

The S.M.M.T. Pension and Death Benefits Scheme

Statement of Investment Principles

October 2021

Approved by the Trustee at the meeting of 1 November 2021

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1 Introduction

Scheme background

- This Statement of Investment Principles (the “Statement”) details the principles governing investment decisions for The S.M.M.T. Pension and Death Benefits Scheme (the “Scheme”).
- The Scheme:
 - operates for the exclusive purpose of providing retirement and death benefits to eligible participants and beneficiaries,
 - provides benefits calculated on a defined benefit (DB) basis,
 - is closed to accrual.
- Buck is investment consultant to the Trustee.

Regulatory requirements and considerations

- This statement covers the requirements of, and the Scheme’s compliance with, the provisions of the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005 as well as additional non-statutory information recommended to be included following the Myners review of “Institutional Investing in the UK”, the results of which were first published in 2001 (referred to as the “Myners Principles”).
- The Myners Principles require trustee boards to act in a transparent and responsible manner. The information set out in this document helps ensure that the Trustee is complying with this requirement.

2 Statement of Investment Principles

Introduction

- This section of the Statement covers the requirements of the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005.
- In accordance with section 35 of the Pensions Act 1995, the Trustee has reviewed and considered written advice from the investment consultant prior to the preparation of this Statement and has consulted the Sponsoring Employer.
- The Trustee will review this Statement, in consultation with the investment consultant and the Sponsoring Employer, at least once every three years, or more frequently if there are any significant changes in the Scheme's circumstances. However, ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

Key investment principles

Kind of investments to be held

- The Trustee has full regard to their investment powers under the Trust Deed and Rules and the suitability of the various types of investments, the need to diversify, the custodianship of assets and any self-investment.
- The Scheme may invest in quoted and unquoted securities of UK and overseas markets including equities, fixed interest bonds, cash, multi-asset funds and Liability Driven Investments ("LDI") and pooled investment vehicles considered appropriate for tax-exempt registered occupational pension schemes. The Trustee has considered the attributes of the various asset classes (including derivative instruments), these attributes being:
 - security (or quality) of the investment,
 - yield (expected long-term return),
 - spread (or volatility) of returns,
 - term (or duration) of the investment,
 - exchange rate risk,
 - marketability/liquidity (i.e., the tradability on regulated markets),
 - taxation.
- The Trustee considers all of the stated classes of investment to be suitable to the circumstances of the Scheme.

Investment Decisions

- All investment decisions are taken by the Trustee Board as a whole. The Trustee believes that collective responsibility is the appropriate structure, given the size of the board. The Trustee will examine regularly whether additional investment training is desirable for any individual Trustee Director.
- All investment decisions relating to the Scheme are under the Trustee's control without constraint by the Sponsoring Employer. The Trustee is obliged to consult with the Sponsoring Employer when changing this Statement.
- All day-to-day investment decisions are delegated to properly qualified and authorised investment managers of pension scheme portfolios. Investment management agreements have been exchanged with the investment managers, and are reviewed from time-to-time to ensure that the manner in which they make investments on the Trustee's behalf is suitable for the Scheme, and appropriately diversified.

Investment Objectives and Suitability of Investments:

- The Scheme's investment strategy has been agreed by the Trustee having taken advice from the investment consultant and takes due account of the Scheme's liability profile along with the level of disclosed surplus or deficit.
- The Trustee's agreed investment strategy is based on an analysis of the Scheme's liability profile, the required investment return and the returns expected from the various asset classes over the long-term. Long-term returns from equities are expected to exceed the returns from bonds and cash, although returns and capital values may demonstrate higher volatility. The Trustee is prepared to accept this higher volatility in order to aim to achieve the overall investment objectives.
- The Trustee's primary objectives are:
 - to provide appropriate security for all beneficiaries,
 - to achieve long-term growth sufficient to provide the benefits from the Scheme, and
 - to achieve an appropriate balance between risk and return with regards to the cost of the Scheme and the security of the benefits.
- The Trustee has translated its objectives into a suitable strategic asset allocation benchmark for the Scheme, details of which are included in the appendices.
- In accordance with the Financial Services & Markets Act 2000, the Trustee is responsible for setting the general investment policy, but the responsibility for all day-to-day investment management decisions has been delegated to the investment managers authorised under the Act.
- The Trustee is responsible for reviewing both the Scheme's asset allocation and investment strategy as part of each actuarial valuation in consultation with the Scheme's investment consultant. The Trustee may also reconsider the asset allocation and the investment strategy outside the triennial valuation period where necessary.
- The Trustee considers the Scheme's current strategic asset allocation to be consistent with the current financial position of the Scheme. This assessment will be updated in conjunction with future actuarial valuations.

Diversification

- The Trustee, after seeking appropriate investment advice, has selected a strategic asset allocation benchmark for the Scheme including control ranges for each asset class and/or geographic region (see Appendix 1).
- Subject to their respective benchmarks and guidelines the investment managers are given full discretion over the choice of stocks and are expected to maintain diversified portfolios.
- The Trustee is satisfied that the investments selected are consistent with their investment objectives, particularly in relation to diversification, risk, expected return and liquidity.
- Given the size and nature of the Scheme, the Trustee has decided to invest the Scheme's assets on a pooled fund basis. All such investments are effected through direct agreements with the investment managers and/or through an insurance contract.
- The Trustee is satisfied that the range of vehicles in which the Scheme's assets are invested provides adequate diversification.

Risk

- The Trustee considers the main risk to be that of the assets being insufficient to meet the Scheme's liabilities as they fall due. The Trustee has assessed the likelihood of undesirable financial outcomes arising in the future.
- Investment policies are set with the aim of having sufficient and appropriate assets to cover the Scheme's Technical Provisions, and with the need to avoid undue contribution rate volatility.
- In determining its investment strategy, the Trustee received advice from the investment consultant as to the likely range of funding levels for strategies with differing levels of investment risk relative to the Scheme's liability profile. Taking this into account, along with the expected returns underlying the most recent actuarial valuation, the strategy outlined in Appendix 1 of this Statement has been adopted.
- Although the Trustee acknowledges that the main risk is that the Scheme will have insufficient assets to meet its liabilities, the Trustee recognises other contributory risks, including the following. Namely the risks:
 - associated with the differences in the sensitivity of asset and liability values to changes in financial and demographic factors,
 - of the Scheme having insufficient liquid assets to meet its immediate liabilities,
 - of the investment managers failing to achieve the required rate of return,
 - due to the lack of diversification of investments, and
 - of failure of the Scheme's Sponsoring Employer to meet its obligations.
- The Trustee manages and measures these risks on a regular basis via actuarial and investment reviews, and in the setting of investment objectives and strategy.

- The Trustee undertakes monitoring of the investment managers' performance against their targets and objectives on a regular basis.
- Each fund in which the Scheme invests has a stated performance objective by which investment performance will be measured. Within each asset class, the investment managers are expected to maintain a portfolio of securities (or funds), which ensures that the risk being accepted in each market is broadly diversified.
- The divergence of the actual distribution of the investments from the benchmark weighting will be monitored by the Scheme's investment consultant. Any deviation from the target asset allocation will be discussed periodically with the investment consultant.

Expected return on investments

- The investment strategy is believed to be capable of exceeding, in the long run, the overall required rate of return assumed in the Scheme Actuary's published actuarial valuation report in order to reach a fully funded status under the agreed assumptions.

Realisation of investments

- In the event of an unexpected need to realise all or part of the assets of the portfolio, the Trustee requires the investment manager(s) to be able to realise the Scheme investments in a reasonable timescale by reference to the market conditions existing at the time the disposal is required and subject to the best interests of the Scheme. The majority of the assets are not expected to take an undue time to liquidate.

The Trustee's policy in relation to their investment managers

- In detailing below the policies on the investment manager arrangements, the over-riding approach of the Trustee is to select investment managers that meet the primary objectives of the Trustee. As part of the selection process and the ongoing review of the investment managers, the Trustee considers how well each investment manager meets the Trustee's policies and provides value for money over a suitable timeframe.

How the arrangement incentivises the investment manager to align its investment strategy and decisions with the Trustee's policies

- The Trustee has delegated the day to day management of the Scheme's assets to investment managers. The Scheme's assets are invested in pooled funds which have their own policies and objectives and charge a fee, agreed with the investment manager, for their services. Such fees incentivise the investment managers to adhere to their stated policies and objectives.

How the arrangement incentivises the investment manager to engage and take into account financial and non-financial matters over the medium to long-term

- The Trustee, in conjunction with its investment consultant, appoints its investment managers and chooses the specific pooled fund to use in order to meet specific Scheme policies. The Trustee expect that its investment managers make decisions based on assessments about the financial performance of underlying investments, and that they engage with issuers of debt or equity to improve their performance (and thereby the Scheme's performance) over an appropriate time horizon.

- The Trustee also expects its investment managers to take non-financial matters into account as long as the decision does not involve a risk of significant detriment to members' financial interests.

How the method (and time horizon) of the evaluation of the investment manager's performance and the remuneration for asset management services are in line with the Trustee's investment policies

- The Trustee expects its investment managers to invest the assets within its portfolio in a manner that is consistent with the guidelines and constraints set out in its appointment documentation. The Trustee reviews the investment managers periodically. These reviews incorporate benchmarking of performance and fees. Reviews of performance focus on longer-term performance (to the extent that is relevant), e.g. looking at five years of performance.
- If the Trustee determines that the investment manager is no longer managing the assets in line with the Trustee's policies it will make its concerns known to the investment manager and may ultimately disinvest.
- The Trustee pays its investment managers a management fee which is a fixed percentage of assets under management.
- Prior to agreeing a fee structure, the Trustee, in conjunction with its investment consultant, considers the appropriateness of this structure, both in terms of the fee level compared to that of other similar products and in terms of the degree to which it will incentivise the investment manager.

How the Trustee monitors portfolio turnover costs incurred by the investment manager, and how it defines and monitors targeted portfolio turnover or turnover range

- The Trustee, in conjunction with its investment consultant, has processes in place to review investment turnover costs incurred by the Scheme on an annual basis. The Trustee receives a report which includes the turnover costs incurred by the investment managers used by the Scheme.
- The Trustee expects turnover costs of the investment managers to be in line with its peers, taking into account the style adopted by the investment manager, the asset class invested in and prevailing market conditions.
- The Trustee does not explicitly monitor turnover, set target turnover or turnover ranges. The Trustee believes that the investment managers should follow its stated approach with a focus on risk and net return, rather than on turnover. In addition, the individual mandates are unique in nature and there is the potential for markets to change significantly over a short period of time

The duration of arrangements with investment managers

- The Trustee does not in general enter into fixed long-term agreements with its investment managers and instead retains the ability to change investment manager should the performance and processes of the investment manager deviate from the Trustee's policies. However, the Trustee expects its manager appointments to have a relatively long duration, subject to the manager adhering to its stated policies, and the continued positive assessment of its ability to meet its performance objective.

Balance between different kinds of investments

- The appointed investment manager(s) will hold a diversified mix of investments in line with their agreed benchmark and within their discretion to diverge from the benchmark. Within each major market each manager will maintain a diversified portfolio of securities.

Financially material considerations

- The Trustee expect its investment managers, where appropriate, to have taken account of financially material considerations, including environmental, social and governance (ESG) factors as part of their investment analysis and decision-making process.
- The Trustee reviews the investment managers' policies in respect of financially material considerations from time to time.

Non-financial matters

- The financial interests of the Scheme members are the Trustee's first priority when choosing investments. At this stage, the Trustee has decided not to take members' preferences into account.
- Non-financial matters may be considered in the future if the Trustee has good reason to think that the members would share the concern; and that the decision does not involve a risk of significant detriment to members' financial interests.

Stewardship in relation to the Scheme's assets

- The Trustee has a fiduciary duty to consider their approach to the stewardship of the investments, to maximise financial returns for the benefit of members and beneficiaries over the long term. The Trustee can promote an investment's long-term success through monitoring, engagement and/or voting, either directly or through their investment managers.
- The Trustee's policy is to delegate responsibility for engaging and monitoring investee companies to the investment managers and expects the investment managers to use their discretion to maximise financial returns for members and others over the long term.
- The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and to encourage the managers to exercise those rights. The investment managers are expected to provide regular reports for the Trustee detailing their voting activity.

3 Appointments & Responsibilities

This section sets out the key appointments and responsibilities with respect to the investment aspects of the Scheme.

Trustee

The Trustee's primary responsibilities include:

- preparation of this Statement, reviewing its contents and modifying it if deemed appropriate, in consultation with the Sponsoring Employer and the investment consultant, at least every three years. The Statement will also be reviewed following a significant change to investment strategy and/or the investment managers,
- appointing investment consultants and investment managers as necessary for the good stewardship of the Scheme's assets,
- reviewing the investment strategy as part of each triennial actuarial valuation, and/or asset liability modelling exercise, and/or significant changes to the Scheme's liabilities, taking advice from the investment consultant,
- assessing the processes and the performance of the investment managers by means of regular, but not less than annual, reviews of information obtained (including investment performance),
- monitoring compliance of the investment arrangements with this Statement on a regular basis, and
- monitoring risk and the way in which the investment managers have cast votes on behalf of the Trustee in respect of the Scheme's equity holdings.

Investment Consultant

The main responsibilities of the investment consultant include:

- assisting the Trustee in the preparation and periodic review of this Statement in consultation with the Sponsoring Employer,
- undertaking project work including reviews of investment strategy, investment performance and manager structure as required by the Trustee,
- advising the Trustee on the selection and review of the investment manager(s),
- providing training or education on any investment related matter as and when the Trustee sees fit, and
- monitoring and advising upon where contributions should be invested or disinvested on a periodic basis.

Investment Managers

The investment managers' main responsibilities include:

- investing assets in a manner that is consistent with the objectives set,
- ensuring that investment of the Scheme's assets is compliant with prevailing legislation and the constraints detailed in this Statement,
- providing the Trustee with quarterly reports including any changes to their investment process and a review of the investment performance,
- attending meetings with the Trustee as and when required,
- informing the Trustee of any changes in the fee structure, internal performance objectives and guidelines of any pooled fund used by the Scheme as and when they occur, and
- exercising voting rights on shareholdings in accordance with their general policy.

Custodian

The custodians used are responsible for the safe-keeping of the Scheme's assets.

- The custodianship arrangements are those operated by the investment managers for all clients investing in their pooled funds.

Administrators

- The administrator's primary responsibilities are the day-to-day administration of the Scheme and the submission of specified statutory documentation, as delegated by the Trustee.
- The Scheme's administrator is Buck.

Appendix 1– Strategic Benchmark

Scheme's target asset allocation

The Scheme's target asset allocation is tabulated below:

Asset Type	Investment Style	Allocation (%)	Control Range (%)
UK Equities	Passive	8.3	5.8 – 10.8
Overseas Equities	Passive	16.7	11.7 – 21.7
Multi-Asset Credit	Active	15.0	10.0 – 20.0
Unlisted Infrastructure	Active	15.0	10.0 – 20.0
Return Enhancing		55.0	50.0 – 60.0
Corporate Bonds	Active	20.0	15.0 – 25.0
LDI	Other	25.0	n/a
Cash	Active	0.0	0.0 – 5.0
Risk Reducing		45.0	40.0 – 50.0
Total		100.0	

The Trustees do not have a control range in place for the LDI investment, given that the allocation to LDI will vary as the fund's leverage changes.