

Lego UK Limited Retirement Benefits Scheme

Statement of Investment Principles – July 2020

1. Introduction

The Trustees of the Lego UK Limited Retirement Benefits Scheme (“the Scheme”) have drawn up this Statement of Investment Principles (“the Statement”) to comply with the requirements of the Pensions Act 1995 (“the Act”) and the Occupational Pension Schemes (Investment) Regulations 2005, as amended from time to time, and subsequent legislation. The Statement is intended to affirm the investment principles that govern decisions about the Scheme’s investments. A separate document detailing the specifics of the Scheme’s investment arrangements is available upon request.

In preparing this Statement the Trustees have consulted the Sponsoring Employer to ascertain whether there are any material issues of which the Trustees should be aware in agreeing the Scheme’s investment arrangements.

The investment responsibilities of the Trustees are governed by the Scheme’s Trust Deed and Rules (a copy of which is available for inspection on request) and relevant legislation. According to the law, the Trustees have ultimate power and responsibility for the Scheme’s investment arrangements.

2. Process For Choosing Investments

The process for choosing investments is as follows:

- Identify appropriate investment objectives
- Agree an investment strategy consistent with meeting the objectives set

In considering the appropriate investments for the Scheme, the Trustees have obtained and considered the advice of Mercer Limited, whom the Trustees believe to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustees’ opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3. Investment Objectives

The Trustees’ objective is to invest the Scheme’s assets in the best interest of the members and beneficiaries, and in the case of a potential conflict of interest in the sole interest of the members and beneficiaries. Within this framework the Trustees have agreed a primary objective to help guide them in their strategic management of the assets and control of the various risks to which the Scheme is exposed, as follows:

- *To offer protection of the Scheme's funding position on a basis appropriate for a scheme with 100% of its assets invested in investment grade corporate bonds.*

Additional objectives are as follows:

- *To ensure that it can meet its obligation to the beneficiaries of the Scheme.*
- *To achieve a return on the total Scheme assets which is compatible with the level of risk considered appropriate.*
- *To pay due regard to the Sponsoring Employer's interest in the size and incidence of contribution payments.*

4. **Financially Material Considerations, Risk Management and Measurement**

There are various risks to which any pension scheme is exposed. The Trustees' policy on risk management in relation to risks that are potentially financially material to the Scheme over its anticipated lifetime is as follows. These considerations are taken into account when making decisions relating to the selection, retention and realisation of investments:

- The primary risk upon which the Trustees focus is that arising through a mismatch between the Scheme's assets and its liabilities. The Trustees manage this risk by allocating the Scheme's assets to corporate bonds which possess similar characteristics to the Scheme's liabilities.
- There is a potential solvency risk, i.e. a risk that economic circumstances force the winding-up of the Scheme at a time when asset values are depressed and the Sponsoring Employer cannot afford to make good the deficiency. The Trustees therefore monitor the financial strength of the Sponsoring Employer and its commitment to the Scheme.
- The Trustees recognise that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's liabilities as well as producing more short-term volatility in the Scheme's funding position.
- The Trustees recognise the risks that may arise from the lack of diversification of investments. The holdings within the investment arrangements should therefore be adequately diversified. To achieve this, investment exposure is obtained via a pooled fund that invests in a range of underlying holdings.
- The documents governing the manager appointment include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme. The manager is prevented from investing in asset classes out with its mandate without the Trustees' prior consent.

- Arrangements are in place to monitor the Scheme’s investments to help the Trustees check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustees receive regular reports from the investment manager.
- The Trustees recognise the risks arising from environmental, social and corporate governance (“ESG”) issues, including climate change and stewardship. The Trustees believe that these risks present threats but also opportunities, but that they are only one risk to which the Scheme is exposed. Section 11 provides dedicated comments on these risks and the Trustees’ approach.
- The safe custody of the Scheme’s assets is delegated to professional custodians (via the use of pooled vehicles).

Should there be a material change in the Scheme’s circumstances, the Trustees will review whether and to what extent the investment arrangements should be altered; in particular whether the current risk profile remains appropriate.

5. Portfolio Construction

The Trustees have adopted the following control framework in structuring the Scheme’s investments:-

- Pooled passively managed funds will be used
- Investments should be broadly diversified to ensure there is not a concentration of investment with any one issuer.

6. Investment Strategy

Given the investment objectives the Trustees have implemented the investment strategy detailed in the table below. The strategy was formulated with particular reference to the Scheme’s IAS19 liabilities.

Asset Class	Target Benchmark Allocation (%)
Long Dated Corporate Bonds	100.0
Total	100.0

7. Day-to-Day Management of the Assets

The Trustees delegate the day-to-day management of the assets to a single investment manager, State Street Global Advisors. The Trustees have taken steps to satisfy themselves that the manager has the appropriate knowledge and

experience for managing the Scheme's investments and that it is carrying out its work competently.

The Trustees accept that it is not possible to specify investment restrictions as the assets are managed via a pooled fund.

The Trustees regularly review the continuing suitability of the Scheme's investments, including the appointed manager, which may be adjusted from time to time.

8. **Expected Return**

The Trustees expect to generate a return, over the long term, in line with the benchmark return, which is the Bloomberg Barclays Sterling Aggregate 100mm Non Gilts Over 15 Years Index.

9. **Additional Assets**

Under the terms of the Trust Deed, the Trustees are responsible for the investment of the AVC monies previously paid by members. The Trustees review the investment performance of the chosen providers from time to time and take advice as to the providers' continued suitability.

10. **Realisation of Investments**

The investment manager has discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation and pooled fund prospectuses.

11. **Responsible Investment and Corporate Governance**

The Trustees believe that good stewardship and ESG issues may have a material impact on investment risk and return outcomes and may therefore be considered as part of the Scheme's investment process. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration. When setting investment strategy, ESG factors, including climate change, may be considered alongside a number of other factors that can influence investment strategy.

The Trustees have given the appointed investment manager full discretion when evaluating ESG issues, including climate change considerations, and in exercising rights and stewardship obligations attached to the Scheme's investments, in accordance with their own corporate governance policies and taking account of current best practice, including the UK Corporate Governance Code and the UK Stewardship Code.

The Trustees periodically review the policies and engagement activities (where applicable) of the appointed investment manager. The Trustees will, where it is deemed necessary, engage the manager in discussion on its policies. It will however be made clear to the manager that any decisions taken by the manager should be in the best long term financial interest of the Scheme and its members.

However, at the current time, the Trustees' focus is on achieving the primary objective outlined in Section 3, via investment in a passively managed corporate bond fund. In such an investment, they accept that ESG considerations by the investment manager are diminished. The Trustees will however keep their investment strategy under periodic review, including consideration of ESG issues.

The Trustees have not set any ESG related investment restrictions on the appointed investment manager in relation to particular products or activities, but may consider this in future.

Member views are not taken into account in the selection, retention and realisation of investments but the Trustees retain the right to seek member views in future.

12. **Investment Manager Arrangements**

Alignment with the Trustees Policies

The Scheme's investment manager is appointed based on its capabilities and, therefore, the perceived likelihood of achieving the expected return and risk characteristics for the asset class and fund it is selected to manage over a suitable time horizon. The Trustees will seek guidance from their investment consultant in relation to their forward-looking assessment of the manager's ability to achieve the stated mandate objectives.

Since the Trustees invest in a pooled investment vehicle they accept that they have no ability to specify the particular investments, risk profile and return targets of the manager, other than through the choice of specific investment vehicle. They will therefore select the vehicle that best aligns with the Trustees' own policy in terms of investment objectives and guidelines as set out in this Statement. Once appointed, the Trustees will review the appointment, should there be any material changes in these terms.

Incentivisation and Medium/Long-Term Decision Making

The investment manager is aware that its continued appointment is based on its success in delivering the mandate for which it has been appointed to manage. If the Trustees are dissatisfied, then they will look to replace the manager.

The investment manager is therefore incentivised both to achieve the objectives outlined for its fund, which are consistent with the Trustees' policies and objectives, and to ensure that it remains capable of doing so on a rolling time period

basis. This encourages the investment manager to take a suitably long-term view when engaging with the debt issuers in which it invests (where applicable).

Evaluation and Remuneration

The Trustees receive investment manager performance reports on a six-monthly basis. The Trustees review the performance against a suitable index used as the benchmark, and against the manager's stated performance target, on a gross and net of fees basis. The Trustees' focus is on long-term performance but will put a manager 'on watch' if there are short-term performance concerns.

The investment manager is remunerated by way of a fee calculated as a percentage of assets under management.

Portfolio Turnover Costs

Given the nature of the investment strategy and arrangements, the Trustees do not currently monitor portfolio turnover costs and do not have a portfolio turnover target.

Duration of the Arrangement

The Trustees are long-term investors and therefore are not looking to change the investment arrangements on a frequent basis. There is no set duration for the manager appointment. The Trustees will retain the investment manager unless there is a change to the overall investment strategy that no longer requires exposure to that asset class or manager, or the manager appointment has been reviewed and the Trustees have decided to terminate.

13. Compliance with this Statement

The Trustees will monitor compliance with this Statement at least annually.

14. Review of this Statement

The Trustees 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 who the Trustees reasonably believe 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, in accordance with the requirements of Section 35 (5) of the Pensions Act 1995.

For and on behalf of the Trustees of the Lego UK Limited Retirement Benefits Scheme