Beales Pension Scheme

Statement of Investment Principles

Contents

Introduction

1.1. This is the Statement of Investment Principles prepared by the Trustees of the Beales Pension Scheme ("the Scheme"). This statement sets down the principles which govern the decisions about investments that enable the Scheme to meet the requirements of:

- the Pensions Act 1995, as amended by the Pensions Act 2004; and
- the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010.
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

1.2. The Principal Employer of the Scheme has become insolvent and the Scheme has entered an assessment period for the Pension Protection Fund ("the PPF"). Therefore, in preparing this statement the Trustees have obtained advice from Barnett Waddingham LLP, the Trustees' investment consultant. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.

1.3. This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.

1.4. The Trustees will review this statement at least every three years or if there is a significant change in any of the areas covered by the statement.

1.5. The investment powers of the Trustees are set out in Clause 51 of the Trust Deed & Rules, dated July 1998. This statement is consistent with those powers.

2. Choosing investments

2.1. The Trustees' policy is to set the overall investment target and, in doing so, the Trustees have taken into account the fact that the PPF may assume responsibility for the Scheme or that the Trustees may aim to secure benefits with an insurance company. The Trustees will then monitor the performance of their managers against that target. In doing so, the Trustees consider the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.

2.2. The day-to-day management of the Scheme's assets is delegated to one or more investment managers. The Scheme's investment managers are detailed in Appendix 1 of this Statement. The investment managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights.

2.3. The Trustees review the appropriateness of the Scheme's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the investment managers with respect to performance within any guidelines set. The Trustees will also consult the PPF before amending the investment strategy.

3. Investment objectives

3.1. The Trustees have discussed key investment objectives in light of an analysis of the Scheme's liability profile as well as the constraints the Trustees face in achieving these objectives. As a result, the Trustees' main investment objectives are:

- to ensure that they can meet the members' entitlements as they fall due, in accordance with the Trust Deed and Rules and overriding PPF requirements during the PPF assessment period;
- to manage the expected volatility of the returns achieved in order to control the level of volatility in the Scheme's funding level;
- to invest in assets of appropriate liquidity which will generate income and capital growth to meet the cost of current benefits which the Scheme provides;
- to reduce the risk of the 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 above objectives.

3.2. The Trustees are aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Scheme's liabilities. The Trustees have obtained exposure to investments that they expect will meet the Scheme's objectives as best as possible.

4. Kinds of investments to be held

4.1. The Scheme is permitted to invest in a wide range of assets including equities, bonds, cash, property and alternatives.

4.2. The Trustees consider any guidance set out by the PPF when choosing the Scheme's investments during the PPF assessment period, as well as the possibility of securing benefits with an insurer.

5. The balance between different kinds of investments

5.1. The Scheme invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained within Appendix 1 of this Statement.

5.2. The Trustees consider the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in Appendix 1 of this Statement.

5.3. From time to time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate any short-term cashflow requirements or any other unexpected items.

5.4. The Trustees are aware that the appropriate balance between different kinds of investments will vary over time and therefore the Scheme's asset allocation will be expected to change as the Scheme's liability profile matures.

6. Risks

6.1. The Trustees have considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities, and considered ways of managing/monitoring these risks:

Risk versus the liabilities	The Trustees will monitor and review the investment strategy with respect to the liabilities in conjunction with each actuarial valuation. During the PPF assessment period, the investment strategy will be set with consideration of an appropriate level of risk, having consulted with the PPF.
Asset allocation risk	The asset allocation is detailed in the Appendix to this Statement and is monitored on a regular basis by the Trustees.
Investment manager risk	The Trustees monitor the performance of each of the Scheme's investment managers on a regular basis in addition to having meetings with each manager from time to time as necessary. The Trustees have a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate.
Governance risk	Each asset manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustees monitor these and will report on the managers' practices in their annual Implementation Statement.
ESG/Climate risk	The Trustees have considered long-term financial risks to the Scheme and ESG factors as well as climate risk are potentially financially material and will continue to develop its policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments in order to avoid unexpected losses.
Concentration risk	Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.
Liquidity risk	The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Scheme's cashflow requirements. The Scheme's administrators assess the level of cash held in order to limit the impact of the cashflow requirements on the investment policy.
Currency risk	The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management. Currency hedging is employed to manage the impact of exchange rate fluctuations.
Loss of investment	The risk of loss of investment by each investment manager and custodian is assessed by the Trustees. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud).

7. Expected return on investments

7.1. The Trustees have regard to the relative investment return and risk that each asset class is expected to provide. The Trustees are advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the investment managers.

7.2. The Trustees recognise the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

7.3. In considering the expected return from investments, the Trustees recognise that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.

7.4. Having established the investment strategy, the Trustees monitor the performance of each investment manager against an agreed benchmark as frequently as appropriate according to market conditions and the Scheme's funding position.

8. Realisation of investments

8.1. The Trustees have delegated the responsibility for buying and selling investments to the investment managers. The Trustees have considered the risk of liquidity as referred to above.

8.2. Ultimately, the investments will all have to be sold when the Scheme's life comes to an end. In this situation, the Trustees are aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Scheme accounts.

9. Financially material considerations, non-financial matters, the exercise of voting rights and engagement activities

9.1. The Trustees have set policies in relation to these matters. These policies are set out in Appendix 2.

10. Policy on arrangements with asset managers

The Trustees are required by legislation to have a policy covering various aspects of the Scheme's arrangement with the asset managers through which the Scheme invests.

The Trustees' policies are set out below. It should be noted that the policies are short as much of the legislation is more applicable for ongoing pension schemes with long time-horizons rather than for schemes in a PPF Assessment Period where the time-horizons are much shorter.

Trustees' policies

The Trustees' investment strategy is designed to reduce investment risks by providing a match to the liabilities in a simple and pragmatic way.

This is achieved by investing predominantly in passive gilt funds with some corporate bonds.

Given the Scheme's time-horizon is expected to be short and the strategy invests predominately in passive gilts with an allocation to Buy and Maintain credit, the Trustees:

- Do not consider non-financial considerations when selecting, incentivising and monitoring managers and their funds' performance.
- Expect the performance of the funds to be close to that of their benchmarks over all time periods and this is reviewed from time to time.
- Do not actively monitor portfolio turnover costs as these are expected to be modest, and determined by changes to the underlying fund indices, over which the Trustees have no control. The Scheme's corporate bond holding typically experiences infrequent trading and the trading within the government bond funds is driven by changes to the underlying index, and trading costs are low.
- Plan to retain the existing manager until the Scheme transfers to the PPF or the benefits are secured with an insurance company unless there are any significant changes to the funds, for example in relation to performance, fees or benchmarks, or a significant change to the objectives of the Scheme.
- Expect the investment manager to be voting and engaging on behalf of the Scheme's holdings and, where relevant, the Scheme monitors this activity within the Implementation Statement in the Scheme's Report and Accounts. The Trustees do not expect ESG considerations to be disregarded by the investment managers in an effort to achieve any short term targets.

11. Agreement

11.1. This statement was agreed by the Trustees, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the PPF, the investment managers, the Scheme Actuary and the Scheme auditor upon request.

Signed:..... **Date:**24 September 2020.....

On behalf of the Beales Pension Scheme

Appendix 1 Note on investment policy of the Scheme in relation to the current Statement of Investment Principles

1. The balance between different kinds of investment

The Scheme has a strategic asset allocation as set out in the table below, which has been agreed after considering the Scheme's liability profile, funding position, expected return of the various asset classes and the need for diversification.

Asset Class	Allocation (%)
Nominal gilts	42.5
Index-linked gilts	27.5
Corporate bonds	30.0

Rebalancing

The Trustees recognise that the asset allocation of investments in different asset classes will vary over time as a result of market movements. The Scheme's strategy is designed to move in line with the liabilities and therefore the Trustees do not rebalance within control ranges. The Trustees may look to update the strategy to allow for significant changes in the liabilities. For example, if the benefits to be bought out with an insurer change the nature of the liabilities. However, the Trustees seek to keep a balance between maintaining the asset allocation in line with its liability benchmark and limiting the associated costs of rebalancing the strategy.

2. Choosing investments

The Trustees have appointed Legal & General Investment Management ("LGIM") to carry out the day-to-day investments for the Scheme.

The Trustees also invest the Scheme's members' Additional Voluntary Contributions (AVCs) with the Scheme's other assets with LGIM.

The investment manager is authorised and regulated by the Financial Conduct Authority.

The investment benchmarks and objectives for the investment manager are given below:

Fund	Benchmark	Objective
LGIM Over 15 years Gilts Index Fund	FTSE Actuaries UK Conventional Gilts Over 15 Years Index	To track the benchmark to within +/- 0.25% p.a. for two out of three years gross of fees
LGIM All Stocks Gilts Index Fund	FTSE Actuaries UK Conventional Gilts All Stocks Index	
LGIM Over 5 Year Index-Linked Gilts Index Fund	FTSE Actuaries UK Index-Linked Gilts Over 5 Years Index	
LGIM Under 15 Year Index-Linked Gilts Index Fund	FTSE Actuaries UK Index-Linked Gilts up to 15 Years Index	
LGIM Buy and Maintain Credit Fund	The Fund does not have an explicit benchmark. The Fund aims to capture the credit risk premium within a globally diversified portfolio of predominantly investment grade credit and to preserve value over the course of the credit cycle by avoiding defaults and securities experiencing a significant deterioration in credit quality.	

The performance of the investment manager will be monitored as frequently as the Trustees consider appropriate in light of the prevailing circumstances. The monitoring takes into account both short-term and long-term performance.

The AVC arrangement is reviewed from time to time.

3. Investments and disinvestments

Investments and disinvestments are usually made in line with the prevailing asset allocation.

Appendix 2: Financially material considerations, non-financially material considerations, the exercise of voting rights and engagement activities

Financially material consideration, Socially Responsible Investment and Corporate Governance

- The Trustees believe that environmental, social and governance factors are potentially financially material and therefore have a policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments.
- The Trustees acknowledge that the Scheme is in the PPF Assessment Period and therefore the impact of environmental, social and governance factors is not expected to be hugely significant. In part, this is due to the fact that the time horizon for the investment strategy is not expected to be long and the Scheme invests predominately in passive gilts and corporate bonds.
- Given the assets are predominately in passive gilts and some corporate bonds, the Trustees have not imposed any restrictions relating to ESG issues on their investment manager and have not imposed any exclusions on their investment arrangements based on ESG factors. The Scheme's investment manager does have ESG policies in place, and is also a signatory to the UN Principles of Responsible Investment.

Non-financial matters

- When constructing the investment strategy and selecting investment managers the Trustees do not prioritise non-financial matters.

Engagement activities

- Given the Scheme invests predominately in passive gilts with some corporate bonds; the Scheme does not have a policy in relation to engagement activities.