

**Barron McCann Limited
2014 Pension Scheme**

Statement of Investment Principles

April 2019

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1. INTRODUCTION

- 1.1 This document outlines the investment principles adopted by the Trustee in relation to the Barron McCann Limited 2014 Pension Scheme ("the Scheme"). The sponsoring employer is Barron McCann Limited.
- 1.2 This document has been prepared in order to comply with the requirements of the Legislation, in particular:
- Section 35 of the Pensions Act 1995
 - The Occupational Pension Schemes (Investment) Regulations 2005.
 - The Occupational Pension Schemes (Investment) (Amendment) Regulations 2010.
 - The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018
- 1.3 The Trustee has also considered:
- The 2001 Myners review of institutional investment (and subsequent updates)
 - Guidance issued by the Pensions Regulator
 - The UK Stewardship Code
- 1.4 In preparing this Statement the Trustee has taken written advice from Quattro Pensions, their appointed investment adviser (Appendix A). The Trustee has also consulted with the sponsoring employer (Appendix B).
- 1.5 The advice and consultation process considered the suitability of the Trustee's investment policy for the Scheme, which the Trustees monitor regularly.
- 1.6 The Scheme provides defined benefits and is exempt approved. There is no employer-related investment and none is intended. The employer intends to pay all contributions in accordance with the agreed Schedule of Contributions.
- 1.7 The Trustee will review this document at least every three years.
- 1.8 A copy of this Statement is available for inspection by Scheme members.

2. GOVERNANCE STRUCTURE

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

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

- setting the overall investment objectives in light of the Scheme's circumstances
- making strategic investment decisions to achieve these objectives, eg the risk / return profile and proportion of the investments to hold in which asset classes
- reviewing the content of this document and amending if necessary, in consultation with the employer and based on written advice from appropriately qualified advisers
- ensuring the investment policy remains appropriate for the nature of the Scheme's liabilities and given the strength of support from the employer
- ensuring that benefits can be paid as and when they fall due
- appointing the investment managers and investment advisers
- monitoring the investment returns achieved by the investment managers
- ensuring compliance of the investment arrangements with the principles outlined in this document

2.3 The investment manager's responsibilities include:

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

2.4 The investment adviser's responsibilities include:

- advising on an appropriate investment strategy to meet the Trustee's investment objectives within an appropriate level of risk

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- advising the Trustee on the choice of investment managers and alerting the Trustee to any significant changes at the investment managers

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

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

2.6 The Scheme Actuary's responsibilities include:

- performing the statutory valuations and advising the Trustee of any significant changes in liability profile that could affect the investment strategy

2.7 The Scheme Administrator's responsibilities include:

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

3. BELIEFS

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

- 3.1 Risk is necessary to achieve return, but not all risks are rewarded.
- 3.2 Risks that are not sufficiently rewarded should generally be avoided, hedged or diversified.
- 3.3 Finding investment managers who can consistently spot and exploit market opportunities is generally difficult; passive management is usually better value.
- 3.4 Well governed companies that manage their businesses in a responsible way will produce higher returns over the long term.
- 3.5 Climate change could be a long-term risk for the scheme and has the potential to impact the scheme's investment strategy.
- 3.6 Investing responsibly and engaging as long-term owners reduces risk over time and may positively impact scheme returns.

4. OBJECTIVES

4.1 The Trustee's investment objectives are as follows:

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

4.2 The Trustee sets the investment objectives in the expectation that the Scheme is continuing as a closed scheme for the long term. If the Trustee becomes aware of circumstances which lessen the certainty of this the Trustee will take steps to adjust the investment strategy as appropriate at the time.

5. CURRENT INVESTMENT STRATEGY

The kinds of investment to be held

5.1 The Scheme is permitted to invest in a wide range of assets including equities, bonds, cash, property, alternatives, LDI, and annuity policies. The Trustee monitors 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 exceeds 5% of the portfolio.

Current asset allocation

5.2 The Trustee has delegated the day to day management of their funds to the fund managers as shown below:

Fund	Allocation
AON Adept 9	43%
AON Adept 20	31%
AON Adept 21	7%
LGIM Global Advanced Emerging Markets Equity Index Fund	5%
LGIM World Emerging Markets Equity Index Fund	5%
LGIM FTSE RAFI Developed 1000 Equity Index Fund	10%

5.3 The asset allocations are approximate at date of writing and may change over time as a result of market movements or cash disinvestments.

Managers' Objectives

5.4 The managers of the funds are aiming to achieve the following:

Fund	Objective
AON Adept 9	To achieve returns of LIBOR + 4.0% p.a. by investing in a diversified portfolio of return-seeking asset classes including, but not limited to, equities, fixed income, debt, property, infrastructure and hedge funds
AON Adept 20	<p>To provide a return of 2% per annum (0.5% per quarter) in excess of the benchmark by investing in a combination of return seeking investments, cash and pooled Liability Driven Investment (LDI) funds.</p> <p>The benchmark is the weighted average of the return on the LDI funds held plus a notional GBP 3m £ LIBOR return on all other assets within the fund.</p>
AON Adept 21	<p>To provide a return of 2% per annum (0.5% per quarter) in excess of the benchmark by investing in a combination of return seeking investments, cash and pooled Liability Driven Investment (LDI) funds.</p> <p>The benchmark is the weighted average of the return on the LDI funds held plus a notional GBP 3m £ LIBOR return on all other assets within the fund.</p>
LGIM Global Advanced Emerging Markets Equity Index Fund	The investment objective of the Fund is to track the performance of the FTSE Advanced Emerging Index to within +/-1.5% p.a. (less withholding tax if applicable) for two years out of three.
LGIM World Emerging Markets Equity Index Fund	The investment objective of the Fund is to track the performance of the FTSE Emerging Index (less withholding tax if applicable) to within +/-1.5% p.a. for two years out of three.
LGIM FTSE RAFI Developed 1000 Equity Index Fund	The investment objective of the Fund is to track the performance of the L&G FTSE RAFI Developed 1000 Composite to within +/-1.0% p.a. for two years out of three.

The balance between different kinds of investment

5.5 Broadly speaking, the Trustee regards the AON Adept 20 and Adept 21 funds as being “protection” assets, whilst other assets are invested for growth. The overall split between growth and protection assets is therefore, approximately, 60% growth, 40% protection.

Expected return on investments

5.6 The Trustee expects total long-term average returns after fees in excess of 5.5% pa, this being the assumption made in the Recovery Plan, as set out in the Statement of Funding Principles (as revised from time to time).

Manager Monitoring

5.7 The Trustee will assess the performance of the investment managers regularly. The Trustee will consider the managers’ compliance with the requirements of the Pensions Act concerning diversification and suitability, where relevant.

Rebalancing

5.8 The Trustee may use cashflows payable to/from the Scheme to help rebalance the allocations occasionally. However, a full rebalance will only take place if there is a formal strategy review, and there will no automatic rebalancing.

5.9 The Trustee will review the asset allocation, and may change those shown in the above table, at least every three years in the light of actuarial valuations. Similarly the Trustee will review the choice of investment manager at least every three years. Any changes to the strategy or to the manager will be made only after obtaining written investment advice and after consulting with the employer.

6. SUITABILITY

Scheme Funding

6.1 The Trustee has taken advice from the Scheme Actuary to confirm that the expected return from the Scheme’s investment strategy is consistent with the funding plan.

Risk capacity

6.2 Risk capacity is the maximum level of risk that the Trustee believes it is appropriate to take in the investment strategy.

6.3 The Trustee has acknowledged that the strategy is likely to result in some volatility of the funding position, and additional contributions may be needed from the employer to support the policy.

6.4 The Trustee monitors the employer’s covenant regularly, and is satisfied that the employer is able to underwrite the risks within the current investment strategy.

Risk appetite

- 6.5 Risk appetite is a measure of how much risk the Trustee is willing to take within the investment strategy, having considered the employer's views and the maximum risk capacity. The Trustee and the sponsoring employer have agreed that the Scheme's existing asset allocation is suitable for the long-term and consistent with their risk appetite.
- 6.6 The Trustee will continue to monitor the employer's covenant and may adjust the investment strategy if there is a change in the covenant strength.

7. TRUSTEE INVESTMENT POLICIES

Liquidity and cashflow management

- 7.1 Through the information provided by the Scheme Administrator the Trustee will monitor the cash flow requirements of the Scheme regularly.
- 7.2 The Trustee maintains a bank account and aims to maintain a cash balance sufficient to cover 6 months' worth of the Scheme's net cash outgo. This cash balance can be reviewed from time to time.
- 7.3 When investments or disinvestments are required the Trustee will consider at the time which fund should be used to accept or provide the money.
- 7.4 The Trustee's policy is to ensure that the invested assets are sufficiently realisable to enable the Trustee to meet their obligations to provide benefits and management expenses as they fall due.

Custody Risk

- 7.5 The investment manager is responsible for the appointment and monitoring of the custodians of the fund's assets.

Financially material considerations (including ESG)

- 7.6 The Trustee believes that good stewardship and environmental, social and governance ("ESG") issues may have a material financial impact on investment returns.

7.7 The Trustee has given each individual fund manager their full discretion when evaluating ESG issues and in exercising rights, engagement activities¹, and stewardship obligations attached to the Scheme's investments. However, the extent to which these factors are taken into account by the fund managers in the selection, retention and realisation of investments is considered by the Trustee as part of the process of selecting organisations with which to invest. The Trustee reserves the right to request from the manager information regarding their actions.

7.8 The Trustee has taken into consideration the Financial Reporting Council's UK Stewardship Code, and the investment managers all have stated corporate governance policies which comply with these principles.

7.9 The Trustee does not take any non-financial² matters into account in the selection, retention and realisation of investments.

Delegation of Voting Rights

7.10 Similarly, the Scheme's voting rights are exercised by each fund manager in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code.

Long-term journey planning

7.11 The Trustee plans to reduce risk in the investment strategy over time. Following each funding update (currently performed annually), the Trustee will ask the Scheme Actuary to advise on the extent to which the investment strategy could, according the funding plan, be de-risked without requiring additional employer contributions or extending the recovery plan. However, the Trustee will not operate automatic de-risking but will consider the options for investment strategy at each review.

Liability hedging

7.12 The Trustee does not set any targets for liability hedging ratios for the Scheme, though LDI products are included within the asset allocation for broad interest rate and inflation protection.

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

² Under the Legislation, "non-financial matters" means the views of the members and beneficiaries including (but not limited to) their ethical views and their views in relation to social and environmental impact and present and future quality of life of the members and beneficiaries of the trust scheme

8. INVESTMENT RESTRICTIONS

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

- securities issued by the sponsoring employer.
- property owned by or leased to the sponsoring employer.
- securities issued by associate companies of the investment manager.

8.2 The Trustee recognises that where investments are held in insurance company pooled funds or an investment company they may not be able to apply investment restrictions. However, for any direct investment or where feasible the following additional restrictions shall be observed by the investment manager:

- It is expected that no more than 10% of the Scheme assets will be invested in futures, options, currency forwards, hedge funds, or derivatives as part of efficient portfolio management.
- No more than 5% of the Scheme assets can be held in the securities of any one company unless this is an investment company where the underlying assets are highly diversified.
- No more than 5% of the Scheme assets can be invested in assets that are not readily realisable.
- There should be no gearing of the portfolio.
- The manager may not use the portfolio to underwrite new issues.

9. RISK MANAGEMENT

9.1 The Trustee recognises that there are a number of risks involved with investment of the assets of the Scheme.

- *Volatility / capital loss:* the investments are subject to market fluctuations and other risks inherent in investing in securities. The value of investments and the income derived from them may fall as well as rise and investors may not recoup the original amount they invest. There is no certainty that the investment objective of a fund will actually be achieved. The Trustee mitigates against this risk by diversifying assets across a range of investments
- *Solvency risk and mismatching risk:* the Trustee reviews the strength of support provided by the employer regularly, and will review the investment strategy immediately if it becomes aware that the covenant has worsened to the extent that the employer is at risk of insolvency.

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- *Risk versus measurement of Scheme liabilities:* the Trustee believes the employer's covenant is strong enough to support the level of risk within the investment strategy, but will review this at least at each triennial valuation.
 - *Manager risk:* addressed by the performance objectives set out in Section 4; and by regular monitoring of each manager's performance.
 - *Liquidity risk:* the Trustee will monitor cash flow requirements regularly.
 - *Political risk:* the risk of political intervention having an adverse effect on asset performance is reduced by diversification of the assets across companies, geographical regions and restrictions on the amounts invested in foreign countries.
 - *Currency risk:* the risk of mismatching the currency of the assets to that of the liabilities is reduced by the choice of fund or restricting the amount of overseas investment.

9.2 The Trustee will regularly monitor these risks.

This statement has been agreed by the Trustee

On...23rd.....April.....2019

Signed on behalf of the Trustee by

Name...RICHARD BRYANT
ATKIN TRUSTEES LTD

Signature.....

