

# Linton Park Pension Scheme (2011)

## Statement of Investment Principles

Date prepared: September 2021

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# 1. Introduction

- 1.1. This is the Statement of Investment Principles prepared by the Trustee of the Linton Park Pension Scheme (2011) (the Scheme). This statement sets down the principles which govern the decisions about investments that enable the Scheme to meet the requirements of:
  - the Pensions Act 1995, as amended by the Pensions Act 2004; and
  - the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010;
  - the Occupational Pension Schemes (Charges and Governance) Regulations 2015;
  - the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018; and
  - the Occupational Pension Schemes (Investment and Disclosures) (Amendment) Regulations 2019.
- 1.2. In preparing this statement the Trustee has consulted Linton Park plc, the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustee's investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.
- 1.3. This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.
- 1.4. The Trustee will review this statement at least every three years or if there is a significant change in any of the areas covered by the statement.
- 1.5. The investment powers of the Trustee are set out in Clause 5 of the Revised Trust Deed and Rules, dated 27 June 2011. This statement is consistent with those powers.
- 1.6. The Scheme consists of the Defined Benefit (DB) Section and the Defined Contribution (DC) Section.

# 2. Choosing investments

- 2.1. The Trustee's policy for the DB Section is to set the overall investment target and then monitor the performance of their managers against that target. For the DC Section, the Trustee's policy is to offer a default investment arrangement suitable for the Scheme's membership profile plus a core range of investment funds into which members can choose to invest their contributions and those contributions made by the employer. In doing so, the Trustee considers the advice of its professional advisers, who it considers to be suitably qualified and experienced for this role.
- 2.2. The day-to-day management of the Scheme's assets is delegated to one or more investment managers. The Scheme's investment managers are detailed in the Appendices to this statement. The investment managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights.
- 2.3. The Trustee reviews the appropriateness of the Scheme's DB and DC investment strategy on an ongoing basis. This review includes consideration of the continued competence of the investment managers with respect to performance within any guidelines set. The Trustee will also consult the employer before amending either the DB or DC investment strategy.

### 3. Investment objectives

- 3.1. The Trustee has discussed key investment objectives in light of an analysis of the Scheme's liability profile (for the DB Section) and the Scheme's membership profile (for the DC Section) as well as the constraints the Trustee faces in achieving these objectives.
- 3.2. The Trustee's main investment objectives for the DB Section are:
- to ensure that the Scheme can meet the members' entitlements under the Trust Deed and Rules as they fall due;
  - to achieve a long-term positive real return;
  - to manage the expected volatility of the returns achieved in order to control the level of volatility in the DB Section's required contribution levels;
  - to invest in assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions, the cost of current benefits which the DB Section provides;
  - to reduce the risk of the assets failing to meet the liabilities over the long term;
  - to minimise the long-term costs of the Scheme by maximising the return on the assets whilst having regard to the above objectives.
- 3.3. The Trustee is aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the DB Section's liabilities. The Trustee has obtained exposure to investments that they expect will meet the DB Section's objectives as best as possible.
- 3.4. The Trustee's main investment objectives for the DC Section are:
- to provide a suitable default investment option that is likely to be suitable for a typical member of the DC Section;
  - to offer an appropriate range of alternative investment options so that members who wish to make their own investment choices have the freedom to do so, recognising that members may have different needs and objectives; and
  - to provide value for money for members.
- 3.5. Within the DC Section, the Trustee is responsible for the design of the default investment option and for choosing which funds to make available to members. Members are responsible for their own choice of investment options.

### 4. Kinds of investments to be held

- 4.1. The Scheme is permitted to invest in a wide range of assets including equities, bonds, cash, property and alternatives.
- 4.2. The Scheme invests in Liability Driven Investment ("LDI") funds. The objective of these funds is that their value moves broadly in line with the change in value of the Scheme's Technical Provisions liabilities to interest rate and inflation expectations. Their use of derivatives allows the Scheme to more accurately match the interest rate and inflation sensitivity of the liabilities than would be possible otherwise, reducing the overall level of investment risk taken.

- 4.3. The Trustee monitors from time-to-time the employer-related investment content of their DB Section portfolio as a whole and will take steps to alter this should they discover this to be more than 5% of the portfolio. Typically this check is carried out annually by the Scheme's auditors.

## 5. The balance between different kinds of investments

- 5.1. The DB Section invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained within Appendix 1 to this statement.
- 5.2. For the Scheme's DC Section, members are able to choose to invest in a lifestyle strategy or elect to invest in a core range of funds. Where members do not choose where their contributions, and those made on their behalf by the employer, are invested, the Trustee will invest these contributions according to the chosen default investment strategy.
- 5.3. The Trustee considers the merits of both active and passive management for the various elements of each Section's portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Appendices to this statement.
- 5.4. From time to time the DB Section may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate for any short-term cashflow requirements or any other unexpected items.
- 5.5. The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and therefore the asset allocation of the DB Section will be expected to change as the Scheme's liability profile matures and the asset allocation of the DC Section may change as the membership profile evolves.

## 6. Risks

- 6.1. The Trustee has considered the following risks for the DB Section with regard to its investment policy and the Scheme's liabilities, and considered ways of managing/monitoring these risks:

<b>Risk versus the liabilities</b>	The Trustee will monitor and review the investment strategy with respect to the liabilities in conjunction with each actuarial valuation. The investment strategy will be set with consideration to the appropriate level of risk required for the funding strategy as set out in the Scheme's Statement of Funding Principles.
<b>Covenant risk</b>	The creditworthiness of the employer and the size of the pension liability relative to the employer's earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the employer covenant.
<b>Solvency and mismatching</b>	The risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustee is aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Scheme's funding basis.
<b>Asset allocation risk</b>	The asset allocation is detailed in Appendix 1 to this statement and is monitored on a regular basis by the Trustee.
<b>Liquidity risk</b>	The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Scheme's cashflow requirements. The Scheme's administrators assess the level of cash held in order to limit the impact of the cashflow requirements on the investment policy.

6.2. For the DC Section, investment risk lies with the members themselves. However, the Trustee has considered the following risks when making available suitable investment choices:

<b>Inflation risk</b>	The risk that the investments do not provide a return at least in line with inflation, thus eroding the purchasing power of the retirement savings. The Trustee makes available investment options that are expected to provide a long-term, real rate of return.
<b>Conversion risk</b>	The risk that fluctuations in the assets held, particularly in the period before retirement savings are accessed, lead to uncertainty over the benefit amount likely to be received. In the lifestyle arrangements made available to members (see Appendix 2), there is an increase in the proportion of assets that more closely match how members are expected to access their retirement savings. The different lifestyle arrangements reflect the differing ways that a member could access their savings in retirement.
<b>Retirement income risk</b>	The risk that a member's retirement income falls short of the amount expected, whether this is due to lower investment returns than expected or insufficient contributions being paid. The Trustee periodically reviews the appropriateness of the fund range offered to members to ensure member outcomes can be maximised.

6.3. The following risks have been considered in the context of both the DB and DC Section:

<b>Investment manager risk</b>	The Trustee monitors the performance of each of the Scheme's investment managers on a regular basis in addition to having meetings with each manager from time to time as necessary, usually on an annual basis. The Trustee has a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate.
<b>Governance risk</b>	Each asset manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustee monitors these and will report on the managers' practices in their annual Implementation Statement.
<b>ESG/Climate risk</b>	The Trustee has considered long-term financial risks to the Fund and ESG factors as well as climate risk are potentially financially material and will continue to develop its policy to consider these, alongside other factors, when selecting or reviewing the Fund's investments in order to avoid unexpected losses.
<b>Concentration risk</b>	Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.
<b>Currency risk</b>	The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management. Currency hedging may be employed to manage the impact of exchange rate fluctuations.
<b>Loss of investment</b>	The risk of loss of investment by each investment manager and custodian is assessed by the Trustee. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud).

## 7. Expected return on investments

- 7.1. The Trustee has regard to the relative investment return and risk that each asset class is expected to provide. The Trustee is advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the investment managers.
- 7.2. The Trustee recognises the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.
- 7.3. In considering the expected return from investments, the Trustee recognises that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities of the DB Section.
- 7.4. Having established the investment strategy, the Trustee monitors the performance of each investment manager against an agreed benchmark as frequently as appropriate according to market conditions (and the DB Section's funding position). The Trustee meets the Scheme's investment managers as frequently as is appropriate, in order to review performance.

## 8. Realisation of investments

- 8.1. The Trustee has delegated the responsibility for buying and selling investments to the investment managers. The Trustee has considered the risk of liquidity as referred to above.

8.2. Ultimately, the DB Section investments will all have to be sold when the Scheme's life comes to an end. In this situation, the Trustee is aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Scheme accounts.

## 9. Financially material considerations, the exercise of rights and engagement activities, and non-financial matters

9.1. The Trustee has set policies in relation to these matters. These policies are set out in Appendix 3.

## 10. Policy on arrangements with asset managers

10.1. The Trustee has set out their policies in relation to the arrangements that they enter into with any asset managers in Appendix 4.

## 11. Agreement

11.1. This statement was agreed by the Trustee, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the employer, the investment managers, the actuary and the Scheme auditor upon request.

Signed:.....

Date:..... September 2021

**On behalf of the Linton Park Pension Scheme (2011)**



# Appendix 1 - Note on investment policy of the Scheme's DB Section in relation to the current Statement of Investment Principles dated September 2021

## The balance between different kinds of investment

The Scheme has a strategic asset allocation as set out in the table below, which has been agreed after considering the Scheme's liability profile, funding position, expected return of the various asset classes and the need for diversification.

### Rebalancing

The Trustee recognises that the asset allocation of investments in different asset classes will vary over time as a result of market movements. There is no automatic rebalancing between the investment managers; however if there is a material deviation from the Scheme's strategic asset allocation, the Trustee and the employer will discuss if any remedial action is required to redress the balance between the investment managers.

The LDI portfolio is intended to broadly hedge 100% of movements in the Scheme's Technical Provisions liabilities due to interest rate and inflation expectation changes. The Trustee seeks to preserve this hedging level over time, which may require that the allocation to the LDI portfolio moves away from its benchmark allocation.

Portfolio	Asset class	Allocation (%)
Growth portfolio	Multi-asset	25.0
	Global equities	25.0
Protection portfolio	LDI and liquidity	40.0
	Corporate bonds	10.0
<b>Total</b>		<b>100.0</b>

## Choosing investments

The Trustee has appointed the following investment managers to carry out the day-to-day investment of the Scheme:

- Multi-asset mandates – Newton Investment Management Limited and BlackRock Investment Management (UK) Limited;
- Global equity mandate – Baillie Gifford & Co Limited and Fundsmith LLP;
- Corporate bond mandate – M&G Investments;
- LDI mandate – Insight Investment Management.

The investment managers are authorised and regulated by the Financial Conduct Authority.

The Trustee has AVC contracts with Standard Life, Clerical Medical, Prudential, and ReAssure for the receipt of members' Additional Voluntary Contributions. These arrangements are reviewed from time to time.

The investment benchmarks and objectives for each investment manager are given below:

Investment manager	Fund	Benchmark	Objective
Baillie Gifford	60:40 Worldwide Equity Fund	60% of the FTSE All Share Index and 40% of an overseas composite based on the corresponding FTSE indices for America and Europe and MSCI indices for Developed Asia Pacific and Emerging Markets	To outperform its benchmark by 1.0% - 1.5% p.a. over rolling 3 year periods (before fees)
Fundsmith	Equity Fund	MSCI World Index	To outperform its benchmark over a business cycle
Newton	Real Return Fund	1-month sterling LIBOR index	To outperform its benchmark by 4.0% p.a. over rolling 3 to 5 year periods (before fees)
BlackRock	BlackRock Dynamic Diversified Growth Fund	3-month sterling LIBOR index	To outperform its benchmark by 3.0% p.a. (after fees) over rolling 3 years
M&G	All Stocks Corporate Bond Fund	iBoxx Sterling Non-Gilts Index	To outperform its benchmark by 0.80% p.a. over rolling 3 year periods (before fees)
Insight	Fixed Interest Gilt Funds (partially & fully funded)	Liability benchmark based on fixed notional cashflows	To move in line with the benchmark
	Index-Linked Gilt Funds (partially & fully funded)	Liability benchmark based on index-linked notional cashflows	To move in line with the benchmark
	Liquidity Plus Fund	SONIA	To provide diversified exposure and a competitive return in relation to the benchmark

The performance of the investment managers will be monitored as frequently as the Trustee considers appropriate in light of the prevailing circumstances. The monitoring takes into account both short-term and long-term performance.

The AVC arrangement is reviewed from time to time.

## Investments and disinvestments

Investments and disinvestments are usually made so as to move the actual asset allocation more in line with the high-level target asset allocation.

## LDI re-leveraging and de-leveraging events

The Trustees have an automated process in place with Insight for handling re-leveraging and de-leveraging events. A re-leveraging event occurs when the leverage in an LDI fund hits its lower limit, allowing cash to be distributed from the fund. A de-leveraging event occurs when the leverage in an LDI fund hits its upper limit, requiring cash to be paid into the fund if hedging levels are to be maintained.

In the case of a re-leveraging event, the distributed cash will be paid into the Insight Liquidity Plus Fund.

In the case of a de-leveraging event, the additional funds will be taken from the Insight Liquidity Plus Fund. If there is insufficient cash in the fund to cover the collateral call, the Trustee will then consider potential actions on a case-by-case basis.

# Appendix 2 - Note on investment policy of the Scheme's DC Section in relation to the current Statement of Investment Principles dated September 2021

## Choosing investments

The Trustee has appointed Royal London as the provider of investment options to members of the Scheme's DC section. Royal London, who are authorised and regulated by the Financial Conduct Authority, are able to delegate the day-to-day investment of the Scheme to the underlying investment managers (one of which is Royal London).

The performance of the investment managers will be monitored as frequently as the Trustee considers appropriate in light of the prevailing circumstances. The monitoring takes into account both short-term and long-term performance.

## The balance between different kinds of investment

The Trustee offer members lifestyle arrangements as well as access to the a range of asset classes for members who want to make 'self-select' decisions about where their savings are invested. The asset classes available include:

- Equities
- Property
- Bonds
- Cash
- Multi Asset
- Other alternative asset classes

## Lifestyle strategies

The Trustee has made available three different lifestyle strategies that target the following ways in which members may wish to access their pension savings in retirement:

- **Balanced Tracker Lifestyle Strategy – Target Cash** – for those members wanting to take their whole pot as cash;
- **Balanced Tracker Lifestyle Strategy – Target Annuity** – for those members wanting to secure an income for life via the purchase of an annuity;
- **Balanced Tracker Lifestyle Strategy – Target Drawdown** – for those members wanting to draw down an income in retirement.

Within the lifestyle strategies, a member's assets are automatically invested in line with a pre-determined strategy that changes as the member gets closer to accessing their retirement savings. Emphasis is placed on medium to higher risk funds (i.e. investment largely in growth assets) in search of long-term, inflation-protected growth whilst the member is a long way off accessing their retirement savings. During this growth phase, the equity portion of the lifestyle strategy (which is a large portion of the underlying holdings), is managed passively. Over the years preceding the member's target retirement date, the investments automatically switch into a blend of assets that are expected to be a suitable investment strategy for a typical member that wishes to receive certain types of benefits (e.g. cash, annuity or drawdown). For example, the Balanced Tracker Lifestyle Strategy – Target Cash lifestyle option is shaped around being invested in cash or cash-like investments as members approach retirement such that the strategy at retirement provides stability of capital value for those members wanting to take their benefits as a cash lump sum.

## Single fund self-selection options

Below is a list of the funds that the Trustee has made available to members who do not wish to be invested in a lifestyle strategy and wish to create their own investment strategy. For the avoidance of doubt, members cannot invest in a lifestyle strategy and a blend of the funds below.

Asset class	Fund name
Global equities	RLP/BlackRock Aquila Global Blend
Fixed interest bonds	RLP Medium (10 year) Gilt
Index-linked bonds	RLP Medium (10 year) Index Linked
Cash	RLP Deposit
Multi-asset	RLP Governed Portfolio 5 (Tracker)*
	RLP/BlackRock Aquila Consensus

\*This fund requires a 100% investment of a member's savings.

## Default option

### Balanced Tracker Lifestyle Strategy – Target Cash

The Trustee acknowledges that members will have different attitudes to risk and different aims for accessing their retirement savings, especially in light of the DC pension flexibilities introduced in April 2015, and so it is not possible to offer a default investment option that will be suitable for all. However, the Trustee decided that the Balanced Tracker Lifestyle Strategy – Target Cash lifestyle arrangement represents a suitable investment option for members who do not make a choice about how their contributions (and those made on their behalf by the employer) are invested.

Following a review of the investment strategy of the DC section and membership analysis carried out by the Trustee's advisers, it was found that a large amount of the DC membership are expected to have relatively small retirement pots within the DC Section. In addition, many members are also DB Section members, ceasing DB accrual late in 2016 and beginning their DC Section contributions. For these members, the majority of their benefits on retirement from the Scheme are likely to be in the form of a regular pension from the DB Section. This suggests that these members are likely to take their smaller DC pension as a cash lump sum on retirement, rather than draw this amount down over time or buy an annuity. A further review was carried out in 2021, where the same conclusion was reached in light of high-level data and comparison to the initial review. Based on this information, it is therefore currently expected that more members will access their pot at retirement as a cash lump sum, rather than accessing their retirement savings in other ways. For this reason, the Trustee decided that the default arrangement should be based around this method of accessing benefits in retirement.

### Balanced Tracker Lifestyle Strategy – Target Annuity

Some members have historically chosen to invest in a lifestyle strategy that targets annuity purchase on retirement. As part of the review of investment arrangements, the Trustee agreed to transfer these members' assets to the newly governed annuity-targeting lifestyle strategy unless the member choose otherwise. The Trustee agreed that this remains an appropriate strategy for these members (for the same reason) as part of their 2021 investment review.

# Appendix 3 - Note on financially material considerations, the exercise of rights and engagement activities, and non-financial matters for both the DB and DC sections

## Policy on financially material considerations

Having received training from their investment advisors the Trustee have considered the financial materiality of environmental, social and governance issues, including climate change (referred to together as “ESG issues”), within the DB section and within the DC section’s default investment strategy and self-select member options. The Trustee views ESG within an investment context as financially material – that is, they have the potential to impact the value of the members’ investments in both the DB and DC sections over the length of time until the Scheme’s life comes to an end. This is expected to be more than 10 years from the date of this Statement in the case of the DB section. The Trustee is comfortable that the funds currently invested in by the Scheme (for the DB Section and the default strategy in the DC Section) are managed in accordance with their views on financially material factors, as set out below.

The Trustee invests in pooled investment vehicles. The choice of underlying funds is made by the Trustee after taking advice from their investment consultant. The Trustee expects the managers of the underlying funds to take into account ESG factors (including climate change risks) in their decisions in relation to the selection, retention and realisation of investments. The Trustee will consider ESG, voting and engagement issues in the selection, retention and realization of investments when appointing and reviewing managers (and reviewing the investment strategy of either the DB or DC Section) to ensure that they are appropriately taken into account given the asset class involved.

The Trustee appreciates that taking ESG into account within an investment strategy and process will yield different returns and/or risks for different asset classes. The Trustee’s views on ESG integration within each asset class is outlined below and is relevant for investments held in both the DB and DC sections including the DC default investment strategy:

**Passive equities** – The Trustee accepts that when investing passively in equity index tracker funds, there is little that the manager can do within the investment process selecting stocks. However, the Trustee believes that positive engagement on ESG issues can lead to improved risk-adjusted returns. Therefore, the Trustee looks to the passive equity manager to positively engage with companies where there is scope to improve the way ESG issues are taken into account when running the company. The lifestyle strategies within the DC Section make use of a passive equity fund whereby the Developed market exposure within the index aims to track an index that includes an ESG screen, and the Emerging Market exposure aims to track an “ESG Leaders” index. By the choice of indices, ESG factors are taken into account in the selection, retention and realisation of investments.

**Gilts, LDI and Liquidity** - the Trustee does not believe there is scope for ESG issues to improve risk-adjusted returns within the Scheme’s gilt, LDI and liquidity holdings regardless of whether they are actively or passively managed.

**Active equities** - The Trustee believes that ESG issues will be financially material to the risk-adjusted returns achieved by the Scheme’s active equity managers. The investment process for each active equity manager should take ESG into account in the selection, retention and realisation of investments. Further to this, the process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

**Credit** - The Trustee believes that ESG issues will be financially material to the risk-adjusted returns achieved by the Scheme’s credit holdings. The investment process for each credit manager should take ESG into account in the selection, retention and realisation of investments. The Trustee also supports engagement activities, although

they appreciate that fixed income assets do not typically provide voting rights. The process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

**Multi-asset funds** - the Trustee believes that ESG issues will be financially material to the risk-adjusted returns achieved by the Scheme's multi-asset fund managers. The investment process for each multi-asset fund manager should take ESG into account in the selection, retention and realisation of investments. Further to this, the process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

**Property** - the Trustee believes that ESG issues can be financially material to the risk-adjusted returns achieved by the Scheme's property manager. Environmental issues are particularly important when selecting appropriate properties for the property portfolio, and so the Trustee looks to the manager to incorporate environmental issues into their investment process.

## Policy on the exercise of rights and engagement activities

The Trustee acknowledges the importance of ESG and climate risk within their investment making framework. When delegating investment decision making to their investment managers they provide their investment managers with a benchmark they expect the investment managers to either follow or outperform. The investment manager has discretion over where in an investee company's capital structure it invests (subject to the restrictions of the mandate), whether directly or as an asset within a pooled fund.

The Trustee is of the belief that ESG and climate risk considerations extend over the entirety of a company's corporate structure and activities i.e. that they apply to equity, credit and property instruments or holdings. The Trustee also recognises that ESG and climate related issues are constantly evolving and along with them so too are the products available within the investment management industry to help manage these risks.

The Trustee considers it to be a part of their investments managers' roles to assess and monitor developments in the capital structure for each of the companies in which the manager invests on behalf of the Scheme or as part of the pooled fund in which the Scheme holds units. The Trustee also considers it to be part of the investment managers' roles to assess and monitor how the companies in which they are investing are managing developments in ESG related issues, and in particular climate risk, across the relevant parts of the capital structure for each of the companies in which the managers invest on behalf of the Scheme. Where the Trustee uses pooled funds the Trustee expects the investment manager to employ the same degree of scrutiny.

Should an investment manager be failing in these respects, this should be captured in the Scheme's regular performance monitoring.

The Scheme's investment managers are granted full discretion over whether or not to hold the equity, debt or other investment in the Sponsoring employer's business. Through their consultation with the Sponsoring Employer when setting this Statement of Investment Principles the Trustee has made the Sponsoring Employer aware of their attitude to ESG and climate related risks, how they intend to manage them and the importance that the pensions industry as a whole, and its regulators, place on them.

The Scheme's investment consultants, Barnett Waddingham, are independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes the Trustee confident that the investment manager recommendations they make are free from conflict of interest.

The Trustee expects all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so the Trustee believes they have managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustee/investment manager and the investee companies.

In selecting and reviewing their investment managers, where appropriate, the Trustee will consider investment managers' policies on stewardship and engagement and how these policies have been implemented.

The Trustee delegates responsibility for stewardship activities (exercise of rights (including voting rights) and engagement) attaching to the Scheme's investments to its investment managers. Managers are expected to exercise voting powers with the objective of preserving and enhancing long-term shareholder value. In addition to the exercise of voting rights, managers are expected to engage with key stakeholders (which may include issuers of debt or equity, corporate management, regulators and governance bodies) relating to their investments in order to improve corporate behaviours and governance, improve performance and social and environmental impact and to mitigate financial risks.

The Trustee periodically reviews engagement activity undertaken by their investment managers to ensure that the policies outlined above are being met and may explore these issues with its investment managers as part of the ongoing monitoring of the ESG integration and stewardship activities of its investment managers, and will use this to form the basis of the implementation report prepared each year.

### **Policy for taking into account non-financial matters**

The Trustee does not consider any non-financial matters (such as member ethical views) when constructing the investment strategy for the DB section, the default DC investment strategy, the self-select offerings and/or when selecting or reviewing fund managers.



## Appendix 4 - Note on investment manager arrangements as at September 2021 in relation to the current Statement of Investment Principles

### Aligning the investment strategy and decisions of investment managers with the Trustee's investment policies

Prior to appointing the investment manager, the Trustee discusses the investment manager's benchmark and approach to the management of ESG and climate related risks with the Scheme's investment consultant, and how they are aligned with the Trustee's own investment aims, beliefs and constraints.

When appointing an investment manager, in addition to considering the investment manager's investment philosophy, process and policies to establish how the manager intends to make the required investment returns, the Trustee also considers how ESG and climate risk are integrated into these. If the Trustee deems any aspect of these policies to be out of line with their own investment objectives for the part of the portfolio being considered, they will consider using another manager for the mandate.

The Trustee carries out a strategy review at least every 3 years where they assess the continuing relevance of the strategy in the context of the Scheme and their aims, beliefs and constraints. The Trustee monitors the investment managers' approach to ESG and climate related risks on an annual basis.

In the event that the investment manager ceases to meet the Trustee's desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment may be terminated. The investment managers understand this.

Investment manager ESG policies are reviewed in the context of best industry practice and feedback will be provided to the investment manager.

### Incentivising investment managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term

The Trustee is mindful that the impact of ESG and climate change may have a long-term nature. However, the Trustee recognises that the potential for change in value as a result of ESG and climate risk may occur over a much shorter term than climate change itself. The Trustee has considered this in their investment management arrangements.

When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustee assesses these over an agreed predetermined rolling timeframe. The Trustee believes the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon. The Trustee monitors the investment managers' approach to ESG and climate related risks on an annual basis.

Where a fund may have an absolute return or shorter term target, this is generally supplementary to a longer term performance target. In the case of assets that are actively managed, the Trustee expects this to be sufficient to ensure an appropriate alignment of interests.

The Trustee expects investment managers to be voting and engaging on behalf of the Scheme's holdings and the Trustee monitors this activity within the Implementation Statement in the Scheme's Annual Report and Accounts. The Trustee does not expect ESG considerations to be disregarded by the investment manager in an effort to achieve any short term targets.

## How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for asset management services are in line with the Trustee's policies

### Evaluation of investment managers' performance

The Trustee monitors the performance of their investment managers over medium to long time periods that are predetermined and consistent with the Trustee's investment aims, beliefs and constraints.

### Remuneration of investment managers

Details of the fee structures for the Scheme's investment managers are contained in the Trustee's Investment Manager Arrangement Summary document.

The Scheme invests exclusively in pooled funds. The investment manager is remunerated by the Trustee based on the assets they manage on behalf of the Trustee. As the funds grow, due to successful investment by the investment manager, they receive more and as values fall they receive less.

The Trustee believes that this fee structure enables the investment manager to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.

The Trustee asks the Scheme's Investment Consultant to assess if the asset management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered at least every three years as part of the review of the Statement of Investment Principles.

## How the Trustee monitors portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range

The Trustee acknowledges that portfolio turnover costs can impact on the performance their investments. Overall performance is assessed as part of the quarterly investment monitoring process.

During the investment manager appointment process, the Trustee may consider both past and anticipated portfolio turnover levels. When underperformance is identified deviations from the expected level of turnover may be investigated with investment manager concerned if it is felt they may have been a significant contributor to the underperformance. Assessments reflect the market conditions and peer group practices. Assessments reflect the market conditions and peer group practices.

The Trustee acknowledges that for some asset classes, such as LDI, a higher turnover of contracts such as repurchase agreements, can be beneficial to the fund from both a risk and cost perspective.

### The duration of the arrangements with investment managers

For the open-ended pooled funds in which the Scheme invests, there are no predetermined terms of agreement with the investment managers.

The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustee's investment aims, beliefs and constraints is assessed every three years, or when changes deem it appropriate to do so more frequently. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.