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|  | Dell UK Employee Financial Security Pension Plan  Statement of Investment Principles |  |
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|  | August 2019 |  |
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Dell UK Employee Financial Security Pension Plan  
Statement of Investment Principles

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Introduction

Pensions Act

## Under the Pensions Act 1995, as amended by the Pensions Act 2004, the Trustee is required to prepare a statement of the principles governing investment decisions. This document fulfils that requirement, and describes the investment policy pursued by the Trustee of the Dell UK Employee Financial Security Pension Plan (‘the Plan).

## In preparing this Statement, the Trustee has consulted the Principal Employer and they will consult the Principal Employer before revising the Statement. The Trustee will consult the Principal Employer on changes in investment policy. The Trustee will consider any wishes from the Principal Employer to amend the investment policies set out in this document when they are notified by the Principal Employer. However, the ultimate power and responsibility for deciding investment policy lies with the Trustee.

## In preparing this Statement, the Trustee has sought written advice from the Plan’s investment consultant. The written advice considered the issues set out in Section 35 of the Pensions Act 1995, the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this Statement.

## Before preparing this document the Trustee has had regard to the requirements of the Pensions Act 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 will review this Statement, in consultation with the investment consultant, at least once every three years and without delay after any significant change in investment policy, or where the Trustee considers a review is needed for other reasons.

## The purpose of this Statement is to document those investment principles, guidelines and procedures that are appropriate for the Plan, in accordance with the Trustee's investment powers and permitted investments under the Plan's Trust Deed and Rules. The Trustee is responsible for all aspects of the operation of the Plan including this Statement.

Financial Services and Markets Act 2000

## In accordance with the Financial Services and Markets Act 2000, the Trustee will set the general investment policy, but will delegate the responsibility for selection of specific investments to the appointed investment managers which may include an insurance company or companies. The investment managers shall provide the skill and expertise necessary to manage the investments of the Plan competently.

Division of responsibilities

## The Trustee has put in place the following division of responsibilities for the efficient management of the Plan’s investment arrangements:

Trustee

## The Trustee’s core investment responsibilities are:

##### Reviewing the content of this Statement of Investment Principles and modifying it if deemed appropriate at least every three years or without delay after any significant change in investment policy.

##### Reviewing the quarterly monitoring reports from the Investment Consultant

##### Monitoring, selecting and deselecting Investment Managers

##### Monitoring the exercise of the investment powers delegated to Investment Managers and compliance with the requirements of Section 36 of the Pensions Act in respect of diversification and suitability

Investment Consultant

## The Investment Consultant’s core responsibilities are as follows:

##### Making recommendations to the Trustee on:

##### The Statement of Investment Principles

##### The DC investment strategy and range of investment funds

##### The selection and deselection of Investment Managers

##### Monitoring the Plan’s investment arrangements

##### Performance against key objectives

##### Investment manager monitoring

##### Implementing the Plan’s investment strategy

## **Platform Provider**

## The Trustee has appointed FIL Life Insurance Limited (the Platform Provider) to manage all of the assets of the Plan. All decisions about the day-to-day management of the assets have been delegated to the Platform Provider via a written agreement including the realisation of investments. Fidelity will receive all contribution payments and pass them to a number of specialist fund managers. Fidelity is regulated under the Financial Services and Markets Act 2000 and authorised in the UK by the Financial Conduct Authority and the Prudential Regulation Authority.

Stewardship and environmental, social and corporate governance (ESG) issues

## **Socially Responsible Investment (SRI)**

## The Trustee believes their main duty reflected in their investment objective is to protect the financial interests of the Plan’s members. The Trustee believes that SRI issues are secondary to this. Where an investment’s financial success may be influenced by a wide range of factors including environmental social and governance (ESG) issues (including climate change) and stewardship, the Trustee’s policy is that this should be delegated to the investment managers as part of the day-to-day investment decisions in exercising their corporate governance policy.

## The Trustee has elected to invest in pooled funds and cannot therefore directly influence the ESG policies in which such pooled funds invest.

## Where the pooled funds are managed on a passive basis decisions regarding this selection retention and realisation of the investments are only made in order to ensure efficient tracking of indices and social environmental and ethical considerations are not taken into account.

## At present, the Trustee does not explicitly take account of non-financial matters in Plan design or strategy.

Corporate Governance

## The Trustee wishes to encourage best practice in terms of activism. The Trustee accepts that by using pooled investment vehicles the day-to-day application of voting rights will be carried out by the investment managers. Consequently the Trustee expects the Plan’s investment managers to adopt a voting policy that is in accordance with best industry practice. The Trustee will periodically ask managers to provide details on how they have discharged their responsibilities.

Investment arrangements

## The Plan’s invested assets are held in an insurance policy issued by FIL Life Insurance Limited (“Fidelity”). Fidelity is authorised in the UK by the Financial Conduct Authority and the Prudential Regulation Authority.

Objectives

## The Trustee aims to make available a range of pooled funds through the Plan’s insurance policy that will allow the acquisition of assets of appropriate liquidity which will generate income and capital growth which, together with new contributions from members and the Principal Employer, will provide a fund at retirement with which to either purchase a pension annuity, withdraw as a lump sum or access via a drawdown arrangement.

## Members' investment needs change as they progress towards retirement age. Younger members, who typically have many years to retirement, have a greater need for real growth to attempt to ensure their investment accounts keep pace with inflation and, if possible, salary escalation. Younger members will also, all other things being equal, have a greater tolerance for volatility of returns, as they have a greater time to retirement in which markets may come back in line from any temporary low. Older members, who are likely to be close to retirement, will require their assets to be correlated, in terms of performance and volatility, with their retirement objective.

Policy

## The Trustee’s policy is to seek to achieve the objectives by offering investment vehicles that invest in a suitable mixture of asset classes. These different asset classes provide opportunities for both growth and security. The Trustee recognises that the returns from assets that are associated with high growth, while expected to be greater over the long term than those on more secure assets, are likely to be more volatile. Various mixtures across asset classes, reflecting the different requirements as member’s progress towards retirement, should nevertheless provide the level of returns required by the members to meet their reasonable expectations at an acceptable level of risk for the members.

## The Plan’s fund range includes “white-labelled” funds. The Trustee made the decision to do so for the following reasons:

## To allow the use of blended funds to provide diversification of managers;

## To help focus the communications message to members;

## To simplify the ongoing administration of the Plan in the event of a change in investment manager;

## To increase the investment flexibility of the Plan so that the current framework can accommodate potential future enhancements without undue disruption;

## A list of funds that are currently provided, along with the objective for each investment fund, is shown in the appendix.

Default Investment Strategy

## Members of the Plan who do not make an explicit choice on how to invest their pension savings are automatically invested in the Balanced Growth Annuity Lifestyle (“the BGAL”) being the default investment strategy under the Plan.

## The overall objective of the BGAL is to provide those members who do not actively make their own investment choice with an investment strategy that aims to:

## Maximise returns over the long term at an acceptable (medium) level of risk whilst a member is at least 10 years from retirement;

## Provide a gradual reduction in risk during the 10 years immediately leading up to a member’s retirement whilst at the same time providing some protection against adverse movements in annuity prices.

## The BGAL aims to achieve the above by:

* Investing 100% in the Balanced Growth Fund whilst a member is at least 10 years from retirement. This fund invests in a range of different funds, both actively and passively managed, that provide a well-diversified range of underlying investments both in the UK and overseas, including equities, bonds, real estate, commodities, hedge funds, high yield debt and private equity. The return on the fund is expected to be in line with a composite benchmark made up of 40% LIBOR GBP 1 month +4%, 20.0% LIBOR GBP 6 Month, 15.0% BoAML Eurosterling Bond Index, 10.0% Bank of England Base Rate +3.5%, 10.0% Composite (50% FTSE All-Share, 17.5% FTSE North America, 17.5% FTSE Developed Europe (ex UK), 8.75% FTSE Japan, 6.25% FTSE World A Pac (ex Japan)) and 5.0% MSCI Global Emerging Markets Index.

## Gradually switching from the Balanced Growth Fund to a mix of the L&G Pre-Retirement Fund and the L&G Cash Fund during the 10 years immediately preceding a member’s retirement date, so that on retirement, they are invested 75% in the L&G Pre-Retirement Fund and 25% in the L&G Cash Fund. In relation to this phase of the BGAL:

## The L&G Pre-Retirement Fund is passively managed and invests in a mix of bonds (both corporate and government) that aim to reflect the broad characteristics of investments underlying the pricing of a typical level annuity. The return on the fund is expected to be in line with a composite benchmark.

## The L&G Cash Fund invests in the short term money markets (such as bank deposits and Treasury Bills) and the return is expected to be in line with the 7 Day London Interbank Bid Rate (LIBID).

## The Trustees currently consider the above approach to be in the best interest of those members who do not make an explicit choice on how to invest their pension savings as it initially provides the prospect of long term growth at a medium level of risk whilst a member is a number of years from retirement but then gradually reduces risk as a member approaches retirement whilst at the same time providing some protection against fluctuating annuity prices.

## Further information regarding the BAGL is available in the Appendix A.

## For the default investment option, to the extent that they are relevant, the Trustees’ policy on social, environmental and ethical considerations, voting rights, the realisation of investments and investment risks are the same as those set out in section 2, paragraph 3.18 and section 4 respectively.

## **Reviewing the Default Investment Strategy**

## The Trustees undertake a review of the default investment strategy every three years in order to ensure it remains appropriate for members, although they will undertake an earlier review if there are any significant changes in investment policy or membership. In addition, the Trustees monitor the performance of the funds underlying the default investment strategy each quarter.

Alternative Lifestyle Options

## The Trustee regularly monitors the needs of members and following a recent membership analysis exercise, the Trustee has decided to offer four alternative lifestyle options to provide pre-defined investment strategies that each target a different retirement and risk objectives.

## Each lifetyle automatically switches assets from return-seeking assets to assets which better reflect the target retirement objective over a period approaching a member’s planned retirement age. Details of the alternative lifecycle options are available in the Appendix A.

Self-select funds

## The Trustee also wishes to give members a reasonable degree of freedom over the investment policy of their accounts. Consequently an appropriate selection of passively and actively managed funds are made available through Fidelity’s platform for those members who elect to choose their own customised asset mix in preference to the lifestyle approach.

## Details of the self-select fund range are available in the Appendix B.

Expected risk and return

## The investment options invest in the following asset classes and have the following 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 who wishes to buy an annuity in the near future.
* Cash – low risk to capital with limited investment returns associated with the low risk nature of the assets.

Diversification

## The range of investment funds available was chosen to allow members to achieve an adequate level of diversification.

## Further, in certain asset classes and investment funds (particularly those utilising active management) the Plan utilises multiple investment managers to ensure manager diversification.

## The Trustee believes that the provision of the investment funds and the five open lifestyle strategies meet the Plan’s investment needs and that these funds provide adequate diversification of investments.

Suitability

## The Trustee has taken advice from their investment consultant to ensure the investment funds offered are suitable for the Plan. The Trustee continues to monitor and take advice on the various investment options on an ongoing basis.

Liquidity / realisation of investments

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

## It should be noted that Company, member, and Additional Voluntary Contributions may be invested in these funds.

Additional Voluntary Contributions (AVCs)

## The Plan provides a facility for members to pay AVC’s into the Plan. Contributions are invested with Fidelity in a range of pooled funds.

## **Employer-Related Investments**

## The Trustee policy is not to hold any employer related investments as defined in the Pension Act 1995, the Pension Act 2004 and the Occupational Pension Schemes (Investment Regulations 2005).

## **Fee Structure**

## The investment managers are paid to a management fee on the basis of assets under management. The investment consultant is paid on a project basis, which may be a fixed fee or based on time costs as negotiated by the Trustee in the interest of obtaining best value for the Plan.

Risk

## The Trustee recognises that there are a number of different types of investment risks that are faced by members of the Defined Contribution Section, including:

* Inadequate long-term returns
* As members' benefits are directly dependent on the investment returns achieved, it is important that investment vehicles which can be expected to produce adequate real returns over the longer term are available. Historically, equities have produced the best real returns over the longer term.
* Deterioration in investment conditions near retirement
* A sharp deterioration in investment conditions in the period just prior to retirement will have a substantial impact on the benefits provided. The Trustee is satisfied that the range of funds offered will enable members to take the necessary steps to safeguard against this. The switching periods of the Lifestyle options aim to reduce this risk for members who choose this investment approach.
* Lack of diversification
* Within each fund available to members, the holdings should be adequately diversified. To achieve this, the Trustee has selected funds which, by their nature, invest in a large number of holdings.
* Manager risk
* The Trustee believes that by offering "index-tracking" as an option, members are given the opportunity to address the risk of underperformance by the manager against the relevant market.
* Risk from excessive charges
* If the investment management charges are excessive, then the value of members' accounts will be reduced unnecessarily. The Trustee, therefore, has looked closely at the terms and conditions offered by the investment managers, and are satisfied that the level of charges will not unnecessarily reduce members' accounts.
* Lack of investment knowledge of the member
* Management of pension assets is a specialist function and one that many members will not feel adequately equipped or inclined to undertake. The Trustee believes that this risk is adequately addressed by providing, within the set of investment options, a range of lifestyle options that are designed to adapt automatically to the changing needs of a typical member as they progress through their working life.
* While the Trustee prefers that members should choose how their assets are invested from the funds on offer, they recognise that some members cannot (or will not) make this choice. The Trustee believes that this is adequately addressed by providing a lifestyle strategy as the default option.

## The Trustee continues to monitor the risks and to reduce them as far as reasonably possible. Should there be a material change in the Plans circumstances the Trustee will review whether the current risk profile remains appropriate.

## **Appendix A**

## **Defined Contribution Lifestyle Investment Arrangements**

## The table below details the Dell Balanced Growth Fund, which is a white label Diversified Growth Fund used in three of the Plan’s Lifestyle options as well as being available as part of the Plan’s self-select fund range (see Appendix B). The TER of the fund is 0.72%. The composite benchmark for Dell Balanced Growth comprises a weighting of each benchmark equal to the underlying fund’s weighting. For example, the composite benchmark is comprised of 40.0% LIBOR GBP 1 month.

|  |  |  |  |
| --- | --- | --- | --- |
| **Fund Name** | **Weight (%)** | **Investment Approach** | **Benchmark** |
| Newton Real Return Fund | 20.0 | Active | 100% 1 Month GBP LIBOR +4% |
| Standard Life Global Absolute Return Strategy | 20.0 | Active | 100% 6 Month GBP LIBOR +5% |
| Fidelity UK Corporate Bond Fund | 25.0 | Active | 100% ML Euro Sterling – Total Return |
| L&G Global Equity 50:50 Index Fund | 20.0 | Passive | Composite benchmark based on 50% FTSE All-Share Index and 50% Composite World Index (ex UK) |
| BlackRock DC Diversified Growth Fund | 10.0 | Active | Bank of England Base Rate +3.5% |
| BlackRock Emerging Markets Index Fund | 5.0 | Passive | MSCI Emerging Markets Index |

## Below are the lifestyle matrices for the 5 lifestyle option available for members to choose from: Balanced Growth – Annuity Lifestyle (Default), Balanced Growth – Drawdown Lifesetyle, Balanced Growth – Lump Sum Lifestyle, Higher Growth – Annuity Lifestyle and Adventurous – Annuity Lifestyle,. The funds gain exposure to assets by investing in one or more underlying funds. These funds may use derivatives for the purpose of efficient portfolio management, reduction of risk or to meet their respective investment objective if this is permitted and appropriate. The underlying funds of the DC fund range may be actively or passively managed depending on the DC fund.

*The Balanced Growth – Annuity Lifestyle (Default)*

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Fund / Yrs to Retirement** | **10 or more** | **9** | **8** | **7** | **6** | **5** | **4** | **3** | **2** | **1** | **0** |
| Balanced Growth Fund | 100% | 95% | 90% | 85% | 80% | 75% | 60% | 45% | 30£ | 15% | 0% |
| L&G Pre- Retirement Fund | 0% | 5% | 10% | 15% | 20% | 25% | 40% | 55% | 65% | 70% | 75% |
| L&G Cash Fund | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 5% | 10% | 15% |
| Total | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

*The Balanced Growth – Lump Sum Lifestyle*

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Fund / Yrs to Retirement** | **10 or more** | **9** | **8** | **7** | **6** | **5** | **4** | **3** | **2** | **1** | **0** |
| Balanced Growth Fund | 100% | 95% | 90% | 85% | 80% | 75% | 63% | 51% | 39% | 27% | 15% |
| L&G Cash Fund | 0% | 5% | 10% | 15% | 20% | 25% | 37% | 49% | 61% | 73% | 85% |
| Total | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

*The Balanced Growth – Drawdown Lifestyle*

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Fund / Yrs to Retirement** | **10 or more** | **9** | **8** | **7** | **6** | **5** | **4** | **3** | **2** | **1** | **0** |
| Balanced Growth Fund | 100% | 96% | 92% | 88% | 84% | 80% | 76% | 72% | 68% | 64% | 60% |
| L&G Pre-Retirement Fund | 0% | 4% | 8% | 12% | 16% | 20% | 24% | 28% | 27% | 26% | 25% |
| L&G Cash Fund | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 5% | 10% | 15% |
| Total | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

*The Higher Growth – Annuity Lifestyle*

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Fund / Yrs to Retirement** | **10 or more** | **9** | **8** | **7** | **6** | **5** | **4** | **3** | **2** | **1** | **0** |
| Newton Real Return Fund | 50% | 45% | 40% | 35% | 30% | 25% | 20% | 15% | 10% | 5% | 0% |
| L&G Global Equity 50:50 Fund | 50% | 45% | 40% | 35% | 30% | 25% | 20% | 15% | 10% | 5% | 0% |
| L&G Pre-Retirement Fund | 0% | 10% | 20% | 30% | 40% | 50% | 60% | 70% | 75% | 75% | 75% |
| L&G Cash Fund | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 5% | 15% | 25% |
| Total | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

*The Adventurous – Annuity Lifestyle*

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Fund / Yrs to Retirement** | **10 or more** | **9** | **8** | **7** | **6** | **5** | **4** | **3** | **2** | **1** | **0** |
| BNY Mellon LT Glbal Equity Fund | 100% | 80% | 60% | 40% | 20% | 0% | 0% | 0% | 0% | 0% | 0% |
| Newton Real Return Fund | 0% | 20% | 40% | 60% | 80% | 100% | 80% | 60% | 40% | 20% | 0% |
| L&G Pre-Retirement Fund | 0% | 0% | 0% | 0% | 0% | 0% | 15% | 30% | 45% | 60% | 75% |
| L&G Cash Fund | 0% | 0% | 0% | 0% | 0% | 0% | 5% | 10% | 15% | 20% | 25% |
| Total | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

## **Appendix B**

## **Defined Contribution Self-Select Fund Range**

| **Fund Name** | **Fund TER %** | **Investment Approach** | **Fund Aims** | **Benchmark** |
| --- | --- | --- | --- | --- |
| Dell Balanced Growth | 0.72 | Active / Passive | The fund aims to achieve long term capital growth by investing in a well-diversified range of underlying investments both in the UK and overseas, including equities, bonds, real estate, commodities, hedge funds, high yield debt and private equity. | Composite benchmark comprising the benchmark for each underlying fund weighted by each fund’s allocation |
| BNY Mellon Long Term Global Equity | 0.97 | Active | The fund aims to achieve long-term capital growth by investing in shares and similar investments of companies listed or located throughout the world. | MSCI World Index |
| L&G Global Equity 50:50 Index | 0.18 | Passive | The fund aims to capture the total returns of the UK and overseas equity markets. The fund’s asset allocation is fixed 50% UK, 17.5% North America, 17.5% Europe (ex-UK), 8.75% Japan and 6.25% Asia Pacific (ex-Japan). | Composite benchmark based on 50% FTSE All-Share Index and 50% Composite World Index (ex UK) |
| Invesco High Income | 1.02 | Active | The fund aims to achieve a high level of income, together with capital growth. The fund invests primarily in companies listed in the UK, with the balance invested internationally. | FTSE All Share |
| Newton Real Return | 0.89 | Active | The fund aims to achieve a total return comprised of long-term capital growth and income by investing in a broad multi-asset portfolio. | 100% 1 Month GBP LIBOR +4% |
| L&G Multi Asset  (previously L&G Consensus) | 0.265 | Passive | The fund aims to provide long term investment growth through exposure to a diversified range of asset classes, excluding physical property.The diversified nature of the fund means that it is expected to have less exposure than an equity only fund to adverse equity market conditions. However, the fund may perform less strongly than an equity only fund in benign or positive market conditions. | Composite Benchmark |
| **Fund Name** | **Fund TER %** | **Investment Approach** | **Fund Aims** | **Benchmark** |
| L&G Pre-Retirement | 0.18 | Passive | The fund aims to track the investments underlying the average non-inflation linked pension annuity product. It invests in L&G’s index-tracking bond funds to gain exposure to these assets. | Long-term expected annualised rate of return is broadly similar to that of a traditional level annuity product |
| L&G Cash Fund | 0.20 | Active | The fund aims to provide capital protection with growth at short term interest rates. It invests in short term money market instruments and cash deposits but the unit price is not guaranteed and may go down as well as up. | 100% 7 day GBP LIBID |