Coster Aerosols Limited Pension Scheme

Statement of Investment Principles

This statement sets out the principles to be followed by the Trustees of the Coster Aerosols Limited Pension Scheme (the Scheme) in determining the Scheme's investment policy, as required under section 35 of the Pensions Act 1995 (as amended). This statement takes effect from the date of signature and supersedes all earlier statements.

Advice and Consultation

In preparing this statement the Trustees have:

- obtained written advice from their investment advisers, Verulam Gemmells, who are properly appointed and regulated by the Financial Conduct Authority to give investment advice;
- consulted Coster Aerosols Limited (the Employer) and the Scheme Actuary.

However, all investment decisions are the responsibility of the Trustees.

Background

At the triennial funding valuation as at 1 January 2019, the estimated value of the liabilities was £6,772,000 and the value of the assets was £6,598,000, giving a funding level of 97%. Approximately 76% of the liabilities relates to deferred pensioners (including employees whose pensions remain linked to pay) and 24% to pensions in payment. Under the Schedule of Contributions dated November 2019, the Employer agreed to pay contributions of £109,000 in 2019 and £65,000 in 2020 to make up the deficit.

At 31 December 2019 (the latest date for which audited accounts are available), the Scheme had 47 deferred pensioners (including employees whose pensions remain linked to pay) and 27 pensions in payment, and the market value of its assets was £7,818,000 (excluding AVCs). Over the year, pensions paid were approximately £91,000. Total contributions were £109,000.

Objectives

The Trustees' primary objective is to ensure that the Scheme has sufficient assets to pay all members' benefits as they arise.

Investment Principles

The Trustees have appointed Charles Stanley to manage the Scheme's assets on a fiduciary basis. This means that Charles Stanley take explicit account of the Scheme's funding level in allocating the investments, reducing the amount of risk taken as the funding level increases.

The Scheme's assets will be divided between a growth portfolio, with the objective of providing long-term investment growth, and a matching portfolio, intended to provide protection against changes in interest and inflation rates. The Scheme's ultimate objective is to hold sufficient assets to meet all its liabilities, with minimal investment risk and without any further contributions from the Employer. This objective is referred to as 'Self-Sufficiency' in the documentation.

At outset, the investment return expected was 5.0% per annum and the Liability Hedge was 70% i.e. the Scheme is protected against 70% of interest rate and inflation movements. It is expected to reach self-sufficiency by 2026.

Charles Stanley will monitor the Scheme's funding level and take action to de-risk as it moves through pre-set targets. Funding levels will be fully reconciled and reported on a monthly basis, with a detailed report provided every six months.

Full details are set out in Charles Stanley's 'Flight-Plan Outline' document.

Charles Stanley have appointed Rock (Nominees) Ltd as the custodian for the Scheme's assets. The Trustees review the manager's performance on a regular basis.

Members' Additional Voluntary Contributions (AVCs) are invested in the Baillie Gifford Managed Pension Fund and Cash Fund. The Trustees also hold a bank account with NatWest.

Types of Investments to be Held

The Trustees will restrict the investments to be held to:

- securities quoted on recognised stock exchanges;
- managed funds, unit trusts and insurance policies offered by UK authorised investment managers and insurance companies;
- liability-matching funds, for the purpose of hedging interest rate and inflation movements; and
- cash deposits with appropriately authorised institutions.

The Trustees will not make any employer-related investments except to the extent that a selected pooled investment vehicle has such underlying investments.

These restrictions are intended to avoid excessive risk and to ensure that the Scheme's assets can be realised if required.

In order to meet the Scheme's benefits, disinvestment of assets may need to take place. The decision as to the fund(s) from which disinvestments are made will be influenced by market conditions and asset distribution at that time, and the Trustees will take advice on the appropriate disinvestment of assets as required.

Risk from Underperformance of the Investment Managers

There is a risk that the investment manager fails to achieve the investment objectives. This risk is considered by the Trustees on the initial appointment of the investment manager and is reviewed on an ongoing basis.

Where, having considered all of the information available, the Trustees conclude that the risk of underperformance by the investment managers has become excessive, the Trustees will make arrangements to replace the investment manager within a reasonable period.

Environmental, Social and Governance (ESG) Policy – including Climate Change

The Trustees believe that environmental, social and governance (ESG) factors (including climate change) can have a financially material impact on the scheme's investments and, as such, must be considered by the scheme's investment manager.

Specific decisions regarding the financial materiality of ESG and climate change factors are delegated to Charles Stanley, acting as fiduciary manager. Charles Stanley is expected to consider the impact of ESG factors including climate change on the potential performance of the scheme's investments, particularly over the medium and long term, also taking into account the long-term nature of the scheme's liabilities.

Charles Stanley is a signatory of the United Nation's Principles for Responsible Investment (PRI). Charles Stanley has a duty to act in the best long-term interests of beneficiaries, and in this fiduciary role Charles Stanley believes that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions and asset classes over a period of time). Charles Stanley also recognises that applying these Principles may better align investors with broader objectives of society.

Charles Stanley Asset Management's asset allocation analysis takes account of material ESG issues as they affect the broad market or sectors that the scheme is exposed to. Stock specific ESG factors are assessed where they are material to a market/index. Any fund or investment selected by Charles Stanley Asset Management's investment team will have been assessed for its approach to ESG factors as appropriate for the asset class and style.

The Trustees require that the fiduciary manager should provide a report at least annually outlining the extent to which the scheme's investments are exposed to significant ESG factors, including climate change.

Stewardship Policy – including Engagement, Voting and Exercise of Rights

The Trustees believe that, where appropriate, the voting rights pertaining to the scheme's investments should be deployed in order to seek to improve the medium and long-term performance of companies, in particular where the scheme is a debt or equity shareholder.

The Trustees acknowledge that stewardship can also include direct engagement with an investee or debtor company, indirect engagement via an investment manager, 'peer-to-peer' engagement with fellow shareholders of an investee company, and any engagement with other stakeholders, on any relevant matters such as matters concerning the investee or debtor entity, including performance, strategy, risks, social and environmental impact, corporate governance, capital structure and management of actual or potential conflicts of interest.

The Trustees believe that, where appropriate, such engagement activity has the potential to improve the medium and long-term performance of underlying investments.

Decisions regarding the specific exercise of rights (including voting rights) are delegated to the fiduciary manager. The fiduciary manager's policy states that "We believe voting is an effective method of engagement. We use the services of proxy voting service provider Institutional Shareholder Services (ISS) to advise us on corporate governance issues and provide voting recommendations on our top 100 holdings of equity and fund securities."

The Trustees expect that the majority of investments will be deployed via pooled funds. As a result, the Trustees expect the fiduciary manager to be mindful of the engagement and voting policy of underlying pooled fund managers when selecting them and to report these policies to the Trustees upon request.

Where voting rights are held directly, the Trustees delegate the exercise of voting right to the fiduciary manager and expect a report on any voting or engagement activity to be provided at least annually or upon request.

Policies in relation to the Trustees' arrangement with their fiduciary manager

The fiduciary manager is expected to ensure the investment strategy is in line with the Trustees' policies, including assessing the potential medium and long-term financial and non-financial factors impacting performance of investments. No explicit financial incentives are in place, however performance against a wide range of agreed objectives is monitored with the ability of the Trustees to replace the fiduciary manager at any time should the Trustees become materially unsatisfied with the fiduciary service received.

The objectives monitored are set out in the document "Investment Objectives Scorecard" dated 2 December 2019 and reviewed on an annual basis. As a result, at least annually, the Trustees will review the fiduciary manager against this wide-ranging set of agreed objectives.

The fiduciary manager is not required to engage directly with issuers of debt and equity given the multi-asset, predominantly pooled index-fund approach of the underlying investment strategy.

Underlying portfolio costs are monitored at least annually on an OCF+ methodology basis. As the investments are expected to be predominantly pooled funds the Trustees believe that this methodology will capture the majority of underlying transaction costs.

The fiduciary manager can be required to declare any other portfolio turnover levels and costs ('implicit costs') at any time. No ranges are provided to the fiduciary manager for these implicit costs. Explicit fees and costs are expected to be detailed by the fiduciary manager in regular statements.

The appointment of the fiduciary manager is on an ongoing basis and would be expected to be reviewed every three years.

Review

The Trustees will review their investment strategy regularly. Before any significant changes are made, the Trustees will obtain written advice from their advisers and consult with both the Scheme Actuary and the Employer. Any changes will be documented in an updated version of this Statement.

Keith Lewis (on behalf of PTL Governance Ltd)
28 September 2020