XPS Investment

L. G. Harris & Co. Limited Pension Scheme

Statement of Investment Principles

September 2020

Statement of Investment Principles

The Trustees of L. G. Harris & Co ("the Scheme") have prepared this Statement of Investment Principles ("the SIP") in accordance with the Pensions Act 1995[1] ("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 in respect of assets covering Defined Benefit liabilities and Additional Voluntary Contributions (AVCs).

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 Scheme's Investment Consultant, XPS Pensions Group, who is suitably qualified through ability and experience and has appropriate knowledge.
- Consulted the Employer.

Choosing investments

The Trustees have selected a buy-in policy with Legal & General Assurance Society Limited ("LGAS") through which benefits due under the Scheme are secured.

The selection of the buy-in policy was made having taken written investment advice. The advice covered the suitability of the Insurance policy, whether there was any need for diversification given Scheme circumstances and the principles within this Statement.

The Trustees also retain control over the AVCs offered to members.

The Trustees' policy is to regularly review the investments over which they retain control and to obtain written advice about them when necessary.

When deciding whether or not to make any new investments the Trustees will obtain written advice and consider the extent to which future decisions about those investments should be delegated. The written advice will consider suitability of the investments, the need for diversification and the principles within this Statement.

The adviser will have the knowledge and experience required under Section 36(6) of the Act.

[1] *As amended 30th November 2018*

Investment objective and strategy

Investment objective

The Trustees have set the following objectives:

- To secure the liabilities of the Scheme in full with an insurance company.
- To minimise the expected deviation between:
  - The expected cost to secure members' benefits with an insurance company; and,
  - The value of assets at any given time.
- To retain sufficient liquidity to meet Scheme expenses as they fall due.
- To minimise the administration costs of the Scheme.
- To adhere to the provisions contained within this SIP.

Investment strategy

Following advice from the Investment Consultant, the Trustees have set the investment policy with the objective of buying-out the Scheme's liabilities with the Insurance Provider. The Trustees have taken the step to meet the investment objective by investing in a buy-in policy with the view to securing a buy-out of the liabilities as soon as practicable.

The portfolio is expected to closely match the pricing of the Scheme's liabilities on a buy-out basis. Furthermore, the Scheme holds excess assets in cash to meet Scheme expenses.

The actual strategy adopted for the Scheme is set out in the Appendix.

Range of assets & investment restrictions

The majority of the Scheme's assets are invested through a buy-in policy.

The Trustees have no direct influence on the range of assets which support the payments under the policy. The Insurance Provider will invest in an appropriate range of assets in line with the risk profile of their annuity business and the regulatory and capital regime they are required to comply with. Although there is a concentration of assets in the buy-in arrangement, the Trustees deem this concentration appropriate as it closely matches the objective of the Scheme.

In addition to the buy-in policy, the Scheme also holds cash assets with Legal & General Investment Management ("LGIM").

Based on the structure set out in the Appendix, the Trustees consider the arrangements with the Insurance Provider and Investment Manager to be aligned with the Scheme's overall strategic objectives. Details of these mandates are set out in agreements and pooled fund documentation with the Insurance Provider and Investment Manager.

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

The Insurance Provider is incentivised to perform in line with expectations for their specific mandate to enable the Insurance Provider to meet all of the benefits insured and comply with regulatory and capital requirements.

Additionally, the Investment Manager is incentivised to perform in line with expectations for its specific mandate as its continued involvement as Investment Manager as part of the Scheme's investment strategy – and hence the fees it receives are dependent upon it doing so.

As the assets of the Scheme are invested in a buy-in policy and cash, with a view to securing a buy-out as soon as practicable, the Trustees have delegated to the Insurance Provider, and Investment Manager, the responsibility to make decisions in the long-term interests of the Scheme. The Trustees expect the Insurance Provider and Investment Manager to engage with management of the underlying issuers of debt or equity and the exercising of any voting rights attached to the assets they hold. This expectation is based on the belief that such engagement can be expected to help the Insurance Provider and Investment Manager to mitigate risk and improve long term returns and objectives. As covered in more detail in the responsible investment section, the Trustees have also delegated to the Insurance Provider and Investment Manager the responsibility for taking the impact of 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 intend to adhere to the following restrictions:

- No more than 5% of Scheme 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 Scheme's Investment Manager in line with their overall investment objectives, policies and procedures.

The Trustees recognise the legislation places restrictions on the types of investments that the Scheme can hold:

- Whilst the Trustees recognise that borrowing on a temporary basis is permitted, the option will only be utilised where it is deemed absolutely necessary or where the Trustees have received advice from the investment Consultant that the Scheme's overall exposure to risk can be reduced through temporary borrowing, e.g. during an asset transfer.
- Investment in derivative instruments may be made only insofar as they contribute to the reduction in risk or facilitate efficient portfolio management.

The Insurance Provider and Investment Manager may impose internal restrictions that are consistent with their house style and/or the regulatory regime under which they operate.

Portfolio turnover

Given that the Trustees have secured a buy-in policy, the portfolio turnover on the underlying assets and costs for this policy is a matter for the Insurance Provider.

The Trustees require the Investment Manager 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 reason for any divergence.

Investment risk

The Trustees recognise a number of risks involved in the investment of assets of the Scheme (however most of these are mitigated directly by the buy-in policy):

- 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
- Annuity price 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 Scheme's investments supplemented by information provided by both the Investment Manager 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 Manager.
- The Trustees consider the Investment Manager's role and approach to managing risk is considered when selecting appropriate Investment Manager.
- The Trustees utilise custodian relationships to ensure Scheme assets are held securely.
- The Trustees assess whether appropriate controls are put in place by themselves, the Investment Consultant, Investment Manager and Custodians (where there is a direct relationship).

Realising investments

The Scheme has secured a buy-in insurance policy with the Insurance Provider which provides payments meeting the benefits due under the Scheme.

The Trustees hold the remaining assets in cash to meet impending anticipated Scheme expenses. A cash fund with LGIM, alongside a bank account, is used to facilitate the holding of cash and any payments necessary.

Investment Manager arrangements

Review process

Appointments of Investment Managers are expected to be long-term and trustees are expected to review the appointment of Investment Managers in accordance with their responsibilities. Given that the majority of the Scheme's assets have recently been invested in a buy-in policy with an Insurer as well as excess cash being held with just one Investment Manager, then the appointment of these mandates is not expected to be long-term.

Such reviews typically include analysis of an Investment Manager's performance, processes and remuneration. Due to the Scheme targeting a buy-out of the liabilities as soon as practicable, then the requirement for the Trustees to undertake this full review process is not considered necessary.

Responsible investment

The Trustees previously have not explicitly incorporated social, environmental or ethical considerations into the setting of the investment strategy or its implementation. This extends to resource and environmental considerations, such as climate change. Therefore, the extent to which these considerations are taken into account has been delegated to, and left to the discretion of the Insurance Provider and Investment Manager.

The Trustees stance on responsible investment is now a direct consequence of the Scheme's short term time horizon as it prepares for buy-out. As the majority of assets of the Scheme are invested with an Insurance Provider in a buy-in policy and the remainder in cash with LGIM, ESG factors are not expected to have a material impact on investment risk and return outcomes over the time horizon of the investment. However, the Trustees have delegated to the Insurance Provider and the Investment Manager the responsibility for assessing any impact of ESG factors when making investment decisions in relation to the assets it holds to support the buy-in policy and cash holding.

As the Scheme invests in a buy-in policy and a pooled fund, the Trustees acknowledge that they cannot directly influence the policies and practices of the companies in which the buy-in policy and pooled fund invest. They have therefore delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the Insurance Provider and Investment Manager. 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 Insurance Provider and Investment Manager to report on significant votes made on behalf of the Trustees.

If the Trustees become aware of the Insurance Provider or 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.

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 Scheme is to track movements in buy-out pricing as far as possible. To achieve this objective the Scheme has the vast majority of its assets in a buy-in policy with LGAS as well as a smaller amount of surplus assets held in the LGIM Cash Fund, as summarised in the table below.

Asset class	Asset Allocation*	Manager and fund	Objective
Annuity Policies	97.7%	LGAS Bulk Annuity Policy	Aims to secure member benefits as they fall due
Cash Assets	2.3%	Legal & General Cash	Perform in line with 7 day LIBID
	100.0%		

**The LGAS Buy-in policy value reflects the Updated Initial Premium as at the 7 April 2020 policy inception date, while the LGIM Cash Fund value is as at 6 May 2020 following receipt of the c£425k Premium refund.*

Realising investments

Where assets need to be realised, the Trustees will consult with the Investment Consultant regarding the timing of disinvestments, and the source is expected to be the Scheme's surplus assets currently held in the LGIM Cash Fund.

AVCs

The Scheme provided a facility for members to pay AVCs to enhance their benefits at retirement. As there are no longer any members contributing to the AVC arrangements, this facility no longer exists.

The Trustees have made the following AVC investment option available to members of the Scheme:

- Royal London Crest Secure Policy
- Utmost Policy (held by one member from the Hamilton Acorn Pension Scheme) – pending a decision on the treatment of AVC's, prior to wind-up

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

The Trustees are aware that members' AVC funds are subject to the same risks faced by the Scheme'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.

Registration

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).

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This communication should not be relied upon for detailed advice or taken as an authoritative statement of the law.

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