

Family Action Pension Scheme

Statement of Investment Principles – February 2024

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. This Statement replaces all previous Statements.

Whilst the Trustee is solely responsible for the Scheme’s investment strategy, the Trustee has consulted Family Action (the “Employer”) on both the investment decisions taken by the Trustee and this Statement’s content.

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 its investment decisions and reviewing this Statement, the Trustee obtained and considered the written advice of Cartwright Benefit Solutions Limited, whom the Trustee reasonably believes to be qualified by its ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of the investments of such schemes. Cartwright Benefit Solutions Limited is also authorised under the Financial Services and Markets Act 2000 to provide investment advice to the Trustee.

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 it believes 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 its 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 it is 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 the investment risk taken by the Scheme is underwritten by the Employer because, should investment returns not be achieved as expected over the longer-term, the Employer will ultimately be required to increase its contributions to enable all beneficiaries to be paid in full. The Trustee regularly monitors the Employer's covenant and considers the level of the Scheme's investment risk in light of the strength of the Employer's covenant.
- 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' appointments 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, it believes 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 Trustee recognises that a certain level of liquidity is required within the investment strategy in order to supplement any cash held in the Trustee's bank account and Employer contributions to pay beneficiaries. Some asset classes can be relatively illiquid and/or volatile, creating disinvestment delays or crystallising potentially short-term investment losses. The Trustee regularly reviews the Scheme's income and outgo in the context of the overall liquidity of the invested assets (ie this allows a proportion of the Scheme's assets to be relatively illiquid if deemed appropriate). The Trustee also has an investment/disinvestment cash flow policy (see 'Managing scheme cashflow' on page 6) to help to ensure beneficiaries are paid as and when their benefits fall due. The selection, retention, and realisation of investments within each investment fund is delegated to the relevant investment manager.

- The Trustee recognises that derivatives tend to involve leverage to magnify the exposure to certain financial instruments. All the derivatives used by the Scheme either contribute to the reduction of risk or are used for efficient portfolio management. The diversified derivative counter-party exposure and the collateralisation process are delegated to, and kept under regular review by, each investment manager.
- 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 its 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 (%)
Dynamic Diversified Growth Fund 1	25.0
Unconstrained Fixed Income Fund 1	14.5
Unconstrained Fixed Income Fund 2	14.5
Growth Assets	54.0
Liability Driven Investment (LDI) Equity Linked Real	25.0
Liability Driven Investment (LDI) Credit Linked Real	10.0
Liability Driven Investment (LDI) Nominal	11.0
Risk Reducing Assets	46.0
Total:	100.0

DDGF 1: BNY Mellon Real Return Fund

UFIF 1: BNY Mellon Global Dynamic Bond Fund; UFIF 2: TwentyFour Absolute Return Credit Fund

The Trustee regularly reviews the performance of the investment strategy, including: the performance of the Scheme's assets against the Scheme's liabilities, the actual asset allocation against the strategic asset allocation, each investment fund's performance against its benchmark index and the investment/disinvestment cash flow policy.

The Trustee requires investment managers to report on the turnover of securities within invested portfolios and on the associated transaction costs, in order to assess whether such activity, and changes in it, appears reasonable, taking account of the nature of the fund concerned.

The Trustee will formally review and obtain written investment advice on the suitability of the investment strategy at least every three years in line with the timing of each triennial actuarial valuation. These reviews will include the ongoing suitability of the retention of the investment funds used.

Certain parts of the investment strategy may be reviewed more frequently if required.

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) the BNY Mellon Global Dynamic Bond Fund and TwentyFour Absolute Return Credit Fund will be used in equal amounts. The exception is the CT Equity-Linked Real Dynamic LDI Fund, for which cash flows for leverage rebalancing events will be invested in or taken from the BNY Mellon Real Return Fund.

Managing scheme cashflow

Any cash flows for investment/disinvestment (excluding LDI collateral calls) will be directed towards and taken from the BNY Mellon Global Dynamic Bond Fund and TwentyFour Absolute Return Credit Fund in equal amounts.

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 Mobius Life Limited ("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 BNY Mellon Investment Management Limited ("BNY Mellon"), TwentyFour Asset Management ("TwentyFour") and Columbia Threadneedle Investments ("CT"), 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 monitors the performance of the 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 it will look to monitor the costs breakdown annually, as long as the Investment Managers provide these costs using the Cost Transparency Initiative template. They will also ensure that, where appropriate, their Investment Managers monitor the frequency of transactions and portfolio turnover. If there are any targets then it 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 it complies 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 its main duty, reflected in its 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 it considers 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 it invests. 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 it is dissatisfied with a manager's approach it will take this into account when reviewing them. It is also keen that all its 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 its managers can explain when, and by what practical methods, the managers monitor and engage with relevant persons (including the issuers of debt or equity held within their pooled funds, the investment managers of other funds held within their pooled funds and other stakeholders) about relevant matters such as their performance, strategy, risks, capital structure and management of any actual or potential conflicts of interest. It will be liaising with its managers (including its 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 its managers are signatories of the UK Stewardship Code, which is currently the case.

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

The Trustee will monitor the voting being carried out by Investment Managers and custodians on its behalf. It will do this by receiving reports from its 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 on a time-cost, fixed fee or other basis, as agreed from time-to-time between the Trustee and the Investment Consultant.

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 on behalf of the Trustee of the Family Action Pension Scheme

Helen Frisby

Trustee Director

Independent Trustee Services (part of the Independent Governance Group)

Date: 27 March 2024

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	Management style	Strategic Allocation %
Growth Assets				54.0
Dynamic Diversified Growth Fund	BNY Mellon	Real Return Fund	Active	25.0
Absolute Return Bonds	BNY Mellon	Global Dynamic Bond Fund	Active	14.5
	TwentyFour	Absolute Return Credit Fund	Active	14.5
Matching Assets				46.0
LDI Equity Linked Real	CT	Equity Linked Real Dynamic LDI Fund	Mechanistic	25.0
LDI Credit Linked Real	CT	Credit Linked Real Dynamic LDI Fund	Mechanistic	10.0
LDI Nominal	CT	Nominal Dynamic LDI Fund	Mechanistic	11.0
Total				100.0

The Equity Linked Real Dynamic LDI Fund provides protection against changes in both longer-term interest rates and longer-term inflation expectations, whilst also providing synthetic exposure to global equity markets via exchange traded futures. The Credit Linked Real Dynamic LDI Fund provides protection against changes in both longer-term interest rates and longer-term inflation expectations, whilst also providing synthetic exposure to credit spreads via credit default swaps. The Nominal Dynamic LDI Fund provides protection against changes in longer-

term interest rates only. It has been estimated that around 70% of the Scheme's liabilities are sensitive to changes in longer-term inflation expectations.

The LDI fund employs leverage (ie the level of protection provided against changes in longer-term interest rate/inflation expectations is greater than the amount invested). Should the leverage within the LDI fund deviate substantially from the target leverage level, CT will rebalance the LDI fund back to the target leverage level. These LDI leverage rebalancing events could result in money being requested for, or released from, the LDI fund. The Trustee has established a default investment/disinvestment cash flow policy for these LDI leverage rebalancing events (see 'Managing LDI collateral calls' section).

A hedge ratio is a measure of the level of protection the Scheme has against changes in longer-term interest rates/inflation expectations. Both of these risks originate from the nature of the Scheme's liabilities. For example, with an interest rate hedge ratio of 40%, if a fall in longer term interest rates results in a £10m increase in the liability value, then the protection assets are expected to rise by £4m to compensate (within practical constraints and ignoring some potential residual basis risks). This simplified example assumes financial market conditions are otherwise stable (for example, no change in equity markets). In practice, due to other risk factors, the overall asset value may rise by more or less than stated (or fall).

The target interest rate and inflation hedge ratio, relative to the Scheme's Technical Provisions, is to hedge up to the funded liability (i.e. the level of the Scheme's assets), which is currently c. 52%, which is broadly in line with the funding ratio at the implementation date of the current investment strategy. The Trustee has introduced LDI tolerance levels to monitor the target hedge ratios, whereby the LDI allocations will be reviewed should the target hedge ratios move by more than +/- 10% (e.g. as at 31 July 2023, below 42% or above 62%). This will be monitored via the quarterly investment reports.

The strategic asset allocations to LDI are likely to fluctuate over time, possibly significantly, due to the combination of changes in financial market conditions and the leverage within the funds. Crucially, it is the hedge ratios that drive the size of the LDI allocations, not the other way around, as the LDI allocations are whatever is needed to achieve the desired hedge ratios.

The management style of the LDI fund is described as "mechanistic" because whilst the LDI fund actively switches between different gilts/swaps according to an algorithm as the relative yield differences change, the investment manager maintains the same hedge ratio and is not actively taking views on the future direction of markets. The equity exposure is achieved through equity futures.

The Trustee may (in accordance with the Trust Deed and Rules) purchase an annuity or assurance contract to fund any benefits payable under the Scheme.