Fujitsu (FTS) Pension Scheme

Statement of Investment Principles

1. Introduction

The Trustee of the Fujitsu (FTS) Pension Scheme ("the Scheme") has drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of

- The Pensions Act 1995 ("the Act"), as amended by the Pensions Act 2004;
- Associated legislation including the Occupational Pension Schemes (Investment) Regulations 2005, as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

The Statement is intended to affirm the investment principles that govern decisions about the Scheme's investments.

In preparing this Statement, the Trustee has consulted the Sponsoring Company to ascertain whether there are any material issues of which the Trustee should be aware in agreeing the Scheme's investment arrangements. The Trustee has also sought written professional advice from Mercer Limited ("Mercer"), regarding the Scheme's investment arrangements.

From November 2021, with the transfer of the Defined Contribution Section to the Lifesight Master Trust, the Scheme provides only benefits linked to salary (Defined Benefit).

2. Process For Choosing Investments

In early July 2023, the Trustee undertook a "buy-in" by using the majority of the Scheme's assets to purchase a bulk annuity insurance policy with Aviva Life & Pensions UK Limited ("Aviva"), a UK insurance company authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority. The Trustee remains responsible for paying benefits as they fall due from the Scheme. However, under the buy-in policy, Aviva undertake to make payments to the Scheme equal to the benefit payments.

In relation to the Scheme's remaining assets, the "Surplus Assets", the process for choosing investments is as follows:

- Identify appropriate investment objectives
- Agree the level of risk consistent with meeting the objectives set
- Construct a portfolio of investments that is expected to maximise the return (net of all costs) given the targeted level of risk

In considering the appropriate investments for the Scheme, including the appropriateness and choice of provider for the bulk purchase annuity policy, the Trustee has sought and considered the written advice of Mercer, whom the Trustee believes to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3. Investment Objectives

The Trustee's main objective is to invest the Scheme's assets in the best interests of the members and beneficiaries, and, in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries.

Given this objective, and having purchased a bulk annuity insurance policy with Aviva, the Trustee's objective is to ensure that Aviva continues to meet their contractual obligations under the bulk annuity policy.

In addition, the Trustee seeks to maintain a sufficient level of Surplus Assets to meet the Scheme's other cash-flow needs. In order to meet these objectives the Trustee aims to, with respect to the Surplus Assets:

- Achieve a modest return which is compatible with the level of risk considered appropriate;
- Protect the level of surplus assets by investing these assets in a low risk manner;
- Maintain a high level of liquidity in order to meet cash-flow requirements as they fall due.

4. Risk Management and Measurement

There are various risks to which any pension scheme is exposed. The Trustee's policy on risk management is as follows:

- The primary risk upon which the Trustee focuses is that arising from a mismatch between the Scheme's assets and its liabilities and the Sponsor's ability to support this mismatch risk. This risk is mitigated to a large degree through the bulk annuity policy.
- Investment in a bulk annuity policy represents a concentrated risk of the annuity provider not making the required payments. The policy in place is governed by substantial insurance market solvency regulations and the Trustees have further mitigated this credit risk through careful choice of provider and contract terms. The Trustees recognise that the investment in the bulk annuity contract is illiquid.
- The Scheme is exposed to operational risk in relation to the bulk annuity policy with Aviva, who are taking on the majority of risks in relation to the Scheme's defined benefit liabilities.
- Given that the majority of the Scheme's assets are now invested in the bulk annuity contract with Aviva the main investment risks relate to the surplus assets and their ability to meet any additional cash-flow needs of the Scheme.

With respect to the Surplus assets the Trustee's policy on risk management extends to:

- Recognising that whilst increasing risk increases potential returns over a long period, it also increases the level of investment risk. Further, the Trustee considers the time horizon for the Surplus Assets to be the short to medium term and is therefore looking to appropriately balance potential return and volatility over this time horizon. The Trustee has sought advice on the matter and (in light of the objectives noted previously) considered carefully the implications of adopting different levels of risk in conjunction with the Sponsoring Company.

- To control the risk outlined above, the Trustee, having taken advice, has invested the Scheme's Surplus Assets in a Sterling denominated investment grade credit portfolio.

- The Trustee recognises the risks that may arise from the lack of diversification of investments. Due to the size of the Surplus Assets and recognising the need to diversify, investment exposure is obtained via a multi-manager pooled vehicle. Documents governing the appointment of the investment manager include a number of guidelines, which, among other things, are designed to ensure that only suitable investments are held by the Scheme. The investment manager is prevented from investing in asset classes outside their mandate without the Trustee's prior consent.

- The Surplus Assets are subject to currency risk because some of the instruments in which the underlying managers of the fund invested in are denominated or priced in a foreign currency. To limit currency risk, any non-sterling currency exposure is hedged back to GBP using currency hedging derivatives such as forwards and swaps within this fund.

- Responsibility for the safe custody of the Surplus Assets is delegated to Mercer Global Investments Europe Limited ("MGIE") who has appointed State Street Bank and Trust Company ("State Street") as custodian of the assets invested in their pooled vehicles. MGIE is responsible for keeping the suitability of State Street under ongoing review.

5. Portfolio Construction

The majority of the Scheme's assets consist of the bulk annuity policy, which does not constitute an investment portfolio.

With respect to the Surplus Assets, MGIE has the following control framework in place in terms of structuring the Surplus Assets subject to the overriding constraint that at the Surplus Asset level the expected level of risk is consistent with that detailed in Section 3:

- To help diversify manager specific risk, where deemed appropriate, multiple manager appointments within a single asset class can be used in the current arrangement.

- Within individual manager appointments investments are broadly diversified to ensure there is not a concentration of investment with any one issuer.

- Investment in derivatives is permitted within the pooled funds as long as they contribute to a reduction in risk or facilitate efficient portfolio management.

- No investment in securities issued by the Scheme's Sponsoring Company or affiliated companies (other than any such securities held within a pooled fund in which the Trustee invests).

- No investment by an appointed investment manager in the securities issued by the relevant manager's company or any affiliated companies (other than any such securities held within a pooled fund in which the Trustee invests).

- Borrowing is not permitted except to cover short term liquidity requirements.

6. Day–to-Day Management of the Assets

The majority of the Scheme's assets consist of the bulk annuity policy, which does not require day-to-day management.

In regards to the Surplus Assets, these are invested in a multi-client collective investment scheme ("Mercer Fund") managed by a management company (Mercer Global Investments Management Limited ("MGIM"). MGIM has appointed MGIE as investment manager of the Mercer Fund. In practice, MGIE delegates the discretionary investment management for the Mercer Fund to third party investment managers based in countries such as Ireland, UK and USA and those sub-investment managers will manage either a sub-fund or certain segments of a sub-fund. Mercer has expertise in identifying, selecting and combining highly rated fund managers who are best placed and resourced to manage the Scheme's assets on a day to day basis. The Trustee has determined, based on expert advice, a benchmark mix of asset types.

The Trustee regularly reviews the continuing suitability of the Surplus Assets, with the aim of ensuring the overall level of risk is consistent with that being targeted as set out in Section 3.

7. Realisation of Investments

The Trustees recognise that the investment in the bulk annuity contract is illiquid but that, under the terms of the policy, Aviva is contractually obliged to meet the Scheme's member benefits as and when they fall due.

The investment manager has discretion in the timing of realisation of investments relating to the Surplus Assets.

8. ESG, Stewardship and Climate Change

The Trustee believes that environmental, social, and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

However, given the majority of the Scheme's assets are held as a bulk annuity policy with Aviva, there is limited scope to apply these principles with respect to this asset. In their assessment of bulk annuity providers' the Trustee considered provider's ESG and stewardship policies and are therefore comfortable that due consideration to these factors is given by Aviva.

With respect to the Surplus Assets, and as noted above, the Trustee has appointed MGIE as investment manager. MGIE in turn delegates responsibility for the investment of the assets to a range of underlying asset managers who are expected to evaluate ESG factors, including climate change considerations, 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 Stewardship Code.

The United Nations' Sustainable Development Goals (SDGs) inform Mercer's long term investment beliefs and direct Mercer's thinking when it comes to converting systemic risks into transformational investment opportunities as outlined in Mercer's Sustainability Policy.

Mercer has committed to a target of net-zero absolute carbon emissions by 2050 for UK, European and Asian clients with discretionary portfolios. Although the Scheme's holdings with Mercer fall outside the scope of this pledge the Trustee has noted there is a degree of alignment with this pledge and the Sponsor's plan to reduce their carbon emissions to zero by 2030 as part of their own responsible business policy.

The Trustee considers how ESG, climate change and stewardship are integrated within MGIE's investment processes and those of the underlying asset managers in the monitoring process. MGIE is expected to provide reporting to the Trustee on a regular basis, at least annually, on the ESG integration progress and stewardship monitoring results.

The Trustee recognises the conflict of interest which may arise in the context of responsible investment. Mercer and MGIE make investment decisions with the aim of improving long-term risk adjusted returns and assesses whether selected sub-investment managers have policies and procedures that manage conflicts in relation to stewardship. Sub-investment managers are required to report on any conflicts of interest and demonstrate that they have adhered to their conflicts of interest policies and reported any breaches.

Member views

Member views are taken into account in the selection, retention and realisation of investments. The views of the wider membership on ESG matters have not been canvassed to date, but members have a variety of methods by which they can make views known to the Trustee. Members are made aware of the Engagement Policy Implementation Document which provides more detail about the Scheme's ESG policies and is updated on an annual basis as part of the reports and accounts.

Investment Restrictions

The Trustee has not set any investment restrictions in relation to particular Mercer Funds.

9. Corporate Governance

The Trustee believes that good stewardship can enhance long-term portfolio performance, and is therefore in the best interests of the Scheme's beneficiaries and aligned with fiduciary duty. However, the Trustee also recognises that, given the nature of the bulk annuity policy, their scope to apply these beliefs is limited to the Surplus Assets.

The Trustee is supportive of the UK Stewardship Code ("the Code") published by the Financial Reporting Council in July 2010 and note that Mercer is a Signatory to the Code. The Trustee and MGIE expect the underlying managers who are registered with the FCA to comply with the Code. The Trustee expects their fund managers to have effective policies addressing potential conflicts of interest in matters of stewardship.

10. The Trustee's policies with respect to arrangements with, and evaluation of the performance and remuneration of asset managers and portfolio turnover costs

The Trustee recognises that the bulk annuity policy is illiquid and, as such, their policies in this area are limited to the Surplus Assets.

The Surplus Assets are invested in a Mercer Fund, which is a multi-client collective investment scheme, and so, the Trustee accepts that it does not have the ability to determine the risk profile and return targets of this fund. The Trustee expects Mercer to manage the assets in a manner that is consistent with the Trustee's overall investment objectives as outlined in section 3. The Trustee has taken steps to satisfy themselves that Mercer has the appropriate knowledge and experience to do so and keeps Mercer's performance under ongoing review.

Should Mercer fail to align its investment strategies and decisions with the Trustee's policies, it is open to the Trustee to disinvest some or all of the assets managed by Mercer, to seek to renegotiate commercial terms or to terminate Mercer's appointment.

To evaluate performance of the Surplus Assets, the Trustee receives, and considers, investment performance reports produced on a quarterly basis, which presents performance information and commentary in respect of the Mercer Funds in which the Trustee is invested. Such reports have information covering fund performance for the previous three months, one year, three years and since inception. The Trustee reviews the absolute performance and relative performance against the investment manager's benchmark (over the relevant time period) on a net of fees basis.

Neither Mercer or MGIE make investment decisions based on their assessment about the performance of an issuer of debt or equity. Instead, assessments of the medium to long-term financial and non-financial performance of an issuer are made by the underlying third party asset managers appointed by MGIE to manage assets within the Mercer Funds. Those managers are in a position to engage directly with such issuers in order to improve their performance in the medium to long term. The Trustee is, however, able to consider Mercer's and MGIE's assessment of how each underlying third party asset manager embeds ESG into their investment process and how the manager's responsible investment philosophy aligns with the Trustee's own responsible investment policy. This includes the asset managers' policies on voting and engagement.

Section 8 provides further details of the steps taken, and information available, to review the decisions made by managers, including voting history and the engagement activities of managers to identify decisions that appear out of line with a Mercer Fund's investment objectives or the objectives/policies of the Scheme.

The asset managers are incentivised, as they will be aware that their continued appointment by MGIE will be based on their success in meeting MGIE's expectations. If MGIE is dissatisfied then it will, where appropriate, seek to replace the manager.

In the short to medium term, the Trustee is not looking to change its Surplus Assets arrangements unless it sees reason to do so. The Trustee does keep these arrangements under review, including the continued engagement of Mercer using, among other things, the reporting described above.

The Trustee monitors, and evaluates, the fees it pays for asset management services on an ongoing basis taking into account the progress made in achieving its investment strategy objectives as outlined in section 2.2. Mercer's, and MGIE's, fees are based on a percentage of the value of the Scheme's assets under management which covers the initial and ongoing advice with respect to the Surplus Assets, and investment management of these assets. In addition, the underlying third party asset managers of the Mercer Funds also charge fees based on a percentage of the value of the assets under management. In some instances, some of the underlying managers may also be entitled to charge fees based on their performance.

MGIE reviews the fees payable to third party asset managers managing assets invested in the Mercer Funds on a regular basis with any negotiated fee savings passed directly to the Scheme. Mercer's, MGIE's, and the third party asset managers', fees are outlined in a quarterly investment performance report prepared for the Trustee, excluding performance-related fees and other expenses involved in the Mercer Funds not directly related with the management fee.

Details of all costs and expenses are included in the Mercer Fund's Supplements, the Report & Accounts and within the Scheme's annualised, MiFID II compliant, Personalised Cost & Charges statement. The Scheme's Personalised Cost & Charges statement also includes details of the transaction costs associated with investment in the Mercer Funds.

The Trustee does not have an explicit targeted portfolio turnover range. The Trustee holds the Surplus Assets in a single fund which deploys a buy and hold strategy, in this way the Trustee seeks to control the level of transaction costs associated with these assets. Performance is reviewed net of portfolio turnover costs, with the review of portfolio turnover of the underlying investment managers undertaken by MGIE.

11. Review of this Statement

The Trustee will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone whom the Trustee reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.