XPS Investment

Joseph Holt Staff Pension Scheme

Statement of Investment Principles

September 2021

Statement of Investment Principles

The Trustees of the Joseph Holt Staff Pension Scheme ("the Scheme") have 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.

This SIP describes the investment policy being pursued by the Trustees of the Scheme.

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

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

Before preparing this SIP the Trustees have:

- Considered any written strategic advice from the Scheme's Investment Consultant, who is suitably qualified through ability and experience and has appropriate knowledge.
- Consulted the employer.

Choosing investments

The Trustees set the investment strategy and investment policies for the Scheme.

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

The Trustees rely 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 investment managers are authorised and regulated to provide investment management services to the Scheme. Within the UK, the authorisation and regulation of the investment managers falls under the Financial Conduct Authority (FCA). Specific products in which the Scheme invests may also be regulated by the Prudential Regulatory Authority (PRA). For non-UK Investment Managers, authorisation and regulation is undertaken by the home state regulator.

The investment managers will ensure that suitable internal operating procedures are in place to control individuals making investments for the Scheme.

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

The Trustees rely 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 31st March 2020*

Investment objective and strategy

Investment objective

The Trustees have set the following objectives:

- To protect the funding position by reducing risk as far as possible and hedging fully on the buy-out basis.
- To acquire suitable assets to achieve the above objective whilst controlling volatility and the long-term costs of the Scheme.
- To ensure that the Scheme's assets and future contributions are invested in such a manner that the benefits due to members and their beneficiaries can be paid from the Scheme as they arise.
- To adhere to the provisions contained within this SIP.

Investment strategy

The Trustees intend 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 Trustees intend 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.

Investment risk

The Trustees have 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 Trustees as follows:

- The Trustees have set an investment strategy that adheres to the contents of this SIP.
- The Trustees receive 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 Trustees undertake 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 Trustees periodically assess the strength of the Employer covenant and uses external expertise where appropriate.
- The Trustees delegate the day-to-day management of some of these risks to the appointed Investment Managers.
- The Trustees consider the Investment Managers' role and approach to managing risk is considered when selecting appropriate Investment Managers.
- The Trustees utilise custodian relationships to ensure Scheme assets are held securely.
- The Trustees assess 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 Trustees recognise that assets may need to be realised to meet Scheme obligations at any time.

The Trustees 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. The Trustees will from time to time agree a policy for sourcing cash from the investments as required. Further details are set out in the Appendix.

Range of assets

The Trustees consider that the combination of the investment policy and the specific manager mandates detailed in the Appendix will ensure that the assets of the Scheme include suitable investments that are appropriately diversified and provide a reasonable expectation of meeting the objectives.

Details of each specific mandate are set out in 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 asset allocation parameters 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 invested in regulated markets to maximise their security.

The investment manager is incentivized to perform in line with the agreed objectives as maintaining the mandate and associated fees are contingent on them doing so.

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. 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.

Investment Manager Arrangements

Review process

Appointments of investment managers are expected to be long-term. The Trustees will review the appointment of the investment managers in accordance with their responsibilities. Such reviews will include analysis of each investment manager's performance and processes and an assessment of the diversification of the assets held by the investment manager. The review will include consideration of the continued appropriateness of the mandate given to the investment manager within the framework of the Trustees' investment policies.

Any significant changes relating to the criteria below 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 Trustee meetings as requested.

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:

- Ownership of the business;
- Leadership/team managing the strategy and client service;
- Key features of the investment and the role it performs in a portfolio;
- Philosophy and approach to selecting underlying investments including operational risk management and systems;
- Current and historical asset allocation of the fund;
- Past performance and track record;
- The underlying cost structure of the strategy;
- 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

Responsible investment

The Trustees have considered their approach to environmental, social and corporate governance ("ESG") factors for the long-term time horizon of the Scheme and believe there can be financially material risks relating to them. The Trustees have delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Scheme's investment managers.

The Trustees require the Scheme's investment managers to take ESG and climate change risks into consideration within their decision-making, in relation to the selection, retention or realisation of investments, 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 Consultant on the extent to which their 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 Consultant, 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.

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.

However, the Trustees' policy is that non-financial matters should not be taken into account in the selection, retention and realisation of investments.

Should the Trustees become aware that an investment manager's engagement and voting practices are inadequate or that the results of such engagement are mis-aligned with the Trustees' expectations, the Trustees will engage with the manager further to encourage alignment. If, following engagement, it is the view of the Trustees that the degree of alignment remains unsatisfactory, the Trustees may consider terminating the relationship with that investment manager.

When considering the selection, retention or realisation of investments, the Trustees have a fiduciary responsibility to act in the best interests of the beneficiaries of the Scheme, although they have neither sought, nor taken into account, the beneficiaries' views on matters including (but not limited to) ethical issues and social and environmental impact. The Trustees will review this policy if any beneficiary views are raised in future.

Signed on behalf of the Trustees of the Joseph Holt Staff Pension Scheme:

Signature:

Name: Richard Kershaw

Appendix – Investment strategy

Overall strategy

All of the Scheme's assets are currently invested with LGIM and Baillie Gifford through the platform, Mobius Life Limited "Mobius". The current investment strategy of the Scheme is summarised in the table below.

Asset class	Current allocation (30 June 2021)	Expected return (above gilts pa)	Fund	Fund Objective	Fees		
					AMC	Additional Expenses	TER
Liability Driven Investment (LDI)	**50%**	-	LGIM 5 to 15 Year Index-Linked Gilts Index Fund	The objective of the fund is to track the performance of the FTSE Actuaries UK Index Linked Gilts 5-15 Years Index to within +/-0.25% p.a. for two years out of three.	0.04%*	0.00%	0.04%
	34%	-	LGIM Over 15 Year Gilts Index Fund	The objective of the fund is to track the performance of the FTSE Actuaries UK Conventional Gilts Over 15 Years Index to within +/-0.25% p.a. for two years out of three.	0.04%*	0.00%	0.04%
Corporate Bonds	**16%**	0.8%	Baillie Gifford Investment Grade Bond Fund	The objective of the fund is to outperform (after deduction of costs) the ICE Bank of America Sterling Non-Gilt Index by 0.5% per annum over rolling three-year periods.	0.25%	0.02%	0.27%
	100.0%	0.1%			0.07%		0.08%

AMC = Annual Management Charge (fee charged by the investment manager for fund management)
TER = Total Expense Ratio (total fee investors incur, including admin and custodian charges. Represents the difference between gross and net performance). Quoted as at 31 March 2021.

**A reduction in AMC has been achieved through holding the assets on the Mobius Life investment platform.*

In addition to the above assets the Trustees hold insurance policies with Canada Life and Sun Life Financial of Canada in respect of the benefits of a number of pensioners.

Return expectations quoted above are best estimates for long-term returns based on the Investment Consultant's asset return assumptions as at 31 March 2021.

Trading spreads and transaction costs for changing funds will be communicated as part of the formal advice when considering any strategic changes.

Mobius Life

The Scheme's investments are held with a platform provider, Mobius Life Limited, in order to reduce ongoing governance and allow the Scheme to take advantage of reduced fee arrangements. Mobius charge platform fees in addition to the fees charged by the investment managers.

Liability hedging

The Scheme invests in LDI and corporate bond assets managed by LGIM and Baillie Gifford designed to provide c.100% hedging against movements in the value of the Scheme's liabilities (assessed on a gilts + 0.25% basis) due to changes in interest rates.

Rebalancing investments

The Scheme does not have any formal rebalancing arrangements in place. The Trustees will review the allocation regularly and if required will instruct the investment managers to rebalance towards the strategic allocation.

Realising investments

Where assets need to be realised, the Trustees will consult with the Investment Consultant regarding the source and timing of disinvestments. It is envisaged that where assets need to be realised, the source of disinvestments will be the return-seeking assets held.

Liquidity

All of the non-cash assets are held in funds with frequent dealing dates. The Trustees also hold a small amount of cash in a bank account to help meet short-term cash requirements.

Contingency plans

The Trustees monitor the performance of the Scheme's investments and the funding position of the Scheme, with the assistance of the Investment Consultant and the Scheme Actuary. Whilst the Trustees have no formal contingency plans in place, they will review the investment strategy in the event that performance is out of line with expectations.

AVCs

The Trustees have made available AVC investments with Prudential and Scottish Friendly,

The Trustees 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.

The Trustees are 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 funds are managed and also that their AVC funds may fall in value.

The Trustees consider that, in making these funds available that it will meet members' reasonable expectations and mitigate the risks faced.

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