

# **Nortel Networks UK Pension Plan**

## **Investment Policy Implementation Document**

October 2020

### **1. Introduction**

- 1.1 This Investment Policy Implementation Document (the “IPID”) has been prepared by the Trustee of the Nortel Networks UK Pension Plan (the “Plan”). The IPID sets out the detail of the Plan’s investment arrangements, based on the principles documented in the Statement of Investment Principles (the “Statement”).

### **2. Plan Governance**

- 2.1 The Trustee has the responsibility for appointing investment managers ("the Investment Managers") from time to time to manage the assets of the Plan. The Investment Managers currently appointed are detailed in Section 4.
- 2.2 The Trustee has a signed and dated Investment Management Agreement (“IMA”) or equivalent document with the Investment Managers which delineates the terms and conditions by and under which the respective portfolios shall be managed and reported and which does not conflict with this Statement. The Investment Managers have day-to-day responsibility for managing the assets of the Plan and are all regulated by the Financial Conduct Authority (“FCA”).
- 2.3 The Trustee has the responsibility for appointing one or more custodians ("the Custodian(s)") from time to time to act as custodian(s) and settlement agent(s) for the Managers of the Plan’s assets as appropriate. The Trustee has a signed and dated Custodian Agreement and a Service Level Agreement (“SLA”) with the current Custodian which delineates the terms and conditions by and under which the Custodian shall provide custodial services and reports.
- 2.4 The Trustee also has the following ongoing responsibilities:
- To monitor the Investment Managers' investment performance and processes on a quarterly basis;
  - To make decisions on the selection and deselection of Investment Manager(s) and Custodian(s);
  - To review the Plan's investment manager structures from time to time and to implement changes as appropriate;
  - To review strategy;

- To review the investments over which the Trustee has retained control and to obtain the appropriate written advice for consideration; and
- To review the capabilities, procedures and the required due diligence checks on third party service providers (e.g. custodians, transition managers).

## 2.5 Custodian

- 2.5.1 The role of a custodian is to ensure the safe keeping of assets and facilitate all transactions entered into by the appointed Investment Managers.
- 2.5.2 Where the Plan invests in pooled funds, the safekeeping of the underlying assets is undertaken by parties selected by the fiduciaries of the pooled funds.
- 2.5.3 The Trustee has appointed State Street Bank and Trust Company as custodian and to facilitate rebalancing between pooled fund investments, as required.

## 2.6 Investment Consultant

The day-to-day management of the Plan's assets is delegated to investment managers. All other investment decisions including strategic asset allocation and the selection and monitoring of investment managers is based on advice received from the Investment Consultant. Mercer Limited has been appointed as the Investment Consultant.

## 3. Managing Strategic Risk

- 3.1 In October 2018, the Plan completed a bulk annuity transaction and the majority of the Plan's assets and liabilities were transferred to LGAS. The residual assets held by the Plan are invested in a pooled liability hedging mandate and in liquidity funds as shown in the table below.

Asset Class	Asset Allocation (%) <sup>*</sup>
Liability hedging mandate	90.0
Cash / liquidity funds	10.0

<sup>\*</sup> Based on approximate asset allocation as at 30 June 2020.

- 3.2 The Plan continues to receive recovery payments from the sale of Nortel's corporate estate. Members' benefits will be enhanced using the residual assets and future recoveries. The level of benefit enhancement is dependent on the size of the recovery payments yet to be received.
- 3.3 Until the final recovery payment is received, the Trustee will seek to:
- Set the Plan's investment strategy in light of anticipated recovery payments;

- Limit the Plan's investments in volatile and/or illiquid assets, in recognition of the need to hold assets that will be readily realisable or transferable to LGAS in the event of enhancing insured member benefits;
  - Allow a wide tolerance range around the major asset classes, in particular allowing the liability hedging asset value to increase to 100%.
- 3.4 Specific details of the investments are provided in the Plan's Investment Policy Implementation Document (IPID).
- 3.5 As of January 2010, the Fund's overall performance is no longer measured against a strategic benchmark. There is also no formal rebalancing between the asset classes set out in the table above.
- 3.6 The liability hedging mandate is designed to share characteristics with the expected future benefits. The mandate has been designed so that it matches c. 100% of the impact of interest rate and inflation movements on the value of the total assets (including estimated recoveries, less expense reserves).

#### 4. **Managing the Investment Managers**

- 4.1 The Trustee has appointed the Investment Managers as set out below to manage the defined benefit assets:

Investment Manager:	Insight Investment
Asset Class:	Liability hedging mandate (leveraged)
Investment Type:	Pooled
Mandate Benchmark:	Fund specific benchmarks
Performance Objective:	Match 100% of interest rate and inflation sensitivity of expected future benefits.
Performance Review Period:	n/a
Allocation*:	90%

Investment Manager:	Insight Investment
Asset Class:	Sterling Liquidity Plus
Investment Type:	Pooled
Mandate Benchmark:	3 month Sterling LIBID
Performance Objective:	To maintain stability of capital and income through investment in short term fixed income and variable rate securities.
Performance Review Period:	n/a
Allocation*:	10%

\* Approximate allocations shown are as at 30 June 2020 and are subject to change with market movements.

- 4.2 The Investment Managers provide quarterly investment reports to the Trustee including:

- A valuation of all investments held for the Plan at prevailing market value on the last day of the quarter;
- Records of all transactions together with a cash reconciliation; and
- A review of recent actions undertaken on behalf of the Plan together with a summary of the Investment Manager's current stated policy.

## 5. **Cash Flow Management and Rebalancing**

- 5.1 The current disinvestment policy is to source all of the required disinvestments from the Sterling Liquidity Plus Fund managed by Insight Investment. The Trustee reviews the Plan's disinvestment policy as and when required to ensure that it remains appropriate.
- 5.2 The Trustee does not actively rebalance the Plan's broad asset allocation or the maturity allocations within the LDI portfolio.

## 6. **AVC Sections**

- 6.1 Prior to the insolvency of the Principal Employer, the Trustee made available to Plan members a choice of external Additional Voluntary Contribution ("AVC") investment arrangements.
- 6.2 The Trustee will review the Providers for continued suitability at least every three years and more frequently as warranted. Current providers include Utmost.

## 7. **Fee Structures**

- 7.1 Information on the Investment Managers, Custodian and Investment Consultant fee schedules are set out in the Investment Policy Implementation Document Fee Appendix.