

Hall & Pickles 1812 Pension Scheme

Statement of Investment Principles

September 2020

## 1. Introduction

This Statement of Investment Principles has been drawn up by the Trustees of the Hall & Pickles 1812 Pension Scheme ('the Trustees', 'the Scheme') in accordance with Section 35 of the Pensions Act 1995, amended by Section 244 of the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005.

## 2. Investment Governance structure

### The Trustees

The investment of the Scheme's assets is the responsibility of the Trustees and the Scheme Rules give the Trustees broad powers on investment. As required under the Act, the Trustees have consulted Hall & Pickles 1812 Limited ('the Employer') on any investment strategy underpinning the content of this statement.

The Trustees' policy is to seek professional advice on investment strategy. The Trustees decide on the investment strategy after considering investment advice from the Investment Consultant. The Trustees recognise that their level of investment expertise must be kept under review in order to be able to critically evaluate this advice.

The Trustees meet regularly and ensure that adequate time is set aside to discuss investment issues. In determining their investment strategy, the Trustees address the following:

- the need to consider a full range of asset classes
- the risks and rewards of a range of alternative asset allocation strategies
- the suitability of each asset class
- the need for appropriate diversification
- the Scheme's Investment and Funding Objectives

### The Investment Consultant

The Investment Consultant advises on an investment strategy appropriate to the investment objectives. This advice is provided after each formal actuarial valuation and on a regular basis between formal valuations. The Investment Consultant also monitors and reports on the performance of the investment managers.

The Investment Consultant is paid a fee for their advice and their appointment is reviewed from time to time by the Trustees.

Broadstone Corporate Benefits Limited has been appointed as Investment Consultant to the Trustees on the basis that the Trustees believe them to be suitably qualified and have the appropriate knowledge and experience of the management of the investments of such schemes.

Broadstone Corporate Benefits Limited are authorised and regulated by the Financial Conduct Authority.

## The Employer

The Trustees will consult with the Employer as part of the process for deciding on the investment strategy.

## Delegation

The Trustees have a policy of delegating all day-to-day powers of investment to the investment managers who are authorised and regulated under the Financial Services and Markets Act 2000.

## 3. Investment Objectives

### Funding Objective

The primary funding objective of the Scheme is to ensure, as far as possible, that there are sufficient assets to provide benefits to the Scheme members as and when these fall due.

### Investment Objectives

The Trustees' objectives for setting the investment strategy of the Scheme have been set broadly with regard to the Scheme's Statutory Funding Objectives as set out in the Statement of Funding Principles.

The Trustees' primary objectives are:

- “funding objective” – to ensure that the Scheme is fully funded using assumptions that contain an appropriate 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 monitor the absolute level and stability of contributions required when setting the investment strategy of the Scheme; and
- “security objective” – to endeavour to improve the funding position of the Scheme and in turn the asset coverage of members' benefits.

The Trustees appreciate that these objectives are not necessarily mutually exclusive.

The Trustees also recognise that it is currently necessary to accept some risk in the investment strategy to achieve the long-term funding objective.

The Trustees' policy in relation to Regulation 4(4) (appropriateness in relation to Technical Provisions) and Regulation 4(7) (Diversification) of the 2005 Investment Regulations is covered below.

### Performance Objective

The investment managers have been set Performance Objectives to achieve returns in line with, or in excess of, a benchmark.

## 4. Investment Strategy

Given the investment objectives the Trustees have implemented the investment strategic asset allocation in the table below. The Trustees believe that the investment risk arising from the investment strategy is consistent with the overall level of risk being targeted.

Asset Class	Benchmark Weighting
Equities	65%
Bonds	15%
Property	10%
Alternatives	10%
<b>Total</b>	<b>100%</b>

The Trustees agreed the range of funds used in the strategy taking into account the maturity of the liabilities. The Trustees are satisfied that the funds selected are consistent with its investment objectives and that the range agreed is sufficiently robust to allow easy adjustment between the funds as the risk appetite changes and the Scheme matures.

### Expected Return

Over the long term, the Trustees' expectations for asset returns are set with each manager and with a view to at least achieving a rate of return in line with the discount rate used in calculating the Scheme's Technical Provisions.

The Trustees recognise that, over the short-term, performance may deviate significantly from the long-term expectation. This 'best estimate' will also generally be higher than the estimate used for the actuarial valuation of the Scheme's liabilities. For this purpose, a more prudent estimate of returns will generally be used, agreed by the Trustees on the basis of advice from the Scheme Actuary.

## 5. Cash Flow and Rebalancing

The Trustees will monitor the Scheme's actual asset allocation on a regular basis and will decide on a course of action which may involve redirecting cash flows, a switch of assets or taking no action, taking into account advice from the Investment Consultant.

The Trustees' policy is to invest only in assets that are readily realisable in order to meet the pension payments as they fall due. The Trustees consider the assets above to be readily realisable.

## 6. Investment Management Structure

### Investment Manager

The Trustees invest in a range of pooled funds with a range of investment managers, namely Smith & Williamson, Rathbone Brothers, Investec, Baillie Gifford and Schroders, who are regulated under the Financial Services and Markets Act, 2000.

The Trustees have decided to invest in pooled funds, other collective investment vehicles, and cash. The Scheme does not invest directly in stocks, shares, bonds, derivatives etc.

The Trustees have decided to invest in pooled funds because:

- the Scheme is not large enough to justify direct investment in equities or bonds on a cost-effective basis;
- pooled funds allow the Scheme to invest in a wider range of assets, which serves to reduce risk; and
- pooled funds provide a more liquid form of investment than certain types of direct investment.

The investment managers appoint individual custodians to hold the securities owned by the Scheme. The custodians are independent of the Employer.

The Trustees may, from time to time, decide to change the funds used within the overall investment strategy and the investment allocation between the funds as alternatives emerge, funds change and the Scheme develops.

## 7. Investment Monitoring

Where necessary, the Trustees may request the investment managers to attend Trustees' meetings in order to report on their activity and performance, to outline their views on future investment conditions and to answer any questions the Trustees may have. The Trustees will endeavour to meet their investment managers at least annually.

The investment managers provide the Trustees with periodic reports setting out a valuation of the funds and a commentary on performance.

The Investment Consultant will provide periodic advice to the Trustees commenting on performance and asset allocation.

The Investment Managers will supply the Investment Consultant with sufficient information when requested in order to monitor financial and non-financial performance.

## 8. Portfolio Turnover Costs

The Trustees expect the Investment Managers to change underlying holdings only to an extent required to meet their investment objectives. The reasonableness of such turnover will vary by fund and change according to market conditions.

The Trustees therefore do not set a specific portfolio turnover target for their strategy or the underlying funds.

The Investment Managers when requested by the Investment Consultant shall provide information on portfolio turnover and associated costs so that this can be monitored, as appropriate.

## 9. Corporate Governance

The Trustees wish to encourage best practice in terms of activism. The Trustees accept that by using pooled investment vehicles, the day-to-day application of voting rights will be carried out by the investment managers. Consequently, the Trustees expect the Scheme's investment managers to adopt a voting policy that is in accordance with best industry practice.

## 10. Socially Responsible Investment

The Trustees believe that the consideration of financially material Environmental (including climate change), Social and Governance (ESG) factors in investment decision making can lead to better risk adjusted investment returns. The Trustees expect their investment managers, when exercising discretion in investment decision making, to take financially material ESG factors into account. On an ongoing basis the Trustees assess the ESG integration capability of their investment managers.

The Trustees believe that in order to protect and enhance the value of the investments, over the time horizon over which the benefits are paid, they must act as a responsible asset owner. The Trustees expect their investment managers to exercise their ownership rights, including voting and engagement rights, in order to safeguard sustainable returns over this time frame. On an ongoing basis the Trustees (delegating to the Investment Consultant where appropriate) assess the stewardship and engagement activity of their investment managers.

Where ESG factors are non-financial (i.e. they do not pose a risk to the prospect of the financial success of the investment) the Trustees believe these should not drive investment decisions. The Trustees expect their investment managers, when exercising discretion in investment decision making, to consider non-financial factors only when all other financial factors have been considered and in such a circumstance the consideration of non-financial factors should not lead to a reduction in the efficiency of the investment. Members' views are not sought on non-financial matters (including ESG and ethical views) in relation to the selection, retention and realisation of investments.

Responsibility for monitoring the makeup and development of the capital structure of investee companies is delegated to the Investment Managers. The Trustees expect the extent to which the Investment Managers monitor capital structure to be appropriate to the nature of the mandate.

## 11. Conflicts of Interest

The Trustees maintain a separate conflicts of interest policy and register.

Subject to reasonable levels of materiality, these documents record any actual or potential conflicts of interest in relation to investee companies or the Investment Managers, while also setting out a process for their management.

## 12. Incentivisation of Investment Managers

The Investment Managers are primarily remunerated based on an agreed fixed annual percentage of the asset value for each underlying fund.

The Trustees do not directly incentivise the Investment Managers to align the approach they adopt for a particular fund with the Trustees' policies and objectives. Instead, the Investment Managers and the funds are selected so that, in aggregate, the returns produced are expected to meet the Trustees' objectives.

Neither do the Trustees directly incentivise the Investment Managers to make decisions about the medium to long-term performance of an issuer of debt or equity, or to engage with those issues to improve their performance. The Trustees expect such assessment of performance and engagement

to be undertaken as appropriate and necessary to meet the investment objectives of the funds used by the Fund.

### 13. Employer Related Investments

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

### 14. Risks

The Trustees recognise that a number of risks are involved in the investment of the assets of the Scheme. They have identified the following principle risks which have the potential to cause deterioration in the Scheme's funding level:

- **Solvency risk:** The risk that the Scheme has insufficient assets to meet all its liabilities as they fall due.
- **Mismatching risk:** The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors.
- **Manager risk:** The failure by the investment managers to achieve the rates of investment return assumed.
- **Liquidity risk:** The risk of a shortfall of liquid assets relative to the Scheme's immediate liabilities.
- **Custodian risk:** The risk of failed or inadequate performance by the custodian.
- **Concentration Risk:** The risk that the performance of any single investment that constituted a large proportion of the assets would disproportionately influence the overall level of assets.
- **Political risk:** The financial risk that a country's government will suddenly change its policies.
- **Sponsor risk:** The possibility of failure of the Scheme's sponsoring employers.
- **Counterparty risk:** The risk that other parties in any trade or position will default, i.e. will renege on their contractual obligations, resulting in a financial loss to the Scheme.

Due to the complex and interrelated nature of these risks, the Trustees consider the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review. Some of these risks may also be modelled explicitly during the course of such reviews.

The policy of the Trustees is to monitor, where possible, these risks on a regular basis. The Trustees therefore consider:

- The actual funding level versus the Statutory Funding Objective
- Actual performance versus the Scheme's investment and funding objectives
- Investment managers' performance versus their respective benchmarks and targets
- Any significant issues with the investment managers that may impact its ability to meet investment performance objectives set by the Trustees.

## 15. Fee Structures

The investment managers are paid a management fee on the basis of assets under management. The Investment Consultant is paid on a project basis which may be a fixed fee or based on time cost, as negotiated by the Trustees in the interests of obtaining best value for the Scheme.

The appropriateness of the Investment Managers' remuneration will be assessed relative to market costs for similar strategies, the skill and resources required to manage the strategy, and the success or otherwise a manager has had in meeting its objectives, both financial and non-financial.

## 16. Additional Voluntary Contributions ('AVCs')

Certain members of the Scheme hold historic AVC funds. The Trustees do not currently have an active policy on the monitoring of the Scheme's AVC investments, primarily on materiality grounds. The liabilities in respect of these AVCs are equal to the value of the investments bought by the contributions. The Scheme's AVCs are invested through Aviva.

## 17. Best Practice Principles

In October 2008, the Government published the results of its consultation on revisions to the Myners' principles in response to recommendations made by the National Association of Pension Schemes (NAPF) in 2007. This takes the form of six high level 'Best Practice' principles set out below, supported by best practice guidance and Trustees tools that can be used to assess compliance.

1. Effective decision-making
2. Clear objectives
3. Risk and Liabilities
4. Performance assessment
5. Responsible ownership
6. Transparency and Reporting

The Trustees periodically review their compliance with the best practice Principles. The Trustees believe that they comply with the spirit of the Principles. There may be some instances of deviation from the published 'Best Practice Guidance' on the Principles where the Trustees believe this to be justified.

## 18. Review of this Statement

The Trustees will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believe to be qualified by their ability in, and experience of, financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

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For and on behalf of the Trustees of the Hall & Pickles 1812 Pension Scheme

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Date



## Appendix to the Statement of Investment Principles

This Appendix sets out the Trustees' current Investment Policy, and is an integral part of the Trustees' Statement of Investment Principles (the "Statement").

The Trustees' Investment Policy has been established in order to maximise the likelihood of achieving the primary objectives set out in the Statement. The details are laid out below.

### Asset Allocation Strategy

The table below records the current asset allocation strategy which is centred on the Scheme's long term strategy. This is achieved by investing in several pooled investment funds.

Asset Class	Benchmark Weighting
UK Equity	20%
Global Equity	45%
Property	10%
Gilts and Bonds	15%
Alternatives	10%
<b>Total</b>	<b>100%</b>

The Trustees do not currently have an active policy on the permitted ranges for the assets choosing instead to monitor the overall Scheme asset allocation over time and take any action where necessary. However, the expectation is that the fund will be in the region of the weightings above and rebalancing will be considered as necessary.

### Fund Manager Mandates

The individual mandates for each investment manager are broadly split as follows:

Investment Manager	Benchmark Weighting
Smith & Williamson Bespoke Mandate	40%
Smith & Williamson Property Fund	10%
Rathbones Bespoke Mandate	15%
Investec Bespoke Mandate	15%
Bailie Gifford Global Select Fund	10%
Schroders Global Core Fund	10%
<b>Total</b>	<b>100%</b>

### Cash balances

A working balance of cash is held for payment of benefits to members and for other short term cashflow needs. Under normal circumstances it is not the Trustees' intention to hold a significant cash balance and this is monitored by the Scheme's administrator.