S.M.P. Playgrounds Pension Fund

Statement of Investment Principles

September 2020

Contents

1. Introduction 1
2. Investment objectives and strategy 2
3. Implementation solution 6
4. Appointment of investment managers 7
5. Other matters 8
6. Review 11

Appendix 1 – Managers, asset allocation & fund details 12

1. Introduction

1.1. What is the purpose of this Statement of Investment Principles ("SIP")?

This SIP sets out the policy of the Trustees on matters governing decisions about the investments of the S.M.P. Playgrounds Pension Fund (the "Plan").

The Plan is a Registered Pension Scheme for the purpose of the Finance Act 2004. The Plan is a Defined Benefit ("DB") Plan which is closed to future accrual and new members.

1.2. What is the legal and statutory background to the SIP?

The SIP is designed to meet the requirements of Section 35 of the Pensions Act 1995 (the "Act") and all subsequent legislation, Regulations and guidance from the Pensions Regulator applying to UK pension schemes.

The Plan's assets are held in trust by the Trustees. The investment powers of the Trustees are set out in the Plan's Trust Deed.

1.3. Who has had input to the SIP?

This SIP has been formulated after obtaining and considering written professional advice from Quantum Actuarial LLP trading as Quantum Advisory ("Quantum"), the Trustees' investment adviser, and consulting HAGS- SMP Limited (formerly S.M.P (Playgrounds) Limited) (the "Sponsoring Employer") as required by the Act and subsequently by the Regulations. Quantum has the knowledge and experience required under the Regulations to provide professional advice on the management of the Plan's investments.

2. Investment objectives and strategy

2.1. Investment policy

The Plan's assets are held in trust by the Trustees. The investment powers of the Trustees are set out in the Plan's Trust Deed.

The Trustees are aware of the need to invest assets in the best and sole interest of the members and that the powers of investment must be exercised in a manner which supports the security, quality, liquidity and profitability of the Plan as a whole.

The Trustees recognise that the assets of the Plan must consist predominantly of investments admitted to trading on regulated markets and investment in assets which are not admitted to trading on such markets must, in any event, be kept to a prudent level.

2.2. Investment objective

The Trustees, with the help of their advisers and in consultation with the Sponsoring Employer, set the current investment strategy following a consideration of their objectives and other related matters in January 2018.

The Trustees noted the need to invest in a manner which helps ensure that the benefits promised to members are provided. Over the long term, this requires that a rate of return is achieved which supports the long term funding plan which has been discussed with the Sponsoring Employer. In the short term, it means managing the volatility of assets relative to the value of liabilities, which have bond-like characteristics.

2.3. What did the Trustees consider in setting the Plan's investment strategy?

In setting the strategy, the Trustees considered:

- the investment objectives;
- the Plan's characteristics;
- the annual management charges and other charges;
- the fact that, for the foreseeable future, contributions receivable by the Plan are not likely to exceed benefits payable;
- the risks and rewards of different asset classes and investment strategies;
- the expectation that, over the long-term, equities and property are likely to produce higher returns than bonds, but at the risk of short-term volatility or liquidity constraints;
- the need for appropriate diversification between different asset classes;
- the ESG and Stewardship policies employed by the investment managers;
- the financial strength and reputation of each investment manager;

- the financial strength of the investment managers' custodian; and
- the strength of the Sponsoring Employer's covenant to support the Plan.

2.4. Financially material considerations, non-financial matters and stewardship policies

2.4.1. Financially material considerations

The Trustees acknowledge the potential impact upon the Plan’s investments (both in terms of risk and return) arising from financially material matters. The Trustees define these as including, but not limited to, ESG factors (including climate change).

With specific regard to ESG factors, the Trustees consider how these are integrated into the investment processes when: (i) appointing new investment managers; and (ii) reviewing existing investment managers. The Trustees have provided the appointed investment managers with full discretion concerning the evaluation of ESG factors. The Trustees also periodically consider publicly available ESG related publications pertaining to the incumbent investment managers.

The Trustees have determined with the help of their investment adviser, that ESG is built into the core of its investment managers’ investment processes for investments that are implemented on an active basis. Investment managers who predominantly invest in index-tracking funds (including Insight’s LDI funds); and thus are limited in the extent to which they can exercise their discretion when incorporating ESG considerations into their security selection, use their market presence to actively engage with the companies they invest in and exercise their voting rights to support their ESG policies.

The Trustees also consider ESG factors when determining future investment strategy decisions. To date, the Trustees have not established any restrictions on the appointed investment managers, but may consider this in future.

2.4.2. Stewardship

The Trustees acknowledge the constraints that they face in terms of influencing change due to the size and nature of the Plan’s investments. They do, however, acknowledge the need to be responsible stewards and exercise the rights associated with their investments in a responsible manner.

The Trustees consider how stewardship factors are integrated into the investment processes when: (i) appointing new investment managers; and (ii) monitoring existing investment managers. The Trustees have provided the appointed investment managers with full discretion concerning the stewardship of their investments.

2.4.3. Non-financial matters

The Trustees consider non-financial factors (where members have been forthcoming with their views). However, the Trustees do not employ a formal policy in relation to this when selecting, retaining and realising investments.

2.5. What risks were considered and how are they managed?

The Trustees' primary concern is to act in the financial interests of the Scheme's members. As such, the primary risk is the inability of the Scheme to meet member benefit payments as they fall due.

In order to achieve their objectives, the Trustees recognised the need to invest in both "liability matching" and "return seeking" assets (see 2.6). The Trustees identified the following investment risks:

- the risk that investment returns in general will not achieve expectations;
- the risk that an investment manager will not meet its targets;
- the risk that the value of liabilities may increase due to changes in actual and expected inflation and interest rates;
- the risk of mis-match between the value and timing of the Plan's income and outgo;
- the risk of a shortfall in the liquid assets held by the Plan relative to its immediate liabilities;
- the risk that the performance of any single investment within the Plan's assets may disproportionately affect the ability of the Plan to meet its overall investment objectives;
- the risk of misappropriation, unauthorised use or mis-delivery of Plan assets; and
- the risk that ESG factors, including climate change, could adversely impact the value of the Plan's assets if this is not given due consideration and/or is misunderstood.

The Trustees recognise these different types of risk and seeks to minimise them as far as possible by the use of regular monitoring of investment performance; by a deliberate policy of diversification; by taking into account the timing of future payments; and by regularly reviewing the appropriateness of the prevailing strategy against the Plan's objectives.

2.6. What is the investment strategy?

The investment strategy uses two key types of assets:

- "geared liability driven investment ("LDI")": which is designed to hedge c.35% of the Plan's assets (as at the date of implementation) against changes in inflation and interest rates while still allowing exposure to return seeking assets. The LDI arrangement is managed by Insight Investment Management Limited ("Insight"). The movement of collateral between the Plan and Insight, in order to maintain the LDI hedge, is controlled by the Trustees and advised by Quantum; and

- "return seeking assets": which target a rate of return in excess of the minimum risk return. Typically, these are equities or a diversified pool of other non-matching assets which, over the long term, might be expected to deliver 3% to 4% pa above the minimum risk return.

Following the investment strategy review in January 2018, a strategic asset allocation was agreed. The strategy aims to deliver an appropriate mix of investments, which support the Plan's investment objectives. Details of this are set out in Appendix 1.

The Trustees monitor the performance of the Plan's investments on a quarterly basis. Written advice is received as required from their investment advisers.

2.7. Fund managers, style and target returns

The funds in which the Plan invests are pooled funds, which the Trustees believe are appropriate given the size and nature of the Plan. These pooled funds are accessed through an implementation solution provider, Mobius Life Limited ("Mobius Life"). Details of the funds, managers, styles, benchmarks and target returns used by the Plan can be found in Appendix 1.

The relationship with each investment manager is open ended and is reviewed on a periodic basis.

2.8. Cash flow management

The Plan is currently broadly cashflow neutral, however should investments and disinvestments need to be made, Mobius Life assets should be used (excluding LDI) so as to assist the Plan in maintaining its strategic benchmark allocation within the core portfolio.

Investments should be allocated to the most underweight funds in sequential order whilst disinvestments should be made from the most overweight funds in sequential order.

2.9. Re-balancing

The asset allocation is monitored through the quarterly investment review reports. The split between growth and matching assets will be reviewed periodically and rebalanced on an adhoc basis.

3. Implementation solution

3.1. Implementation solutions in general

An implementation solution is a service that enables pension schemes to buy, sell and hold their investments all in one place. This allows greater flexibility and efficiency when switching investments as the Plan strategy changes or fund managers have to be replaced.

The centralisation of funds also allows consolidated reporting to be obtained more easily and more regularly, ensuring an investment strategy and associated flight path can be effectively tracked and monitored. All of these features allow pension schemes greater administrative efficiency, enhanced ease of strategy implementation and potential fee reductions.

3.2. Accessing the implementation solution

Each pension scheme enters into a unit linked life policy through a Trustee Investment Policy (TIP). The policy's value is linked to the underlying investments, which the implementation solution provider, in this case Mobius Life, has been directed to purchase. Mobius Life is responsible for investing into the underlying funds and takes responsibility for the relationship with the underlying fund managers. This includes transactions, reporting and governance. This differs from a traditional relationship that a pension scheme would have had with their fund managers where they would have invested directly with these managers and maintained a number of these individual relationships.

3.3. Safeguarding and protection of Mobius assets

There are a number of regulatory layers of protection in relation to the Scheme's assets with Mobius. The key points to note are set out below.

- The Scheme's assets are held in a Pooled Life Fund, which is held separately to Mobius' shareholder and other Company assets.
- Submissions are made to the Prudential Regulation Authority and Financial Conduct Authority on a regular basis, which require the Mobius Board and an independent qualified actuary, the Actuarial Function Holder, to monitor the solvency of the Mobius business in relation to regulatory capital requirements. Mobius have appointed an independent qualified actuary to carry out this function, and any regulatory capital calculations are audited by the independent auditors.
- Mobius undertakes an annual Own Risk and Solvency Assessment together with the Actuarial Function Holder, as part of regulatory requirements of running an insurance company.

In Mobius' Security of Assets document, they state that Mobius is a regulated life insurance company, the Scheme has access to the Financial Services Compensation Scheme ("FSCS") in the event of Mobius Life becoming either insolvent or liquidated. The level of cover provided by the FSCS is currently 100% of the policy value when investing in insurance policies, with no upper limit, if Mobius defaults.

4. Appointment of investment managers

4.1. How many investment managers are there?

Details of the appointed investment managers, together with their fund objectives and characteristics are outlined in Appendix 1. Each of these funds are accessed through Mobius Life.

4.2. What formal agreements are there with the investment managers and implementation solution provider?

The Trustees select investment managers and funds which are appropriate to implement the investment strategy.

The Trustees have signed a policy document/agreement as appropriate with Mobius Life for the Plan.

The Trustees keep the appointment of all investment managers and providers under review and will seek to replace any managers, or funds, which no longer remain appropriate to implement the Plan's investment strategy.

4.3. What are the investment managers' responsibilities?

The investment manager is responsible for the day-to-day management of the investments and is responsible for appointing custodians, if required.

The managers are authorised under the Financial Services and Markets Act 2000 to carry out such activities.

Any performance requirements for the managers are detailed in Appendix 1.

4.4. Custodians and administrators

The Plan's investments are through pooled investment vehicles. Therefore, there is no need for the Trustees to formally appoint a custodian as the investment comprises units held in listed investment vehicles rather than the underlying stocks and shares.

However, the underlying managers have appointed custodians for the safe custody of assets and these are detailed in Appendix 1. Note, as the Plan's units are held with Mobius Life, custody of assets held with managers is under the Mobius Life name.

4.5. What is the Trustees' policy on investment in the Sponsoring Employer?

The Plan does not directly hold any shares in the Sponsoring Employer. The Trustees' policy is to keep any holding below 5% of the Plan's overall assets, in line with the Regulations.

5. Other matters

5.1. What is the Trustees' policy on the realisation of investments?

The Plan's assets are held in pooled funds, most of which can be realised easily if the Trustees so require.

5.2. How are various parties who are involved in the investment of the Plan's assets remunerated?

Quantum is remunerated on a fixed fee or time-cost fee basis, with budgets agreed for projects where possible.

The Plan invests in pooled funds. The Trustees note that the investment strategy and decisions of the fund managers cannot be tailored to the Trustees' policies and the managers are not remunerated directly on this basis. However, the Trustees, with the help of Quantum, set the investment strategy for the Scheme and select appropriate managers and funds to implement the strategy.

The Trustees do not directly incentivise the investment managers to engage with the issuers of debt or equity to improve their performance. The Trustees do, however, expect the investment managers to participate in such activities as appropriate and necessary to meet the investment objectives of the respective fund. The funds utilised typically include an objective that is expected to result in a positive return over the medium-to-longer term and, as such, the investment managers engagement with the issuers of debt or equity is expected to be undertaken so as to target medium-to-long term value creation.

The Trustees consider the fees and charges associated with each investment before investing.

The investment managers and Mobius Life are remunerated on an ad valorem fee basis, which is calculated as a fixed percentage of the total value of the Plan's funds they hold under management.

In addition, the fund managers pay commissions to third parties on many trades they undertake in the management of the assets. The Trustees obtain an annual statement from the investment managers setting out all the costs of the investments of the Plan.

5.3. Direct investments

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager with a written contract (e.g. units in pooled vehicle) and those where a product is purchased directly (e.g. the purchase of an insurance policy). The latter are known as direct investments.

The Trustees' policy is to review its direct investments and to obtain written advice about them at regular intervals. When deciding whether to make any new direct investments or terminate any direct investments, the Trustees will obtain written advice from the Plan's investment adviser. If the Trustees believe that an investment is no longer suitable for the Plan, they will withdraw the assets from the arrangement deemed to be unsuitable and select a suitable alternative.

The written advice will consider suitability of the investments, the need for diversification and the principles contained in this SIP. The adviser will have the knowledge and experience required under Section 36(6) of the Pensions Act to provide this advice.

5.4. Do the Trustees take any investment decisions on their own?

The Trustees are responsible for the investment of the Plan's assets. The Trustees take some decisions themselves and delegates others.

When deciding which decisions to take, and which to delegate, the Trustees take into account whether they have the appropriate training and expertise in order to make an informed decision.

The Trustees have established the following decision making structure:

Trustees

- Set structures and processes for carrying out their role.
- Agree structure for implementing investment strategy.
- Select and monitor planned asset allocation.
- Select and monitor investment advisers and fund managers.
- Select and monitor direct investments.
- Prepare and maintain the Statement of Investment Principles.

Investment adviser will, when requested by the Trustees:

- Advise on all aspects of the investment of the Plan's assets, including implementation.
- Advise on this Statement.
- Provide required training.

Investment (or fund) managers

- Operate within the terms of the written contracts and agreements.
- Select individual investments with regard to their suitability and diversification for the individual pooled vehicles.
- Ensure the suitability of the chosen benchmark for the respective investment vehicle.

Implementation solution provider

- Operate within the terms of the written contracts and agreements.

5.5. Conflicts of interest

The Trustees consider any potential and actual conflicts of interest (subject to reasonable levels of immateriality) at the start of each Trustees' meeting and document these in the minutes.

5.6. Capital structure of investee companies

The responsibility for monitoring the capital structure of investee companies (including any relevant developments) is delegated to the investment managers. Investment managers are expected to partake in a sufficient level of monitoring and action that is appropriate to the nature of the mandate.

6. Review

6.1. How often are investments reviewed?

Strategy reviews are undertaken periodically. Typically, these will occur after triennial actuarial valuations of the Plan; but more frequent reviews can occur in light of a material change of circumstances. Any change in investment strategy may necessitate a change in investment managers, regardless of the underlying performance of the funds.

Investment return experience and the performance of individual funds is reviewed with assistance from Quantum each quarter. Managers are reviewed against their agreed performance benchmarks and targets over both short-term and long-term time periods, to ensure they remain appropriate to implement the investment strategy for the Plan.

6.2. How do the Trustees monitor portfolio turnover and costs?

The Trustees have delegated the selection of holdings to the appointed investment managers. The Trustees receive an annual report from the investment managers setting out portfolio turnover and the associated costs.

The Trustees have not set a specific portfolio turnover target for each investment manager and recognise that portfolio turnover and costs may vary with market conditions. Each manager has ultimate responsibility for the underlying holdings within their funds and they are expected to change these underlying holdings to the extent required to achieve their investment objectives.

The Trustees will compare the annual turnover and associated costs for each fund with previous years to ensure each investment manager’s process and philosophy remain consistent.

6.3. How often is this SIP reviewed?

The Trustees will review this SIP at least every three years and without delay after any significant change in investment policy. Any change to this SIP will only be made after a) having obtained and considered the written advice of someone who the Trustees reasonably believe to be qualified by their ability in, and practical experience of financial matters, and to have the appropriate knowledge and experience of the management of pension scheme investments; and b) consulting the Sponsoring Employer.

Appendix 1 – Managers, asset allocation & fund details

Managers and asset allocation

The following table shows the strategic asset allocation for the Plan. All investments are accessed through the Mobius Life investment platform.

Asset class	Manager	Fund	Asset allocation (%)
Return seeking assets			**88.0**
Diversified Target Return	LGIM	Dynamic Diversified Fund	29.3
	Insight	Broad Opportunities Fund	29.3
	BlackRock	DC Diversified Growth Fund	29.3
Matching assets			**12.0**
Liability Driven Investment	Insight	Enhanced Selection LDI Fund Range	12.0*
	LGIM	Cash Fund	
Total			**100.0**

*Approximately 12% of the Plan's assets will be invested in a geared LDI strategy and cash fund to provide protection against interest and inflation rate movements on c.35% of the value of the Plan's assets, at the date of implementation.

Managers and fund details

The table below shows the benchmarks, outperformance targets and custodians for each fund the Plan is invested in.

Asset class	Fund	Benchmark	Objective / Outperformance target	Custodian	Date of appointment
Diversified Target Return	LGIM Dynamic Diversified	Bank of England Base rate	The investment objective of the fund is to provide long-term investment growth through dynamic exposure to a diversified range of asset classes. The long-term expected annualised rate of return is the Bank of England Base Rate +4.5% per annum, over a full market cycle.	HSBC and Citibank	September 2020
	Insight Broad Opportunities	3 month Sterling LIBID	The fund aims to deliver attractive positive long-term returns. It seeks to outperform the benchmark by 4.5% per annum (gross of fees) over rolling 5 year periods, whilst being mindful of the investment objective.	State Street Custodial Services (Ireland) Limited	December 2017
	BlackRock DC Diversified Growth	Bank of England Base rate	This fund targets an investment return of 3.5% above the Bank of England official Bank Rate measured over rolling 3 year periods by utilising a multi-asset flexible investment approach.	Bank of New York Mellon	October 2014
Liability Driven Investment	Insight Enhanced Selection LDI Range	N/A	The Fund aims to provide liability hedging by delivering nominal/inflation-linked returns; which replicates the liability profile of a typical UK defined benefit pension scheme.	Northern Trust	February 2018
	LGIM Cash	7 Day LIBID	The Fund aims to perform in line with the benchmark, without incurring excessive risk.	Northern Trust	October 2017