# <u>The James Walker (Leith) Ltd Retirement Benefits Scheme ("the Scheme")</u>

## Statement of Investment Principles

### 1. Introduction

This Statement is the framework on which we, the Trustees of the Scheme, base our policy on various matters governing decisions about the investments of the Scheme.

In constructing this Statement, we have obtained and considered written advice on investment strategy from our investment adviser and the Scheme Actuary. These are listed in the Appendix to this Statement.

We have drawn up this Statement in accordance with the requirements of Regulation 2 of the Occupational Pension Schemes (Investment) Regulations 2005, Section 35 of the Pensions Act 1995 ("the Act"), the sections of the Act referred to in Section 35 and it complies with subsequent legislative amendments.

We confirm that this Statement is consistent with the Statement of Funding Principles.

### 2. Investment Objective

As Trustees, our primary investment objective is to ensure that sufficient assets are available to pay members' benefits as and when they arise. In setting our investment objective we are guided by the strength of the employer, the state of maturity of the Scheme and its funding position. Subject to any constraints imposed by meeting the primary objective and by the requirement for diversification, our investment objective is to maximise the return on the assets.

### 3. Identifying and Managing Risks

Our investment adviser provides input to help us determine an appropriate level of risk and a suitable investment strategy for the Scheme. Our investment adviser also provides input to help us identify the risks associated with our investment strategy. The following paragraphs in this section list the key risks we have identified and how we manage them.

<u>Market return risk (long-term):</u> There is a risk that the return achieved by the markets over the long term falls short of the levels we chose for our actuarial valuation assumptions. We regularly monitor the performance of the investment markets. In the event of returns falling below our assumptions in the period between actuarial valuations we will consult our investment adviser on whether we should revise our assumptions at the next valuation. Should we do so, we would negotiate with the employer a recovery plan to restore the funding objective, unless there are compensating changes elsewhere.

Mismatching risk: Because it is impractical to achieve an exact match between assets and liabilities, there is always likely to be a mismatching risk in the Scheme. To the extent that our investment strategy seeks a higher return by deliberately accepting a mismatch, volatility in the Scheme's funding position will be greater and at times could result in it being weaker than it would have been if we had followed a more closely matched strategy. Were this to coincide with the date of an actuarial valuation, it could result in higher contributions being paid in the following inter-valuation period.

We take investment matching advice from the Scheme Actuary and our investment adviser. After each actuarial valuation we will review with our investment adviser the risks to the funding position and to members' security in any mismatched position we have adopted.

We will consider changing our investment strategy should we believe that the mismatch risk is too great but before making a decision we will discuss the implications with the employer and weigh up the positive and negative effects on beneficiaries' interests. We will also assess market movements already experienced since the valuation date and if there has been a significant adverse movement, we will consult the Scheme Actuary. We regularly monitor interest rates and price inflation, and will take advice from our investment adviser and/or Scheme Actuary should there be significant deviation from our assumptions.

Investment manager performance risk: There is a risk that our chosen managers fail to meet the investment performance objective or take excessive investment risk to achieve it. A shortfall in investment manager performance would have the same consequences as a shortfall in market returns.

We receive performance reports from the investment managers at least every 6 months. Our investment adviser provides a separate annual report on the investment managers' performance and process. We will use these to monitor the investment managers' performance and risk exposure against their objectives.

Investment manager operational risk: We expect our investment managers to ensure that they have suitable internal operating procedures in place and that they are complied with. In the event of losses arising from investment manager operational failure we expect to be fully compensated by the manager.

## 4. Investment Strategy Summary

The investment strategy was determined after consultation with our investment adviser, Scheme Actuary and the employer. Factors influencing our choice of strategy included the nature and incidence of the liabilities, prospective investment returns on various asset classes, the employer covenant and the funding position including the rates of return expected in our Statement of Funding Principles and Recovery Plan. We outlined our Investment Principles to the employer and provided him with a draft Statement as part of the consultation. We subsequently took account of the employer's views but appreciate that these may change over time. We will consult further with the employer if this is the case.

Our strategy recognises that, as a "frozen" scheme, its liabilities are maturing and that in the longer term it would be appropriate to move the assets towards those that would have a closer match to the liabilities. Notwithstanding this, given our assessment that the employer covenant is extremely strong, we are comfortable with the employer's preference for an aggressive, return seeking strategy. We are therefore prepared to accept a significant degree of mismatching risk on the basis that it is also acceptable to the employer. Accordingly, apart from retaining a cash "float" to meet expected benefit outgoings we have decided on investing the majority of the scheme's assets in equities and other higher risk assets both in the UK and overseas.

In deciding on our investment strategy, we made the assumptions which are set out in the Statement of Funding Principles.

The investment strategy will be reviewed periodically, and will be altered as appropriate to reflect changes in the liability profile, our assessment of the employer covenant, our financial and economic assumptions or our objectives.

## 5. Investment Managers

We delegate the day-to-day management of the assets within the investment strategy to professional investment managers who are regulated by the Financial Conduct Authority. The investment managers have full discretion to buy and sell investments on behalf of the Scheme, subject to the constraints, if any, of their mandates.

We may appoint more than one manager – currently there are five. With one exception, we have decided to use only managers of pooled funds or managers who may invest in pooled vehicles managed by other managers. One manager has been selected to manage a portfolio which will include investments directly into shares in the name of the Scheme as well as units in other pooled funds.

Following a review in late 2016, we decided that the Scheme's assets should be divided between five managers each managing approximately 20% of the funds, and each offering a different style of management. The characteristics of each portfolio are as follows:

1 A **"Traditional" balanced unitised fund** with assets spread over all asset classes including both fixed interest and equity type investments and with the manager having total discretion. For this we have selected a manager who will invest across all markets worldwide with a view to obtaining the best long-term return with a reasonable degree of security, and without taking extreme positions. Further, this manager is required to have a long-term track record of and an objective of attaining in future around median or better performance when compared with his peers. In selecting this manager, we take account of the asset allocation ranges within which he expects to operate (see appendix) and we expect him to consult with us should he decide to move beyond these expected ranges. Otherwise this manager has total discretion.

2 **An equity only tracker fund** investing 50% in UK equities and 50% in overseas equities. For this we have selected a manager with a substantial share of the market in tracker funds and who has demonstrated that its performance has indeed tracked the chosen indices very closely.

3 **A "Manager of Manager" portfolio** of investments in other managers' pooled funds. These to be smaller funds of all classes both UK and overseas investing in share classes less likely to be utilised by the managers of the first 2 tranches. We are expecting the manager of this portfolio to take higher risk positions than those of 1 above, and hence we understand and accept that this may well give rise to greater volatility but with a longer-term outcome of higher returns notwithstanding higher fees.

4 **A unitised fund investing solely in shares of smaller UK companies** in order to benefit from investing in an asset class that larger funds cannot. By its very nature this portfolio can be expected to demonstrate higher volatility.

5 **A "segregated fund" portfolio** of both direct investments in equities in the name of the Scheme and units in other managers' funds. This is in principle not unlike 3 above, but we expect it will give rise to a different mix of shares and hence a different outcome.

The details of these managers at the time of writing are given in the appendix.

We will periodically review and compare the performance of the managers; and should any manager's share of our fund diverge significantly from the initial 20%, we will consider rebalancing between them to restore this proportion.

Any changes we may make to investment managers' appointments will be included in each year's annual report to members.

We have put in place investment management agreements with the investment managers. These agreements govern our relationship with the investment managers and in particular set out the managers' fees.

The investment managers are responsible for managing the funds, investing money we allocate to them or realising investments to make repayments to us in accordance with our instructions, maintaining records of the Scheme's investments and reporting to us on performance of our assets.

## 6. Realisation of investments

Our policy is to realise assets only to meet benefit outgo in the event that contributions are not available to meet it, to rebalance our portfolio following asset price movements which have caused our allocation to depart significantly from our target or to implement a change in our investment strategy.

The investment managers have total discretion on the timing of purchases or sales of investments. Investment income is reinvested within the funds from which it is generated.

## 7. Environmental, Social and Governance Considerations

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustees have elected to invest mostly in pooled funds and cannot therefore in general directly influence the environmental, social, and governance policies and practices of the companies in which the pooled funds invest. The exception is the "segregated fund" portfolio, where the Trustees have delegated this responsibility to the investment manager.

The Trustees exclude non-financial matters in the selection, retention and realisation of investments.

The Trustees have no formal policy on either ESG or delegation of voting rights. Instead, they have delegated the responsibility for these matters to their investment managers, who will from time to time report on their current and future actions in these areas.

The Trustees will consider a manager's ESG credentials during their appointment process, and will ask for at least an annual written update on each manager's activity for the products used by the Trustees. The Trustees will include a statement in the annual report to advise members that this has been done.

The asset managers are not incentivised to align their investment strategy and decisions with the Trustees' policies, nor are they incentivised to make decisions based on assessments about medium to long-term performance of an issuer of debt or equity, nor to engage with those issuers in order to improve their performance. This arises by default for the pooled funds held, and as yet no such incentives have been introduced for the "segregated fund" portfolio. However, the managers may make such decisions and/or engage of their own accord.

Performance monitoring, manager remuneration and duration of manager appointments are covered elsewhere in this Statement, or in the Trustees' Annual Report. For the pooled funds, there is no targeted portfolio turnover or turnover range. As yet no such measures have been introduced for the "segregated fund" portfolio.

For the pooled funds, the Trustees do not need to have an engagement policy in relation to monitoring the capital structure of companies they invest in, or any associated potential conflicts of interest. The exception is the "segregated fund" portfolio, where the Trustees have delegated this responsibility to the investment manager.

From 1 October 2020 the Trustees will publish their SIP online for general public access.

In addition, from 1 October 2021, the Trustees will publish annually online an engagement policy implementation statement that outlines how the various requirements (set out above) have been followed during the year, and describes the voting behaviours of the asset managers on their behalf.

## 8. Additional Voluntary Contributions

As the Scheme is closed to accrual and member contributions there are no facilities for AVCs.

The Trustees hold assets invested separately from the main fund in the form of individual insurance policies securing additional benefits on a money purchase basis for those members who elected to pay additional voluntary contributions. Such contributions ceased when accrual of main scheme benefits ceased, but the policies continue in paid up form. Members participating in the arrangement each receive an annual statement confirming the amounts held to their account and the movements in the year.

## 9. Review

This Statement will be reviewed at least once every three years and in the event of a change in investment strategy or investment manager arrangements we will consult with our investment adviser, Scheme Actuary and employer.

For and on behalf of the Trustees of the James Walker (Leith) Ltd Retirement Benefits Scheme

| Signed:..[redacted]...... | Date:...16th September 2020 |
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| **For and on behalf of the Trustees of the James Walker (Leith) Limited Retirement Benefits Scheme** | |

## Appendix

**Current Advisers and Managers**

Scheme Actuary – David Watson FFA, Mercer, 7 Lochside Avenue, Edinburgh, EH12 9DJ

Investment Adviser – Jagger & Associates, Ground Floor, 14 Exchange Quay, Manchester M5 3EQ

**Investment Managers**

1 Scottish Widows

Managed Fund units in a Managed Fund Policy issued by Scottish Widows Ltd, an Insurance Company, whose assets are managed on their behalf by Schroder Investment Management Ltd. They currently operate the following asset allocation ranges for the Scottish Widows Ltd Managed Fund:

| | |
|---|---|
| UK Equities | 45 - 70% |
| Overseas Equities | 15 - 35% |
| Overseas Fixed Interest | 0 - 10% |
| Property | 0 - 10% |
| Cash | 0 - 10% |

The balance between the different asset classes is at Schroder's discretion. They examine the balance on a monthly basis.

2 Legal & General

Units in Legal & General's Global Equity 50:50 Index fund, which is a fund within an insurance policy issued by Legal & General Assurance (Pensions Management) Ltd and managed by Legal & General Investment Management Ltd. This is a tracker fund.

3 Seven Investment Management LLP ("7IM")

The Trustees have appointed 7IM to manage the funds on an unconstrained basis. They invest primarily through unitised funds across a wide range of asset classes, including UK Equities; International Equities; Fixed Interest; Commercial Property; Private Equity and Alternatives. Alternatives includes Hedge Funds and Structured Products.

4 Aberforth LLP

Aberforth UK Small Companies Fund is a Unit Trust investing entirely in shares of small cap UK companies, and managed by Aberforth LLP.

5 Investec Wealth & Investment

A portfolio manged as a "segregated fund" in the name of the Scheme by Investec Wealth & Investment Ltd. Their mandate is "substantial majority in equity/growth assets, medium/high risk, with a maximum of 5% in fixed interest. This will be achieved by a mix of direct investment in individual shares and investment in pooled funds managed by other managers in order to achieve sufficient spread.

# James Walker (Leith) Limited Retirement Benefits Scheme

# Implementation Statement

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustees have elected to invest mostly in pooled funds and cannot therefore in general directly influence the environmental, social, and governance (ESG) policies and practices of the companies in which the pooled funds invest. The exception is the "segregated fund" portfolio, where the Trustees have delegated this responsibility to the investment manager. The Trustees exclude non-financial matters in the selection, retention and realisation of investments. The Trustees have no formal policy on either ESG or delegation of voting rights. Instead, they have delegated the responsibility for these matters to their investment managers, who will from time to time report on their current and future actions in these areas.

Aberforth have a page on their website that addresses their engagement and voting framework, together with examples of the framework in action.

7im provide an annual summary of their ESG consideration of external funds, but as a fund of funds manager they do not have voting rights.

Investec provide an annual summary of their engagement and voting activities, but it is at the firm-level, not the Trustees' specific mandate.

Legal & General provide a quarterly summary of their engagement and voting activities, but it is at the firm-level, not the Trustees' specific fund.

Scottish Widows provide an annual fund-specific listing for their engagement and voting activities.

The asset managers are not incentivised to align their investment strategy and decisions with the Trustees' policies, nor are they incentivised to make decisions based on assessments about medium to long-term performance of an issuer of debt or equity, nor to engage with those issuers in order to improve their performance. This arises by default for the pooled funds held, and as yet no such incentives have been introduced for the "segregated fund" portfolio. However, the managers may make such decisions and/or engage of their own accord. For the pooled funds, the Trustees do not need to have an engagement policy in relation to monitoring the capital structure of companies they invest in, or any associated potential conflicts of interest. The exception is the "segregated fund" portfolio, where the Trustees have delegated this responsibility to the investment manager.