XPS Investment

G.D. Bowes & Sons Limited 1974 Retirement Fund

Statement of Investment Principles

September 2020

Statement of Investment Principles

The Trustee of the G.D. Bowes & Sons Limited 1974 Retirement Fund ("the Scheme") has prepared this Statement of Investment Principles ("the SIP") in accordance with the Pensions Act 1995[1] ("the Act") as amended and the Occupational Pension Scheme (Investment) Regulations 2005 as well as the principles recommended by the Myners Code.

It supersedes any previous SIP and reflects the investment policy agreed by the Trustee in respect of assets covering Defined Benefit liabilities and AVCs.

This SIP will be reviewed at least every three years or immediately after any significant change in investment policy.

Before preparing this SIP the Trustee has:

- Obtained and considered the written advice from the Scheme's Investment Consultant, XPS Investment Limited, who is suitably qualified through ability and experience and has appropriate knowledge.
- Consulted the employer.

Choosing investments

The Trustee sets the investment strategy and investment policies for the Scheme.

The Trustee has considered the Scheme's liabilities and strength of Employer covenant when setting the investment strategy and policies.

The Trustee relies on Investment Managers for the day-to-day management of the Scheme's assets but retains control over all decisions made about the investments in which the Scheme invests.

Where Investment Managers are delegated discretion under Section 34 of the Act, the Investment Manager will exercise their investment powers in accordance with the Act, relevant and subsequent regulations, and this SIP.

The Trustee relies on the Investment Managers to appoint appropriate Custodians for pooled funds who are responsible for the safekeeping of the assets of the Scheme.

The Trustee relies on the Investment Managers to appoint appropriate Administrators or Registrars for pooled funds who are responsible for keeping records of the Scheme's entitlement within the pooled funds.

[1] *As amended 30th November 2018*

Investment objective and strategy

Investment objective

The Trustee has set the following objective:

- To implement an investment strategy to match the movements in the estimated buyout cost.
- To acquire suitable assets to achieve the above objective whilst controlling volatility and the long term costs of the Scheme.
- To adhere to the provisions contained within this SIP.

Investment strategy

The Trustee intends to meet the investment objective by investing in a diversified portfolio of return-seeking and liability-matching assets.

The Trustee can utilise a wide range of passively and actively managed investments, including (but not limited to):

- Assets or funds primarily utilised to match liability risk (typically movements in long term interest rates and inflation) including gilts, swaps and repos and the use of derivatives and leverage.
- Assets or funds primarily used to outperform the liabilities over the long term including equity, private markets, hedge funds, commodities, currency, bonds and other forms of credit, property, infrastructure and insurance including the use of derivatives and leverage. Illiquid assets can be used where a higher return or lower risk is expected.
- Assets or funds primarily used to provide immediate liquidity such as cash or cash instruments.
- Assets or funds that combine liability outperformance, liability hedging or liquidity characteristics including the use of derivatives and leverage.
- Annuity or insurance policies designed to match the specific characteristics of the Scheme's liabilities or membership.

The actual strategy adopted for the Scheme, including the allocation to different assets, and expected returns is set out in the Appendix.

Investment restrictions

The Trustee intends to adhere to the following restrictions:

- No more than 5% of Scheme assets can be held in investments related to the Employer.
- Whilst borrowing on a temporary basis is permitted, this option will only be utilised where absolutely necessary or where it is expected to reduce overall risk (e.g. for very short time periods during an asset transfer).
- Investment in derivative instruments may only be made where they contribute to risk reduction or facilitate efficient portfolio management.
- Stock lending is permitted at the discretion of the Scheme's Investment Managers in line with their overall investment objectives, policies and procedures.

Evaluation of Performance

Appointments of Investment Managers are expected to be long-term, but the Trustees will review the appointment of the Investment Managers in accordance with their responsibilities.

The Trustees receive regular performance monitoring reports from the Investment Consultant which consider performance over the quarter, one and three year periods. In addition, any significant changes relating to the Trustees' selection and deselection criteria that the Investment Consultant is aware of will be highlighted, which may lead to a change in the Investment Consultant's rating for a particular mandate.

These ratings help to determine an Investment Manager's ongoing role in implementing the investment strategy. If there are concerns, the Trustees may carry out a more in-depth review of a particular Investment Manager. Investment Managers will also attend Trustees' meetings as requested.

The Investment Consultant has also carried out a review of how well the Trustees' guidelines in relation to ESG factors are incorporated into each Investment Manager's processes and the Trustees will re-assess progress on ESG issues periodically.

Fund manager remuneration is considered as part of the manager selection process. It is also monitored regularly with the help of the Investment Consultant to ensure it is in line with the Trustees' policies and with fee levels deemed by the Investment Consultant to be appropriate for the particular asset class and fund type.

Selection/Deselection Criteria

The criteria by which the Trustees will select (or deselect) the Investment Managers include:

- Parent - Ownership of the business;
- People - Leadership/team managing the strategy and client service;
- Product - Key features of the investment and the role it performs in a portfolio;
- Process - Philosophy and approach to selecting underlying investments including operational risk management and systems;
- Positioning - Current and historical asset allocation of the fund;
- Performance - Past performance and track record;
- Pricing - The underlying cost structure of the strategy;
- ESG – Consistency and extent to which ESG analysis is incorporated into the process of selecting underlying investments.

Portfolio Turnover

The Trustees require the Investment Managers to report on actual portfolio turnover at least annually, including details of the costs associated with turnover, how turnover compares with the range that the Investment Manager expects and the reasons for any divergence.

Investment risk

The Trustee has identified a number of risks including (but not limited to):

- Employer covenant risk
- Liability risks: Interest rate risk, Inflation risk, Longevity risk
- Asset risks: Equity risk, Property risk, Currency risk, Credit risk, Interest rate risk, Inflation risk
- Strategy risks: Asset allocation risk, Liquidity risk (including collateral risk), Growth asset risk (including currency risk)
- Implementation risks: Investment manager risk, Counterparty risk, Operational risk

These risks are measured and managed by the Trustee as follows:

- The Trustee has set an investment strategy that adheres to the contents of this SIP.
- The Trustee receives strategic investment advice from the Investment Consultant that may include risk modelling and quantification (e.g. Value at Risk) whenever strategic changes are considered.
- The Trustee undertakes regular monitoring of the Scheme's investments supplemented by information provided by both the Investment Managers and Investment Consultant, as well as advice from the latter.
- The Trustee periodically assess the strength of the Employer covenant and uses external expertise where appropriate.
- The Trustee delegates the day-to-day management of some of these risks to the appointed Investment Managers.
- The Trustee considers the Investment Managers' role and approach to managing risk is considered when selecting appropriate Investment Managers.
- The Trustee utilises custodian relationships to ensure Scheme assets are held securely.
- The Trustee assesses whether appropriate controls are put in place by themselves, the Investment Consultant, Investment Managers and Custodians (where there is a direct relationship).

Realising investments

The Trustee recognises that assets may need to be realised to meet Scheme obligations at any time. The Trustee will ensure that an appropriate amount of readily realisable assets are held at all times, and this will be part of the assessment for including new investments within the strategy.

Environment, Social, & Governance and Stewardship of Voting Rights

The Trustee has considered its approach to ESG factors and do believe there can be financially material risks relating to ESG including climate change. Reflecting this, the Trustee has delegated the responsibility for assessing and managing ESG risks to the Scheme's investment managers. The Trustee requires the Scheme's investment managers to take into consideration ESG factors within their decision-making and, to be in line with their own beliefs, the Trustee recognises that how they do this will be dependent on the asset class and Fund characteristics.

The Trustee will take their views on the potential for ESG factors to lead to financially material risks into account in any future investment manager selection exercises for the underlying investments that the Scheme makes. Further to this, the Trustee will monitor the ESG integration practices of the managers they are invested in to ensure they remain appropriate and in line with the Trustee's requirements as set out in this Statement.

The Trustee has delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the investment managers and encourages them to vote in an appropriate and considered manner whenever it is practical to do so.

As the Scheme invests in pooled funds, the Trustees acknowledge that they cannot directly influence the policies and practices of the companies in which the pooled funds invest. They have therefore delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the Investment Managers.

The Trustees encourage them to engage with investee companies and vote whenever it is practical to do so on financially material matters such as strategy, capital structure, conflicts of interest policies, risks, social and environmental impact and corporate governance as part of their decision-making processes. The Trustees require the Investment Managers to report on significant votes made on behalf of the Trustees.

If the Trustees become aware of an Investment Manager engaging with the underlying issuers of debt or equity in ways that they deem inadequate or that the results of such engagement are misaligned with the Trustees' expectation and the investment mandate guidelines provided, then the Trustees may consider terminating the relationship with that Investment Manager.

Based on the structure set out in the Appendix, the Trustees consider the arrangements with the Investment Managers to be aligned with the Scheme's overall strategic objectives. Details of each specific mandate are set out in guidelines, agreements and pooled fund documentation with each Investment Manager.

The amounts allocated to any individual category or security will be influenced by the overall benchmark and objectives, varied through the Investment Managers' tactical asset allocation preferences at any time, within any scope given to them through any asset allocation parameters or guidelines set by the Trustees or governing the pooled funds in which the Scheme is invested. The Trustees will ensure that the Scheme's assets are predominantly invested in regulated markets to maximise their security.

Investment Managers are incentivised to perform in line with expectations for their specific mandate as their continued involvement as Investment Managers as part of the Scheme's investment strategy – and hence the fees they receive – are dependent upon them doing so. They are therefore subject to performance monitoring and reviews based on a number of factors linked to the Trustees' expectations, including their selection / deselection criteria.

The Trustees encourage Investment Managers to make decisions in the long-term interests of the Scheme. The Trustees expect engagement with management of the underlying issuers of debt or equity and the exercising of voting rights in line with the investment mandate guidelines provided.

This expectation is based on the belief that such engagement can be expected to help Investment Managers to mitigate risk and improve long term returns.

As covered in more detail in this document, the Trustees also require the Investment Managers to take ESG factors and climate change risks into consideration within their decision-making as the Trustees believe these factors could have a material financial impact in the long-term. The Trustees therefore make decisions about the retention of Investment Managers, accordingly.

Approved and adopted by the Trustee on 24 September 2020

Appendix - Investment strategy

Overall strategy

The investment strategy of the Scheme is summarised in the table below.

Asset class	Strategic allocation	Expected return (above gilts pa)	Manager and fund	Objective	AMC (pa)	TER (pa)
Liability Matching	**100%** (expected to be split roughly as 45% LDI and 55% cash)	0.0%	Legal & General Matching Core Funds	Provide leveraged exposure to changes in real interest rates and inflation with the aim of liability matching.	0.24%	0.29%
		0.0%	Legal & General Sterling Liquidity Fund	Provide liquidity and act as source of collateral to support the LDI funds with Legal & General.	0.125%	0.125%
	100%	0.0%			0.18%	0.22%

In addition to the above fees, LGIM charge a flat fee of £1,500 + VAT for the Scheme as a whole.

Return expectations quoted above are best estimates for long-term returns as at 30 June 2020 using assumptions provided by the Investment Consultant.

Liability hedging

This strategy is designed to achieve liability hedging of:

- 100% of the interest rate risk, as a proportion of the Scheme's total liabilities, as assessed against a proxy buy-out basis.
- 100% of the inflation risk, as a proportion of the Scheme's total liabilities, as assessed against a proxy buy-out basis.

This level of hedging is achieved through the use of leveraged profile funds.

Rebalancing investments

The Scheme does not have any formal rebalancing arrangements in place. The Trustee will review the allocation quarterly and if required will instruct the Investment Managers to rebalance towards the strategic allocation.

Realising investments

Where assets need to be realised, the Trustee will consult with the Investment Consultant regarding the source and timing of disinvestments.

AVCs

The Trustee has made the following AVC investment options available to members of the Scheme:

- LGIM Consensus Index Fund
- LGIM Investment Grade Corporate Bond over 15 year Index Fund
- Phoenix Life With Profits Fund

The Trustee will review the AVC providers, as well as the funds available, in the light of their performance on a periodic basis. Performance of these funds will be measured relative to the individual benchmarks and objectives for the funds offered and/or to other providers offering similar fund options.

As the Scheme has closed to accrual, contributions can no longer be made to members' AVC funds.

The Trustee is aware that members' AVC funds are subject to the same risks faced by the Scheme's investments, such as inflation risk eroding real returns. In addition, AVC members face the risk that their investments will not meet their future expectations (for example, if they are planning to purchase an annuity at retirement), lack of transparency on how their fund is managed and also that their AVC fund may fall in value.

The Trustee considers that, in making a number of funds available, they provide these members with sufficient options to meet their reasonable expectations and to mitigate the risks faced.

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