DSSR Group Pension Scheme

Statement of Investment Principles

September 2019

1. Background

This Statement sets out the principles and policies that govern investments made by the Trustees of the DSSR Group Pension Scheme.

This Statement is made in accordance with the requirements of:

> the Pensions Act 1995 and the Occupational Pensions (Investment) Regulations 2005 made under the Pensions Act 2004.
>
> the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010 and the Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.

The Fund has no remaining solvent sponsoring employer with which the Trustee could consult. The Trustee has however consulted with the Pension Protection Fund (PPF).

The Trustees believe their investment practices are in keeping with best practice, as set out in the Government's voluntary code of conduct for Institutional investment decision making in the UK (the Myners principles) in so far as this is appropriate to the size of the Scheme's assets.

As required by legislation, in the preparation and maintenance of this Statement and when considering the suitability of any investments, the Trustees have obtained and considered written advice from their investment adviser.

The Trustees are advised on investment matters by Quattro Pensions Consulting Actuaries. Quattro Pensions Consulting Actuaries is licensed by the Institute and Faculty of Actuaries to provide a limited range of investment advice and is qualified to provide the required advice through knowledge and practical experience of financial matters relating to pension schemes.

The Trustees recognise that decisions should be taken only by persons with the skills, information and resources necessary to take them effectively. Day-to-day management of the Scheme's assets is delegated to a fund manager which is regulated by the Financial Conduct Authority. The Trustees recognise the importance of considering the strategic asset mix alongside information about the Scheme's liabilities and they therefore retain responsibility for setting the strategic asset mix themselves. In making such decision, the Trustees will always consider written advice from their investment adviser.

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 Scheme's fund manager.

2. Trustees' Primary Objectives

The Trustees' primary objectives are:

Cash Flow Objective	To ensure that sufficient assets and cash flows are available to pay members' benefits as and when they arise
Valuation Objective	To maintain the Scheme's funding level on the basis underlying the calculation of liabilities under Section 179 of the Pensions Act 2004
PPF Objective	To set an investment strategy which is considered acceptable by the PPF, taking account of the PPF's Trustee Good Practice Guide

The Trustee sets the investment objectives in the expectation that the Fund is more likely than not to enter the PPF. If the Trustee becomes aware of a change in circumstances the Trustee will take steps to adjust the investment strategy as appropriate at the time.

3. Investment Strategy

The strategic asset allocation is currently being reviewed as the Scheme has entered a Pension Protection Fund ('PPF') Assessment period. Historically the asset allocation was set by considering the nature and timing of the Scheme's liabilities.

The Scheme's investment strategy has been designed to prevent, as far as practical given the size of the Scheme's assets, major deterioration in the Scheme's funding level (ratio of assets to liabilities) when liabilities are measured using the prescribed methodology under Section 179 of the Pensions Act 2004.

This means that the Scheme's invested assets are allocated entirely to UK government bonds (gilts) with the gilt funds being selected to broadly match the nature and duration of the Scheme's liabilities.

The investment approach will reduce the volatility of the Scheme's funding position since the values of the gilt funds are expected to change in a broadly similar way to the liability value in response to fluctuations in both gilt yields and expectations for future inflation.

4. Management of Risk

The Trustees manage the Scheme's key risks as follows:

<u>Asset and Liability Mismatch Risk</u>

The Trustees invest in gilt funds that are selected to broadly match the characteristics of the Scheme's liabilities. This reduces Asset and Liability Mismatch Risk.

<u>Other Price Risk</u>

The Trustees do not invest in growth assets (higher risk investments such as equities) that are expected to deliver a higher long-term return than gilts, but whose future price movements can be very volatile and have no direct match to changes in the value of the Scheme's liabilities.

However, the Trustees hold an illiquid investment in the form of a direct property holding, which represents around 6% of the Scheme's total assets. The value of this property will fluctuate over time and this asset is therefore subject to Other Price Risk. It is the Trustees' intention to sell this property as and when circumstances allow.

Inflation Risk

The Trustees hold a proportion of their assets in index-linked gilts, which provides a broad match to the inflation-linkage of the Scheme's liabilities.

Longevity Risk

The Trustees have decided to retain longevity risk for the time being but will monitor any changes in longevity expectations through the actuarial valuation process and will consider the merits of investments that provide protection against this risk as appropriate.

Cash Flow Risk

The Trustees and the Scheme's administrator manage the Scheme's income and cash flow requirements over the short term to ensure that sufficient cash is available to meet the Scheme's liability payments.

Fund Manager Risk

To reduce the risk of poor manager performance the Trustees invest in index-tracking funds.

The Trustees take independent advice on the selection of fund managers and monitor the ongoing suitability of the chosen fund managers, which includes consideration of qualitative factors (i.e. not just fund manager performance).

Credit Risk

The Trustees' investments are made via a unit-linked insurance policy. The assets backing the pooled funds selected by the Trustees are held by the insurer alongside assets backing other pooled funds but separate from the insurer's shareholder assets.

The insurer is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and is required to perform its own regular assessment of its risk exposures and the capital required to ensure that it can continue to operate as a business adequately, in the event of any financial difficulties faced by its parent company.

Indirect Credit Risk on the assets held within the pooled funds is deemed to be negligible since the Trustees invest entirely in gilt funds.

Currency Risk

The Schemes' assets are invested entirely in UK government bonds and are therefore not exposed to Currency Risk.

Regulated Markets and Derivatives

Assets are invested solely or predominantly on regulated markets, and the Scheme's fund manager is permitted to use derivative instruments only in so far as they contribute to the reduction of investment risks or facilitate efficient portfolio management.

Custody Risk

The investment manager is responsible for the appointment and monitoring of the custodians of the Fund's assets.

5. Expected Return

The Trustees' expectation is that the assets will earn a return in line with the yields available from long dated gilts.

6. Asset Allocation and Fund Manager Mandates

The Trustees delegate day-to-day management of the Scheme's assets to UBS Global Asset Management (UBS), which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority.

The Scheme's assets are invested with UBS as follows:

Fund	**Approx. % of Invested Assets**	**Performance Objective**
UBS Life Over 5 Year Index Linked Gilt Tracker	39	To match the return of the FTSE Actuaries Government Securities Index-Linked Over 5 Year Index.
UBS Life Over 15 Year Gilt Tracker	61	To match the return of the FTSE Actuaries Government Securities Index-Linked Over 5 Year Index.
Total	**100**	

The asset allocations are approximate and may change over time as a result of market movements or cash disinvestments.

The asset allocation is not automatically rebalanced but is reviewed from time to time by the Trustees. The Trustee intends to reduce the holding in the UBS Life Over 5 Year Index Linked Gilt Tracker to 20% and increase the holding in the UBS Life Over 15 Year Gilt Tracker to 80% to better match the profile of the Scheme's liabilities under PPF compensation.

The Scheme also holds a direct property investment (Crown Terrace, Glasgow), which was last valued at approximately £600,000. The tenant of this property is DSSR, which, depending on the determination of who is the statutory employer of the Scheme, may result in this property holding breaching the statutory 5% employer-related investment limit. As noted above, it is the Trustees' intention to sell this property as and when circumstances allow.

The Trustees monitor the performance of UBS and the funds' continued suitability, with assistance from the investment adviser.

7. Socially Responsible Investing and Corporate Governance

The Trustees invest through pooled investment vehicles and accept that the assets are subject to the fund manager's own policies on corporate governance and the encouragement of socially and environmentally responsible practices. However, since the Trustees invest entirely in gilts, such factors are not expected to be relevant to the operation of the funds that the Trustees have selected.

The Trustees are satisfied that the use of pooled funds corresponds with their responsibility to invest the assets in the best interests of the members and beneficiaries and, in the case of a potential conflict of interest, in the sole interest of their members and beneficiaries.

Policy for taking into account non-financial matters

When constructing the investment strategy and selecting investment managers the Trustee does not prioritise non-financial matters.

The Trustees have taken into consideration the Financial Reporting Council's UK Stewardship Code, and the investment manager has stated corporate governance policies which comply with these principles.

8. Additional Voluntary Contributions (AVCs)

AVCs are held separately from the main Scheme assets. From time to time the Trustees review the choice of AVC funds offered to Scheme members to ensure they remain appropriate to members' needs.

30 09 2019

…….. ……

For and on behalf of Date

The Trustees of the DSSR Group Pension Scheme

DSSR Group Pension Scheme (the "Scheme")

Addendum to Statement of Investment Principles

16 September 2020

This document updates the Trustee's Statement of Investment Principles (SIP) dated September 2019, and should be read in tandem with that document. Its purpose is to:

- set out further details of the Trustee's policies in relation to the stewardship of the Scheme's assets,
- describe the arrangements that exist between the Trustee and the asset managers, and
- to ensure the SIP remains compliant with the relevant legislation:
    - Section 35 of the Pensions Act 1995
    - Section 244 of the Pensions Act 2004
    - The Occupational Pension Schemes (Investment) Regulations 2005
    - The Pension Protection Fund (Pensionable Service) and Occupational Pension Scheme (Investment and Disclosure) (Amendment and Modification Regulations 2018)
    - The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

Monitoring the capital structure of investee companies

The Trustee delegates the responsibility for monitoring the make-up and development of the capital structure of investee companies to their Investment Manager.

Managing conflicts of interest

The Trustee has a formal conflict of interest policy and register, which is reviewed at each Trustee meeting. These documents record any actual or potential conflicts of interest in relation to investee companies or the Investment Manager, while also setting out a process for the management of any such conflict of interest.

Incentivising asset managers

The Trustee will select Investment Managers who are primarily remunerated via an agreed fixed annual percentage of the asset value for each underlying fund. The Trustee may also agree to pay a performance related fee to its fund managers but does not currently do so.

The Trustee does not directly incentivise the Investment Manager to align its investment strategy and decisions with the Trustee's policies and objectives. Neither does the Trustee incentivise the asset manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.

However, the Trustee may review their Investment Managers from time to time and will select funds that they believe operate in line with the Trustee's policies and objectives, and will meet the Trustee's return requirements overall. In particular, the

Scheme currently invests solely in UK government gilts and money market instruments.

Evaluation of the asset manager's performance and remuneration

The Trustee will review the Investment Manager's remuneration and performance relative to the market costs and performance of managers with similar strategies.

Monitoring portfolio turnover

The Trustee expects the Investment Manager to change underlying holdings only to an extent required to meet their investment objectives. The reasonableness of such turnover will vary by fund and change according to market conditions.

The Trustee therefore does not set a specific portfolio turnover target for their strategy or the underlying funds.

The Investment Manager is expected to provide information on portfolio turnover and associated costs to the Trustee so that this can be a factor in the Trustee's review process.

The duration of the arrangement with the asset manager

The Trustee does not intend to review a regular basis whether or not the Investment Manager remains appropriate to continue to manage the Scheme's investments, given the Scheme is expected to transfer to the Pension Protection Fund within 2 months. The Trustee expects the Investment Manager to supply the Trustee with sufficient information each quarter to enable them to monitor financial and non-financial performance so that a review can be conducted if circumstances make it necessary.

Frequency of review

The Trustee will review Investment Managers' performance via the managers' own quarterly reports and will conduct a fuller review to consider all of the matters referred to above at least once every three years. However, the Scheme is expected to transfer to the Pension Protection Fund (PPF) before this review becomes due.