

# Statement of Investment Principles

## The Hendre Limited Retirement Benefits Scheme – ML98

### 1 Introduction

#### 1.1 Background

The Statement of Investment Principles sets out the principles governing investment decisions for the Hendre Limited Retirement Benefits Scheme ('the 'Scheme').

The Scheme is a defined contribution (DC) pension arrangement.

#### 1.2 Statutory Information

This Statement has been prepared in accordance with regulation 2A of the Investment Regulations 2005.

The Trustee will review this Statement in consultation with the Scheme Adviser and the Principle Employer (Hendre Limited) at least every 3 years and without delay following any significant change in investment policy or demographic profile of the Scheme's membership.

### 2 Investment Beliefs

#### 2.1 Investment principles

The Trustee has considered a set of guiding principles to provide an objective and transparent framework for consistent decision making. These principles act as a guide to enable effective delivery of all investment functions.

The principles are that:

- Understanding the Principle Employer's intentions with respect to the Scheme and its attitude towards pension provision for its employees is important to developing and maintaining an appropriate investment strategy
- Understanding member characteristics, circumstances and likely attitudes is also important to developing and maintaining an appropriate investment strategy
- Different members have different attitudes to risk and needs for investment returns
- Taking investment risk is usually rewarded in the longer term
- Asset allocation (i.e. choice between asset classes such as equities, bonds and property) is the key tool for managing risk and return
- In some markets, passive management can deliver better returns (net of fees) than active management
- Some asset classes and investment strategies necessarily involve active management as passive alternatives may not be available

#### 2.2 Investment Risks

In determining which investment options to make available the Trustee with advice from the Scheme Adviser has considered the investment risk associated with defined contribution pension investment. The risk can be defined as the uncertainty in the

ultimate amount of savings upon retirement. There are a number of factors which contribute towards this uncertainty. Some of these factors (such as the amount of contributions paid and the length of time these contributions are invested) cannot be managed by the investment options made available to members.

The Trustee recognises that uncertainty in the following factors can be managed to some extent by choice and allocation of investments. The list below is not exhaustive but covers the main risks that the Trustee faces and how they can be managed.

### **Principle risks**

The principle investment risks which most members face are:

**Inflation risk** – The risk that the investment returns over members' working lives will not keep pace with inflation' and do not produce adequate retirement benefits.

The Scheme only has one viable option for investment and whilst this invests in a diversified range of assets, the smoothing aspect of the With-Profits Fund is likely to generate less growth over the longer term but will also not experience large falls in value due a downward turn in the markets.

The Trustee makes members aware that they are able to redirect their investment from the Scheme to the employer's Qualifying Workplace Pension Scheme in order to directly access a wide range of funds including equities and property, which are likely to provide returns in excess of inflation over the long term.

**Benefit conversion risk** – The risk that market movements in the period just before retirement lead to an increase in the cost of turning members' fund values into retirement benefits

The Scheme provides a Guaranteed Annuity Rate (GAR) at normal retirement age, which provides certainty for members wanting to take their benefits as an annuity at retirement, protecting them against further falls in annuity conversion rates.

**Volatility/Market risk** – The risk that adverse movements in investment market values in the period prior to the retirement lead to a reduction in the anticipated level of benefits.

The Trustee manages market risk primarily through investing in a pooled fund which invests in a diversified range of assets.

Smoothing is an important feature of With-Profits Policies and by smoothing out short-term stock market fluctuations, the amounts members have invested in these funds together with the amounts paid out are partially insulated from such fluctuations and any shocks in the Stock Market, which inevitably could significantly reduce the value of a member's pension fund.

### **Other investment risks**

Other potentially material investment risks which members may face include:

**Counterparty risk** – This is two-fold. Firstly there is a risk that counterparties holding derivative based assets may default leading to a reduction in a fund's value. Secondly

there is a risk that the Pension Provider can be adversely affected by an event that can lead to losses of underlying unitholder funds.

The Scottish Widows Limited Board manages counter party risk by investing in a diverse range of assets and underlying funds that offer suitable counterparty protection. In addition, limits on the exposure to any one counterparty are set from time to time, in order to further mitigate this risk.

**Active management risk** – The risk that an investment manager will not deliver investment returns in line with investment markets generally or indeed, in line with other investment managers.

**Liquidity risk** - The risk that funds which hold more in illiquid assets will not be able to accept investments or disinvestments. It is generally noted that the greater risk is when redemptions are 'gated'.

The Scottish Widows With-Profits Fund maintains a high level of liquidity through holding money market instruments and UK Government Bonds. The Trustee is therefore, satisfied that this provides sufficient liquidity and that this may be realised quickly if required.

**Environmental Social and Governance (ESG) risks** – The extent to which ESG issues are reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations.

**Climate risk** – The extent to which climate change causes a material deterioration in asset values as a consequence of factors including but not limited to; policy change, physical impacts and the expected transition to low carbon economy.

### **Managing Investment risks**

The Trustee believes that taking investment risk is usually rewarded in the long term, while asset allocation (i.e. the choice between asset classes, such as equities and bonds) is the key tool for managing the balance between risk and return.

The Trustee considers that the process of smoothing and in particular the certainty of the GAR provided will help to mitigate the principle investment risk.

The Trustee also monitors the age profile of the Scheme's membership to ascertain the appropriateness of the investment and GAR.

### **Financially material considerations**

The Trustee recognises that the consideration of financially material consideration over the appropriate time horizon of the investment, including ESG factors and climate risk are relevant to the development, selection and monitoring of the Scheme's investment options. The Trustee further recognises that the financial materiality of any factor including ESG factors, is context specific and whilst some factors may be relevant to certain stocks/assets they may not be relevant to others. The Trustee will consider such factors in the development and implementation of their investment arrangements for the purposes of determining the selection, retention and realisation of their investment arrangements, where there is sufficient data or evidence to allow them to systematically do so. Where there is not sufficient data or evidence, they will engage with the Pension

provider and the Scheme Adviser to ensure that they take such considerations into account with their decision making.

### 2.3 Expected returns on investments

The expected returns on the principle asset classes and fund types within the scheme are:

**Equities** – should achieve a strong positive return relative to inflation over the longer – term but tend to be the most volatile asset class over the shorter term

**Property** – should achieve a positive return relative to inflation over the longer-term which is lower than that for equities but with a lower level shorter- term volatility than equities

**Corporate Bonds** - should achieve a positive return relative to inflation over the longer-term which is lower than that for equities and property, but with a lower level of shorter-term volatility than equities or property

**Nominal Fixed Interest Government Bonds (Gilts)** – should deliver a positive return (before inflation) over the longer- term which is lower than that of equities, property and corporate bonds, but with a lower level of shorter- term volatility than equities, property and corporate bonds.

**Index-linked Government Bonds (Index-Linked Gilts)** – should deliver a return that takes into account inflation levels over the longer-term, but with a lower level of shorter-term absolute volatility than equities, property and corporate bonds.

**Cash** – should deliver a positive return which may not always keep pace with inflation, whilst normally providing a minimal level of volatility and a high degree of capital security.

**Diversified Growth Funds** – invest in varying mix of asset classes with an objective of delivering a target level of positive returns relative to inflation over the longer- term, with a target level of shorter-term volatility lower than equities.

### 2.4 Investments held

The Scheme invests through a pooled investment vehicle considered appropriate for tax-exempt approved occupational pension schemes.

The Trustee has appointed Scottish Widows to provide secured administration and investment services through an insurance policy. Scottish Widows provides a range of Unit-Linked funds within the Scheme which are not currently utilised as all active members invest in the Scottish Widows With-Profits Fund.

The With-Profits Fund has a defined bench mark or objective set by the Scottish Widows Limited Board. The underlying managers of the funds (set out in Appendix 3) are responsible for the choice of the individual stocks and are expected to maintain a diversified portfolio within each asset class, and within the ranges set by the Scottish Widows Limited Board.

The Trustee considers that all of the stated asset classes are suitable investments for the Scheme.

## 2.5 Realisation of investments

Funds need to be sold to make payments of benefits and to undertake fund switches as requested by scheme members.

The Trustee expects the Pension Provider to be able to realise the Scheme's funds within a reasonable timescale. The Trustee recognises that the investment managers may at times need to impose restrictions on the timing of purchases and sales of funds (most notably investing in property) in some market condition to protect the interests of all investors in a fund.

## 2.6 Diversification

The investment managers are expected to maintain a diverse portfolio subject to funds' 'benchmarks and guidelines', set by the Scottish Widows Limited Board. The Fund Manager is then responsible for investing the funds into the underlying asset types, with specialist Fund Managers responsible for managing each respective portion of the fund.

## 2.7 Member attitude to risk

The Trustee recognises that

- Members have differing investment needs and that these needs change during the course of their working lives; and
- Attitudes to investment risks and the need for investment turns, will vary from member to member and will also vary for each member over time, in particular as they approach retirement.

Members can invest in a limited range of Unit Linked funds within the Scheme. However, active members wanting to invest in Unit Linked funds will redirect their contributions to the employer's Qualifying Workplace Pension Scheme with Aegon, in order to take advantage of lower charges and have access to a wide range of alternative investment options.

The demographic of the scheme membership is primarily 'approaching retirement' and therefore, the Trustee considers that smoothing and the investment approach taken by the Scottish Widows With-Profits Fund is appropriate.

## 2.8 Member benefit choices at retirement

Members now have a choice at retirement of:

- Taking cash
- Taking Uncrystallised Funds Pension Lump Sums ('UFPLS') for several years into retirement;
- Using Flexible Access Income Drawdown ('FAD') during their retirement or;
- Buying an annuity at retirement or several years into their retirement.

Currently only cash and annuity purchase at retirement together with a single UFPLS will be provided within the Scheme. Members wanting to use FAD and perhaps buy an annuity on the open market or at a later date need to transfer the value of their fund to an arrangement outside of the Scheme.

The Trustee believes that member's choices of benefits at retirement will be strongly influenced by;

- The size of their fund in the Scheme and the amount eligible for the GAR
- The size of their deferred benefits from previous occupational pension schemes (especially defined benefits) and workplace group personal pension plans
- Other sources of income including non-pension savings and partners pension provision

In practise the Trustee can only reliably take the likely value of the members personal fund value in the Scheme into account. The Trustee believes that a typical member, without significant sources of income outside the Scheme could be expected to act mostly as follows:-

**Small pots** – would be taken as cash or UFPLS over a few years in retirement

**Medium sized pots** – would be taken as UFPLS over several years in retirement or buy an annuity

**Large pots** - would be taken partly as cash at retirement and then FAD income drawdown during retirement although some may use part of their fund to buy an annuity at or some years into retirement

**GAR** – would provide an annuity above standard market rates at normal retirement age, with the member taking any non GAR fund as cash up to their Tax Free Cash limit

### **3. Investment Objectives**

#### 3.1 Overall objectives

The main investment objective of the Trustee is to provide a suitable investment option into which members can continue to invest to provide benefits for themselves (and potentially their dependants) at retirement.

The Trustee believes that understanding the demographics and likely attitudes to risk/reward of the members are essential to developing and maintaining an appropriate investment strategy. It is also believed that members typically seek to optimise the value of the retirement benefits from a given level of contributions while aiming to protect the value of those benefits in the year approaching retirement against falls and fluctuations in the costs of turning fund values into retirement benefits/income streams.

The Trustee recognises that it is impractical to take account of each member's individual objectives and therefore, attempts to provide the investment option that fits the general characteristics of the membership in catering for their needs.

#### 3.2 Investments

The Scheme's investments held in respect of the Scheme's members are believed to be invested in the best interests of the Scheme's members. In the event of a potential conflict (e.g. between the Trustees and the members), priority is given to the interests of the members and their dependants.

The Trustee's policy for ensuring that the assets of the Scheme are invested in members' best interests is to 1) provide certainty for members who are eligible to receive a GAR at

normal retirement age, by enabling them to continue investing in the Scottish Widows With-Profits Fund, and 2) to provide members with access to an alternative Qualifying Workplace Pension Scheme with the employer which offers a wide range of lower cost unit linked investment options should they simply wish to diversify or no longer want to benefit from the GAR.

The active Scheme membership consists only of members who were contributing to the With-Profits Fund prior to February 1999, which provided a GAR up until this date and which was subsequently removed for all new contributions and increments to this fund.

### 3.3 Lifestyle option & self-select funds

The Scheme does not offer a Lifestyle Option because it is not used as a qualifying scheme for auto enrolment purposes.

Members can redirect their contributions towards the employers Qualifying Workplace Pension Scheme with Aegon which offers default investment fund with a wide range of alternative investment funds with or without lifestyle options.

## 4. Governance

### 4.1 Trustee Powers

The Trustee will always act in the best interests of the members and will assess the suitability of different types of investments to meet the needs of members.

#### Responsibilities

The parties principally responsible for the governance and operation of the Scheme are:

**The Employer** – who pays the employer contributions and provides membership data

**The Trustee** – who run the Scheme in accordance with its Rules

**Pension Provider** – to continue to provide access to the With-Profits Fund

**Fund Managers** – undertake the day-to-day investment management of the underlying funds' assets

**Administrator** – maintains records of members' contributions, funds and retirement benefits

**Adviser** – advises the Trustees in relation to the Scheme and this Statement

**Members** – should choose whether to invest in the Scheme in order to continue to secure their GAR along with any alternative funds in which to invest the balance of their contributions due

The Trustee does not give advice to individual members on their fund selection.

Members are encouraged to take independent financial advice when making their decisions.

In preparing this Statement, the Trustee has taken into account current guidance from the Pensions Regulator.

The Trustee is satisfied that Scottish Widows has the experience and expertise to carry out their role and has delegated all day-to-day investment management decisions to Scottish Widows, authorised under the Financial Services & Markets Act 2000.

The responsibilities are described in greater detail in Appendix 1

#### 4.3 Conflicts of interest

The Trustee maintains a register of interests of each of the Trustees and their advisers. The register is reviewed if any party declares a change. At each Trustee Meeting the Trustees are asked to declare any new potential conflicts. Any identified potential conflicts between stakeholders are identified in a timely manner and are dealt with appropriately.

#### 4.4 Communication

The Trustee communicates regularly with all stakeholders. This includes the following:

- Consulting the Principle Employer on the content of this Statement
- Providing communications to Scheme members
- Producing the annual Report and Accounts which includes the Chair's Statement
- Completing an annual return to the Pensions Regulator;
- Meeting regularly with the Scheme Administrator and the Scheme Adviser
- Providing members with an annual statement

#### 4.5 Service Providers

Details of the current service providers are set out in Appendix 2 to this Statement

#### 4.6 Fees

Details of the fees related to the Scheme and paid for by the Trustee and the employer are set out in the Scheme Report and Accounts.

### **5. Monitoring**

#### Monitoring the With-Profits Fund

The Trustee regularly reviews the performance of the With-Profits Fund and the value of the GAR against the standard Open Market Annuity rates.

#### 5.1 Charges & transaction costs

The charges borne by members (expressed as the 'Total Expense Ratio') are monitored by the Trustee annually as are any transaction costs to ensure that they represent value for money relative to the needs of the membership.

Details of the current charges are set out in Appendix 4 to this Statement

#### 5.2 Investment process

The Trustee monitors the processes whereby contributions in respect of members are invested and money is disinvested in order to pay benefits.

### 5.3 Chair's Statement

The Chair's Statement included in the Annual Report and Accounts confirms the results of the monitoring during the preceding scheme year.

## 6. Stewardship

The Trustee recognises that stewardship encompasses the exercise of voting rights, engagement by and with fund managers and the monitoring of compliance with the agreed policies.

### 6.1 Members' financial interests

The Pension Provider and investment managers will have the financial interests of all members as their first priority when choosing investments.

### 6.2 Voting and engagement

The Scheme invests in a pooled investment in order to keep costs down and ensure adequate diversification. As a result, a policy of delegating voting decisions on stocks has been adopted which is left to the underlying investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value and will be in line with their own house policy.

The Trustee does not engage directly but believes it is appropriate for the fund managers to engage with key stakeholders such as corporate management, regulators and governance bodies, relating to their investments in order to improve corporate behaviours, improve performance and mitigate financial risks.

### 6.3 Non-financial factors

The Trustee recognises that some members will have strong personal views that are not related to financial considerations but that influence where they believe their savings should, or should not be invested.

To address non-financial factors, members are given access to a range of suitable alternative investments available in the employer's Qualifying Workplace Pension Scheme and members are free to redirect their contributions accordingly.

## 7. Review of Statement

The Statement of Investment Principles was completed in March 2020 and it will be next reviewed in 2023.

Signed on behalf of the Trustee of the Scheme

Name	Signature	Date

## Appendix 1 – Responsibilities

The responsibilities outlined in section 4 are as follows:-

Stakeholder	Key Responsibilities
Trustee	<ul style="list-style-type: none"> <li>• Operating the Scheme in accordance with the Trust Deed and Rules</li> <li>• Reviewing the suitability of the investments available to members</li> <li>• Having regard to the need for diversification and suitability of investments</li> <li>• Appointing advisers as necessary for the good stewardship of the Scheme</li> <li>• Assessing the performance, charges and processes of the Pension Provider by means of regular, but not less than annual reviews of the investment performance</li> <li>• Consulting with the Principle Employer when reviewing investment policy issues</li> <li>• Appointing, monitoring and dismissing professional advisers</li> <li>• Preparation of the Investment Principles and reviewing the content of the Statement and modifying it if deemed appropriate in consultation with the Principle Employer and the Scheme Adviser</li> <li>• Monitoring the compliance of the investment arrangements with this Statement on a regular basis</li> <li>• Preparing an annual Chair’s Statement for the inclusion in the Annual report and Accounts</li> </ul>
Investment Managers	<ul style="list-style-type: none"> <li>• Responsible for the day-to-day investment management of the underlying funds’ assets</li> <li>• Informing the Pension Provider of any material change in the internal objectives and guidelines</li> <li>• Exercising voting rights on shareholdings in accordance with their general policy</li> </ul>
Pension Provider	<p>The Funds in the Scheme are accessed via the Pension Provider; Scottish Widows. The Pension Provider is responsible for investing the contributions, ensuring that the underlying funds are priced correctly, whilst maintaining sufficient liquidity.</p> <ul style="list-style-type: none"> <li>• Ensuring that the underlying funds are priced correctly</li> <li>• Informing the Trustee of any material changes in the internal objectives and guidelines of any funds used by the Scheme</li> <li>• Ensuring that the investment of the Scheme’s assets is in compliance with prevailing legislation and within the constraints of this Statement.</li> </ul>
Custodian	<p>All custodial duties are undertaken by the relevant Investment Manager; Scottish Widows Limited Board.</p> <p>The principle responsibilities may include:</p> <ul style="list-style-type: none"> <li>• The safekeeping of the assets of the funds;</li> <li>• Processing the settlement of transactions;</li> </ul>

	<ul style="list-style-type: none"> <li>• Providing statements of the assets and associated cashflows;</li> <li>• Processing dividends and tax reclaims in a timely manner; and</li> <li>• dealing with corporate actions</li> </ul>
Scheme Adviser	<p>The role of Scheme Adviser is to advise the Trustees in the following areas:</p> <ul style="list-style-type: none"> <li>• The regular updating of the Statement of Investment Principles;</li> <li>• Training or education on any investment or trustee related matter as and when required;</li> <li>• General advice in respect of the Scheme administration or benefit provision</li> </ul>
Members	<p>Select Funds consistent with:</p> <ul style="list-style-type: none"> <li>• The objectives they have for funding income in retirement (and their contribution level)</li> <li>• Their level of understanding and ability to take investment decisions</li> </ul>
Employer	<ul style="list-style-type: none"> <li>• Providing clear objectives to the Trustee to enable the Trustee to effectively govern the Scheme</li> <li>• Paying contributions</li> </ul>
Administration	<p>The Administrator is responsible for passing contributions to the Pension Provider and ensuring that the correct amount is collected and allocated to the members. The Administrator is also responsible for record-keeping, providing members with their annual statements and organising benefits when they become due.</p> <ul style="list-style-type: none"> <li>• The prompt reconciliation of contributions</li> <li>• Undertaking and passing on instructions for pension scheme switches, as and when they arise</li> <li>• Maintaining members contact details</li> <li>• Arranging members benefits as and when they fall due with an emphasis on ensuring that the GAR can be secured, where required</li> </ul>

## **Appendix 2 – Service Providers**

The Trustee has appointed the following service providers

### **Pension Provider**

Scottish Widows

### **Scheme Administration**

The administration of the Scheme is carried out by Scottish Widows

### **Scheme Adviser**

Origen Financial Services

### Appendix 3 – Investment Options

In delivering the overall objective of the GAR, the Trustees adhere to the following supporting objectives:

- The strategy should seek to preserve the benefit of the GAR for members at their normal retirement age
- The strategy should maximise the pension income and cash lump sum at retirement by taking the appropriate risk
- The strategy should seek to reduce the risk the member's retirement income

#### The With-Profits Fund

The fund invests in a diverse range of assets and investments that are expected to provide significant returns over long periods.

The Scottish Widows Limited Board specifies how much of the With-Profits Fund can be invested in each type of asset and regularly reviews the asset mix of the With-Profits Fund, with the aim of:

- targeting the best long term performance
- ensuring that the With-Profits-fund can always meet its commitment to the guarantees

The fund manager a subsidiary of Aberdeen Standard Investments is then responsible for investing the funds into the underlying asset types. Specialist fund managers are responsible for managing each respective portion of the fund.

From the 31<sup>st</sup> December 2019, the investment strategy is as follows:-

<b>Bonds</b>	<b>%</b>
UK Gilts	1
Corporate Bonds	3
<b>Equities</b>	<b>%</b>
UK Equities	25
US Equities	6
Japanese Equities	4
European Equities	5
Pacific Equities	3
Emerging Equities	9
<b>Other</b>	<b>%</b>
Property	12
Absolute Return	14
Other investments (mainly cash deposits, private debt & emerging market debt)	15
Loans secured against commercial property	3

Other unit linked investment options are available as listed in Appendix 4

## Appendix 4 – Fees and Charges

### Investment Management

The overall level of the expected fees, as well as the alignment of interest with the Scheme has been considered when selecting the fee structure. Fees are paid by members based on fund value each month which is deducted from their personal account.

The Pension Provider applies the following charges.

#### With-Profits Fund:

<b>Scottish Widows With-Profits Fund</b>	<b>Charges per annum %</b>
Capital Fee	0.3
Investment Management Fee	0.07
Administration Fee	0.65
Transaction Fee	0.2
Total Annual Fee	1.22%

Members investing in the With-Profits Fund cap their contributions at the pre February 1999 level in order to preserve their entitlement to the GAR available at their normal retirement age.

#### Unit Linked Funds:

<b>Scottish Widows Pension Fund</b>	<b>Total Charge per annum %</b>
Cash Series 1	0.875
Fixed Interest Series 1	0.875
Index Stock Series 1	0.875
International Series 1	0.876
Mixed Series 1	0.891
Property Series 1	0.967
UK Equity Series 1	0.875
<i>Plus Bid/Offer Spread of 0.5% on buying/selling units</i>	

Members wanting to invest in unit linked funds redirect their contributions to the employer's workplace pension scheme in order to benefit from the wide range of investment options available along with lower charges.