Fujitsu Technology Solutions International Limited Pension Plan
Statement of Investment Principles

Introduction

This is the Statement of Investment Principles made by the Trustee Directors (the “Trustees”) of FRS Pension Trustee Company Limited, Trustees of the Fujitsu Technology Solutions International Limited Pension Plan (“the Plan”) in accordance with the Pensions Acts 1995 and 2004 (as amended). It is subject to periodic review by the Trustees at least every three years and without delay after any significant change in the Plan’s investment policy.

In preparing this Statement, the Trustees have consulted with the principal employer to the Plan and have taken and considered written advice from the Investment Practice of Hymans Robertson LLP. The Plan comprises only a Defined Benefits section which is closed to new members and future accruals.

The Trustees adhere to the Myners Code of Conduct for investment decision making for defined benefit pension plans. The extent of the Trustees’ adoption of the Myners Code is set out in a separate document.

The Trustees are supportive of the UK Stewardship Code (“the Code”) which seeks to improve the quality of engagement between institutional investors and investee companies. Where appropriate, the Trustees expect investment managers to comply with the Code and to produce a statement of their commitment to the Code.

For and on behalf of the Trustees of the Fujitsu Technology Solutions International Limited Pension Plan

Plan objective

The primary objective of the Plan is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. The Trustees' over-riding funding principle for the Plan is to:

- Ensure that there are always sufficient assets of the Plan (at their realisable value) to meet 100% of benefits as they fall due for payment to beneficiaries; and
- Recover any shortfall in assets relative to the value placed on accrued liabilities over the longer term.

The value of liabilities is calculated on the basis agreed by the Trustees and the Scheme Actuary; the Trustees also consider the Plan's funding position on a more stringent minimum risk basis. These funding positions are monitored regularly by the Trustees and formally reviewed at each triennial actuarial valuation, or more frequently as required by the Pensions Act 2004.

The Statement of Funding Principles, which is agreed between the Trustees and the principal employer, sets out in more detail the Trustees' policy for securing its funding objective.

Investment strategy

The Trustees have translated the objectives into a suitable strategic asset allocation benchmark for the Plan. The strategic benchmark is reflected in the choice and mix of funds in which the Plan invests. The Plan's benchmark is consistent with the Trustees' views on the appropriate balance between seeking an enhanced long-term return on investments and accepting greater short-term volatility and risk.

The investment strategy takes due account of the maturity profile of the Plan (in terms of the relative proportions of liabilities in respect of pensioners and non-pensioners), together with the level of disclosed surplus or deficit (relative to the funding bases used on an ongoing and on other relevant bases).

The Plan's investments comprise Buy-in policies with Just Group and Canada Life Limited and holdings in various pooled funds managed by Legal & General Investment Management Limited ("L&G"). These include a cash fund and a liability driven investment ("LDI") portfolio made up of a range of leveraged and unleveraged fixed interest and index linked gilt funds.

The Trustees monitor the performance of their investments relative to their agreed asset allocation benchmark. It is intended that the investment strategy will be reviewed at least every three years following actuarial valuations of the Plan and will normally be reviewed annually. In reviewing the strategy, the Trustees will seek and consider written advice from our appointed investment consultant as required.

Choosing investments

Excepting the Buy-in policy, the Trustees have decided to invest on a pooled fund basis; any such investment is affected through an insurance contract with L&G which is authorised to undertake investment business. The Trustees are satisfied that the pooled funds selected are consistent with the objectives of the Plan, particularly in relation to diversification, risk, expected return and liquidity. In addition to the funds referred to above, L&G may, from time to time, hold modest amounts of cash in an appropriate cash fund.

The Trustees have appointed their investment manager to deliver a specific benchmark, which overall will align to deliver the broader Plan investment strategy. The Trustees ensure that all manager engagements have clearly defined benchmarks, objectives and management parameters.

The Trustees will invest in pooled funds where the objectives of the fund and the policies of the investment manager will be evaluated by the Trustees to ensure that they are appropriate for the needs of the Plan.

Remuneration for each mandate is determined at the inception of each mandate based on commercial considerations and typically set on an ad valorem basis. The Trustees periodically review the fees paid to all of their managers against industry standards.

The Trustees review the nature of Plan investments on a regular basis, with particular reference to suitability and diversification. The Trustees seek and consider written advice from a suitably qualified person when determining the appropriateness of each manager and mandate for the Plan, particularly in relation to diversification, risk, expected return and liquidity. If, at any time, investment in a security or product not previously known to the Trustees is proposed, appropriate advice is sought and considered to ensure its suitability. The Trustees recognise the long-term nature of the Plan's liability profile and appoints managers to invest in such a way that generates long term sustainable returns. The Trustees will carry out necessary due diligence on the underlying investment decision making process, to ensure the manager makes investment decisions over an appropriate time horizon aligned with the Plan objective.

The duration of each mandate is determined by the Trustees at the inception of each mandate. For open-ended investments, the Trustees generally engage managers on an ongoing basis with no pre-determined term of appointment. For such mandates, the Trustees expect the minimum duration of the appointment will be three years, this being the period over which performance of the mandate can be appropriately evaluated although all mandates are subject to ongoing review against various financial and non-financial metrics in addition to their continued appropriateness within the investment strategy, bearing in mind the Trustees' objective to buy out the benefits at an appropriate time.

The Trustees undertake a periodic service provider review in which the ongoing appropriateness of the Plan's manager arrangements are considered. The Trustees review the performance of each of the managers and mandates on a regular basis against a series of metrics, including financial performance against the benchmarks of the mandate, the exercise of stewardship responsibilities (including engagement with issuers) as set out below, and the management of risks. Material deviation from performance or risk targets is likely to result in the mandate being formally reviewed.

The Trustees monitor the manager's performance against their benchmarks at each Trustee meeting over a long-term time horizon. The Trustees will measure a fund's relative tracking error where appropriate. The Manager is expected to provide explanation for any significant deviations away from benchmark.

The objective of the Plan's LDI portfolio is to invest in a portfolio of assets which will respond to changes in interest rates and inflation in a similar, but not necessarily identical, manner to changes in the Plan's liabilities.

In adopting the approaches outlined above, the Plan ensures a suitably diversified portfolio.

The Plan has two Buy-in policies, with Just Group and Canada Life Limited. These providers were selected following a detailed process, including an independent covenant review.

Kinds of investments to be held

In addition to the Buy-In policies, the Plan may invest in quoted and unquoted securities of UK and overseas markets including equities, credit, fixed interest and index linked bonds, cash, property, commodities, infrastructure, hedge funds, currency and structured products, either directly or through pooled funds (this includes diversified growth funds). The Plan may also make use of contracts of insurance, derivatives (including Swaps) and contracts for difference (either directly or in pooled funds investing in these products) for the purpose of efficient portfolio management or to hedge specific risks. The Trustees consider all of these classes of investment to be suitable in the circumstances of the Plan.

Balance between different kinds of investments

The managers of the L&G funds in which the Plan invests will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market the managers will maintain a diversified portfolio of stocks through direct investment or pooled vehicles.

Risk

The Plan is exposed to a number of risks which pose a threat to meeting its objectives. The principal risks affecting the Plan are:

Funding risks:

- Financial mismatch –

  1. The risk that Plan assets fail to grow in line with the developing cost of meeting Plan liabilities.

  2. The risk that unexpected inflation increases the pension and benefit payments and Plan assets do not grow fast enough to meet the increased cost.

- Changing demographics –The risk that longevity improves, and other demographic factors change increasing the cost of Plan benefits.

- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes, investment managers and, or, Buy-In providers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting Plan liabilities. Climate change is a particular systemic risk that has the potential to cause economic, financial and demographic impacts.

- Covenant risk – The risk that the sponsoring Company is unable, or unwilling, to contribute into the Plan.

The Trustees measure and manage financial mismatch in two ways. As indicated above, they have set a strategic asset allocation benchmark for the Plan. They assess one element of risk by monitoring the Plan's asset allocation and investment returns relative to the benchmark. They assess another element by monitoring the delivery of benchmark returns relative to liabilities.

The Trustees have introduced LDI to partially mitigate the risk of movements in interest rates and inflation impacting the Plan's funding level.

The Trustees keep under review mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions are considered formally at the triennial valuation. The Buy-in policies also provide a partial hedge to the Plan's risk of increasing longevity.

The Trustees seek to mitigate systemic risk through a diversified portfolio; however, it is not possible to make specific provision for all possible eventualities that may arise under this heading.

The Trustees receive regular updates on Stockbrokers' views on the Plan's ultimate parent and the Company to get a greater understanding of the Company's financial position and plans for the future. The Trustees also received an independent desktop financial review from BHP Chartered Accountants alongside the 2017 triennial valuation process.

Asset risks

- Concentration - The risk that significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Plan cannot meet its immediate liabilities because it has insufficient liquid assets.
- Interest rate risk – The risk that the Plan's assets will fluctuate because of changes in market interest rates
- Currency risk – The risk that the currency of the Plan's assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Other price risk - The risk that the Plan's value will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.
- Credit risk – The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
- Leverage – The risk that any leverage used in the Plan's investments magnifies any losses that are incurred.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.
- Environmental, Social and Governance (ESG) risks – The extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations.
- Climate risk – The extent to which climate change causes a material deterioration in asset values as a consequence of factors including but not limited to policy change, physical impacts and the expected transition to a low-carbon economy.

The Trustees measure and manage asset risks in a number of ways. They provide a practical constraint on Plan investments deviating greatly from the intended approach by setting diversification guidelines and by investing in a range of investment mandates, each of which has a defined objective and performance benchmark which, when taken in aggregate, constrain risk within the Trustee's expected parameters. In some cases, asset risks are used explicitly to reduce the Plan's overall risk (e.g. the interest rate risk of the assets is used to partially hedge the rate risk associated with the liabilities).

By investing across a range of assets, including bonds and cash, the Trustees recognise the need for some access to liquidity in the short term.

The Trustees do not expect managers to take excess short-term risk and will regularly monitor the manager's performance against the benchmarks and objectives set on a short, medium and long terms basis.

The Trustees reduce the risk associated with using leverage by investing in pooled funds which have pre-defined leverage benchmarks, leverage limits and recapitalisation processes. The Trustees also manage leverage risk by only using these funds for a proportion of the Plan's overall hedging and return generation.

The decision to appoint only one investment manager for the majority if its assets does involve some degree of risk (from potential underperformance of that manager) which the Trustees accept as a reasonable compromise given the size of the portfolio. However, a notable proportion of the assets are managed on a passive basis, so the risk of underperformance from stock selection is reduced.

The Trustees' approach to the consideration of ESG risks and climate risk is set out in further detail below.

Other provider risk

- Buy-In provider risk - The possibility of default of the Buy-In providers.
- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Trustees take professional advice and consider the appointment of specialist transition managers.
- Custody risk - The risk of losing economic rights to Plan assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

The Trustees monitor and manage risks in these areas through a process of regular scrutiny of their providers, and audit of the operations they conduct for the Plan, or have delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). When carrying out significant transitions, the Trustees seek professional advice.

Expected return on investments

The investment strategy aims to achieve a return on the Plan assets which, taken in conjunction with contributions, is sufficient over time to match growth in the Plan's pension liabilities.

Realisation of investments

A large proportion of the Plan's assets are invested in L&G's pooled funds. These funds can be realised quickly if required. In contrast, the Plan's Buy-in policies are illiquid. It is matched to the payment of specific pensioner benefit payments.

Portfolio turnover

The Trustees have expectations of the level of turnover within each mandate which is determined at the inception of the mandate, based on the Trustees' knowledge of the manager, investment process and the nature of the portfolio. Whilst the Trustees expect performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustees expect the manager to report on at least an annual basis on the underlying assets held within the portfolio and details of any transactions over the period. The Trustees will challenge the manager if there is a sudden change in portfolio turnover or if the level of turnover seems excessive.

The Trustee will request turnover costs incurred by the manager over the Plan reporting year.

Consideration of financially material factors in investment arrangements

The Trustees recognise that the consideration of financially material factors, including ESG factors, is relevant at different stages of the investment process.

Strategic considerations

The strategic benchmark has been determined using appropriate long-term economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors.

The Trustees expect the Plan to be in a position to buy out all the benefits in the near future. The Trustees understand that risks of climate change may affect the Plan during this period but are also mindful that the relatively short timeframe means that the costs of changes to the strategy need to be carefully considered against any benefits or risk reduction achieved.

Given the inherent uncertainty and the relatively short timeframe, the Trustees have not made explicit allowance for the risks of climate change in setting their strategic benchmark. The Trustees will discuss the potential impact of climate change with their Scheme Actuary and, where relevant and to the extent that they are able, will consider reflecting the inherent uncertainties in their choice of funding assumptions. The Trustees will periodically discuss climate change with their investment adviser and investment managers to consider the potential implications and actions for the Plan’s investments.

Structural considerations

Given the discretion afforded to the active Investment Managers, the Trustees expect that their investment managers will take account of all financially material factors including the potential impact of ESG factors in the implementation of their mandate.

Selecting investment managers

Within active mandates, the Trustees have delegated responsibility for the consideration of stock specific issues to their individual Investment Managers.

In passive mandates, the Trustees recognise that the choice of benchmark dictates the assets held by the investment manager and that the manager has minimal freedom to take account of factors that may be deemed to be financially material. The Trustees accept that the role of the passive manager is to deliver returns in line with the benchmark and believe this approach is in line with the basis on which their current strategy has been set. The Trustees will review the index benchmarks employed for the Plan on at least a triennial basis.

In selecting new investment managers for the Plan, where relevant to the investment mandate, the Trustees explicitly consider potential managers’ approach to responsible investment and the extent to which managers integrate ESG issues in the investment process as a factor in their decision making. They monitor compliance with these standards on a periodic basis.

Consideration of non-financially material factors in investment arrangements

Given the objectives and the time horizon of the Plan, the Trustees have not considered any non-financially material factors in the development and implementation of their investment strategy.

Stewardship

The Trustees recognise that stewardship encompasses the exercise of voting rights, engagement by and with investment managers and the monitoring of compliance with agreed policies.

Voting and engagement

The Trustees recognise that social and environmental considerations are among the factors which investment managers will take into account, where relevant, when selecting investments for purchase, retention or sale. Investment managers are expected to exercise the voting rights attached to individual investments in accordance with their own house policy. Where relevant, the Trustee has reviewed the voting policies of their Investment Managers and determined that these policies are appropriate.

The Trustees do not engage directly but believe it is sometimes appropriate for its investment managers to engage with key stakeholders which may include corporate management, regulators and governance bodies, relating to their investments in order to consider the management of conflicts of interest and improve corporate behaviours, improve performance and mitigate financial risks. Where necessary, investment managers are expected to notify the Trustees of any issue on which it may be beneficial for the Trustees to undertake further engagement. The Trustees will review engagement activity undertaken by their investment managers as part of their broader monitoring activity.

The Trustee separately considers any conflicts of interest arising in the management of the Plan and its investments and has ensured that each manager has an appropriate conflicts of interest policy in place.

L&G has also published the extent of their compliance with the UK Stewardship Code. The Trustees are supportive of this Code and review the manager's compliance with the Code on an annual basis.

Monitoring

The Plan's manager is challenged both directly by the Trustees and by their investment advisers on the impact of any significant issues including, where appropriate, ESG issues that may affect the prospects for return from the portfolio.