Research Machines plc 1988 Pension Scheme

September 2020

Statement of Investment Principles

Introduction

This document constitutes the Statement of Investment Principles ('the SIP') required under Section 35 of the Pensions Act 1995 (as amended) for the Research Machines plc 1988 Pension Scheme ('the Scheme"). It describes the investment policy being pursued by the Trustees of the Scheme and is in compliance with the Government's voluntary code of conduct for Institutional Investment in the UK ('the Myners Principles') and TPR's Investment Guidance for defined benefit pension schemes. This SIP also reflects the requirements of Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.

The Scheme Actuary is Richard Murphy of Lane Clark and Peacock LLP, the Investment Adviser is River and Mercantile Solutions (collectively termed 'the Advisers').

The Trustee confirms that, before preparing this SIP, they have consulted with Research Machines plc ('the Sponsoring Employer') and the Scheme Actuary and have obtained and considered written advice from the Investment Adviser.

The Trustee is responsible for the investment of the Scheme's assets and where they are required to make an investment decision, the Trustee always receives advice from the relevant Advisers first. They believe that this ensures that they are appropriately familiar with the issues concerned.

In accordance with the Financial Services & Markets Act 2000 ('FSMA'), the Trustee sets general investment policy, but have delegated day-to-day investment of the Scheme's assets to be undertaken by a professional investment manager.

Scheme Governance

The Trustee is responsible for the governance and investment of the Scheme's assets. The Trustee considers that the governance structure is appropriate for the Scheme as it allows the Trustee to make the important decisions on investment policy, while delegating the day-to-day aspects to the appointed investment manager or the Advisers as appropriate.

The Trustee has appointed an Investment Sub-Group (the 'ISG') to deal with investment matters on their behalf. The ISG acts as a coordinator between the Investment Adviser, investment manager and the Trustee.

The Trustee will review this SIP at least every three years, or following any changes to the investment strategy, and modify it with consultation from the Advisers and the Sponsoring Employer if deemed appropriate. There will be no obligation to change this SIP, the investment manager or the Advisers as part of such a review.

Suitability

The Trustee has defined the investment objective and investment strategy with due regard to the Scheme's liabilities.

The Trustee has taken advice from the Advisers to ensure that the proposed strategy, and the assets held by the Scheme through that strategy, are suitable given its liability profile, the Trustee's objectives, legislative requirements, regulatory guidance and specifications in the Trust Deed and Rules governing the Scheme (the Trust Deed).

Statutory Funding Requirement

The Trustee will obtain and consider proper advice on the question of whether the investments and investment strategy are satisfactory having regard to both the investment objectives and the requirement to meet any statutory funding requirements. The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation at least every three years.

The Trustee will consider with the Investment Adviser and the Scheme Actuary whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the statutory funding requirement.

Investment Objectives

The overall objective of the Scheme is to meet the benefit payments promised as they fall due. The Trustee has set the following qualitative objectives:

1. The acquisition of suitable assets, having due regard to the risks set out in this Statement, which will generate income and capital growth to pay, together with contributions from members and the Sponsoring Employer, the benefits which the Scheme provides as they fall due.
2. To limit the risk of the assets being assessed as failing to meet the liabilities over the long term having regard to any statutory funding requirement.
3. To achieve a return on investments which is expected to at least meet the Scheme Actuary's assumptions over the long term.

In quantitative terms, the Trustee invests in a blend of Growth assets that broadly targets 3.3% above gilts, and a liability hedge which aims to mitigate the change in the liabilities. The Trustee decides the blend of these funds and the underlying investment manager to target the appropriate return for the Scheme, this is shown in the Quarterly Monitoring Report.

In order to meet these qualitative objectives, the Trustee has set the following quantitative objectives. These are measurable and quantifiable objectives that the Trustee can use to monitor the ongoing performance of the Scheme's investments to ensure the qualitative objectives are met.

- To target a return for the Scheme assets (excluding the buy-in policy) of gilts+ 2.5% p.a. This is considered an appropriate return target to be consistent with the Statement of Funding Principles and Recovery Plan.
- To minimise the risk of achieving a return lower than change in the value of the Scheme liabilities, in order to reduce the risk of the funding position worsening, and the contribution rate increasing.

DC Assets held within the Scheme

A portion of the Scheme assets outside of the AVCs are notionally in respect of liabilities which are not defined benefit in nature but more money purchase in nature and are invested within the pooled equity fund within the portfolio.

Implementation of investment strategy

The Trustee has decided to appoint a passive investment manager for all the asset classes. The Trustee has delegated the investment of the Scheme assets to the investment manager, which has discretion to invest the Scheme assets in underlying securities and funds.

The Trustee has received advice on the appropriateness of the investment manager's target, benchmark and risk tolerance from the Investment Adviser and believe it to be suitable to implement the Scheme's investment principles.

The Scheme's current investment manager is Blackrock.

Monitoring

The Trustee will monitor the performance of the investment manager against the agreed performance objectives.

The Trustee, or any other suitably qualified Adviser on behalf of the Trustee, will regularly review the activities of the investment managers to satisfy themselves that the investment manager continues to carry out their work competently and have the appropriate knowledge and experience to manage the assets of the Scheme.

As part of this review, the Trustee will consider whether or not the investment manager:

- Is carrying out their function competently.
- Has regard to the need for diversification of investments.
- Has regard to the suitability of each investment and each category of investment.
- Has been 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 Trustee are not satisfied with an investment manager they will ask the investment manager to take steps to rectify the situation. If the investment manager still does not meet the Trustee's requirements, the Trustee will remove the investment manager and appoint another.

Corporate Governance and Stewardship

The Trustee and the investment manager have agreed, and will maintain, formal Investment Manager Agreements and fund documentation setting out the scope of the investment manager's activities, its charging basis and other relevant matters. The investment manager has been provided with a copy of this SIP and is required to exercise its powers with a view to giving effect to the principles contained herein and in accordance with subsection (2) of Section 36 of the Pensions Act 1995.

As part of the appointment of the investment manager to the Scheme, the Trustee has entered formal manager agreements and accepted the terms of pooled investment vehicles, setting out the scope of each pooled investment vehicle's activities, their charging basis and other relevant matters. The Trustee periodically reviews the overall value-for-money of using the Investment Advisor (as specified in the Scheme's Investment Consulting objectives) and investment manager.

The Scheme investments are generally made via pooled investment funds, in which the Scheme's investments are pooled with those of other investors. As such, direct control of the process of engaging with the companies that issue these securities, whether for corporate governance purposes or other financially material considerations, is delegated to the investment manager.

The Trustee has retained the use of voting (and other) rights attached to their mandates; however the respective managers of the mandates retain responsibility for voting on their underlying holdings.

The Trustee and Investment Adviser undertake regular reviews of the investment manager. These reviews incorporate benchmarking of performance and fees, with some managers on performance-related fees as well as performance reviews (including understanding key drivers of performance). The Investment Advisor and Trustee review the governance structures of the investment manager, as well as assessing whether their fees, expenses (and any other charges) are in line with industry peers at inception and from time to time whilst invested.

Where it can be determined, the Trustee and Investment Advisor assess whether the investment manager remuneration arrangements are aligned with the Trustee's objectives. The Trustee expects the investment manager:

- to align its investment strategy and decisions with the Trustee's investment policies, such as their return target and the restrictions detailed in the Investment Management Agreement and pooled fund investment documentation, and
- to assess and make decisions based on the medium- to long-term financial and non-financial performance of an issuer of debt or equity, and to engage with the issuers to improve this medium- to long -term performance. The success of such engagement will contribute to the Scheme's performance, which are reflected and measured relative to the Trustee's long-term performance objectives.

The Trustee acknowledges the inherent potential for conflicts of interest which exist as part of ongoing investment management business activities. Where investment managers are regulated, they are likely to be subject to such requirements to manage conflicts of interest as are applicable in their jurisdiction of incorporation or operations. The Trustee and Investment Adviser monitor this as part of ongoing review. As an FCA regulated firm, the Investment Advisor is required to prevent or manage conflicts of interest. The Investment Advisor's Conflict of Interest policy is available publicly here: https://riverandmercantile.com/Asp/uploadedFiles/file/Corporate_Governance/RMG_Conflicts_of_Interest_Policy.pdf

The Trustee oversees the turnover costs (where available) incurred by the investment manager as part of its ongoing monitoring process and evaluates such costs to determine if they are in line with peer groups and the Investment Advisor's expectations. Where there are material deviations the Trustee engages with investment manager to understand the rationale for such deviations and take appropriate action.

Realisation of Investments

The majority of assets are held in underlying pooled funds, most of which can be realised easily if the Trustee so requires. The Trustee assesses the liquidity of the investment manager on a regular basis. This helps to ensure that there is an appropriate balance between holding illiquid assets and liquid assets to pay the benefits as and when they fall due.

Derivatives

The Trustee may enter into contracts with counterparties, including investment banks, in order to execute derivative transactions. The Trustee has taken advice on the suitability of the contracts and have delegated responsibility to the relevant investment manager to implement these instruments on its behalf. Derivative instruments are typically used for risk management purposes in the portfolio.

Additional Voluntary Contributions (AVCs)

Under the Scheme's Trust Deed and Rules, members are allowed to invest Additional Voluntary Contributions to improve the benefits they receive at retirement. The Trustee has selected a range of investment funds with the Prudential Assurance Company Limited, the Equitable Life Assurance Society, the Scottish Friendly Assurance Society and Legal and General Assurance Society Limited for the AVCs to be invested in.

The Trustee reviews these arrangements regularly having regard to their performance, the objectives and the views of the Advisers.

Financially material investment considerations

These considerations which include the below "Risks" can affect the long-term financial performance of investments and can (but do not have to) include environmental, social and governance factors (otherwise known as "ESG") where relevant. The Trustee delegates the day to day consideration of financially material factors to the investment manager who considers these when constructing their portfolios. All references to ESG relate to financial factors only. All references to ESG also include climate change.

ESG factors and stewardship are considered, in the context of long term performance, by the Trustee as part of the investment manager selection criteria. This review occurs before investment managers are approved for investment in the portfolio. Once an investment manager is appointed, the Investment Advisor and Trustee will monitor the investment manager for ongoing compliance with the expected standards at appointment and with other factors, such as stewardship, as a part of overall governance and engagement.

Risks

The Trustee recognises a number of risks involved in the investment of the assets of the Scheme. These risks, and how they are measured and managed, include:

- **Funding and asset/liability mismatch risk** – the risk that the funding level is adversely affected due to a mismatch between the assets and liabilities. This risk is managed in the following ways:
  - The liability benchmark is used to measure the estimated change in the Scheme's liabilities. For consistency we have based these liability figures on the Trustee's statement of Funding Principles. The Trustee monitors the change in the liability benchmark relative to the change in asset values on a quarterly basis.
  - The Trustee also recognises the risk of a negative impact on the funding level due to changes in the actuarial assumptions used to calculate the liabilities and variation in experience. This is managed by aiming for a higher overall investment return than implied by the liability discount rate.
  - When setting and reviewing investment strategy, the Trustee examines how the investment strategy impacts on downside risk. Downside risk of the investment strategy is also measured by reference to the liability benchmark and can therefore be assessed as part of the quarterly review process.
  - This risk is also monitored through regular actuarial and investment reviews.
- **Underperformance risk** – the risk of underperforming the benchmarks and objectives set by the Trustee. This risk is minimised using the following techniques:
  - Appropriate diversification across asset classes, within sectors and between individual stocks to minimise the effect of a particular stock or sector performing badly.
  - The use of instruments and strategies designed to control the extent of downside exposure.
  - Regular monitoring of the investment managers' performance, processes and capabilities with respect to their mandate.
- **Cash flow risk –** addressed through the monitoring of the cash flow requirement of the Scheme to control the timing of any investment/disinvestment of assets.
- **Concentration risk** – the risk of an adverse influence on investment values from the concentration of holdings is reduced by the diversification of the assets.
- **Counterparty risk** – the risk of a counterparty to an agreement not carrying out his side of the deal. Where derivatives are used, the risk of counterparty default is reduced through the requirement in the relevant documentation that regular collateral or margin payments be made. It is also considered in the selection of counterparties and the incorporation of protection mechanisms in the documentation in the event of a downgrade in credit quality of an existing counterparty.
- **Country risk** – the risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across many countries.
- **Currency risk** – the risk that fluctuations in the value of overseas currencies affect the total return of the Scheme's investments when compared to a Sterling benchmark. The Trustee partly mitigates this risk through using hedged share classes where available.

- **Default risk** – the risk of income from assets not being paid when promised. This is addressed through restrictions for the investment manager, e.g. a minimum credit rating of the bonds they are allowed to buy and also a high proportion of the bonds held are government bonds which have little default risk.
- **ESG risk** – the risk of adverse performance due to ESG related factors including climate change. This is addressed by the ESG assessment at the point of investment with the investment managers and as part of the ongoing investment manager monitoring process.
- **Mismanagement risk** – the risk of unsuitable investment activity by the investment managers. This is addressed in the agreement with the investment manager, which contain restrictions on the proportion and type of asset classes that the investment manager may invest in.
- **Organisational risk** – the risk of inadequate internal processes leading to problems for the Scheme. This is addressed through regular monitoring of the investment manager and Advisers by the Trustee, and the Investment Advisor.
- **Sponsor risk** – the risk of the Sponsoring Employer ceasing to exist which, for reasons of prudence, has been taken into account when setting the asset allocation strategy. The Trustee regularly reviews the covenant of the Sponsoring Employer.

The Trustee will keep these risks and how they are measured and managed under regular review.

Non-financially material investment considerations

The Trustee does not at present take into account non-financially material factors (such as members' ethical considerations, social and environmental impact matters or future quality of life considerations for members and beneficiaries) when making investment decisions as there is no likely common view on any ethical matters which members are likely to hold. At this time the Trustee has no plans to seek the views of the membership on ethical considerations.

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

For and on behalf of the Trustee of the Research Machines plc 1988 Pension Scheme