Fischer & Porter Limited Pension and Life Assurance Fund

Statement of Investment Principles – September 2021

1. *Introduction*

The Trustees of the Fischer & Porter Pension and Life Assurance Fund ("the Fund") have drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Pensions Act 2004 and subsequent legislation. The Statement aims to provide details of the specific investments in place alongside other information relevant to the management of the investments.

The Statement is intended to affirm the investment principles that govern decisions about the Fund's investments. The Trustees periodically review the Fund's investment arrangements to ensure that an appropriate investment strategy is in place for the Fund. In preparing this Statement the Trustees have consulted the Sponsoring Company to ascertain whether there are any material issues of which the Trustees should be aware in agreeing the Fund's investment arrangements, in accordance with the requirements of the Occupational Pension Schemes (Investment) Regulations 2005 and subsequent legislation.

In considering the appropriate investments for the Fund, the Trustees have also obtained and considered the written advice of the Investment Consultant, whom the Trustees believe to be suitably qualified to provide such advice.

The investment responsibilities of the Trustees are governed by the Fund's Trust Deed and Rules (a copy of which is available on request) and relevant legislation. The Trustees have ultimate power and responsibility for the Fund's investment arrangements.

2. *Process For Choosing Investments*

The process for choosing investments is as follows:

a) Identify appropriate investment objectives

b) Agree the level of risk consistent with meeting the objectives set

c) Construct a portfolio of investments that is expected to maximise the return (net of all costs) given the Trustees' risk tolerance

Where matters described in this Statement may affect the Fund's funding policy, input has also been obtained from the Scheme Actuary. The actuary performs a valuation of the Fund at least once every three years, in accordance with regulatory requirements. The advice received and arrangements implemented are, in the Trustees' opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 and subsequent legislation.

3. *Investment Objectives, Risks and Investment Strategy*

3.1 *Investment Objectives*

The objective of the Trustees is to invest the Fund's assets in the best interest of the members and beneficiaries, and taking into account the Company's interest, and in the case of a potential conflict of interest in the sole interest of the members and beneficiaries. Within this framework the Trustees have agreed a number of objectives to help guide them in their strategic management of the assets and control of the various risks to which the Fund is exposed. The Trustees' primary objectives are as follows:

- *To achieve a return in excess of the liabilities, as measured on a low risk basis, and commensurate with the level of risk inherent in the investment strategy.*

- *To ensure that the Fund can meet its obligations to the beneficiaries.*

- *To provide protection for members' accrued benefits.*

The Trustees also aim to pay due regard to the Sponsoring Company's interest in the size and incidence of contribution payments, and to avoid significant volatility in the Company's contribution rate and pension expense. In doing so, the Trustees will aim to pay particular regard to the potential effect of their decisions on the Company's balance sheet.

3.2 Risk Management and Measurement

There are various risks to which any pension fund is exposed. The Trustees' policy on risk management is as follows:

- The primary risk upon which the Trustees focus is that arising through a mismatch between the Fund's assets and its liabilities. This is mitigated by targeting an investment strategy which aims to broadly replicate any changes in liability values due to market movements.

- The Trustees recognise that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Fund's accruing liabilities as well as producing more short-term volatility in the Fund's funding position. The Trustees receive regular updates on the estimated funding position from the Actuary.

- The Trustees recognise the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustees aim to ensure the asset allocation policy in place results in an adequately diversified portfolio. Due to the size of the Fund's assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles.

- The Trustees also recognise that active management carries with it a degree of risk. The Trustees believe this risk is of such significance that the assets of the Fund are managed on a passive basis.

- The documents governing the Investment Manager's appointment include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Fund. The Investment Manager is prevented from investing in asset classes outwith their mandate without the Trustee's prior consent.

- Arrangements are in place to monitor the continuing suitability of the Fund's investments including the appointed Investment Manager. To facilitate this, the Trustees meet with the Investment Manager periodically and receive regular performance reports from the Investment Consultant.

- The safe custody of the Fund's assets is delegated to professional custodians via the use of pooled vehicles.

Should there be a material change in the Fund's circumstances, the Trustees will review whether and to what extent the investment arrangements should be altered; in particular whether the current risk profile remains appropriate.

3.3 Investment Strategy

The Trustees recognise that the assets which best match the Fund’s liabilities are government bonds. When determining the allocation to bonds, the Trustees consider both the level of risk inherent in the current strategy and its implications on the future funding position.

However, given the longer term nature of a significant proportion of the Fund’s liabilities, a small degree of mismatching risk can be accepted with the expectation that corporate bonds will outperform government bonds over the long term and hence help protect the funding level of the Fund.

4. Day–to-Day Management of the Assets

4.1 Main Assets

The Trustees invest the assets of the Fund in the pooled range of funds provided by Legal and General Investment Management (“L&G”). The Fund’s assets are held in a range of passive bond funds and a liquidity fund.

The Investment Manager has full discretion to buy and sell investments on behalf of the Fund, subject to agreed constraints and applicable legislation. The Trustees have taken steps to satisfy themselves that the Investment Manager has the appropriate knowledge and experience for managing the Fund’s investments.

Whilst the day-to-day management of the Fund’s assets is delegated to the Investment Manager, all other investment decisions including strategic asset allocation and monitoring of the Investment Manager is based on advice received from the Investment Consultant. Mercer has been appointed for this purpose.

4.2 Guidelines given to L&G

The overall benchmark allocation of the Fund’s assets is set out below:

Asset Class	**Target Allocation %**	**Benchmark Index**
Corporate Bonds – All Stocks	25.0	iBoxx £ Non Gilts ex BBB
Corporate Bonds – Over 15 Years	10.0	iBoxx £ Non Gilts ex BBB Over 15 Year
Fixed Interest Gilts	12.5	FTSE Over 15 Years Gilts
Index-Linked Gilts – Over 5 years	27.5	FTSE A Over 5 Years Index-Linked Gilts
Index-Linked Gilts – 5-15 years	15.0	FTSE A 5-15 Years Index Linked Gilts
Sterling Liquidity Fund	10.0	7-day LIBID
Total	**100.0**	

The objective for the passive bond funds is to track the total return of the relevant market index, within specified tolerances (see below) and after allowance for withholding tax where applicable for each fund. The portfolio benchmarks are re-balanced on a monthly basis:

Fund	**Expected Tracking Error ±% p.a. in two years out of three**
Corporate Bonds – All Stocks	0.5
Corporate Bonds – Over 15 Years	0.5
Fixed Interest Gilts	0.25
Index-Linked Gilts – Over 5 Years	0.25
Index-Linked Gilts – 5-15 Years	0.25

This indicates that, for example, the return for the Corporate Bond All Stocks Fund is expected to be within ±0.50% p.a. of the index return in two years out of three.

The liquidity fund's primary objective is to preserve capital, and its secondary objective is to outperform the benchmark.

4.3 Investment Manager monitoring and engagement

Aligning manager appointments with the Fund's investment strategy

Investment Managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class for which they are selected.

The Trustees look to the Investment Consultant (Mercer) for their forward looking assessment of a manager's ability to meet their objectives. This view will be based on the Mercer's assessment of the manager's idea generation, portfolio construction, cost and fees and business management, in relation to the strategy that the Fund invests in. Mercer's manager research ratings assist with due diligence and questioning the Investment Manager during presentations to the Trustees. These ratings are used in decisions around selection, retention and realisation of manager appointments.

Evaluating investment manager performance

As part of Mercer's regular reporting to the Trustees, the Trustees receive Investment Manager performance reports on a regular basis, which present performance information over the short and medium term, as well as since inception. The Trustees review the absolute performance and relative performance against a suitable index used as the benchmark. Furthermore, the Trustees review the Investment Manager's fees and expenses on a periodic basis. Additionally, Mercer will regularly meet with the Investment Manager to discuss performance and approach to meeting the Trustees' overall objectives.

As the Trustees invest in pooled investment vehicles, they accept that they have no ability to specify the risk profile and return targets of the Investment Manager but appropriate mandates can be selected to align with the overall investment strategy.

The Investment Manager is aware that their continued appointment is based on their success in delivering the mandates and managing the portfolio for which they have been appointed. If the Trustees are dissatisfied, then the manager will be replaced.

Portfolio turnover costs

The Trustees receive MiFID II reporting from their Investment Manager and Mercer (where applicable) but do not regularly analyse this information.

Investment Manager changes

The Trustees are long term investors and are not looking to change investment arrangements on a frequent basis. There is therefore no set duration for manager appointments. The Trustees will most likely retain the Investment Manager unless:

- There is a change to the overall investment strategy that no longer requires exposure to that asset class or manager;

- The Investment Manager appointment is reviewed and the Trustees decide to terminate for a more suitable appointment.

4.4 Additional Assets

Under the terms of the trust deed the Trustees are responsible for the investment of Additional Voluntary Contributions (“AVCs”) paid by members. The Trustees review the investment performance of the chosen providers on a regular basis and take advice as to the providers’ continued suitability.

4.5 Custodian

The role of a custodian is to ensure the safe keeping of the assets and facilitate all transactions entered into by the appointed investment manager.

The Trustees are not responsible for the appointment of the custodian of the assets contained within the various pooled fund investments.

4.6 Realisation of Investments

The Investment Manager has discretion in the timing and realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation.

The Trustees monitor the allocation between asset classes, and the portfolio is rebalanced to the central allocation as far as possible through the use of cash flows to and from the Fund. This approach ensures that the overall strategy is followed whilst keeping the costs of constantly rebalancing the portfolio (due to market movements) to a minimum.

4.7 Environmental, Social and Corporate Governance, Stewardship and Climate Change

The Trustees believe that good stewardship and environmental, social and governance (“ESG”) issues may have a material impact on investment risk and return outcomes. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that may increasingly require explicit consideration. The Trustees have given the Investment Manager full discretion when evaluating ESG issues, including climate change considerations, and in exercising rights and stewardship obligations attached to the Fund’s investments. Given the Fund’s assets are invested in government and corporate bonds (on a passive basis) and money market instruments, there is limited scope for implementing these issues within the Fund's investments. The Trustees will ask the Investment Manager to report on engagement activities on a periodic basis.

The Trustees consider how ESG, climate change and stewardship are integrated within investment processes when monitoring the Investment Manager, although takes note of the limitations given the investment strategy in place.

Member views are not taken into account in the selection, retention and realisation of investments.

5. Fee Structures

5.1 Investment Manager Fees

The fees are sliding scale ad valorem fees, based on the size of assets under management within each fund. The Trustees periodically review the appropriateness of these fees.

5.2 Investment Consulting Fees

Mercer fees are either based on fixed quotes for particular projects or, more normally, are on a time cost basis. Further detail on the nature of the role fulfilled by Mercer is provided in section 7.

6. Compliance with this Statement

The Trustees monitor compliance with this Statement regularly and obtain written confirmation from the Investment Manager that they have given effect to the investment principles in this Statement so far as reasonably practicable and that in exercising any discretion the Investment Manager has done so in accordance with Section 4 of The Occupational Pension Schemes (Investment) Regulations 2005. The Trustees undertake to advise the Investment Manager promptly and in writing of any material change to 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 to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments. The Sponsoring Company will be consulted on any changes to this Statement.

7. Role of the Investment Consultant

Mercer is engaged as Investment Consultant to the Fund. The Investment Consultant provides advice to the Trustees but does not have responsibility for decision making in any area. The role encompasses, but is not limited to, the following areas:

- Assistance in helping the Trustees formulate investment objectives.
- Advice on investment strategy.
- Advice on devising an appropriate investment manager structure.
- Assistance in selecting and monitoring of investment managers.