# Connells (2014) Group Pension Scheme

# Statement of Investment Principles

March 2021

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## Introduction

The Statement of Investment Principles ("SIP") is a written statement governing decisions about investments for the purposes of an occupational pension scheme. It is a requirement of most occupational schemes that trustees must prepare, maintain and periodically revise the SIP. The SIP must be prepared in accordance with the relevant Pensions Act and Occupational Pension Schemes Regulations and must be updated to reflect any regulatory changes.

Skipton Pension Trustees Limited (hereinafter referred to as "the Trustee") as Trustee of the Connells (2014) Group Pension Scheme ("the Scheme") has prepared the SIP to govern the investment decisions of the Scheme in order to meet its investment objective.

In preparing the SIP and prior to any future changes to the SIP the Trustee will obtain and consider appropriate investment advice from the appointed Fiduciary Manager, BlackRock.

The Trustee will review the SIP whenever there is a change in the investment strategy. As a minimum the Trustee will review the SIP every three years. The Trustee will notify the Fiduciary Manager of any material changes to the Scheme's circumstances. Furthermore, any material changes to the employee covenant or Scheme will trigger a strategy review, at which point the Trustee will notify the Fiduciary Manager.

The SIP 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 SIP will be made available on a publicly accessible website.

This version of the SIP was agreed on 10 March 2021.

# 1. Scheme Details

The Scheme is a defined benefits pension plan which operates for the sole purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries

The Scheme is closed to future accrual.

# 2. Governance

The Trustee is responsible for ensuring the investment strategy is consistent with the Scheme's funding objectives and its assessment of the employer covenant.

The Trustee has appointed a Fiduciary Manager who advises on the long term investment strategy and manages the Scheme's assets in line with the investment strategy.  The Fiduciary Manager will comply with legislation and the investment management agreement.

The Trustee delegates the day-to-day investment decisions to the Fiduciary Manager.

# 3. Objectives

The investment objective of the Scheme is to invest the assets prudently with the intention that the benefits promised to members are provided. The long term objective is for the Scheme to achieve full funding with liabilities valued on a gilts +0.5% basis.

# 4. Investment Strategy

Following professional advice, the Trustee has determined an appropriate asset allocation to be implemented by the Fiduciary Manager, as governed by the Investment Management Agreement between the Trustee and the Fiduciary Manager (the "IMA"). The IMA details the level of delegation afforded to the Fiduciary Manager and outlines the parameters the Fiduciary Manager must operate within.  The IMA is subject to change over time as the strategy evolves.

The investment strategy defines the journey plan to achieve the investment objective.  As part of this process the Fiduciary Manager will rely on assumptions to determine the expected return across the portfolio of assets relative to the Scheme's liabilities.  The Trustee recognises that this is not an exact science and will constantly evolve, hence assumptions will be reviewed from time to time and updates will be factored in where appropriate.

**Investment Strategy**

- To invest in a portfolio of low risk, bond-like assets which aims to hedge a proportion of the interest rate and inflation risk inherent within the Scheme's pension liabilities (the "Matching Portfolio");
- To invest in a diversified portfolio of assets to achieve an efficient risk / reward trade off and aim to generate sufficient returns above the pension liabilities to close the Scheme's funding gap (the "Growth Portfolio"); and
- To evolve the strategy over time as the funding level changes, in line with a Journey Plan.

**Journey Plan**

- The Scheme has designed the Journey Plan in collaboration with the Sponsor, the Fiduciary Manager, Scheme Actuary and Covenant Adviser.

- The Fiduciary Manager will monitor the agreed Journey Plan which defines how the investment strategy will evolve over time to aim to achieve the investment objective. These obligations are set out in the IMA with the Fiduciary Manager.

- As part of this process the Fiduciary Manager will rely on certain assumptions to determine the expected return across the portfolio of assets relative to the Scheme's liabilities. These assumptions will be reviewed from time to time and updates will be factored in where appropriate.

**Risk Management**

Investment risk is necessary to earn the investment returns required by the Scheme. Investment risks will be managed by the Fiduciary Manager on behalf of the Trustee. The Trustee has set risk constraints in the IMA that the Fiduciary Manager must adhere to. This ensures the risks taken are appropriate, acceptable and consistent with the Scheme's funding and Sponsor covenant risks. The Fiduciary Manager reports on investment risk to the Trustee at least quarterly.

## 5. Risk Management

The Trustee recognises that the key risk to the Scheme is that it has insufficient assets to make provisions for 100% of its liabilities ("funding risk"). The Trustee has identified a number of risks which have the potential to cause a deterioration in the Scheme's funding level and therefore contribute to funding risk. These are as follows:

| Risk | Description |
|---|---|
| **Mismatching Risk** | The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors. The Trustee and its advisers consider this mismatching risk when setting the investment strategy. |
| **Cashflow risk** | The risk of a shortfall of liquid assets relative to the Scheme's immediate liabilities. The asset allocation has taken into account the Scheme's expected liability cashflow profile from the most recent Actuarial Valuation. This should offer sufficient liquidity to meet liquidity needs. Should liquidity requirements change then the Trustee will notify the Fiduciary Manager and update the IMA accordingly. |
| **Fiduciary Manager risk** | The failure by the Fiduciary Manager to achieve the rate of return required to meet the investment objective. This risk is considered by the Trustee upon the initial appointment of the Fiduciary Manager and on an ongoing basis thereafter (for example by regular monitoring). |
| **Risk of lack of diversification** | The failure to spread investment risk. The Scheme's assets are invested across a range of investments representing different assets classes in order to target the Scheme's objective, as set out in the IMA. |
| **Covenant risk** | The possibility of failure of the Scheme's Sponsor. The Trustee considers this risk by taking external advice when setting investment strategy and consults with the Sponsor as to the suitability of the proposed strategy. |
| **Currency risk** | The risk that exposure to overseas currencies has an adverse influence on investment values. The Trustee considers this risk when setting the Scheme's investment strategy and this is managed risk by hedging a proportion of the overseas currency exposure. |

| Risk | Description |
|---|---|
| **ESG Risks** | The risk that Environmental, Social and Governance ("ESG") factors, including but not limited to climate change, have an adverse effect on the long-term performance of the Scheme assets. The Trustee requires that the Fiduciary Manager explicitly incorporates ESG information into investment decisions, including when considering the appointment and de-selection of investment managers. |
| **Custodian risk** | The risk that a custodian defaults. Assets are managed primarily within pooled funds and custody-related risks in relation to underlying pooled fund investments are managed by management companies or operators of such pooled funds. Outside of the pooled fund investments, the Trustee works with the Scheme custodian (BNY Mellon) to manage cashflows and settle trades on time. |
| **Event risk** | The risk that events outside the control of the Scheme have an adverse influence on investment values. The Trustee periodically reviews stress tests on the portfolio to understand the effect that extreme events could have on the Scheme's funding level so that it is able to react accordingly. In addition, the Scheme invests in a diversified portfolio of assets to help manage event risk. |
| **Counterparty risk** | The risk that a counterparty fails to fulfil its side of the agreement it makes in connection with derivative transactions. The Trustee has appointed the Fiduciary Manager to mitigate this risk by assessing the credit quality of the counterparties it transacts with, ensures appropriate counterparty diversification and that collateral payments are made where required, or delegating through to underlying managers. |
| **Operational risk** | The risk of fraud, poor advice or acts of negligence. The Trustee has sought to minimise such risk by ensuring that all advisers and third-party service providers are suitably qualified and experienced, and that suitable liability and compensation clauses are included in all contracts for professional services received. |

The Trustee considers risk holistically across the portfolio and hence the Scheme's assets are invested across a diverse range of investments.  Asset classes that may be used as part of the investment strategy include, but not limited to, are:

- **Equities** – both active and passive strategies invested across different regions,
- **Credit** – both active and passive across the spectrum of risk including Investment Grade, High Yield, Emerging Market,
- **Alternatives** – these are often less liquid than other risky assets where an illiquidity premium is rewarded. These are designed to offer a diverse return stream to traditional risky assets such as equity.
- **Liability Driven Investment** – both derivatives and physicals.

The Trustee, with the aid of its Fiduciary Manager, monitors risk on both a qualitative and quantitative basis.

Implementing portfolio changes has been delegated to the Fiduciary Manager who will assess the appropriateness of each transaction in line with the Trustee's investment objective.

## 7. Responsible Investing

The Trustee recognises that ESG risks could impact the ability of the Scheme to meet its investment objectives. The Trustee has therefore considered how to evaluate and manage these risks when setting its investment strategy. This is set out in the following paragraphs.

The Trustee recognises that ESG risks could impact the ability of the Scheme to meet its investment objectives and therefore the Trustee has considered how to evaluate and manage these risks when setting its investment strategy as set out in the following paragraphs (along with other matters).

The Trustee will ensure that the Scheme's Fiduciary Manager shall, alongside other investment risks, integrate consideration of ESG risks throughout its investment decision making processes,

The Trustee will request that:

- the Fiduciary Manager, as part of its due diligence, assesses the approach of all the Scheme's investment managers in integrating ESG risk considerations into the selection, retention and realisation of investments, before appointing them;
- the Fiduciary Manager, as part of its ongoing monitoring, will review the adherence of the Scheme's investment managers to their ESG principles and, on at least a quarterly basis, will report on key ESG metrics for the Scheme's investment managers and aggregate these to portfolio level where appropriate;
- the Fiduciary Manager, as part of its ongoing monitoring, reviews the execution of voting and engagement responsibilities and periodically reports back its findings to the Trustee (for example where the Scheme invests in pooled funds, the Scheme's investment managers are responsible for exercising voting rights and reporting on how they have exercised those rights); and
- where UK-domiciled investment managers are not signatories to the FRC's UK Stewardship Code, the Fiduciary Manager shall consider the investment manager's rationale for this position and, where appropriate, report back its findings to the Trustee.

The Trustee does not take into account non-financial matters when selecting, retaining and realising investments. Non-financial matters are defined as the views of members and beneficiaries, including (but not limited to) their ethical views, and their views relating to social and environmental impact and quality of life.

However, the Trustee believes that by being a responsible investor, it is managing investment risk with the aim of enhancing long term portfolio returns, which is in the best interests of the members and beneficiaries of the Scheme.

## 8. Stewardship Policy

The Trustee understands that stewardship can enhance value over the long term and recognises that it has a responsibility to act as a good steward and protect and grow the long-term value for the benefit of the members.

The Trustee recognises the importance of good stewardship and it expects that the Fiduciary Manager is a signatory of the UK Principles for Responsible Investment (UK PRI). The Fiduciary Manager has confirmed that it is a signatory of the UK PRI.

In order to be a good steward, the Trustee has set a policy which states that they expect the Scheme's respective stakeholders to undertake activities in relation to issues that have a material impact on the long-term value of the Scheme's investments.

The Trustee expects the Fiduciary Manager to ensure that the stewardship policy is appropriately implemented as far as is reasonably practicable. The policy includes ensuring to the extent possible that the underlying managers exercise on the Trustee's behalf rights and duties as an investor. This should include, where appropriate, voting and engaging with underlying investee companies, as part of an effective stewardship approach that meets the Trustee's expectations. The Trustee expects that voting and engagement activities are carried out in the best financial interests of the assets being managed.

The Trustee has delegated monitoring of underlying managers to the Fiduciary Manager. As part of this responsibility, the Fiduciary Manager is expected to:

- Request voting and/or stewardship policies of the underlying managers.
- Enquire about underlying manager's voting activity with respect to their stated policies, where appropriate.
- Request that underlying investment managers report on an annual basis a summary of the voting actions which have been taken and any votes cast which differ from the stated voting policy of that manager.
- Provide a summary to the Trustee of the overall level of voting activity on an annual basis.

The Trustee will engage with the Fiduciary Manager to understand any reports which have been provided and challenge any outcomes which it feels are not in keeping with policy. The Fiduciary Manager is expected to engage with the underlying managers as and when required to facilitate this. Where an underlying manager is not adhering to this policy in line with the Trustee's expectations, the Trustee would expect the Fiduciary Manager to consider appropriate actions having regard to the long-term financial wellness of the Scheme.

## 9. Arrangements with asset managers

The Trustee recognises that the arrangements with all of the managers of the Scheme's assets are important to ensure that its interests are aligned are far as reasonably practicable. This includes arrangements with the Fiduciary Manager and the underlying managers. In particular, the Trustee seeks to ensure that the Fiduciary Manager is incentivised to act in a way which generates the best long-term results for the Scheme.

The Trustee agrees to share the SIP with the Fiduciary Manager and request that the Fiduciary Manager reviews the SIP and confirms that the investment strategy is aligned with the Trustee's policies.

The Trustee's policy on arrangements with asset managers will take into account the following five considerations:

1) How the arrangement with the Fiduciary Manager incentivises the Fiduciary Manager to align its investment strategy and investment decisions with the Trustee's investment policies.
2) How that arrangement incentivises the Fiduciary Manager to make decisions based on assessments about the medium to long-term financial and non-financial performance of issuers of debt or equity.
3) How the method and time horizon of the evaluation of the Fiduciary Manager's performance and the remuneration for services are in line with the Trustee's investment policies.
4) How the Trustee monitors "portfolio turnover costs" incurred by the Fiduciary Manager, and how they define and monitor targeted portfolio turnover or turnover range.
5) The duration of the arrangement with the Fiduciary manager.

The Trustee recognises that there are different ways to engage with its managers including legal documentation as well as more informal arrangements such as ad hoc communication and reporting and monitoring deliverables provided by each manager.

The Trustee recognises that the predominant manager it has arrangements with is its Fiduciary manager. The arrangement is governed by the IMA between the Trustee and the Fiduciary Manager. The Trustee ensures that appropriate restrictions are outlined in the IMA in order to seek to ensure that the decisions which the Fiduciary Manager makes are in line with the long-term interests of the Scheme. This includes, but is not limited to, setting a clear investment objective, eligible instruments, asset allocation ranges and which asset classes are in scope for active and/or passive strategies.

The Fiduciary Manager provides the Trustee with an annual cost transparency report. The report provides information in line with latest regulatory requirements for fiduciary managers. The cost reporting will include detail on the portfolio turnover costs which the Trustee defines as the costs incurred in buying and selling the underlying securities held within each of the funds managed by the underlying managers. The cost reporting will also enable the Trustee to monitor that the portfolio turnover of the underlying funds is appropriate with respect to the targeted portfolio turnover, which the Trustee defines as the frequency within which the securities are expected to be bought or sold. On a quarterly basis, the Fiduciary Manager reports total performance net of fees so that the Trustee is able to take into account the impact of fees and costs when evaluating performance. The Trustee believes that in order to appropriately assess the performance of its managers, the net of costs performance returns should be monitored over various time periods to ensure that managers are evaluated in line with the Trustee's policies.

The Trustee will review the arrangements with the Fiduciary Manager on a regular basis, however there is no restriction on the duration of any arrangement.

The Trustee expects the Fiduciary Manager to review arrangements with the underlying managers which also have no restriction on duration of any arrangement. The Fiduciary Manager is expected to review these arrangements on an ongoing basis and take action to seek to revise any arrangements where it is understood to be in the best long-term interests of the Scheme.

The Fiduciary Manager is expected to take into consideration the Trustee's investment objective as well as Responsible Investing and Stewardship policies when selecting and/or appointing new underlying managers. The Fiduciary Manager is also expected to monitor the underlying managers and take into consideration the investments that they are permitted to make in order to seek that they are aligned with the long-term interests of the Scheme.

The Trustee believes that they have a governance framework in place in order to seek to ensure that the Fiduciary Manager's actions are aligned with the five arrangements policies listed above. If the Trustee has reason to believe that the Fiduciary Manager is acting outside of the Trustee's policies, the Trustee will bring this to the attention of the Fiduciary Manager as soon as is reasonably practicable and engage with the Fiduciary Manager so that the parties can understand such actions and seek to resolve any concerns.

## 10. Additional Voluntary Contributions

The Trustee will make AVC facilities available for members which are acceptable in terms of breadth of the choice of funds and the performance of those funds. The Trustee will review the AVCs from time to time to ensure that they remain suitable for members' needs.

The Scheme is closed to benefit accrual, hence no new contributions are being paid into the AVC funds.

Members choose which of the available funds to invest in. Currently members can transfer between the funds on offer.

The Trustee has made a suitable mix of funds available to provide for differing member requirements.

Further information on the AVC fund options is contrained in a separate document called “Listing of Additional Voluntary Contributions (“AVCs”) Funds - Connells (2014) Group Pension Scheme”.

## 11. Realisation of Assets

Assets can be held in pooled funds across a range of liquid and illiquid strategies. Any allocation of Scheme assets to illiquid strategies will be considered with the Scheme’s overall cashflow position in mind. The liquid portfolio and LDI portfolio can be liquidated in accordance with the dealing cycle of the pooled funds that are invested in by the Scheme.

## 12. Monitoring

The Trustee monitors the performance and risk exposures of the portfolio on a regular basis. The Trustee receives periodic reports showing:

- Commentary over the period covering performance, macroeconomic factors and portfolio positioning,
- Risk decomposition across the portfolio, including scenario stress tests,
- Return attribution across the portfolio, including underlying manager monitoring,
- Estimated funding ratio change, including a summary of contributors/detractors,
- Review of the funding level versus both the planned and expected journey plan, including any de-risking triggers,
- Asset allocation summary showing tactical asset allocation (where applicable) versus the strategic asset allocation and permitted ranges, and
- Interest rate and inflation hedge ratios versus target.

Monitoring of the underlying investment managers’ suitability is delegated to the Fiduciary Manager. The Fiduciary Manager has been delegated the responsibility for ensuring the underlying strategies are satisfactory and appropriate for the investment strategy.

**Signed for and on behalf of the Trustee**

Signature ______________________________

Name ______________________________