St Martins 1967 Pension Plan

Statement of Investment Principles

September 2020

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01 **Introduction**

This document constitutes the Statement of Investment Principles ('the SIP') required under Section 35 of the Pensions Act 1995 for the St Martins 1967 Pension Plan ('the Plan'). It describes the investment policy being pursued by the Trustees of the St Martins 1967 Pension Plan (‘the Trustees’) and is in accordance with the Government's voluntary code of conduct for Institutional Investment in the UK (‘the Myners Principles’). This SIP also reflects the requirements of Occupational Pension Schemes (Investment) Regulations 2005.

The Scheme Actuary is Louisa Taylor of XPS Pensions Limited and the Investment Adviser is XPS Investment Limited (collectively termed 'the Advisers').

The Trustees confirm that, before preparing this SIP, they have consulted with the employer, St Martins Management Corporation Limited ('the Sponsoring Employer') and the Advisers and has obtained and considered written advice. The Trustees believe the Advisers to be qualified by their ability and practical experience of financial matters and to have appropriate knowledge of the investment arrangements that the Plan requires.

The Trustees are responsible for the investment of the Plan’s assets and the administration of the Plan. Where it is required to make an investment decision, the Trustees always receive advice from the Advisers first and it believes that this ensures that it is appropriately familiar with the issues concerned.

The Trustees have appointed investment managers to manage the assets through investments in pooled funds. Decisions about which funds to invest in are made after receiving investment advice from an FCA regulated firm.

01.01 Declaration

The Trustees confirm that this Statement of Investment Principles reflects the investment strategy they have decided to implement for the Scheme. The Trustees acknowledge that it is their responsibility, with guidance from the relevant Advisers, to ensure the assets of the Scheme are invested in accordance with these Principles.

02 **Plan governance**

The Trustees are responsible for the governance and investment of the Plan's assets. The Trustees consider that the governance structure set out in this SIP is appropriate for the Plan as it allows the Trustees to make the important decisions on investment strategy, while delegating the day-to-day aspects to the relevant Advisers.

03 Investment objectives and key considerations

The Trustees' are required to invest the Plan's assets in the best interest of members, and their main objectives with regard to investment policy are:

> To achieve, over the long-term, a return on the Plan's assets which is consistent with the assumptions made by the Scheme Actuary in determining the funding of the Plan;

> To ensure that sufficiently liquid assets are available to meet benefit payments as they fall due, and;

> To consider the interests of the Sponsoring Employer in relation to the size and volatility of the Sponsoring Employer's contribution requirements.

The Trustees understand, following discussions with the Sponsoring Employer, that it is willing to accept a degree of volatility in the Company's contribution requirements – with a view to reducing the long-term cost of the Plan's benefits.

04 **Asset allocation strategy**

The allocation between the asset classes making up the assets will vary over time to reflect, amongst other factors, the profile of the liabilities, the perceived relative value of the different asset classes and the perceived risk to the investment objectives. The current benchmark allocation is set out in Appendix A and any changes in such allocations will only be made after receiving written advice from the Investment Adviser that such allocation remains consistent with the investment objectives. The Trustees, in conjunction with the Investment Adviser, will regularly monitor the actual asset allocation of the Plan's assets in each asset class against this benchmark.

The Investment Managers and funds that the Trustees have selected to achieve the investment objectives are detailed in Appendix B. If any changes are required to be made to the Investment Managers or funds, the Trustees will first consult with the Investment Adviser but for the avoidance of doubt any such change will not in and of itself constitute a change of investment policy requiring a revision to this SIP.

04.01 Alignment of incentives

Based on the structure set out in the Appendix, the Trustees consider the arrangements with the Investment Managers to be aligned with the Plan'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 Plan is invested.

The Trustees will ensure that the Plan'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 Plan'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 Plan. 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.

Asset allocation strategy contd…

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.

04.02 Rebalancing policy

The Trustees, in conjunction with the Advisers, will monitor the actual asset allocation of the Plan on a regular basis via regular investment updates received from the Advisers. If the actual allocation is materially different from the benchmark allocation, the Trustees will make a decision as to whether to switch assets back to the strategy following consideration of advice.

04.03 Expected returns

The Trustees expect the return on the Plan's assets to be consistent with the investment objectives above. Details of the performance targets of the Plan's investments are given in Appendix B. These performance targets have been provided by the respective fund managers. The Trustees recognise over the short term, performance may deviate from their long-term targets.

For the Technical Provisions, a prudent estimate of returns will generally be used, as agreed in the Statement of Funding Principles, on the basis of advice from the Scheme Actuary.

04.04 Diversification

The choice of asset classes is designed to ensure that the Plan's investments are adequately diversified given the Plan's circumstances. The Trustees will monitor the strategy regularly to ensure that they are comfortable with the level of diversification.

04.05 Liquidity

All of the Plan's assets are held in pooled funds with frequent redemption dates that are sufficiently liquid to be realised ahead of any planned or unexpected demand for cash.

04.06 Additional Voluntary Contributions

Some members of the Plan have paid Additional Voluntary Contributions ("AVCs") into the Plan, which are invested and will be used to increase benefits at retirement, or in the event of death. These facilities are now closed to future contributions. The Trustees monitor the performance of these funds and ensures that the investment profile of the funds remains consistent with the objectives of the Trustees and needs of the members.

04.07 Employer-Related Investments

The Trustees' policy is not to hold any direct employer-related investments as defined in the Pensions Act 1995, the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005.

05 **Monitoring**

05.01 Funds

The Trustees will monitor the performance of the funds against the stated performance objectives through quarterly reports received from their Investment Adviser.

05.02 Advisers

The Trustees will monitor the quality of advice given by the Advisers on a regular basis.

05.03 Portfolio turnover costs

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.

05.04 Investment manager duration

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.

05.05 Performance and remuneration reporting

The Trustees receive regular performance monitoring reports from the Investment Adviser 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 Adviser is aware of will be highlighted, which may lead to a change in the Investment Adviser'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 Adviser 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 Adviser to ensure it is in line with the Trustees' policies and with fee levels deemed by the Investment Adviser to be appropriate for the particular asset class and fund type.

05.06 Other

The Trustees are required to review this SIP on a triennial basis, or, without undue delay, following any changes to the investment strategy.

06 **Fees**

06.01 Funds

The Investment Managers are paid a management fee, embedded in their pooled funds, on the basis of asset under management. The Trustees will seek to ensure that the fees charged for the funds they use and their expense ratios are consistent with levels typically available in the industry for such funds.

The Trustees are aware of the Investment Managers' policies regarding commission arrangements. The Investment Managers disclose their fees, use of commissions, and other transaction costs in accordance with the Financial Conduct Authority ('FCA') Rules.

06.02 Advisers

Fees paid to the Advisers are based either on actual time spent and hourly rates for relevant individuals, or on fixed fees agreed in advance for specifically defined projects.

06.03 Custodian

There is no custodian appointed directly by the Trustees.

06.04 Trustees

The Trustees may be paid for their roles.

07 **Risks**

The Trustees recognise a number of risks involved in the investment of assets of the Plan:

i. The risk of failing to meet the objectives as set out in Section 3 – the Trustees will regularly monitor the investments to mitigate this risk.

ii. The risk of adverse consequences arising through a mismatch between the Plan's assets and its liabilities. This is addressed through the asset allocation strategy, for example LDI, and through regular actuarial and investment reviews and the funding target.

iii. Risk of lack of diversification of investments – addressed through investment in funds with diversification requirements and through the asset allocation policy.

iv. Risk of holding assets that cannot be easily sold should the need arise – addressed through the use of liquid funds with frequent dealing dates.

v. Underperformance risk – addressed through monitoring closely the performance of each fund and taking necessary action when this is not satisfactory.

vi. Country/political risk – the risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across many countries.

vii. Organisational risk – the risk of losses arising through operational mistakes or errors is addressed through regular monitoring of the Investment Managers and the Advisers.

viii. Sponsor risk – the risk that the Sponsoring Employer ceases to exist or otherwise is unable to fully support the Plan is measured by reference to the strength of the Sponsoring Employer covenant and is managed by ensuring the asset allocation strategy takes into account the level of sponsor risk.

ix. Recapitalisation risk – Leveraging in an LDI solution gives typically 2-4 times the sensitivity to interest and inflation rates compared to normal bonds, this can also lead to the effective value of the LDI investments falling to zero relatively quickly or even going negative. Should interest rates rise significantly the Trustees may need to sell some of the Plan's other assets to recapitalise the LDI investments. The Trustees will keep these risks under regular review.

x. Market risk - the risk of the Plan failing to meet its investment objectives due to a general decline in markets is measured by reference to the expected volatility of return seeking assets relative to equity markets and is managed by investing across a diverse selection of return seeking assets which are expected to have uncorrelated returns.

xi. Credit risk - the risk that a bond issuer will default on its obligations is measured by reference to the exposure of funds to corporate debt and is managed by investing in funds with a diversified list of credits.

xii. Counterparty risk - the risk that a counterparty fails whilst owing money on a derivative contract is measured by reference to the exposure to such counterparties and is managed by ensuring the Investment Managers choose counterparties with a strong credit rating.

08 **Other issues**

08.01 Statutory Funding Requirement

The Trustees will obtain and consider proper advice on the question of whether the investments are satisfactory having regard to both the investment objectives and statutory funding requirements. The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation every three years.

The Trustees will consider with the Advisers whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the statutory funding requirement.

08.02 Environmental, social and governance issues

The Trustees have determined their approach to financially material considerations over the Plan's long term funding horizon – including environmental, social and corporate governance ("ESG") factors – by acknowledging that there can be risks relating to them. The Trustees have delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Plan's investment managers. The Trustees require the Plan's investment managers to take ESG and climate change risks into consideration within their decision-making, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest.

The Trustees will seek advice from the Investment Adviser on the extent to which its views on ESG and climate change risks may be taken into account in any future investment manager selection exercises. Furthermore, the Trustees, with the assistance of the Investment Adviser, will monitor the processes and operational behaviour of the investment managers from time to time, to ensure they remain appropriate and in line with the Trustees' requirements as set out in this Statement.

08.03 Voting rights

As the Plan 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 Plan'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 mis-aligned with the Trustees' expectation and the investment mandate guidelines provided, then the Trustees may consider terminating the relationship with that Investment Manager.

Appendix A
Strategic asset allocation

Having considered advice from the Advisers, and also having due regard for the objectives, the current liabilities of the Plan together with their expected timing, the risks of and to the Plan and the covenant of the Sponsoring Employer, the Trustees have decided upon the following benchmark allocation as being the basis for measuring investment performance:

Asset class	Benchmark asset allocation (%)	Hedging or matching contribution
Matching Assets	**50.0**	
Corporate bonds	20.0	✓
LDI	30.0	✓
Return Seeking Assets	**50.0**	
DGFs	30.0	-
Multi-sector credit	20.0	-
Total	**100**	

Appendix B
Implementation details

Investments

The Plan’s investments have the following performance targets:

Asset class	Fund Name	Benchmark	Active / Passive	Objective
LDI	BMO Short Profile Leveraged Nominal Gilt Fund	Leveraged liability benchmark - gilts	Passive	To provide a hedge against fixed liabilities. The fund will, under normal circumstances, invest in gilts, gilt based derivatives and gilt sale and repurchase agreements (repo).
	BMO Short Profile Leveraged Real Gilt Fund	Leveraged liability benchmark - gilts	Passive	To provide a hedge against inflation linked liabilities. The fund will, under normal circumstances, invest in gilts, gilt based derivatives and gilt sale and repurchase agreements (repo).
Corporate Bonds	Kames Capital Long Corporate Bond Fund	Markit iBoxx £ Non-Gilt > 10yr Index	Active	To outperform the Markit iBoxx £ Non-Gilt > 10yr Index by 1.0% p.a. gross of management fees (0.75% p.a. net of fees) over rolling three year periods.
	PIMCO UK Long Term Corporate Bond Fund	Merrill Lynch Non-Gilts Over 10 Years Index[1]	Active	The investment objective of the UK Long Term Corporate Bond Fund is to seek to maximise total return, consistent with preservation of capital and prudent investment management.
Multi-sector credit	BlackRock Multi-Strategy Credit Fund	3 Month LIBOR	Active	To outperform the US Dollar 3 Month LIBOR by 5.5% p.a. over a full market cycle.
	NinetyOne Multi-Asset Credit Fund	3 Month LIBOR	Active	To outperform the US Dollar 3 Month LIBOR by 4.0% p.a. over a rolling 5-year period, primarily through investment in a diversified portfolio of corporate and asset backed fixed and floating rate debt securities and related derivatives.
DGFs	Schroders Diversified Growth Fund	UK Consumer Price Index	Active	To invest in a broad range of asset classes to aim to generate a return of UK inflation (as measured by the UK Consumer Price Index) +5.6% p.a., gross of management fees (5.0% p.a. net of fees) over an economic cycle, typically a 5 year period, with a volatility less than two thirds of global equities.
	LGIM Dynamic Diversified Fund	Bank of England base rate	Active	To outperform the Bank of England Base Rate by 4.5% p.a. over a full market cycle (typically 5 years) gross of management fees (4.1% p.a. net of fees).

Notes:
1. The manager provides a benchmark but they include it purely for performance comparison purposes, and as per their fund objective do not have a specific outperformance target.

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