Bush Boake Allen Pension Scheme

Statement of Investment Principles

May 2021

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1 Introduction

Scheme background

- This Statement of Investment Principles (the “Statement”) details the principles governing investment decisions for the Bush Boake Allen Pension Scheme (the “Scheme”).

- The Scheme:

  – operates for the exclusive purpose of providing retirement and death benefits to eligible participants and beneficiaries,

  – provides benefits calculated on a defined benefit (DB) basis,

  – is closed to new entrants and future accrual.

- Buck are investment consultants to the Trustees.

Regulatory requirements and considerations

- This statement covers the requirements of, and the Scheme’s compliance with, the provisions of the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005.

- In respect of the additional voluntary contribution (AVC) arrangements provided on a money-purchase basis, the Trustees have taken into account the requirements and recommendations within the Pensions Regulator’s code of practice 13: Governance and administration of occupational trust-based schemes providing money purchase benefits and regulatory guidance. Information on the Trustees’ approach to investment matters within the AVC arrangements is included within this Statement.

2 Statement of Investment Principles

Introduction

- This section of the Statement covers the requirements of the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005.

- In accordance with section 35 of the Pensions Act 1995, the Trustees have reviewed and considered written advice from the investment consultant prior to the preparation of this Statement and have consulted the Sponsoring Employer.

- The Trustees will review this Statement, in consultation with the investment consultant and the Sponsoring Employer, at least once every three years, or more frequently if there are any significant changes in the Scheme's circumstances. However, ultimate power and responsibility for deciding investment policy lies solely with the Trustees.

Key investment principles

Kind of investments to be held

- The Trustees have full regard to their investment powers under the Trust Deed and Rules, the suitability of the various types of investments, the need to diversify, the custodianship of assets and any self-investment.

- The Scheme may invest in quoted and unquoted securities of UK and overseas markets including equities, fixed interest and index-linked bonds, cash, property and pooled investment vehicles considered appropriate for tax-exempt registered occupational pension schemes. The Trustees have considered the attributes of the various asset classes (including derivative instruments), these attributes being:

  – security (or quality) of the investment,

  – yield (expected long-term return),

  – spread (or volatility) of returns,

  – term (or duration) of the investment,

  – exchange rate risk,

  – marketability/liquidity (i.e., the tradability on regulated markets),

  – taxation.

- The Scheme may also invest in bulk annuity policies provided by regulated insurers.

- The Trustees consider and select from all of the stated classes of investment those that are suitable to the circumstances of the Scheme.

Investment Decisions

- All investment decisions are taken by the Trustee Board as a whole. The Funding and Investment Sub-Committee ("FISC") is in place to support the Trustee Board, as required, on taking investment decisions, monitoring the performance of the investment managers and investment consultant and overseeing the implementation of investment decisions as set out in the Terms of Reference. The Trustees will examine regularly whether additional investment training is desirable for any individual Trustee.

- All investment decisions relating to the Scheme are under the Trustees' control without constraint by the Sponsoring Employer. The Trustees are obliged to consult with the Sponsoring Employer when changing this Statement.

- All day-to-day investment decisions are delegated to properly qualified and authorised investment managers of pension scheme portfolios. Investment management agreements and/or an insurance contract have been exchanged with the investment managers, and are reviewed from time-to-time to ensure that the manner in which they make investments on the Trustees' behalf is suitable for the Scheme, and appropriately diversified.

Investment Objectives and Suitability of Investments:

- The Trustees' long term objective, as set out in the Memorandum of Understanding dated May 2017, is to secure all members' benefits with bulk annuities by 31 December 2024. The Scheme's investment strategy has been set to give an expected return equivalent to that required to achieve this long term objective.

- The Scheme's investment strategy has been agreed by the Trustees having taken advice from the investment consultant and takes due account of the Scheme's liability profile along with the level of disclosed surplus or deficit.

- The Trustees' agreed investment strategy is based on an analysis of the Scheme's liability profile, the required investment return and the returns expected from the various asset classes over the long-term. Long-term returns from equities are expected to exceed the returns from bonds and cash, although returns and capital values may demonstrate higher volatility. The Trustees are prepared to accept this higher volatility in order to aim to achieve the overall investment objectives.

- The Trustee's primary objectives are:

  - to provide appropriate security for all beneficiaries,

  - to achieve long-term growth sufficient to provide the benefits from the Scheme, and

  - to achieve an appropriate balance between risk and return with regards to the cost of the Scheme and the security of the benefits.

- The Trustees have translated their long term objective into a suitable strategic asset allocation benchmark for the Scheme, details of which are included in the Appendix.

- In accordance with the Financial Services & Markets Act 2000, the Trustees are responsible for setting the general investment policy, but the responsibility for all day-to-day investment management decisions has been delegated to investment managers authorised under the Act. Details are included in the Appendix.

- The Trustees are responsible for reviewing both the Scheme's asset allocation and investment strategy as part of each actuarial valuation in consultation with the Scheme's investment consultant. The Trustees may also reconsider the asset allocation and the investment strategy outside the triennial valuation period where necessary.

- The Trustees consider the Scheme's current strategic asset allocation to be consistent with the current financial position of the Scheme. This assessment will be reviewed periodically with reference to Scheme's progress relative to the Trustees' long term objective.

Diversification

- The Trustees, after seeking appropriate investment advice, have selected a strategic asset allocation benchmark for the Scheme.

- Subject to their respective benchmarks and guidelines the investment managers are given full discretion over the choice of stocks and are expected to maintain diversified portfolios.

- The Trustees are satisfied that the investments selected are consistent with their investment objectives, particularly in relation to diversification, risk, expected return and liquidity.

- Given the size and nature of the Scheme, the Trustees have decided to invest the Scheme's assets on a pooled fund basis. All such investments are effected through direct agreements with the investment managers or through an insurance contract. Additionally, the Scheme has purchased two insurance policies that cover the majority of the liabilities accrued by pensioner members.

- The Trustees are satisfied that the range of vehicles in which the Scheme's assets are invested provides adequate diversification.

Risk

- The Trustees consider the main risk to be that of the assets being insufficient to meet the Scheme's liabilities as they fall due. The Trustees have assessed the likelihood of undesirable financial outcomes arising in the future.

- Although the Trustees acknowledge that the main risk is that the Scheme will have insufficient assets to meet its liabilities, the Trustees recognise other contributory risks, including the following. Namely the risk:

  – associated with the differences in the sensitivity of asset and liability values to changes in financial and demographic factors,

  – of the Scheme having insufficient liquid assets to meet its immediate liabilities,

  – of the investment managers failing to achieve the required rate of return,

  – due to the lack of diversification of investments,

  – of failure of the Scheme's Sponsoring Employer to meet its obligations.

- The Trustees manage and measure these risks on a regular basis via actuarial and investment reviews, and in the setting of investment objectives and strategy.

- The Trustees undertake monitoring of the investment managers' performance against their targets and objectives on a regular basis.

- Each fund in which the Scheme invests has a stated performance objective by which investment performance will be measured. Details are included in the Appendix. Within each asset class, the investment managers are expected to maintain a portfolio of securities (or funds), which ensures that the risk being accepted in each market is broadly diversified.

- The divergence of the actual distribution of the investments from the benchmark weighting will be monitored by the Scheme's investment consultant. Any deviation from the target asset allocation will be discussed periodically with the investment consultant.

Expected return on investments

- The investment strategy is believed to be capable of achieving the overall required rate of return to meet the Trustees' long term objective of securing all members' benefits with bulk annuities by 31 December 2024.

Realisation of investments

- In the event of an unexpected need to realise all or part of the assets of the portfolio, the Trustees require the investment managers to be able to realise the Scheme's investments in a reasonable timescale by reference to the market conditions existing at the time the disposal is required and subject to the best interests of the Scheme. The majority of the assets are not expected to take an undue time to liquidate.

- The Trustees are aware that the insurance policies held to cover the majority of the liabilities accrued by pensioner members are not easy to liquidate. The Trustees are content that there is no intention to liquidate these policies and that the assets held in excess of them are suitably liquid.

Investment Manager Monitoring

- The Trustees will assess the performance, processes and cost effectiveness of the investment managers by means of regular, but not less than annual, reviews of the results and other information, in consultation with the investment consultant.

- All investment decisions, and the overall performance of the investment managers, are monitored by the Trustees with the assistance of the investment consultant.

- The investment managers will provide the Trustees with quarterly statements of the assets held along with a quarterly report on the results of the past investment policy and the intended future policy, and any changes to the investment processes applied to their portfolios. The investment managers will also report orally on request to the Trustees.

- The investment managers will inform the Trustees of any changes in the internal performance objective and guidelines of any pooled funds used by the Scheme as and when they occur.

- Appropriate written advice will be taken from the investment consultant before the review, appointment or removal of the investment managers.

Performance Monitoring

- Each of the funds in which the Scheme invests has a stated performance objective against which the performance is measured.

- The Trustees will review the performance of the investment managers from time to time, based on the results of their performance and investment process.

- The investment managers are expected to provide written reports on a quarterly basis.

- The Trustees receive an independent investment performance monitoring report from their investment consultant on a quarterly basis.

Balance between different kinds of investments

- The appointed investment managers will hold a diversified mix of investments in line with their agreed benchmark and within their discretion to diverge from the benchmark. Within each major market each manager will maintain a diversified portfolio of securities.

Financially material considerations

- The Trustees expect their investment managers, where appropriate, to have taken account of financially material considerations, including environmental, social and governance (ESG) factors as part of their investment analysis and decision-making process.

- The Trustees have reviewed the investment managers' policies in respect of financially material considerations and are satisfied that they are consistent with the above approach.

Non-financial matters

- The Trustees' objective is that the financial interests of the Scheme members is their first priority when choosing investments. The Trustees will take members' preferences into account if they consider it appropriate to do so.

Stewardship in relation to the Plan's assets

- The Trustees have a fiduciary duty to consider their approach to the stewardship of the investments, to maximise financial returns for the benefit of members and beneficiaries over the long term. The Trustees can promote an investment's long term success through monitoring, engagement and/or voting, either directly or through their investment managers.

Engagement and monitoring

- The Trustees' policy is to delegate responsibility for engaging and monitoring investee companies to the investment managers and expects the investment managers to use their discretion to maximise financial returns for members and others over the long term

Voting Rights attaching to Investments

- The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and to encourage the managers to exercise those rights. The investment managers are expected to provide regular reports for the Trustees detailing their voting activity.

The Trustees' policy in relation to their investment managers

In detailing below the policies on the investment manager arrangements, the over-riding approach of the Trustees is to select investment managers that meet the primary objectives of the Trustees. As part of the selection process and the ongoing review of the investment managers, the Trustees consider how well each investment manager meets the Trustees' policies and provides value for money over a suitable timeframe.

- **How the arrangement incentivises the investment managers to align their investment strategy and decisions with the Trustees' policies**

  The Trustees have delegated the day to day management of the Scheme's assets to investment managers. The Scheme's assets are invested in pooled funds which have their own policies and objectives and charge a fee, agreed with the investment manager, for their services. Such fees incentivise the investment managers to adhere to their stated policies and objectives.

- **How the arrangement incentivises the investment managers to engage and take into account financial and non-financial matters over the medium to long-term**

  The Trustees, in conjunction with their investment consultant, appoint their investment managers and choose the specific pooled fund to use in order to meet specific Scheme policies. They expect their investment managers to make decisions based on assessments about the financial performance of underlying investments, and that they engage with issuers of debt or equity to improve their performance (and thereby the Scheme's performance) over an appropriate time horizon.

  The Trustees have decided not to take non-financial matters into account when considering their policy objectives.

- **How the method (and time horizon) of the evaluation of the investment managers' performance and the remuneration for asset management services are in line with the Trustees' investment policies**

  The Trustees expect their investment managers to invest the assets within their portfolios in a manner that is consistent with the guidelines and constraints set out in their appointment documentation. The Trustees review the investment managers periodically. These reviews incorporate benchmarking of performance and fees. Reviews of performance focus on longer-term performance (to the extent that is relevant), e.g. looking at five years of performance.

  If the Trustees determine that the investment manager is no longer managing the assets in line with the Trustees' policies they will make their concerns known to the investment manager and may ultimately disinvest.

  The Trustees pay their investment managers a management fee which is a fixed percentage of assets under management. Some investment managers also receive a performance incentive fee.

Prior to agreeing a fee structure, the Trustees, in conjunction with their investment consultant, consider the appropriateness of this structure, both in terms of the fee level compared to that of other similar products and in terms of the degree to which it will incentivise the investment manager.

- **How the Trustees monitor portfolio turnover costs incurred by the investment managers, and how they define and monitor targeted portfolio turnover or turnover range**

  The Trustees, in conjunction with their investment consultant, have processes in place to review investment turnover costs incurred by the Scheme on an annual basis. The Trustees receive a report which includes the turnover costs incurred by the investment managers used by the Scheme.

  The Trustees expect turnover costs of the investment managers to be in line with their peers, taking into account the style adopted by the investment manager, the asset class invested in and prevailing market conditions.

  The Trustees do not explicitly monitor turnover, set target turnover or turnover ranges. The Trustees believe that the investment managers should follow their stated approach with a focus on risk and net return, rather than on turnover. In addition, the individual mandates are unique and bespoke in nature and there is the potential for markets to change significantly over a short period of time.

- **The duration of arrangements with investment managers**

  The Trustees do not in general enter into fixed long-term agreements with their investment managers and instead retain the ability to change investment manager should the performance and processes of the investment manager deviate from the Trustees' policies. However, the Trustees expect their manager appointments to have a relatively long duration, subject to the manager adhering to its stated policies, and the continued positive assessment of its ability to meet its performance objective.

Additional Voluntary Contributions (AVCs)

- A facility was previously available for members to make AVC contributions. The Scheme's AVC providers were Standard Life and Equitable Life. This facility is no longer available for new contributions.

Signed on behalf of the Trustees of the Scheme:

Terence Chapman ……………………………………………	Terence Chapman …………………………………………..
Name	Signature

21 May 2021
…………………………………………..

Date

Bryan Kerr ……………………………………………	Bryan Kerr …………………………………………..
Name	Signature

21 May 2021
…………………………………………..

Date

Appendix 1 – Strategic Benchmark & Objectives

Scheme's long term target asset allocation

The Scheme's long term target allocation for invested assets is tabulated below:

Asset Type	Investment Style	Target Allocation %
Absolute Return Bonds	Active	27.5
Unconstrained Bonds	Active	15.0
LDI	Active	55.0
Cash	Active	2.5
Total		**100.0**

The Scheme's long term target asset allocation for invested assets, split by Fund, is as below:

Manager	Fund	Target Allocation %
LGIM	Absolute Return Bond Fund	27.5
M&G	Total Return Credit Investment Fund	15.0
LGIM	Matching Core Short Fixed Fund	55.0
LGIM	Matching Core Long Fixed Fund	
LGIM	Matching Core Real Long Fund	
LGIM	Sterling Liquidity Fund	
BlackRock	High Performance Cash Fund	2.5
	Total	**100.0**

The Scheme also holds two buy-in policies with Just, in respect of the majority of the Scheme's pensioner liabilities.

Benchmarks and performance objectives

Benchmark indices and relative performance objectives for each of the funds in which the Scheme is invested are outlined below. All performance targets are gross of fees, unless otherwise stated, and relate to rolling three-year periods.

Manager	Fund	Benchmark Index	Outperformance Objective % p.a.
LGIM	Absolute Return Bond Fund	£ LIBOR 3 month	+1.5
M&G	Total Return Credit Investment	£ LIBOR 1 month	+3.0
LGIM	Matching Core Short Fixed Fund	Markit iBoxx Fixed Short	Track the benchmark (net)
LGIM	Matching Core Long Fixed Fund	Markit iBoxx Fixed Long	Track the benchmark (net)
LGIM	Matching Core Real Long Fund	Markit iBoxx Real Long	Track the benchmark (net)
LGIM	Sterling Liquidity Fund	£ LIBID 1 week	Outperform
BlackRock	High Performance Cash Fund	£ LIBID 1 week	Outperform

The Scheme's overall performance objective is to achieve a return on assets of long dated gilts plus 0.6% p.a.

The investment return expected to be generated by the Scheme's investment portfolio, based on Buck's 10 year best estimate return assumptions as at 31 January 2021, is set out below:

Asset Type	Target Allocation %	Expected Return % p.a.
Absolute Return Bonds	27.5	1.7
Unconstrained Bonds	15.0	3.0
LDI (3x leveraged)	55.0	-0.2 to 0.4
Cash	2.5	0.4
Total	**100.0**	**1.0**
Long dated gilts		**0.4**

Appendix 2 – Fees

Investment manager fees

Manager	Fund	Fees (p.a.)
LGIM	Absolute Return Bond Fund	0.22%
M&G	Total Return Credit Investment Fund	0.45%
LGIM	Matching Core Short Fixed Fund	AUM £0-25m 0.24% Thereafter 0.17%
LGIM	Matching Core Long Fixed Fund	AUM £0-25m 0.24% Thereafter 0.17%
LGIM	Matching Core Real Long Fund	AUM £0-25m 0.24% Thereafter 0.17%
LGIM	Sterling Liquidity Fund	AUM £0-5m 0.125% AUM £5-10m 0.100% AUM £10-30m 0.075% Thereafter 0.050%
BlackRock	High Performance Cash Fund	0.0%*

*Total expense ratio is 0.03%

Investment consultancy fees

The Investment Consultant provides services on both a fixed fee and a time cost basis.

The basis of remuneration is kept under review.