

# *STATEMENT OF INVESTMENT PRINCIPLES*

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*for the*

## *THOMAS MILLER & CO LTD RETIREMENT BENEFITS SCHEME*

*September 2020*

### **1. Introduction**

#### **1.1. What is the purpose of this Statement of Investment Principles?**

This Statement of Investment Principles (“SIP”) sets out the policy of the Trustee of the Thomas Miller & Co Ltd Retirement Benefits Scheme (“the Trustee”) on various matters governing decisions about the investments of the Thomas Miller & Co Ltd Retirement Benefits Scheme (“the Scheme”).

Specific details of the investment manager arrangements are set out in a separate Investment Policy Implementation Document (“IPID”) which is referred to within this SIP.

#### **1.2. Who has had input to the SIP?**

This SIP has been prepared after obtaining and considering written professional advice from Lane Clark & Peacock LLP, the Scheme’s investment adviser, who the Trustee believes to be suitably qualified and experienced to provide such advice. The advice takes into account the suitability of investments including the need for diversification, given the circumstances of the Scheme and the principles contained in this SIP.

The Trustee has consulted with the employer in producing this SIP. The current investment managers of the Scheme were given the opportunity to comment on a draft of the SIP and their comments have been incorporated into this final version. The managers are required to carry out their investment responsibilities in a manner consistent with this SIP.

The Trustee will, from time to time, review the appropriateness of this SIP with the help of its advisers, and will amend the SIP as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy, and at least once every three years.

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### 1.3. What is the legal and statutory background to the SIP?

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 (“the Act”), the Occupational Pension Schemes (Investment) Regulations 2005 (“the Regulations”) as amended and the Pension Regulator’s guidance for defined benefit pension schemes (March 2017).

The Scheme’s assets are held in trust by the Trustee. The investment powers of the Trustee are set out in Clause 51 of the Scheme’s Trust Deed dated 27 June 2011.

The SIP also reflects the Trustee’s response to the Myners voluntary code of investment principles for defined benefit schemes.

## 2. Investment objectives

The primary objective is to ensure that the Scheme should be able to meet benefit payments as they fall due. In addition to this primary objective, the Trustee has additional objectives. These are as follows:

- The expected return on the Scheme’s assets is maximised whilst managing and maintaining investment risk at an appropriate level (having regard to the contributions being made by the employer). What the Trustee determines to be an appropriate level of risk is set out further below and in Appendix A.
- To achieve full funding by 31 December 2023 on the agreed Technical Provisions basis. The Scheme has a recovery plan in place (which has been agreed with the employer) which is designed to help it achieve this. Progress against this recovery plan is reviewed on a regular basis.
- As a longer-term objective to achieve full funding on a buyout basis by 30 June 2044.
- To ensure its investment managers take account of environmental, social and governance (“ESG”) factors where they may be financially material, considering the nature and time horizon of the investments. Further details on how it achieves this are detailed in section 6.2.
- To ensure the suitability of assets in relation to the needs of the Scheme.

In order to improve the funding level of the Scheme, the following quantitative liability related measures are set to assess the performance of the Scheme’s assets relative to the investment strategy set:

- To target an expected return on assets of 1.5% pa in excess of gilts net of fees; and
- To have a one year 95% Value-at-Risk broadly 6% of the value of the liabilities, as measured on a Technical Provisions basis. This indicates that there is a 1 in 20 chance that the value of the deficit will increase by 6% or more of the value of the liabilities in any one year as a result of asset underperformance. The calculated monetary level of Value-at-Risk will vary depending on size of the Scheme’s assets and liabilities and the assumptions used.

The Scheme Actuary has assumed in the calculation of Technical Provisions that the assets will return 1.0% pa in excess of gilts net of fees in the 17 years from 1 July 2017 to 1 July 2034, and 0.25% pa from 2034 onwards. Therefore, the investment strategy is set to outperform the Scheme Actuary’s assumptions and as a result the funding level of the Scheme is expected to increase over time at a faster rate than that assumed by the Scheme Actuary.

### 3. What risks does the Trustee consider and how are these measured and managed?

When deciding how to invest the Scheme’s assets, the Trustee considers a wide range of risks, including, but not limited to, those set out in Appendix A. Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each risk.

### 4. Investment strategy

#### 4.1. How is the investment strategy determined?

The Investment Sub-Committee (“ISC”), with the help of its advisers and in consultation with the employer, reviews the investment strategy at its quarterly meetings. The ISC makes recommendations to the Trustee regarding investment strategy and asset allocation. These are then considered by the Trustee, and have to be agreed to, before implementation. Further detail about the role and responsibility of the ISC is set out in Appendix C.

#### 4.2. What is the investment strategy?

The Trustee has agreed that the investment strategy for the assets of the Scheme should be based on the benchmark allocation below.

Asset class	Benchmark allocation (%)
Risk reducing assets	60.0
Return seeking assets	40.0
<b>Total</b>	<b>100.0</b>

#### 4.3. Considerations in setting the investment strategy

When deciding how to invest the Scheme's assets, the Trustee considers several risks, including, but not limited to, those set out in Appendix A. Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each risk.

The Trustee has considered a wide range of asset classes for investment, taking account of the expected returns and key individual risks associated with those asset classes as well as how these risks can be mitigated where appropriate.

In setting the investment strategy, the Trustee considers:

- the Scheme's investment objectives, including the target return required to meet the Trustee's investment objectives;
- the best interests of all members and beneficiaries;
- the circumstances of the Scheme, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term) and the funding level;
- an assessment of the strength of the covenant of the sponsoring employer and expected contributions;
- the risks, "net of fee" rewards and suitability of a number of possible asset classes and investment strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken;
- the need for appropriate diversification between different asset classes to ensure that both the Scheme's overall level of investment risk and the balance of individual asset risks are appropriate;
- any other considerations which the Trustee considers financially material over the time horizon that the Trustee considers is needed for the funding of future benefits by the investments of the Scheme;
- the views of the sponsoring employer; and
- the Trustee's investment beliefs.

The Trustee's key investment beliefs, which influenced the setting of the investment arrangements, are as follows:

- asset allocation is the primary driver of long-term returns;
- risk-taking is necessary to achieve return, but not all risks are rewarded;
- equity, credit and illiquidity are the primary rewarded risks;

- investment markets are not always efficient and there may be opportunities for good active managers to add value;
- investment managers who can consistently spot and profitably exploit equity market opportunities are difficult to find and therefore passive equity management, where available, is usually better value;
- ESG factors are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors;
- long-term environmental, social and economic sustainability is one factor that should be considered when making investment decisions; and
- costs have a significant impact on long-term net performance and therefore obtaining value for money from the investments is important.

#### 4.4. What assumptions were made about the returns on different asset classes?

The key financial assumptions made by the Trustee at the time of determining the investment arrangements (as at 30 June 2018) were as follows:

▪ average long-term inflation:	2.2%
▪ average long-term gilt yield:	1.7%
▪ average long-term return on equities:	6.7%
▪ average long-term return on diversified growth:	4.7%
▪ average long-term return on emerging market equities:	7.7%
▪ average long-term return on emerging market debt:	4.2%

Thus, the model assumes that there is a 50/50 chance that, over the long term (defined as 15 years), equity-type investment will outperform gilts by 5.0% pa.

#### 5. Implementation of investment manager arrangements

Before investing in any manner, the Trustee obtains and considers proper written advice from its investment adviser on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

Details of the investment managers are set out in a separate Investment Policy Implementation Document ("IPID").

Page 6 of 22 The Trustee has signed agreements with the investment managers, setting out in detail the terms on which the portfolios are to be managed. The investment managers' primary role is the day-to-day investment management of the Scheme's investments.

The Trustee and investment managers to whom discretion has been delegated exercise their powers to giving effect to the principles in this SIP, so far as is reasonably practicable.

The Trustee has limited influence over its investment managers' investment practices because all the assets are held in pooled funds, but it encourages its investment managers to improve their practices where appropriate.

The Trustee's view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice investment managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

It is the Trustee's responsibility to ensure that the investment managers' investment approaches are consistent with its policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustee expects investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. It assesses this when selecting and monitoring managers.

The Trustee evaluates investment manager performance by considering performance over both shorter and longer-term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of an investment manager's appointment will depend on strategic considerations and the outlook for future performance. Generally, the Trustee would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustee's policy is to evaluate each of its investment managers by reference to their individual performance as well as the role they play in helping the Scheme meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each investment manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustee recognises that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustee

expects its investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates.

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## **6. Other matters**

### **6.1. Realisation of investments**

The investment managers have discretion over the timing or realisation of investments of the Scheme within the portfolios that they manage and over matters relating to the liquidity of investments. The administrator will advise on the amount of cash required for benefit payments and other outgoings and the Trustee informs the investment managers of any liquidity requirements.

Normal contributions to the Scheme are invested in the Scheme's cash funds and held for one year to pay for benefit outgoings throughout the year. On an annual basis the Trustee, in conjunction with its advisers, considers rebalancing between managers if appropriate. In general, the Trustee's policy is to use cash flows to rebalance the Scheme's assets towards the strategic asset allocation.

### **6.2. Financially material considerations and non-financial matters**

The Trustee has considered how ESG and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Scheme and its liabilities. The Trustee seeks to appoint investment managers that have appropriate skills and processes to do this.

The Trustee expects its investment managers to take account of financially material considerations (including climate change and other ESG considerations). The Trustee seeks to appoint managers that have appropriate skills and processes to do this, and from time to time reviews how its managers are taking account of these issues in practice.

The Trustee has limited influence over managers' investment practices where assets are held in pooled funds, but it encourages its managers to improve their practices.

The Trustee does not take into account any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries) in the selection, retention and realisation of investments.

### **6.3. Voting and engagement**

The Trustee recognises its responsibilities as owners of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments. The Trustee has delegated to its investment managers the exercise of rights attaching to

investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. It expects the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustee from time to time, taking into account the long-term financial interests of the beneficiaries. The Trustee has limited influence over managers' stewardship practices where assets are held in pooled funds, but it encourages its managers to improve their practices. The Trustee seeks to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and from time to time the Trustee reviews how these are implemented in practice.

**6.4. What is the Trustee's policy on employer-related investment?**

In accordance with current requirements, the Trustee will not invest more than 5% of their assets in employer-related investments, including such investments held via a collective investment scheme. Employer-related investments are defined as investments (directly or indirectly held) in the equity or debt issued by or in property used by Thomas Miller Holdings Ltd and its subsidiaries. This does not include pooled investment vehicles operated by Thomas Miller Investment Ltd.

**6.5. What are the responsibilities of the various parties in connection with the Scheme's investments?**

Appendix B contains brief details of the respective responsibilities of the Trustee, and the investment managers as well as the actuary and the investment adviser. Appendix B also contains a description of the basis of remuneration of the investment adviser and the investment managers as well as details of the performance assessments carried out by the Trustee.

**6.6. Does the Trustee make any investment selection decisions of its own?**

Before making any investment selection decision (eg an AVC policy) of its own, it is the Trustee's policy to obtain written advice. The written advice considers the suitability of the investment, the need for diversification and the principles contained in this SIP. It is also the Trustee's policy to review its own investment selection decisions on a regular basis, based on written advice.



## 7. Reporting

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From time to time the Trustee will communicate with members and other parties where relevant about the Scheme, its investments and its overall performance.

***Robert M Grainger***

***22 September 2020***

For and on behalf of TMC Trustee Company Limited, the Trustee of the Thomas Miller & Co Ltd Retirement Benefits Scheme

The Trustee considers that there are a number of different types of investment risk that are important for the Scheme. These include, but are not limited to:

### **1. Risk appetite and risk capacity**

Risk appetite is a measure of how much risk the Trustee is willing to bear within the Scheme in order to meet its investment objectives. Taking more risk is expected to mean that those objectives can be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action. Risk capacity is a measure of the extent to which the Trustee can tolerate deviation from its long-term objectives before attainment of those objectives is seriously impaired. The Trustee's aim is to strike the right balance between risk appetite and risk capacity.

When assessing the risk appetite and risk capacity, the Trustee has considered a range of qualitative and quantitative factors, including:

- the strength of the employer's covenant and how this may change in the near/medium future;
- the agreed funding target and employer contributions;
- the Scheme's long-term and shorter-term funding targets;
- the Scheme's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged;
- the Scheme's cash flow and target return requirements; and
- the level of expected return and expected level of risk (as measured by Value at Risk ("VaR")), now and as the strategy evolves.

Following implementation of the Scheme's current investment strategy, the Scheme's 1 year 95% Value at Risk is estimated to be broadly 6% of the value of the liabilities, as measured on a Technical Provisions basis. This means that there is estimated to be a 1 in 20 chance that the value of the deficit will increase by 6% or more of the value of the liabilities compared to the expected position, over a one year period. When deciding on the current investment strategy, the Trustee believed this level of risk to be appropriate given the Trustee's and employer's risk appetite and capacity, given the Scheme's objectives.

### **2. Approach to managing and monitoring investment risks**

The Trustee considers that there are a number of different types of investment risk that are important to manage and monitor. These include, but are not limited to:

### **2.1. Risk of inadequate returns**

A key objective of the Trustee is that, over the long-term, the Scheme should have adequate assets to meet its liabilities as they fall due. The Trustee therefore invests the assets of the Scheme to produce an adequate long-term return in excess of its liabilities. There is also a risk that the performance of the Scheme's assets and liabilities diverges in certain financial and economic conditions in the short term. This risk has been considered in setting the investment strategy review and will be monitored by the Trustee on a regular basis.

The Trustee will review the Scheme's investment strategy at least every three years in light of the various risks faced by the Scheme.

### **2.2. Investment manager risk**

This is the risk that the investment managers fail to meet their investment objectives. Prior to appointing an investment manager, the Trustee receives written advice from a suitably qualified individual and will typically undertake a manager selection exercise. The Trustee monitors the investment managers on a regular basis.

### **2.3. Custodian risk**

This is the risk that the custodian(s) fail(s) in one or more of their duties in particular safeguarding the Scheme's investments. The Trustee is aware that the investment managers review the custodian(s) and the services they provide from time to time.

### **2.4. Risk from lack of diversification**

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Trustee's ability to meet its investment objectives.

The Trustee believes that the need for the Scheme's assets to be adequately diversified between different asset classes and within each asset class has been met by the strategy outlined in the IPID and by the guidelines agreed with the investment managers. This was a key consideration when determining the Scheme's investment arrangements and is monitored by the Trustee on a regular basis.

### **2.5. Liquidity/marketability risk**

This is the risk that the Scheme is unable to realise assets to meet benefit cash flows as they fall due, or that the Scheme will become a forced seller of assets in order to meet benefit payments. There is also the risk that the Scheme is unable to meet the capital calls required for de-leveraging events in relation to the Scheme's LDI funds. The Trustee is aware of the Scheme's cash flow requirements and believes that this risk is managed by maintaining an appropriate degree of liquidity across the Scheme's investments.

## **2.6. Environmental, social and governance (ESG) risks**

ESG factors are sources of risk to the Scheme's investments, some of which could be financially material, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Trustee seeks to appoint investment managers who will manage these risks appropriately on their behalf and from time to time reviews how these risks are being managed in practice.

## **2.7. Collateral adequacy risk**

The Scheme is invested in leveraged LDI arrangements to provide protection ("hedging") against adverse changes in interest rates and inflation expectations. The LDI manager may from time to time call for additional cash to be paid to the LDI portfolio to support a given level of leverage. Collateral adequacy risk is the risk that the Trustee when requested to do so will not be able to post additional cash to the LDI fund within the required timeframe. A potential consequence of this risk is that the Scheme's interest rate and inflation hedging could be reduced, and that the Scheme's funding level could suffer subsequently as a result. To manage this risk, the Trustee ensures that the Scheme has a sufficient allocation to cash and other highly liquid assets which can be readily realised, so that cash can be posted to the LDI manager at short notice.

## **2.8. Credit risk**

This is the risk that a borrower will cause a financial loss for the other party by failing to meet required payments for a contractual obligation. The Scheme is subject to credit risk because it invests in corporate bonds via pooled funds. The Trustee manages its exposure to credit risk by only investing in pooled funds that have a diversified exposure to different credit issuers, and limited exposure to bonds that are classified as below investment grade.

The Trustee believes that credit risk is a rewarded investment risk, over the long term.

The Trustee considers exposure to credit risk in the context of the Scheme's overall investment strategy and believes that the level of exposure to this risk is appropriate.

## **2.9. Counterparty risk**

Counterparty risk is the risk that a bank defaults and is unable to settle any profit that has accrued within a derivative contract.

Within the LDI funds, there is exposure to counterparty risk as the LDI fund manager uses derivative instruments to match the Scheme's liabilities. The terms under which the LDI portfolio is managed include provisions to manage the exposure to counterparty risk, such as using centrally cleared derivatives, limits on the exposure to any single counterparty and minimum credit ratings that all counterparties must meet. In addition,

the derivative positions are collateralised daily, aiming to limit counterparty risk to one day's market movements.

For centrally cleared positions, the Scheme is not exposed to bank counterparty risk as the Scheme now faces the clearing house. A significant portion of the derivatives used within the LDI portfolio are now centrally cleared.

#### **2.10. Equity risk**

Equity represents (part) ownership of a company. Equity risk is the risk that the value of this holding falls in value.

The Trustee believes that equity risk is a rewarded investment risk, over the long term.

The Trustee considers exposure to equity risk in the context of the Scheme's overall investment strategy and believes that the level of exposure to this risk is appropriate.

#### **2.11. Currency risk**

Whilst most of the currency exposure of the Scheme's assets is to Sterling, the Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets. The Trustee considers the overseas currency exposure in the context of the overall investment strategy and believes that the currency exposure that exists diversifies the strategy and is appropriate. Furthermore, the Trustee manages the amount of currency risk by investing in pooled funds that hedge currency exposure.

#### **2.12. Interest rate and inflation risk**

The Scheme's assets are subject to interest rate and inflation risk because some of the Scheme's assets are held in bonds / interest rate swaps via pooled funds. However, the interest rate and inflation exposure of the Scheme's assets hedges part of the corresponding risks associated with the Scheme's liabilities.

The Trustee considers interest rate, inflation and overseas currency risks to be generally unrewarded investment risks.

As a result, the Trustee aims to hedge a ratio of the Scheme's exposure to interest rate risk inflation risk in line with the funding level, by investing in leveraged LDI arrangements.

The net effect of the Trustee's approach to interest and inflation risk will be to reduce the volatility of the funding level, and so the Trustee believes that it is appropriate to manage exposures to these risks in this manner and to review them on a regular basis.

#### **2.13. Other non-investment risks**

The Trustee recognises that there are other, non-investment, risks faced by the Scheme and takes these into consideration as far as practical in setting the Scheme's investment

arrangements as part of its assessment of the other aspects of the Scheme's Integrated Risk Management framework.

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Examples include:

- longevity risk (the risk that members live, on average, longer than expected); and
- sponsor covenant risk (the risk that, for whatever reason, the sponsoring employer is unable to support the Scheme as anticipated). The Trustee has taken into account the strength of the employer's covenant in setting the Scheme's investment strategy.

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Scheme's funding position falls below what is considered an appropriate level. By understanding and considering each of the risks that contribute to funding risk, the Trustee believes that it has addressed and is positioned to manage this general risk.

### **B.1. Responsibilities and investment decision-making structure**

The Trustee believes that decisions should be taken and monitored by individuals and organisations with the necessary skills, knowledge and resources.

The Trustee has therefore decided on the following division of responsibilities and decision-making for the Scheme. This division is based upon the Trustee's understanding of the various legal requirements placed upon them, their own level of expertise and resource, and its view that this division allows for efficient operation of the Scheme overall, with access to an appropriate level of expert advice and service.

#### **B.1.1. Trustee**

In broad terms, the Trustee is responsible in respect of investment matters for:

- reviewing the investment policy following the results of each valuation, and / or after any review of investment strategy (eg any asset liability modelling exercise);
- appointing, monitoring, reviewing and dismissing the investment managers, the actuary and investment consultants;
- monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Act and the regulations;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employer when reviewing the SIP.

The Trustee has delegated consideration of certain investment matters to the Investment Sub-Committee ("ISC"), although any decisions remain the responsibility of the Trustee. The composition of the ISC was chosen to reflect Trustee directors with investment experience, some expertise in the financial world and a suitable level of familiarity with the sponsoring employer's situation.

The Trustee has delegated certain responsibilities to the ISC. These responsibilities are set out in the ISC's terms of reference (Appendix C).

#### **B.1.2. Investment managers**

In broad terms, the investment managers will be responsible for:

- managing their respective portfolios, within the guidelines agreed with the Trustee;

- providing the Trustee with regular information concerning the management and performance of their respective portfolios; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

#### **B.1.4. Actuary and investment adviser**

In broad terms, the investment adviser will be responsible, in respect of investment matters, as requested by the Trustee, for:

- advising on how material changes within the Scheme's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;
- advising on the selection, and review, of the investment managers, incorporating its assessment of the nature and effectiveness of the investment managers' approaches to financially material considerations (including climate change and other ESG considerations); and
- participating with the Trustee in reviews of this SIP.

Where appropriate, the Trustee will seek the views of the actuary when considering changes to the investment strategy.

#### **B.2. Mandates given to advisers and investment managers**

The Trustee has in place signed agreements with each of the Scheme's advisers, and investment managers. These provide details of the specific arrangements agreed by the Trustee with each party.

#### **B.3. Fee structures**

The Trustee recognises that the provision of investment management, dealing and advisory services to the Scheme results in a range of charges to be met, directly or indirectly, by deduction from the Scheme's assets.

The Trustee has agreed Terms of Business with the Scheme's actuarial and investment advisers, under which charges are calculated on a "time-cost" basis or fixed fee basis depending on the nature of the work.

The investment managers receive fees calculated by reference to the market value of assets under management and also in some cases, the performance achieved by the manager. The fee rates are believed to be consistent with the managers' general terms for institutional clients and are considered by the Trustee to be reasonable when compared with those of other similar providers.

The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustee's view as to the most appropriate arrangements for the



**3687421** Scheme. However, the Trustee will consider revising any given structure if and when it is considered appropriate to do so.

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#### **B.4. Performance assessment**

The Trustee's policy is to assess the performance of the Scheme's investments, investment providers and professional advisers from time to time.

In addition, the Trustee will also carry out periodically an assessment of its own effectiveness as a decision-making body.

### **C.1. Introduction**

The Trustee of the Scheme has decided to delegate some of its discretion to make decisions about investments to a subcommittee, known as the Investment Sub-Committee ("ISC"), as set out and further explained in this document (the "Terms").

The role of the ISC is to oversee all aspects of the investment arrangements of the Scheme. The Trustee will retain the overall power to set the level of investment risk that they believe is appropriate for the Scheme to meet its funding objectives. The level of investment risk and estimates of the progress of the Scheme's funding level relative to its funding objectives are monitored on a regular basis. The Trustee will retain overall responsibility for the Scheme's investments and for agreeing the investment strategy, including strategic asset allocation policy. However, it has delegated responsibility for implementing and operating the agreed investment strategy to the ISC within certain parameters. The responsibilities delegated to the ISC are at a strategic level and the ISC will not involve itself with the "day to day" management of Scheme assets.

Notwithstanding the delegation of the powers detailed in this document to the ISC, the Trustee acknowledges that it remains liable for any act or default of the ISC as if they were acts or defaults of the Trustee as a whole.

### **C.2. Composition of the ISC**

The ISC will include three Trustee Directors (members of the Trustee Board). The Trustee Directors to be selected as members of the ISC (the "Full Members") will be selected by the Trustee, having regard to who is best placed by background, capability and commitment to ensure that the overall level of knowledge within the ISC regarding the Scheme's investment arrangements remains at an appropriate level. To the extent permitted by the Terms, the Full Members are authorised by the Trustee to exercise on behalf of the Trustee any discretion to make any decision about investments.

The ISC will also appoint an independent Investment Advisor (currently Lane Clark & Peacock LLP) who will also attend meetings.

Any Investment Advisor (together the "Associate Members") will attend the ISC in a consultative role. They will not have a right to make decisions, exercise discretions, vote or veto decisions of the Full Members.

The Associate Members may make representations to the Full Members. However, the Full Members are under no obligation to act upon those representations. The ISC may convene a meeting of Full Members only if special circumstances make that appropriate.

The Trustee will appoint one Full Member of the ISC to act as Chairman.

The members of the ISC will be expected to attend and actively participate in ISC meetings, to review material provided by the managers and the investment advisor, and to stay abreast of broad investment issues affecting pension funds.

Trustee Directors who are not Full Members can attend meetings of the ISC, although they will not be able to vote or make decisions at those meetings. However, where such a Trustee Director has concerns regarding an issue raised at an ISC meeting, he or she may voice their concerns at the meeting and take these up with the ISC Chairman or at a full meeting of the Trustee Board thereafter.

### C.3. The Role and Responsibility of the ISC

IC Responsibilities include:

#### *Investment strategy and asset allocation*

- to make investment strategy and asset allocation recommendations to the Trustee for agreement by the Trustee before implementation;
- to make appropriate changes to the Scheme's investment within those agreements, after conducting due diligence of any investment opportunity, and meeting the return and risk expectations specified by the Trustee within control ranges recommended by the ISC and approved by the Trustee;
- review other investment strategies or asset allocations that may assist in improving the financial efficiency of the Scheme's investment portfolio and make recommendations to the Trustee if outside the ISC's remit;
- to oversee all implementation of the Trustee's set investment strategy including appointment and dismissal of investment managers, benchmark design and maintenance of the liability driven investments;
- No new types of swap or derivative contract or asset class will be entered into without express prior Board approval.

#### *Investment monitoring*

- to meet with the Scheme's investment managers and where appropriate, custodian at frequencies deemed appropriate by the ISC;
- to ensure the benchmarks and performance objectives of the Scheme's investment managers remain appropriate;

- to make decisions as to whether the Scheme's current investment managers and where relevant, custodian remain appropriate in the context of their position within the Scheme's overall investment portfolio;
- to terminate and make new manager appointments as deemed appropriate whilst ensuring the risk profile of the Scheme remains within the control ranges specified by the Trustee, including whether active or passive management will be used within each asset class;
- to receive and review written reports from the Scheme's investment advisor and the Scheme's investment managers;
- to review the conduct of the investment managers with regard to the Scheme's Corporate Governance and Socially Responsible Investment policies and take appropriate action;
- to monitor investment risk within the Scheme and the funding level as appropriate;
- to monitor the Scheme's liability driven investments;
- to review counterparty risk.

*Compliance*

- to maintain the Scheme's Statement of Investment Principles (SIP);
- to consider the Trustee's Corporate Governance and Socially Responsible Investment policies in the light of market developments and provide recommendations to the Trustee for change, as and when appropriate;
- to review periodically the Scheme's investment management and if appropriate, custodian agreements and, implement changes when relevant, acting in the best interests of the Scheme;
- to review, from time to time, the investment advisors engaged by the Trustee and ISC.

*General support*

- to investigate any specific issues raised by the Trustee;
- to make suggestions and recommendations to the Trustee about the content of the SIP;
- to summarise the results of ISC meetings for the Trustee and maintain minutes of ISC meetings for review by the Trustee.

**C.4. Powers of the ISC**

The Full Members have the full authority and power to implement changes to the Scheme's investment strategy and investment manager structure subject to a range of constraints specified by the Trustee and subject to any constraints contained in the Pensions Act 1995, the Pensions Act 2004 and any other legislative obligations of the Trustee. The constraints specified by the Trustee are set out in the Scheme's SIP.

The ISC is to review and recommend any changes to the control ranges in the SIP as appropriate and at least annually. The ranges will be defined by the Board.

The ISC can request information (including meetings with the Scheme's Investment managers and the Investment Advisor) to allow them to make appropriate decisions (in the case of the Full Members) and to report the rationale for any decisions to the Trustee in an appropriate format.

**C.5. Quorum and decision-making by the ISC**

Meetings will be arranged to ensure that, as far as possible, all members of the ISC can be present. At least two Full Members must be present to constitute a quorum.

Members of the ISC can attend any meetings of the ISC by telephone or video link.

Where a member of the ISC is unable to attend a meeting, another individual, nominated by the member of the ISC who cannot attend the meeting, may attend in his or her place (an "Alternate"). However, an Alternate may only attend in place of a Full Member where the Alternate is another Trustee Director and will not have a vote unless specifically authorised by the Trustee.

Each Full Member of the Committee shall have one vote.

Decisions of the Full Members of the ISC will be taken by majority, where all three Full Members are present. If only two Full Members are present, decisions of the Full Members shall be unanimous and where unanimity of the two Full Members cannot be obtained, the matter shall be referred back to the full Trustee Board for a decision.

**C.6. Frequency of meetings**

The ISC will meet at least four times a year, with a regular cycle of meetings to consider investment strategy and investment manager issues. However, the ISC may also, at the request of the Trustee, or at the request of its members meet at other times to discuss investment related issues that require consideration.

**C.7. Reporting to the Trustee**

Prior to the quarterly Trustee meetings, the ISC will provide the Trustee with a summary of any recommendations from the ISC or actions taken by the ISC since the last meeting of the Trustee. Formal minutes of ISC meetings will also be circulated to the Trustee after each ISC meeting, after they have been approved by the ISC Chairman.