

# **Munro & Miller Fittings Ltd Retirement Benefits Scheme**

## **Statement of Investment Principles**

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Date signed:

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# 1. Introduction

- 1.1. This is the Statement of Investment Principles prepared by the Trustees of the Munro & Miller Fittings Ltd Retirement Benefits Scheme (the Scheme). This statement sets down the principles which govern the decisions about investments that enable the Scheme to meet the requirements of:
  - the Pensions Act 1995, as amended by the Pensions Act 2004;
  - the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010.
  - the Occupational Pension Schemes (Charges and Governance) Regulations 2015;
  - the Occupational Pension Schemes (Investment) (Amendment) Regulations 2018; and
  - the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.
- 1.2. The sponsoring employer of the Scheme is now insolvent, and so in preparing this statement the Trustees have consulted with the insolvency practitioner, and obtained advice from Barnett Waddingham LLP, the Trustees' investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority and licensed by the Institute and Faculty of Actuaries for a range of investment business activities.
- 1.3. This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.
- 1.4. The Trustees will review this statement at least every three years or if there is a significant change in any of the areas covered by the statement.
- 1.5. The investment powers of the Trustees are set out in the Trust Deed & Rules.
- 1.6. The Scheme is in the process of securing benefits with an insurer, having previously entered a PPF Assessment Period. The Assessment Period has now ended, and as a result of being greater than fully funded relative to the anticipated cost of securing PPF compensation levels with an insurer, the Scheme is now being run on a closed scheme basis, with the intention of winding up shortly.

# 2. Choosing investments

- 2.1. The Trustees' policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustees consider the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.
- 2.2. The day-to-day management of the Scheme's assets is delegated to one or more investment managers. The Scheme's investment managers are detailed in the Appendix to this Statement. The investment managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights.
- 2.3. The Trustees review the appropriateness of the Scheme's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the investment managers with respect to performance within any guidelines set. The Trustees will also consult the insolvency practitioner before amending the investment strategy.

### 3. Investment objectives

- 3.1. The Trustees have discussed key investment objectives in light of an analysis of the Scheme's liability profile as well as the constraints the Trustees face in achieving these objectives. As a result, the Trustees' main investment objectives are to secure benefits with an insurer, and therefore has objectives to:
- to ensure that the Scheme can meet the members' entitlements as they fall due;
  - to manage the expected volatility of the returns achieved in order to control the level of volatility in the Scheme's funding level;
  - to invest in assets of appropriate liquidity which will generate income and capital growth to meet the cost of current benefits which the Scheme provides;
  - to reduce the risk of the 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 above objectives.
- 3.2. The Trustees are aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Scheme's liabilities. The Trustees have obtained exposure to investments that they expect will meet the Scheme's objectives as best as possible.

### 4. Kinds of investments to be held

- 4.1. The Scheme is permitted to invest in a wide range of assets including equities, bonds, cash, property, alternatives and insurance contracts.
- 4.2. The Trustees monitor from time-to-time the employer-related investment content of their portfolio as a whole and will take steps to alter this should they discover this to be more than 5% of the portfolio. Typically this check is carried out annually by the Scheme's auditors. In practice, however, the insolvency of the employer means that employer-related investment is not possible.

### 5. The balance between different kinds of investments

- 5.1. The Scheme invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained within the Appendix to this Statement.
- 5.2. The Trustees consider the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Appendix to this Statement.
- 5.3. From time to time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate any short-term cashflow requirements or any other unexpected items.
- 5.4. The Trustees are aware that the appropriate balance between different kinds of investments will vary over time and therefore the Scheme's asset allocation will be expected to change as the Scheme's liability profile matures.

### 6. Risks

- 6.1. The Trustees have considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities, and considered ways of managing/monitoring these risks:

<b>Risk versus the liabilities</b>	The Trustees will monitor and review the investment strategy with respect to the liabilities in conjunction with each actuarial valuation. The investment strategy will be set with consideration to the appropriate level of risk required for the funding strategy as set out in the Scheme's Statement of Funding Principles.
<b>Covenant risk</b>	The insolvency of the sponsoring employer means that the Trustees consider the level of investment risk which is appropriate in the absence of the possibility of additional funding.
<b>Solvency and mismatching</b>	This risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustees are aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Scheme's funding basis.
<b>Asset allocation risk</b>	The asset allocation is detailed in the Appendix to this Statement and is monitored on a regular basis by the Trustees.
<b>Investment manager risk</b>	The Trustees monitor the performance of each of the Scheme's investment managers on a regular basis in addition to having meetings with each manager from time to time as necessary. The Trustees have a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate.
<b>Concentration risk</b>	Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.
<b>Liquidity risk</b>	The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Scheme's cashflow requirements. The Scheme's administrators assess the level of cash held in order to limit the impact of the cashflow requirements on the investment policy.
<b>Currency risk</b>	The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management.
<b>Loss of investment</b>	The risk of loss of investment by each investment manager and custodian is assessed by the Trustees. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud).
<b>ESG/Climate risk</b>	The Trustees have considered long-term financial risks to the Scheme and ESG factors as well as climate risk are potentially financially material and will continue to develop its policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments in order to avoid unexpected losses.

## 7. Expected return on investments

- 7.1. The Trustees have regard to the relative investment return and risk that each asset class is expected to provide. The Trustees are advised by their professional advisors on these matters, who they deem to be

appropriately qualified experts. However, the day-to-day selection of investments is delegated to the investment managers.

- 7.2. The Trustees recognise the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.
- 7.3. In considering the expected return from investments, the Trustees recognise that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.
- 7.4. Having established the investment strategy, the Trustees monitor the performance of each investment manager against an agreed benchmark as frequently as appropriate according to market conditions and the Scheme's funding position. The Trustees meet the Scheme's investment managers as frequently as is appropriate, in order to review performance.

## 8. Realisation of investments

- 8.1. The Trustees have delegated the responsibility for buying and selling investments to the investment managers. The Trustees have considered the risk of liquidity as referred to above.
- 8.2. Ultimately, the investments will all have to be sold when the Scheme's life comes to an end. In this situation, the Trustees are aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Scheme accounts.

## 9. Financially material considerations, non-financial matters, the exercise of voting rights, and engagement activities

- 9.1. Social, environmental and ethical considerations are set by each of the investment managers, who also exercise the rights attaching to the investments in any pooled funds. Each of the Scheme's investment managers will ultimately act in the best interests of the Scheme's assets to maximise returns for a given level of risk.

### 9.2. Financially Material Considerations

The Trustee has considered financially material factors such as environmental, social and governance ('ESG') issues as part of the investment process to determine a strategic asset allocation over the length of time during which the benefits are provided by the Scheme for members. It believes that financially material considerations (including climate change) are implicitly factored into the expected risk and return profile of the asset classes they are investing in.

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustee has elected to invest through pooled funds. The Trustee acknowledges that it cannot directly influence the environmental, social and governance policies and practices of the companies in which the pooled funds invest. However, the Trustee does expect its fund managers and investment consultant to take account of financially material considerations when carrying out their respective roles.

The Trustee accepts that the Scheme's assets are subject to the investment manager's own policy on socially responsible investment. The Trustee will assess that this corresponds with its responsibilities to the beneficiaries of the Scheme with the help of its investment consultant.

An assessment of the ESG and responsible investment policies forms part of the manager selection process when appointing new managers and these policies are also reviewed regularly for existing managers with the help of the investment consultant. The Trustee will only invest with investment managers that are

signatories for the United Nations Principles of Responsible Investment ('UN PRI') or other similarly recognised standard.

The Trustee will monitor financially material considerations through the following means:

- Obtain training where necessary on ESG considerations in order to understand fully how ESG factors including climate change could impact the Scheme and its investments;
- Use ESG ratings information provided by its investment consultant, to assess how the Scheme's investment managers take account of ESG issues; and
- Request that all of the Scheme's investment managers provide information about their ESG policies, and details of how they integrate ESG into their investment processes, via its investment consultant.

If the Trustee determines that financially material considerations have not been factored into the investment managers' process, it will take this into account on whether to select or retain an investment.

### 9.3. **Non-Financially Material Considerations**

The Trustee has not considered non-financially material matters in the in the selection, retention and realisation of investments.

### 9.4. **Stewardship**

The Trustee's policy on the exercise of rights attaching to investments, including voting rights, is that these rights should be exercised by the investment manager on the Trustee's behalf, having regard to the best financial interests of the beneficiaries.

The investment manager should engage with companies to take account of ESG factors in the exercise of such rights as the Trustee believes this will be beneficial to the financial interests of members over the long term. The Trustee will review the investment managers' voting policies, with the help of its investment consultant, and decide if they are appropriate.

The Trustee also expect the fund manager to engage with investee companies on the capital structure and management of conflicts of interest.

If the policies or level of engagement are not appropriate, the Trustee will engage with the investment manager, with the help of its investment consultant, to influence the investment managers' policy. If this fails, the Trustee will review the investments made with the investment manager.

The Trustee has taken into consideration the Financial Reporting Council's UK Stewardship Code and expect investment managers to adhere to this where appropriate for the investments they manage.

### 9.5. **Environmental, Social and Governance (ESG) and Climate Change Risks**

There is a risk that ESG issues and climate change are not considered as part of the investment process and so may expose the portfolio to unexpected risks. This can lead to losses that may not have been factored into any expectations of future investment returns. The Trustee has considered ESG issues including climate change as part of the investment process.

## 10. Policy on arrangements with asset managers

The Trustees are required by legislation to have a policy covering various aspects of the Scheme's arrangement with the asset managers through which the Scheme invests.

The Trustees' policies are set out in Appendix 2.

## 11. Agreement

- 11.1. This statement was agreed by the Trustees, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the insolvency practitioner, the investment managers, the actuary and the Scheme auditor upon request.

**Date:**.....

**Agreed on behalf of the Munro & Miller Fittings Ltd Retirement Benefits Scheme**

# Appendix 1 Note on investment policy of the Scheme as at May 2024 in relation to the current Statement of Investment Principles

## 1. The balance between different kinds of investment

The Scheme has a strategic asset allocation as set out in the table below, which has been agreed after considering the Scheme's liability profile, funding position, expected return of the various asset classes and the need for diversification.

### Rebalancing

The Trustees recognise that the asset allocation of investments in different asset classes will vary over time as a result of market movements. The Trustees implemented the strategy below after taking advice in February 2022 (followed up in September 2022), designed to broadly match the profile of the liabilities. Frequent rebalancing is therefore not expected to be required, as the allocation movements over time should reflect the liability profile, but this position will be reviewed from time to time, taking account the costs of rebalances.

Portfolio	Asset class	Allocation (%)
<b>Protection portfolio</b>	LGIM Buy and Maintain Credit Fund	14
	LGIM Sterling Liquidity Fund	31
	LGIM All Stocks Index-Linked Gilts Index Fund	12
	LGIM Over 15 Year Gilts Index Fund	33
	LGIM All Stocks Gilts Index Fund	10
<b>Total</b>		<b>100</b>

## 2. Choosing investments

The Trustees have appointed the following investment managers to carry out the day-to-day investment of the Scheme:

- Legal and General Investment Management ("LGIM")

The investment manager is authorised and regulated by the Financial Conduct Authority.

The investment aim for each investment manager is given below:

Investment manager	Fund	Aim
LGIM	LGIM Buy and Maintain Credit Fund	The fund aims to capture the credit risk premium within a globally diversified portfolio of predominantly investment grade credit and to preserve value over the course of the credit cycle by avoiding defaults and securities experiencing a significant deterioration in credit quality.
	LGIM Sterling Liquidity Fund	The fund aims to offer access to liquidity whilst providing capital stability. The investment objective of the fund is to provide diversified exposure and a competitive return in relation to SONIA (Sterling Overnight Index Average). Performance may be shown relative to this rate, but the fund does not specifically target this performance objective.
	LGIM All Stocks Index-Linked Gilts Index Fund	The investment objective of the fund is to track the performance of the FTSE Actuaries UK Index-Linked Gilts All Stocks Index to within +/-0.25% p.a. for two years out of three.
	LGIM Over 15 Year Gilts Index Fund	The investment objective of the fund is to track the performance of the FTSE Actuaries UK Conventional Gilts Over 15 Years Index to within +/-0.25% p.a. for two years out of three
	LGIM All Stocks Gilts Index Fund	The investment objective of the fund is to track the performance of the FTSE Actuaries UK Conventional Gilts All Stocks Index to within +/-0.25% p.a. for two years out of three.

The performance of the investment managers will be monitored as frequently as the Trustees consider appropriate in light of the prevailing circumstances. The monitoring takes into account both short-term and long-term performance.

The AVC arrangement is reviewed from time to time.

### 3. Fee agreements

The fee arrangements with the investment managers are summarised below:

Investment manager	Fund	Annual Management Charge (% p.a.)
LGIM	LGIM Buy and Maintain Credit Fund	0.15
	LGIM Sterling Liquidity Fund	0.125
	LGIM All Stocks Index-Linked Gilts Index Fund	0.10
	LGIM Over 15 Year Gilts Index Fund	0.10
	LGIM All Stocks Gilts Index Fund	0.10

As well as the annual management charges given above, additional fund expenses will apply (covering legal, accounting and auditing fees for each fund). The additional fund expenses will vary from quarter to quarter. LGIM also apply a flat annual charge of £1,500 for schemes that invest below £10m across multiple pooled funds (with the benchmark managed by the Trustees).

The Trustees have appointed Barnett Waddingham LLP to advise on investment matters. Barnett Waddingham are normally remunerated on a time-cost basis, although fixed fees may be agreed for specific tasks.

## 4. Investments and disinvestments

Investments and disinvestments are usually made so as to maintain the actual asset allocation at the time of the investment or disinvestment (i.e. proportionately across the different funds held by the Scheme).

## Appendix 2 Policy on investment manager arrangements

### **Incentives to align investment managers investment strategy and decisions with the trustees' policies**

The Scheme invests in pooled funds and so the Trustee acknowledges the fund's investment strategy and decisions cannot be tailored to the Trustee's policies. However, the Trustee sets its investment strategy and then selects managers that best suits its strategy taking into account the fees being charged, which acts as the fund managers incentive.

The Trustee uses the fund objective/benchmark as a guide on whether its investment strategy is being followed and monitors this regularly.

### **Incentives for the investment manager to make decisions based on assessments about medium to long-term financial and nonfinancial 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**

The Trustee selects managers based on a variety of factors including investment philosophy, and process, which it believes should include assessing the long term financial and non-financial performance of the underlying company.

The Trustee also considers the managers voting and ESG policies and how it engages with the company as it believes that these can factors can improve the medium to long-term performance of the investee companies.

The Trustee will monitor the fund managers' engagement and voting activity on an annual basis as they believe this can improve long term performance. The Trustee expects their managers to make every effort to engage with investee companies but acknowledges that their influence may be more limited in some asset classes, such as bonds, as they do not have voting rights.

The Trustee acknowledges that in the short term, these policies may not improve the returns it achieves, but do expect those companies with better financial and non-financial performance over the long term will lead to better returns for the Scheme.

The Trustee believes the annual fee paid to the fund managers incentivise them to do this.

If the Trustees feel that the fund managers are not assessing financial and non-financial performance or adequately engaging with the companies they are investing in, it will use these factors in deciding whether to retain or terminate a manager.

### **How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the trustees' policies**

The Trustee reviews the performance of each fund semi-annually compared to its objective.

The Trustee assesses the performance periods of the funds over at least a 3-5 year period when looking to select or terminate a manager, unless there are reasons other than performance that need to be considered.

The fund managers' remuneration is considered as part of the manager selection process and is also monitored regularly with the help of its investment consultant to ensure it is in line with the Trustee's policies.

## **How the trustees monitor portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range**

The Trustee monitors the portfolio turnover costs on an annual basis.

The Trustee defines target portfolio turnover as the average turnover of the portfolio expected in the type of strategy the manager has been appointed to manager. This is monitored on an annual basis.

The Trustee has delegated the responsibility of monitoring portfolio turnover costs and target portfolio turnover to their investment consultant.

## **The duration of the arrangement with the asset manager**

The Trustee plans to hold each of its investments for the long term but will keep this under review.

Changes in investment strategy or change in the view of the fund manager can lead to the duration of the arrangement being shorter than expected.