

KB Refrigeration Limited Retirement Benefits Plan

Statement of Investment Principles

September 2020

Statement of Investment Principles

The Trustees of K B Refrigeration Ltd Retirement Benefits Plan ("the Plan") have prepared this Statement of Investment Principles ("the SIP") in accordance with the Pensions Act 1995¹ ("the Act") as amended and the Occupational Pension Scheme (Investment) Regulations 2005 as well as the principles recommended by the Myners Code.

It supersedes any previous SIP and reflects the investment policy agreed by the Trustees. This SIP will be reviewed at least every three years or immediately after any significant change in investment policy. Before preparing this SIP the Trustees have:

- Obtained and considered the written advice from the Plan's Investment Consultant, XPS Pensions Group, who is suitably qualified through ability and experience and has appropriate knowledge.
- Consulted the employer.

Structure of Plan benefits

The Plan is split into two sections providing different benefits:

- Pre April 1998 Section – Provides the greater of, an annual pension based on length of service and final salary, and the pension that could be purchased using each member's Personal Account. In addition to members' Personal Accounts, the Plan holds assets in a General Account that is used to top-up benefits where required.
- Post April 1998 Section – The benefits accrued after 1 April 1998 are comparable to a conventional Defined Contribution arrangement. A number of members have also made additional voluntary contributions which are invested alongside the Plan assets.

Choosing investments

The Trustees set the investment strategy and policies for the Plan. The Trustees are however constrained with their investment choices given the historic nature of the contract underpinning the actuarial, administration and investment services provided under it. They acknowledge the restrictions and have adopted a strategy that is pragmatic and workable within these constraints. The Trustees have agreed to separate the DB and DC section of the Plan, which is currently underway and it is expected the investment strategy will change, which will also disaggregate the bundled services in the future..

The Trustees have considered the Plan's liabilities and strength of Employer covenant when setting the investment strategy and policies.

The Trustees rely on Investment Managers for the day-to-day management of the Plan's assets but retain control over all decisions made about the investments in which the Plan invests.

Where Investment Managers are delegated discretion under Section 34 of the Act, the Investment Manager will exercise their investment powers in accordance with the Act, relevant and subsequent regulations, and this SIP.

The Trustees rely on the Investment Managers to appoint appropriate Custodians for pooled funds who are responsible for the safekeeping of the assets of the Plan.

The Trustees rely on the Investment Managers to appoint appropriate Administrators or Registrars for pooled funds who are responsible for keeping records of the Plan's entitlement within the pooled funds.

¹ As amended 30th November 2018

Investment objective and strategy

Investment objective

The Trustees have set the following objectives:

- To achieve a fully funded position on a Technical Provisions basis.
- To implement an investment strategy targeting a return of in excess of that assumed in the liability valuation.
- To acquire suitable assets to achieve the above objective whilst controlling volatility and the long term costs of the Plan.
- To adhere to the provisions contained within this SIP.

Based on the structure set out in the Appendix, the Trustees consider the arrangements with the Investment Managers to be aligned with the Plan's overall strategic objectives. Details of each specific mandate are set out in agreements and pooled fund documentation with each Investment Manager. The amounts allocated to any individual category or security will be influenced by the overall benchmark and objectives, varied through the Investment Managers' tactical asset allocation preferences at any time, within any scope given to them through asset allocation parameters set by the Trustees or governing the pooled funds in which the Plan is invested.

The Trustees will ensure that the Plan's assets are predominantly invested in regulated markets to maximise their security.

Investment Managers are incentivised to perform in line with expectations for their specific mandate as their continued involvement as Investment Managers as part of the Plan's investment strategy – and hence the fees they receive – are dependent upon them doing so.

The Trustees encourage Investment Managers to make decisions in the long-term interests of the Plan. The Trustees expect engagement with management of the underlying issuers of debt or equity and the exercising of voting rights. This expectation is based on the belief that such engagement can be expected to help Investment Managers to mitigate risk and improve long term returns and on the importance placed by the Trustees on investing according to the principles set out within the mandate guidelines. The Trustees also require the Investment Managers to take ESG factors and climate change risks into consideration within their decision-making as the Trustees believe these factors could have a material financial impact in the long-term. The Trustees therefore make decisions about the retention of Investment Managers, accordingly.

Investment strategy

The Trustees intend to meet the investment objective by investing in a diversified portfolio of return-seeking assets within a number of pooled funds.

The Trustees can utilise a wide range of passively and actively managed investments, including (but not limited to):

- Assets or funds primarily used to outperform the liabilities over the long term including equity, private markets, hedge funds, commodities, currency, bonds and other forms of credit, property, infrastructure and insurance including the use of derivatives and leverage. Illiquid assets can be used where a higher return or lower risk is expected.
- Assets or funds primarily used to provide immediate liquidity such as cash or cash instruments.

For the reasons set out on the previous page the Trustees have limited investment freedom given the dislocation of the Plan's services that would result from the disaggregation of these services.

A number of funds were offered under the arrangement for investment of members Personal accounts and Post 1998 Section investments.

The actual strategy adopted for the Plan, including the allocation to different assets is set out in the Appendix.

Investment Manager arrangements

Appointments of Investment Managers are expected to be long-term, but the Trustees will review the appointment of the Investment Managers in accordance with their responsibilities. Such reviews will include analysis of each Investment Manager's performance and processes and an assessment of the diversification of the assets held by the Investment Manager. The review will include consideration of the continued appropriateness of the mandate given to the Investment Manager within the framework of the Trustees' investment policies

The Investment Consultant has also carried out a review of how well ESG factors are incorporated into each Investment Manager's processes and the Trustees will re-assess progress on ESG issues periodically.

Fund manager remuneration is considered as part of the manager selection process. It is also monitored regularly with the help of the Investment Consultant to ensure it is in line with the Trustees' policies and with fee levels deemed by the Investment Consultant to be appropriate for the particular asset class and fund type.

Portfolio turnover

The Trustees require the Investment Managers to report on actual portfolio turnover at least annually, including details of the costs associated with turnover, how turnover compares with the range that the Investment Manager expects and the reasons for any divergence.

Investment restrictions

The Trustees intend to adhere to the following restrictions:

- No more than 5% of Plan assets can be held in investments related to the Employer.
- Whilst borrowing on a temporary basis is permitted, this option will only be utilised where absolutely necessary or where it is expected to reduce overall risk (e.g. for very short time periods during an asset transfer).
- Investment in derivative instruments may only be made where they contribute to risk reduction or facilitate efficient portfolio management.
- Stock lending is permitted at the discretion of the Plan's Investment Managers in line with their overall investment objectives, policies and procedures.

Investment risk

The Trustees have identified a number of risks including (but not limited to):

- **Employer covenant risk**
- **Liability risks:** Interest rate risk, Inflation risk, Longevity risk
- **Asset risks:** Equity risk, Property risk, Currency risk, Credit risk, Interest rate risk, Inflation risk
- **Strategy risks:** Asset allocation risk, Liquidity risk (including collateral risk), Growth asset risk (including currency risk)
- **Implementation risks:** Investment manager risk, Counterparty risk, Operational risk

These risks are measured and managed by the Trustees as follows:

- The Trustees have set an investment strategy that adheres to the contents of this SIP.
- The Trustees receive strategic investment advice from the Investment Consultant that may include risk modelling and quantification (e.g. Value at Risk) whenever strategic changes are considered.
- The Trustees undertake regular monitoring of the Plan's investments supplemented by information provided by both the Investment Managers and Investment Consultant, as well as advice from the latter.
- The Trustees periodically assess the strength of the Employer covenant and uses external expertise where appropriate.
- The Trustees delegate the day-to-day management of some of these risks to the appointed Investment Managers.
- The Trustees consider the Investment Managers' role and approach to managing risk is considered when selecting appropriate Investment Managers.
- The Trustees utilise custodian relationships to ensure Plan assets are held securely.
- The Trustees assess whether appropriate controls are put in place by themselves, the Investment Consultant, Investment Managers and Custodians (where there is a direct relationship).

Realising investments

The Trustees recognise that assets may need to be realised to meet Plan obligations at any time.

The Trustees will ensure that an appropriate amount of readily realisable assets are held at all times, and this will be part of the assessment for including new investments within the strategy.

The Trustees will from time to time agree a policy for sourcing cash from the investments as required. Further details are set out in the Appendix.

Responsible investment and voting policies

The Trustees have considered their approach to environmental, social and corporate governance (“ESG”) factors for the long term time horizon of the Plan and believe there can be financially material risks relating to them. The Trustees have delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Plan’s Investment Managers. The Trustees require the Plan’s Investment Managers to take ESG and climate change risks into consideration within their decision-making, in relation to the selection, retention or realisation of investments, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest.

The Trustees will seek advice from the Investment Consultant on the extent to which their views on ESG and climate change risks may be taken into account in any future Investment Manager selection exercises. Furthermore, the Trustees, with the assistance of the Investment Consultant, will monitor the processes and operational behaviour of the Investment Managers from time to time, to ensure they remain appropriate and in line with the Trustees’ requirements as set out in this Statement.

As the Plan invests in pooled funds, the Trustees acknowledge that they cannot directly influence the policies and practices of the companies in which the pooled funds invest. They have therefore delegated responsibility for the exercise of rights (including voting rights) attached to the Plan’s investments to the Investment Managers. The Trustees encourage them to engage with investee companies and vote whenever it is practical to do so on financially material matters such as strategy, capital structure, conflicts of interest policies, risks, social and environmental impact and corporate governance as part of their decision-making processes. The Trustees require the Investment Managers to report on significant votes made on behalf of the Trustees.

If the Trustees become aware of an Investment Manager engaging with the underlying issuers of debt or equity in ways that they deem inadequate or that the results of such engagement are mis-aligned with the Trustees’ expectation, then the Trustees may consider terminating the relationship with that Investment Manager.

When considering the selection, retention or realisation of investments, the Trustees have a fiduciary responsibility to act in the best interests of the beneficiaries of the Plan, although they have neither sought, nor taken into account, the beneficiaries’ views on matters including (but not limited to) ethical issues and social and environmental impact. The Trustees will review this policy if any beneficiary views are raised in future.

Approved by the Trustees of the KB Refrigeration Ltd Retirement Benefits Plan on 28 September 2020.

This SIP is the responsibility of the Trustees. You must not use, copy or repeat any part of the SIP for commercial purposes without obtaining permission to do so in writing to us. We use material from third parties in preparing the SIP and although we try to ensure that all of the information is correct we do not give any express or implied warranty as to the accuracy of the material in the SIP and are not responsible, and do not accept and liability, for any error, omission or inaccuracy. We are not liable for any damages (including, without limitation, damages for loss of business or loss of profits) arising in contract, tort or otherwise from the use of or inability to use this SIP, or any material contained in it, or from any action or from any action or decision taken as a result of using it.

Appendix – Investment strategy

Overall strategy

The investment strategy of the Plan is summarised in the table below.

Asset class	Current allocation	Manager and fund	Objective
Multi-Asset	42%	Baillie Gifford Multi Asset Growth Fund	Achieve growth with a fraction of the volatility experienced in equity markets. <i>Comprises General Account assets in respect of Pre 1998 Section benefits.</i>
With-Profits	56%	Aviva Secure Growth Fund	Invest in a mixture of traditional bonds and equities and provide smoothed performance by applying interest to the investment annually and historically through special bonus payments and more recently additional interest on monies leaving the Fund. <i>Comprises members' Personal Accounts underpinning the Pre 1998 Section Benefits, Post 1998 Section DC Funds, and some of the Plan's AVCs.</i>
Multi-Asset	3%	Aviva Balanced Managed Fund	Invest in a broad range of assets to provide stable growth. <i>Comprises a small amount of AVCs.</i>
100%			

*May not sum due to rounding

Rebalancing investments

The Plan does not have any formal rebalancing arrangements in place. The Trustees will review the allocation regularly and if required will instruct the Investment Managers to rebalance towards the strategic allocation.

Realising investments

Where assets need to be realised, the Trustees will consult with the Investment Consultant regarding the source and timing of disinvestments. It is envisaged that where assets need to be realised, the primary source of disinvestments will be the Baillie Gifford Multi Asset Growth Fund.

AVCs

The Trustees have made the following AVC investment options available to members of the Plan:

- Aviva Balanced Managed Fund

The Trustees will review the AVC provider, as well as the available fund, in the light of their performance on a periodic basis. Performance of this Fund will be measured relative to the individual benchmark and objective for the funds offered and/or to other providers offering similar fund options.

The Trustees are aware that the members' AVC fund are subject to the same risks faced by the Plan's investments, such as inflation risk eroding real returns. In addition, AVC members face the risk that their investments will not meet their future expectations (for example, if they are planning to purchase an annuity at retirement), lack of transparency on how their fund is managed and also that their AVC fund may fall in value.



Contact us
xpsgroup.com

XPS Pensions Consulting Limited, Registered No. 2459442.
XPS Investment Limited, Registered No. 6242672.
XPS Pensions Limited, Registered No. 3842603.
XPS Administration Limited, Registered No. 9428346.
XPS Pensions (RL) Limited, Registered No. 5817049.
Trigon Professional Services Limited, Registered No. 12085392.
All registered at: Phoenix House, 1 Station Hill, Reading, RG1 1NB.

XPS Investment Limited is authorised and regulated by the Financial Conduct Authority for investment and general insurance business (FCA Register No. 528774).

An XPS Group Company