

The Fluid Transfer International Retirement Benefits Scheme Defined Contribution 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 Contribution Section (the DC 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 Defined Benefit Section and Defined Contribution Section. This statement relates to the Defined Contribution Section, and a separate statement has been prepared for the Defined Benefit 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, 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 DC 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, as well as from previous advisers. The Trustees' advisers have confirmed to the Trustees that they have the appropriate knowledge and experience to give the advice required under legislation.</p> <p>The Trustees will 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 the Scheme's investment options, and in the preparation of this Statement.</p> <p>Responsibility for maintaining the Statement and deciding on investment policy 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

Investment Objectives

The Trustees' investment objectives, in relation to the DC Section, are as follows:

Investment options provided to members

The Trustees' objective is to provide members with access to a suitable range of funds that provide an appropriate range of expected risk and returns. The Trustees recognise that members are exposed to different risks at different stages of their working lifetimes and the investment policy aims to address the following risks:

- Investment Return Risk – the risk that a member is not invested in those asset classes that are expected to generate the highest returns over the long-term;
- Annuity Rate Risk – the risk that, when close to retirement, a member has not invested the part of their fund that might be used to purchase a pension in asset classes which protect against annuity rate movements;
- Lump Sum Risk – the risk that when close to retirement, a member has invested the part of their fund that might be used to provide a tax-free lump sum in those asset classes which are subject to volatility in capital-value terms; and
- Market Switching Risk – the risk that if there is to be switching between investment vehicles, a large investment switch is made a one time, thereby unnecessarily exposing members to unfavourable market pricing.

The range of funds should also offer value for money to members, have clear objectives that can be easily communicated and be sufficiently limited to avoid the risk of confusion from excessive choice.

Members who do not make their own choices

Where members do not make any investment choices, the Trustees will provide a default investment approach with the following objectives:

- To generate investment growth in excess of price inflation over the long-term;
- To reduce the potential variability of returns as members approach retirement; and
- As members approach retirement, to reduce uncertainty in the level of cash at retirement and post-retirement income that will be paid to members.

3 Principles for Setting the Investment Strategy

Investments that may be used in the DC Section

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

The investments used 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 offer options that make use of derivatives where this is for the purpose of risk or efficient portfolio management.

The Trustees may hold insurance policies, such as immediate and deferred annuities.

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.

Selection of Funds for use by Members

Investment decisions regarding the fund choices to be made available to members are taken by the Trustees based on advice, and taking into account the views of the Principal Employer.

In selecting funds to offer to members of the DC Section, the Trustees will consider the investment objectives, expected returns, risks and other relevant characteristics of each fund.

The Trustees regularly review the suitability of the fund options provided and, from time to time, may change investment managers or introduce additional investment options as appropriate.

Delegation to Investment Managers

The Trustees will delegate the day-to-day management of the assets to professional investment managers and are not involved in the buying or selling of investments.

Arranging Investment Transactions

The Trustees will invest, disinvest and transfer members' investments with the assistance of the Scheme's administrator, BBS.

4 The Investment Strategy

Investment Managers The Trustees entered into a contract with Royal London Mutual Insurance Society Limited (Royal London) in September 2002 to manage the DC Section's investments.

The day-to-day investment management of the Section's assets is carried out by Royal London.

Royal London is authorised and regulated by the Financial Conduct Authority (FCA) under the Financial Services and Markets Act 2000.

Investment Options The Trustees have made the following Royal London Pensions (RLP) pooled funds available for members to invest in and use them in constructing the default investment approach used for members who do not make an investment choice.

| Asset Class | Underlying Fund |
|----------------|-------------------------|
| UK Equities | RLP UK Equity Fund |
| Multi-asset | RLP Managed Fund |
| Fixed Interest | RLP Fixed Interest Fund |
| Cash | RLP Deposit Fund |

Investment Fees The investment management charges for each of the funds available to members are set out below.

| Fund Name | TER (p.a.) |
|-------------------------|------------|
| RLP UK Equity Fund | 1.0% |
| RLP Managed Fund | 1.0% |
| RLP Fixed Interest Fund | 1.0% |
| RLP Deposit Fund | 1.0% |

Benchmarks and Performance Objectives The benchmarks and performance objectives for each of the funds available for members to invest in are given below:

| Fund name | Benchmark | Performance objective |
|-------------------------|--|--|
| RLP UK Equity Fund | FTSE All Share Index | To outperform the benchmark |
| RLP Managed Fund | Composite benchmark made up of a number of equity, property, commodity, bond and cash indices. | To maximise real returns over a ten year period* |
| RLP Fixed Interest Fund | FTSE A British Govt All Stocks Index | To outperform the benchmark |
| RLP Deposit Fund | LIBID GBP 7 Day Index | To outperform the benchmark |

*Note the RLP Managed Fund's objective is not related to its benchmark

Default Investment Approach

For members who do not wish to make an investment choice, the Trustees will provide a default investment approach. The broad aim of the default investment approach is to provide investment growth in excess of price inflation for the majority of a typical member's working life before gradually reducing the uncertainty in the level of benefits emerging as a member approaches retirement.

In choosing the default investment approach, the Trustees considered the needs of the members of the DC Section, and took advice from their previous investment advisers. The Royal London Lifestyle Fund has been chosen to target a cash benefit with 25% of the member's accumulated fund at retirement and a fixed interest holding with the remainder of the fund.

Under the default investment approach, a member's accumulated fund will be invested as follows, with phased switches to achieve the following allocations at each period prior to member's normal retirement age:

| Period prior to member's normal retirement age | Investment Default Approach |
|--|---|
| More than 15 years | 100% RLP UK Equity Fund |
| 10 years | 100% RLP Managed Fund |
| 5 years | 80% RLP Managed Fund 15% RLP Fixed Interest Fund 5% RLP Deposit Fund |
| 4 years | 60% RLP Managed Fund 30% RLP Fixed Interest Fund 10% RLP Deposit Fund |
| 3 years | 40% RLP Managed Fund 45% RLP Fixed Interest Fund 15% RLP Deposit Fund |
| 2 years | 20% RLP Managed Fund 60% RLP Fixed Interest Fund 20% RLP Deposit Fund |
| At normal retirement age | 75% RLP Fixed Interest Fund 25% RLP Deposit Fund |

Employer Related Investment

Neither the Trustees nor the investment manager directly hold any employer related investments, as defined by Section 40 of the Pensions Act 1995.

Additional Voluntary Contributions (AVCs)

The Trustees historically put in place arrangements for members to invest AVCs into any of the investment options available under the DC Section. There are also separate AVCs held with Equitable Life Assurance Company.

5 Expected Returns and Risks

Expected Returns

Over the long-term, the Trustees' expectations are as follows:

| Asset class | Expected return |
|----------------------|---|
| UK 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. |
| Multi-asset | Similar to the return on a diversified portfolio of global equities but subject to less short-term volatility. |
| Fixed Interest bonds | To achieve returns broadly in line with the market yields available on purchase of the underlying government and corporate bonds assuming that they are held to redemption. |
| Cash | Broadly in line with rates of interest available on short-term money market instruments. |

Consideration of Risks

The Trustees have considered the various risks faced by members in determining the default investment approach and in choosing the funds to be offered to members who wish to select their own investments. These include: market risk, interest rate risk, inflation risk, default risk, political risk, manager risk and fraud risk.

The Trustees consider that the default investment approach strikes a reasonable balance between seeking an appropriate level of return for members, whilst suitably mitigating key risks relative to a target benefit of a cash lump sum and annuity at retirement.

The Trustees also consider that the funds offered provide members with an appropriate range of investment approaches that enable them to express their own attitudes to risk and return.

Diversification

The Trustees believe that the default investment approach provides an appropriately diversified strategy over the course of a member's working life-time, whilst the range of investment options offered to members allows them to construct a suitably diversified investment approach, if they decide to select their own investments.

Manager Controls

The day-to-day activities that Royal London carries out for the Trustees are periodically reviewed by the fund manager and its independent auditors to ensure that their internal operating procedures, guidelines and restrictions remain appropriate.

Safe-keeping of assets is performed by external custodians on behalf of Royal London, and the ongoing appointment of the custodians is reviewed by Royal London from time to time.

Manager Security

The Trustees have considered the corporate structure of the Investment Manager and the investment structures of the pooled funds in which members of the DC Section invest in. The Trustees consider that the financial strength of the fund manager and the protection offered to members to be reasonable and appropriate.

**Monitoring
and
Management
of Risks**

The Trustees will monitor the investment faced by the DC Section with the assistance of their investment advisers at least every three years.

In addition, the Trustees will review wider operational risks as part of maintaining their risk register.

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 members invest. In turn, ESG issues can and will have a material financial impact on the returns provided by those assets.</p> <p>The Trustees delegate responsibility for day-to-day decisions on the selection of investments to the Investment Manager. The Trustees have an expectation that the Investment Manager will consider ESG issues in selecting investments, or will otherwise engage with the issuers of the underlying holdings of the DC Section on such matters in a way that is expected to improve the long-term return on its assets.</p> <p>The Trustees do not currently impose any specific restrictions on the Investment Manager with regard to ESG issues, but will review this position from time to time. The Trustees receive regular information from the Investment Manager on its approach to selecting investments and engaging with issuers with reference to ESG issues.</p> <p>With regard to the specific risk to performance of the investments of the DC Section associated with the impact of climate change, the Trustees take the view that this falls within their general approach to ESG issues. The Trustees will continue to monitor market developments in this area in conjunction with their adviser.</p> |
| Views of Members and Beneficiaries | <p>The DC 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 underlying funds used by members.</p> |
| Engagement and Voting Rights | <p>Responsibility for engagement with the issuers of the underlying investment holdings, including the use of voting rights, is delegated to the Investment Manager. The Trustees can therefore only indirectly influence engagement and voting policy.</p> <p>The Investment Manager provides information to the Trustees on its actions in relation to engagement and use of voting rights. The Trustees are therefore aware of the policies adopted by the Investment Manager.</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 Manager. The Trustees expect the extent to which the Investment Manager monitors these capital structures to be appropriate to the nature of the mandate.</p> |

Conflicts of Interest

The Trustees maintain a separate conflicts of interest policy and register.

Subject to reasonable levels of materiality, these documents record any actual or potential conflicts of interest in relation to investee companies or the Investment Manager, while also setting out a process for their management.

Incentivisation of Investment Managers

The Investment Manager is remunerated based on an agreed fixed annual percentage of the asset value for each underlying fund.

Neither the Trustees nor the members directly incentivise the Investment Manager to align the approach it adopts for a particular fund with the policies and objectives of the Trustees and/or members. Instead, the Investment Manager is selected so that the returns produced are expected to meet the investment objectives of members.

Neither do the Trustees or members directly incentivise the Investment Manager 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 members' investment objectives.

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 DC Section's circumstances of the regulations that govern pension scheme investment.

Monitoring the Investment Strategy and Manager The Trustees employ BBS to assist in monitoring Royal London, and to help review the investment options and default investment approach.

The Trustees receive reports from Royal London, and meets with its representatives to review investment performance and processes.

The Trustees will monitor Royal London's performance against their stated performance objectives.

The appropriateness of the Investment Manager's remuneration will be assessed relative to market costs for similar strategies, the skill and resources required to manage the default and fund options, and the success or otherwise a manager has had in meeting its objectives, both financial and non-financial.

Portfolio Turnover Costs The Trustees expect the Investment Manager to change underlying holdings only to an extent required to meet its investment objectives. The reasonableness of such turnover will vary by fund and change according to market conditions.

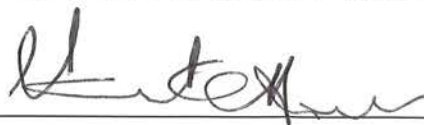
The Trustees therefore do not set a specific portfolio turnover target for the underlying funds used by members.

The Investment Manager can provide information on portfolio turnover and associated costs to the Trustees so that this can be monitored, as appropriate.

Review of Investment Manager The Trustees will consider on a regular basis whether or not Royal London has the appropriate knowledge, philosophy, experience and processes to continue to manage the investments on behalf of members.

Information from Investment Manager Royal London will supply the Trustees with sufficient information to enable the Trustees and their advisers to monitor the financial and non-financial performance of the underlying funds used by members.

Signed



Name

Mark C. Howard

Date

30 - 9 - 2019

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