

# Statement of Investment Principles for the JO Plowright & Co (Holdings) Limited Pension & Assurance Scheme

September 2024

## 1. Introduction

This Statement of Investment Principles ("SIP") sets out the policy of the Trustees of the JO Plowright & Co (Holdings) Limited Pension & Assurance Scheme ("the Trustees") on various matters governing decisions about the investments of the JO Plowright & Co (Holdings) Limited Pension & Assurance Scheme ("the Scheme"), a Defined Benefit ("DB") Scheme. This SIP replaces the previous SIP dated November 2023.

This SIP has been prepared after obtaining and considering written professional advice from LCP, the Scheme's investment adviser, whom the Trustees believe to be suitably qualified and experienced to provide such advice. The advice takes into account the suitability of investments including the need for diversification, given the circumstances of the Scheme, and the principles contained in this SIP. The Trustees have consulted with the relevant employer, Clarkson PLC, in producing this SIP.

The Trustees will review this SIP from time to time and, with the help of their advisers, will amend it as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy and at least once every three years.

- Appendix 1 sets out details of the respective key responsibilities of the Trustees, investment advisers and investment managers. It also contains a description of the basis of remuneration of the investment adviser and the investment managers.
- Appendix 2 sets out the Trustees policy towards risk appetite, capacity, measurement and management.
- Appendix 3 sets out the Scheme's investment manager arrangements.

## 2. Investment objectives

The Trustees' primary objective is to ensure that the Scheme should be able to meet benefit payments as they fall due.

A secondary objective is that the Scheme should be fully funded (ie the asset value should be at least that of its liabilities). The Trustees are aware that there are various measures of funding and have given due weight to those considered most relevant to the Scheme. The Trustees are monitoring the Scheme's funding position relative to reaching full funding on a "gilts + 0.5% pa" basis. In 2018 the Scheme reached that target, and as a result the Trustees and Company agreed to move to a lower risk long-term asset mix.

The Trustees' investment objective is to maximise the return on the Scheme's assets whilst managing and maintaining investment risk at an appropriate level and taking into account the objectives described above.

### 3. Investment strategy

The Trustees with the help of their advisers and in consultation with the employer, reviewed the investment strategy in 2024, taking into account the objectives described in Section 2 above, and agreed that the strategic allocation of the Scheme should be based on the allocation below.

There is currently no further de-risking planned. The table below reflects the long-term strategy asset mix.

Asset class	Strategic allocation
Multi-asset absolute return	15%
Asset-backed securities	15%
Short dated corporate bonds	30%
Liability driven investment (LDI) and money market cash	40%
Total	<u>100%</u>

There is no formal rebalancing policy for the Scheme's overall assets. However, where there are cashflows (eg cash outflow to meet benefit payments) the Trustees will look to trade to move the Scheme closer to the strategic allocation.

The LDI portfolio is designed to hedge the interest rate and inflation movements in the Scheme's liabilities. This is achieved mainly through holding physical bonds and derivatives. The money market cash fund provides collateral to support the derivative investments if required.

### 4. Considerations made in determining the investment arrangements

When deciding how to invest the Scheme's assets, the Trustees consider a number of risks, including, but not limited to, those set out in Appendix 2. Some of these risks are more quantifiable than others, but the Trustees have tried to allow for the relative importance and magnitude of each risk.

The Trustees considered a wide range of asset classes for investment, taking account of the expected returns and key individual risks associated with those asset classes as well as how these risks can be mitigated where appropriate.

In setting the strategy the Trustees also took into account:

- the best interests of members and beneficiaries;
- the circumstances of the Scheme, including the profile of the benefit cash flows, the funding level, and the strength of the employer covenant;
- the risks, rewards and suitability of a number of possible asset classes and investment strategies;
- the need for appropriate diversification between different asset classes to ensure that both the Scheme's overall level of investment risk and balance of individual asset risks are appropriate;
- any other considerations which the Trustees consider financially material over the time horizon that the Trustees consider is needed for the funding of future benefits by the investments of the Scheme (see section 7); and
- the Trustees' investment beliefs about how investment markets work, and which factors are most likely to impact investment outcomes.

**The Trustees' key investment beliefs**, which influenced the setting of the investment arrangements, are as follows:

- asset allocation is the primary driver of long-term returns;
- risk-taking is necessary to achieve return, but not all risks are rewarded;
- equity, credit and illiquidity are the primary rewarded risks;
- risks that do not have an expected reward should generally be avoided, hedged or diversified;
- investment markets are not always efficient and there may be opportunities for good active managers to add value;
- environmental, social and governance (ESG) factors are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors (see section 7);
- climate change is a financially material systemic issue that presents risks and opportunities for the Scheme over the short, medium and long term;
- long-term environmental, social and economic sustainability is one factor that trustees should consider when making investment strategy decisions;
- voting and engagement are important and can create long term value which is in the best interest of Scheme members and therefore we encourage managers to improve their voting and engagement practices; and
- costs have a significant impact on long-term performance and therefore obtaining value for money from the investments is important.

## 5. Implementation of the investment arrangements

Before investing in any manner, the Trustees obtain and consider proper written advice from their investment adviser on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

Details of the investment manager arrangements are set out in Appendix 3.

The Trustees have signed agreements with the investment managers setting out in detail the terms on which the portfolios are to be managed. The investment managers primary role is the day-to-day investment management of the Scheme's investments.

The Trustees and investment managers to whom discretion has been delegated exercise their powers to giving effect to the principles in this Statement of Investment Principles, so far as is reasonably practicable.

The Trustees have limited influence over manager investment practices because all of the Scheme's assets are held in pooled funds, but the Trustees encourage the managers to improve their practices where appropriate.

The Trustees' view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high-quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

It is the Trustees' responsibility to ensure that the managers' investment approaches are consistent with the Trustees' policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustees expects investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. It assesses this when selecting and monitoring managers.

The Trustees evaluate investment manager performance by considering performance over both shorter and longer-term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. Generally, the Trustees would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustees' policy is to evaluate each of its investment managers by reference to the manager's individual performance as well the role it plays in helping the Scheme meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustees recognise that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustees expect their investment advisors to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates.

## **6. Realisation of investments**

The investment managers have discretion over the timing of realisation of investments of the Scheme within the portfolios that they manage, and in considerations relating to the liquidity of investments.

When appropriate, the Trustees, on the administrators' recommendation, decide on the amount of cash required for benefit payments and other outgoings and inform the investment managers of any liquidity requirements. The Trustees' preference is for investments that are readily realisable but recognise that achieving a well-diversified portfolio may mean holding some investments that are less liquid (eg property). In general, the Trustees' policy is to use cash flows to rebalance the Scheme's assets towards the strategic asset allocation, and also receive income from some of the portfolios where appropriate.

## **7. Consideration of financially material and non-financial matters**

The Trustees have considered how ESG factors (including but not limited to climate change) should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Scheme and its members.

The Trustees consider that it is necessary in all circumstances to act in the best financial interests of the beneficiaries. Where this primary consideration is not prejudiced, the Trustees expect that their investment managers generally take account of financially material considerations (including climate change and other ESG considerations). The Trustees seek to appoint managers that have appropriate skills and processes to do this, and from time to time reviews how their managers are taking account of these issues in practice.

The Trustees encourage their managers to improve their ESG practices, although acknowledge that having limited influence over managers' investment practices where assets are held in pooled funds and the parameter of some pooled funds may limit the scope for significant incorporation of ESG factors.

## 8. Stewardship

The Trustees recognise their responsibilities as owners of capital, and believe that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments and is in the best interests of the Scheme's members. The Trustees have delegated to their investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, risks and ESG considerations.

The Trustees do not monitor or engage directly with issuers or other holders of debt or equity. They expect their investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustees from time to time, taking into account the long-term financial interests of the beneficiaries.

The Trustees seek to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and from time to time the Trustees reviews how these are implemented in practice.

**SIP signed for and on behalf of the Trustees of the Scheme:**

Tim Miller

Signed: \_\_\_\_\_

## *Responsibilities, decision-making and fees*

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The Trustees have decided on the following division of responsibilities and decision-making for the Scheme. This division is based upon the Trustees' understanding of the various legal requirements placed upon them, and their view that this division allows for efficient operation of the Scheme overall, with access to an appropriate level of expert advice and service. The Trustees' investment powers are set out within the Scheme's governing documentation.

### **1. Trustees**

In broad terms, the Trustees are responsible in respect of investment matters for:

- setting the investment strategy, in consultation with the employer;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- reviewing the investment policy as part of any review of the investment strategy;
- setting the policy for rebalancing between asset classes;
- setting a policy on the exercise of rights (including voting rights) and undertaking engagement activities in respect of the investments;
- appointing (and, when necessary, dismissing) investment managers, investment advisers, actuary and other service providers;
- monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Act;
- communicating with members as appropriate on investment matters, such as the Trustees' assessment of its effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employer when reviewing the SIP.

### **2. Investment managers**

In broad terms, the investment managers will be responsible for:

- managing the portfolios of assets according to their stated objectives, and within the guidelines and restrictions set out in their respective investment manager agreements and/or other relevant governing documentation;
- taking account of financially material considerations (including climate change and other ESG considerations) as appropriate when managing the portfolios of assets;
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments;
- providing the Trustees with regular information concerning the management and performance of their respective portfolios, including information on voting and engagement undertaken; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The custodians of the portfolios (whether there is a direct relationship between the custodian and the Trustees or not) are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

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### 3. Investment adviser

In broad terms, the investment adviser will be responsible, in respect of investment matters, as requested by the Trustees, for:

- advising on how material changes within the Scheme's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;
- advising on the selection, and review, of the investment managers; and
- participating with the Trustees in reviews of this SIP.

### 4. Fee structures

The Trustees recognise that the provision of investment management and advisory services to the Scheme results in a range of charges to be met, directly or indirectly, by deduction from the Scheme's assets.

The Trustees have agreed Terms of Business with the Scheme's investment advisers, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis.

The investment managers receive fees calculated by reference to the market value of assets under management. The fee rates are believed to be consistent with the managers' general terms for institutional clients and are considered by the Trustees to be reasonable when compared with those of other similar providers.

The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustees' view as to the most appropriate arrangements for the Scheme. However, the Trustees will consider revising any given structure if and when it is considered appropriate to do so.

### 5. Performance assessment

The Trustees are satisfied, taking into account the external expertise available, that there are sufficient resources to support their investment responsibilities. The Trustees believe that they have sufficient expertise and appropriate training to carry out their role effectively.

It is the Trustees' policy to assess the performance of the Scheme's investments, investment providers and professional advisers from time to time. The Trustees will also carry out periodically an assessment of their own effectiveness as a decision-making body and will decide how this may then be reported to members.

## *Policy towards risk, risk measurement and risk management*

The Trustees considers that there are a number of different types of investment risk that are important for the Scheme. These include, but are not limited to:

### **1. Risk of inadequate returns**

A key objective of the Trustees is that, over the long-term, the Scheme should have adequate assets to meet its liabilities as they fall due. The Trustees therefore invest the assets of the Scheme to produce a sufficient long-term return in excess of the liabilities. There is also a risk that the performance of the Scheme's assets and liabilities diverges in certain financial and economic conditions in the short term. This risk has been taken into account in setting the investment strategy and is monitored by the Trustees on a regular basis.

### **2. Risk from lack of diversification**

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Scheme's assets. The Trustees believe that the Scheme's assets are adequately diversified between different asset classes and within each asset class. This was key consideration when determining the Scheme's investment arrangements.

### **3. Investment manager risk**

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, the Trustees receive written advice from a suitably qualified individual and will typically undertake an investment manager selection exercise. The Trustees monitor the investment managers on a regular basis.

### **4. Illiquidity/marketability risk**

This is the risk that the Scheme is unable to realise assets to meet benefit cash flows as they fall due. The Trustees are aware of the Scheme's cash flow requirements and believe that this risk is managed by maintaining an appropriate degree of liquidity across the Scheme's investments and by investing in income-generating assets, where appropriate.

### **5. Environmental, social and governance (ESG) risks**

Environmental, social and corporate governance (ESG) factors are sources of risk to the Scheme's investments, some of which could be financially material, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices and unsound corporate governance. The Trustees seek to appoint investment managers who will manage these risks appropriately on their behalf and from time to time reviews how these risks are being managed in practice.

### **6. Counterparty risk**

This is the risk that one party to a contract (such as a derivative instrument) causes a financial loss to the other party by failing to discharge a contractual obligation. This risk applies in particular for those contracts that are traded directly between parties, rather than traded on a central exchange.



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In particular, LGIM makes use within its LDI fund range of derivative and gilt repos contracts and this fund is used to match efficiently the Scheme's liabilities. Counterparty risk is managed within the funds through careful initial selection and ongoing monitoring of trading counterparties, counterparty diversification and a robust process of daily collateralisation of each contract, to ensure that counterparty risk is limited, as far as possible, to one day's market movements.

#### 7. Collateral adequacy risk

The Scheme is invested in leveraged LDI arrangements to provide hedging protection against adverse changes in interest rates and inflation expectations. From time to time, depending on market movements, additional cash may need to be invested in the LDI portfolio in order to support a given level of leverage. Collateral adequacy risk is the risk that the cash required to maintain the hedging protection is not available for use within the LDI portfolio within the required timeframe. A possible consequence of this risk materialising is that the Scheme's liability hedging could be reduced, potentially leading to a worsening of the Scheme's funding level. In order to manage this risk, the Trustees ensure that the Scheme has a sufficient allocation to cash and other highly liquid assets which can be readily realised, so that cash can be posted to the LDI manager at short notice.

#### 8. Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Scheme is subject to credit risk because it invests in bonds via pooled funds. The Trustees manage their exposure to credit risk by only investing in pooled corporate bond funds that have a diversified exposure to different credit issuers, and mainly invest in bonds that are classified as "investment grade".

#### 9. Currency risk

Whilst the majority of the currency exposure of the Scheme's assets is to Sterling, the Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets. The Trustees consider the overseas currency exposure in the context of the overall investment strategy, and believe that the currency exposure that exists diversifies the strategy and is appropriate.

#### 10. Interest rate and inflation risk

The Scheme's assets are subject to interest rate and inflation risk because some of the Scheme's assets are held in bonds via pooled funds. However, the interest rate and inflation exposure of the Scheme's assets hedges part of the corresponding risks associated with the Scheme's liabilities. The net effect will be to reduce the volatility of the funding level, and so the Trustees believe that it is appropriate to have exposure to these risks in this manner.

#### 11. Other non-investment risks

The Trustees recognise that there are other, non-investment, risks faced by the Scheme, and takes these into consideration as far as practical in setting the Scheme's investment arrangements.

Examples include:

- longevity risk (the risk that members live, on average, longer than expected); and

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- sponsor covenant risk (the risk that, for whatever reason, the sponsoring employer is unable to support the Scheme as anticipated).

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Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Scheme's funding position falls below what is considered an appropriate level. By understanding and considering the key risks that contribute to funding risk, the Trustees believe that they have appropriately addressed and are positioned to manage this general risk.

Page 11 of 11 Details of the investment managers, their objectives and investment guidelines are set out below.

#### **1. BNY Mellon – Multi-asset absolute return**

The Scheme invests in multi-asset absolute return through BNY Mellon's Real Return pooled fund. The objective of the fund is to achieve a rate of return in sterling terms that is equal to or above a minimum return from cash (SONIA 30 day compounded) + 4% per annum over five years before fees. The fund is priced daily. The fund is open-ended and listed.

#### **2. Aegon – Asset-backed securities**

The Scheme invests in asset-backed securities through Aegon's European ABS Fund. The objective of the fund is "to provide long term capital growth". The Fund will achieve this objective by investing predominantly in investment grade asset-backed securities from European issuers. The debt securities held may be fixed or floating rate. The fund is priced daily. The fund is open-ended and listed.

#### **3. Blackrock – Short-dated corporate bonds**

The Scheme invests in corporate bonds through Blackrock's Sustainable Sterling Short Duration Credit pooled fund. This fund aims to provide a return on the investment over a 1-3 year period of 1.5% per annum (gross of fees) over the return of 3 Month SONIA in a manner consistent with the principles of sustainable investment. The fund is priced daily. The fund is open-ended and listed.

#### **4. Legal & General – Liability driven investment and money market cash**

The Scheme's invests in LGIM's Matching Core LDI fund range and Sterling Liquidity Fund. There are no official performance targets for the Matching Core LDI fund range. The aim of the LDI funds are to reduce DB pension scheme risk exposures to changes in interest rates and inflation.

The objective of the Sterling Liquidity Fund is to provide capital stability, liquidity and income through investment in a diversified portfolio of high credit quality short term fixed income and variable rate securities. In practice, this fund aims to provide a competitive return in relation to SONIA.

The funds are priced weekly. The funds are open-ended and listed.