

F J BESWICK (PAPER) LIMITED  
PENSION AND LIFE ASSURANCE  
SCHEME  
STATEMENT OF INVESTMENT  
PRINCIPLES – 4<sup>TH</sup> EDITION

SEPTEMBER 2020

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# 1 INTRODUCTION

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This Statement of Investment Principles (“the Statement”) has been prepared by Trustees of the F J Beswick (Paper) Limited Pension and Life Assurance Scheme (“the Scheme”) in accordance with Section 35 of the Pensions Act 1995, as amended, and its attendant Regulations.

The Statement outlines the principles governing the investment policy of the Scheme and the activities undertaken by the Trustees to ensure the effective implementation of these principles.

In preparing the Statement, the Trustees have:

- obtained and considered written advice from a suitably qualified individual, employed by their investment consultants, Mercer Limited, who they believe to have a degree of knowledge and experience that is appropriate for the management of their investments; and
- consulted with the Sponsoring Employer, although they affirm that no aspect of their strategy is restricted by any requirement to obtain the consent of the Sponsoring Employer.

The advice and the consultation process considered the suitability of the Trustees’ investment policy for the Scheme.

The Trustees will review the Statement formally at least every three years to coincide with the triennial Actuarial Valuation or other actuarial advice relating to the statutory funding requirements. Furthermore, the Trustees will review the Statement without delay after any significant change in investment policy. Any changes made to the Statement will be based on written advice from a suitably qualified individual and will follow consultation with the Sponsoring Employer.

# 2 INVESTMENT OBJECTIVES

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The Trustees' primary investment objective for the Scheme is to achieve an overall rate of return that is sufficient to ensure that assets are available to meet all liabilities as and when they fall due.

In doing so, the Trustees also aim to maximise returns at an acceptable level of risk taking into consideration the circumstances of the Scheme.

The Trustees have also received confirmation from the Scheme Actuary that the actuarial valuation methodology and assumptions used in the Statutory Funding Objective are consistent with the Scheme's investment strategy.

# 3 INVESTMENT RESPONSIBILITIES

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## 3.1 TRUSTEES' DUTIES AND RESPONSIBILITIES

The Trustees are responsible for setting the investment objectives and determining the strategy to achieve the objectives. They carry out their duties and fulfil their responsibilities as a single body.

The duties and responsibilities of the Trustees include, but are not limited to, the following tasks and activities:

- The regular approval of the content of the Statement.
- The appointment and review of the investment managers and investment adviser.
- The assessment and review of the performance of each investment manager.
- The assessment of the risks assumed by the Scheme at a total scheme level as well as on a manager by manager basis.
- The approval and review of the asset allocation benchmark for the Scheme.
- The compliance of the investment arrangements with the principles set out in the Statement.

## 3.2 INVESTMENT ADVISER'S DUTIES AND RESPONSIBILITIES

The Trustees have appointed Mercer as the Investment Adviser to the Scheme. Mercer provides advice as and when the Trustees require it. Matters on which Mercer could provide advice to the Trustees include the following:

- Setting of investment objectives.
- Determining investment strategy and asset allocation.
- Determining an appropriate investment structure.
- Reviewing and amending this Statement.
- Advising on appropriate funds.
- Setting cashflow management (investment and withdrawal) policies (see Appendix 2).

The Trustees may seek advice from Mercer with regard to both strategic and tactical investment decisions (see Section 4 - Investment Strategy); however, they recognise that they retain responsibility for all such decisions, including those that concern investments and disinvestments relating to cashflows (see Appendix 3). Mercer may be proactive in advising the Trustees regarding tactical investment decisions; however, there is no responsibility placed on Mercer to be proactive in all circumstances.

Services provided by Mercer will be remunerated primarily on a time-cost basis. In particular, Mercer does not receive commission or any other payments in respect of the Scheme that might affect the impartiality of their advice.

The Trustees are satisfied that this is a reasonable adviser remuneration structure for the Scheme.

Mercer is authorised and regulated by the Financial Conduct Authority ("FCA").

## 3.3 ARRANGEMENT WITH INVESTMENT MANAGERS

Investment managers are appointed by the Trustees after taking appropriate investment advice. The appointments are based on the investment managers' capabilities and therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected.

The details of investment managers currently appointed by the Trustees are set out in Appendix 3, together with the details of each manager's mandate.

The Trustees invest in pooled investment vehicles and therefore accept that they have no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy.

The Trustees are long term investors and do not look to change the investment arrangements on a frequent basis.

The underlying investment managers are responsible for all decisions concerning the selection and de-selection of the individual securities within the portfolios they manage. In the case of multi-asset mandates, the investment managers are responsible for all decisions concerning the allocation to individual asset classes and changes in the allocations to individual asset classes.

If the investment objective for a particular manager's fund changes, the Trustees will review the fund appointment to ensure it remains appropriate and consistent with the Trustees' wider investment objectives.

All of the investment managers engaged by the Trustees will be authorised and regulated by the Prudential Regulation Authority ("PRA"), the FCA or both.

The underlying investment managers are remunerated by ad valorem charges based on the value of the assets that they manage on behalf of the Scheme. None of the managers in which the Scheme's assets are invested have performance based fees which could encourage the manager to make short term investment decisions to hit their profit targets.

The Trustees therefore consider that the method of remunerating fund managers is consistent with incentivising them to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity. By encouraging a medium to long-term view, it will in turn encourage the investment managers to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.

The Trustees accept that they cannot influence the charging structure of the pooled funds in which the Scheme is invested, but is satisfied that the ad-valorem charges for the different underlying funds are clear and are consistent with each fund's stated characteristics. The Trustees are therefore satisfied that this the most appropriate basis for remunerating the underlying investment managers and is consistent with the Trustees' policies as set out in this Statement.

### 3.4 SCHEME ACTUARY'S DUTIES AND RESPONSIBILITIES

The Scheme Actuary's responsibilities include the following:

- Liaising with the Investment Adviser regarding the suitability of the Scheme's investment strategy given the financial characteristics of the Scheme.
- Assessing the funding position of the Scheme and advising on the appropriate response to any shortfall.

### 3.5 ADMINISTRATOR'S DUTIES AND RESPONSIBILITIES

The Administrator's responsibilities include the following:

- Ensuring there is sufficient cash available to meet benefit payments as and when they fall due.
- Paying benefits and making transfer payments.
- Investing contributions not required to meet benefit payments with the Investment Managers according to the Trustees' instructions.

# 4 INVESTMENT STRATEGY

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## 4.1 SETTING INVESTMENT STRATEGY

The Trustees have determined their investment strategy after considering the Scheme's liability profile and requirements of the Statutory Funding Objective, their own appetite for risk, the views of the Sponsoring Employer on investment strategy, the Sponsoring Employer's appetite for risk, and the strength of the Sponsoring Employer's covenant.

The Scheme currently invests in two balanced funds, which provide exposure to a number of asset classes, such as those listed in Section 4.3.

In respect of the investment of contributions and any disinvestments to meet member benefit payments, the Trustees have decided on the approach which is set out in Appendix 2.

## 4.2 INVESTMENT DECISIONS

The Trustees distinguish between three types of investment decision: strategic, tactical and security-level.

### **Strategic Investment Decisions**

These decisions are long-term in nature and are driven by an understanding of the objectives, needs and liabilities of the Scheme.

The Trustees take all such decisions themselves. They do so after receiving written advice from their investment adviser and consulting with the Sponsoring Employer. Examples of such decisions and of tasks relating to the implementation of these decisions include the following:

- Setting investment objectives.
- Determining the split between the growth and the matching portfolios.
- Determining the allocation to asset classes within the growth and matching portfolios.
- Determining the Scheme benchmark.
- Reviewing the investment objectives and strategic asset allocation.

### **Tactical Investment Decisions**

These decisions are short-term and based on expectations of near-term market movements. Such decisions may involve deviating temporarily from the strategic asset allocation and may require the timing of entry into, or exit from, an investment market or asset class.

These decisions are the responsibility of the Trustees. However, where such decisions are made within a pooled fund, they are the responsibility of the investment manager of the fund.

### **Stock Selection Decisions**

All such decisions are the responsibility of the investment managers of the pooled funds in which the Scheme is invested.

## 4.3 TYPES OF INVESTMENTS TO BE HELD

The Trustees are permitted to invest across a wide range of asset classes, including the following:

- UK and overseas equities
- UK and overseas government bonds, fixed and inflation-linked
- UK and overseas corporate bonds
- Convertible bonds
- Property
- Commodities
- Hedge Funds
- Private equity
- High yield bonds
- Emerging market debt
- Diversified growth
- Liability driven investment products
- Cash

All the funds in which the Scheme invests are pooled and unitised. The use of derivatives is as permitted by the guidelines that apply to the pooled funds. Details relating to the pooled funds can be found in Appendix 3.

## 4.4 FINANCIALLY MATERIAL CONSIDERATIONS

The Trustees understand that they must aim to consider all financially relevant factors that have the ability to impact the financial performance of the Scheme's investments over the appropriate time horizon. This includes, but is not limited to, environmental, social and governance (ESG) factors.

The Trustees recognise that ESG factors, such as climate change, can influence the investment performance of the Scheme's portfolio and it is therefore in members' and the Scheme's best interests that these factors are taken into account within the investment process; and that ESG risks are identified and avoided or mitigated, as best as possible.

As noted earlier, the Scheme's assets are invested in pooled funds. The Trustees accept the fact that they have very limited ability to influence the ESG policies and practices of the companies in which their managers invest.

The Trustees have decided not to impose any additional ESG guidelines on their investment managers and will therefore rely on the policies and judgement of their investment managers.

## 4.5 NON-FINANCIAL CONSIDERATIONS

The Trustees only consider factors that are expected to have a financial impact on the Scheme's investments. Non-financial considerations, such as ethical views, are not implemented in the current investment strategy.

## 4.6 CORPORATE GOVERNANCE AND VOTING POLICY

The Trustees have concluded that the decision on how to exercise voting rights should be left with their investment managers, who will exercise these rights in accordance with their respective published corporate governance policies. The Trustees note that the investment managers' corporate governance policies are available on request and on their respective websites. These policies take into account the financial interests of shareholders and should be for the Scheme's benefit.

Where the Trustees are specifically invited to vote on a matter relating to corporate policy, the Trustees will exercise their right in accordance with what they believe to be the best interests of the majority of the Scheme's membership.



## 4.7 STEWARDSHIP

The Trustees will monitor the investment performance, strategy, risks, ESG policies and corporate governance of the investment managers. If the Trustees have any concerns, they will raise them with Mercer, verbally or in writing.

# 5 RISK

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The Trustees are aware, and seek to take account of a number of risks in relation to the Scheme's investments.

Under the Pensions Act 2004, the Trustees are required to state their policy regarding the ways in which risks are to be measured and managed. These are set out below.

## **Solvency Risk and Mismatching Risk**

- These are measured through a qualitative and quantitative assessment of the expected development of the assets relative to the liabilities.
- These are managed by setting a scheme-specific strategic asset allocation with an appropriate level of risk.

## **Manager Risk**

- This is assessed as the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy.
- It is measured by monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment process.

## **Liquidity Risk**

- This is monitored according to the level of cashflows required by the Scheme over a specified period.
- It is managed by holding an appropriate amount of readily realisable investments. The Scheme's assets are invested in pooled funds which are readily realisable.

## **Political Risk**

- This is measured by the level of concentration in any one market leading to the risk of adverse influence on investment values arising from political intervention.
- It is managed by regular reviews of the investments and through investing in funds which give a wide degree of diversification.

## **Environmental Risk**

- This is the risk that improper, or inadequate, consideration of environmental factors could lead to adverse investment performance and / or reputational damage to the Scheme.
- The day to day management of environmental risk is the responsibility of the companies in which the Scheme's underlying managers have invested. Given the Trustees are invested in pooled funds the Trustees will rely on the investment managers to ensure that these companies have sufficient procedures and processes in place in order to mitigate this risk as far as is reasonably possible.

## **Social Risk**

- This is the risk that social factors are not properly considered within the investment decision making process. Social risks can arise both within and external to a company, e.g. internal factors could include workplace health & safety whilst external factors may include a company's impact on the area surrounding their place of business.
- The day to day management of social risk is also the responsibility of the companies in which the Scheme's underlying managers invest. It is the responsibility of the investment manager to ensure that these companies have sufficient procedures and processes in place in order to mitigate these risks as far as is reasonably possible.

## **Corporate Governance Risk**

- This is assessed by reviewing the Scheme's investment managers' policies regarding corporate governance.

- It is managed by delegating the exercise of voting rights to the managers, who exercise this right in accordance with their published corporate governance policies. Summaries of these policies are available on request and take into account the financial interests of the shareholders, which should ultimately be to the Scheme's advantage.

### **Sponsor Risk**

- This is assessed as the level of ability and degree of willingness of the sponsor to support the continuation of the Scheme and to make good any current or future deficit.
- It is managed by assessing the interaction between the Scheme and the sponsor's business, as measured by a number of factors, including the creditworthiness of the sponsor and the size of the pension liability relative to the sponsor. Regular updates on employer covenant are provided to the Trustees by senior staff of the sponsor.

### **Legislative Risk**

- This is the risk that legislative changes will require action from the Trustees so as to comply with any such changes in legislation.
- The Trustees acknowledge that this risk is unavoidable but will seek to address any required changes so as to comply with changes in legislation.

### **Credit Risk**

- This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
- The Trustees acknowledge that the assessment of credit risk on individual debt instruments is delegated to the investment manager. The Trustees will however ensure that they are comfortable with the amount of risk that the Scheme's investment manager takes.

### **Currency Risk**

- This is the risk that occurs when the price of one currency moves relative to another (reference) currency. In the context of a UK pension scheme, the scheme may be invested in overseas stocks or assets, which are either directly or indirectly linked to a currency other than Sterling. There is a risk that the price of that overseas currency will move in such a way that devalues that currency relative to Sterling, thus negatively impacting the overall investment return.
- For currency hedged funds, the Trustees acknowledge that currency risk related to overseas investments is hedged appropriately by the underlying investment managers.
- For funds where the currency risk is separately managed by the manager, the Trustees acknowledge that currency risk is delegated to the underlying investment managers where the manager is responsible for the decision of whether or not to hedge.

### **Interest Rate Risk**

- This is the risk that an investment's value will change due to a change in the level of interest rates. This affects debt instruments more directly than growth instruments.
- The Trustees acknowledge that the interest rate risk related to individual debt instruments is managed by the underlying investment managers through a combination of strategies, such as diversification, duration and yield curve management.
- The Trustees recognise that the Scheme's liabilities are exposed to a significant level of interest rate risk and for this reason it is desirable for the Scheme's assets to be exposed to a similar level of interest rate risk.

### **Inflation**

- This is the risk that an investment's value will change due to a change in the level of expected inflation. This affects debt instruments more directly than growth instruments.

- The Trustees acknowledge that the inflation risk related to individual debt instruments, are managed by the underlying investment managers through a combination of strategies, such as diversification, duration and yield curve management.
- The Trustees recognise that the Scheme's liabilities are exposed to a significant level of inflation risk and for this reason it is desirable for the Scheme's assets to be exposed to a similar level of interest rate risk.

### **Other Price Risk**

- This is the risk that principally arises in relation to the return seeking portfolio.
- The Trustees acknowledge that a scheme can manage its exposure to price risk by investing in a diverse portfolio across various markets.

# 6 MONITORING OF INVESTMENT ADVISER AND MANAGERS

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## 6.1 INVESTMENT ADVISER

The Trustees will assess and review the performance of their adviser in a qualitative way. To do so, the Trustees will consider the objectives it set for its investment adviser in the document entitled “Strategic Objectives for Investment Consultancy Services” which was signed and formally adopted by the Trustees in September 2020.

## 6.2 INVESTMENT MANAGERS

The Trustees receive monitoring reports on the performance of the underlying investment managers from the underlying investment managers on an annual basis, which present performance information over 1 year, 3 years and 5 years.

The Trustees have the role of replacing the underlying investment managers where appropriate. They take a long-term view when assessing whether to replace the underlying investment managers, and such decisions would not be made based solely on short-term performance concerns.

Changes will also be made to the underlying managers if there is a strategic change to the overall strategy such that the Scheme no longer requires exposure to that asset class or manager.

## 6.3 PORTFOLIO TURNOVER COSTS

Portfolio turnover costs means the costs incurred as a result of the buying, selling, lending or borrowing of investments. The Trustees do not currently monitor portfolio turnover costs for the funds in which the Scheme is invested.

The Trustees are also aware of the requirement to define and monitor targeted portfolio turnover and turnover range. Given that the Scheme invests in a range of pooled funds, many of which invest across a wide range of asset classes, the Trustees do not have an overall portfolio turnover target for the Scheme.

# 7 CODE OF BEST PRACTICE

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The Trustees note that in March 2017, the Pensions Regulator released 'Investment Guidance for Defined Benefit Pension Schemes'.

The Trustees are satisfied that the investment approach adopted by the Scheme is consistent with the guidance so far as it is appropriate to the Scheme's circumstances.

# 8 COMPLIANCE

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The Scheme's Statement of Investment Principles and annual report and accounts are available to members on request.

A copy of the Scheme's current Statement plus Appendices is also supplied to the Sponsoring Employer, the Scheme's investment managers, the Scheme's auditors and the Scheme Actuary.

This Statement of Investment Principles, taken as a whole with the Appendices, supersedes all others and was approved by the Trustees on .....

**Signed on behalf of the Trustees by** .....

**On** .....

**Full Name** .....

**Position** .....

# APPENDIX 1: ASSET ALLOCATION BENCHMARK

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The Scheme's strategic asset allocation benchmark is set out below.

Asset Class	Strategic Allocation
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Balanced Funds

100.0%

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The policy for rebalancing and investment / disinvestment of cashflows is set out in Appendix 2.

Appendix 3 provides information about the funds in which the assets are invested.



# APPENDIX 2: CASHFLOW AND REBALANCING POLICY

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Where possible, cash outflows will be met from cash balances held by the Scheme in order to minimise transaction costs.

Any cashflow disinvestments will be made from the Scottish Widows pooled fund.

The Trustees will review the cashflow policy from time to time to ensure that it remains appropriate.

# APPENDIX 3: INVESTMENT MANAGER INFORMATION

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The tables below show the details of the mandate(s) with each manager.

Manager / Fund	Benchmark	Objective	Dealing Frequency	SORP / IFRS Class
<b>Scottish Widows</b> Managed Fund	Composite Index*	To outperform the benchmark	Daily	Level 2
<b>Schroders Life Ltd</b> Managed Balanced Fund	Composite Index*	To outperform the benchmark	Daily	Level 2

\* Composite index consists of 35% FTSE All Share, 15% S&P 500, 15% FTSE World Series Europe ex UK, 5% Tokyo Stock Exchange 1st Section Index (TOPIX), 5% MSCI Pacific ex Japan , 5% MSCI Emerging Markets, 15% of 50% iBoxx GBP Gilts + 50% iBoxx GBP Non-Gilts, 5% LIBID 7 day.

For avoidance of doubt, this Statement will not be updated solely in response to a replacement of one of the underlying investment managers.