



The Orr Pollock & Company Limited Pension and Life Assurance Fund



Statement of Investment Principles

September 2020



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Disclaimers, confidentiality and non-disclosure

This report has been prepared for you under our terms of engagement for the purpose of performance monitoring. This report is up to date as of September 2020. It is confidential and may not be disclosed (in whole or in part) without our written consent.

We do not accept any responsibility or liability to any third party. We retain all copyright and intellectual property rights.

02 Fund Governance

The Trustee is responsible for the governance and investment of the Fund's assets. The Trustee considers that the governance structure set out in this SIP is appropriate for the Fund as it allows the Trustee to make the important decisions on investment policy, while delegating the day-to-day aspects to the Investment Manager or the relevant Advisers as appropriate. The responsibilities of each of the parties involved in the Fund's governance are detailed in Appendix A.

The Trustee's agreed investment strategy is based on an analysis of the liability profile of the Fund and the expected investment return over the long-term. Based on this analysis, the Trustee decided to adopt a low-risk investment strategy aimed at maximising the likelihood of meeting their primary objective.

The primary objective of the Trustee is to operate an investment strategy that provides sound long-term growth and appropriate security for all beneficiaries, with the following associated objectives:

04 Defined Benefit Allocation Strategy

Having considered advice from the Investment Adviser, and also having due regard for the objectives, the liabilities of the Fund, the risks of and to the Fund and the covenant of the Company, the Trustee has decided upon the following strategic target asset allocation:

Asset Class	%
Bond Type Investments	100

The Trustee in conjunction with the Investment Adviser will monitor the actual asset allocation of the Fund.

04.01 Rebalancing Policy

The proportions invested in each asset class will be managed by the Investment Manager in line with the benchmark set by the Trustee. The Trustee, in conjunction with the Advisers, will monitor the actual asset allocation of the Fund on a quarterly basis via the governance report. If the actual allocation moves further than +/- 5% from the strategic allocation, the Trustee will make a decision as to whether to switch assets back to the strategy following consideration of advice.

04.02 Alignment of incentives

Based on the structure set out in Appendix B, the Trustee considers the arrangements with the Investment Managers to be aligned with the Plan's overall strategic objectives. Details of each specific mandate are set out in the 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 through any asset allocation parameters or guidelines set by the Trustee or governing the pooled funds in which the Plan is invested.

The Trustee will ensure that the Plan'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 because their continued involvement as Investment Managers as part of the Plan's investment strategy – and hence the fees they receive – is 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.

The Trustee encourages Investment Managers to make decisions in the long-term interests of the Plan. 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. The Trustee therefore makes decisions about the retention of Investment Managers, accordingly.

04.03 Diversification

The choice of asset classes is designed to ensure that the Fund's investments are adequately diversified given the Fund's circumstances. The Trustee will monitor the strategy regularly to ensure that it is comfortable with the level of diversification, noting that this is limited due to the portfolio being fully invested in bonds.

04.04 Suitability

The Trustee has taken advice from the relevant Advisers to ensure that the asset allocation strategy is suitable for the Fund, given its liability profile, any legal requirements, regulatory guidance and specifications in the Trust Deed.

04.05 Liquidity

The majority of the assets are held in pooled funds with frequent redemption dates that are sufficiently liquid to be realised ahead of any planned or unexpected demand for cash.

The Trustee has decided to appoint one Investment Manager; Legal and General Investment Management ("LGIM"). The Trustee mandates LGIM using only passively managed funds.

The Trustee will monitor the performance of the investment managers of the pooled funds against the target performance of the pooled fund.

05.04 Custody

Since the assets are held in pooled funds as arranged, the Trustee has effectively delegated to the Manager the appointment of custodian of the Fund's investments.

06.01 Pooled Funds

The Trustee will monitor the performance of the Investment Manager against the agreed performance objectives.

The Trustee, or the Advisers on behalf of the Trustee, will regularly review the activities of the Investment Manager to satisfy themselves that the Investment Manager continues to carry out their work competently and has the appropriate knowledge and experience to manage the assets of Fund.

As part of this review, the Trustee will consider whether or not the Investment Manager:

- Is carrying out its function competently.
- Has been exercising its powers of investment with a view to giving effect to the principles contained in this SIP, so far as is reasonably practical.

If the Trustee is not satisfied with the Investment Manager it will ask the Investment Manager to take steps to rectify the situation. If the Investment Manager still does not meet the Trustee's requirements, it will remove the Investment Manager and appoint another.

06.02 Advisers

The Investment Adviser 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.

06.06 Other

The Trustee are required to review this SIP on a triennial basis, or, without undue delay, following any changes to the investment strategy.

07 Fees

07.01 Investment Manager

Fund manager remuneration is considered as part of the manager selection process. It is also monitored regularly with the help of the Investment Adviser to ensure it is in line with the Trustee's policies and with fee levels deemed by the Investment Adviser to be appropriate for the particular asset class and fund type.

The Trustee will ensure that the fees paid to the Investment Manager are consistent with levels typically available in the industry and the nature of services provided. The current fee basis for each of the Investment Manager's funds is set out in Appendix B.

The Trustee is aware of the Investment Manager's policy regarding soft commission arrangements. The Investment Manager discloses their fees, commissions and other transaction costs in accordance with the Financial Services Authority ('FSA') Disclosure Code.

07.02 Advisers

Fees paid to the Advisers are based either on actual time spent and hourly rates for relevant individuals, or on fixed fees agreed in advance for specifically defined projects.

07.03 Custodian

There is no custodian appointed directly by the Trustee.

07.04 Trustee

The Trustee is a sole independent Trustee and is paid for his services.

08 Risks

The Trustee recognises a number of risks involved in the investment of assets of the Scheme:

- The risk of failing to meet the objectives as set out in Section 3 – the Trustee will regularly monitor the investments to mitigate this risk.
- Risk of holding assets that cannot be easily sold should the need arise - addressed through the use of pooled funds.
- Underperformance risk – addressed through monitoring closely the performance of each fund and taking necessary action when this is not satisfactory.
- Organisational risk – addressed through regular monitoring of the Investment Manager and the Advisers.
- Sponsor risk – the risk of the Employer ceasing to exist, which for reasons of prudence, the Trustee has taken into account when setting the asset allocation strategy.
- Liquidity risk - investing in assets that are generally realisable at short notice.
- Environmental, Social and Governance risk – the risk that environmental, social and governance factors are not given significant consideration. This is addressed by having a policy whereby such factors should be given appropriate consideration in relation to current and future investment decisions made.

The Trustee will keep these risks under regular review.

09.01 Statutory Funding Requirement

The Trustee will obtain and consider proper advice on the question of whether the investments are satisfactory having regard to both the investment objectives and the requirement to meet statutory funding requirements. The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation every three years.

The Trustee will consider with the Advisers whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the statutory funding requirement.

09.02 Environmental, Social and Governance

The Trustee has determined their approach to financially material considerations over the Fund's long term funding horizon – including environmental, social and corporate governance ("ESG") factors – by acknowledging that there can be risks relating to them. The Trustee has delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Fund's investment managers. The Trustee requires the Fund's investment managers to take ESG and climate change risks into consideration within their decision-making, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest.

The Trustee will seek advice from the Investment Adviser on the extent to which their views on ESG and climate change risks may be taken into account in any future investment manager selection exercises. Furthermore, the Trustee will monitor the processes and operational behaviour of the investment managers from time to time, to ensure they remain appropriate and in line with the Trustee's requirements as set out in this Statement.

Further, the Trustee's policy is that non-financial matters (i.e. members' view) should not be taken into account in the selection, retention and realisation of investments.

09.03 Voting rights

As the Plan invests in pooled funds, the Trustee acknowledges that it cannot directly

Appendix A

Responsibilities

Trustee

The Trustee of the Fund is responsible for, amongst other things:

- i. Determining the investment objectives of the Fund and reviewing these from time to time.
- ii. Agreeing an investment strategy designed to meet the investment objectives of the Fund.
- iii. Reviewing triennially the content of this SIP and modifying it if deemed appropriate, in consultation with the Advisers.
- iv. Reviewing the suitability of the investment policy following the results of each actuarial or investment review, in consultation with the Advisers.
- v. Assessing the quality of the performance and process of the pooled funds by means of regular reviews of the investment results and other information, by way of meetings and written reports, in consultation with the Advisers.
- vi. Appointing and dismissing investment manager(s), the performance measurer, custodian(s) and transition manager(s) in consultation with the Advisers.
- vii. Selecting pooled funds which are consistent with the investment strategy after consultation with the Advisers.
- viii. Assessing the ongoing effectiveness of the Advisers.
- ix. Consulting with the Employer when reviewing investment policy issues.
- x. Monitoring compliance of the investment arrangements with this SIP on an ongoing basis.
- xi. Advising the Advisers of any changes to Fund benefits, significant changes in membership.

Appendix A: Responsibilities continued

Investment Adviser

The Investment Manager will be responsible for, amongst other things:

- i. At their discretion, but within any guidelines given by the Trustee, implementing changes in the asset mix and selecting and undertaking transactions in specific investments within each asset class.

- ii. Providing the Trustee with sufficient information each quarter to facilitate the review of its activities, including:
 - A report of the strategy followed during the quarter.
 - The rationale behind past and future strategy.
 - A full valuation of the assets and a performance summary.
 - A transaction report and cash reconciliation.
 - Corporate actions taken by the Investment Manager.
 - Any changes to the process applied to the portfolio.
 - Future intentions in the investment management of the Fund's assets.

- iii. Informing the Trustee immediately of:
 - Any serious breach of internal operating procedures.
 - Any material change in the knowledge and experience of those involved in managing the Fund's investments.
 - Any breach of investment restrictions agreed between the Trustee and the Investment Manager from time to time.

Investment Adviser

The Investment Adviser will be responsible for, amongst other things:

- i. Participating with the Trustee in reviews of this SIP.
- ii. Advising the Trustee how any changes within the Fund's benefits, membership and funding position may affect the manner in which the assets should be invested.
- iii. Advising the Trustee of any changes in Fund's Investment Manager that could affect the interests of the Fund.
- iv. Advising the Trustee of any changes in the investment environment that could either present opportunities or problems for the Fund
- v. Undertaking reviews of the Fund's investment arrangements including reviews of the asset allocation policy and current Investment Manager, and selection of new managers/custodians/performance measures, as appropriate.

Appendix A: Responsibilities continued

Scheme Actuary

The Scheme Actuary will be responsible for, amongst other things:

- i. Liaising with the Investment Adviser on the suitability of the Fund's investment strategy.
- ii. Performing the triennial (or more frequently as required) valuations and advising on the appropriate contribution levels.
- iii. Commenting on the appropriateness of the investment strategy relative to the liabilities of the Scheme at the triennial valuations.
- iv. Advising the Trustee and Investment Adviser of any changes to contribution levels and funding level.

Appendix B

Investment Managers

The Trustee has appointed one Investment Manager: Legal & General Investment Management ('LGIM'), to manage the assets of the Fund.

The performance objectives are:

Fund	Benchmark	Performance Objective
AAA-AA-A Bonds Over 15 years Index	iBoxx £ Non-Gilts (ex-BBB) 15 Year+ Index	Track Index to within +/- 0.5% p.a. for two years in three
2034 Gilt Fund	2034 Single Stock Gilt	Track Index
2038 Gilt Fund	2038 Single Stock Gilt	Track Index
2042 Gilt Fund	2042 Single Stock Gilt	Track Index
2046 Gilt Fund	2046 Single Stock Gilt	Track Index
2049 Gilt Fund	2049 Single Stock Gilt	Track Index
2055 Gilt Fund	2055 Single Stock Gilt	Track Index
2060 Gilt Fund	2060 Single Stock Gilt	Track Index
2068 Gilt Fund	2068 Single Stock Gilt	Track Index

Appendix B: Investment Managers

Fees

The investment management fees paid to the Investment Manager are detailed below. LGIM charge a flat fee of £1,500 per annum plus ad valorem charges based on the average value of the Fund's holdings as follows:

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XPS Pensions Consulting Limited, Registered No. 2459442. XPS Investment Limited, Registered No. 6242672. XPS Pensions Limited, Registered No. 03842603. XPS Administration Limited, Registered No. 9428346. XPS Pensions (RL) Limited, Registered No. 5817049. Trigon