

# Thornton & Ross Limited 1978 Pension & Life Assurance Scheme

**Statement of Investment Principles**

December 2023

# Statement of Investment Principles

The Trustee of Thornton & Ross Limited 1978 Pension & Life Assurance Scheme ("the Scheme") has prepared this Statement of Investment Principles ("the SIP") in accordance with the Pensions Act 1995<sup>1</sup> ("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 Trustee in respect of assets covering Defined Benefit liabilities and 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 Trustee has:

- 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 Trustee sets the investment strategy and investment policies for the Scheme.

The Trustee has considered the Scheme's liabilities and strength of Employer covenant when setting the investment strategy and policies.

The Trustee relies on Investment Managers for the day-to-day management of the Scheme's assets but retains control over all decisions made about the investments in which the Scheme invests.

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

The Trustee relies on the Investment Managers to appoint appropriate Custodians for pooled funds who are responsible for the safekeeping of the assets of the Scheme.

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

<sup>1</sup> As amended 31<sup>st</sup> March 2019

## Investment objective and strategy

### Investment objective

The Trustee has set the following objectives:

- To set an investment strategy that adheres to the Scheme's Statement of Funding Principles such that the expected future investment returns will at least meet the rate of return underlying the Schedule of Contributions and Recovery Plan.
- To achieve 100% hedging against changes in the estimated buy-out liabilities caused by interest and inflation changes.
- To acquire suitable assets to achieve the above objectives whilst controlling the volatility of the funding position and long-term costs of the Scheme.
- To adhere to the provisions contained within this SIP.

### Investment strategy

The Trustee intends to meet the investment objective by investing in a diversified portfolio of return-seeking and liability-matching assets.

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

- Assets or funds primarily utilised to match liability risk (typically movements in long term interest rates and inflation) including gilts, swaps and repos and the use of derivatives and leverage.
- Assets or funds primarily used to outperform the liabilities over the long term including equity, private markets, hedge funds, commodities, currency, bonds and other forms of credit, property, infrastructure and insurance including the use of derivatives and leverage. Illiquid assets can be used where a higher return or lower risk is expected.
- Assets or funds primarily used to provide immediate liquidity such as cash or cash instruments.
- Assets or funds that combine liability outperformance, liability hedging or liquidity characteristics including the use of derivatives and leverage.
- Annuity or insurance policies designed to match the specific characteristics of the Scheme's liabilities or membership.

The actual strategy adopted for the Scheme, including the allocation to different assets, and expected returns is set out in the Appendix.

### Investment restrictions

The Trustee intends 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 Managers in line with their overall investment objectives, policies and procedures.

## Investment risk

The Trustee has identified a number of risks including (but not limited to):

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

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

- The Trustee has set an investment strategy that adheres to the contents of this SIP.
- The Trustee receives 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 Trustee undertakes regular monitoring of the Scheme's investments supplemented by information provided by both the Investment Managers and Investment Consultant, as well as advice from the latter.
- The Trustee periodically assesses the strength of the Employer covenant and uses external expertise where appropriate.
- The Trustee delegates the day-to-day management of some of these risks to the appointed Investment Managers.
- The Trustee considers the Investment Managers' role and approach to managing risk is considered when selecting appropriate Investment Managers.
- The Trustee utilises custodian relationships to ensure Scheme assets are held securely.
- The Trustee assesses whether appropriate controls are put in place by themselves, the Investment Consultant, Investment Managers and Custodians (where there is a direct relationship).

## Realising investments

The Trustee recognises that assets may need to be realised to meet Scheme obligations at any time.

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

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

## Range of assets

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

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

Investment Managers are incentivised to perform in line with expectations for their specific mandate as their continued involvement as Investment Managers as part of the Scheme's investment strategy – and hence the fees they receive – are dependent upon them doing so. They are therefore subject to performance monitoring and reviews based on a number of factors linked to the Trustee's expectations.

The Trustee encourages Investment Managers to make decisions in the long-term interests of the Scheme. The Trustee expects engagement with management of the underlying issuers of debt or equity and the exercising of voting rights. This expectation is based on the belief that such engagement can be expected to help Investment Managers to mitigate risk and improve long term returns. As covered in more detail in the responsible investment section, the Trustee also requires the Investment Managers to take ESG factors and climate change risks into consideration within their decision-making, as the Trustee believes these factors could have a material financial impact in the long-term. The Trustee therefore makes decisions about the retention of Investment Managers, accordingly.

## Investment Manager Arrangements

### Review process

Appointments of Investment Managers are expected to be long-term, but the Trustee will review the appointment of the Investment Managers in accordance with their responsibilities.

The Trustee receives regular performance monitoring updates from the Investment Consultant which consider performance over various periods. In addition, any significant changes relating to the ratings criteria that the Investment Consultant is aware of will be highlighted, which may lead to a change in the Investment Consultant's rating for a particular mandate. These ratings help to determine an Investment Manager's ongoing role in implementing the investment strategy. If there are concerns, the Trustee may carry out a more in-depth review of a particular Investment Manager. Investment Managers will also attend Trustee meetings as requested.

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

### Portfolio turnover

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

## Responsible investment

In order to ensure sufficient oversight of the engagement and voting practices of their managers, the Trustee may periodically meet with their investment managers to discuss engagement which has taken place. The Trustee will also expect their investment adviser to engage with the managers from time to time as needed and report back to the Trustee on the stewardship credentials of their managers. The Trustee will then discuss the findings with the investment adviser, in the context of their own preferences, where relevant. This will include considering whether the manager is a signatory to the UK Stewardship Code. The Trustee recognise the Code as an indication of a manager's compliance with best practice stewardship standards.

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

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

As the Scheme invests in pooled funds, the Trustee acknowledges that it cannot directly influence the policies and practices of the companies in which the pooled funds invest. The Trustee has therefore delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the Investment Managers and encourages them to engage with the investee companies and vote whenever it is practical to do so on financially material matters including those deemed to include a material ESG and/or climate change risk in relation to those investments.

The Trustee requires the Investment Managers to report on significant votes made on behalf of the Trustee.

If the Trustee becomes aware of an Investment Manager engaging with the underlying issuers of debt or equity in ways that it deems inadequate or that the results of such engagement are mis-aligned with the Trustee's expectation, then the Trustee may consider terminating the relationship with that Investment Manager.

When considering the selection, retention or realisation of investments, the Trustee has a fiduciary responsibility to act in the best interests of the beneficiaries of the Scheme, although they have neither sought nor taken into account the beneficiaries' views on the risk including (but not limited to) ethical, social and environmental impact.

Signed on behalf of the Trustee:

Signature: 

Name: Mark Evans

Date: 18 December 2023



Thi Bang Hoang

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## Appendix – Investment strategy

### Overall strategy

The current target allocation to growth and matching assets is set out in the table below:

Asset class	Weighting
Growth	28%
Matching	72%

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

Asset class	Manager and fund	Objective	Strategic allocation	Expected return (above gilts pa)	AMC (pa)
Multi-Asset	Legal & General Retirement Income Multi-Asset Fund	UK base rates +3.5% pa (gross of fees).	14%	3.7%	0.35%
Credit	Legal & General Absolute Return Bond Fund	3- month Sterling SONIA+ 1.5% per annum on a three-year rolling basis (gross of fees).	14%	2.0%	0.35%
LDI	Legal & General Leveraged Gilt Funds	Maximise returns by investing mainly in index linked securities issued predominantly by the UK Government	36%	-0.1%	0.24%
Buy & Maintain Credit	Legal & General Buy & Maintain Credit Funds	Provide credit risk exposure through investing principally in a globally diversified portfolio of non-government good credit quality bonds	36%	1.6%	0.15%
			100%	1.3%*	0.24%

\*Return expectations quoted above are best estimates for long-term returns and reflect assumptions used by XPS as at 31 December 2022 (to reflect the assumptions used when the proposed strategy was agreed).

AMC = Annual Management Charges

Trading spreads and transaction costs for changing funds will be communicated as part of the formal advice when considering any strategic changes.

### Liability hedging

This matching portfolio comprises the credit and LDI funds and is designed to achieve liability hedging of:

- 100% of the interest rate risk, as a proportion of the Scheme's total liabilities, as assessed against the current buyout basis.

- 100% of the inflation risk as a proportion of the Scheme's total liabilities, as assessed against the current buyout basis.

## Rebalancing investments

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

## Realising investments

Where assets need to be realised, the Trustee will consult with the Investment Consultant regarding the source and timing of disinvestments. It is envisaged that disinvestments will be sourced from the return-seeking assets held i.e. the passive equities and multi-asset funds.

## AVCs

The Trustee has made the following AVC investment options available to members of the Scheme:


- Clerical Medical
- Utmost Life and Pensions

The Trustee will review the AVC providers, 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 Trustee is 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.

The Trustee considers that, in making a number of funds available, they provide these members with sufficient options to meet their reasonable expectations and to mitigate the risks faced.





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