John Grose Group Ltd Retirement Benefits Plan (1981)

Statement of Investment Principles

Updated September 2020

1. Introduction

The Trustees of The John Grose Group Ltd Retirement Benefits Plan (1981) ("the Scheme") have drawn up this revised Statement of Investment Principles ("the Statement") to comply with the requirements of the Pensions Act 1995 ("the Act") and subsequent amending legislation. The Statement is intended to reaffirm the investment principles that govern decisions about the Scheme's investments and supersedes the previous SIP prepared by the Trustees in August 2019.

The Trustees seek to maintain a good working relationship with the Sponsoring Company and will discuss any proposed changes to the Statement with the Sponsoring Company. However, the Trustees' fiduciary obligation is to the Scheme's members.

The Defined Benefit Section continues to maintain benefits for accrual for benefits secured before 1 January 2001. The Defined Contribution Section was wound up in 2016 by a Trustee Buyout Plan.

The current recovery plan was prepared by the Trustees as part of the actuarial assessment as at 5 April 2019 after obtaining the advice of William Shortt, the Actuary to the scheme. The Employer has agreed it. It sets out the recovery period and recovery contributions.

2. Triennial Valuation 5 April 2019

There was a funding shortfall (technical provisions minus value of assets) at the date of the valuation of £1,165,000.

To eliminate the funding shortfall, the Trustees have agreed with the Employer that recovery contributions will be paid to the scheme by the employer as follows. The Recovery Plan was agreed and signed on 28 February 2017.

From 6 April 2016 until 5 April 2017, £24,483 each month;

From 6 April 2017 until 5 February 2023, £25,000 each month.

The Trustees expect the funding shortfall to be eliminated by 5 February 2023. This expectation is based on the following assumptions: -

- technical provisions are calculated according to the method and assumptions set out in the Statement of Funding Principles dated 21 January 2020;
- the experience of the scheme during the period is in line with the financial and demographic assumptions made as set out in the Statement of Funding Principles dated 21 January 2020 for the calculation of technical provisions and applicable to the period from the assessment date to the end of the recovery period.

3. Process for Choosing Investments

The process for choosing investments is as follows and is consistent with previous policy set out in earlier Statements of Investment Principle's.

- Identify and review at least annually appropriate investment objectives.
- Agree the level of risk consistent with meeting the objectives set.

- Construct a portfolio of investments that is expected to maximise the return (net of all costs) in line with the investment risk set by the Trustees in conjunction with the Sponsoring Company (Principal Employer).

- In considering the appropriate investments for the Scheme, the Trustees have obtained and considered the written advice of their investment advisers. The advice received and arrangements implemented are, in the Trustees' opinion, consistent with the requirements of the Pensions Act 1995.

4. Investment Objectives

The Trustees' objective is to invest the assets in the best interest of the members and beneficiaries and, in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries. Within this framework, the Trustees have agreed several objectives with the Sponsoring Company to help guide them in their strategic management of the assets and control of the various risks to which the Scheme is exposed.

The Trustees' primary objectives are as follows:

- To ensure that it can meet its obligation to the beneficiaries of the Scheme;

- To restore the funding position of the scheme to be 100% funded by 5 February 2023;

- To pay due regard to the Sponsoring Company's interest in the size and incidence of contribution payments.

5. Risk Management and Measurement

There are various risks to which any defined benefit pension scheme is exposed. The Trustees' policy on risk management is as follows:

The primary risk upon which the Trustees focus is that arising through a mismatch between the Scheme's assets and its liabilities.

The Trustees recognise that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's accruing liabilities as well as producing more short-term volatility in the Scheme's funding position. The Trustees have taken advice on the matter and (considering the objectives noted previously) considered carefully the implications of adopting different levels of risk.

The Trustees recognise the risks that may arise from the lack of diversification of Investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustees aim to ensure the asset allocation policy in place results in an adequately diversified portfolio. Due to the size of the Scheme's assets and recognising the need to diversify, investment exposure is obtained principally via pooled investments. The assets of the Scheme are currently managed by Scottish Widows through an Institutional Investment Bond. Within this, investment is contained currently in three investment funds.

The Trustees also invest in an investment property located in Princes Street, Ipswich. The property is legally owned by Princes Street Properties Ltd as a nominee, but under the terms of the trust deed beneficial ownership resides with two beneficiaries named in the deed, one of which is the Scheme.

The process for appointing fund managers includes several guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme. The managers are prevented from investing in asset classes out of their mandate without the Trustees' prior consent.

Arrangements are in place to monitor the Scheme's investments to help the Trustees check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustees meet regularly with the Scheme's investment managers and receive regular reports from the investment managers and their advisers.

6. Portfolio Construction

The Trustees have adopted the following control framework in structuring the Scheme's investments.

All other things being equal there is a preference, in view of the amount involved, to invest via pooled funds.

At the total Scheme level and within individual manager appointments, investments should be broadly diversified to ensure there is not a concentration of investment with any one fund manager.

Investment in illiquid investments, such as property or pooled property funds, may be held.

No investment in securities issued by the Scheme's Sponsoring Company or affiliated companies.

No investment by an appointed investment manager in the securities issued by the relevant manager's company or any affiliated companies (other than any such securities held within a pooled fund in which the Trustees invest).

Borrowing is not permitted.

7. Investment Strategy

Following a review of both adviser and provider the Trustees appointed Creative Benefits as advisers and Scottish Widows as investment managers in 2009. The insured assets of the Defined Benefit Section were transferred fully to Scottish Widows from Legal and General in October 2009.

The Trustees made changes to the investment strategy by opting for a diversified portfolio of active and passive collective funds with Scottish Widows through an Institutional Investment Bond in respect of the then Defined Benefit Section. The approach was adopted to maintain a diversified approach through equities and gilts. Funds are reviewed for suitability at each Trustee meeting. This relates to assessing the performance of the individual funds against the appropriate benchmark, changes in the fund's stewardship strategy and stock selection and any changes to fund charges.

All funds receive a discount on the normal charge levied by Scottish Widows. The discount is credited monthly to the scheme assets.

The charge on all the individual investment funds is 0.6% pa; therefore, less than the 0.75% maximum charge set out in legislation as the cap for funds under workplace pension schemes.

The Trustees do not operate a voting policy in determining the choice of investment funds. Fund choice is made collectively and in conjunction with advice from their advisors.

It can be summarised that the investment strategy adopts a diversified portfolio of active and passive collective funds to maintain a diversified approach through equities and gilts. The discount rates adopted are broadly consistent with the objective set out in the SIP.

8. Day-to-Day Management of the Assets

The assets of the Scheme consist of three collective funds managed by Scottish Widows plus the commercial property in Princes Street, Ipswich. The scheme Actuary in his draft funding report dated 21 January 2020 valued the total assets as £6,596,000 at the valuation date.

9. Effective performance assessment

The performance of investment options is monitored.

The Trustees are invested with Scottish Widows who provide the Trustees with regular information on each funds' performance.

The Trustees, or their advisors on behalf of the Trustees, will regularly review the activities of Scottish Widows, to satisfy themselves that they continue to carry out their work competently and have the appropriate knowledge and experience to manage the Plan assets.

As part of this review, the Trustees will consider whether or not Scottish Widows are carrying out their function competently. The Trustees will evaluate Scottish Widows based on, amongst other things:

- Their performance versus its benchmark.
- The level of risk within the funds, given any specified risk tolerances.
- The competitiveness of Scottish Widows fees is reviewed on a regular basis.
- With regard to the suitability of each investment and each category of investment.
- In exercising their powers of investment with a view to giving effect to the principles contained in this SIP, so far as is reasonably practical.

If the Trustees are not satisfied with Scottish Widows, they will ask them to take steps to rectify the situation. If Scottish Widows still does not meet the Trustees' requirements, the Trustees will remove them and appoint another Investment Manager.

The Scheme invests in insured funds, consisting of three collective funds plus a commercial property in Princes Street, Ipswich. Trustees will from time-to-time consider the appropriateness of the funds and whether they should continue to be held.

The Trustees do not directly monitor turnover costs. However, Scottish Widows are incentivised to minimise costs as they are measured on a net of cost basis. They are required to provide transaction cost information on an annual basis, on the slippage cost methodology, for disclosure to members.

In addition, the Trustees will now further evaluate and monitor Scottish Widows for their exercising of responsible investing activities, which may include voting and engagement, in respect of the Scheme's investment and in accordance with their stated or agreed policies and as may be further agreed with the Trustees.

10. Investment Structure

The scheme asset split at the last triennial valuation at 5 April 2019 was:

UK Equity 21.2%
Foreign Equity 38.7%
UK Bond 5.1%
Index-Linked Bond 0.6%
Property 24.6%
Cash 9.8%

11. Additional Voluntary Contributions

Under the terms of the Trust Deed, the Trustees are responsible for the investment of any AVCs paid by members historically. The investments are via an insurance policy with Prudential.

12. ESG Risk

This is the risk of adverse performance due to ESG related factors including climate change. This is addressed by ESG assessment at the point of investment with the Manager where applicable, or by requesting information on the ESG policies adopted by the Investment Manager.

13. Corporate Governance

The Trustees accept that by using pooled investment vehicles for its investments, the day-to-day selection of stocks within the funds chosen will be undertaken by the fund managers. The Trustees expect appropriate due diligence to be exercised in the context of this function.

However, the Trustees do now seek alignment of objectives with its Investment Managers in respect of responsible investment considerations and will monitor policy and stewardship activities going forward.

The Trustees also recognise the merits of working with others in the industry to agree, develop and report against accepted responsible investing standards and benchmarks and this is a focus for the future. The Trustees currently await full publication and awareness of the EU's action plan on Sustainable Finance including the taxonomy to be applied to funds and its potential impact. In addition, the Trustees will seek to incorporate new benchmarks for carbon footprints as these become more widely adopted.

14. Stewardship/Engagement Policies

The Trustees delegate responsibility for their corporate engagement activities to the Fund Managers as they are best placed to engage with companies on matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance.

15. Actuary

The Actuary performs a valuation of the Scheme at least every three years, in accordance with regulatory requirements. The main purpose of the actuarial valuation is to assess the extent to which the assets cover the accrued liabilities and agree the Company's contribution rate.

16. Investment Consultation

Whilst the day-to-day management of the Scheme's assets is delegated to investment managers, all other investment decisions including strategic asset allocation and selection and monitoring of investment managers is based on advice received from the Trustees' appointed advisers, Creative Benefits, supported by Goddard Perry Consulting Limited.

17. Fee Structures

The investment managers levy fees based on a percentage of the value of the assets under management. Details of the annual fees charged by the investment managers are available from the Trustees.

18. Compliance with this Statement

The Trustees monitor compliance with this Statement annually and obtain written confirmation from the investment managers that they have given effect to the investment principles in this Statement so far as reasonably practicable and that in exercising any discretion the investment managers have done so in accordance with Section 4 of The Occupational Pension Schemes (Investment) Regulations 2005.

19. Review of this Statement

The Trustees will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

Signed--

For and on behalf of the Trustees John Grose Group Ltd Retirement Benefits Plan (1981)

September 2020