

Stephenson Group Ltd Retirement Benefits Scheme (the “Scheme”) Statement of Investment Principles (the “Statement”)

1. Scope of Statement

This Statement has been prepared in accordance with Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005).

The effective date of this Statement is September 2020. The Trustees will review this Statement and the Scheme’s investment strategy no later than three years after the effective date of this Statement and without delay after any significant change in investment policy.

2. Consultations Made

The Trustees have consulted with the Employer, Stephenson Group Limited, prior to writing this Statement and will take the Employer’s comments into account when they believe it is appropriate to do so.

The Trustees are responsible for the investment strategy of the Stephenson Group Limited Pension Scheme. They have obtained written advice on the investment strategy appropriate for the Scheme and on the preparation of this Statement.

The day to day management of the Scheme’s assets has been delegated to investment managers which are authorised and regulated by the Financial Conduct Authority. A copy of this Statement is available to the members of the Scheme upon request.

3. Objectives and Policy for Securing Objectives

The Trustees’ primary objectives are:

- “funding objective” – to ensure that the Scheme is fully funded using assumptions that contain a modest margin for prudence. Where an actuarial valuation reveals a deficit, a recovery plan will be put in place which will take into account the financial covenant of the Employer;
- “stability objective” – to have due regard to the likely level and volatility of required contributions when setting the Scheme’s investment strategy; and
- “security objective” – to ensure that the solvency position of the Scheme (as assessed on a gilt basis) is expected to improve. The Trustees will take into account the strength of Employer’s covenant when determining the expected improvement in the solvency position of the Scheme.

The Trustees recognise that these objectives may conflict. For example, a greater allocation to more risk reducing assets may give greater security, but may result in a level of contributions, which the Employer may find too difficult to support. The Trustees also recognise that in resolving this conflict, it is necessary to accept some risk.

4. Investment Risk Measurement and Management

The Trustees pay close regard to the risks that may arise through a mismatch between the Scheme’s assets and its liabilities, and to the risks that may arise from the lack of diversification of investments. It believes that the investment policies to be followed by its investment managers do have adequate regard to the need to diversify within each asset class as well as in terms of stock selection.

Under the Pensions Act 2004 trustees must state their policy on the ways in which risks are to be measured and managed. These are set out below.

Solvency risk and mismatching risk:

- are measured through an assessment of the expected volatility of the liabilities relative to the Scheme's current and alternative investment strategies; and
- are managed through assessing the progress of the actual growth of the liabilities relative to the selected investment strategy.

Manager risk:

- is measured by the expected deviation of the prospective risk and return, as set out in the manager's objectives, relative to the investment policy; and
- is managed by monitoring the actual deviation of returns relative to the stated objective and factors supporting the manager's investment process.

Liquidity risk:

- is measured by the level of cash flow required by the Scheme over a specified period; and
- is managed by holding the majority of the Scheme's assets in readily realisable investments.

Political risk:

- is measured by the level of concentration to any one market leading to the risk of an adverse influence on investment values arising from political intervention; and
- is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.

Corporate governance risk:

- is measured by the level of concentration in individual stocks leading to the risk of an adverse impact on investment values arising from corporate failure; and
- is managed by investing in diversified pooled portfolios with stock specific concentration limits.

Sponsor risk:

- is measured by the level of ability and willingness of the sponsor to support the continuation of the Scheme and to make good any current or future deficit;

5. Choosing investments

This Statement sets out the Trustees' policies for securing compliance with Section 35 of the Pensions Act 1995.

The types of investments held and the balance between them is adjusted as necessary to match the Trustees' objectives.

The assets of the Scheme are invested in the best interests of the members and beneficiaries and in the case of a potential conflict of interest in the sole interests of members and beneficiaries.

The Trustees delegate their powers of investment in a manner that is expected to ensure the security, quality, liquidity and profitability of the portfolio as a whole. In order to avoid an undue concentration of risk a spread of assets is held. The diversification is both within and across the major asset classes.

The assets of the Scheme are invested predominantly in regulated markets (with investments not on regulated markets being kept to a prudent level) and properly diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings so as to avoid accumulations of risk in the portfolio as a whole.

Investment in derivatives is only made in so far as they (a) contribute to the reduction of investment risks; (b) facilitate efficient portfolio management, including the reduction of costs, reduction of risks and the generation of additional capital or income with an acceptable level of risk; or (c) for hedging purposes and/or to alter currency exposure. Any such investments must be made and be managed so as to avoid excessive risk exposure to a single counterparty or other derivative operations.

6. The balance between different kinds of investments

The Trustees recognise that the key source of financial risk (in relation to meeting the Scheme's objectives) arises from asset allocation.

The allocation to assets within the Growth Portfolio is set so that the expected return, together with the planned contributions are expected to be sufficient to meet the Scheme's objectives. The Growth Portfolio will be well diversified and managed actively between asset classes. Within the Growth Portfolio, fixed income securities may be held as a source of return and as a diversifier.

The Trustees review the investment strategy in conjunction with each formal actuarial valuation of the Scheme (or more frequently should the circumstances of the Scheme change in a material way). The Trustees take written advice from its professional advisers regarding an appropriate investment strategy for the Scheme.

Details of the Scheme's target asset allocation is described in Appendix 1 to this Statement.

7. Custody

Investment in pooled funds gives the Trustees a right to the cash value of the units rather than to the underlying assets. The managers of the pooled funds are responsible for the appointment and monitoring of the custodian of the fund's assets.

The custodians are independent of the employer.

8. Expected Returns on Assets

Over the long-term the Trustees' expectations are:

- for the "growth" assets (UK and overseas equities, property, etc), to achieve a return which at least keeps pace with the increase in national average earnings over the same period. The Trustees are willing to incur short-term volatility in asset price behaviour with the expectation that over the long-term these assets will outperform asset classes which may be regarded as matching the liabilities;
- for the "matching" assets: for liability driven investments, to match changes in the value of the Scheme's liabilities due to movements in interest rate and inflation expectations.

9. Realisation of Investments/Liquidity

The Trustees recognise that there is a risk in holding assets that cannot be easily realised should the need arise.

The majority of the assets held are realisable at short notice (through the sale of units in pooled funds).

10. Social, Environmental or Ethical Considerations

In setting the Scheme's investment strategy, the Trustees' primary concern is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. These risks include:

- The risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly. The Trustees consider this risk by taking advice from their investment adviser when setting the Scheme's asset allocation, when selecting managers and when monitoring their performance.

11. Stewardship – Voting and Engagement

The Trustees recognise the importance of their role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Scheme invests, as ultimately this creates long-term financial value for the Scheme and its beneficiaries.

The Trustees review the stewardship activity of ALL as the growth portfolio manager, at least triennially, to ensure the Scheme's stewardship policy is being appropriately implemented in practice. The Trustees receive annual reports on stewardship activity carried out by their growth portfolio manager, these reports include detailed voting and engagement information from underlying asset managers.

As part of the growth portfolio manager's management of the Scheme's assets, the Trustees expect the manager to:

- Ensure that (where appropriate) underlying asset managers exercise the Trustees' voting rights in relation to the Scheme's assets; and
- Report to the Trustees on stewardship activity by underlying asset managers as required.

The Trustees will engage with their manager as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned. This will take the form of annual reporting which will be made available to Scheme members on request.

Where possible, the transparency for voting should include voting actions and rationale with relevance to the Scheme, in particular where: votes were cast against management; votes against management generally were significant; votes were abstained; voting differed from the voting policy of the Trustees.

The Trustees may engage with their growth portfolio manager, who in turn is able to engage with underlying asset managers, investee company or other stakeholders, on matters including the performance, strategy, risks, social and environmental impact, corporate governance, capital structure, and management of actual or potential conflicts of interest, of the underlying investments made. Where a significant concern is identified, the Trustees will consider, on a case by case basis, a range of methods by which they would monitor and engage so as to bring about the best long-term outcomes for the Scheme.

12. Arrangements with asset managers

The Trustees have appointed Aon Investments Limited as their growth portfolio manager, who they consider to be their asset manager. References in this policy to 'asset managers' refers to those asset managers appointed directly by the Trustees (i.e. Aon Investments Limited and LGIM). The Trustees expect Aon Investments Limited to manage the underlying growth portfolio investments on behalf of the Scheme.

The Trustees regularly monitor the Scheme's investments to consider the extent to which the investment strategy and decisions of the asset managers are aligned with the Trustees' policies. This includes monitoring the extent to which asset managers:

- make decisions based on assessments about medium- to long-term financial performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

The Trustees are supported in this monitoring activity by their investment consultant.

The Trustees share the policies, as set out in this SIP, with the Scheme's asset managers, and request that the asset managers review and confirm whether their approach is in alignment with the Trustees' policies.

Before appointment of a new asset manager, the Trustees review the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustees' policies. Where possible, the Trustees will seek to amend that documentation so that there is more alignment. Where it is not possible to make changes to the governing documentation, for example if the Scheme invests in a collective vehicle, then the Trustees will express its expectations to the asset managers by other means (such as through a side letter, in writing, or verbally at Trustee meetings).

The Trustees believe that having appropriate governing documentation, setting clear expectations to the asset managers by other means (where necessary), and regular monitoring of asset managers' performance and investment strategy, is in most cases sufficient to incentivise the asset managers to make decisions that align with the Trustees' policies and are based on assessments of medium- and long-term financial and non-financial performance.

Where asset managers are considered to make decisions that are not in line with the Trustees' policies, expectations, or the other considerations set out above, the Trustees will typically first engage with the manager but could ultimately replace the asset manager where this is deemed necessary.

There is typically no set duration for arrangements with asset managers, although the continued appointment all for asset managers will be reviewed periodically, and at least every three years.

13. Policy on assessing performance and monitoring costs

The Trustees are aware of the importance of monitoring their asset managers' total costs and the impact these costs can have on the overall value of the Scheme's assets. The Trustees recognise that in addition to annual management charges, there are a number of other costs incurred by their asset managers including turnover costs (i.e. the costs incurred when the assets managers buy and sell underlying investments).

The Trustees ask all of the asset managers, at least triennially, to provide full details of the costs incurred in managing the Scheme's assets. Where these costs are out of line with expectations, the asset managers will be asked to explain the rationale, including why it is consistent with their strategy and the extent they expect it to continue in the future.

The Trustees are prepared to pay above average costs for asset managers with a verifiable track record of delivering expected performance.

The Trustees accept that transaction costs will be incurred to drive investment returns and that the level of these costs varies across asset classes and by manager style within an asset class. In both cases, a high level of transaction costs is acceptable as long as it is consistent with the asset class characteristics and manager's style and historic trends. Where the Trustees' monitoring identifies a lack of consistency, the mandate will be reviewed.

14. Members' Views and Non-Financial Factors

In setting and implementing the Scheme's investment strategy the Trustees do not explicitly take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors"¹).

15. Activism, and the Exercise of the Rights Attaching to Investments

The Trustees do not currently have a specific policy in relation to the exercise of the rights (including voting rights) attaching to investments. These matters are however kept under review.

¹ The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018

Stephenson Group Ltd Retirement Benefit Scheme (the “Scheme”)

Appendix I to Statement of Investment Principles

This Appendix sets out the Trustees’ current investment strategy, and is supplementary to the Trustees’ Statement of Investment Principles (the “attached Statement”).

The Trustees’ investment strategy is considered appropriate by the Trustees in order to achieve the primary objectives set out in the attached Statement. The details are laid out below:-

1. Asset Allocation Strategy and Investment Management Arrangements

The assets of the Scheme are invested in pooled funds.

The Growth Portfolio is invested with Aon Investments Limited in the Managed Growth (Adept 9) Fund (“The Fund”). The Fund's objective is to generate long term capital growth through investment in a diversified portfolio of return-seeking assets.

The Fund is diversified by style, strategy and asset class by investing with underlying funds that may from time to time include equity funds, fixed income funds, debt funds, currency funds, hedge funds, fund of hedge funds and other collective investment schemes covering a broad range of asset classes and strategies (“the Underlying Funds”). The Fund utilises, through the Investment Manager, an investment process that consists of quantitative and qualitative analyses by which underlying Funds are screened and regularly monitored. The Underlying Funds selected for the Fund are tracked to ensure that, in combination, their strategy, objectives, discipline, transactions, results and outlook continue to remain consistent with the Fund’s objectives. As a fund of investment funds, the Fund is designed to provide investors with the potential to control risk through diversification by investing with several Underlying Funds.

The Matching Portfolio is invested with Legal & General Investment Management in the Matching Core LDI Funds. The performance objective for these investments is to match the changes in the value of the Scheme’s liabilities due to movements in interest rate and inflation expectations.

The Scheme's target allocation between the growth and matching portfolios is as follows:

Sector	Target allocation (%)	Range (%)
Growth Portfolio		
AIL Managed Growth Fund	50	40-60
Matching Portfolio		
L&G LDI	50	40-60
Total	100	100

2. Additional Voluntary Contributions

AVC facilities are available to members through Scottish Widows with Profits policy.