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# Statement of Investment Principles

Dalgety Pension Fund

February 2024



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# Section 1: Introduction

## Pensions Acts

- 1.1 Under the Pensions Act 1995 (as amended by the Pensions Act 2004), the Trustee is required to prepare a statement of the principles governing investment decisions. This document contains that statement and describes the investment policy pursued by the Trustee of the Dalgety Pension Fund (the Fund).

## Background

- 1.2 Before preparing this document, the Trustee has consulted Genus PLC (the “Employer”) and will also consult the Employer before revising this document. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.
- 1.3 Before adopting this document, the Trustee has sought advice from the Fund's investment consultants, WTW, and it has consulted the Scheme Actuary. The Trustee will review this document, in consultation with the investment consultant and the Scheme Actuary, at least once every three years, or sooner following an unscheduled actuarial valuation, or where the Trustee considers a review is needed for other reasons. Before preparing this document the Trustee has had regard to the requirements of the Pensions Act concerning diversification of investments and suitability of investments and the Trustee will consider those requirements on any review of this document or any change in its investment policy. The Trustee will refer to this document where necessary to ensure that it exercises its powers of investment so as to give effect to the principles set out in it as far as is reasonable.
- 1.4 The assets are held in pooled funds and under insurance contracts. Under Section 36 of the Pensions Act, such investments are termed direct investments and are classed as retained investments. It is therefore the Trustee's policy to obtain appropriate advice regarding the suitability of such investments on a regular basis.

## Fund details

- 1.5 The Fund operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries.
- 1.6 The Fund is a registered scheme for tax approval purposes, under the Finance Act 2004.

## Financial Services and Markets Act

- 1.7 In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policy, but will delegate the responsibility for selection of specific investments to an appointed investment manager or managers, which may include an insurance company or companies. The investment managers shall provide the skill and expertise necessary to manage the investments of the Fund competently.

## Section 2: Governance

- 2.1 The Trustee has ultimate responsibility for decision-making on investment matters. In order to ensure that such decisions are taken effectively, the Trustee delegates some of its responsibilities.
- 2.2 Responsibility for all day-to-day investment decisions is delegated to the Fund's investment managers. The Trustee retains direct responsibility for other investment matters which include:
- a Reviewing at least once every three years, or following any significant change in investment policy, the content of this Statement of Investment Principles and for modifying it if deemed appropriate, in consultation with the investment consultant and Scheme Actuary.
  - b Reviewing the investment policy following the results of each actuarial review, in consultation with the investment consultant and Scheme Actuary.
  - c Appointing (and dismissing) investment managers.
  - d Assessing the quality of the performance and processes of the investment managers by means of regular, but not less than annual, reviews of the investment results and other information, in consultation with the investment consultant and Scheme Actuary.
  - e Consulting with the Employer before amending this Statement.
  - f Strategically allocating the assets and the cash flow of the Fund between investment mandates and making periodic adjustments to the portfolio allocations.
  - g Monitoring compliance with this Statement on an ongoing basis.
- 2.3 Decisions affecting the Fund's investment strategy will be taken with appropriate advice from the Scheme Actuary and investment consultant and the Trustee's other advisors as appropriate.
- 2.4 The Trustee is satisfied that it has sufficient expertise and appropriate training to evaluate critically the advice they receive. The Trustee is also satisfied that it has an appropriate set of skills individually and collectively, and the right structures and processes, to carry out its role effectively.
- 2.5 Only persons or organisations with the necessary skills, information and resources are actively involved in taking investment decisions affecting the Fund. The Trustee of the Fund draws on the skills and expertise of external parties including the investment managers, investment consultant and Scheme Actuary.

## Section 3: Division of responsibilities

### 3.1 The **investment managers**' responsibilities include:

- Managing the pooled funds in which the Fund is invested in a manner consistent with the stated objectives for those funds
- Providing the Trustee with quarterly statements of the assets along with a quarterly report on actions and future intentions, and any changes to the investment processes applied to their portfolios
- Informing the Trustee of any material changes in the internal objectives and guidelines of any pooled funds used by the Fund and managed by the investment manager or an associated company
- Having regard to the need for diversification of investments so far as appropriate and to the suitability of investments
- Giving effect to the principles contained in the Statement as far as reasonably practicable.

### 3.2 The role of the **investment consultant** is to make recommendations or give advice to the Trustee in the following areas:

- the formulation of an efficient governance structure
- the regular updating of the Statement of Investment Principles
- the development of a clear investment strategy for the Fund
- the asset-liability modelling process
- the construction of a strategic asset allocation benchmark given the liabilities of the Fund and the risk and return objectives of the Trustee (see sections 4, 6 and 7)
- the construction of an overall investment management structure that meets the objectives of the Trustee
- the selection and appointment of appropriate investment management organisations
- the consultant's current views of the investment managers employed by the Fund
- potential new areas or tools of investment
- commentary on investment performance and risk taken by the managers
- trustee education

- general advice in respect of the Fund's investment activities.

3.3 The **Scheme Actuary's** responsibilities include:

- Performing the triennial (or more frequently, as required) valuations of the Fund and advising on the appropriate contribution levels for the future.
- Assessing the position of the Fund under the Statutory Funding Requirement ("SFR") for valuations with an effective date after 22 September 2005 and advising on the appropriate response to any shortfall.
- Liaising with the investment consultant on the suitability of the Fund's investment strategy given the financial characteristics of the Fund.

3.4 The **investment managers'** responsibilities include:

- The selection of specific investments is delegated to investment managers. The investment managers will provide the skill and expertise necessary to manage the investments of the Fund competently.
- Managing the pooled funds in which the Fund is invested in a manner consistent with the stated objectives for those funds
- Providing the Trustee with quarterly statements of the assets and any changes to the investment processes applied to their portfolios
- Providing the Trustee with annual updates on the investment managers' ESG policies, including how they have taken account of financially material ESG considerations in the course of their management of Fund assets.
- Informing the Trustee of any material changes in the internal objectives and guidelines of any pooled funds used by the Fund and managed by the investment manager or an associated company
- Having regard to the need for diversification of investments so far as appropriate and to the suitability of investments
- Giving effect to the principles contained in the Statement as far as reasonably practicable.

# Section 4: Objectives and long term policy

## Objectives

- 4.1 The Trustee's primary responsibility is to manage the Fund so that members receive their benefits as and when they fall due, by maintaining an adequate level of funding for members' benefits. The assets of the Fund are held by the Trustee for this purpose. They consist of contributions paid by members and the Employer, and the accumulated income and capital growth on these contributions.
- 4.2 The Trustee's fundamental investment objective is to adopt an appropriate level of risk relative to the Fund's liabilities. In assessing this, the Trustee takes into account factors such as the Employer's attitude to funding the Fund and the Employer's financial strength relative to the Fund, plus its understanding of the contributions likely to be received from the participating employers. The Trustee also considers its own willingness to accept underperformance due to market conditions.
- 4.3 The Trustee recognises the need to take some risk in order to generate a sufficient investment return over the long term to make the Fund affordable, as measured by the contributions payable. However, the Trustee does not wish to take so much risk that the volatility of the investment returns relative to the liabilities becomes unacceptable. In judging what level of volatility is acceptable, the Trustee considers the effect that poor short-term investment performance will have on the short-term contribution rates brought out at successive funding reviews.
- 4.4 The investment objectives of the Fund are:
- a To hold assets to match as closely as possible the Fund's actual and expected liabilities in respect of current and deferred pensioners primarily through the use of insurance contracts
  - b To have sufficient liquidity to allow the Trustee to meet any future liabilities or expenses as and when they fall due.
  - c To maintain a portfolio of assets with the target to match any future expenses to be paid from the Fund including on wind up in the future, and to provide a source of funding should any further unforeseen liabilities materialise. In investing these monies the Trustee will take into account the nature of the likely calls on this portfolio.

## Investment policy

- 4.5 The Trustee's policy is to seek to achieve the objectives through investing in a suitable mixture of assets which should allow the Fund to meet its liabilities at an acceptable level of risk for the Trustee and an acceptable level of cost to the Employer.
- 4.6 Having regard to the profile of the Fund's membership and to likely future commitments, the Trustee believes it is appropriate to focus on matching the Fund's assets as closely as possible to its liabilities. It accordingly regards it as appropriate to hold:
- a annuity policies with Prudential to secure the bulk of the liabilities;

- b a further annuity policy with L&G to secure the remaining membership which was purchased in August 2019
  - c an investment with BlackRock in respect of the remaining assets for which, after consultation with the Employer, will invest in low risk and highly liquid money market instruments, such as commercial paper, certificates of deposits, floating rate notes, time deposits or fully collateralised repurchase agreements.
- 4.7 The non annuity policy assets are invested solely in money market instruments due to the relatively short period, over which the Fund is expected to settle any outstanding liabilities and meet ongoing expenses, before winding up.

### **Diversification**

- 4.8 The choice of investment policy and the investment management structure referred to in paragraphs 4.5 and 4.6 respectively are designed to ensure that the Fund's investments are adequately diversified, having regard to the Trustee's investment objectives and the Trustee's intention to wind up the Fund.

### **Liability matching**

- 4.9 The annuity policies with Prudential and L&G match liabilities for the bulk of member benefits. For the remaining assets, the Trustee has invested in money market instruments with the aim of holding assets that move in line with inflation and interest rates in a similar way to the residual liabilities and expenses. The level of liability matching will be reviewed (and if necessary updated) on a regular basis to ensure that it continues to remain appropriate for the Fund.

### **Suitability**

- 4.10 The Trustee has taken advice from the Scheme Actuary and the investment consultant to ensure that the assets held by the Fund are suitable given its liability profile, financial position and the Trustee's objectives.

### **Liquidity**

- 4.11 The Trustee is able to meet the vast majority of the Fund's immediate benefit outgo through the annuity policies held. The Trustee has chosen the rest of its investment portfolio with regards to the Fund's potential liquidity requirements given the Trustee's intention to wind up the Fund.

### **Additional Voluntary Contributions (AVCs)**

- 4.12 The Fund has an AVC facility, although no further contributions are being paid to these arrangements. The Trustee's objective is to provide a suitable contract for members' use and to this end they will review the contract offered from time to time.

### **Expected returns on investments**

- 4.13 The following table sets out the target benchmark return (as at 30 November 2022) that the Fund's investment manager is looking to achieve from its investments:



| Target Benchmark                  |   |
|-----------------------------------|---|
| Blackrock Sterling Liquidity Fund | Sterling Overnight Index Average Rate (SONIA) |

**Social, environmental and ethical issues and rights attaching to investments**

- 4.14 The Trustee recognise that an investment’s long-term financial success is influenced by a range of sustainability factors including Environmental, Social and Governance (ESG) issues.
- 4.15 The Trustee seeks to be an active long-term investor, reflecting the long-term need to fund future member benefits from the Fund’s assets. The Trustee therefore focuses explicitly on financially material considerations, which are delegated to the Fund’s investment managers as part of their day to day management. The Trustee expect social, environmental and ethical considerations, amongst a broad range of factors to be taken into account by the investment manager in the pursuit of long-term shareholder value when exercising the rights attaching to investments. The Trustee’s policy is to delegate responsibility for the exercising of all rights (including voting rights) attaching to investments to the investment managers. The Trustee will periodically explore these issues with its managers to understand how they exercise these duties in practice and receives reports on how these issues are addressed.
- 4.16 The Trustee’s policy at this time is not to take into account non-financially material considerations. Ethical considerations, beyond those considered by each investment manager, will not be considered. Each manager will have its own social, environmental and ethical policy, which the Trustee will take into account when selecting and periodically reviewing a manager.
- 4.17 When selecting and periodically reviewing a manager, the Trustee will consider a range of sustainable investment factors, such as, but not limited to, those arising from ESG considerations, including climate change, in the context of a broader risk management framework. The degree to which these factors are relevant to any given strategy is a function of time horizon, investment style, philosophy and particular exposures which the Trustee determine to be relevant at the time of assessment. Where an investment manager’s processes are deemed insufficient by the Trustee and the investment manager does not take steps to improve their approach, the investment manager’s position in the Fund’s portfolio may be reviewed and/or a decision may be taken to re-direct Fund assets elsewhere. The Trustee recognises the UK Stewardship Code as best practice and encourages their investment managers to comply with the UK Stewardship Code or explain where they do not adhere to this policy.
- 4.18 The appointed Investment Consultant has a dedicated Sustainable Investment resource and a network of subject matter experts. The consideration of ESG issues is fully embedded in their investment manager selection process, therefore we will refer to our Investment Consultant for ad hoc consultation of our sustainability policies.

## Section 5: Scheme specific funding requirements

- 5.1 The Pensions Act 2004 sets out the requirements for the Statutory Funding Requirement (SFR).
- 5.2 The Pensions Act requires that pension schemes achieve a funding level of at least 100% under these calculations and sets out the requirements for dealing with shortfalls. The Trustee will consult with the Scheme Actuary and reach agreement with the Employer when deciding upon the appropriate response to any shortfall.
- 5.3 The Trustee considers that the investment policy described in this statement is consistent with complying with its obligations under the SFR and with the current financial position of the Fund. In addition, the Trustee will review this investment policy in light of actuarial valuations and certificates and schedules of contributions produced in order to comply with the SFR.

# Section 6: Investment manager arrangements

- 6.1 The Trustee will receive and consider written advice from the investment manager of the Fund's investment portfolios at such intervals as the Trustee determines from time to time.
- 6.2 The appointment of the investment manager will be reviewed by the Trustee from time to time, based on the results of monitoring of its performance and process and having regard to the investment performance achieved.

## Performance Objectives

- 6.3 The performance objectives of the pooled funds in which the Fund's assets are invested are set out below:

| Fund                              | Objective   |
|-----------------------------------|---|
| BlackRock Sterling Liquidity Fund | To provide high liquidity and low volailtiy of asset values to ensure the Trustee has the funds required to meet ongoing expenses, and any unforeseen liabilities as they fall due. |

- 6.4 Whilst the Trustee is not involved in the investment managers' day to day method of operation and therefore cannot directly influence the attainment of the performance objectives, it will assess how the funds perform relative to its objectives on an annual basis (or more frequently if deemed appropriate).
- 6.5 None of the managers uses soft commissions in the management of the Fund's assets. The Trustee will monitor other transaction costs that the Fund may incur.

## Manager Monitoring

- 6.6 The appointment of the investment managers will be reviewed by the Trustee from time to time, based on the results of their monitoring of performance and investment processes, the Trustee's confidence that the managers can continue to fulfil their mandates in the future and of the manager's compliance with the requirement in the Pensions Act concerning diversification and suitability, where relevant. This review will also include, where applicable, relevant matters including capital structure, actual and potential conflicts, other stakeholders and ESG impacts of underlying holdings. The managers who have been provided with a copy of this statement and the Trustee will monitor the extent to which the managers give effect to the policies set out in it.

## Investment Manager Fees

- 6.7 The investment managers are paid fees based on the market value of the assets under management, subject to certain minimum annual fee levels. Fees were taken into consideration when reviewing and appointing managers.

**Trustee policy in relation to working with asset managers**

- 6.8 The Trustee ensures that, in aggregate, its portfolio is consistent with the policies set out in this Statement, in particular those required under Regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). The Trustee will also ensure that the investment objectives and guidelines of any particular pooled vehicle are consistent with its policies, where relevant to the mandate in question.
- 6.9 In order to maintain alignment, the asset managers (excluding those which only hold bulk annuity contracts) are provided with the most recent version of the Fund's Statement of Investment Principles on a regular basis and are required to confirm that the management of the assets is consistent with those policies relevant to the assets they hold.
- 6.10 Should the Trustee's regular monitoring process reveal that a manager's portfolio of assets is not aligned with the Trustee's policies, the Trustee will engage with the manager further to encourage alignment. The monitoring process includes specific consideration of the approach taken to ESG by the specific investment manager and their engagement activities. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the manager will be terminated and replaced.
- 6.11 The Trustee expects the investment managers to invest with a time horizon appropriate to the manager's stated objective, and to use their engagement activity to drive improved performance over these periods, accepting that such engagement may be limited for particular types of investment such as cash and gilts. The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages a better relationship with the investment managers and should lead to better stewardship of the Fund's assets. When assessing the performance of a manager, the focus is on long term outcomes, and the Trustee would not expect to terminate a manager's appointment based purely on short term performance. However, a manager could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.
- 6.12 Managers are paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement.
- 6.14 The Trustee reviews the costs incurred in managing the Fund's assets on a regular basis, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustee will have regard to the actual level of portfolio turnover experienced relative to how this compares with the expected turnover range expected for such an asset holding.

## Section 7: Risk Management

- 7.1 The Trustee recognises there are a number of risks involved in the investment of the assets of the Fund. Some of the key risks that need to be considered are as follows:
- *Mismatching risk – the risk that your assets move in an unfavourable way relative to the movement in the liabilities*
  - *Manager risk – the manager doesn't perform in line with their objectives agreed as part of the investment policy*
  - *Liquidity risk – the Trustee does not have sufficient cashflow to pay benefits as they fall due, without realising assets in a disadvantageous way*
  - *Currency risk – for overseas investments, disadvantageous movements in the underlying currency relative to pound sterling.*
  - *Custodial risk – the risk of poor performance by the fund custodians.*
  - *Political risk – the risk that new legislation or governmental policy adversely affects the funding position, including policy which detrimentally affects the Fund's investments*
  - *Sponsor risk – the ability for the Employer to meet any shortfall in the Fund*
  - *Counterparty risk – the risk that one of the counterparties that the Trustee utilise as part of their investment strategy (such as Prudential or L&G for example) run into difficulties which has knock on impacts for the Fund.*
- 7.2 The Trustee has measures in place to mitigate these risks but they do not render the investment policy free of risk. Rather, the measures in place endeavour to balance the need for risk control and the need for assets which are likely to achieve the required performance target.
- 7.3 The Trustee continues to monitor these risks.
- 7.4 The Trustee also recognises that conflicts of interest can arise wherever agents (such as advisers, investment managers and the Trustee itself) are acting on behalf of the ultimate beneficiaries. The Trustee seeks to identify where conflicts or potential conflicts exist, put in place processes for managing these conflicts, and ensure they are taken into account when making investment decisions.