

Family Action Pension Scheme

Statement of Investment Principles – September 2020

Introduction

The Trustee of the Family Action Pension Scheme (“the Scheme”) has drawn up this Statement of Investment Principles (“the Statement”) to comply with the requirements of the Pensions Act 1995, the Pensions Act 2004, the Occupational Pension Schemes (Investment) Regulations 2005, and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2018 and 2019. The Statement is intended to affirm the investment principles that govern decisions about the Scheme’s investments. In preparing this Statement the Trustee has consulted the Employer on the Trustee’s investment principles.

The Scheme includes a DB (Defined Benefit) Section and a DC (Defined Contribution) Section. The DC Section was set up in 2011 but only two members ever joined. DC contributions ended in 2015 and all assets are currently invested within the Legal & General Multi-Asset Fund.

Governance

The Trustee makes all major strategic decisions including, but not limited to, the Scheme’s asset allocation and the appointment and termination of investment managers. The process for making investment decisions is as follows:

- Identify appropriate investment objectives
- Agree the level of risk consistent with meeting the objectives
- Implement an investment strategy and investment manager structure in line with the level of risk and objectives agreed

When making such decisions, and when appropriate, the Trustee takes proper advice. The Trustee’s investment consultants, Capita, are qualified by their ability in and practical experience of financial matters, and have the appropriate knowledge and experience to provide such advice.

Defined Contribution Section

Investment Objectives

The Trustee recognises that their ultimate objective is to best ensure that members of the Scheme are able to retire on a reasonable level of pension taking into account the contributions paid into their individual accounts and the timescale over which those contributions were paid.

Investment Strategy

The Trustee will offer a sufficient fund range to satisfy the risk and return combinations reasonable for most members.

To this end, the Trustee has in place a range of investment options that they believe will allow members to strike appropriate balances between long term needs for capital growth and shorter term volatility of returns, especially in the period approaching retirement.

The Trustee has designed a Lifestyle investment option. The Lifestyle investment option is an automated switch facility allowing members to pre-select an investment strategy, which will move their accrued funds into lower risk investments as retirement approaches.

The 10 year Lifestyle option will be used as the default option that member's contributions will be applied. The default is used in the event that a member fails to positively make an investment decision.

Investment Mandates

The Trustee has appointed Legal & General Investment Management (the "Investment Manager") to manage the Defined Contribution assets of the Scheme. The Investment Manager is regulated under the Financial Services and Markets Act 2000. All decisions about the day-to-day management of the assets have been delegated to the Investment Manager via a written agreement, including the realisation of investments.

The details of the Defined Contribution investment arrangements are set out in Appendix I.

Risk Management and Measurement

The Trustee is aware of and pay close attention to a range of risks inherent in investing the assets of the Scheme. The Trustee believes that the investment options offered to members provide for adequate choice and diversification both within and across different asset classes.

- The Trustee recognises the risks that may arise from the lack of diversification of investments. Due to the size of the Scheme's assets and recognising the need to diversify, investment exposure is obtained via a pooled vehicle.
- The documents governing the Investment Manager's appointment include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme.
- The Trustee recognises that the use of active management involves a risk that the assets do not achieve the expected return. For this reason and to reduce management costs investments are passive except for the Cash fund which is actively managed.
- The safe custody of the Scheme's assets is delegated to professional custodians via the use of pooled vehicle.

Should there be a material change in the Scheme's circumstances, the Trustee will review whether the current risk profile remains appropriate.

Corporate Governance

The Trustee wishes to encourage best practice in terms of activism. The Trustee accepts that by using pooled investment vehicle the day-to-day application of voting rights will be carried out by the investment manager. Consequently, the Trustee expects the Scheme's investment managers to adopt a voting policy that is in accordance with best industry practice

Defined Benefit Section

Investment Objectives

The Trustee is required to invest the Scheme's assets in the best interest of members, and their main objectives with regard to investment policy are:

- To achieve, over the long term, a return on the Scheme's assets which is consistent with the assumptions made by the Scheme Actuary in determining the funding of the Scheme;
- To ensure that sufficiently liquid assets are available to meet benefit payments as they fall due; and
- To consider the interests of the Employer in relation to the size and volatility of the Employer's contribution requirements.

The Trustee understands, following discussions with the Employer, that they are willing to accept a degree of volatility in the company's contribution requirements in order to reduce the long-term cost of the Scheme's benefits.

In practice any change in contribution would be done following discussions and agreement between the Trustee and Employer as and when required.

Risk Management and Measurement

The Trustee is aware of and pays close attention to a range of risks inherent in investing the assets of the Scheme. The Trustee believes that the investment strategy provides for adequate diversification both within and across different asset classes. The Trustee further believes that the current investment strategy is appropriate given the Scheme's liability profile. The Trustee's policy on risk management is as follows:

- The primary investment risk faced by the Scheme arises as a result of a mismatch between the Scheme's assets and its liabilities. This is therefore the Trustee's principal focus in setting investment strategy, taking into account the nature and duration of the Scheme's liabilities.
- The Trustee recognises that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's liabilities as well as producing more short-term volatility in the Scheme's funding position. The Trustee has taken advice on the matter and (in light of the objectives noted previously) considered the implications of adopting different levels of risk.
- The Trustee recognises the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustee aims to ensure the asset allocation strategy in place results in an adequately diversified portfolio. Due to the size of the Scheme's assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles.
- The documents governing the managers' appointment include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme.
- The Trustee recognises that, where appropriate, the use of active management involves a risk that the assets do not achieve the expected return. However, they believe this risk is outweighed by the potential gains from successful active management, in particular in regions or asset classes where this potential is

greater than others. Therefore, the Scheme's assets are managed through a mixture of active and passive management which may be adjusted from time to time.

- The safe custody of the Scheme's assets is delegated to professional custodians via the use of pooled vehicles.

Should there be a material change in the Scheme's circumstances, the Trustee will review whether the current risk profile remains appropriate.

Investment Strategy

Given their investment objectives the Trustee has agreed to the asset allocation detailed in the table below. The Trustee believes that the investment risk arising from the investment strategy is consistent with the overall level of risk being targeted.

Asset Class	Strategic Asset Allocation (%)	Control Limits % + / -
Diversified Growth Fund 1	30.0	5
Diversified Growth Fund 2	30.0	5
Property	10.0	10
Absolute Return Bonds	7.0	3.5
Growth Assets	77.0	10
Liability Driven Investment (LDI) Real	9.25	5
Liability Driven Investment (LDI) Nominal	13.75	5
Risk Reducing Assets	23.0	10
Total:	100.0	

DGF 1: Insight's Broad Opportunities Fund; DGF 2: LGIM's Diversified Fund

The Trustee will monitor the Scheme's actual asset allocation at least quarterly and subject to stated Control Limits, will decide on a course of action. This may involve redirecting cash flows, a switch of assets, or taking no action. The Trustee will take into account advice from the investment consultant prior to making any decision. Further details on investment funds and control ranges can be found in the Appendix.

Any cashflows would be made in accordance with the strategic asset allocation.

Managing LDI collateral calls

In the event that the LDI funds need to make cash calls in order to decrease the leverage (may occur when interest rates rise) in the Scheme or release money to increase leverage (this may occur when interest rates fall) LGIM's Diversified Fund will be used.

Further details on the investment funds can be found in the Appendix.

Expected Return

The Trustee expects the return on assets to be consistent with the investment objectives and investment strategy outlined above.

The Trustee recognises that over the short term performance may deviate significantly from long term returns. Any expectation of long term investment performance will generally be higher than the estimate used for the actuarial valuation of the Scheme's liabilities. For this purpose a more prudent estimate of returns will generally be used, as agreed by the Trustee on the basis of advice from the Scheme Actuary.

Platform Provider

The Trustee has appointed Legal & General Investment Management ("the Platform Provider") to administer all of the assets of the Scheme. The Platform Provider is regulated under the Financial Services and Markets Act 2000. All decisions about the day-to-day management of the assets have been delegated to the Platform Provider via a written agreement, including the realisation of investments.

Investment Mandates

The Trustee has selected Insight Investment ("Insight"), BNY Mellon Investment Management Limited ("BNY Mellon"), and Legal & General Investment Management Ltd ("LGIM"), as the appointed Investment Managers ("the Investment Managers") to manage the assets of the Scheme via a single policy with the Platform Provider. The Investment Managers are themselves regulated under the Financial Services and Markets Act 2000.

The Trustee has rolling contracts with their Investment Managers.

The Trustee monitors the performance of their Investment Managers on a quarterly basis. This monitoring is contained in a report provided by their advisor.

The Trustee has set performance objectives, including time periods, consistent with the investment strategy set out in this statement.

Investment Manager Remuneration

The Trustee monitors the remuneration, including incentives, that is paid to their Investment Managers and how they reward their key staff who manage client funds, along with how the pay and incentives motivate employees who manage client funds.

As part of the monitoring that the Trustee carries out on a regular basis, they should ensure that this policy is line with their investment strategy.

Investment Manager Philosophy and Engagement

The Trustee monitors the Investment Managers' processes for assessing the businesses they invest in, and whether business performance over the medium to long-term involves a holistic look beyond purely accountancy measures. The Trustee considers if the Investment Managers are incentivised to make decisions on a short-term basis or on a medium to long-term basis and whether this coincides with the business assessments. The Trustee is conscious of whether the Investment Managers are incentivised by the agreement with the Trustee to engage with the investee business and to what extent any engagement focuses on improving medium to long-term performance.

Investment Manager Portfolio Costs

The Trustee will monitor costs of buying, selling, lending and borrowing investments and they will look to monitor the costs breakdown annually, as long as the Investment Managers provides these costs using the Cost Transparency Initiative template. They will also ensure that, where appropriate, their Investment Manager monitors the frequency of transactions and portfolio turnover. If there are any targets then they will monitor compliance with these targets.

Compliance with Myners' Principles

In October 2008 the Government published the results of its consultation on revisions to the Myners' principles in response to recommendations made by the National Association of Pension Funds (NAPF) in 2007. This takes the form of six higher-level principles, supported by best practice guidance and trustee tools that can be used to assess compliance:

- Principle 1: Effective decision making
- Principle 2: Clear objectives
- Principle 3: Risk and liabilities
- Principle 4: Performance measurement
- Principle 5: Responsible ownership
- Principle 6: Transparency and Reporting

The Trustee believes that they comply with the spirit of the Myners' Principles. There may be some instances of deviation from the published 'Best Practice Guidance' on the Principles where the Trustee believes this to be justified.

Both Sections

Financially material considerations over the Scheme's time horizon

The Trustee believes that their main duty, reflected in their investment objectives, is to protect the financial interests of the Scheme's members. The Trustee believes that Environmental, Social and Governance ("ESG") considerations (including but not limited to climate change) and stewardship in the selection, retention and realisation of their investments is an integral part of this duty and can contribute to the generation of good investment returns. Legislation requires that the Trustee forms a view of the length of time that they consider is needed for the funding of future benefits by the investments of the Scheme. The Trustee recognises that this is a DB scheme closed to accrual with an ageing membership and a DC Section with two deferred members. Nevertheless, the Trustee has formed the view that the appropriate time horizon of this scheme is expected to be over 15 years, which gives plenty of scope for ESG considerations to be financially material.

The Trustee has elected to invest in pooled funds and cannot, therefore, directly influence the ESG policies, including the day-to-day application of voting rights, of the funds in which they invest. However, the Trustee will consider these policies in all future selections and will seek to deepen their understanding of their existing managers' policies by reviewing these at least annually. In cases where they are dissatisfied with a manager's approach they will take this into account when reviewing them. They are also keen that all their managers are signatories of the UN Principles of Responsible Investment, which is currently the case.

The Trustee believes that stewardship is important, through the exercising of rights (including voting rights) attaching to investments. The Trustee is keen that their managers can explain when, and by what practical methods, the managers monitor and engage with relevant persons about relevant matters in this area. They will be liaising with their managers (including their passive managers) to obtain details of the voting behaviour (including the most significant votes cast on the Trustee's behalf). The Trustee is also keen that their managers are signatories of the UK Stewardship Code, this is currently the case.

The Trustee is aware that ESG and stewardship considerations involve an ongoing process of education for themselves and engagement with their investment managers. To that end they dedicate time regularly to the discussion of this topic and intend to review and renew their approach periodically with the help of their investment consultants, where required. Consequently, the Trustee expects the Scheme's Investment Managers to have effective ESG policies (including the application of voting rights) in place and look to discuss the investment managers' ESG policies with them when the managers attend Trustee meetings.

The Trustee will monitor the voting being carried out by Investment Managers and custodians on their behalf. They will do this by receiving reports from their Investment Managers which should include details of any significant votes cast and proxy services that have been used.

Non-financial matters, including members' views are currently not taken into account.

Employer-Related Investments

The Trustee's policy is not to hold any direct employer-related investments as defined in the Pensions Act 1995, the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005.

Fee Structures

The Platform Provider is paid a management fee on the basis of assets under management which includes the underlying investment manager's management fees. The Investment Consultant is paid a fixed fee basis for providing services agreed in the 2012 contract. The Investment Consultant may also undertake projects outside of the contract which may be undertaken on a fee agreed with the Trustee.

Review of this Statement

The Trustee will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustee reasonably believes 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.

Signed by the Trustee of the Family Action Pension Scheme on 25 September 2020.

Appendix 1 – Defined Contribution Investment Arrangements

Lifestyle Fund

The Family Action Default Strategy invests in a single fund during the accumulation period of the Default Lifestyle Strategy, with monies being gradually switched to alternative funds with the aim of both reducing risk whilst also targeting an annuity or pension benefit outcome at retirement. The accumulation period spans the time between when members join the Scheme up until 10 years from their normal retirement date when the protection period then starts.

Accumulation Period

During the accumulation period, fund is invested as follows:

Asset Class	Investment Manager	Fund Name	Active /Passive Management
Multi-Asset	LGIM	Multi-Asset (formerly Consensus) Fund	Passive

The primary objective during the accumulation period is to maximise returns over the long term at an acceptable level of risk.

The fund will invest in a range of assets which may include equities, bonds, cash and listed infrastructure, private equity and global real estate companies. Exposure to each asset class will primarily be through investing in passively managed funds. The fund is expected to have a level of risk which is equivalent to two thirds of the volatility of a global equity portfolio, over the long-term.

Protection Period

During the protection period (the 10 years leading up to normal retirement date), assets are gradually switched to bonds and cash, such that at the normal retirement date 25% of the member's assets are held in cash with the remaining 75% in bonds. At the normal retirement date, assets will be allocated to the following funds:

Fund	Asset Class	Allocation
LGIM Pre-Retirement Fund	Bonds	75.0%
LGIM Cash Fund	Cash	25.0%
Total		100.00%

The Family Action Default Strategy invests in the above fund and has been designed to meet the perceived needs and characteristics of the majority of members.

The above funds have yet to be created by LGIM for the Scheme's DC Section.

Self-Selected Funds

The self-select funds are made available to members who want to control the decision on which individual funds to invest in over time. You cannot combine the self-select funds with the lifestyle fund. However you can create your own version of a lifestyle fund by using other combinations to those shown above.

Funds currently available on a self-select basis include:

Global Equity Fixed Weights 50:50 Index Currency Hedged Fund

Global Equity Ethical Fund

Multi-Asset Fund

Pre-Retirement Fund

Cash Fund

All funds are managed by Legal & General Investment Management (LGIM). As 100% of the assets held within the Scheme's DC Section are currently invested within the Multi-Asset Fund (one member on a self-select basis and the other member as the Multi-Asset Fund forms the growth phase of the default investment strategy), the additional funds outlined have yet to be created by LGIM for the Scheme's DC Section.

Appendix 2 – Defined Benefit Investment Arrangements

The Trustee has appointed the following Investment Managers to manage the assets of the Scheme. The Investment Managers are regulated under the Financial Services and Markets Act 2000. Their mandates are set out below:

Asset Class	Investment Manager	Fund Name	Active / Passive Management	Strategic Allocation %	Control Limits %
Growth Assets				77.0	+/-10.0
Diversified Growth Fund	Insight	Broad Opportunities Fund	Active	30.0	+/-5
Diversified Growth Fund	LGIM	Diversified Fund	Passive/Active	30.0	+/-5
Property	LGIM	Managed Property	Active	10.0	+/-10
Absolute Return Bonds	BNY Mellon	Global Dynamic Bond Fund	Active	7.0	+/-3.5
Matching Assets				23.0	+/-10.0
LDI Real	LGIM	Matching Core Real Long Fund	Passive with a yield maximisation overlay	9.25	+/-5
LDI Nominal	LGIM	Matching Core Fixed Long Fund		13.75	+/-5
Total				100.0	