Scott Bader Retirement Benefits Scheme

Statement of Investment Principles

Date prepared: June 2020

Date signed: June 2020

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1. Introduction

1.1. This is the Statement of Investment Principles prepared by Scott Bader Pension Scheme Trustees Limited (the Trustee) of the Scott Bader Retirement Benefits Scheme (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;
- the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010;
- the Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018; and
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

1.2. In preparing this statement the Trustee has consulted Scott Bader UK Limited, the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustee's investment consultants. Barnett Waddingham is regulated by the Institute and Faculty of Actuaries in respect of a range of investment business activities.

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 3 of the Composite Definitive Trust Deed & Rules, dated 31 October 2014. This statement is consistent with those powers.

2. Choosing investments

2.1. The Trustee's policy is to set the overall investment target and then monitor the performance of its managers against that target. 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 Investment Implementation Policy (IIP), which does not form part of 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 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 Principal Employer before amending the 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 as well as the constraints the Trustee faces in achieving these objectives. As a result, the Trustee's main investment objectives are:

- to have sufficient and appropriate assets to cover the Scheme's technical provisions, in order to comply with the Statutory Funding Objective. The Trustee has interpreted this statutory requirement as aiming to ensure that the Scheme's accumulated assets, together with the contributions payable by the Principal Employer in the future, are invested in such a manner that the individual benefits for each member can be expected to be paid from the Scheme as they arise;
- to reach a position of "self-sufficiency" over the long-term, such that the majority of primary funding risks are removed and the impact of future market movements on the Scheme's funding position is minimised. The long-term proposed asset allocation for which the Trustee is aiming is set out in the IIP;
- to manage and as far as possible minimise the expected volatility of the returns achieved in order to control the level of volatility in the Scheme's assessed liabilities and thus required contribution levels;
- to invest in assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from the Principal Employer, the cost of current and future benefits which the Scheme provides;
- to reduce the risk of the assets failing to meet the liabilities over the long term; and
- to minimise the long-term costs of the Scheme by maximising the return on the assets whilst having regard to the above objectives.

3.2. The Trustee is aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Scheme's liabilities. The Trustee has obtained exposure to investments that it expects will meet the Scheme's objectives as best as possible.

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 is not permitted to invest in the shares of the Principal Employer.

5. The balance between different kinds of investments

5.1. The Scheme invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained within the IIP.

5.2. The Trustee considers the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the IIP.

5.3. From time to time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate any short-term cashflow requirements or any other unexpected items.

5.4. The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and therefore the Scheme's asset allocation will be expected to change as the Scheme's liability profile matures and as the funding level improves. The current funding level-based de-risking structure is set out in the IIP.

6. Risks

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

Risk versus the liabilities	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.
Covenant risk	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.
Solvency and mismatching	This 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.
Asset allocation risk	The asset allocation is detailed in the IIP and is monitored on a regular basis by the Trustee.
Investment manager risk	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. The Trustee has a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate.
Concentration risk	Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities. The Investment Fund is well diversified across a range of asset classes.
Liquidity risk	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.

Currency risk	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. Partial currency hedging is employed to manage the impact of exchange rate fluctuations.
Loss of investment	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 its 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.

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 Scheme's funding position. The Trustee meets the Scheme's investment managers as frequently as is appropriate, normally on an annual basis, 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 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. Environmental, Social and Governance factors, voting and engagement

Policy on financially material considerations

9.1. After receiving training and advice from its investment advisor, Barnett Waddingham, as well as receiving detailed presentations from each of its investment managers, the Trustee believes that environmental, social and governance ("ESG") factors, including but not limited to climate change, are financially material and therefore has a policy to consider these, alongside other key factors, taking into consideration the nature of the underlying investment when selecting or reviewing the Scheme's investments.

9.2. The Trustee appreciates that the method of incorporating ESG factors into the investment strategy and process will differ between asset classes. A summary of the Trustee's views for each asset class in which the Scheme invests is outlined below.

Passive equities

9.3. The Trustee believes that ESG factors will be financially material to the risk-adjusted returns achieved by the Scheme's passive equities over the Trustee's intended time horizon for the investment in question. The Trustee accepts that investment managers must invest in line with the specified index and, therefore, may not be able to disinvest if they have concerns relating to ESG. However, the Trustee is satisfied that the passive equity investment managers engage with companies and exercise voting rights appropriately, whilst recognising that the process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

Multi Asset Credit

9.4. The Trustee believes that ESG factors will be financially material to the risk-adjusted returns achieved by the Scheme's multi asset credit holdings over the Trustee's intended time horizon for the investment in question. The Trustee recognises that fixed income assets do not typically provide voting rights, but the Trustee does support engagement with companies by the investment managers. The process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

Liability Driven Investment

9.5. The Trustee believes that ESG issues are not financially material to the risk-adjusted returns achieved by the Scheme's Liability Driven Investment strategy, given its sole purpose is to provide a hedge against the Scheme's exposure to movements in nominal interest rates.

9.6. The Trustee understands that ESG analysis is not conducted on derivatives-based instruments and therefore ESG factors are not considered by the investment managers in the selection and management of such instruments.

9.7. The Trustee is comfortable that the funds currently invested in by the Scheme are managed in accordance with its views on financially material factors, as set out above. As part of this policy, the Trustee periodically (at least annually) reviews the investment managers' approaches to ESG and how these have been factored into investment decisions over the previous year. The Trustee will be reliant on the information presented by the investment managers and their investment advisor regarding the extent to which an investment manager allows for ESG in making their investment decisions. As the Scheme's investments are held in pooled funds, ESG considerations are set by the investment managers, who will ultimately act in the best interests of the Scheme to maximise returns for a given level of risk. The Trustee does not currently impose any specific restrictions on the investment managers with regard to ESG issues, but will review the position from time to time.

Policy on the exercise of voting rights and engagement activities

9.8. The Trustee believes that good stewardship and positive engagement are likely to lead to improved governance and better risk-adjusted returns. The Trustee delegates the exercise of rights (including voting rights) attached to the Scheme's investments to the investment managers, who are all signatories to the UK Stewardship Code. The Trustee will periodically review the investment managers' stewardship and voting policy and practice and whether this has been in line with their stated policy on engagement. Further details on how the Trustee assesses this are set out in Appendix 1.

9.9. 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 (i.e. the set performance benchmark for the pooled funds in which they invest) they expect the investment managers to either follow or outperform.

9.10. The Trustee is firmly 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.

9.11. The Trustee considers it to be a part of their investments 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.

9.12. Should an investment manager be failing in these respects, this should be captured in the Scheme's regular performance monitoring. The Trustee meets and reviews all of their investment managers annually and each manager's ESG practice will form a core part of the Trustee's assessment. The Trustee's investment consultants also provide reporting on the managers' ESG credentials on an annual basis.

9.13. 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.

9.14. 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.

9.15. 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.

Policy for taking into account non-financial factors

9.16. The Trustee does not consider any non-financial matters when constructing the investment strategy and/or when selecting or reviewing fund managers.

10. Agreement

10.1. 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: P. N. Whittome **Date: 26 June 2020**

On behalf of the Scott Bader Retirement Benefits Scheme

Appendix 1 Note on asset manager arrangements as at June 2020 in relation to the current Statement of Investment Principles

Aligning the investment strategy and decisions of the asset manager 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 use 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 will be terminated.

Investment manager ESG policies are reviewed in the context of best industry practice and feedback is/will be provided to the investment manager. The Trustee acknowledges that by investing in pooled funds, the scope to influence the investment managers is limited.

Incentivising asset 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. 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.

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. 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 fund's holdings and the Scheme 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 the asset manager's performance and the remuneration for asset management services are in line with the Trustee's policies

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

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. In some instances, a performance fee may also be applied. Details of the fee structures for the Scheme's investment managers are contained in the IIP.

The Trustee believes that this fee structure, including the balance between any fixed and performance related element, 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 on an annual basis.

How the Trustee monitors portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range

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

During the investment manager appointment process, the Trustee considers both past and anticipated portfolio turnover levels. When underperformance is identified, deviations from the expected level of turnover may be investigated with the 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.

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 arrangement with the asset manager

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.