Statement of Investment Principles

For the Littlejohn Frazer Retirement Benefits Scheme

Effective from: March 2024

1. Introduction

This Statement of Investment Principles ("SIP") has been produced by the Trustees of the Littlejohn Frazer Retirement Benefits Scheme ("the Scheme").

It sets out our policies on various matters governing investment decisions for the Scheme, which is a Defined Benefit ("DB") pension scheme.

This SIP replaces the previous SIP dated September 2020.

This SIP has been prepared after obtaining and considering written advice from LCP, our investment adviser, whom we believe to be suitably qualified and experienced to provide such advice. The advice considered the suitability of investments including the need for diversification given the circumstances of the Scheme and the principles contained in this SIP.

We have consulted with the relevant employer in producing this SIP.

We will review this SIP from time to time and will amend it as appropriate. Reviews will take place without delay after any significant change in investment policy and at least once every three years.

This SIP contains the information required by legislation, and also considers the Pension Regulator's guidance on investments.

We have produced a separate SIP addendum document, which details further background and other matters relevant to the Scheme's investments, but which are not required to be included in the SIP.

2. Investment objectives

The primary objective of the Scheme is to ensure that the benefit payments are met as they fall due.

In addition to this primary objective, we also have a secondary objective to ensure that the Scheme's funding position (i.e. the value of its assets relative to the assessed value of its liabilities) should remain at an appropriate level.

We are aware that there are various measures of valuing the Scheme's liabilities and have considered those most relevant to the Scheme.

3. Investment strategy

With input from our advisers and in consultation with the employer, we reviewed the Scheme's investment strategy in July 2023, considering the objectives described in Section 2.

The outcome of this review was to invest in a portfolio of fixed interest and index-linked government bonds, alongside a Pensions Bond. We have agreed to "run-off" the Pensions Bond by settling annuities/benefits for each member as they retire. The Pensions Bond will be used to secure benefits in respect of members' service where it applies including any increases in payment.

This strategy has been designed to reduce the volatility in the Scheme's funding position as far as practical.

We monitor the asset allocation from time to time, and consider whether it is appropriate to rebalance the assets and how to invest net new money having considered advice from our investment consultant.

4. Considerations in setting the investment arrangements

When deciding how to invest the Scheme's assets, it is our policy to consider a range of asset classes, taking account of the expected returns and risks associated with those asset classes, as well as our beliefs about investment markets and which factors are most likely to impact investment outcomes.

We take an integrated approach when assessing risk and reviewing the investment strategy. In particular we take account of the employer covenant, contributions, funding targets, liability profile (including interest rate and inflation sensitivities and the extent to which they are hedged) and the level of expected return and risk now and as the strategy evolves.

The primary ways that we manage investment risk is via diversification, ensuring that we receive professional written advice prior to making any material investment decision, and our ongoing monitoring and oversight of the investments.

In setting the strategy it is our policy to consider:

- the nature and timing of the Scheme's liabilities;
- the Scheme's current funding level under various methods of assessment;
- the objectives and attitude to risk of the employer;
- the strength of the employer's covenant;
- the risks, rewards and suitability of various asset classes;
- the need for appropriate diversification between different asset classes;
- any other considerations which we consider financially material over the time horizon that we consider is needed for the funding of future benefits by the investments of the Scheme; and
- our investment beliefs about how investment markets work, and which factors are most likely to impact investment outcomes.

Our key investment beliefs, which influence 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 (including climate change) 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;
- long-term environmental, social and economic sustainability is one factor that trustees and investment managers should consider when making investment decisions; 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, we obtain and consider proper written advice from our investment adviser as to whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

We have limited influence over manager's investment practices because all the Scheme's assets are held in pooled funds, but we encourage our manager to improve their practices within the parameters of the fund they are managing.

Our view is that the fees paid to the investment manager, 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 their 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 our responsibility to ensure that the manager's investment approaches are consistent with our policies before any new appointment, and to monitor and to consider terminating any arrangements that appear to be investing contrary to those policies. We expect investment managers to make decisions based on assessments of the longer term performance of debt/equity issuers, and to engage with issuers to improve their performance (or where this is not appropriate to explain why). We assess this when selecting and monitoring managers.

We evaluate investment manager performance over both shorter and longer term periods as available. If a manager is not meeting its performance objectives, we will consider alternative arrangements.

Our policy is to evaluate each our investment manager by considering performance, the role it plays in helping to meet our overall long-term objectives, taking account of risk, the need for diversification and liquidity. The manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

We recognise that portfolio turnover and associated transaction costs are a necessary part of investment management. Since the impact of these costs is reflected in performance figures used in our assessment of the investment manager, we do not explicitly monitor portfolio turnover. We expect our investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates.

6. Realisation of investments

We instruct disinvestments as required for benefit payments and other outgoings. Our preference is for investments that are readily realisable. Where additional cash is required to meet net cash-flow requirements, we seek to rebalance the Scheme's assets to ensure funding level volatility is reduced as far as practical.

7. Financially material considerations and non-financial matters

We consider how ESG considerations (including but not limited to climate change) should be addressed in the selection, retention, and realisation of investments, given the time horizon of the Scheme and its members.

We influence the Scheme's approach to ESG and other financially material factors through our investment strategy and manager selection decisions. We expect our investment manager to take account of financially material factors (including climate change and other ESG factors) within the parameters of the mandates they are set. We seek to appoint managers that have the skills and processes to do this, and review how our manager is taking account of these issues in practice.

We encourage our manager to improve their ESG practices, although acknowledge that we have limited influence over investment practices where assets are held in pooled funds and that the parameters of some pooled funds may limit the scope for significant incorporation of ESG factors.

We do not consider matters that are purely non-financial in nature (eg matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention, and realisation of investments.

8. Voting and engagement

We recognise our 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 our members.

We seek to appoint investment managers that have strong stewardship policies and processes, reflecting the principles of the UK Stewardship Code 2020 issued by the Financial Reporting Council.

We have delegated to our investment manager the exercise of rights attaching to investments, including voting rights, and engagement with relevant persons such as issuers of debt and equity, stakeholders and other investors about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG factors. We expect the manager to undertake voting and engagement in line with their stewardship policies, considering the long-term financial interests of investors.

As all of our investments are held through pooled funds we do not monitor or engage directly with issuers or other holders of debt or equity.

We monitor our manager's activities in relation to ESG factors, voting and engagement on a regular basis. We seek to understand how they are implementing their stewardship policies in practice to check that their stewardship is effective and aligned with our expectations.

We have selected some priority ESG themes to provide a focus for our monitoring of our investment manager's voting and engagement activities. We review the themes regularly and update them if appropriate. We communicate these stewardship priorities to our manager and also confirm our more general expectations in relation to ESG factors, voting and engagement.

If our monitoring identifies areas of concern, we will engage with the manager to encourage improvements.