How we secure your benefits in the Amey OS Pension Scheme

How the Scheme invests

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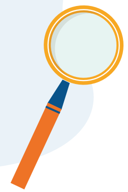
This is your guide to the Scheme's investments

As a member of the Amey OS Pension Scheme, the way the Scheme invests is your business. You should be able to find out why we invest the money we have, how we choose the investments we do, and who supports us in keeping an eye on the Scheme's financial health.

As the Trustee of the Amey OS Pension Scheme, we report on this information in our Statement of Investment Principles (SIP). This is a regulatory document that every scheme like ours has to produce and keep up to date. It tells you all about the way the Scheme invests.

But SIPs are created by and for pension professionals. That means they're complex, technical and hard to understand. So we've created this guide to tell you:

- **Who's involved in looking after the Scheme and its investments**
- **Why, and how, we invest the money in the Scheme**
- **How we can judge whether our investments are sustainable**
- **What the risks are and how we manage them**



All this information is also available in our formal SIP. It's just written here in plain English so it's easier to understand. To read the formal SIP, just go to our website at **my-amey-os-pension.com** where you'll find it under 'Scheme documents'.

Who looks after the Scheme's investments?

As your Trustee, we manage the Scheme in your best interests

Trustees look after a Scheme for the benefit of its members. Alongside our responsibilities around reporting and administration, we look at the money the Scheme needs to pay benefits. We decide how it should invest the money it has. And we set those principles out in our formal SIP, that we make sure is kept up to date and accurate.

But we don't do all of this on our own. We use the advice and support of qualified financial experts. That's where Quattro and SEI come in.

Quattro Pensions helps us set our investment strategy

Quattro is the Scheme Actuary. They help us produce the summary funding statements you see in your newsletters. They're also responsible for things like:

- Valuing the Scheme at least once every three years and advising whether or not we need higher contributions from the company.
- Making sure our investment strategy is right for the Scheme and achieving what we need it to.
- Advising us of any changes to contribution or funding levels that we need to be aware of.
- Regularly valuing any 'bulk annuities' the Scheme happens to have (these are explained in the next section).

SEI Investments (Europe) does the actual investing

SEI acts as our investment manager and adviser, and custodian of the Scheme's assets. With Quattro's support, we set out what we want from the Scheme's investments, and SEI carries it out for us. They're also responsible for things like:

- Advising us if we should change the way we invest, for example because the funding in the Scheme has changed or significantly more members are taking their benefits.
- Keeping an eye on the investment market and letting us know about any opportunities or potential issues.
- Changing the way the Scheme's money is invested to help achieve the goals we set for the Scheme.
- Reporting to us every quarter on their progress, the actions they've taken, and the overall financial performance of the Scheme.

Why and how we invest

The point of the money in a pension scheme is to pay benefits to its members when they reach retirement age. Some of this money comes from Amey plc, as the sponsoring employer. The rest of it comes from the way we invest that money.

We hold assets in three different sections of the scheme: Amey, APS and Accord. In each of these sections, we generally divide the assets up to do two things: manage risk and enhance returns.

1. Assets that are used to manage risk are usually invested in things like government and corporate bonds. These offer steady and reliable returns, though those returns may be lower than you'd get with riskier ventures.

Low risk = Low return

2. Assets that are used to enhance returns are usually invested in things like equities, property and lending money to businesses. These can be a little riskier, but they're also more likely to give higher returns.

High risk = High return

Some of the Scheme's assets can be used to buy what's called a 'bulk annuity'. This is a contract that we purchase from an insurance company. This company then commits to paying us the money to pay benefits. It's an extra measure to reduce risk and ensure we can pay benefits in the long-term. We did this in 2016, to guarantee an income for some members of the Scheme who had already retired.

SEI look after our investments and report back to us on how they're doing. They'll advise us whether they think we need to reduce risk or increase returns, and why. It's then up to us as the Trustees to decide whether or not we agree, and to instruct SEI to make any changes.

How much is enough?

It's important to have targets, so we know how the Scheme is doing financially. There are two main measures by which we do this:

- **Comparing our current assets and liabilities**
  Assets are the money the Scheme has. Liabilities are the money the Scheme needs. We total up our assets and our liabilities and compare the two. We call this the 'funding level'. So if the scheme needs £1m to pay benefits and it has £0.7m, it's 70% funded. If it needs £1m and has £1.5m, it's 150% funded.
- **Judging when the Scheme could become 'self-sufficient'**
  An employer will continue to contribute money into its pension scheme until the scheme has all the money it needs. At this point, we'd call that scheme 'self-sufficient'. So if a scheme were '80% self-sufficient' it would mean it has 80% of the money it needs to continue operating forever without an employer.

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Quattro regularly reviews the Scheme's finances against these measures to make sure we're on track. They produce the figures in the summary funding statements you get in your newsletters, so you can see how the Scheme's finances are doing. That's where you'll find the latest funding level and self-sufficiency measure for your section of the Scheme.

What makes a good investment?

There's a lot to consider when choosing how to invest the Scheme's assets. Not least is the question of how long a profitable investment is likely to stay profitable. Will it still be a safe bet and a source of income in ten, twenty or thirty years?

There are ways of measuring whether or not an investment is sustainable. These are known as environmental, social and governance (ESG) factors. To support the interests of members of all ages, we look at these to estimate how an investment might perform over the next twenty to thirty years. These estimates take into account lots of financially material considerations, including ESG.

- **Will environmental policies have legislated a source of income out of existence?** For example, new restrictions on the fossil fuel industry are likely to impact returns over time and could even exclude oil and gas as viable investments altogether.
- **Will social changes diminish the value of an investment over time?** For example, with less tolerance in society for smoking, there's less demand for tobacco, which is likely to make it a poorer investment in the future than it has been in the past.
- **Will failures in the way a company is governed mean it could go out of business?** For example, a poorly run company could run the risk of bankruptcy or closure, which would mean investors lose their money.

As experts, SEI are best placed to tell us what is financially material. So we've asked them to make sure our investments take ESG factors into account. They regularly report back to us on this, telling us what they've been doing to make our investments more aligned with ESG, for example engaging with the way a company is managed to improve its governance.

We can also vote to help make our investments better

There are a lot of assets in a pension scheme. Those assets are usually pooled with the assets of other pension schemes, as they're often invested in similar ways. That makes pension schemes big investors – and big investors have big voices.

We can use our voice to influence the companies we invest in and help make them better investments for us. We delegate this responsibility to SEI. They make sure they're happy with the governance of a company we invest in, and with its social and environment credentials. If they're not, they let us know. And we can cast a vote with other investors to make a change.

What are the risks and how do we manage them?

Investing always involves some risk. In fact, taking risk is desirable – because the riskier the investment, the higher the reward. But investors always need to keep a careful eye on how much risk they take, and what kind of risk it is.

As your Trustee, we're responsible for making sure the assets in the Scheme aren't at too much risk of losing their value. To do that, we have to consider things like:

- **Availability:** Is there any chance we won't be able to access cash quickly enough to pay our members' benefits?
- **Concentration:** What if lots of our assets are invested in the same place, so they all fall in value at once?
- **Inflation:** Could a sudden change in price inflation leave us with less money than we thought we had?
- **Market:** What if the market crashes suddenly and the value of our investments goes down?
- **Managers:** What if our investment experts mismanage our assets and leave us worse off?
- **Transition:** What if we wanted to change investment managers and had to pay to move all our assets to a new manager?
- **Credit:** What if we get into a financial agreement with someone who defaults on their obligation?

We manage all these risks differently

There are lots of things we can do to reduce risk in the Scheme. We appointed SEI to manage our investments because they're certified by the Financial Conduct Authority and highly qualified in what they do – this in itself is a way to reduce risk. We used some of the Scheme's assets to buy a bulk annuity in 2016 – that was a way to reduce the potential risk of not being able to pay benefits at some point in the future.

We also instruct SEI to spread out our investments, so we're never at too much risk of losing money in one place. We keep a minimum level of readily available assets in the Scheme, so we have cash available to meet benefit payments as they come due. And we also make sure we carefully balance the different levels of risk of the assets, not investing too heavily in overly risky assets.

This is just an overview of the risks involved and how we manage them. There are more of them listed in the formal SIP.

Read more

How we run the Amey OS Pension Scheme is your business. As a member of the Scheme, you are its chief beneficiary. So if there's any information you particularly want to know, all you have to do is take a look on the website or get in touch.

Go to **my-amey-os-pension.com** to find out more about your section of the Scheme. Under 'Scheme documents' you'll find:

- **Our formal Statement of Investment Principles**
  This is the legally compliant version of this document. It lays out exactly how and why the scheme invests, as well as the legislation we adhere to. It also goes into more detail on things like risk and responsibilities.
- **Copies of past newsletters**
  With every newsletter we send you, we update you on the financial position of the Scheme and your section within it. Copies of these newsletters are online for you to see how the financial position of the Scheme has fared in recent years.
- **Our annual accounts since 2015**
  Our annual accounts can tell you about the assets and liabilities in the Scheme, how many members we have, and how our investments perform from year to year.

If you've got any questions about your pension or the way the Scheme is run, please get in touch.

Email: amey@rpmi.co.uk

Call: 0345 112 0025

Calls may cost up to 9p a minute from a UK landline depending on your call package.

Write to: Amey OS Pension Scheme, PO Box 193, Darlington DL1 9FP