

The Fluid Transfer International Retirement Benefits Scheme Defined Benefit Section

Statement of Investment Principles

1 Background

Purpose of Statement	This Statement sets out the principles governing decisions relating to the investment of the assets of the Defined Benefit Section (the DB Section) of the Fluid Transfer International Retirement Benefits Scheme (the Scheme).
Nature of Scheme	The Scheme is set up under trust and registered with HM Revenue and Customs (HMRC). The Scheme has a separate Defined Benefit Section and Defined Contribution Section. This statement relates to the Defined Benefit Section, and a separate statement has been prepared for the Defined Contribution Section.
Compliance with Legislation	This Statement has been prepared to meet the requirements of Section 35 of the Pensions Act 1995, Section 244 of the Pensions Act 2004, the Occupational Pension Scheme (Investment) Regulations 2005, and the Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018, and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.
Availability to Members	A copy of this Statement will be made available to DB Section members on request to the Trustees of the Scheme.
Investment Advice	<p>The Trustees have obtained and considered professional advice on the content of this Statement from BBS Consultants & Actuaries Ltd (BBS), their appointed investment adviser. BBS has confirmed to the Trustees that it has the appropriate knowledge and experience to give the advice required under legislation.</p> <p>The Trustees will thereafter obtain such advice as they consider appropriate and necessary whenever they intend to review or revise this Statement.</p>
Consultation with the Principal Employer	<p>The Trustees have consulted the Principal Employer, Sturrock and Robson (UK) Limited, when setting their investment objectives and strategy, and in the preparation of this Statement.</p> <p>Responsibility for maintaining the Statement and determining the DB Section's investment strategy rests solely with the Trustees.</p>
Investment Powers	The Trustees' investment powers are set out in Rule 39 of the Rules of the Scheme adopted 9 November 1999, as amended. The rules imply that the Scheme's assets need to be primarily invested in policies issued by 'Recognised Insurance Companies'.

2 Investment Objectives

Strength of Employer Covenant	<p>In determining their investment objectives and strategy, the Trustees have considered the strength of the Principal Employer's willingness and ability to support the Scheme. They have determined that it is reasonable to take a long-term view in determining their investment objectives and strategy.</p>
Key Funding Measure	<p>The Scheme is subject to the Statutory Funding Objective (SFO) introduced by the Pensions Act 2004, i.e. that it should have sufficient and appropriate assets to cover its Technical Provisions, as calculated in accordance with the Trustees' Statement of Funding Principles.</p> <p>In determining their investment objectives and strategy, the Trustees have agreed that the funding position measured under the SFO is the assessment of scheme funding that is of most importance to the Trustees, the Principal Employer and members, as it determines the DB Section's funding requirements.</p>
Investment Objectives	<p>The Trustees' investment objectives are as follows:</p> <ul style="list-style-type: none">• To ensure that the assets are of a nature to enable the Trustees to meet the DB Section's liabilities as they fall due.• To invest the DB Section's assets in an appropriately diverse and liquid range of investments.• To invest in a way that is consistent with the DB Section's funding objectives, i.e. to invest such that the investment return assumptions used to determine the Trustees' funding plan of the Scheme have a reasonable chance of being achieved in practice.• In doing so, to initially target a level of downside risk for the DB Section's growth assets equivalent to around 50% of that associated with developed market equities.• To target a level of protection against the interest rate risk and inflation risk associated with the DB Section's funded Technical Provisions of 100%.• Where future opportunities arise to increase protection against liability-related risks in such a way that it does not invalidate the funding plan, the Trustees will consider steps to further reduce the volatility of the DB Section's funding position relative to its liability calculated under the SFO.
Paying Regard to the Principal Employer's Views	<p>The Trustees will have regard to the Principal Employer's interests in relation to the size, incidence and volatility of its contribution payments; as well as the Principal Employer's views on the potential costs and risks associated with the investment objectives set and their implementation through the practical strategy.</p>

3 Principles for Setting the Investment Strategy

Selection of Investments

The Trustees may select investments from a wide range of asset classes from time to time, including, but not restricted to, UK equities, overseas equities, government bonds, corporate bonds, commercial property and alternative asset classes, such as hedge funds, private equity and infrastructure.

The investments selected will generally be traded on regulated markets and, where this is not the case, any such investments will be kept to a prudent level.

The Trustees may invest in products that use derivatives where this is for the purpose of risk management or to improve the efficiency of the management of the DB Section's investments.

The Trustees may hold insurance policies such as deferred or immediate annuities which provide income to the DB Section, matching part or all of the future liabilities due from it.

The Trustees may hold a working cash balance for the purpose of meeting benefit payments due to members and the expenses of running the Scheme.

Balance of Investments

The Trustees will set a Target Asset Allocation from time to time, determined with the intention of meeting their investment objectives.

The Target Asset Allocation will be set taking account of the characteristics of different asset classes available and will be reviewed in light of any changes to the Trustees' view of the Principal Employer's covenant, the nature of the DB Section's liabilities or relevant regulations governing pension scheme investment.

Delegation to Investment Managers

The Trustees will delegate the day-to-day management of the DB Section's assets to professional Investment Managers and will not be involved in the buying or selling of investments.

Realising Investments

The Trustees make disinvestments from the Investment Manager with the assistance of their administrators, BBS, as necessary, to meet the DB Section's cashflow requirements.

4 Setting the Strategy

Overall Asset Allocation

The Target Asset Allocation is as follows:

Asset Class	Target Asset Allocation	Asset Allocation Range
Global equities	30%	25.0% - 35.0%
Emerging market equities	10%	7.5% - 12.5%
Risk-controlled multi-asset	20%	15.0% - 25.0%
Absolute return bonds	5%	0.0% - 15.0%
Liability Driven Investment (LDI) funds	35%	25.0% - 45.0%
Total	100%	

The balance between the absolute return bonds and LDI funds will vary with market conditions and will be maintained to target the agreed hedging ratios against changes in the long-term interest rates and inflation expectations.

The ranges provided for the Target Asset Allocation illustrate a reasonable range of the allocations between that might be expected in the normal course of events.

Investment Managers

The Trustees entered into a contract with Mobius Life Limited (Mobius Life) in March 2012. Mobius Life Limited provides a platform for the DB Section to invest and have contracts with the underlying Investment Managers. Legal & General Investment Management (LGIM), Vontobel Asset Management (Vontobel) and JP Morgan & Co (JPM). The underlying managers undertake day-to-day investment management of the DB Section's invested assets.

Mobius Life Limited, and the underlying Investment Managers, are authorised and regulated by the Financial Conduct Authority (FCA) under the Financial Services and Markets Act 2000.

Strategies Used

The Trustees are currently deciding the funds to be used to implement the investment strategy.

Target Asset Allocation (excluding LDI)

For the funds which do not form part of the LDI allocation, the target asset allocation for the invested assets of the DB Section is as follows:

Fund	Target Asset Allocation
Global equities	46.2%
Emerging market equities	15.4%
Risk-controlled multi-asset	30.7%
Absolute return bonds	7.7%
Total (excluding LDI allocation)	100.0%

Target Hedging Ratios

The target hedging ratios against the interest rate risk and inflation risk associated with the Scheme's funded Technical Provisions, are given below:

Liability Driven Investment funds	Target Hedging Ratio
Interest rate risk	100%
Inflation risk	100%

Maintaining the Target Asset Allocation and Target Hedging Ratios

The Trustees have responsibility for maintaining the overall balance of the asset allocation relative to the Target Asset Allocation and the Target Hedging Ratios. The Trustees monitor the asset allocation with the assistance of their adviser, BBS, and will consider changing the holdings as necessary.

Employer Related Investment

Neither the Trustees nor the Investment Managers directly hold any employer-related investments.

Additional Voluntary Contributions (AVCs)

The Scheme has AVCs within the Defined Contribution Section.

5 Expected Returns and Risks

Overall Return Target The Trustees' objective is for the DB Section's assets to produce a return in excess of the growth in the value of its liabilities calculated under the SFO.

The Trustees expect the assets to produce a return in excess of the growth in the value of the funded Technical Provision of between 0.35% per annum and 2.65% per annum over the medium to longer term, depending on the level of prudence adopted in assessing future expected returns.

Expected Returns Over the long term, the Trustees' expectations are to achieve the following rates of return from the asset classes they make use of:

Asset class	Expected return
Equities	In excess of UK price inflation, as measured by the Retail Prices Index, and in excess of the yield currently available on long-dated gilts.
Risk-controlled multi-asset	Similar to the return on global equities over a full economic cycle, but with significantly lower volatility.
Absolute return bonds	In excess of the return expected on cash with low levels of return volatility.
LDI funds	In line with the sensitivity of the Scheme's Technical Provisions to changes in interest rates and inflation expectations, allowing for the target level of hedging specified by the Trustees from time to time.

Consideration of Risks The Trustees have considered the various risks that the DB Section faces, including market risk, interest rate risk, inflation risk, default risk, concentration risk, manager risk and currency risk, and consider that their Investment Objectives and Target Asset Allocation strike a reasonable balance between risk mitigation and seeking an appropriate level of return, taking account of their assessment of the Principal Employer's covenant strength and the long-term nature of the Scheme.

Risk Relative to the Value of the Defined Benefit Section's Key Funding Measure The Target Asset Allocation has been determined with due regard to the characteristics of the DB Section's Technical Provisions.

The calculation of the Technical Provisions uses assumptions for future investment returns and price inflation expectations that are based upon market values of financial securities such as fixed interest and index-linked government bonds. This means that the Technical Provisions are sensitive to changes in the price of these assets as market conditions vary, and can have a volatile value.

The Trustees accept that their investment strategy may result in volatility in the Scheme's funding position. Furthermore, the Trustees also accept that there is a risk that the assets will not achieve the rates of investment return assumed in the calculation of the DB Section's Technical Provisions.

Concentration of Risk and Diversification	<p>To reduce the risk of concentration within the portfolio, the Trustees will monitor the overall mix of asset classes and stocks in the investment strategy with their investment adviser, BBS.</p> <p>The Trustees invest in a wide range of asset classes through the funds and strategies they use and consider the DB Section’s strategy to be well diversified.</p>
Manager Controls and Custodianship	<p>The day-to-day activities that the Investment Managers carry out for the Trustees are subject to regular internal reviews and external audits by independent auditors to ensure that operating procedures and risk controls remain appropriate.</p> <p>Safe-keeping of the DB Section’s assets held with the Investment Managers are performed by custodians appointed by them.</p>
Manager Security	<p>The Trustees have considered the financial security of the DB Section’s holdings with Mobius Life and the underlying Investment Managers, together with their statuses as regulated firms, and consider the associated protection offered to be reasonable and appropriate.</p>
Monitoring and Management of Risks	<p>The Trustees will monitor the investment and funding risks faced by the DB Section with the assistance of their investment advisers and the Scheme Actuary at least every three years. The Trustees will consider the appropriateness of implementing additional risk mitigation strategies as part of such reviews.</p> <p>In addition, the Trustees will review wider operational risks as part of maintaining their risk register.</p>

6 Responsible Investing, Governance and Engagement

Financially Material Considerations Related to Environmental, Social and Governance Considerations	<p>The Trustees recognise that Environmental, Social and Governance (ESG) issues can and will have a material impact on the companies, governments and other organisations that issue or otherwise support the assets in which the DB Section invests. In turn, ESG issues can be expected to have a material financial impact on the returns provided by those assets. The Trustees delegate responsibility for day-to-day decisions on the selection of investments to the Investment Managers. The Trustees have an expectation that the Investment Managers will consider ESG issues in selecting investments, or will otherwise engage with the issuers of the DB Section’s underlying holdings on such matters in a way that is expected to improve the long-term return on the associated assets.</p> <p>The Trustees do not currently impose any specific restrictions on the Investment Managers with regard to ESG issues, but will review this position from time to time. The Trustees receive information from the Investment Managers on their approach to selecting investments and engaging with issuers with reference to ESG issues.</p> <p>With regard to the specific risk to the performance of the DB Section’s investments associated with the impact of climate change, the Trustees take the view that this falls within their general approach to ESG issues. The Trustees regard the potential impact of climate change on the DB Section’s assets as a longer term risk and likely to be less material in the context of the short to medium term development of the DB Section’s funding position than other risks. The Trustees will continue to monitor market developments in this area in conjunction with its investment adviser.</p>
Views of Members and Beneficiaries	<p>The DB Section is comprised of a diverse membership, expected to hold a broad range of views on ethical, political, social, environmental, and quality of life issues. The Trustees therefore do not explicitly seek to reflect any specific views through the implementation of the investment strategy.</p>
Engagement and Voting Rights	<p>Responsibility for engagement with the issuers of the DB Section’s underlying investment holdings and the use of voting rights is delegated to the Investment Managers. The Trustees can therefore only influence engagement and voting policy indirectly.</p> <p>Mobius Life provides, on request, information to the Trustees on the actions of the underlying Investment Managers in relation to engagement and use of voting rights.</p>
Capital Structure of Investee Companies	<p>Responsibility for monitoring the make up and development of the capital structure of investee companies is delegated to the Investment Managers. The Trustees expect the extent to which the Investment Managers monitor capital structure to be appropriate to the nature of the mandate.</p>

Conflicts of Interest	<p>The Trustees maintain a separate conflicts of interest policy and register.</p> <p>Subject to reasonable levels of materiality, these documents record any actual or potential conflicts of interest in relation to investee companies or the Investment Managers, while also setting out a process for their management.</p>
Incentivisation of Investment Managers	<p>Mobius Life and the underlying Investment Managers are primarily remunerated based on an agreed fixed annual percentage of the asset value for each underlying fund.</p> <p>The Trustees do not directly incentivise the Investment Managers to align the approach they adopt for a particular fund with the Trustees' policies and objectives. Instead, the Investment Managers and the funds are selected so that, in aggregate, the returns produced are expected to meet the Trustees' objectives.</p> <p>Neither do the Trustees directly incentivise the Investment Managers to make decisions about the medium to long-term performance of an issuer of debt or equity, or to engage with those issues to improve their performance. The Trustees expect such assessment of performance and engagement to be undertaken as appropriate and necessary to meet the investment objectives of the funds used by the DB Section.</p>

7 Review and Monitoring

Frequency of Review	The Trustees will review this Statement at least every three years or if there is a significant change in the DB Section's circumstances or the regulations that govern pension scheme investment.
Monitoring the Investment Strategy and Managers	<p>The Trustees employ BBS to assist them in monitoring the performance of the DB Section's investment strategy and Investment Managers.</p> <p>The Trustees receive quarterly reports from Mobius Life to review their investment performance and processes.</p> <p>The Trustees and BBS will monitor the Investment Managers' performance against their stated performance objectives.</p> <p>The appropriateness of Mobius Life and the underlying Investment Managers' remuneration will be assessed relative to market costs for similar strategies, the skill and resources required to manage the strategy, and the success or otherwise a manager has had in meeting its objectives, both financial and non-financial.</p>
Portfolio Turnover Costs	<p>The Trustees expect the Investment Managers to change underlying holdings only to an extent required to meet their investment objectives. The reasonableness of such turnover will vary by fund and change according to market conditions.</p> <p>The Trustees therefore do not set a specific portfolio turnover target for their strategy or the underlying funds.</p> <p>Mobius Life provides information on portfolio turnover and associated costs to the Trustees so that this can be monitored, as appropriate.</p>
Review of Investment Managers	The Trustees will consider on a regular basis whether or not Mobius Life and the underlying Investment Managers remain appropriate to continue to manage the DB Section's investments.
Information from Investment Managers	Mobius Life will supply the Trustees with sufficient information each quarter to enable them to monitor financial and non-financial performance.

Signed



Name

MARK G HOWLER

Date

30-09-2019

On behalf of the Trustees of the Fluid Transfer International Retirement Benefits Scheme