

Clyde Process Pension Scheme
Statement of Investment Principles

September 2019

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1. INTRODUCTION

1.1 PURPOSE OF THE STATEMENT

This statement sets out the principles and policies that govern investments made by the Trustee of the Clyde Process Pension Scheme.

1.2 STATUTORY REQUIREMENTS

This statement is made in accordance with the requirements of the Pensions Act 1995, the Occupational Pensions (Investment) Regulations 2005 made under the Pensions Act 2004, and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.

1.3 INVESTMENT ADVICE

As required by legislation, in the preparation and maintenance of this statement and when considering the suitability of any investments, the Trustee has obtained and considered written advice from its investment adviser.

The Trustee is advised on investment matters by First Actuarial LLP. First Actuarial LLP is regulated by the Institute and Faculty of Actuaries and is qualified to provide the required advice through knowledge and practical experience of financial matters relating to pension schemes.

1.4 EMPLOYER CONSULTATION

Under legislation, the ultimate responsibility for determining the investment strategy rests with the Trustee. However, the Trustee must consult with the sponsoring employer and consultation must comprise a sharing of views, not simply notification of intent.

The Trustee has consulted with the sponsoring employer as part of the work preparing this statement.

1.5 REVIEWING THIS STATEMENT

This statement will be reviewed at least every three years and without delay after any significant change in circumstances or investment policy.

A copy of this statement and any amendments made to it are available to the Scheme Actuary and to the managers of the pooled investment vehicles used by the Trustee.

2. OBJECTIVES AND STRATEGIC ALLOCATION

2.1 INVESTMENT OBJECTIVES

The Trustee has set an investment strategy that reflects the following primary investment objectives:

- **Generating an appropriate level of investment returns** – to improve the financial position of the Scheme thereby improving security for the members.
- **Managing cash flow requirements** – to ensure that sufficient assets and cash flows are available to pay members' benefits as and when they arise.
- **Protecting the financial position** – to limit the scope for adverse investment experience reducing security for members.

It is recognised that targeting strong levels of investment return introduces investment risk which increases the volatility of the financial position.

2.2 SETTING THE STRATEGIC ASSET ALLOCATION

The Trustee's strategic asset allocation is determined after considering written advice from the investment adviser and is designed to strike a balance between the above objectives. The strategic asset allocation takes into account:

- the nature and timing of liability payments;
- expected levels of investment return on the different asset classes;
- expected levels of investment return variability and, specifically, the expected level of short-term volatility of the Scheme's funding position;
- the sponsoring employer's ability to withstand the additional contribution requirements that may arise from such volatility in the funding position; and
- the full range of available investments (within the bounds of practicality).

In determining the strategic asset allocation, the Trustee view the investments as falling into two broad categories:

1. **Growth Assets** – Assets that are expected to deliver long-term returns in excess of liability growth. The use of Growth Assets is expected to generate a level of investment returns deemed appropriate by the Trustee given the risk involved.
2. **Liability Matching Assets** – Assets that are expected to react to changes in market conditions in a similar way to the liabilities. The use of Liability Matching Assets is expected to protect the financial position.

The Trustee's strategic asset allocation is detailed in Appendix 1.

3. IMPLEMENTATION

3.1 IMPLEMENTATION OF THE INVESTMENT STRATEGY

Day-to-day management of the Scheme's assets is delegated to one or more investment managers. The Trustee is satisfied that all investment managers have the appropriate knowledge and experience for managing the investments.

The Trustee, in conjunction with its investment adviser, regularly reviews each of the investment managers to ensure that the manager remains competent and that the assets continue to be managed in accordance with the manager's mandate.

The mandates set for the investment managers are intended to implement the Trustee's investment objectives within an acceptable level of risk.

The Trustee considers each investment manager's mandate carefully to ensure it is appropriate. Where pooled investment vehicles are used, it is recognised that the mandate cannot be tailored to the Trustee's particular requirements. However, the Trustee ensures that any pooled investment vehicles used are appropriate to the circumstances of the Scheme.

Details of the mandates set for the investment managers are provided in Appendix 1.

3.2 SAFEKEEPING OF ASSETS

To ensure safekeeping of the assets, ownership and day to day control of the assets is undertaken by custodian organisations which are independent of the sponsoring employer and the investment managers. Where pooled investment vehicles are used, the custodians will typically be appointed by the investment manager.

3.3 REGULATED MARKETS AND DERIVATIVES

Assets are invested predominantly on regulated markets, as so defined in legislation. Any investments that do not trade on regulated markets are kept to a prudent level.

The investment managers are permitted to use derivative instruments only in so far as they contribute to the reduction of investment risks or facilitate efficient portfolio management.

4. RISKS AND OTHER MATTERS

4.1 INVESTMENT RISKS

Identification, measurement and management of risk form an integral part of the process adopted by the Trustee to determine an appropriate investment strategy. The principal investment risks are listed in the accompanying Investment Risks Policy document along with an explanation of how those risks are managed.

4.2 EMPLOYER-RELATED INVESTMENT (DB SECTION ONLY)

The proportion of the Scheme investments which can be related to the sponsoring employer (as defined within legislation) is limited to 5% of the value of total assets.

The Trustee does not hold any direct employer-related assets and any indirect exposure is expected to be less than 5% of total assets.

4.3 SUSTAINABLE INVESTING AND CORPORATE GOVERNANCE

Investment Beliefs

The investment beliefs stated below have been developed by the Trustee and are reflected in the Scheme's investment strategy.

Risk versus Reward

Targeting higher levels of investment return increases investment risk which increases the volatility of the funding position.

Asset Allocation

Long-term performance of the Scheme's assets is attributable primarily to the strategic asset allocation rather than the choice of investment managers.

Diversification

Asset diversification helps to reduce risk.

Use of Pooled Funds

Taking into account the size of the Scheme's assets, it is expected that pooled funds will typically be a more practical way of implementing the Scheme's investment strategy than establishing segregated mandates with investment managers.

Use of Active Management

Active management has the potential to add value either through offering the prospect of enhanced returns or through the control of volatility. In addition, it is recognised that active management may help to mitigate the financial impact of Environmental, Social and Governance (ESG) risks.

For each asset class, the Trustee will consider whether the higher fees associated with active management are justified.

Members' Views

The Trustee recognises that it is likely that members and beneficiaries will hold a broad range of views on ESG and other non-financial matters. Whilst the Trustee will seek to avoid investing in a way that is likely to be strongly opposed by those individuals, the Trustee does not directly take such views into account when determining the Scheme's investment strategy.

The Trustee believes that its duty to members and beneficiaries will be best served by ensuring that all benefits can be paid as they fall due and the Trustee's investment objectives are designed to ensure this duty is achieved.

ESG Risks & Corporate Engagement

Where the Trustee invests in pooled investment vehicles, it is accepted that the extent to which corporate governance, socially responsible practices and ethical behaviour are used in the selection of suitable investments will be determined by the investment managers' own policies on these matters.

Similarly, it is accepted that ongoing engagement with companies in which investments are made (including the exercise of voting rights) will also be determined by the investment managers' own policies.

The Trustee recognises that the membership might wish the Trustee to engage with the companies in which the Scheme invests with the objective of improving corporate behaviour to benefit the environment and society.

However, the Scheme's assets are invested in pooled funds and, as noted above, the Trustee therefore relies on the investment managers to carry out such engagement. The Trustee recognises that the investment managers' engagement policies are likely to be focussed on maximising financial returns and minimising financial risks rather than targeting an environmental or societal benefit.

The Trustee does however consider ESG policies and, if they are felt to be inappropriate, will replace the fund in question.

Monitoring

The Trustee regularly reviews the Scheme's investments to ensure that the assets continue to be managed in accordance with each manager's mandate and that the choice of managers remains appropriate.

Furthermore, the Trustee regularly monitors the position of the investment managers with regards to ESG matters.

To assist with the monitoring of the investment managers, the Trustee receives regular information from its investment adviser providing details of investment manager performance and asset allocation decisions. This analysis includes comparisons with benchmarks and relevant peer-group data.

The analysis assesses whether performance has been in line with expectations given market conditions and whether the level of risk has been as expected.

The investment adviser also provides regular updates on the investment managers' actions regarding ESG factors and shareholder engagement.

The investment adviser regularly meets with the managers of pooled funds on its approved list.

4.4 ADDITIONAL VOLUNTARY CONTRIBUTIONS

Additional Voluntary Contributions (AVCs) are held separately from the main assets and the Trustee aims to make a variety of funds available with the member choosing which funds to use. From time to time the Trustee reviews the range of available funds to ensure the choice remains appropriate for members' needs.

Details of the current AVC arrangements are provided in Appendix 1.

This statement has been agreed by the Trustee:

Signed:

Date:18/9/2019..

For and on behalf of Clyde Process Pension (Trustees) Limited acting as the Trustee of the Clyde Process Pension Scheme

APPENDIX 1. CURRENT INVESTMENT STRATEGY

MAIN SCHEME ASSETS

The Trustee has appointed Legal & General Investment Management (LGIM), Baillie Gifford, Standard Life and Newton Investment Management (collectively, the “DB Managers”) to manage the assets of the DB Section of the Scheme. Further details of the specific arrangements in place with the DB Managers are contained in this Appendix.

The mandate the Trustee has given to DB Managers reflects the principles and policies as set out in the main body of this Statement.

The Trustee's assets are invested in the following underlying pooled funds:

Pooled Investment Vehicle	Allocation as at 30 June 2019
Liability Matching Assets	
LGIM Matching Core Fixed Long Fund	3.9%
LGIM Matching Core Fixed Short Fund	4.2%
LGIM Matching Core Real Long Fund	10.9%
LGIM Matching Core Real Short Fund	7.1%
Total Liability Matching Assets	26.1%
Growth Assets	
Baillie Gifford Diversified Growth Fund	19.5%
Baillie Gifford Multi Asset Growth Fund	6.1%
LGIM Asia/Pacific (ex Japan) Developed Index Fund - GBP Hedged - Fund	0.7%
LGIM Europe (ex UK) Index Fund - GBP Hedged - Fund	1.5%
LGIM FTSE RAFI All World 3000 Equity Index Fund	7.9%
LGIM Japan Equity Index Fund - GBP Hedged - Fund	0.6%
LGIM North America Equity Index - GBP Hedged - Fund	1.4%
LGIM UK Equity Index Fund	4.4%
Newton Global Dynamic Bond Fund	24.7%
Standard Life Pooled Property Pension Fund	6.8%
Total Growth Assets	73.9%

APPENDIX 1. CURRENT INVESTMENT STRATEGY (CONTINUED)

The LGIM equity funds (excluding the LGIM FTSE RAFI All World 3000 Equity Index Fund) are held on a separate LGIM sub section and are managed according to the following benchmark weightings (rebalanced on a weekly basis):

Pooled Investment Vehicle	Central Benchmark	Control Ranges + / -
LGIM equity portfolio		
LGIM UK Equity Index Fund	50.0%	2.5%
LGIM North America Equity Index - GBP Hedged - Fund	16.50%	1.5%
LGIM Europe (ex UK) Index Fund - GBP Hedged - Fund	16.50%	1.5%
LGIM Japan Equity Index Fund - GBP Hedged - Fund	8.50%	1.0%
LGIM Asia/Pacific (ex Japan) Developed Index Fund - GBP Hedged - Fund	8.50%	1.0%

The Scheme's remaining assets (i.e. everything not included in the LGIM equity portfolio above) are not automatically rebalanced but are monitored and rebalanced at the discretion of the Trustee.

CASHFLOW POLICY

Any investments or disinvestments will be made at the discretion of the Trustee, but the Trustee will maintain a *Cashflow Management Policy* which will record how such payments should be structured. The *Cashflow Management Policy* will be designed to ensure the allocation of the Scheme's assets remains closely aligned with the strategy described in this statement.

To ensure the Scheme operates efficiently, the Trustee may share the *Cashflow Management Policy* with the individual(s) responsible for processing payments from the Scheme.

The *Cashflow Management Policy* will be reviewed from time-to-time by the Trustee and, as a minimum, at least every three years in line with a review of this statement. Given that the *Cashflow Management Policy* is designed to keep the Scheme's asset allocation aligned with the investment strategy and investment principles described in this statement, the sponsoring employer is satisfied that the *Cashflow Management Policy* can be amended by the Trustee without consulting the sponsoring employer.

RECAPITALISATION AND RE-LEVERAGE POLICY

In the event of a large increase in yields, a contribution may need to be paid into one or more of the Matching Core funds. This will recapitalise the relevant LDI fund and keep leverage within a permissible range. The Trustee has agreed that any such contributions will be taken from the Newton Global Dynamic Bond Fund.

If the leverage of a Matching Core fund falls below a minimum threshold, LGIM will make a cash payment from the relevant fund to raise the leverage. The Trustee has agreed that any such payments will be invested in the Newton Global Dynamic Bond Fund.

EXPECTED RETURNS

The Liability Matching Assets have been selected by the Trustee having regard for the nature of the Scheme's liability profile. These funds are therefore expected to change in value broadly in line with the Scheme's liabilities as market conditions change.

DYNAMIC DE-RISKING

The Trustee agreed to implement a dynamic de-risking strategy, under which the Scheme Actuary provides quarterly funding level updates. If the expected return required to support the current Recovery Plan falls below a pre-determined de-risking trigger, a suitable proportion of Scheme holdings will be switched from Growth Assets to Matching (or Lower Risk) Assets.

Further details on the de-risking strategy are covered in the De-Risking Triggers Proposal document dated February 2018, as agreed by the Trustee.

In September 2018, the Trustee agreed to temporarily suspend the de-risking framework, until further discussions are held on this topic as part of the triennial actuarial valuation process in 2019.

APPENDIX 1. CURRENT INVESTMENT STRATEGY (CONTINUED)

The Trustee's expectation is that the Growth Assets will provide returns in line with each individual pooled fund's return objectives.

The objectives and annual management charges for all funds are set out in the tables below:

LGIM Matching Core Funds	
Objective	To provide leveraged exposure to changes in nominal and real interest rates with a specific duration.
AMC	0.24% per annum

Newton Global Dynamic Bond Fund	
Objective	Newton Global Dynamic Bond Fund aims to maximise the total return from income and capital growth from a global diversified portfolio of predominantly higher yielding corporate and government fixed interest securities. The Fund is managed to seek a minimum return of cash (1 month GBP Libor) +2% pa over 5 years before fees. In so doing they aim to achieve a positive return on a rolling 3 year basis.
AMC	0.43% pa (including LGIM's platform charge)

Baillie Gifford Diversified Growth Fund	
Objective	The Baillie Gifford Diversified Growth Fund invests in a variety of asset classes with the aim of achieving long-term capital growth at a level of risk lower than investment in equities. The fund's objective is to outperform the UK base rate by at least 3.5% p.a. (net of fees) over rolling five year periods with an annualised volatility of less than 10%.
AMC	0.65% per annum

Baillie Gifford Multi Asset Growth Fund	
Objective	The Baillie Gifford Multi-Asset Growth Fund invests in a variety of asset classes with the aim of achieving long-term capital growth at a level of risk lower than investment in equities. The fund's objective is to outperform the UK base rate by at least 3.5% p.a. (net of fees) over rolling five year periods with an annualised volatility of less than 10%.
AMC	0.50% per annum

APPENDIX 1. CURRENT INVESTMENT STRATEGY (CONTINUED)

LGIM Asia/Pacific (ex Japan) Developed Index Fund - GBP Hedged - Fund	
Objective	The LGIM Asia Pacific (ex Japan) Developed Equity Index Fund - GBP Currency Hedged employs an index-tracking strategy aiming to replicate the performance of the FTSE Developed Asia Pacific ex Japan Index (less withholding tax if applicable) - GBP Hedged to within +/-0.75% p.a. for two years out of three.
AMC	Up to 0.30% per annum

LGIM Europe (ex UK) Index Fund - GBP Hedged – Fund	
Objective	The LGIM Europe (ex UK) Equity Index Fund - GBP Currency Hedged employs an index-tracking strategy aiming to replicate the performance of the FTSE Developed Europe ex UK Index (less withholding tax if applicable) - GBP Hedged to within +/-0.5% p.a. for two years out of three.
AMC	Up to 0.275% per annum

LGIM FTSE RAFI All World 3000 Equity Index Fund	
Objective	To track the performance of the L&G FTSE RAFI All World 3000 Composite to within 1.0% pa for two years out of three.
AMC	Up to 0.33% per annum

LGIM Japan Equity Index Fund - GBP Hedged - Fund	
Objective	The LGIM FTSE RAFI All World 3000 Equity Index Fund aims to track the performance of the L&G FTSE RAFI All World 3000 Composite to within +/-1.0% p.a. for two years out of three.
AMC	Up to 0.25% per annum

LGIM North America Equity Index - GBP Hedged - Fund	
Objective	To track the performance of the FTSE World North America Index to within 0.5% pa for two years out of three.
AMC	Up to 0.225% per annum

APPENDIX 1. CURRENT INVESTMENT STRATEGY (CONTINUED)

LGIM UK Equity Index Fund	
Objective	To track the performance of the FTSE All-Share Index to within 0.25% pa for two years out of three.
AMC	Up to 0.10% per annum

Standard Life Pooled Property Pension Fund	
Objective	The Standard Life Pooled Property Fund aims to provide long term growth from a combination of income and capital growth by investing predominantly in prime quality UK properties, and to perform in line with IPD UK Quarterly Property Funds Index - All Balanced Funds Median.
AMC	0.50% per annum

AMC = Annual Management Charge

ADDITIONAL VOLUNTARY CONTRIBUTIONS

The Trustee has appointed Equitable Life and Standard Life to manage the Additional Voluntary Contributions.