Fergusson Wild Group Pension & Assurance Scheme

Statement of Investment Principles

May 2023

Statement of Investment Principles

The Trustee of the Fergusson Wild Group Pension and Assurance Scheme ("the Scheme") has prepared this Statement of Investment Principles ("the SIP") in accordance with the Pensions Act 1995[1] ("the Act") as amended and the Occupational Pension Scheme (Investment) Regulations 2005 as well as the principles recommended by the Myners Code.

It supersedes any previous SIP and reflects the investment policy agreed by the Trustee in respect of assets covering Defined Benefit liabilities and AVCs.

This SIP will be reviewed at least every three years or immediately after any significant change in investment policy.

Before preparing this SIP the Trustee has:

- Obtained and considered the written advice from the Scheme's Investment Consultant, XPS Pensions Group, who is suitably qualified through ability and experience and has appropriate knowledge.
- Consulted the employer.

Choosing investments

The Trustee sets the investment strategy and investment policies for the Scheme.

The Trustee has considered the Scheme's liabilities and strength of Employer covenant when setting the investment strategy and policies.

The Trustee relies on Investment Managers for the day-to-day management of the Scheme's assets but retains control over all decisions made about the investments in which the Scheme invests.

Where Investment Managers are delegated discretion under Section 34 of the Act, the Investment Manager will exercise their investment powers in accordance with the Act, relevant and subsequent regulations, and this SIP.

The Trustee relies on the Investment Managers to appoint appropriate Custodians for pooled funds who are responsible for the safekeeping of the assets of the Scheme.

The Trustee relies on the Investment Managers to appoint appropriate Administrators or Registrars for pooled funds who are responsible for keeping records of the Scheme's entitlement within the pooled funds.

[1] *As amended 30th November 2018*

Investment objective and strategy

Investment objective

The Trustee has set the following objectives:

- To limit the risk of the assets failing to meet the liabilities, in particular in relation to the Technical Provisions under Section 222 of the Pensions Act 2004, by considering the liability profile of the Scheme when setting the asset allocation policy
- To achieve a return on the Scheme assets which is compatible with the level of risk considered appropriate with the long-term growth target of closing the deficit on a long-term liability basis.
- To reduce risk when the opportunity arises without impacting on the Scheme's ability to achieve its objectives;
- To acquire suitable assets to achieve the above objective whilst controlling volatility and the long-term costs of the Scheme.
- To adhere to the provisions contained within this SIP.

Investment strategy

The Trustee intends to meet the investment objective by investing in a diversified portfolio of return-seeking and liability-matching assets.

The Trustee can utilise a wide range of passively and actively managed investments, including (but not limited to):

- Assets or funds primarily utilised to match liability risk (typically movements in long term interest rates and inflation) including gilts, swaps and repos and the use of derivatives and leverage.
- Assets or funds primarily used to outperform the liabilities over the long-term including equity, private markets, hedge funds, commodities, currency, bonds and other forms of credit, property, infrastructure and insurance including the use of derivatives and leverage. Illiquid assets can be used where a higher return or lower risk is expected.
- Assets or funds primarily used to provide immediate liquidity such as cash or cash instruments.
- Assets or funds that combine liability outperformance, liability hedging or liquidity characteristics including the use of derivatives and leverage.
- Annuity or insurance policies designed to match the specific characteristics of the Scheme's liabilities or membership.

The actual strategy adopted for the Scheme, including the allocation to different assets, and expected returns is set out in the Appendix.

Investment restrictions

The Trustee intends to adhere to the following restrictions:

- No more than 5% of Scheme assets can be held in investments related to the Employer.
- Whilst borrowing on a temporary basis is permitted, this option will only be utilised where absolutely necessary or where it is expected to reduce overall risk (e.g. for very short time periods during an asset transfer).
- Investment in derivative instruments may only be made where they contribute to risk reduction or facilitate efficient portfolio management.
- Stock lending is permitted at the discretion of the Scheme's Investment Managers in line with their overall investment objectives, policies and procedures.

Investment risk

The Trustee has identified a number of risks including (but not limited to):

- Employer covenant risk
- Liability risks: Interest rate risk, Inflation risk, Longevity risk
- Asset risks: Equity risk, Property risk, Currency risk, Credit risk, Interest rate risk, Inflation risk
- Strategy risks: Asset allocation risk, Liquidity risk (including collateral risk), Growth asset risk (including currency risk)
- Implementation risks: Investment manager risk, Counterparty risk, Operational risk

These risks are measured and managed by the Trustee as follows:

- The Trustee has set an investment strategy that adheres to the contents of this SIP.
- The Trustee receives strategic investment advice from the Investment Consultant that may include risk modelling and quantification (e.g. Value at Risk) whenever strategic changes are considered.
- The Trustee undertakes regular monitoring of the Scheme's investments supplemented by information provided by both the Investment Managers and Investment Consultant, as well as advice from the latter.
- The Trustee periodically assesses the strength of the Employer covenant and uses external expertise where appropriate.
- The Trustee delegates the day-to-day management of some of these risks to the appointed Investment Managers.
- The Trustee considers the Investment Managers' role and approach to managing risk is considered when selecting appropriate Investment Managers.
- The Trustee utilises custodian relationships to ensure Scheme assets are held securely.
- The Trustee assesses whether appropriate controls are put in place by themselves, the Investment Consultant, Investment Managers and Custodians (where there is a direct relationship).

There are a number of non-financial risks that may impact the Scheme. The Trustee may consider these risks when appropriate.

Realising investments

The Trustee recognises that assets may need to be realised to meet Scheme obligations at any time.

The Trustee will ensure that an appropriate amount of readily realisable assets are held at all times, and this will be part of the assessment for including new investments within the strategy.

The Trustee will from time to time agree a policy for sourcing cash from the investments as required. Further details are set out in the Appendix.

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 policies on socially responsible investment. The Trustee will assess that these correspond 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' processes, it will take this into account on whether to select or retain an investment.

Non-Financially Material Considerations

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

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, where practical to do so, 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 expects the fund managers to engage with investee companies on the capital structure and management of conflicts of interest.

If the policies or level of engagement are not deemed to be 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 expects investment managers to adhere to this where appropriate for the investments they manage.

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.

Investment manager arrangements

Incentives to align investment managers' investment strategy and decisions with the trustee's policies

The Scheme invests in pooled funds and so the Trustee acknowledges that the investment manager's investment strategies 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. Investment managers are incentivised to perform in line with expectations for their specific mandate as their continued involvement as investment managers as part of the Scheme's investment strategy – and hence the fees they receive – are dependent upon them doing so.

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 investment 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 companies in which they invest.

The Trustee also considers the managers voting and ESG policies and how they engage with the underlying companies as it believes that these 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 it believes this can improve long term performance. The Trustee expects investment 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 does 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 incentivises them to do this.

If the Trustee feels 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 the involvement of an investment 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 trustee's policies

The Trustee reviews the performance of each fund quarterly on a net of fees basis 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 regular reporting also looks at performance over the previous quarter and 12 month periods.

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

How the trustee monitors 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.

The Trustee has delegated the responsibility of monitoring portfolio turnover costs and targeted 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.

Appendix – Investment strategy

Overall strategy

The investment strategy of the Scheme is summarised in the table below. The allocation to each underlying asset class will be monitored on a regular basis by the Trustee such that it adheres to the agreed investment framework and target liability hedge ratio. The investment framework may evolve over time subject to the Trustee's risk and return objectives.

Asset class	Expected return (above gilts pa)**	Manager and fund	Objective	AMC (pa)
Private Markets	5.5%	Partners Group Partners Fund	Absolute 8% pa.	1.5% (With a 7.5% performance fee subject to a high watermark)
Multi - Asset	3.6%	Schroders Diversified Growth Fund	To provide capital growth and income of inflation + 5% p.a. over a 5-7 year period	0.51%
Multi-Asset	3.6%	Fidelity Multi Asset Income Fund	The fund aims to pay an income of 4-6% per year, over a period of 5-7 years	0.50%
Corporate Bonds	1.6%	Royal London UK Corporate Bond Fund	To outperform the iBoxx Sterling Non-Gilt All Maturities Index + 0.80%pa gross of fees	0.29%*
Multi-Sector Credit	2.3%	JP Morgan Strategic Bond Fund	Generate higher returns than those of the ICE Overnight GBP LIBOR over a rolling 3 year period in all market conditions	0.44%*
LDI	-0.1%	Schroder Synthetic LDI Funds (Leveraged)	Track the performance of the underlying single stock government bonds.	0.09% p.a. (subject to a min. of £20,000 pa).

*Investments held on the Mobius platform

**XPS internal return assumptions as at 31 March 2023

Liability hedging

This strategy is designed to achieve liability hedging of:

- 95% - 100% of the interest rate risk, as a proportion of the Scheme's total liabilities, as assessed against the current technical provisions basis.
- 95% - 100% of the inflation risk as a proportion of the Scheme's total liabilities, as assessed against the current technical provisions basis.

Rebalancing investments

The Trustee will review the allocation on a periodic basis and consider whether it remains appropriate. The Trustee does not automatically rebalance the allocation to a benchmark on a regular basis.

Realising investments

Where assets need to be realised, the Trustee will consult with the Investment Consultant regarding the source and timing of disinvestments. It is envisaged that disinvestments will be sourced from the return-seeking assets.

AVCs

The Scheme has provided a facility for members to pay additional voluntary contributions (AVCs) to enhance their benefits at retirement since 2007. This policy is in place with Utmost Life & Pensions and Phoenix Life Limited.

The Trustee's objective has been to provide vehicles that enable these members to generate suitable long-term returns, consistent with their reasonable expectations.

The Trustee is aware that members' AVC funds are subject to the same risks faced by the Scheme's investments, such as inflation risk eroding real returns. In addition, AVC members face the risk that their investments will not meet their future expectations (for example, if they are planning to purchase an annuity at retirement), lack of transparency on how their fund is managed and also that their AVC fund may fall in value.

The Trustee considers that, in making a number of funds available, they provided these members with sufficient options to meet their reasonable expectations.

On a periodic basis the Trustee will review the appointment of the AVC providers in the light of their performance. Performance of the AVC providers will be measured relative to the individual benchmarks and objectives for the funds offered and/or to other providers offering similar fund options as measured in industry AVC surveys.

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