Harland and Wolff Pension Scheme

Statement of Investment Principles

September 2020

Statement of Investment Principles

The Trustee of Harland and Wolff Pension Scheme ("the Scheme") has prepared this Statement of Investment Principles ("the SIP") in accordance with Article 35 of the Pensions (Northern Ireland) Order 1995 ("the Act") as amended and the Occupational Pension Schemes (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.

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, who is suitably qualified through ability and experience and has appropriate knowledge.
- Consulted the Employer.

Investment objective and strategy

Considerations Choosing investments

The Trustee sets the investment strategy and investment policies for the Scheme and, in doing so, has considered the Scheme's liabilities and strength of Employer covenant.

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 Article 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.

Investment objective

In light of the Scheme entering the Assessment Period of the Pension Protection Fund (PPF) and following dialogue with the Pensions Regulator, the Pension Protection Fund and Scheme's Investment Consultant, the Trustee has taken steps to reduce the level of risk within the Scheme and to more closely align the investment strategy to that of the PPF. This is designed to provide the potential for modest growth whilst significantly reducing the likelihood of the funding position worsening.

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, bonds, property as well as alternative assets such as infrastructure, hedge funds and commodities. The Scheme is also able to make use of derivatives and leverage.
- 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.
- 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 acknowledges that the Scheme may be exposed to a number of risks including (but not limited to):

- Employer covenant risk
- Liability risks: Interest rate risk, Inflation risk, Longevity risk
- Asset risks: Such as equity risk, property risk, currency risk, credit risk, interest rate risk, inflation risk, liquidity 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 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 assess 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.

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- 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).

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.

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 the investment strategy over the length of time during which the benefits are provided by the Scheme to the members. The Trustee believes that financially material considerations (including climate change) are allowed for in the asset liability modelling that is carried out when setting the investment strategy.

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 fund managers and investment consultant are expected 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 philosophy and processes to ESG issues. 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, to assess how the Scheme's investment managers take account of ESG issues; and
- Request that all of the Scheme's investment managers share 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.

Non-Financially Material

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.

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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

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 trustees' policies

The Scheme invests in pooled funds. 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 the fund's 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 execute their investment policies consistently, as the longer the units are held the larger income to the investment manager.

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.

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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 quarterly on a net of fees basis compared to its objective.

The Trustee assesses the performance periods of the individual funds over at least a 3-5 year period or over a market cycle, if appropriate, 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 a percentage of the assets held in each fund so the amount each manager receives is based upon the value of assets held with them. The remuneration paid out by the Scheme will depend upon the asset allocation. The charges are considered as part of the manager selection process. The charges are monitored regularly with the help of its investment consultant to ensure they are in line with the Trustee's policies for each fund. The Trustee believes that its and each fund manager's goals are aligned.

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.

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Appendix – DB Section Investment strategy

Overall strategy

The investment strategy of the Scheme is summarised in the table below.

Asset class	Strategic allocation	Expected return (pa)*	Manager and fund	Objective	AMC (pa)
Passive equities	4.0%	Gilts +4.0%	LGIM UK Equity Fund	Track the performance of the FTSE All-Share Index to within +/-0.25% p.a. for two years out of three	0.10% on first £10m, 0.075% on next £5m
	5.5%	Gilts +4.0%	LGIM World (ex-UK) Developed Equity Index Fund	Track the performance of the FTSE Developed World (ex UK) Index to within +/-0.5% p.a. for two years out of three	0.20% on first £5m, 0.17% on next £10m, 0.14% on next £35m
	5.5%	Gilts +4.0%	LGIM World (ex-UK) Developed Equity Index Fund – GBP hedged	Track the performance of the FTSE Developed World (ex UK) Index (GBP hedged) to within +/-0.5% p.a. for two years out of three	0.225% on first £5m, 0.195% on next £10m, 0.165% on next £35m
Corporate Bonds	40.6%	Gilts + c1.0%	LGIM AAA-AA-A Bonds-Over 15 Year Index Fund	Track the performance of the Markit iBoxx £ Non-Gilts (ex-BBB) Over 15 Years Index to within +/-0.5% p.a. for two years out of three	0.15% on first £5m, 0.125% on next £5m, 0.10% on next £20m, 0.08% thereafter
Index Linked Gilts	4.7%	Gilts	LGIM Under 15 Year Index-Linked Gilts Fund	Track the performance of the FTSE Actuaries UK Index-Linked Gilts up to 15 Years Index to within +/- 0.25% p.a. for two years out of three	0.10% on first £5m, 0.075% on next £5m
Fixed Interest Gilts	15.7%	Gilts	LGIM All Stocks Gilts Index Fund	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	0.10% for first £5m, 0.075% for next £5m, 0.05% for next £10m, 0.03% thereafter
LDI	22.1%	Gilts	Legal & General Matching Core Funds	Track the performance of the representative benchmark	0.24%
Cash	1.9%	Gilts	LGIM Sterling Liquidity Fund	To provide a diversified exposure and a competitive return in relation to 7-day LIBID	0.125% for first £5m, 0.10% for next £5m, 0.75% for next £20m, 0.05% thereafter
Total	100%	Gilts + 1.0%	-	-	-

**Return expectations quoted above are best estimates for long-term returns.*

Liability hedging

This strategy is designed to achieve liability hedging of:

- c100% of the interest rate risk, as a proportion of the Scheme's total liabilities, as assessed against the current self-sufficiency basis.
- c100% of the inflation risk as a proportion of the Scheme's total liabilities, as assessed against the current self-sufficiency basis.

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