

Vivendi 2008 Deferred Members' Scheme

Statement of Investment Principles – January 2021

Introduction

The Pensions Act 1995 (Section 35), as amended from time to time (“the Act”) requires that the trustees of a pension scheme must ensure that a written statement of principles covering investment decisions about the scheme is prepared and maintained.

Vivendi Corporate Trustee Limited (“the Trustee”), in its capacity as Trustee to the Vivendi 2008 Deferred Members' Scheme (“the Scheme”) has drawn up this Statement of Investment Principles (“the Statement”). As required under the Act, the Trustee has consulted a suitably qualified person in obtaining written advice from Mercer Limited (“Mercer”). The Trustee, in preparing this Statement, has also consulted the Sponsoring Company.

The Trustee will refer to this Statement when making investment decisions, to ensure that they are consistent with the principles set out in it.

The Scheme's Trust Deed and Rules, a copy of which is available on request, govern the investment responsibilities of the Trustee. If necessary, the Trustee will take appropriate legal advice regarding the interpretation of these. The Trustee notes that, according to the law, the Trustee has ultimate power and responsibility for the Scheme's investment arrangements. However, the Trustee is required to consult with the Sponsoring Employer regarding any proposed changes to the investment arrangements prior to implementation.

This Statement documents the general principles underlying the Scheme's investment policy. Details of how this policy has been implemented are set out in a separate Statement of Investment Arrangements (“SIA”), which is not part of the Statement.

The Trustee will review this statement without delay in response to any material changes to any aspects of the Scheme, its liabilities, or the attitude to risk of the Trustee or the Sponsoring Employer, which they judge to have a bearing on the investment policy. This review will occur at least triennially on an on-going basis to coincide with the actuarial valuation.

Investment Objectives and Risk

The investment policy has been developed after consideration of the objectives and risks set out below.

1. Investment Objectives

To guide them in their strategic management of the assets and control of the various risks to which the Scheme is exposed, the Trustee has considered their objectives and adopted the following:

- To pay the Scheme member's benefits as and when they fall due and avoid any reduction in benefits if possible;
- To improve the funding level of the Scheme with the aim of achieving and maintaining 100% funding on the technical provisions basis, with the view to the Scheme ultimately becoming solvent in the event of a winding-up;
- To achieve the above objectives, the 30 November 2017 actuarial valuation calculated an investment return of at least 1.1% p.a. above appropriate longer dated UK Government bonds should be sought. On a best estimate returns basis, at the point of the 2017 actuarial valuation being agreed, the Trustee and Sponsoring Employer were comfortable with the investment strategy targeting an expected return in excess of the required return.
- To avoid new direct self-investment where practicable.
- To maintain sufficient flexibility in the Scheme's investment structure to allow changes to be efficiently made as required in the future;
- To set and monitor appropriate benchmarks and performance targets for the investment managers; and
- To pay due regard to the interests of the Sponsoring Employer in relation to the funding of the Scheme.

The Trustee considers these to be financially material considerations. Given the nature of the liabilities, the investment time horizon of the fund is potentially long term (i.e. several decades), although opportunities for risk transfer (e.g. by purchase of bulk annuities) could reduce the time horizon materially.

The Trustee expects to achieve a return in excess of the level assumed by the Scheme Actuary for technical provisions, except to the extent that investment gains to date allow the Trustee to pursue a lower risk, lower return strategy while still expecting to meet the Scheme's funding targets.

At the time of the latest actuarial valuation, as at 30 November 2017, a single equivalent discount rate of gilts plus 1.1% p.a. was calculated.

Based on information received from its advisors, the Trustee believes that it is reasonable to expect that the current investment strategy should achieve a return of c. 1.8% p.a. above gilts on a best estimate basis.

The Trustee and the Sponsoring Employer are comfortable that the expected return on assets is therefore sufficient to comfortably support the discount rate.

2. Risk

There are various risks to which any pension fund is exposed which may be considered financially material. The Trustee has considered the following risks:

- The risk of a deterioration in the Scheme's funding level resulting from a mismatch between the Scheme's assets and liabilities particularly in relation to interest rate and inflation risk;
- The risk of changes in the value and profile of the liabilities in relation to the value and profile of the assets. The strategy of the Scheme will be reviewed periodically or in the event of a significant event likely to result in a material change to the liability profile;
- The risk that the day-to-day management of the assets will not achieve the rate of investment return expected by the Trustee, which will lead to a higher than expected cost to the Sponsoring Company;
- The risk that a manager will underperform the relevant market net of fees;
- The risk of a shortfall of assets relative to the Scheme's liabilities as determined if the Scheme was to wind up. As noted earlier, the Scheme's investment objectives are geared towards the ongoing position with the support of the Sponsoring Company. The wind-up liabilities of the Scheme would be materially different and the investment strategy that would be appropriate in the event of a discontinuance would be considered at that time;
- The risk of variation in the Scheme's surplus or deficit resulting from stock market volatility, currency risk (to the extent it is not hedged) and credit and counterparty risk;
- The risk that assets cannot be sold when required to meet Cashflow requirements ("illiquidity risk");
- The risk of volatility in the level of the Sponsoring Company contribution rate and the implications of this to the Sponsoring Company and the security of members' benefits, taking into account covenant;
- The safe custody of the fund's assets is delegated to professional custodians via the use of pooled vehicles.

Considerations specific to Environmental, Social and Governance issues ("ESG") issues are addressed in Section 8.

The Trustee believes that the asset allocation policy in place provides an adequately diversified distribution of assets for an ongoing fund supported by the Sponsoring Company and which manages the above risks to an acceptable level. Periodic asset liability modelling investigates the likely level of risk to ensure this remains the case.

3. Investment Policy

The investment policy falls into two parts: (1) the strategic management, the setting of which is one of the fundamental responsibilities of the Trustee, and (2) the day-to-day management of assets, which can be delegated to professional investment managers.

4. Strategic Management

Decisions surrounding strategic management are long-term in nature and are driven by an understanding of the objectives, needs and liabilities of the Scheme.

The Trustee recognises that it is not necessarily possible, or even desirable, to select investments that exactly match the liabilities. Given the on-going commitment of Sponsoring Company to the Scheme, a degree of mismatching risk can be accepted on the basis that it is also acceptable to the Sponsoring Company.

The Trustee takes all such decisions itself. Where appropriate, this is after receiving written advice from Mercer and consulting with the Sponsoring Company. This includes, but is not limited to:

- Setting investment objectives;
- Setting strategic asset allocation;
- Setting benchmarks;
- Drafting the Statement of Investment Principles; and
- Appointing and removing investment managers.

The investment strategy will be reviewed periodically, with a view to amending it to reflect any changes in the liability profile of the Scheme and/or the funding objective of the Trustee if necessary.

5. Day-to-day Management

Day-to-day management of the assets in implementation of the scheme specific benchmark including the selection, retention and realisation of assets within asset classes is delegated to professional investment managers who are regulated by the Financial Conduct Authority (the "FCA"). The Investment Managers have full discretion to buy and sell investments on behalf of the Scheme, subject to the constraints of their mandates. They have been selected for their expertise in different specialisations and each manages investments for the Scheme to a specific mandate, which includes performance objectives, risk parameters, and timescales over which their performance will be measured. All investments are made via multi-client pooled funds.

The current investment managers are:

- Insight Investment Management (Global) Limited;
- Ruffer LLP;
- Man AHL;
- Newton Investment Management Limited;
- Nordea Limited;

The objective of the Liability Driven Investment funds managed by Insight Investment Management (Global) Limited is, to hedge 100% of the Scheme's total Technical Provisions liabilities against changes in interest rates and inflation expectations, called the Liability Benchmark.

Newton Investment Management Limited and Nordea Limited are tasked with exceeding a cash-based benchmark by specified amounts, while Man AHL and Ruffer LLP do not target a specific level of returns but aim to preserve and generate capital growth over the medium to long term. These investments are expected to outperform the Liability Benchmark over the longer term.

Details of the day-to-day management arrangements are set out in the SIA.

6. Realisation of Investments

The Scheme's assets are invested in the investment managers' pooled vehicles, which in turn invest in securities traded on recognised exchanges. The Trustee concludes that the majority of the Scheme's investments can be realised if necessary.

7. Monitoring the Managers

The Trustee will meet the investment managers periodically to review the investment managers' actions together with the reasons for and background behind the investment performance. In addition, they receive periodic reports from Mercer and the managers.

Mercer also assists the Trustee in fulfilling its responsibility for monitoring the investment managers.

8. Responsible Investment and Corporate Governance - Financially Material Considerations

The Trustee understands that they must consider all factors that have the ability to impact the financial performance of the Scheme's investments over the appropriate time horizon. This includes, but is not limited to, environmental, social and governance (ESG) factors.

The Trustee recognises that ESG factors, such as climate change, can influence the investment performance of the Scheme's portfolio and it is therefore in members' and the Scheme's best interests that these factors are taken into account within the investment process.

The Scheme's assets are invested in pooled funds. The Trustee accepts that they have very limited ability to influence the ESG policies and practices of the companies in which their investment managers invest. The Trustee will therefore rely on the policies and judgement of their investment managers. The Trustee and their investment managers will take ESG considerations into account in the selection, retention and realisation of investments.

9. Stewardship

The Trustee have concluded that the decision on how to exercise voting rights should be left with their investment managers, who will exercise these rights in accordance with their respective published corporate governance policies. This includes, but is not limited to, decisions surrounding the selection, retention and realisation of investments within their mandates. These policies, which are provided to the Trustee from time to time, take into account the financial interests of shareholders and should be for the Scheme's benefit.

Investment managers are expected and encouraged to undertake engagement activities on relevant matters, including ESG factors and exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies, and current best practice, including the UK Corporate Governance Code and UK Stewardship Code. This applies to both equity and debt instruments, as appropriate, and covers a range of matters including the issuers' performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance.

The Trustee engages with existing managers on these issues through (amongst other things) regular meetings and periodic correspondence and will monitor investment manager engagement activity (such as voting) at least annually. The Trustee will consider ESG factors as part of the selection of any new investment manager based on information and advice provided by their investment advisors. The relative importance of these factors compared to other factors will depend on the asset class being considered.

The Trustee, with the assistance of their investment consultants, will monitor the performance, strategy, risks, ESG policies and corporate governance of the investment managers. If the Trustee has any concerns, they will raise them with their investment managers, either directly or through their investment consultants, verbally or in writing.

10. Non-Financial Considerations

The Trustee only considers factors that are expected to have a financial impact on the Scheme's investments. Non-financial considerations, such as ethical views, are not implemented in the current investment strategy.

11. Investment Manager Arrangements

Investment managers are appointed based on perceived capabilities and, therefore, the perceived likelihood of achieving their expected return and risk characteristics for the asset class or specific investment strategy they are selected to manage over a suitably long time horizon. This includes, in relation to active management, appropriate levels of expected outperformance.

The Trustee seek advice from their investment consultant in relation to these appointments. This advice may consider factors such as the manager's idea generation, portfolio construction, implementation and business management, as well as the appointed investment manager's approach to ESG and engagement activity, as they apply to the specific investment strategy being considered.

The Trustee invests the Scheme's assets in multi-investor pooled investment vehicles and accept that they have little to no ability to specify the risk profile and return targets of the manager other than through the choice of specific vehicles. They will therefore select vehicles that best align with the Trustee's own policy in terms of investment objectives and guidelines (as set out in relevant governing documents) and, once appointed, will review the appointment should there be any material changes to these terms.

The Trustee makes appointments with the view to them being long term (to the extent that this is consistent with the Trustee's overall investment horizon) and there is typically no set duration for the manager appointments. However, appointments can typically be terminated at short notice.

For each appointment, retention is dependant on the Trustee having ongoing confidence that the investment manager will achieve its objectives. The Trustee makes this assessment taking into account various factors, which includes performance to date as well as an assessment of future prospects.

Investment managers are therefore incentivised both to achieve the objectives set for them, which are consistent with the Trustee's policies and objectives, and to ensure that they remain capable of doing so on a rolling basis. This encourages investment managers to take a suitably long term view when assessing the performance prospects of, and engaging with, the equity and debt issuers in which they invest or seek to invest.

12. Performance Assessment & Fees

The Trustee receive reporting on asset class and investment manager performance on a regular basis, via a combination of formal independent reports and presentations from the investment managers.

Investment returns (and volatility) are measured on both an absolute basis and relative to one or more suitable benchmarks and targets. Returns are considered net of fees and ongoing transaction costs. The Trustee's focus is on long-term performance but may put a manager "on watch" if there are short-term performance issues.

As well as assessing investment returns, the Trustee will consider a range of other factors, with the assistance of their investment consultant, when assessing investment managers. These factors may include, but are not limited to:

- Personnel and business change;
- Portfolio characteristics (including risk and compatibility objectives) and turnover;
- Voting and engagement activity;
- ESG policies;
- Service standards;
- The investment consultant's assessment of ongoing prospects based on their research ratings.

The investment managers are typically remunerated by the way of a fee calculated as a percentage of assets under management. The principal motivation is for the investment manager to retain their appointment by achieving their stated objectives in order to continue to receive their associated fee. The Trustee may look to negotiate fees or terminate the appointment if they are dissatisfied.

13. Portfolio Turnover Costs

Turnover costs arise from (a) "ongoing" transactions within an investment manager's portfolio and (b) "cashflow" costs incurred when investing or realising assets from a mandate.

The Trustee have not historically monitored investment managers' ongoing transaction costs explicitly but measures these implicitly through ongoing performance assessments which are net of these costs. The Trustee will seek explicit reporting on ongoing costs for all appointed managers.

The Trustee do not monitor regular cashflow costs (but seek to minimise them through ongoing cashflow policy). The Trustee monitors the costs of implementing strategic change via their investment consultant.

14. Compliance with this Statement

The Trustee, the investment manager and the investment consultant all have duties to ensure compliance with this Statement.

The investment managers will prepare quarterly reports for the Trustee, which include:

- A valuation of all investments held for the Scheme;
- A review of performance against appropriate benchmarks;
- Engagement including voting activity where appropriate;
- Records of all transactions together with a cash reconciliation where applicable;

Provided the managers invest in line with their guidelines the Trustee is satisfied that the investment mandates will enable them to fulfil their responsibility for ensuring ongoing compliance with this Statement and ensuring appropriate diversification and suitability of investments of the Scheme

Signed _____

Alex Hebert
For and on behalf of the Vivendi Corporate Trustee Limited

Dated _____