XPS Investment

Statement of Investment Principles

For the Trustee of the Robert Brett Group 1978 Retirement Benefits Scheme

November 2020

01 Introduction

Purpose

This document constitutes the Statement of Investment Principles ("the SIP") required under *Section 35 of the Pensions Act 1995* for the Robert Brett Group 1978 Retirement Benefits Scheme ("the Scheme"). It describes the investment policy being pursued by the Trustee of the Scheme 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*.

Scheme details

The exclusive purpose of the Scheme is to provide retirement and death benefits to eligible participants and beneficiaries. It qualifies as a registered pension scheme, registered under Chapter 2 of Part 4 of the Finance Act 2004

Advice and consultation

Before preparing this Statement, the Trustee has sought advice from the Scheme's Investment Consultant, XPS Investment Limited. The Trustee has also consulted the Principal Employer. The Trustee will consult the Principal Employer on any future changes in investment policy as set out in this Statement.

Investment powers

The Scheme's Trust Deed and Rules set out the investment powers of the Trustee. This Statement is consistent with those powers. Neither this Statement nor the Trust Deed and Rules restricts the Trustee's investment powers by requiring the consent of the Principal Employer.

In accordance with the Financial Services and Markets Act 2000, the Trustee set general investment policy but delegate responsibility for the selection of the specific securities and any financial instruments in which the Scheme invests to the investment managers.

02 Strategic investment policy and objectives

Choosing investments

The Trustee relies on professional investment managers for the day-to-day management of the Scheme's assets. However, the Trustee retains control over some investments. In particular, the Trustee make decisions about pooled investment vehicles in which the Scheme invests and any AVC investment vehicles.

The Trustee's policy is to regularly review the investments over which they retain control and to obtain written advice about them when necessary. When deciding whether or not to make any new investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the investment managers. The written advice will consider suitability of the investments, the need for diversification and the principles within this Statement. The adviser will have the knowledge and experience required under Section 36(6) of the Act.

Long-term objectives

> The primary investment objective of the Trustee is to seek to ensure the Scheme is able to meet the benefit payments promised as they fall due from a combination of investment returns and planned contributions.

> Having regard to the primary investment objective and subject to the strength of the employer covenant, the Trustee will seek to achieve a level of investment return which is consistent with that assumed in the recovery plan from the most recent actuarial valuation.

> Having regard to the primary investment objective and subject to the strength of the employer covenant, the Trustee will seek to achieve a level of investment return which mitigates the cost of the Scheme to the employer over the long term.

Expected returns

By undertaking the investment policy described in this Statement, the Trustee expects future investment returns will at least meet the rate of return underlying the recovery plan. The Trustee's expected returns on individual asset classes are set out in Appendix I

Investment Policy

Following advice from the Investment Consultant, the Trustee have set the investment policy and objectives with regard to the Scheme's liabilities and funding level.

The Trustee intends to achieve these objectives through investing in a diversified portfolio of assets. The Trustee recognises that the return on return-seeking assets, whilst expected to be greater over the long-term than that on liability matching assets, is likely to be more volatile. A mixture across asset classes should nevertheless provide the level of returns required by the Scheme to meet its liabilities at an acceptable level of risk (of underperforming the liabilities) for the Trustee, and an acceptable level of cost to the Principal Employer.

Range of assets

The Trustee considers that the combination of the investment policy detailed in Appendix I and the specific manager mandates detailed in Appendix II will ensure that the assets of the Scheme include suitable investments that are appropriately diversified and provide a reasonable expectation of meeting the objectives. In setting out the mandates for the investment managers, the Trustee will ensure that the Scheme holds a suitably diversified range of securities in each category, avoiding an undue concentration of assets.

Based on the structure set out in the Appendix, the Trustee considers the arrangements with the investment managers to be aligned with the

Scheme'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.

The Trustee will ensure that the Scheme'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 Scheme'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 Trustee's expectations, including its selection / deselection criteria.

The Trustee encourages investment managers to make decisions in the long-term interests of the Scheme. The Trustee expects 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.

As covered in more detail in this document, the Trustee also requires the investment managers to take ESG factors and climate change risks into consideration within their decision making as the Trustee believes these factors could have a material financial impact in the long-term.

03 Responsible investment

Environmental, Social and Corporate Governance

The Trustee has considered its approach to environmental, social and corporate governance ("ESG") risks and they believe there can be financially material risks relating to ESG. The Trustee has delegated the ongoing monitoring and management of ESG risks to the Scheme's investment managers. The Trustee requires the Scheme's investment managers to take into consideration ESG risks within their decision making, recognising that how they do this will be dependent on the characteristics of the asset classes in which they invest.

The Trustee will consider how best to take its views on ESG risks into account in any future investment manager selection exercises. Furthermore, the Trustee, through their investment consultant, will monitor the processes and operational behaviour of the investment managers to ensure they remain appropriate and in line with the Trustee's requirements as set out in this Statement.

Where the Scheme invests in pooled funds, the Trustee acknowledges that it cannot directly influence the policies and practices of the companies in which the pooled funds invest. It has therefore delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the Investment managers.

The Trustee encourages 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 Trustee requires the investment managers to report on significant votes made on behalf of the Trustee.

If the Trustee becomes 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 Trustee's expectations and the investment mandate guidelines provided, then the Trustee may consider terminating the relationship with that investment Manager.

04 Risk measurement and management

The Trustee recognises a number of risks involved in the investment of the assets of the Scheme including but not limited to:

- Solvency risk and mismatching risk - The risk that the assets do not respond to market changes in the same way as the liabilities, resulting in volatility in the funding position, is addressed through the strategic asset allocation, risk analysis and management and ongoing triennial actuarial valuations.
- Strategy risk - The risk that the actual asset allocation deviates from the Trustee's investment policy is addressed through regular review of the asset allocation. The Trustee will also consider how far the actual asset allocation has drifted from the strategic asset allocation and take action to rebalance if necessary.
- Liquidity risk - The risk that assets cannot be sold quickly enough to enable benefits to be paid or that the Trustee cannot exit a particular investment is addressed through the process by which the administrator estimates the benefit outgo and ensures that sufficient cash balances are available, and through the Trustee's policy on realisation of assets (see below).
- Inappropriate investments - The risk that an investment manager invests in assets or instruments that are not considered to be appropriate by the Trustee is addressed through the Trustee's policy on the range of assets in which the Scheme can invest.
- Counterparty risk - The risk that a third party fails to deliver cash or other assets owed to the Scheme is addressed through the investment managers' guidelines with respect to cash and counterparty management.
- Political risk - The risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across many countries.
- Custodian risk - The risk that the custodian fails to provide the services expected is addressed through the agreement with the third party custodian and ongoing monitoring of the custodial arrangements. In pooled arrangements this is invariably delegated to the investment managers.
- **Manager risk** - The risk that an investment manager fails to meet their stated objective is addressed through performance objectives and monitoring of the investment managers.
- Fraud/Dishonesty - The risk that the Scheme assets are reduced by illegal actions is addressed through restrictions applied as to who can authorise transfer of cash and the account to which transfers can be made.
- Currency risk – The risk of losses through depreciation of non-sterling currencies is measured by reference to the exposure of the Scheme to pooled funds with unhedged currency risk and is managed by investing predominantly in sterling assets and only taking currency risk where it increases the level of diversification.

05 Realisation of assets and investment restrictions

Realisation of investments

In recognition of the fact that funds may need to be realised for a number of unanticipated reasons at any time, and the desirability of retaining as high a degree of flexibility as possible to cater for unexpected changes in circumstances, the Trustee will monitor closely the extent to which any assets not readily realisable are held by the investment managers and will limit such assets to a level where they are not expected to prejudice the proper operation of the Scheme.

The Trustee have considered how easily investments can be realised for the types of assets in which the Scheme is currently invested. As such, the Trustee believes that the Scheme currently holds an acceptable level of readily realisable assets. The Trustee will also take into account how easily investments can be realised for any new investment classes it considers investing in, to ensure that this position is maintained in the future.

The Trustee will hold cash to the extent that it considers necessary to meet impending anticipated liability outflows.

Investment restrictions

The Trustee has established the following investment restrictions:

> The Trustee or the investment managers may not hold in excess of 5% of the Scheme's assets in investments related to the Principal Employer;

> Whilst the Trustee recognises that borrowing on a temporary basis is permitted, this option will only be utilised where it is deemed absolutely necessary or where the Trustee have received advice from the Investment Consultant that the Scheme's overall exposure to risk can be reduced through temporary borrowing, e.g. during an asset transfer;

> Investment in derivative instruments may be made only insofar as they contribute to the reduction in risk or facilitate efficient portfolio management.

The investment managers impose internal restrictions that are consistent with their house style.

06 Investment manager arrangements and fee structure

Delegation to investment manager(s)

In accordance with the Act, the Trustee has appointed one or more investment managers and delegated to them the responsibility for investing the Scheme's assets in a manner consistent with this Statement.

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.

Where investment managers are delegated discretion under *Section 34 of the Pensions Act 1995*, the investment managers will exercise their investment powers with a view to giving effect to the principles contained in this Statement so far as reasonably practicable. In particular, the investment managers must have regard to the suitability and diversification of the investments made on behalf of the Scheme.

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

Performance objectives

The investment policy the Trustee has adopted is detailed in Appendix I. The specific investment manager mandates against which performance of the assets will be assessed are specified in Appendix II.

Appointments of investment managers are expected to be long-term, but the Trustee will review the appointment of the investment managers in accordance with their responsibilities.

The Trustee will receive regular monitoring reports from the Investment Consultant which consider performance and any significant changes relating to the Trustee's selection and deselection criteria that the Investment Consultant are 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 Trustee may carry out a more in depth review of a particular investment manager. Investment managers will also attend Trustee meetings as requested.

The Investment Consultant has also carried out a review of how well the Trustee's guidelines in relation to ESG factors are incorporated into each investment manager's processes and the Trustee 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 Consultant to ensure it is in line with the Trustee's policies and with fee levels deemed by the Investment Consultant to be appropriate for the particular asset class and fund type.

Selection / deselection criteria

As advised by the Investment Consultant, the criteria by which the Trustee will select (or deselect) the investment managers include:

> Parent – Ownership of the business.
> People – Leadership/team managing the strategy and client service.
> Product – Key features of the investment and the role it performs in a portfolio.
> Process – Philosophy and approach to selecting underlying investments including operational risk management and systems.
> Positioning – Current and historical asset allocation.
> Performance – Past performance and track record.

- Pricing – The underlying cost structure of the strategy.
- ESG – Consistency and extent to which ESG analysis is incorporated into the process of selecting underlying investments.

An investment manager may be replaced, for example (but not exclusively), for one or more of the following:

- The investment manager fails to meet the performance objectives set out in Appendix II.
- The Trustee believes that the investment manager is not capable of achieving the performance objectives in the future.
- The investment manager fails to comply with this Statement.

Investment managers' fee structure

The investment managers are remunerated by receiving a percentage of the Scheme's assets under management and, in some cases, through the application of a flat fee. Performance related fee may be payable on certain investments. Details of the fee arrangements are set out in Appendix II. It is felt that this method of remuneration provides appropriate incentives for the investment managers to target the agreed level of outperformance whilst adhering to the level of risk specified by the Trustee.

Portfolio turnover

The Trustee requires 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.

Investment Consultant's fee structure

The Investment Consultant is remunerated for work completed on a fixed fee basis, a time-cost basis or via a project fee. It is felt that this method of remuneration is appropriate because it enables the Investment Consultant to provide the necessary advice and information to facilitate the Trustee in undertaking their responsibilities.

07 Additional Voluntary Contribution arrangements

Provision of AVCs

The Scheme provided a facility for members to pay additional voluntary contributions (AVCs) to enhance their benefits at retirement. The Trustee's objective was to provide vehicles that enabled members to generate suitable long-term returns, consistent with their reasonable expectations.

The investment funds were provided by Scottish Equitable. The Trustee selected these vehicles as they were believed to meet the Trustee's objective of providing investment options that enabled AVC members to generate suitable long-term returns, consistent with their reasonable expectations.

Review process

The appointment of the AVC providers and the choice of AVC funds offered to members will be reviewed by the Trustee in accordance with their responsibilities. The Trustee will review the appointment of the AVC providers periodically in the light of their performance.

Where possible, performance of the AVC providers will be measured relative to the individual benchmarks and objectives for the funds offered and/or to other providers offering similar fund options as measured in industry AVC surveys.

08 Compliance Statement

Confirmation of advice

Before a Statement of Investment Principles, as required by the Pensions Act 1995, is prepared or revised by the Trustee of a pension scheme, they must have consulted with the principal employer and obtained and considered the written advice of a person who is reasonably believed by it to be qualified by his ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of the investments of such schemes.

Approved and adopted by the Trustee in November 2020

Trustee declaration

The Trustee confirms that this Statement of Investment Principles reflects the Investment Strategy they have decided to implement. The Trustee acknowledges that it is their responsibility, with guidance from the Investment Consultant, to ensure the assets of the Scheme are invested in accordance with these Principles.

Appendix I
Investment Strategy

Overall strategy

The Trustee ha identified the following long-term structure as appropriate to meet the objectives of the Scheme, although at the time of signing this statement the investment strategy has not yet been fully implemented:

Asset class	Fund	Benchmark asset allocation	Liability hedging?	Income to be distributed?	Best estimate return above gilts
Gilts / LDI	BMO Regular Profile Unleveraged Real Gilt Fund	27.0%	✓	-	-
	BMO Inflation-Only Dynamic LDI Fund	10.0%			-
	BMO Real Dynamic LDI Fund	3.0%			-
Corporate bonds	Schroder Matching Plus Buy and Maintain Credit Sterling Cashflow 2018-2032 Fund	15.0%	✓	✓	+ 0.8%
	Schroder Matching Plus Buy and Maintain Credit Sterling Cashflow Over 2032 Fund	5.0%			+ 0.8%
	LGIM AAA-AA-A Corporate Bond Over 15 Year Index Fund	10.0%			+ 0.6%
Illiquid private markets	StepStone Senior Corporate Lending Fund I	10.0%		✓	+ 4.5%
	StepStone Senior Corporate Lending Fund II	5.0%		✓	+ 4.5%
	Schroder UK Infrastructure Debt I Fund LP	15.0%		✓	+ 4.5%
Total		**100.0%**	**c. 80% inflation hedge target c.50% interest hedge target**	**Target investment income of at least c.1.1% p.a.**	**Gilts + 1.6% p.a.**

Rebalancing

Given the nature of the investments, the Trustee realises that the actual holdings could vary significantly overtime versus the benchmark asset allocation.

The Scheme's hedging assets are designed to provide a broad pragmatic hedge. The Scheme's actual inflation and interest rate hedge may be significantly different to the target due to a number of factors including the unknown nature of the liabilities and the basis risk between the liability hedging assets and the Scheme's actual assets (i.e. the risk that the hedging assets will move differently in value to the liabilities as bond investments cannot exactly match the cashflow profile of a pension scheme).

The Trustee reviews the asset allocation on a periodic basis to ensure that the Scheme assets are allocated in a manner that is consistent with the objectives as detailed in this Statement. There is no automatic rebalancing back to the target, however the Trustee will periodically review the position and take action to rebalance if considered appropriate.

Appendix II
Fund objectives and charges

Fund	Objective	Annual Management Charges (AMCs) and estimate of additional fund expenses
BMO Regular Profile Unleveraged Real Gilt Fund	The objective of the fund is to provide a hedge against inflation linked liabilities.	0.08% p.a. of first £15m 0.06% p.a. of next £35 million 0.05% p.a. thereafter (Additional expenses of c. 0.04% p.a.)
BMO Inflation-Only Dynamic LDI Fund	The fund aims to provide liability hedging by offering inflation protection which replicates the liability profile of a typical UK defined benefit pension scheme. Leverage is used to gain increased exposure.	0.30% p.a. (Additional expenses of c. 0.06% p.a.)
BMO Real Dynamic LDI Fund	The fund aims to provide liability hedging by offering interest rate and inflation protection which replicates the liability profile of a typical UK defined benefit pension scheme. Leverage is used to gain increased exposure.	0.30% p.a. (Additional expenses of c. 0.04% p.a.)
Schroder Matching Plus Buy and Maintain Credit Sterling Cashflow 2018-2032 Fund	Fund investing in a range of corporate bonds managed on a 'buy & maintain' basis. Designed to target a cash payout profile that supports typical UK pension scheme benefit needs. They provide a contribution to liability hedging whilst delivering the associated cash amounts as a regular payout.	0.13% p.a. (Additional expenses of c. 0.06% p.a.)
Schroder Matching Plus Buy and Maintain Credit Sterling Cashflow Over 2032 Fund	Fund investing in a range of corporate bonds managed on a 'buy & maintain' basis. Designed to target a cash payout profile that supports typical UK pension scheme benefit needs. They provide a contribution to liability hedging whilst delivering the associated cash amounts as a regular payout.	0.13% p.a. (Additional expenses of c. 0.05% p.a.)
LGIM AAA-AA-A Corporate Bond Over 15 Year Index Fund	To track the performance of the Markit iBoxx £ Non-Gilts (ex-BBB) Over 15 Years Index to within +/-0.5% p.a. for two years out of three.	0.15% p.a. of first £5m 0.125% p.a. of next £5m 0.10% p.a. of next £20m 0.08% p.a. on the balance over £30m (Additional expenses of c.0.0% p.a.)
StepStone Senior Corporate Lending Fund	To generate stable long term rates of return while preserving capital; to achieve capital growth while generating income over the medium to long term generally through a multi-manager and providing investment opportunities through a range of portfolios with different investment objectives; and to construct portfolios based on detailed selection criteria, strong risk controls and diversification needs.	StepStone 0.50% p.a. (Operational expenses of 0.07% - 0.10% p.a.) (Platform fees: 0.15% p.a.) Underlying managers 0.60% - 0.90% p.a. (Performance fees of c.0.60% to c.0.90% p.a.)
Schroder UK Infrastructure Debt I Fund LP	To invest in loans to infrastructure companies/projects that are junior in the capital structure. Aims to generate income of LIBOR + 4-6% p.a.	0.50% p.a. (Origination fee of 0.50%)

Fees as at November 2020

Contact us
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