

# **CH Johnson Pension Plan**

## **Statement of Investment Principles**

***November 2017***

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# 1. Introduction

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## 1.1 Plan Background

- This Statement of Investment Principles (the "Statement") details the principles governing investment decisions for the CH Johnson Pension Plan (the "Plan").
- The Plan:
  - operates for the exclusive purpose of providing retirement and death benefits to eligible participants and beneficiaries;
  - provides benefits calculated on a defined benefit basis; and
  - is closed to new entrants and future accrual.
- Conduent HR Services is the investment consultant to the Trustees.

## 1.2 Statement Structure

This Statement is divided into two main sections as follows:

- **Statutory Section:** This section covers the requirements of and the Plan's compliance with the provisions of the Pensions Act 1995 and 2004 as amended by the Occupational Pension Schemes (Investment) Regulations 2005.
- **Myners Section:** This section includes additional non-statutory information that was set out in the Myners Principles and is now included in a strengthened Statement.

## 2. Statutory Information

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### 2.1 Introduction

- This section of the Statement covers the requirements of the Pensions Act 1995 and 2004 as amended by the Occupational Pension Schemes (Investment) Regulations 2005. In accordance with section 35 of the Pensions Act 1995, the Trustees have reviewed and considered written advice from the investment consultant prior to the preparation of this Statement and have consulted with the Sponsoring Employer and the Scheme Actuary.
- The Trustees have full regard to their investment powers under the Trust Deed and Rules and the suitability of the various types of investments, the need to diversify, the custodianship of assets and any self-investment.
- The investment managers will prepare detailed quarterly reports on their activities and the Trustees will meet with them periodically.
- This Statement will be reviewed periodically or whenever changes to the investment strategy or investment managers are necessary. Any changes to this Statement will be undertaken following advice from the investment consultant, as will any removal or appointment of the investment managers.
- All of the Plan's investment decisions are under the control of the Trustees, with no constraint by the Sponsoring Employer. An Investment Sub-Committee ("ISC") has been set up to focus their attention on detailed investment matters. The ISC put forward proposals to the full Trustee Board who collectively make all of the investment decisions. The Trustees will examine regularly whether additional investment training is desirable for any individual Trustee.

### 2.2 Statutory requirements

- This section of the Statement details the Trustees' policies in compliance with the requirements of sections 35 and 36 of the Pensions Act 1995.

#### 2.2.1 Investment objectives and suitability of investments

- The Plan's investment strategy has been determined by the Trustees following advice taken from the investment consultant and takes due account of the Plan's liability profile along with the level of disclosed surplus or deficit.

- The Trustees' **agreed investment strategy** is based on an analysis of the liability profile of the Plan, the required investment return and the returns expected from the various asset classes over the long-term. Long-term returns from equities are expected to exceed the returns from bonds and cash, although returns and capital values may demonstrate higher volatility. The Trustees are prepared to accept this higher volatility to some extent in order to aim to achieve the overall investment objectives.
- The primary objectives for the Trustees are:
  - to provide appropriate security for all beneficiaries;
  - to achieve long-term growth in the assets sufficient to provide the benefits from the Plan; and,
  - to achieve an appropriate balance between risk and return with regards to the cost of the Plan and the security of the benefits.
- The Trustees have translated their objectives into a suitable strategic asset allocation benchmark for the Plan, details of which are included in the appendices.
- In accordance with the Financial Services & Markets Act 2000, the Trustees are responsible for setting the general investment policy, but the responsibility for all day-to-day investment management decisions has been delegated to investment managers authorised under the Act. Details are included in the appendices.
- The Trustees are responsible for reviewing the Plan's investment strategy following each actuarial valuation in consultation with the investment consultant. The Trustees may also reconsider the investment strategy and investment manager structure outside the triennial valuation period where necessary.
- The Trustees consider the Plan's current long-term target asset allocation to be consistent with the Plan's current financial position.

### 2.2.2 Diversification

- The Trustees, after taking appropriate investment advice, have selected a long-term target asset allocation benchmark including control ranges for each asset class as set out in Appendix 1.
- Subject to their respective benchmarks and guidelines, the investment managers are given full discretion over the choice of securities and are expected to maintain a diversified portfolio.
- The Trustees are satisfied that the investments selected are consistent with their investment objectives, particularly in relation to diversification, risk, expected return and liquidity.

- Given the size and nature of the Plan, the Trustees have decided to invest on a pooled fund basis; any such investment is effected through a direct agreement with an investment manager.
- The Trustees are satisfied that the range of pooled vehicles in which the Plan's assets are invested provides adequate diversification.

### 2.2.3 Balance between different kinds of investments

- The appointed investment managers will hold a diversified mix of investments in line with their agreed benchmark and within their discretion to diverge from the benchmark. Within each major market each manager will maintain a diversified portfolio of securities.

### 2.2.4 Risk

- The Trustees consider the main risk to be that of the assets being insufficient to meet the Plan's liabilities as they fall due. The Trustees have assessed the likelihood of undesirable financial outcomes arising in the future.
- Investment policies are set with the aim of having sufficient and appropriate assets to cover the Plan's technical provisions, and with the need to avoid undue contribution rate volatility. The technical provisions is the name given to the value of the Plan's liabilities for funding purposes as at the latest available scheme-specific actuarial valuation date.
- In determining their investment strategy, the Trustees received advice from the investment consultant as to the broad range of funding levels on an approximate basis for strategies with differing levels of investment risk relative to the Plan's estimated liability profile. Taking this into account, along with the expected returns underlying the most recent actuarial valuation, the strategy outlined in Appendix 1 of this Statement has been determined.
- Although the Trustees acknowledge that the main risk is that the Plan will have insufficient assets to meet its liabilities, the Trustees recognise other contributory risks, including the following, namely the risk:
  - associated with the differences in the sensitivity of asset and liability values to changes in financial and demographic factors;
  - of the Plan having insufficient liquid assets to meet its immediate liabilities;
  - of the investment managers failing to achieve the required rate of return;
  - due to the lack of diversification of investments;
  - of failure of the Plan's Principal Employer to meet its obligations.



- The Trustees measure and manage these risks on a regular basis via actuarial and investment reviews, and in the setting of investment objectives and strategy.
- The Trustees undertake monitoring of the investment managers' performance against their targets and objectives on a regular basis.
- Each fund in which the Plan invests has a stated performance objective by which investment performance will be measured. These are shown in Appendix 1. Within each asset class, the investment managers are expected to maintain a portfolio of securities (or Funds), which ensures that the risk being accepted in each market is broadly diversified.

#### **2.2.5 Expected return on investments**

- The investment strategy is believed to be capable of exceeding, in the long run, the overall required rate of return as set out in the Scheme Actuary's published actuarial valuation report.

#### **2.2.6 Kind of investments to be held**

- The Plan may invest in quoted and unquoted securities of UK and overseas markets including, for example, equities, fixed interest and index-linked bonds, cash, property, private equity, hedge funds and pooled investment vehicles etc, that are considered to be appropriate for tax-exempt registered occupational pension schemes. The Trustees have considered the attributes of the various asset classes, these attributes being:
  - security (or quality) of the investment,
  - yield (expected long-term return),
  - spread (or volatility) of returns,
  - term (or duration) of the investment,
  - exchange rate risk,
  - marketability/liquidity (i.e., the tradability on regulated markets),
  - taxation.
- The Trustees consider all of the stated classes of investment to be suitable to the circumstances of the Plan

### **2.2.7 Realisation of investments**

- In the event of an unexpected need to realise all or part of the assets within the portfolio, the Trustees require the investment managers to be able to realise the Plan's investments within a reasonable timescale by reference to the market conditions existing at the time the disposal is required and subject to the best interests of the Plan. The majority of the assets are not expected to take an undue time to liquidate.

### **2.2.8 Social, environmental and ethical Issues**

- The Trustees' objective is to ensure that the investment managers have the financial interests of the Plan members as their first priority when choosing investments. They may take social, environmental or ethical considerations into account only when these factors do not contradict the primary objective.

### **2.2.9 Voting rights attaching to investments**

- The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments and to encourage the investment managers to exercise those rights.

### **2.2.10 Investment Decisions**

- The Trustees have not delegated any decision-making other than delegating the day-to-day management of the investments to the investment managers. They consider that this is appropriate bearing in mind the size and objectives of the Plan.
- All investment decisions relating to the Plan are under the Trustees' control without constraint by the Sponsoring Employer. The Trustees are obliged to consult with the Sponsoring Employer when changing the Statement.
- All day-to-day investment decisions are delegated to properly qualified and authorised investment managers of pension fund portfolios. Investment management agreements have been exchanged with the investment managers, and are reviewed from time-to-time to ensure that the manner in which they make investments on the Trustee's behalf is suitable for the Plan, and appropriately diversified.

## **2.3 Investment Managers**

- The Trustees will assess the performance, processes and cost effectiveness of the investment managers by means of regular reviews of the investment results and other information, in consultation with the investment consultant.
- All investment decisions, and the overall performance of the investment managers, are monitored by the Trustees with the assistance of the investment consultant.



- The investment managers will provide the Trustees with quarterly statements of the assets held along with a quarterly report on the results of the past investment policy and the intended future policy, and any changes to the investment processes applied to their portfolios. The investment managers will also report orally on request to the Trustees.
- The Trustees will assess the quality of the performance and processes of the investment managers by means of a regular review in consultation with the investment consultant.
- Appropriate written advice will be taken from the investment consultant before the review, appointment or removal of the investment managers.
- See Appendix 1 for details on the investment managers' target asset allocations and performance objectives.
- See Appendix 2 for details on remuneration of the investment managers.

## 2.4 Additional assets

- The Trustees have full discretion as to the appropriate investment vehicles made available to members of the Plan for their additional voluntary contributions. Only investment vehicles normally considered suitable for additional voluntary contributions will be considered by the Trustee, having taken appropriate written advice from properly qualified and authorised financial advisers.
- The Trustees make available a range of investment options for the members' Additional Voluntary Contributions ("AVCs") through Scottish Life Assurance Company.
- In selecting this range of funds offered the Trustees have taken advice from its professional advisers on:
  - the risks faced by members in investing in defined contribution funds, and
  - the Trustees' responsibilities in the selection and monitoring of the investment options offered.
- The Trustees will continue to manage AVC arrangements having taken professional advice on these matters.
- The Trustees will monitor the performance of AVC providers periodically.
- Members are directed to seek independent financial advice when considering their AVC arrangements.
- The Plan also holds annuity contracts for a small number of pensioners.

### 3. Myners Principles

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The Myners Review of "Institutional Investing in the UK" was published in March 2001. It included a set of 10 Principles that pension scheme trustees were recommended to use when considering their investment strategy for defined benefit pension schemes and 11 Principles for defined contribution pension schemes. The Government endorsed the report with some minor modifications in October 2001. Pension scheme trustees were asked to comply with the Principles on a voluntary basis. The Myners Principles recommend that certain issues are included in the Statement.

The Myners Principles were subsequently reviewed in October 2008. The explicit requirement to include certain items in a strengthened Statement was removed and replaced with a requirement for Trustees to act in a transparent and responsible manner. In making the following statements, the Trustees believe that they are complying with the spirit of these Principles.

#### 3.1 Responsible ownership

Details of the responsibility for the exercising of rights (including voting rights) attaching to the Plan's investments are included in Section 2.2.9.

#### 3.2 Transparency & reporting

The Trustees have discretion over the form of reporting they wish to undertake. This Statement provides the following details of the Trustees' investment approach:

- Who is taking which decisions and why has the structure been selected?

Details of the Trustees' decision making structure are included in Section 2.1.

- What is the Trustees' investment objective?

Details of the Trustees' investment objective are included in Section 2.2.1, with the appointed investment managers' specific objectives set out in Appendix 1.

- What is the Trustees' asset allocation strategy, including projected investment returns in each asset class, and how the strategy has been selected?

Details of the Trustees' long-term target asset allocation strategy are included in Appendix 1. The strategy was determined after taking advice from the investment consultant and consultation with the Sponsoring Employer and the Scheme Actuary, and included consideration of the likely range of returns from each asset class.

- What are the mandates given to all advisers and investment managers?

The responsibilities of the Trustees, the investment consultant and the investment managers are outlined in Section 3.3, while the investment managers' mandates are specified in Appendices 1 and 2.

- What is the nature of the fee structures in place for all advisers and managers; and why this set of structures has been selected?

Details of the fees charged by the investment managers and the investment consultant are included in Appendix 2. The Trustees have discussed and agreed these fees following consultation with their advisers, where appropriate, and believe they are reasonable for the services they receive.

### 3.3 Appointments & responsibilities

#### 3.3.1 Trustees

The Trustees' primary responsibilities regarding investments include:

- preparation of the Statement and reviewing the content of the Statement and modifying it if deemed appropriate, in consultation with the Principal Employer and the investment consultant, at least every three years. The Statement will also be reviewed following a significant change to the investment strategy and/or the investment manager structure.
- appointing an investment consultant and investment managers as necessary for the good stewardship of the Plan's assets.
- reviewing the investment strategy following the results of each triennial actuarial valuation, and/or asset liability modelling exercise, and/or significant changes to the Plan's liabilities, taking advice from the investment consultant and the Scheme Actuary.
- assessing the processes (and therefore the performance) of the investment managers by means of regular, but not less than annual, reviews of information obtained (including investment performance).
- monitoring compliance of the investment arrangements with this Statement on a regular basis.
- monitoring risk and the way in which the investment managers have cast votes on behalf of the Trustees in respect of the Plan's equity holdings.

### **3.3.2 Investment consultant**

The main responsibilities of the investment consultant include:

- assisting the Trustees in the preparation and periodic review of this Statement in consultation with the Sponsoring Employer.
- undertaking project work including reviews of the investment strategy, investment manager structure and the performance of the investment managers, as required by the Trustees.
- advising the Trustees on the selection and review of investment managers.
- providing training or education on any investment related matter as and when the Trustees see fit; and
- monitoring and advising upon where contributions should be invested or disinvested on a periodic basis.

### **3.3.3 Investment managers**

The investment managers' main responsibilities include:

- investing assets in a manner that is consistent with the objectives set.
- ensuring that investment of the Plan's assets is in compliance with prevailing legislation and the constraints detailed in this Statement.
- providing the Trustees with quarterly reports including any changes to their investment process and a review of the investment performance.
- attending meetings with the Trustees as and when required.
- informing the Trustees of any changes in the fee structure, internal performance objectives and guidelines of any pooled fund used by the Plan as and when they occur.
- exercising voting rights on shareholdings in accordance with their general policy.

### **3.3.4 Custodian**

- The custodianship arrangements are those operated by the investment managers for all clients investing in their pooled funds.

### **3.3.5 Administrators**

- The Plan's administration is carried out by Conduent HR Services.

### 3.3.6 Scheme Actuary

The Scheme Actuary's main responsibilities in respect of investment policy include:

- commenting on the suitability of the Plan's investment strategy given the financial characteristics of the Plan.
- performing the triennial (or more frequently as required) actuarial valuation and advising on the Plan's funding level and therefore the appropriate level of contributions in order to aid the Trustees in balancing short, medium and long-term investment objectives.

## 3.4 Performance monitoring

- Each of the funds in which the Plan invests has a stated performance objective against which the performance is measured.
- The Trustees will review the performance of the investment managers from time to time, based on the results of their performance and investment process.
- The investment managers are expected to provide written reports on a quarterly basis and report orally on request to the Trustees.



## Appendix 1 – Strategic Benchmark & Objectives

### Plan's long-term target asset allocation

The Plan's long-term target asset allocation is tabulated below:

Asset Type	Investment Style	Long-Term Target Asset Allocation + (%)	Anticipated ranges (%)
Global equities	Active	22	17 - 27
Multi-asset	Active	33	28 - 38
<b>Return enhancing</b>		<b>55</b>	<b>40 - 70</b>
Higher yielding corporate bonds	Active	30	20 - 40
Liability driven investment	Nominal	7	0 - 30
	Real	8	
<b>Risk reducing</b>		<b>45</b>	<b>30 - 60</b>
<b>Total</b>		<b>100</b>	

\*From time to time, the Plan's actual asset allocation may deviate significantly from the long-term target as medium-term threats/opportunities may exist in the investment market place.

### Cashflow

The Plan's future cash in/outflow will generally be invested/disinvested so as to approximately maintain the long-term target asset allocation set out above.

## Benchmarks & performance objectives

Benchmark indices and relative performance objectives for each of the funds in which the Plan invests are outlined below. All performance targets are gross of fees and relate to rolling three-year periods.

Manager	Fund	Benchmark Index	Objective % p.a.
MFS Investment Management ("MFS")	Global Concentrated Equity Fund	MSCI World Index	+4.00
Aberdeen Standard Investments ("ASI")	Global Absolute Return Strategies Fund ("GARS")	LIBOR Sterling 6 Month	+5.00
Royal London Asset Management ("RLAM")	Sterling Extra Yield Bond Fund	No specific benchmark	Aims to achieve a gross redemption yield of 1.25 times the gross redemption yield of the FTSE Actuaries British Government Over 15 Year index.
BMO	F&C Short Profile Nominal Dynamic LDI Fund	No explicit benchmark, or performance target, as the Fund has a "typical" nominal pensioner cashflow profile with a duration of c14 years	
	F&C Short Profile Real Dynamic LDI Fund	No explicit benchmark, or performance target, as the Fund has a "typical" real pensioner cashflow profile with a duration of c17 years	

## Appendix 2 – Fees

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### Investment manager fees

Manager	Fund	Investment Style	Management Fee (% p.a.)
MFS	Global Concentrated Equity	Active	0.75
ASI	GARS	Active	0.70
RLAM	Sterling Extra Yield Bond Fund	Active	0.50
BMO	F&C Short Profile Nominal Dynamic LDI Fund and F&C Short Profile Real Dynamic LDI Fund	Dynamic	*

\*0.30% p.a. on first £15m of assets; 0.26% on next £35m of assets, subject to a minimum of £15,000 pa.

### Investment consultancy fees

The investment consultant provides agreed services on both a time cost and fixed fee basis.

The basis of remuneration is kept under review.