

W Grose Ltd Retirement Benefits Plan (1981)

Statement of Investment Principles

Barnett Waddingham LLP

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1. Introduction

- 1.1. This is the Statement of Investment Principles prepared by the Trustee of the W Grose Ltd Retirement Benefits Plan (1981) (the Plan). This statement sets down the principles which govern the decisions about investments that enable the Plan to meet the requirements of:
 - the Pensions Act 1995, as amended by the Pensions Act 2004;
 - the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010;
 - the Occupational Pension Schemes (Investment and Disclosure) Regulations 2018; and
 - the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.
- 1.2. In preparing this statement the Trustee has consulted W Grose Limited, the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustee's investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.
- 1.3. This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.
- 1.4. The Trustee will review this statement at least every three years or if there is a significant change in any of the areas covered by the statement.
- 1.5. The investment powers of the Trustee are set out in Clause 5 of the Definitive Trust Deed & Rules, dated 3 December 1992. This statement is consistent with those powers.

2. Choosing investments

- 2.1. The Trustee's policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustee considers the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.
- 2.2. The day-to-day management of the Plan's assets is delegated to one or more investment managers. The Plan's investment managers are detailed in the Appendix to this Statement. The investment managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights.
- 2.3. The Trustee reviews the appropriateness of the Plan's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the investment managers with respect to performance within any guidelines set. The Trustee will also consult the employer before amending the investment strategy.

3. Investment objectives

- 3.1. The Trustee has discussed key investment objectives in light of an analysis of the Plan's liability profile as well as the constraints the Trustee faces in achieving these objectives. As a result, the Trustee's main investment objectives are:
 - to ensure that the Plan can meet the members' entitlements under the Trust Deed and Rules;

- to manage the expected volatility of the returns achieved in order to control the level of volatility in the Plan's required contribution levels;
- to minimise the long-term costs of the Plan whilst having regard to the above objectives.

3.2. The Trustee is aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Plan's liabilities. The Trustee has obtained exposure to investments that they expect will meet the Plan's objectives as best as possible.

4. Kinds of investments to be held

- 4.1. The Plan is permitted to invest in a wide range of assets including equities, bonds, cash, property and alternatives.
- 4.2. The Plan does not make any employer-related investments.

5. The balance between different kinds of investments

- 5.1. The Plan invests in assets that are expected to achieve the Plan's objectives. The allocation between different asset classes is contained within the Appendix to this Statement.
- 5.2. The Trustee considers the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Appendix to this Statement.
- 5.3. From time to time the Plan may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate any short-term cashflow requirements or any other unexpected items.
- 5.4. The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and therefore the Plan's asset allocation will be expected to change as the Plan's liability profile matures.

6. Risks

- 6.1. The Trustee has considered the following risks for the Plan with regard to its investment policy and the Plan's liabilities, and considered ways of managing/monitoring these risks:

Risk versus the liabilities	The Trustee will monitor and review the investment strategy with respect to the liabilities in conjunction with each actuarial valuation. The investment strategy will be set with consideration to the appropriate level of risk required for the funding strategy as set out in the Plan's Statement of Funding Principles.
Covenant risk	The creditworthiness of the employer and the size of the pension liability relative to the employer's earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the employer covenant.
Solvency and mismatching	This risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustee is aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Plan's funding basis.
Asset allocation risk	The asset allocation is detailed in the Appendix to this Statement and is monitored on a regular basis by the Trustee.
Investment manager risk	The Trustee monitors the performance of each of the Plan's investment managers on a regular basis in addition to having meetings with each manager from time to time as necessary, usually on an annual basis. The Trustee has a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate.
Governance risk	Each asset manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustee monitors these and will report on the managers' practices in their annual Implementation Statement.
ESG/Climate risk	The Trustee has considered long-term financial risks to the Plan and ESG factors, as well as climate risk are potentially financially material, and will continue to develop its policy to consider these, alongside other factors, when selecting or reviewing the Plan's investments in order to avoid unexpected losses.
Concentration risk	Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.
Liquidity risk	The Plan invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Plan's cashflow requirements. The Plan's administrators assess the level of cash held in order to limit the impact of the cashflow requirements on the investment policy.
Currency risk	The Plan's liabilities are denominated in sterling. The Plan may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management. Currency hedging is employed to manage the impact of exchange rate fluctuations.

**Loss of
investment**

The risk of loss of investment by each investment manager and custodian is assessed by the Trustee. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud).

7. Expected return on investments

- 7.1. The Trustee has regard to the relative investment return and risk that each asset class is expected to provide. The Trustee is advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the investment managers.
- 7.2. The Trustee recognises the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.
- 7.3. In considering the expected return from investments, the Trustee recognises that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.
- 7.4. Having established the investment strategy, the Trustee monitors the performance of each investment manager against an agreed benchmark as frequently as appropriate according to market conditions and the Plan's funding position. The Trustee meets the Plan's investment managers as frequently as is appropriate in order to review performance.

8. Realisation of investments

- 8.1. The Trustee has delegated the responsibility for buying and selling investments to the investment managers. The Trustee has considered the risk of liquidity as referred to above.
- 8.2. Ultimately, the investments will all have to be sold when the Plan's life comes to an end. In this situation, the Trustee is aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Plan accounts.

9. Financially material considerations, non-financial matters, the exercise of voting rights and engagement activities

- 9.1. The Trustee has set policies in relation to these matters. These policies are set out in Appendix 2.

10. Policy on arrangements with asset managers

- 10.1. The Trustee has set a policy in relation to these arrangements. This policy is set out in Appendix 3.

11. Agreement

- 11.1. This statement was agreed by the Trustee, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the employer, the investment managers, the actuary and the Plan auditor upon request.

Agreed between the Trustee of the W Grose Ltd Retirement Benefits Plan and the Principal Employer on 7 September 2020

Appendix 1 Note on investment policy of the Plan as at September 2020 in relation to the current Statement of Investment Principles

1. The balance between different kinds of investment

The Plan has a strategic asset allocation as set out in the table below, which has been agreed after considering the Plan's liability profile, funding position, expected return of the various asset classes and the need for diversification.

Rebalancing

The Trustee recognises that the asset allocation of investments in different asset classes will vary over time as a result of market movements. The Trustee seeks to maintain a balance between maintaining the asset allocation in line with its benchmark and limiting the costs of rebalances.

Assets	Allocation (%)
Growth Assets:	70
Passive Global Equity	23
Diversified Growth Fund	24
Multi Asset Credit	23
Protection Assets:	30
Liability Driven Investment (LDI)	30
Total	100

The managing agent for Quadris is not currently providing audited valuations. This investment is illiquid and redemptions are not currently permitted. The Trustee has excluded Quadris from its strategic asset allocation and is aiming to redeem this investment at the next opportunity.

2. Choosing investments

The Trustee has appointed the following investment managers to carry out the day-to-day investment of the Plan:

- Barings;
- Blackrock;
- Legal and General Investment Management (LGIM).

The investment benchmarks and objectives for each investment manager are given below:

Investment manager	Fund	Benchmark	Objective
Barings	Global High Yield Credit Strategies Fund	3 month LIBOR	Outperform the benchmark index by 5% p.a. net of fees
BlackRock	Dynamic Diversified Growth Fund	3 month LIBOR	Outperform the benchmark index by 3% p.a. net of fees
LGIM	Global Equity Market Weights (30:70) Index Fund – 75% GBP Hedged	30% FTSE All Share Index 70% FTSE All World (ex UK) Index 75% GBP hedged	To track the benchmark index
	Matching Core Funds	Gilt and swap composite index	To track the benchmark index
	Sterling Liquidity Fund	7 Day LIBID	To provide capital stability, liquidity and diversification whilst providing a competitive level of return

The performance of the investment managers will be monitored as frequently as the Trustee considers appropriate in light of the prevailing circumstances. The monitoring takes into account both short-term and long-term performance.

3. Investments and disinvestments

Investments and disinvestments will generally be made using the growth portfolio, in a manner which brings the actual asset allocation closer to the strategic asset allocation.

Collateral management on the LGIM LDI funds

The Plan invests in LGIM’s Matching Core Funds which are pooled LDI funds that provide interest rate and inflation protection. In order to manage the amount of leverage within the funds, LGIM will inform the Trustee of the amount of any required cash collateral call or payout.

In the event of a cash collateral call (requiring the Trustee to top-up the Plan’s investment in the LDI funds), LGIM will automatically disinvest from the Sterling Liquidity Fund. If there are insufficient holdings within

this fund, the remainder of the assets required will be surrendered from the Global Equity Market Weights (30:70) Index Fund – 75% GBP Hedged.

In the event that cash collateral payouts are made from the LDI funds, LGIM will automatically pay these amounts directly into the Plan's LGIM Sterling Liquidity Fund. The Trustee will then consider on a case by case basis whether to invest these amounts or to retain them for benefit payment purposes.

Appendix 2 Financially material considerations, non-financially material considerations, the exercise of voting rights and engagement activities

Policy on financially material considerations

The Trustee believes that Environmental, Social and Governance (“ESG”) factors (including but not limited to climate change) are financially material – that is, they have the potential to impact the value of the Plans investments over the period until the Plan can buy-out all benefits which may be up to 5 years away. The Trustee appreciates that the method of incorporating ESG in the investment strategy and process will differ between asset classes.

The Trustee has elected to invest the Plan’s assets through pooled funds. The choice of underlying funds is made by the Trustee after taking advice from their investment consultant, Barnett Waddingham. The Trustee, and the managers of the underlying funds, takes into account ESG factors (including climate change risks) in their decisions in relation to the selection, retention and realisation of investments.

The Trustee takes those factors into account in the selection, retention and realisation of investments as follows:

Selection of investments: assess the investment managers’ ESG integration credentials and capabilities, including stewardship, as a routine part of requests for information/proposals as well as through other regular reporting channels.

Retention of investments: Developing a robust monitoring process in order to monitor ESG considerations on an ongoing basis by regularly seeking information on the responsible investing policies and practices of the investment managers.

Realisation of investments: The Trustee will request information from investment managers about how ESG considerations are taken into account in decisions to realise investments.

The Trustee will also take those factors into account as part of its investment process to determine a strategic asset allocation, and consider them as part of ongoing reviews of the Plan’s investments.

The Trustee will continue to monitor and assess ESG factors, and risks and opportunities arising from them, as follows:

- The Trustee will obtain regular training on ESG considerations in order to understand fully how ESG factors including climate change could impact the Plan and its investments;
- As part of ongoing monitoring of the Plan’s investment managers, the Trustee will use any ESG ratings information available within the pensions industry or provided by its investment consultant, to assess how the Plan’s investment managers take account of ESG issues; and
- Through their investment consultant the Trustee will request that all of the Plan’s investment managers provide information about their ESG policies, and details of how they integrate ESG into their investment processes on an annual basis.

A summary of the Trustee's views for each asset class in which the Plan invests is outlined below.

Passive Equities - The Trustee believes that ESG issues will be financially material to the risk-adjusted returns achieved by the Plan's passive equities. The Trustee accepts that fund managers must invest in line with the specified index and, therefore, will not be able to disinvest if they have concerns relating to ESG. The Trustee therefore requires that the fund manager takes into account ESG considerations by engaging with companies and by exercising voting rights. However, the process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

Diversified Growth Funds - The Trustee believes that ESG issues will be financially material to the risk-adjusted returns achieved by the Plan's diversified growth fund managers over the Trustee's intended time horizon for the investment in question. The investment process for any diversified growth fund manager should take ESG into account when selecting holdings. The Trustee also supports engagement activities and, where relevant, the exercise of rights attaching to the investments by the Plan's diversified growth fund manager. However, the process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

Multi Asset Credit - The Trustee believes that ESG issues will be financially material to the risk-adjusted returns achieved by the Plan's multi asset credit manager. The investment process for each multi asset credit manager should take ESG into account when selecting holdings. The Trustee also supports engagement activities, although it appreciates that fixed income assets do not typically provide voting rights. The process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

Liability Driven Investment - The Trustee believes that ESG issues are not financially material to the risk-adjusted returns achieved by the Plan's Liability Driven Investment strategy, given its sole purpose is to provide a hedge against the Plan's exposure to movements in nominal interest rates and inflation.

Policy on the exercise of voting rights

The Trustee's policy on the exercise of rights attaching to investments, including voting rights, and in undertaking engagement activities in respect of the investments is that these rights should be exercised by the investment managers on the Trustee's behalf. In doing so, the Trustee expects that the investment managers will use their influence as major institutional investors to exercise the Trustee's rights and duties as shareholders, including where appropriate engaging with underlying investee companies to promote good corporate governance, accountability and to understand how those companies take account of ESG issues in their businesses.

The Trustee will monitor and engage with the investment managers about relevant matters (including matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance), through the Plan's investment consultant.

Investment managers will be asked to provide details of their stewardship policy and engagement activities on at least an annual basis. The Trustee will, with input from their investment consultant, monitor and review the information provided by the investment managers. Where possible and appropriate, the Trustee will engage with their investment managers for more information and ask them to confirm that their policies comply with the principles set out in the Financial Reporting Council's UK Stewardship Code.

Policy on engagement activities

The Trustee acknowledges the importance of ESG and climate risk within their investment framework. When delegating investment decision making to their investment managers they provide their investment managers with a benchmark they expect the investment managers to either follow or outperform. The investment manager has discretion over where in an investee company's capital structure it invests (subject to the restrictions of the mandate), whether directly or as an asset within a pooled fund.

The Trustee is of the belief that ESG and climate risk considerations extend over the entirety of a company's corporate structure and activities, i.e. that they apply to equity, credit and property instruments or holdings. The Trustee also recognises that ESG and climate related issues are constantly evolving and along with them so too are the products available within the investment management industry to help manage these risks.

The Trustee considers it to be a part of their investment managers' roles to assess and monitor developments in the capital structure for each of the companies in which the managers invest on behalf of the Plan or as part of the pooled fund in which the Plan holds units.

The Trustee also consider it to be part of their investment managers' roles to assess and monitor how the companies in which they are investing are managing developments in ESG related issues, and in particular climate risk, across the relevant parts of the capital structure for each of the companies in which the managers invest on behalf of the Plan.

Should an investment manager be failing in these respects, this should be captured in the Plan's regular performance monitoring.

The Plan's investment managers are granted full discretion over whether or not to invest in the Principal Employer's business. Through their consultation with the Principal Employer when setting this Statement of Investment Principles, the Trustee has made the Principal Employer aware of their policy on ESG and climate related risks, how they intend to manage them and the importance that the pensions industry as a whole, and its regulators, place on them.

The Plan's investment consultant is independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes the Trustee confident that the investment manager recommendations they make are free from conflict of interest.

The Trustee expects all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so the Trustee believes they have managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustee/investment manager and the investee companies.

In selecting and reviewing their investment managers, where appropriate, the Trustee will consider investment managers' policies on engagement and how these policies have been implemented.

Policy for taking into account non-financial matters

When constructing the investment strategy and selecting investment managers the Trustee does not prioritise non-financial matters. Based on the size and maturity of the Plan, the Trustee has adopted a passive approach to their investments, utilising pooled investment vehicles, which mean that it is less practical and efficient (from a return and cost perspective) to take account of such non-financial matters.

Appendix 3 Policy on arrangements with asset managers

Incentivising alignment with the Trustee's investment policies

Prior to appointing an investment manager, the Trustee discusses the investment manager's approach to the management of ESG and climate related risks with the Plan's investment consultant, and how their policies are aligned with the Trustee's own investment beliefs.

When appointing an investment manager, in addition to considering the investment manager's investment philosophy, process and policies to establish how the manager intends to make the required investment returns, the Trustee also considers how ESG and climate risk are integrated into these. If the Trustee deems any aspect of these policies to be out of line with their own investment objectives for the part of the portfolio being considered, they will consider using another manager for the mandate.

The Trustee carries out a strategy review at least every three years where they assess the continuing relevance of the strategy in the context of the Plan's membership and their aims, beliefs and constraints. The Trustee monitors the investment managers' approach to ESG and climate related risks on an annual basis.

In the event that an investment manager ceases to meet the Trustee's desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment will be terminated. The investment managers have been informed of this by the Trustee.

Investment manager ESG policies are reviewed in the context of best industry practice and feedback will be provided to the investment manager.

Incentivising assessments based on medium to long term, financial and non-financial considerations

The Trustee is mindful that the impact of ESG and climate change has a long-term nature. However, the Trustee recognises that the potential for change in value as a result of ESG and climate risk may occur over a much shorter term than climate change itself. The Trustee acknowledges this in their investment management arrangements.

When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustee assesses these over a rolling timeframe. The Trustee believes the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon. Where a fund may have an absolute return or shorter term target, this is generally supplementary to a longer term performance target. In the case of assets that are actively managed, the Trustee expects this longer term performance target to be sufficient to ensure an appropriate alignment of interests.

The Trustee expects investment managers to be voting and engaging on behalf of the Plan's holdings and the Plan monitors this activity within the Implementation Statement in the Plan's Annual Report and Accounts. The Trustee does not expect ESG considerations to be disregarded by the investment managers in an effort to achieve any short term targets.

Method and time horizon for assessing performance

The Trustee monitors the performance of their investment managers over medium to long term periods that are consistent with the Trustee's investment aims, beliefs and constraints.

The Plan invests exclusively in pooled funds. The investment manager is remunerated by the Trustee based on the assets they manage on behalf of the Trustee. As the funds grow, due to successful investment by the investment manager, they receive more and as values fall they receive less.

The Trustee believes that this fee structure, including the balance between any fixed and performance related element, enables the investment manager to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.

The Trustee asks the Plan's investment consultant to assess if the asset management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered regularly as part of the review of the Statement of Investment Principles.

Portfolio turnover costs

The Trustee acknowledges that portfolio turnover costs can impact on the performance of their investments. Overall performance is assessed throughout the year during the investment consultant's investment monitoring process.

During the investment manager appointment process, the Trustee may consider both past and anticipated portfolio turnover levels. When underperformance is identified, deviations from the expected level of turnover may be investigated with the investment manager concerned if it is felt they may have been a significant contributor to the underperformance. Assessments reflect the market conditions and peer group practices. The Trustee acknowledges that for some asset classes, such as LDI, a higher turnover of contracts such as repurchase agreements, can be beneficial to the fund from both a risk and cost perspective.

Duration of arrangement with asset manager

For the open-ended pooled funds in which the Plan invests, there are no predetermined terms of agreement with the investment managers.

The suitability of the Plan's asset allocation and its ongoing alignment with the Trustee's investment beliefs is assessed every three years, or when changes deem it appropriate to do so more frequently. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.