Hadley Industries PLC Pension and Life Assurance Scheme

Statement of Investment Principles

March 2020

1. Introduction

1.1 This document outlines the investment principles adopted by the Trustees in relation to the Hadley Industries PLC Pension and Life Assurance Scheme ("the Scheme").

1.2 This document has been prepared in order to comply with the requirements of the Legislation, in particular:

- Section 35 of the Pensions Act 1995
- The Occupational Pension Schemes (Investment) Regulations 2005.
- The Occupational Pension Schemes (Investment) (Amendment) Regulations 2010.
- The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018

1.3 The Trustees have also considered:

- The 2001 Myners review of institutional investment (and subsequent updates)
- Guidance issued by the Pensions Regulator
- The UK Stewardship Code

1.4 In preparing this Statement the Trustees have taken written advice from Quattro Pensions and have consulted with the sponsoring Employer.

1.5 The Scheme provides defined benefits and is exempt approved. There is no Employer-related investment and none is intended. The Employer intends to pay all contributions in accordance with the agreed Schedule of Contributions.

1.6 The Trustees will review this document at least every three years.

1.7 A copy of this Statement is available for inspection by Scheme members.

2. Responsibilities

2.1 The Trustees set the general investment policy, based on professional advice, but delegate responsibility for day to day investment decisions to their appointed investment managers. The Trustees ensure that any person to whom such responsibility is delegated is authorised under the Financial Services and Markets Act 2000. A copy of this Statement will be provided to the investment manager.

Trustees

2.2 The Trustees' responsibilities include, but are not limited to the following tasks:

- Setting the overall investment objectives and making strategic investment decisions to achieve these objectives.
- Reviewing the content of this document, at least after each actuarial valuation and amending if necessary, in consultation with the Employer and based on written advice from appropriately qualified advisers.
- Ensuring the investment policy remains appropriate for the nature of the Scheme's liabilities given the strength of support from the Employer and by taking advice from the Scheme Actuary.
- Ensuring that benefits can be paid as and when they fall due.
- Appointing the investment managers and investment advisers.

- Monitoring the investment returns achieved by the investment managers and considering the managers' compliance with the requirements of the Pensions Act concerning diversification and suitability.
- Reviewing the fee structure for investment managers at least once every 3 years.
- Ensuring compliance of the investment arrangements with the principles outlined in this document.
- Ensuring compliance with regulatory guidance and matters of law as required of trustees.

Investment Managers

2.3 The investment managers' responsibilities include:

- Using their discretion to invest the assets of the Scheme as they deem appropriate, within the guidelines contained in this document.
- Having regard to the need for diversification.
- Providing the Trustees with regular statements describing the investment performance of funds under their management, as well as comparable figures from benchmark indices.

Investment Advisers

2.4 The Trustee may from time to time appoint an investment advisor for:

- Advising on an appropriate investment strategy to meet the Trustees' investment objectives within an appropriate level of risk.
- Reviewing the performance of existing investment managers.

Scheme Lawyer

2.5 The Scheme's lawyer may be consulted to advise on:

- How the Trustees' investment strategy achieves and maintains compliance with Legislation.
- The contractual aspects of agreements with investment managers.

Scheme Actuary

2.6 The Scheme Actuary's responsibilities include:

- Performing the statutory valuations and advising the Trustees of any significant changes in liability profile that could affect the investment strategy.

Scheme Administrator

2.7 The Scheme Administrator's responsibilities include:

- Advising the Trustees of the cash required to meet benefit payments as and when they fall due. This includes provision of periodic cash flow forecasts.

3. Beliefs

The Trustees' investment beliefs, which underpin their decision making, are as follows:

3.1 Risk is necessary to achieve return.

3.2 The Trustees are able to choose active fund managers who will be able to outperform passive funds, after fees.

3.3 The employer's covenant to the Scheme is strong enough for the Trustees to accept a high degree of risk in their investment strategy. The Trustees believe there is no need for hedging of inflation or interest rate risks.

3.4 The choice of which fund manager to invest with, and which stocks they in turn should invest in, should not be influenced by ESG considerations.

4. Objectives

4.1 The Trustees' investment objectives are as follows:

- To acquire suitable assets such that these, together with the investment of new contributions from the Employer, are expected to be sufficient to meet the cost of current and future benefits as they fall due.
- To limit the risk of assets failing to meet the liabilities over the long term.
- To minimise the long-term costs of the Scheme by maximising the return on the assets, whilst having regard to the objectives shown above.
- To manage the volatility of returns, in order to control the risk of volatility in the Employer's contributions.
- To pay due regard to the sponsoring Employer's preferred investment strategy coupled to the Trustees' perception of the Employer's ability to fund higher contributions should the returns achieved from the agreed investment strategy require additional cash injections.

4.2 The Trustees set the investment objectives in the expectation that the Scheme is continuing in its current form.

Policy

4.3 The Trustees' general policy is to invest and disinvest in a way that helps maintain 1/3 in growth assets, 1/3 in bonds and cash, 1/3 in property. However, these allocations are approximate and the Trustees will not be in breach of this Statement if the actual asset allocation deviates from this benchmark from time to time. There will be no regular re-balancing.

4.4 The growth assets will be managed on a discretionary basis by the fund manager, Brown Shipley. The manager will normally invest the growth portfolio in equities (UK and International), absolute return funds, structured products, private equity funds and cash.

4.5 The bond / cash portfolio will be managed on a discretionary basis by the fund manager, Brown Shipley.

4.6 Any investment or disinvestment to manage the day-to-day cashflow needs of the Scheme will be through the fund manager at Brown Shipley.

4.7 The Trustees have delegated to their investment managers the discretion over the day to day management of their funds, including short-term asset allocation and stock selection.

Risk

4.8 The Trustees manage the investments in the expectation that the Scheme is continuing in existence. If they become aware of circumstances which lessen the certainty of this the Trustees will take steps to adjust the investment strategy as appropriate at the time.

4.9 The Trustees recognise that the performance on real assets are likely to be more volatile than from monetary assets. The Trustees will rely on the investment managers to produce a diversified portfolio to reduce the stock-specific risk faced by the Scheme.

4.10 The Trustees will also rely on the investment managers to ensure that any investment in bonds will be similarly diversified to reduce the bond-specific risk faced by the Scheme.

Suitability

4.11 The Trustees have taken advice from an investment consultant in relation to the suitability of the investment policy given the liability profile of the Scheme. It is acknowledged that the strategy is likely to result in some volatility of the funding position, and additional contributions may be needed from the Employer to support the policy. The Trustees will keep the investment policy under review.

Custody Risk

4.12 Where investment is in pooled funds the Trustees will have a right to the cash value of the units rather than to the underlying assets. The managers of the pooled fund are responsible for the appointment and monitoring of the custodian of the fund's assets. Brown Shipley are responsible for the custody of assets for money invested with them.

Socially Responsible Investments

4.13 The Trustees have delegated responsibility for the selection, retention and realisation of investments to their investment managers, and the impact of social, environmental or ethical considerations on these decisions is left to their discretion. The Trustees have not given the fund managers any instructions or restrictions regarding these matters.

4.14 The Trustees believe that environmental, social and governance ("ESG") issues will not have a material financial impact on investment returns.

4.15 The Trustees have given each individual fund manager their full discretion when evaluating ESG issues and in exercising rights, engagement activites[1], and stewardship obligations attached to the Scheme's investments. The Trustees have not given the fund managers any instructions or restrictions regarding these matters. The Trustees reserve the right to request from the manager information regarding their actions.

Delegation of Voting Rights

4.16 The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to the investments to the investment managers.

[1] Under the Legislation "Engagement activities" include the methods by which, and the circumstances under which, the trustees would monitor and engage with relevant persons about relevant matters. "Relevant matters" includes (but is not limited to) matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance. "Relevant persons" includes (but is not limited to) an issuer of debt or equity, an investment manager or another holder of debt or equity.

Scheme Funding

4.17 The Trustees require the Scheme Actuary to review the funding level of the Scheme regularly. The latest valuation was undertaken as at 30 April 2016 which indicated the Scheme was 70% funded on the Statutory Funding Basis as at that date.

Additional Voluntary Contributions (AVCs)

4.18 Some members may obtain further benefits by paying Additional Voluntary Contributions (AVCs) to the Scheme. The liabilities in respect of these AVCs are equal to the value of the investments bought by the contributions. From time to time the Trustees review the choice of investments available to members to ensure that they remain appropriate to the members' needs.

5. Current Investment Strategy

Investments

5.1 The Trustees aim is to maintain 1/3 in growth assets, 1/3 in bonds and cash, 1/3 in property. However, these allocations are approximate and the Trustees will not be in breach of this Statement if the actual asset allocation deviates from this benchmark from time to time.

5.2 The Trustees have delegated the day to day management of the growth and bond portfolios to Brown Shipley, who have full discretion to deal within these portfolios on behalf of the Trustees.

5.3 The Trustees have invested c. £1.65m into a commercial property, which will be leased to a company or companies outside of the sponsoring employer's group. The Trustees intend that the balance of funds to be invested in property will be invested via a pooled fund, though, at the date of writing, money is held in cash pending the selection of an appropriate manager. The Trustees may invest this money in cash or elsewhere indefinitely, without being in breach of this Statement.

5.4 The Trustees will review the investments at least every three years.

Expected return on investments

5.5 The Trustees expect the total returns on their overall portfolio to be 3% pa above the long-term gilt yield, after fees.

Manager Objectives

5.6 The Trustees have set the following performance targets:

Fund	Performance Objective
Brown Shipley Fixed Income Fund Bond element Cash Element	To outperform: FTSE-A UK Conventional Gilts All Stocks Index Sterling 3-month LIBOR
Brown Shipley Higher Risk Fund UK Equities International Equities Alternatives Cash	To outperform: FTSE All-Share Index FTSE All World excl. UK index IA Targeted Absolute return index Sterling 3-month LIBOR
Direct Property investment	To achieve total returns via a combination of income and capital growth in excess of RPI inflation
Pooled property investment	To achieve total returns via a combination of income and capital growth in excess of RPI inflation

5.7 The Trustees require the managers to outperform their benchmark net of fees over rolling three-year periods.

5.8 More detailed objectives may be agreed from time to time with the investment manager.

6. Investment Restrictions

6.1 No direct investment shall be made in any of the following:

- Securities issued by the sponsoring Employer.
- Property owned by or leased to the sponsoring Employer.

6.2 The Trustees have given their fund manager, Brown Shipley, their full discretion to manage money on their behalf, subject only to the restrictions described in 6.1 above.

6.3 For any other investment the following additional restrictions shall be observed:

- No more than 15% of the Scheme's assets can be held in the securities of any one company unless this is an investment company where the underlying assets are highly diversified.
- No more than 15% of the Scheme's assets can be knowingly invested in assets that are not readily realisable.
- There should be no gearing of the portfolio.
- The manager may not use the portfolio to underwrite new issues.

7. Risks and Risk Management

7.1 The Trustees recognise that there are a number of risks involved with investment of the assets of the Scheme

- **Solvency risk and mismatching risk**: addressed through the choice of funds and through ongoing triennial actuarial valuations.
- **Manager risk**: addressed by the performance objectives set out in Section 4; and by the ongoing monitoring of manager performance.
- **Liquidity risk**: The Trustees will monitor cash flow requirements regularly. The Trustees policy is to ensure that the assets are sufficiently realisable to enable the Trustees to meet their obligations as they fall due.
- **Political risk**: the risk of political intervention having an adverse effect on asset performance is reduced by diversification of the assets across companies and restrictions on the amounts allowed to be invested in foreign countries.
- **Currency risk**: The risk of mismatching the currency of the assets to that of the liabilities is reduced by the choice of fund or restricting the amount of overseas investment.
- **Volatility risk**: The Trustees recognise that the returns on assets can be volatile. The Trustees will rely on the investment managers to produce a diversified portfolio to reduce the volatility. The Trustees acknowledge that the volatility may result in the need for additional contributions from the Employer in order to meet benefit payments.

7.2 The Trustees will continually monitor these risks.

This statement has been agreed by the Trustees on 30 April 2020.

Signed on behalf of the Trustees by

Matt Trump

Hadley Industries PLC Pension and Life Assurance Scheme

(the “Scheme”)

Addendum to Statement of Investment Principles

04/05/21

This document updates the Trustees’ Statement of Investment Principles (SIP), and should be read in tandem with that document. Its purpose is to:

- set out further details of the Trustees’ policies in relation to the stewardship of the Scheme’s assets,
- describe the arrangements that exist between the Trustees and the asset managers, and
- to ensure the SIP remains compliant with the relevant legislation:
  - Section 35 of the Pensions Act 1995
  - Section 244 of the Pensions Act 2004
  - The Occupational Pension Schemes (Investment) Regulations 2005
  - The Pension Protection Fund (Pensionable Service) and Occupational Pension Scheme (Investment and Disclosure) (Amendment and Modification Regulations 2018)
  - The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

Monitoring the capital structure of investee companies

The Trustees delegate the responsibility for monitoring the make-up and development of the capital structure of investee companies to their Investment Managers.

Managing conflicts of interest

The Trustees have a formal conflict of interest policy and register, which is reviewed at each Trustee meeting. These documents record any actual or potential conflicts of interest in relation to investee companies or the Investment Manager, while also setting out a process for the management of any such conflict of interest.

Incentivising asset managers

The Trustees will select Investment Managers who are primarily remunerated via an agreed fixed annual percentage of the asset value for each underlying fund. The Trustees may also agree to pay a performance related fee to its fund managers.

The Trustees do not directly incentivise the Investment Manager to align its investment strategy and decisions with the Trustees’ policies and objectives. Neither do the Trustees incentivise the asset manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.

However, the Trustees will review their Investment Managers from time to time and will select funds that they believe operate in line with the Trustees' policies and objectives, and will meet the Trustees' return requirements overall.

Evaluation of the asset manager's performance and remuneration

The Trustees will review the Investment Managers' remuneration and performance relative to the market costs and performance of managers with similar strategies.

Monitoring portfolio turnover

The Trustees expect the Investment Managers to change underlying holdings only to an extent required to meet their investment objectives. The reasonableness of such turnover will vary by fund and change according to market conditions.

The Trustees therefore do not set a specific portfolio turnover target for their strategy or the underlying funds.

The Investment Managers are expected to provide information on portfolio turnover and associated costs to the Trustees so that this can be a factor in the Trustees' review process.

The duration of the arrangement with the asset manager

The Trustees will consider on a regular basis whether or not the Investment Manager and AVC provider remain appropriate to continue to manage the Scheme's investments and AVCs. The Trustees expect the Investment Manager to supply the Trustees with sufficient information each quarter to enable them to monitor financial and non-financial performance.

Frequency of review

The Trustees will review Investment Managers' performance via the managers' own quarterly reports and will conduct a fuller review to consider all of the matters referred to above at least once every three years.