Mabey Pension Scheme

Statement of Investment Principles

September 2020

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1 INTRODUCTION

1.1 PURPOSE OF THIS STATEMENT

This statement sets out the principles and policies that govern investments made by the Trustee of the Scheme.

1.2 STATUTORY REQUIREMENTS

This statement is made in accordance with the requirements of the Pensions Act 1995 and the Occupational Pensions (Investment) Regulations 2005 made under the Pensions Act 2004.

1.3 INVESTMENT ADVICE

As required by legislation, in the preparation and maintenance of this statement and when considering the suitability of any investments, the Trustee has obtained and considered written advice from their investment adviser.

The Trustee is advised on investment matters by First Actuarial LLP. First Actuarial LLP is regulated by the Institute and Faculty of Actuaries and is qualified to provide the required advice through knowledge and practical experience of financial matters relating to pension schemes.

1.4 EMPLOYER CONSULTATION

Under legislation, the ultimate responsibility for determining the investment strategy rests with the Trustee. However, the Trustee must consult with the sponsoring employer and consultation must comprise a sharing of views, not simply notification of intent.

The Trustee has consulted with the sponsoring employer as part of the work preparing this statement.

1.5 REVIEWING THIS STATEMENT

This statement will be reviewed at least every three years and without delay after any significant change in circumstances or investment policy.

A copy of this statement and any amendments made to it are available to the Scheme Actuary and to the managers of the pooled investment vehicles used by the Trustee.

2 OBJECTIVES AND STRATEGIC ALLOCATION

2.1 INVESTMENT OBJECTIVES

The Trustee has set an investment strategy that reflects the following primary investment objectives:

- **Generating appropriate investment returns** – to improve the financial position of the Scheme thereby improving security for the members.
- **Managing cash flow requirements –** to ensure that sufficient assets and cash flows are available to pay members' benefits as and when they arise.
- **Protecting the financial position** – to limit the scope for adverse investment experience reducing security for members.

It is recognised that targeting strong levels of investment return introduces investment risk which increases the volatility of the financial position.

2.2 SETTING THE STRATEGIC ASSET ALLOCATION

The Trustee's strategic asset allocation is determined after considering written advice from the investment adviser and is designed to strike a balance between the above objectives. The strategic asset allocation takes into account:

- the nature and timing of liability payments;
- expected levels of investment return on the different asset classes;
- expected levels of investment return variability and, specifically, the expected level of short-term volatility of the Scheme's financial position;
- the sponsoring employer's ability to withstand the additional contribution requirements that may arise from such volatility in the financial position; and
- the full range of available investments (within the bounds of practicality).

In determining the strategic asset allocation, the Trustee views the investments as falling into two broad categories:

1. *Growth Assets*	Assets that are expected to deliver long-term returns in excess of liability growth. The use of growth assets is expected to generate appropriate investment returns.
2. *Liability Matching Assets*	Assets that are expected to react to changes in market conditions in a similar way to the liabilities. The use of liability matching assets is expected to protect the financial position.

The Trustee's strategic asset allocation is detailed in Appendix 1.

3 IMPLEMENTATION

3.1 IMPLEMENTATION OF THE INVESTMENT STRATEGY

Day-to-day management of the assets is delegated to one or more investment managers. The mandates set for the investment managers are intended to implement the Trustee's investment objectives within an acceptable level of risk.

Details of the mandates set for the investment managers are provided in Appendix 1.

The Trustee is satisfied that the investment managers have the appropriate knowledge and experience for managing the investments.

The Trustee considers each investment manager's mandate carefully to ensure it is appropriate. Where pooled investment vehicles are used, it is recognised that the mandate cannot be tailored to the Trustee's particular requirements. However, the Trustee ensures that any pooled investment vehicles used are appropriate to the circumstances of the Scheme.

The Trustee, in conjunction with their investment adviser, regularly reviews each of the investment managers to ensure that the manager remains competent and that the assets continue to be managed in accordance with the manager's mandate.

3.2 SAFEKEEPING OF ASSETS

To ensure safekeeping of the assets, ownership and day to day control of the assets is undertaken by custodian organisations which are independent of the sponsoring employer and the investment managers. Where pooled investment vehicles are used, the custodians will typically be appointed by the investment manager.

3.3 REGULATED MARKETS AND DERIVATIVES

Assets are invested predominantly on regulated markets, as so defined in legislation. Any investments that do not trade on regulated markets are kept to a prudent level.

The investment managers are permitted to use derivative instruments only in so far as they contribute to the reduction of investment risks or facilitate efficient portfolio management.

4 RISKS AND OTHER MATTERS

4.1 INVESTMENT RISKS

Identification, measurement and management of risk form an integral part of the process adopted by the Trustee to determine the strategic asset allocation. The principal investment risks are listed in the accompanying Investment Risks Policy document along with an explanation of how those risks are managed.

4.2 EMPLOYER-RELATED INVESTMENT

The proportion of the Scheme's investments which can be related to the sponsoring employer (as defined within legislation) is limited to 5% of the value of total assets.

The Trustee does not hold any direct employer-related assets and any indirect exposure is expected to be less than 5% of total assets.

4.3 INVESTMENT BELIEFS

The investment beliefs stated below have been developed by the Trustee and are reflected in the Scheme's investment strategy

Risk versus Reward

Targeting higher levels of investment return increases investment risk which increases the volatility of the funding position.

Asset Allocation

Long-term performance of the Scheme's assets is attributable primarily to the strategic asset allocation rather than the choice of investment managers.

Diversification

Asset diversification helps to reduce risk.

Use of Pooled Funds

Taking into account the size of the Scheme's assets, it is expected that pooled funds will typically be a more practical way of implementing the Scheme's investment strategy than establishing segregated mandates with investment managers.

Use of Active Management

Active management has the potential to add value either through offering the prospect of enhanced returns or through the control of volatility. In addition, it is recognised that active management may help to mitigate the financial impact of Environmental, Social and Governance risks.

For each asset class, the Trustee will consider whether the higher fees associated with active management are justified.

4.4 SUSTAINABLE INVESTING AND CORPORATE GOVERNANCE

Members' Views

The Trustee recognises that it is likely that members and beneficiaries will hold a broad range of views on ESG and other non-financial matters. Whilst the Trustee will seek to avoid investing in a way that is likely to be strongly opposed by those individuals, the Trustee does not directly take such views into account when determining the Scheme's investment strategy.

The Trustee believes that its duty to members and beneficiaries will be best served by ensuring that all benefits can be paid as they fall due and the Trustee's Investment Objectives are designed to ensure this duty is achieved.

ESG Risks & Corporate Engagement

Where the Trustee invests in pooled investment vehicles, it is accepted that the extent to which corporate governance, socially responsible practices and ethical behaviour are used in the selection of suitable investments will be determined by the investment managers' own policies on these matters.

Similarly, it is accepted that ongoing engagement with companies in which investments are made (including the exercise of voting rights) will also be determined by the investment managers' own policies.

The Trustee recognises that the membership might wish the Trustee to engage with the companies in which the Scheme invests with the objective of improving corporate behaviour to benefit the environment and society.

However, the Scheme's assets are invested in pooled funds and, as noted above, the Trustee therefore relies on the investment managers to carry out such engagement. The Trustee recognises that the investment managers' engagement policies are likely to be focussed on maximising financial returns and minimising financial risks rather than targeting an environmental or societal benefit.

The Trustee does however consider ESG policies and, if they are felt to be inappropriate, will replace the fund in question.

Monitoring

The Trustee regularly reviews the Scheme's investments to ensure that the assets continue to be managed in accordance with each manager's mandate and that the choice of managers remains appropriate.

Furthermore, the Trustee regularly monitors the position of the investment managers with regards to ESG matters.

To assist with the monitoring of the investment managers, the Trustee receives regular information from their investment adviser providing details of investment manager performance and asset allocation decisions. This analysis includes comparisons with benchmarks and relevant peer-group data.

The analysis assesses whether performance has been in line with expectations given market conditions and whether the level of risk has been as expected.

The investment adviser also provides regular updates on the investment managers' actions regarding ESG factors and shareholder engagement.

The investment adviser regularly meets with the managers of pooled funds on its approved list.

4.5 ADDITIONAL VOLUNTARY CONTRIBUTIONS

Additional Voluntary Contributions (AVCs) are held separately from the main assets and the Trustee aims to make a variety of funds available with the member choosing which funds to use. From time to time the Trustee reviews the range of available funds to ensure the choice remains appropriate for members' needs.

Details of the current AVC arrangements are provided in the Appendix.

5. FUTURE AMENDMENTS

From time to time, and following receipt of advice from its investment adviser, the Trustee may agree to make changes to the investment strategy set out in this statement. Any such changes will be summarised in an addendum to this statement

Before any changes are made to the investment strategy, the Trustee will consult with the sponsoring employer.

The principles set out in this statement have been agreed by the Trustee:

……………………………………………………… Date: 10.09.2020

For and on behalf of the Trustee of the Mabey Pension Scheme

APPENDIX 1
CURRENT INVESTMENT STRATEGY

Fund Manager – Main Scheme Assets

The Trustee has appointed Allianz Global Investors (Allianz), Invesco Asset Management (Invesco), Partners Group Guernsey (Partners) and Schroder Investment Management (Schroder) to manage the assets of the Scheme. Further details of the specific arrangements in place with the above managers are contained in this Appendix.

The mandates the Trustee has given to the investment managers reflect the principles and policies as set out in the main body of this Statement.

The Trustee's assets are invested in the following underlying pooled funds:

Pooled Investment Vehicle	Target Allocation (% of Scheme Assets)
Liability Matching Assets	
Schroder LDI Portfolio (including Liquidity Fund cash)	25.0
Total Liability Matching Assets	**25.0**
Growth Assets	
Allianz Global Multi-Sector Credit Fund	27.5
Invesco Perpetual Active Multi-Sector Credit Fund	27.5
Schroder Diversified Growth Fund	10.0
Partners Fund	10.0
Total Growth Assets	**75.0**

The allocation shown above is not automatically rebalanced. Rebalancing does however take place periodically e.g. by disinvesting accordingly when cash is required to pay benefits.

CASHFLOW POLICY

Any investments or disinvestments are made at the discretion of the Trustee, but it is expected that these will normally be paid into, or taken from, the Growth Assets.

The Liability Matching Assets are held to match the liabilities rather than be a specified proportion of the total assets. As such, routine investments or disinvestments will not normally be paid into, or taken from, the Liability Matching Assets. Instead, investments and disinvestments will normally be used to move the allocation of the Growth Assets closer to the Target Growth Allocation shown in the table above.

RECAPITALISATION AND RE-LEVERAGE POLICY

In the event of a large increase in yields, a contribution may need to be paid into the LDI portfolio. This will ensure that leverage within the LDI portfolio remains within a permissible range. The Trustee has agreed that any such contributions will be taken from the Allianz Global Multi-Asset Credit Fund in the first instance, followed by the Schroder Diversified Growth Fund.

If the leverage of the LDI portfolio falls below a minimum threshold, Schroder will make a cash payment out of the LDI portfolio to raise the leverage. The Trustee has agreed that any such payments will be invested in the Allianz Global Multi-Asset Credit Fund.

FUND DETAILS

The Liability Matching Assets are invested in an LDI portfolio which is structured having regard for the nature of the Scheme's liability profile. The Trustee therefore expects that changes in the value of the LDI portfolio will be broadly in line with changes in the value of the Scheme's liabilities as market conditions change.

The Trustee's expectation is that the Growth Assets will provide returns in line with each individual pooled fund's return objectives.

Details of the funds used are summarised below:

Schroder LDI Portfolio	
Objective	Schroder can invest the LDI portfolio in cash and cash funds, swap funds and synthetic gilt funds. Schroder manages the LDI portfolio with the objective of hedging 95% of the interest rate risk and 95% of the real interest rate risk associated with a proxy benchmark which reflects the profile of the Scheme's liabilities.

Allianz Global Multi-Asset Credit Fund	
Objective	To generate positive returns throughout the interest rate and economic cycles. Target returns are shown as seeking a minimum return of cash (LIBOR) + 3% pa (gross of fees) over 3 years.

Invesco Perpetual Active Multi-Sector Credit Fund	
Objective	The fund aims to achieve long-term capital growth and income by gaining exposure to worldwide debt instruments.

Schroder Diversified Growth Fund	
Objective	The fund can invest in a broad array of asset classes and aims to generate a return of CPI +5% p.a. over a five to seven-year period. It also expects to have a volatility less than two thirds of global equities.

Schroder Sterling Liquidity Plus Fund	
Objective	To provide capital growth equivalent to 3 month sterling LIBOR (gross of fees) by investing in money market instruments and bonds worldwide

Partners Fund	
Objective	To aims to deliver 8-12% pa over a full economic cycle by investing in various alternative asset classes and/or alternative investment strategies. The Fund provides for (a) well defined diversification of the Fund's investments in order to reduce risks associated with alternative investments, and (b) monthly liquidity for investors. The alternative classes accessed include private equity, private debt, infrastructure and real estate. The fund also invests in a variety of more liquid strategies to obtain the desired level of overall portfolio liquidity.

The Partners Fund trades monthly and one month's notice of a disinvestment must be given. The fund may be subject to a gating provision and the Trustee therefore recognises that it may take longer than one month to disinvest.

ADDITIONAL VOLUNTARY CONTRIBUTIONS

The Trustee has appointed Equitable Life and Clerical Medical to manage the Additional Voluntary Contributions.

APPENDIX 2

PURPOSE OF APPENDIX 2

This Appendix is prepared in accordance with the requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 and it updates the Statement of Investment Principles to record how the Scheme complies with the EU Shareholder Rights Directive (SRD II) which comes into effect on 1 October 2020.

GLOSSARY

ESG – Environmental, Social and Governance (including, but not limited to, climate change)

In the relevant regulations “**non-financial matters**” refers to the views of the members. This includes, but is not limited to, ethical views, views on ESG factors and views on the present and future quality of life for the members.

“**Financially material considerations**” includes (but is not limited to) ESG considerations (including but not limited to climate change), which the trustees of the trust scheme consider financially material.

“**Appropriate time horizon**” means the length of time that the trustees of a trust scheme consider is needed for the funding of future benefits by the investments of the scheme.

INVESTMENT MANAGER ARRANGEMENTS

The Trustee believes that financially material considerations, including ESG factors and the risks related to such factors, can contribute to the identification of both investment opportunities and financially material risks. Consequently, financially material considerations can have a material impact on investment risk and return outcomes.

As the Scheme’s assets are held in pooled funds, the Trustee has limited influence over the investment managers’ investment decisions. In practice, investment managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

It is therefore the Trustee’s responsibility to ensure that the approaches adopted by investment managers are consistent with the Trustee’s policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies.

The Trustee expects investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/ equity issuers, and to engage with issuers to improve their performance. The Trustee assesses this when selecting and monitoring managers.

When selecting investment managers, the Trustees may also take into account non-financially material considerations such as the investment manager’s administrative capabilities and the liquidity of the investments.

The Trustee's policy on selecting, monitoring, evaluating and (where necessary) terminating these arrangements is set out in further detail below.

Compatibility of Pooled Funds with the Trustee's Investment Strategy

When selecting a pooled fund, the Trustee considers various factors, including:

- the assets that will be held within that fund and whether the asset allocation of the fund is expected to change over time;
- the risks associated with the fund along with the return that is expected;
- the fund's objective (as stated by the fund's investment manager) and whether the objective is consistent with the performance that the Trustee expects from that fund;
- the fund's fee structure to ensure that this is reasonable and that it does not provide an incentive for the investment manager to manage the fund in a way that differs from the expectations of the Trustee;
- how frequently underlying investments within the fund are expected to be traded by the investment manager;
- how financially material considerations (including ESG factors) over the appropriate time horizon are taken into account by the investment manager;
- the investment manager's policy in relation to the exercise of the rights (including voting rights) attaching to the investments held within the pooled fund; and
- the investment manager's policy in relation to undertaking engagement activities in respect of the investments held within the pooled fund*.

**This includes engaging with an issuer of debt or equity regarding matters including (but not limited to) performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, and ESG matters. It also includes engaging on these matters with other investment managers, other holders of debt or equity and persons or groups of persons who have an interest in the issuer of debt or equity.*

After analysing the above characteristics for a fund, the Trustee identifies how that fund would fit within its overall investment strategy for the Scheme and how the fund is expected to help the Trustee meet its investment objectives.

Duration of Investment Manager Arrangements

The Trustee normally expects that pooled funds will be held for several years.

However, as part of the periodic strategic asset allocation reviews (which take place at least every three years), the Trustee will review whether the ongoing use of each fund remains consistent with its investment strategy.

The Trustee regularly monitors the financial and non-financial performance of the pooled funds held and details of this monitoring process is set out below. If the Trustee becomes concerned about the ongoing suitability of a pooled fund, it may reduce exposure to it or disinvest entirely. Such action is expected to be infrequent.

Monitoring Pooled Funds

The Trustee regularly assesses the performance of each fund held and this monitoring includes an assessment of whether the investment manager continues to operate the fund in a manner that is consistent with the factors used by the Trustee to select the fund (as listed above).

When assessing the performance of a fund, the Trustee does not usually place too much emphasis on short-term performance although it will seek to ensure that reasons for short-term performance (whether favourable or unfavourable) are understood.

The Trustee expects the investment managers of pooled funds to invest for the medium to long term and it expects investment managers to engage with issuers of debt or equity with a view to improving performance over this time frame.

If it is identified that a fund is not being operated in a manner consistent with the factors used by the Trustee to select the fund, or that the investment manager is not engaging with issuers of debt or equity, the Trustee may look to replace that fund. However, in the first instance, the Trustee would normally expect its investment adviser to raise the Trustee's concerns with the investment manager. Thereafter, the Trustee, in conjunction with its investment adviser, would monitor the performance of the fund to assess whether the situation improves.

Portfolio Turnover

The Trustee is aware of the requirement to monitor portfolio turnover costs (the costs incurred as a result of the buying, selling, lending or borrowing of investments).

When selecting a pooled fund, the Trustee will consider how the investment manager defines and measures:

- the targeted portfolio turnover (the frequency within which the assets of the fund are expected to be bought or sold); and
- turnover range (the minimum and maximum frequency within which the assets of the fund are expected to be bought or sold).

At least annually, the Trustee, in conjunction with its investment adviser, will consider the transaction costs incurred on each pooled fund. As part of this analysis, the Trustee will consider whether the incurred turnover costs have been in line with expectations.

The Trustee will take the above information on portfolio turnover into account when assessing the ongoing suitability of each pooled fund.

STEWARDSHIP

The Trustee's policy in relation to the exercise of rights attaching to investments, and undertaking engagement activities in respect of investments, is that they wish to encourage best practice in terms of stewardship.

However, the Trustee invests in pooled investment vehicles and therefore accept that ongoing engagement with the underlying companies (including the exercise of voting rights) will be determined by the investment managers' own policies on such matters. For that reason, the Trustee recognises that its ability to directly influence the action of companies is limited.

Nevertheless, the Trustee expects that each investment manager will discharge its responsibilities in respect of investee companies in accordance with that investment manager's own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustee also expects that each investment manager will take ESG factors into account when exercising the rights attaching to investments and in taking decisions relating to the selection, retention and realisation of investments.

When considering the suitability of an investment manager, the Trustee (in conjunction with its investment adviser) will take account of any particular characteristics of that manager's engagement policy that are deemed to be financially material.

The Trustee recognises that the members might wish the Trustee to engage with the underlying companies in which the Scheme invests with the objective of improving corporate behaviour to benefit the environment and society. However, the Trustee's priority is to select investment managers which are best suited to help meet the Trustee's investment objectives. In making this assessment, the Trustee will receive advice from its investment adviser. The Trustee recognises that the investment managers' own policies are likely to be focussed on maximising financial returns and minimising financial risks rather than targeting an environmental or societal benefit.

INVESTMENT BELIEFS (ADDITIONAL WORDING)

Appropriate Time Horizon

In determining investment objectives and a suitable investment strategy for the Scheme, the Trustee takes into account an appropriate time horizon. The Trustee believes that an appropriate time horizon will be the period over which benefits are expected to be paid from the Scheme.

ESG and Other Financially Material Considerations

The Trustee believes that financially material considerations, including ESG factors and the risks related to such factors, can contribute to the identification of both investment opportunities and financially material risks. Consequently, financially material considerations can have a material impact on investment risk and return outcomes.

The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

Assessment of how ESG risks are mitigated will be one of the factors considered by the Trustee when selecting and monitoring investment managers.

Stewardship

The Trustee believes that good stewardship can help create, and preserve, value for companies and markets as a whole.