# The Bridon Group (2013) Pension Scheme ("the Scheme") Statement of Investment Principles

## Introduction

This Statement of Investment Principles is produced to meet the requirements of the Pensions Acts 1995 & 2004, the Occupational Pension Schemes (Investment) Regulations 2005 and to reflect the Government's Voluntary Code of Conduct for Institutional Investment in the UK. The Trustee also complies with the requirements to maintain and take advice on the Statement and with the disclosure requirements.

## Investment Objective

The Trustee aims to invest the assets of the Scheme prudently with the aim of ensuring that the benefits promised to members are provided. In setting the investment strategy, the Trustee first considered the lowest risk asset allocation that it could adopt in relation to the Scheme's liabilities. The strategy it has selected is designed to achieve a higher return than the lowest risk strategy while maintaining a prudent approach to meeting the Scheme's liabilities. The current objective is as follows:

*To have an investment strategy which has an objective of returning 0.75% p.a. in excess of the gilt based Liability Benchmark, net of fees, whilst, at the same time, managing the investment risk profile.*

As the funding level improves the Trustee will seek to de-risk the investment strategy by gradually reducing the return objective.

## Strategy

The strategy was determined with regard to the actuarial characteristics of the Scheme, in particular the strength of the funding position and the liability profile. It is based on the assumption that equities will outperform gilts over the long term, that active management will add value and that some alternative asset classes offer diversification and outperformance relative to bonds. However, the Trustee recognises the potential volatility in equity returns, particularly relative to the Scheme's liabilities, and the risk that the fund managers do not achieve the targets set.

In addition, the Trustee also consulted with the Sponsoring Employer when setting this strategy.

The asset allocation is chosen by Aon Investments Limited ("Aon Investments"), appointed to manage the Scheme's assets, to meet the objective stated above. The asset allocation chosen by Aon Investments to meet the given investment objective may vary over time, including the allocation between the Hedging Component and the Growth Components as well as the asset allocation within the components. The Hedging Component aims to reflect the movement in the Scheme's liabilities whilst the Growth Components invest in a broad range of asset classes.

The Trustee has instructed Aon Investments on the proportion of inflation and interest rate sensitivity to hedge. The target level of protection against changes to inflation expectations and interest rates is set at the approximate value of the assets. The Trustee will monitor the target level of protection periodically.

### Members' Views and Non-Financial Factors

In setting and implementing the Scheme's investment strategy the Trustee does not explicitly take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors"[1]).

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[1] The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018

## Risk

The Trustee maintains a 'Statement of Funding Principles' which specifies that the funding objective is to have sufficient assets so as to make provision for 100% of the Scheme's liabilities as determined by an actuarial calculation.

The Trustee recognises that the key risk to the Scheme is that it has insufficient assets to make provisions for 100% of its liabilities ("funding risk"). The Trustee has identified a number of risks which have the potential to cause a deterioration in the Scheme's funding level and therefore contribute to funding risk. These are as follows:

- The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors ("mismatching risk"). The Trustee and its advisers considered this mismatching risk when setting the investment strategy.

- The risk of a shortfall of liquid assets relative to the Scheme's immediate liabilities ("cash flow risk"). The Trustee will manage the Scheme's cash flows taking into account the timing of future payments in order to minimise the probability that this occurs.

- The failure by Aon Investments and the underlying fund managers to achieve the rate of investment return assumed by the Trustee ("manager risk"). This risk is considered by the Trustee and its advisers both upon the initial appointment of Aon Investments and on an ongoing basis thereafter.

- The failure to spread investment risk ("risk of lack of diversification"). The Trustee and its advisers considered this risk when setting the Scheme's investment strategy and appointing Aon Investments.

- The possibility of failure of the Scheme's Sponsoring Employer ("covenant risk"). The Trustee and its advisers considered this risk when setting investment strategy and consulted with the Sponsoring Employer as to the suitability of the proposed strategy

- The risk of fraud, poor advice or acts of negligence ("operational risk"). The Trustee has sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.

- The risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly ("ESG risk"). Where relevant, the Trustee expects Aon Investments to:

    - Where relevant, assess the integration of ESG factors in the investment process of underlying managers;
    - Use its influence with underlying managers to ensure the Scheme's assets are not exposed to undue risk; and
    - Report to the Trustees on its ESG activities as required.

Due to the complex and interrelated nature of these risks, the Trustee considers the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review (normally triennially). Some of these risks may also be modelled explicitly during the course of such reviews.

Having set an investment objective which relates directly to the Scheme's liabilities and implemented it using a range of fund managers, the Trustee's policy is to monitor, where possible, these risks periodically. The Trustee receives quarterly reports showing:

- Actual funding level versus the Scheme specific funding objective.
- Performance of Aon Investments against its target.

## Implementation

Aon Solutions UK Limited ("Aon Solutions") has been selected as investment adviser to the Trustee. They operate under an agreement to provide a service which ensures the Trustee is fully briefed to take decisions themselves and to monitor those they delegate. The fee for Aon Solutions advice is incorporated into the fee paid to Aon Investments, except for certain projects where a fee will be agreed in advance. This structure has been chosen to ensure that cost-effective, independent advice is received.

The Trustee has appointed Aon Investments to manage the Scheme's assets. Aon Investments invests in a range of underlying investment vehicles. The Trustee expects Aon Investments to handle the assets delegated to them under the terms of the contract and to give effect to the principles in this Statement of Investment Principles so far as is reasonably practicable.

Aon Investments are paid on an ad valorem basis. The fees for the underlying managers in which it invests may be a mixture of ad valorem and performance related fees. These fees are paid from the Scheme's assets and negotiation of the fees has been delegated to Aon Investments. Aon Investments performance is monitored net of both its fee and the underlying managers' fee.

The Trustee recognises that the arrangements with Aon Investments, and correspondingly the underlying asset managers, are important to ensure that interests are aligned. In particular, the Trustee seeks to ensure that Aon Investments is incentivised to operate in a manner that generates the best long-term results for the Scheme and its beneficiaries.

The Trustee has delegated certain decision-making powers to Aon Investments (the "fiduciary manager"). The Trustee has taken advice from Aon Solutions UK Limited (the "Investment Adviser") regarding the suitability of the Manager in this capacity and recognises that there exists a conflict of interest in taking this advice. The Trustee has appointed Isio (the "Fiduciary Reviewer") to provide a periodic independent review of the Manager.

The below table outlines the responsibilities of the fiduciary manager, the Investment Adviser and the Fiduciary Reviewer:

**Trustee**

- Sets structures and processes for carrying out its role
- Select and review the Scheme's Investment Objective
- Select and review the interest rate and inflation hedging levels for the Scheme
- Review actual returns versus the Scheme's Investment Objective
- Selects and monitors the investment adviser and the fiduciary manager
- Sets structure for implementing investment strategy

**The Fiduciary Manager**

- Decide on allocation to different asset classes
- Decide on Medium Term Asset Allocation (MTAA) biases in the strategy
- Decide on Liability Driven Investment (LDI) approach and structure
- Decide on LDI instruments
- Implement the investment strategy taking into account the target objective set
- Select and appoint fund managers
- Monitor fund managers
- Agree legal contracts with fund managers
- Implement disinvestment procedures, investment switches and rebalancing
- Report on asset performance against the liability benchmark and investment objective
- Ensure that (where appropriate) underlying managers exercise the Trustee's voting rights in relation to the Scheme's assets
- Report to the Trustee on stewardship activity by underlying managers as required

**Investment Adviser**

- Advise on investment strategy
- Advise on the liability benchmark
- Advise on the Statement of Investment Principles
- Carry out any further project work as required

**Fiduciary Reviewer**

- Periodic review of the fiduciary manager

**Arrangements with asset managers**

The Trustee receives regular reports from the fiduciary manager on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustee focusses on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Scheme objectives and assess the performance of fiduciary manager over rolling 3-year periods.

The Trustee also receives annual stewardship reports on the monitoring and engagement activities carried out by the fiduciary manager, which supports the Trustee in determining the extent to which the Scheme's engagement policy has been followed throughout the year.

The Trustee shares the policies, as set out in this SIP, with the Scheme's fiduciary manager and request that they review and confirm whether it is in alignment with the Trustee's policies.

The Trustee delegates the ongoing monitoring of underlying asset managers to the fiduciary manager. The fiduciary manager monitors the Scheme's investments to consider the extent to which the investment strategy and decisions of the underlying asset managers are aligned with the investment objectives of the Scheme.

This includes monitoring the extent to which the underlying asset managers:

- make decisions based on assessments about medium- to long-term financial performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

Before appointment of a new fiduciary manager, the Trustee reviews the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee's policies. Where possible, the Trustees will seek to amend that documentation or express their expectations (such as through side letters, in writing, or verbally at trustee meetings) so that there is more alignment.

The Trustee believes that having appropriate governing documentation, setting clear expectations to the fiduciary manager, and regular monitoring of the fiduciary manager's performance and investment strategy, is sufficient to incentivise the fiduciary manager to make decisions that align with the Trustee's policies and are based on assessments of medium- and long-term financial performance.

Where the fiduciary manager is considered to make decisions that are not in line with the Trustee's policies, expectations, or the other considerations above, the trustee will typically engage with the fiduciary manager to understand the circumstances and materiality of the decisions made.

There is typically no set duration for arrangements with the fiduciary manager, although the continued appointment will be reviewed periodically. Similarly, there are no set durations for arrangements with the underlying asset managers that the fiduciary manager invests in, although this is regularly reviewed as part of the manager research and portfolio management processes in place. For certain closed ended vehicles, the duration may be defined by the nature of the underlying investments.

**Stewardship – Voting and Engagement**

The Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies and assets in which the Scheme invests, as ultimately this creates long-term financial value for the Scheme and its beneficiaries.

The Trustee annually reviews the stewardship activity of the fiduciary manager to ensure the Scheme's stewardship policy is being appropriately implemented in practice. The Trustee receives annual reports on stewardship activity carried out by the fiduciary manager. These reports include detailed voting and engagement information from underlying asset managers.

The Trustee will engage with the fiduciary manager as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned.

Where possible, the transparency for voting should include voting actions and rationale with relevance to the Scheme.

The Trustee may engage with the fiduciary manager, who in turn is able to engage with underlying asset managers, investee company or other stakeholders, on matters including the performance, strategy, risks, social and environmental impact, corporate governance, capital structure, and management of actual or potential conflicts of interest, of the underlying investments made. Where a significant concern is identified, the Trustee will consider, on a case by case basis, a range of methods by which they would monitor and engage so as to bring about the best long-term outcomes for the Scheme.

## Cost monitoring

The Trustee is aware of the importance of monitoring the asset managers' total costs and the impact these costs can have on the overall value of the Scheme's assets. The Trustee recognises that in addition to annual management charges, there are other costs incurred by asset managers that can increase the overall cost incurred by their investments.

The Trustee receives annual cost transparency reports from the fiduciary manager. These reports present information in line with prevailing regulatory requirements for fiduciary managers. They clearly set out on an itemised basis:

- The total amount of investment costs incurred by the Scheme;
- The fees paid to the fiduciary manager;
- The fees paid to the underlying investment managers appointed by the fiduciary manager;
- The amount of portfolio turnover costs (transaction costs) incurred by the investment managers appointed by the fiduciary manager; the Trustee defines portfolio turnover costs as the costs incurred in buying and selling underlying securities held within the funds of the investment managers appointed by the fiduciary manager;
- Any charges incurred through the use of pooled funds (custody, administration, and audit fees);
- The impact of costs on the investment return achieved by the Scheme.

The Trustee acknowledges that portfolio turnover costs are a necessary cost to generate investment returns and that the level of these costs varies across asset classes and manager. The fiduciary manager monitors the level of portfolio turnover (defined broadly as the amount of purchases plus sales) of all the underlying investment managers appointed on behalf of the Trustee.

The Trustee benefits from the economies of scale provided by the fiduciary manager in two key cost areas:

- The ability of the fiduciary manager to negotiate reduced annual management charges with the underlying investment managers;
- The ability of the fiduciary manager to monitor ongoing investment costs (including additional fund expenses and portfolio turnover) incurred by the underlying investment managers and achieve efficiencies where possible.

### Evaluation of performance and remuneration

The Trustee periodically assesses the (net of all costs) performance of the fiduciary manager against the Scheme's specific liability benchmark and investment objective. The remuneration paid to the fiduciary manager and fees incurred by third parties appointed by the fiduciary manager are provided annually by the fiduciary manager to the Trustee. This cost information is set out alongside the performance of the fiduciary manager to provide context. The Trustee monitors these costs and performance trends over time.

Appropriate arrangements are in place for independent custody of the Scheme's investments. The custodians provide safekeeping for all the Scheme's assets held within the managers' pooled funds and perform the administrative duties attached, such as the collection of interest and dividends and dealing with corporate actions.

The Trustee will review this Statement of Investment Principles at least every three years and immediately following any significant change in investment policy. The Trustee will take investment advice and consult with the Sponsoring Employer over any changes to the Statement of Investment Principles.

Date: September 2022