

Pension and Life Assurance Plan of Penspen Limited

Statement of Investment Principles (“SIP”)

Purpose of this Statement

This SIP has been prepared by the Trustee of the Pension and Life Assurance Plan of Penspen Limited (the “Plan”). This statement sets out the principles governing the Trustee’s decisions to invest the assets of the Plan.

The Plan’s investment strategy is derived from the Trustee’s investment objectives. The objectives have been taken into account at all stages of planning, implementation and monitoring of the investment strategy.

Details on the Plan’s investment arrangements are set out in the Investment Implementation Document (“IID”).

Governance

The Trustee of the Plan makes all major strategic decisions.

When making such decisions, and when appropriate, the Trustee takes proper written advice. In preparing this SIP and IID the Trustee has taken advice from Isio Services Limited, who are qualified by their ability in, and practical experience, of financial matters, and have the appropriate knowledge and experience. Investment consulting fees may be payable in respect of investment work undertaken on a fixed fee or time-cost basis – as negotiated between the Trustee and the consultant.

Investment objectives

The Trustee invests the assets of the Plan with the aim of ensuring that all members’ current and future benefits can be paid. The Plan’s funding position will be reviewed on an ongoing basis to assess the position relative to the funding target. The Plan’s funding target is specified in the Statement of Funding Principles.

The Plan’s present investment objective is to secure members’ benefits via the purchase of annuities held in the name of the Trustee. The Trustee believes that the investment objectives are best managed using an insurance policy (With Profits), which includes valuable guaranteed annuity rates.

Investment strategy

The Trustee takes a holistic approach to considering and managing risks when formulating the Plan’s investment strategy.

The insurance policy with Clerical Medical does not permit any investment outside of the With-Profits Fund.

The Trustee recognises that the investment strategy is subject to risks, in particular the risk of a mismatch between the performance of the assets and the calculated value of the liabilities. This risk is monitored by regularly assessing the funding position and the characteristics of the assets and liabilities.

Investment Management Arrangements

The IID sets out more information on the Investment Management Arrangements. In this SIP the term “investment manager” refers to the With Profits provider. The investment manager is regulated under the Financial Services and Markets Act 2000.

All decisions about the day-to-day management of the assets have therefore been delegated to the investment manager via a written agreement. The delegation includes decisions about:

- Selection, retention and realisation of investments including taking into account all financially material considerations in making these decisions;
- The exercise of rights (including voting rights) attaching to the investments;
- Undertaking engagement activities with investee companies and other stakeholders, where appropriate.

The investment manager is expected to exercise powers of investment delegated to them, with a view to following the principles contained within this statement, so far as is reasonably practicable.

As the Plan’s assets are invested in a With Profits policy, the custody of the holdings is arranged by the provider.

Investment Manager Monitoring and Engagement

The Trustee monitors and engage with the Plan’s investment managers and other stakeholders on a variety of issues. Below is a summary of the areas covered and how the Trustee seeks to engage on these matters with the investment manager.

Areas for engagement	Method for monitoring and engagement
Performance, Strategy and Risk	<ul style="list-style-type: none">• The Trustee receives regular performance reports which details information on the underlying investments’ performance, strategy and overall risks.
Environmental, Social, Corporate Governance factors and the exercising of rights	<ul style="list-style-type: none">• The Trustee’s investment manager provide reports on how they have engaged with issuers regarding social, environmental and corporate governance issues.

Employer-related investments

The policy of the Trustee is not to hold any employer-related investments as defined in the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005.

Direct investments

Direct investments, as defined by the Pensions Act 1995, are products purchased without delegation to an investment manager through a written contract. When selecting and reviewing any direct investments, the Trustee will obtain appropriate written advice from their investment advisers.

Compliance

This Statement has been prepared in compliance with the Pensions Act 1995, the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005. Before preparing or subsequently revising this Statement, the Trustee consulted the sponsoring company and took appropriate written advice. The Statement is reviewed at least every three years, and without delay after any significant change in the investment arrangements.

Adopted by the Trustee of the Pension and Life Assurance Plan of Penspen Limited

on 23 September 2020

Appendix A – Risks, Financially Material Considerations and Non-Financial matters

A non-exhaustive list of risks and financially material considerations that the Trustee has considered and sought to manage is shown below.

The Trustee adopts an integrated risk management approach. The three key risks associated within this framework and how they are managed are stated below:

Risks	Definition	Policy
Investment	The risk that the Plan's position deteriorates due to the assets underperforming.	<ul style="list-style-type: none"> Selecting an investment objective that is achievable and is consistent with the Plan's funding basis and the sponsoring company's covenant strength.
Funding	The extent to which there are insufficient Plan assets available to cover ongoing and future liability cash flows.	<ul style="list-style-type: none"> Funding risk is considered as part of the actuarial valuation. The Trustee will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time.
Covenant	The risk that the sponsoring company becomes unable to continue providing the required financial support to the Plan.	<ul style="list-style-type: none"> When developing the Plan's investment and funding objectives, the Trustee takes account of the strength of the covenant ensuring the level of risk the Plan is exposed to is at an appropriate level for the covenant to support.

The Plan is exposed to a number of underlying risks relating to the Plan's investment strategy, these are summarised below:

Risk	Definition	Policy
Interest rates and inflation	The risk of mismatch between the value of the Plan assets and present value of liabilities from changes in interest rates and inflation expectations.	Interest rate and inflation risks are delegated to and managed by the investment manager.
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	Liquidity management is delegated to the investment manager.
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	Market risk management is delegated to the investment manager.

Credit	Default on payments due as part of a financial security contract.	Credit risk management is delegated to the investment manager.
Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Plan's investments.	The Trustee monitors the manager on an ongoing basis. Due to the nature of the With Profits Fund, the Trustee does not have control over the manager's investment activities.
Currency	The potential for adverse currency movements to have an impact on the Plan's investments.	The currency hedging policy is delegated to the investment manager.
Non-financial	Any factor that is not expected to have a financial impact on the Plan's investments.	Non-financial matters are not taken into account in the selection, retention or realisation of investments.

Appendix B – Investment management arrangements

The Trustee has the following policies in relation to the investment management arrangements for the Plan:

How the investment managers are incentivised to align their investment strategy and decisions with the Trustee’s policies.	<ul style="list-style-type: none">• As the Plan is solely invested in a pooled With Profits Fund, there is not scope for the fund to tailor their strategy and decisions in line with the Trustee’s policies. However, the Trustee invests in a diverse With Profits Fund that is aligned to achieving the investment objective.• The Plan’s With Profits mandate with the investment manager is not subject to a performance related fee, however, the investment manager deducts a charge from assets on an ongoing basis. This deduction covers the guaranteed annuity rates and is subject to market conditions. It is also charged in addition to manager expenses.
How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.	<ul style="list-style-type: none">• The Trustee reviews the investment manager’s performance relative to medium and long-term objectives as documented in the investment management agreements.• The Trustee does not incentivise the investment manager to make decisions based on non-financial performance.
How the method (and time horizon) of the evaluation of investment managers’ performance and the remuneration for their services are in line with the Trustee’s policies.	<ul style="list-style-type: none">• The Trustee reviews the performance of all of the Plan’s investments on a net of cost basis to ensure a true measurement of performance versus investment objectives.• The Trustees evaluate performance on at least an annual basis, to ensure the investment objectives are achieved.• Investment manager fees are reviewed at least annually in the context of historic rates charged by the investment manager, and explanations of any changes.
The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.	<ul style="list-style-type: none">• The Trustee does not directly monitor turnover costs. However, the investment manager is incentivised to minimise costs as they are measured on a net of cost basis.
The duration of the Plan’s arrangements with the investment managers	<ul style="list-style-type: none">• The duration of the arrangements is considered in the context of the type of fund the Plan invests in.• The With Profits Fund is open ended, the duration is therefore flexible. The Trustee from time-to-time considers the appropriateness of these investments and whether they should continue to be held.

Investment Implementation Document (“IID”)

This Investment Implementation Document (“IID”) covers the Pension and Life Assurance Plan of Penspen Limited (the “Plan”) and details the policy of the Trustee relating to the implementation of the Plan’s investment arrangements, based on the Principles set out in the Plan’s Statement of Investment Principles (“SIP”) dated September 2020.

Investment strategy

The Scheme’s current investment strategy is to invest 100% of the Plan assets in a Group Pension Contract (GPC) held with Clerical Medical Investment Group (CMIG). The contributions paid to the GPC are invested in CMIG’s With-Profits Fund.

The underlying investments are typically held in Fixed Income Securities; Equities; Property and Cash.

At retirement, members’ benefits may be secured via the purchase of an annuity in the name of the Trustee, largely from CMIG where guaranteed annuity rates apply.

Investment structure and mandates

CMIG receives a management fee on the basis of the assets under management which includes the investment management fee. The total fee paid to CMIG can change and is determined by CMIG based on market conditions and historic rates. It is expected to be around 0.6% of the underlying assets. In addition, there are costs of providing the investment and annuity rates guarantees, which can vary from year to year (equivalent to 0.9% of the surrender value in 2020).

CMIG is regulated under the Financial Services and Markets Act 2000.

**Adopted by the Trustee of the Pension and Life Assurance Plan of Penspen Limited
on 21 September 2020**