has 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 against 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 through 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 Trustee is 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 through 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.

**Environmental, Social and Governance Risk:**

- The risk that investments held may be materially and adversely impacted by the impact of, and potential responses to, environmental, social and governance factors, including climate change.
- Is addressed by investing in some funds which specifically take into account the ESG risks associated with the underlying holdings, and through the regular ESG monitoring provided by the Plan's investment consultants.

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

**Arrangements with fund managers**

- 2.12 Alignment between an investment manager's management of the Plan's assets and the Trustee's 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 Trustee cannot directly influence or incentivise investment managers to align their management of the funds with the Trustee's own policies and objectives. However, before selecting any investment fund or other investment arrangement, the Trustee will seek to ensure that the investment objectives and guidelines of the fund are consistent with its own policies and objectives. The Trustee will also seek to understand the investment manager's approach to sustainable investment (including engagement).

- 2.13 The Trustee is responsible for monitoring the investment funds and managers. As part of this, the Trustee will provide investment managers with the most recent version of this Statement of Investment Principles (SIP) 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 Trustee's policies as documented in the SIP.
- 2.14 Should the Trustee's 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 Trustee's policies, the Trustee 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 Trustee will look to replace the fund.
- 2.15 The Trustee appoints its investment managers 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 Trustee expects 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.
- 2.16 When assessing an investment manager's performance, the focus is on longer-term outcomes, and the Trustee 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.
- 2.17 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 Trustee believes the charging structure is appropriate and in line with standard market practice.
- 2.18 Fees are taken into consideration when reviewing and appointing managers. The Trustee reviews 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 Trustee 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 Plan's 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 Trustee's 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 Trustee's 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 B.

- 3.4 The Plan also offers three pre-determined lifestyle strategies open to new members and four lifestyle strategies 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 B.

### **Default Options**

- 3.5 The Trustee offers members the option to invest in the range of investment funds described in Appendix B entirely at their discretion. If members fail to make a choice, the Drawdown Lifestyle (2021) 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 diversification across a range of asset classes as the member approaches retirement.
- 3.6 The Trustee considers 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 Trustee periodically conducts 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 income drawdown at retirement is currently considered appropriate. In addition, the Trustee considers that members are further supported by clear communications regarding the aims of the default option and the access to alternative investment options.

Under the default lifestyle arrangement, a member's assets are automatically invested in line with a pre-determined strategy that initially invests in equity assets until a member is 20 years from their target retirement age, and then gradually switches to a more diversified pool of growth assets. Over the final ten years before target retirement age a portion of a member's investments is gradually switched into money market instruments. The Trustee recognises that this lifestyle design may not be suitable for all members, but believes 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 Cash Lifestyle (2021) is available for members who wish to target lump sum withdrawal at retirement whilst the Annuity Lifestyle (2021) has been developed for those members who wish to purchase an annuity at retirement.
- 3.8 The legacy Drawdown Lifestyle (pre-2021) is classified as a default, as some members who had been invested in the Cash Lifestyle (pre-2021) have been automatically switched to it. The Cash Lifestyle (2021), and the legacy Cash Lifestyle (pre-2021), which were both previously defaults for new joiners, also remain default arrangements for members who were not automatically switched to the Drawdown Lifestyle (2021) or the Drawdown Lifestyle (pre-2021).
- 3.9 In September 2021 M&G Investments announced the closure of the M&G Pooled Property Pensions Fund, which has been available to Plan members as a self-select fund option. M&G will pay out redemptions from the fund over a period of time, as they sell down assets in the fund.

As part of this fund closure, no further payments can be made into the fund. Having

taken advice from its investment consultants, the Trustee has re-directed ongoing contributions for active members to the Sky Cash fund (unless a member has chosen any alternative fund(s)). Redemption proceeds from M&G will also be re-invested into the Sky Cash Fund, unless a member chooses any alternative fund(s). Whilst other funds could have been considered, there is no "like for like" alternative and the Trustee believes using the Cash Fund is in the best interests of members as it represents the most prudent approach and is suitable as a default arrangement in these circumstances.

- 3.10 As part of the transfer of the Plan's investments to the LGIM investment platform, in July 2023, some changes were made to funds used, and to their objectives, which has resulted in a number of the white-labelled funds being classified as default arrangements. These are:

- Sky Sustainable Passive Global Equity Fund
- Sky Sustainable Multi-Asset Fund
- Sky Passive 50:50 Global Equity Fund
- Sky Passive UK Equity Fund
- Sky Active Global Equity Fund
- Sky Fixed Interest Bonds Fund
- Sky Index Linked Bonds Fund

The Trustee took advice on the fund mapping and is satisfied that the resulting default arrangements are suitable for members.

### **Default Options – Illiquid investments**

- 3.11 Currently the default options do not include any allocation to illiquid investments. However, the Trustee will consider whether it would be appropriate to make an allocation to any illiquid investments and may do so where it believes it would improve risk adjusted returns, and where illiquid investments can be accessed through a suitable pooled investment vehicle.

### **Expected Risk and Return**

- 3.12 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 and property** – 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**

- 3.13 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 Trustee's 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**

- 3.14 Whilst the Trustee is not involved in the pooled funds' day to day method of operation and therefore cannot directly influence the performance target, it will assess performance and review the investment managers' appointments on an annual basis. The table in Appendix B provides details of the fund options offered to members including the benchmark and performance objective for each fund.
- 3.15 Should a fund underperform the performance objectives, or be seen by the Trustee 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, and/or one or more components of the overall white-labelled fund may be changed for an alternative fund.

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

### **Investment objectives**

- 4.1 The Unallocated Assets are primarily held to cover any 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 Trustee in respect of the Unallocated Assets are:
  - 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.
  - Invest in sufficiently liquid funds so as to be able to meet liabilities when they fall due.

### **Investment strategy**

- 4.3 Based on a review of investment strategy in 2022, it was agreed that the investment objectives could be met by investing in a portfolio of long dated government bonds. The agreed strategic asset allocation benchmark is set out in Appendix A.
- 4.4 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.
- 4.5 The Trustee's 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).
- 4.6 The Trustee considers that the investment policy described in this document is consistent with the funding plan and objectives agreed at the last valuation of the Plan.
- 4.7 The Trustee 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**

- 4.8 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.

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

## **Unallocated Assets – Performance objectives and monitoring**

- 4.10 Whilst the Trustee is not involved in the investment manager’s day to day method of operation and therefore cannot directly influence attainment of the performance target, it will assess performance and review the investment manager on a regular basis.

- 4.11 The Trustee has been advised that the objectives of the funds in which the Trustee invests are consistent with the achievement of the Plan’s longer-term objective. The Trustee monitors 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.

- 4.12 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.
- 4.13 Investment/disinvestment of monies should be applied to maintain the Plan’s asset allocation within any specified ranges, or as otherwise agreed by the Trustee 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 Plan's Unallocated Assets.

| White-labelled fund name | Underlying funds and target allocations  | Benchmark  | AMC (% p.a.) |
|--------------------------|--|--|--------------|
| Sky Underpin Fund        | 70% LGIM Over 15 Year Gilts Index Fund<br>20% LGIM Over 15 Year Index-Linked Gilts Index Fund<br>10% LGIM 5 to 15 Year Index-Linked Gilts Index Fund | 70% FTSE Actuaries UK Conventional Gilts Over 15 Years Index<br>20% FTSE Actuaries Index-Linked Gilts Over 15 Years Index<br>10% FTSE Actuaries Index-Linked Gilts 5 to 15 Years Index | 0.05         |

LGIM, as investment platform provider, will apply incoming and outgoing cashflows to maintain the target allocations as far as possible, and will also re-balance back to the target weightings at the end of each month.

**Appendix B: Defined Contribution fund options**

| White-labelled fund name                     | Underlying funds and target allocations   | Benchmark  | AMC (% p.a.) |
|--|---|--|--------------|
| Sky Sustainable Passive Global Equity Fund * | 50% LGIM Future World Global Equity Index Fund<br>50% LGIM Future World Global Equity Index Fund (GBP hedged) | 50% Solactive L&G ESG Global Markets Index<br>50% Solactive L&G ESG Global Markets Index (GBP hedged)  | 0.1125       |
| Sky Sustainable Multi-Asset Fund *           | LGIM Future World Multi-Asset Fund  | ABI Mixed Investment 40-85% Shares Sector  | 0.18         |
| Sky Fixed Interest Bonds Fund *              | LGIM Future World Annuity Aware Fund  | FTSE Annuities Index   | 0.10         |
| Sky Cash Fund *                              | LGIM Institutional Liquidity Fund   | Sterling Overnight Index Average (SONIA)   | 0.09         |
| Sky Passive 50:50 Global Equity Fund         | LGIM Global Equity Fixed Weights (50:50) Index Fund   | Composite of 50/50 distribution between UK and overseas equity indices   | 0.06         |
| Sky Passive UK Equity Fund                   | LGIM UK Equity Index Fund   | FTSE All Share Index   | 0.05         |
| Sky Index-Linked Bond Fund                   | LGIM Over 5 Year Index-Linked Gilts Index Fund  | FTSE Actuaries UK Index-Linked Gilts Over 5 Years Index  | 0.05         |
| Sky Islamic Global Equity Fund               | HSBC Islamic Global Equity Index Fund   | Dow Jones Islamic Market Titans 100 Net Total Return Index   | 0.21         |
| Sky Active UK Equity Fund                    | M&G Pooled Pensions UK Equity Recovery Fund   | FTSE All Share Index   | 0.63         |
| Sky Active Global Equity Fund                | 67% Veritas Global Focus Fund<br>33% MFS Global Equity Fund   | MSCI World Index   | 0.63         |
| Sky Sustainable Property Fund **             | LGIM Sustainable DC Property Fund   | Composite of the Association of British Insurers (ABI) UK – UK Direct Property – Pension Sector and the FTSE EPRA/NAREIT Developed Real Estate Index | 0.53         |
| Sky Climate Change Fund                      | Schroders Global Climate Change Fund  | MSCI All Country World (Net TR) Index  | 0.78         |

**Note:** Full details of all Lifestyle options, including the legacy Lifestyles can be found on the Plan website [www.skypensionplan.com](http://www.skypensionplan.com)

\* Funds used in the Lifestyle strategies.

\*\* In addition a closed Property Fund – managed by M&G – is in the process of being wound up. No future payments can be made to or from this fund.

Where the white-labelled fund is made up of a blend of two or more underlying funds LGIM, as investment platform provider, will apply incoming and outgoing cashflows to maintain the target allocations as far as possible, and will also re-balance back to the target weightings at the end of each quarter should any weighting fall outside of a 5% tolerance level.