# J Barbour & Sons 2015 Limited Pension Scheme

## Statement of Investment Principles ("SIP")

### Purpose of this Statement

This SIP has been prepared by the Trustees of the J Barbour & Sons 2015 Limited Pension Scheme (the "Scheme"). This statement sets out the principles governing the Trustees' decisions to invest the assets of the Scheme.

The Scheme's investment objectives and strategy were derived from the Trustees' Investment Beliefs, set out in Appendix A. The beliefs have been taken into account at all stages of planning, implementation and monitoring of the investment strategy.

The Trustees have also taken the Myners' Principles into consideration when making decisions about the Scheme's investment arrangements.

Details on the Scheme's investment arrangements are set out in the Investment Implementation Document ("IID").

### Investment objectives

The Trustees invest the assets of the Scheme with the aim of ensuring that all members' accrued benefits can be paid. The Scheme's funding target is specified in the Statement of Funding Principles. The Scheme funding position will be reviewed on an ongoing basis to assess the position relative to the funding target and whether the investment arrangements remain appropriate to the Scheme's circumstances.

The Scheme's investment objective is to achieve a return of around 0.8% per annum above the return on UK Government bonds.

### Investment strategy

The Scheme's investment strategy was derived following careful consideration of the nature and duration of the Scheme's liabilities, the risks of investing in the various asset classes, the implications of the strategy (under various scenarios) for the level of contributions required to fund the Scheme, and also the strength of the sponsoring company's covenant. The Trustees considered the merits of a range of asset classes, including various "alternative assets".

The Trustees recognise that the investment strategy is subject to risk, in particular the risk of a mismatch between the performance of the assets and the calculated value of the liabilities. This risk is monitored by regularly assessing the funding position and the characteristics of the assets and liabilities. The risk is managed by investing in assets which are expected to perform in excess of the liabilities over the long term, and also by investing in a suitably diversified portfolio of assets with the aim of minimising (as far as possible) volatility relative to the liabilities.

The Trustees have also considered a number of other risks set out in Appendix B.

The assets of the Scheme consist predominantly of investments which are traded on regulated markets.

**Investment Management Arrangements**

The investments are made through a platform provider. With advice, the Trustees will select underlying funds from the platform to implement the chosen strategy. The platform provider will be responsible for:

- Investing in the chosen underlying funds in the proportions agreed by the Trustees, adjusted as necessary from time to time;
- Providing the Trustees with quarterly performance reports and asset valuations;
- Providing any initial asset transition plan for the investment consultant to review; and
- Asset rebalancing and meeting cashflow requirements, when required.

The Trustees have selected several funds on the platform in which to invest the underlying assets of the Scheme as listed in the IID. The investment managers and platform provider are 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 managers via the platform provider. The delegation includes decisions about:

- Realisation of investments;
- Social, environmental, ethical and governance considerations in selection, retention and realisation of investments;
- The exercise of rights (including voting rights) attaching to the investments.

The Trustees take investment managers' policies into account when selecting and monitoring managers. The Trustees also take into account the performance targets the investment managers are evaluated on. The investment managers are expected to exercise their powers of investment with a view to giving effect to the principles contained within this statement, so far as reasonably practicable.

The platform provider's and investment managers' remuneration is based upon a percentage value of the assets under management. The fees have been negotiated to be competitive and are reviewed on an ongoing basis.

As the Scheme's assets are invested in pooled vehicles, the custody of the holdings is arranged by the underlying investment managers.

**Leverage and collateral management**

The Trustees will adhere to relevant regulatory guidance and requirements in relation to leverage and collateral management within the Scheme's liability hedging (LDI) portfolio.

The Trustees have a stated collateral management policy. The Trustees have agreed a process for meeting collateral calls should these be made by the Scheme's LDI investment manager. The Trustees will review and stress test this policy on a regular basis.

Further details on this can be found in Appendix D.

**Investment Manager Monitoring and Engagement**

The Trustees monitor and engage with the Scheme's investment managers and other stakeholders on a variety of issues. Below is a summary of the areas covered and how the Trustees seek to engage on these matters with investment managers.

| Areas for engagement | Method for monitoring and engagement | Circumstances for additional monitoring and engagement |
|---|---|---|
| Performance,<br><br>Strategy and Risk | • The Trustees receive a quarterly performance report which details information on the underlying investments' performance and strategy, which are considered at the relevant Trustees meeting. | • There are significant changes made to the investment strategy. |
| Environmental, Social, Corporate Governance factors and the exercising of rights | • The Trustees' investment managers provide reports on how they have engaged with issuers regarding social, environmental and corporate governance issues.<br><br>• Where desired or required, the Trustees will engage, via their investment adviser, with investment managers and/or other relevant persons about relevant matters. | • The manager has not acted in accordance with their policies and frameworks.<br><br>• The manager's policies are not in line with the Trustees' informal views in this area. |

Through the engagement described above, the Trustees will work with the platform provider to improve their alignment with the above policies.

**Employer-related investments**

The policy of the Trustees is not to hold any employer-related investments as defined in the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005 except where the Scheme invests in collective investment schemes that may hold employer-related investments. In this case, the total exposure to employer-related investments will not exceed 5% of the Scheme's total value. The Trustees will monitor this on an ongoing basis to ensure compliance.

**Direct investments**

Direct investments, as defined by the Pensions Act 1995, are products purchased without delegation to an investment manager through a written contract. When selecting and reviewing any direct investments, the Trustees will obtain appropriate written advice from their investment advisers.

**Governance**

The Trustees of the Scheme make all major strategic decisions including, but not limited to, the Scheme's asset allocation and the appointment and termination of investment managers and platform providers.

When making such decisions, and when appropriate, the Trustees take proper written advice. The Trustees' investment advisers, Isio, are qualified by their ability in and practical experience of financial matters, and have the appropriate knowledge and experience. The investment adviser's remuneration may be a fixed fee or based on time worked, as negotiated by the Trustees in the interests of obtaining best value for the Scheme.

**Compliance**

This Statement has been prepared in compliance with the Pensions Act 1995, the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005. Before preparing or subsequently revising this Statement, the Trustees consulted the sponsoring company and took appropriate written advice. The Statement is reviewed at least every three years, and without delay after any significant change in the investment arrangements.

**Signed:**

**Signed:**

**Date: …………………………………….**

## Appendix A – Investment Beliefs

### 1. Investment strategy is the most important decision and should be based on clear objectives

Our long term goal is to generate returns required to fund our members' current and future pensions.

Clear objectives are at the heart of our investment strategy. Risk tolerance, return requirement and time frame are our central considerations.

Our strategy should aim to achieve the objectives with a high degree of confidence across a range of possible economic scenarios.

### 2 There's more to robust portfolio construction than diversification alone

Excessive diversification can introduce inefficiency, cost and fail to protect our portfolio in a downturn.

***Pay-off profile of assets:*** We tailor the expected payoff profile of the Scheme's investments around our required objectives.

***Excess liquidity of our Scheme*:** We utilise excess liquidity in order to access any illiquidity premium (when illiquidity is rewarded), taking into consideration known cash flow requirements and the need for flexibility.

***True diversification*:** We optimise true diversification of underlying risk drivers.

### 3 We aim to select the most appropriate opportunities in the market

A strategy that buys the right asset, at a fair price, will serve us better than buying the wrong asset at a cheap price.

We consider the most appropriate potential market opportunities in order to help us achieve our long-term objective.

### 4 A long term mind-set can be used to enhance returns

As a long term investor we pursue incremental growth that rewards adherence to our strategic plan, rather pursuing short term opportunities rewarding speculation.

We will mitigate or manage risks that we are not rewarded for, maintaining a reasonable level of investment risk, with an aim to reduce interest rate and inflation risk through the use of matching assets, hedging derivatives or other suitable investments.

Returns are more predictable over a longer time period, as risk is diversified across different economic cycles.

### 5 Excessive costs will erode performance

An appealing investment opportunity can be wholly undermined by too high a cost base.

Passive management, where viable, is considered the default approach.

Active management is employed where value-add can be expected with confidence.

### 6 Good governance improves our decision making

We continuously strive to enhance our knowledge of the investment opportunities and risks facing our Scheme.

We monitor the performance of our strategy and investment managers to improve our decision making.

### 7 Our investment process reflects our beliefs on responsibly investing.

We consider environmental, social and corporate governance factors when selecting, monitoring and engaging in the investments we make.

**Appendix B – Risks, Financially Material Considerations and Non-Financial matters**

A non-exhaustive list of risks that the Trustees have taken into consideration and sought to manage, where appropriate, is shown below;

The Trustees adopt an integrated risk management approach. The three key risks associated within this framework and how they are managed are stated below:

| **Risks** | **Definition** | **Policy** |
|---|---|---|
| Investment | The risk that the Scheme's position deteriorates due to the assets underperforming. | Selecting an investment objective that is achievable and is consistent with the Scheme's funding basis and the sponsoring company's covenant strength.<br><br>Investing in a diversified portfolio of assets. |
| Funding | The extent to which there are insufficient Scheme assets available to cover ongoing and future liability cash flows. | Funding risk is considered as part of the investment strategy review and the actuarial valuation.<br><br>The Trustees will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time. |
| Covenant | The risk that the sponsoring company becomes unable to continue providing the required financial support to the Scheme. | When developing the Scheme's investment and funding objectives, the Trustees take account of the strength of the covenant ensuring the level of risk the Scheme is exposed to is at an appropriate level for the covenant to support. |

The Scheme is exposed to a number of underlying risks relating to the Scheme's investment strategy, these are summarised below:

| Risk | Definition | Policy |
|---|---|---|
| Interest rates and inflation | The risk of mismatch between the value of the Scheme assets and present value of liabilities from changes in interest rates and inflation expectations. | To hedge c.100% of these risks on a technical provisions basis. |
| Liquidity | Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment. | To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they fall due (including transfer values), and to provide collateral to the LDI mandate. |
| Market | Experiencing losses due to factors that affect the overall performance of the financial markets. | To remain appropriately diversified and hedge away any unrewarded risks, where practicable. |
| Credit | Default on payments due as part of a financial security contract. | To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Scheme for the risk of default. |

| | | |
|---|---|---|
| Environmental, Social and Governance | Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Scheme's investments. | ESG is taken into account as part of Isio's standard due diligence and ongoing research and as such is a consideration in the selection of the Scheme's platform provider and investment managers. |
| Currency | The potential for adverse currency movements to have an impact on the Scheme's investments. | Hedge all currency risk on all assets that deliver a return through contractual income. |
| Non-financial | Any factor that is not expected to have a financial impact on the Scheme's investments. | Non-financial matters are taken into account in the selection, retention or realisation of investments. |

**Appendix C**

The Trustees have the following policies in relation to the investment management arrangements for the Scheme:

| | |
|---|---|
| How the investment managers are incentivised to align their investment strategy and decisions with the Trustees' policies. | As the Scheme is invested in pooled funds through their platform provider, there is no scope for these funds to tailor their strategy and decisions in line with the Trustees policies. However, the Trustees invests in a portfolio of pooled funds that are aligned to the strategic objective. |
| How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term. | The Trustees review the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements.<br><br>The Trustees do not incentivise the investment managers to make decisions based on non-financial performance. |
| How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustees' policies. | The Trustees review the performance of all of the Scheme's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives.<br><br>The Trustees evaluate performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years.<br><br>The platform provider fees are reviewed annually to make sure the correct amounts have been charged and that they remain competitive. |
| The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range. | The Trustees do not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis. |
| The duration of the Scheme's arrangements with the investment managers. | The duration of the arrangements is considered in the context of the type of fund the Scheme invests in.<br><br>For open ended funds, the duration is flexible and the Trustees will from time-to-time consider the appropriateness of these investments and whether they should continue to be held. |
| Voting Policy - How the Trustees expect investment managers to vote on their behalf. | The Trustees have acknowledged responsibility for the voting policies that are implemented by the Scheme's investment managers on their behalf. |
| Engagement Policy - How the Trustees will engage with investment managers, direct assets and others about 'relevant matters'. | The Trustees have acknowledged responsibility for the engagement policies that are implemented by the Scheme's investment managers on their behalf.<br><br>The Trustees, via their investment advisers, will engage with managers about 'relevant matters' at least annually. |
| Cashflow Policy – How routine cashflow requirements should be managed. | A standing instruction has been put in place to disinvest cash to cover monthly payroll requirements.<br><br>The Trustees have also authorised the Pensions Admin team to sign for routine investments and disinvestments on the Trustees' behalf.<br><br>For more material disinvestments, the investment advisers will liaise with the Trustees to provide suitable advice. |

## Appendix D – Collateral Management Framework

The Trustees are targeting a level of collateral over and above that within the Scheme's LDI funds that is sufficient to withstand (at least) one collateral call from each of the Scheme's LDI funds.

The Trustees will review their collateral management policy no less frequently than annually, or as soon as possible in the event of significant market movements.

The Trustees also have a framework for topping up the collateral as outlined below.

| Trigger | Action | Responsibility |
|---|---|---|
| Pooled LDI fund issues collateral call | Holdings sold from collateral assets to meet capital call | The Trustees have instructed Mobius Life to respond to collateral calls on the Trustees' behalf using the specified funds. |

The collateral assets are set out below.

| Asset Class | Dealing frequency | Notice period | Settlement period |
|---|---|---|---|
| Multi-Asset Credit | Daily | T-1 | T+2 |