John Townsend Trust Pension and Assurance Scheme

Statement of Investment Principles

2 September 2020

1 Introduction

1.1 This is the Statement of Investment Principles prepared by the Trustee of the John Townsend Trust Pension and Assurance Scheme (the “Scheme”). This statement sets down the principles governing decisions about investments for the Scheme to meet the requirements of the Pensions Act 1995, as amended by the Pensions Act 2004, and of the Occupational Pension Schemes (Investment) Regulations 2005, as amended by the Occupational Pension Schemes (Investment) (Amendment) regulations 2010; the Occupational Pension Schemes (Investment) (Amendment) Regulations 2018 and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

1.2 The Principal Employer of the Scheme, John Townsend Trust, has entered liquidation and the Scheme has entered an assessment period for the Pension Protection Fund (the "PPF"). Therefore, in preparing this statement the Trustee has obtained advice from Barnett Waddingham LLP, the Trustee’s investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority and licensed by the Institute and Faculty of Actuaries in respect of a range of investment business activities.

1.3 This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.

1.4 The Trustee will review this statement at least every three years or if there is a significant change in the policy on any of the areas covered by the statement.

1.5 The investment powers of the Trustee are set out in Clause 5(a) of the Definitive Trust Deed & Rules, dated 22 March 1991. This statement is consistent with those powers.

2 Choosing Investments

2.1 The Trustee’s policy is to set the overall investment target and then monitor the performance of their managers and investments against that target. In doing so, the Trustee considers the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.

2.2 With the exception of the direct property holding, the day-to-day management of the Scheme’s assets is delegated to one fund manager. The Scheme’s fund manager is detailed in the Appendix to this Statement. The fund manager is authorised and regulated by the Financial Conduct Authority, and is responsible for stock selection and the exercise of voting rights.

2.3 The Trustee reviews the appropriateness of the Scheme’s investment strategy on an on-going basis. This review includes consideration of the continued competence of the fund manager with respect to performance within any guidelines set. The Trustee will also consult the Employer (which, in practice, means the insolvency practitioner, and the PPF) before amending the investment strategy.

3 Investment Objectives

3.1 The Trustee’s main investment objectives are:

- to ensure that they can meet the members’ entitlements as they fall due and overriding PPF requirements during the PPF assessment period;
- to manage the expected volatility of the returns achieved in order to control the level of volatility in the Scheme’s funding level;
- to reduce the risk of the assets failing to meet the liabilities over the long term;
- to minimise the long-term costs of the Scheme by maximising the return on the assets whilst having regard to the above objectives.

3.2 The Trustee is aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Scheme’s liabilities at any time. The Trustee has obtained exposure to investments that they expect will meet the Scheme’s objectives as best as possible.

4 Kinds of investments to be held

4.1 The Scheme can invest in a wide range of asset classes including:

- Equities;
- Bonds;
- Cash;
- Property;
- Alternatives, including private equity, commodities, hedge funds, infrastructure, currency, high yield debt and derivatives;
- Annuity policies.

4.2 Any investment in derivative instruments is only made to contribute to a reduction in the overall level of risks in the portfolio or for the purposes of efficient portfolio management.

4.3 The Trustee monitors from time-to-time the employer-related investment content of their portfolio as a whole and will take steps to alter this should they discover this to be more than 5% of the portfolio. Typically this check is carried out annually by the Scheme's auditors.

5 The balance between different kinds of investments

5.1 The Scheme invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained within the Appendix to this Statement.

5.2 The Trustee considers the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Appendix to this Statement.

5.3 From time to time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate any short term cashflow requirements or any other unexpected items.

5.4 The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and therefore the Scheme's asset allocation will be expected to change as the Scheme's liability profile matures.

6 Risks

6.1 The Trustee has considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities:

6.2 **Risk versus the liabilities** The Trustee will monitor and review the investment strategy with respect to the liabilities following each actuarial valuation. The investment strategy will be set with consideration of the appropriate level of risk required for the funding strategy as set out in the Scheme's Statement of Funding Principles.

6.3 **Asset Allocation risk** The asset allocation is detailed in the Appendix to this Statement and is monitored on a regular basis by the Trustee.

6.4 **Fund manager risk** The Trustee monitors the Scheme's fund manager's performance on a regular basis in addition to having meetings with the manager from time to time as necessary, usually on an annual basis. The Trustee has a written agreement with the fund manager, which contains a number of restrictions on how the fund manager may operate.

6.5 **Concentration risk** The fund manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.

6.6 **Loss of investment** The risk of loss of investment by the fund manager and custodian is assessed by the Trustee. The fund manager monitors counterparty credit risk and evaluates counterparty credit quality on a continuous basis.

6.7 **Liquidity risk** The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Scheme's cashflow requirements. The Employer assesses the level of cash held in order to limit the impact of the cashflow requirements on the investment policy.

6.8 **Covenant risk** The creditworthiness of the Employer and the size of the pension liability relative to the Employer's earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the employer covenant.

The Trustee considers the strength of the covenant in the context of the charge over property that has been granted by the Employer. The Trustee periodically reassesses the adequacy of the charge.

6.9 **Solvency and mismatching** Risk is addressed through the asset allocation strategy and on-going triennial actuarial valuations. The Trustee is aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Scheme's funding basis.

6.10 **Currency risk** The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management.

6.11 **ESG/Climate risk** The Trusteehas considered long-term financial risks to the Scheme and ESG factors as well as climate risk are potentially financially material and will continue to develop its policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments in order to avoid unexpected losses.

7 Expected return on investments

7.1 The Trustee has regard to the relative investment return and risk that each asset class is expected to provide. The Trustee is advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the fund manager.

7.2 The Trustee recognises the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

7.3 In considering the expected return from investments, the Trustee recognises that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.

7.4 Having established the investment strategy, the Trustee monitors the performance of the fund manager against an agreed benchmark as frequently as appropriate according to market conditions and the Scheme's funding position. The Trustee meets the Scheme's fund manager as frequently as is appropriate in order to review performance.

8 Realisation of investments

8.1 The Trustee has delegated the responsibility for buying and selling investments to the fund manager. The Trustee has considered the risk of liquidity as referred to above.

8.2 Ultimately, the investments will all have to be sold when the Scheme's life comes to an end. In this situation, the Trustee is aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Scheme's accounts.

9 Socially Responsible Investment, Corporate Governance and Voting Rights

Policy on financially material considerations

9.1 The Trustee believes that Environmental, Social and Governance ("ESG") factors are financially material – that is, they have the potential to impact the value of the Scheme's investments from time-to-time. Given the insolvency of the Principal Employer the future timeframe of the Scheme is uncertain. Were the Scheme to transfer into the PPF or were the Trustee to secure benefits with an insurance company then the Trustee does not expect Environmental, Social and Governance (ESG) factors to have a material impact over the period until these possible events. However, were the Scheme to continue to exist over a longer timeframe the Trustee believes that ESG factors will remain financially material for the Scheme. The Trustee appreciates that the method of incorporating ESG in the investment strategy and process will differ between asset classes. A summary of the Trustee's view for each asset class in which the Scheme invests is outlined below. The Trustee agrees that these factors have the potential to impact the risk and/or return profile of the Scheme's investments from time to time, however, the Trustee appreciates that this impact will vary between different asset classes.

9.2 The Trustee is comfortable that the funds currently invested in by the Scheme are managed in accordance with their views on financially material factors, as set out below.

9.3 The Trustee delegates the consideration of all financially material factors in relation to determining the underlying holdings, including ESG factors, to the Scheme's investment managers as part of their day-to-day management.

Buy and maintain bonds

The Trustee believes that ESG issues will be financially material to the risk-adjusted returns achieved by the Scheme's buy and maintain bonds holding. The Trustee therefore requires the fund manager to consider ESG issues when selecting investments. The Trustee recognises that fixed income assets do not typically provide voting rights; they support engagement with companies by the fund manager. The process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

Passive Gilts

The Trustee does not believe that there is significant scope for ESG issues to improve the risk-adjusted returns within the Scheme's passive gilt holdings.

Policy on the exercise of voting rights and engagement activities

9.4 The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the relevant fund managers. The Trustee also expects managers to engage with companies in relation to ESG matters. The Trustee is comfortable with the fund managers' strategies and processes for exercising rights and conducting engagement activities, and specifically that they attempt to maximise shareholder value as a long-term investor.

Policy for taking into account non-financial matters

9.5 The Trustee does not consider any non-financial matters when constructing the investment strategy and/or when selecting or reviewing fund managers.

10. Policy on arrangements with asset managers

The Trustee is required by legislation to have a policy covering various aspects of the Scheme's arrangement with the asset managers through which the Scheme invests.

The Trustee's policies are set out below. It should be noted that the policies are short as much of the legislation is more applicable for ongoing pension schemes with long time-horizons rather than for schemes in a PPF Assessment Period where the time-horizons are much shorter.

Trustee's policies

The Trustee's investment strategy is designed to reduce investment risks by providing a match to the liabilities in a simple and pragmatic way.

This is achieved by investing predominantly in passive gilt funds.

Given the Scheme's time-horizon is expected to be short and the strategy invests predominately in passive gilts, the Trustee:

- Does not consider non-financial considerations when selecting, incentivising and monitoring managers and their funds' performance.
- Expects the performance of the funds to be close to that of their benchmarks over all time periods and this is reviewed from time to time.
- Does not actively monitor portfolio turnover costs as these are expected to be modest, and determined by changes to the underlying fund indices, over which the Trustee has no control.
- Plans to retain the existing manager(s) until the Plan transfers to the PPF or the benefits are secured with an insurance company unless there are any significant changes to the funds, for example in relation to performance, fees or benchmarks.
- Expects investment managers to be voting and engaging on behalf of the Plan's holdings and, where relevant, the Plan monitors this activity within the Implementation Statement in the Plan's Report and Accounts. The Trustee does not expect ESG considerations to be disregarded by the investment managers in an effort to achieve any short term targets.

11 Agreement

11.1 This statement was agreed by the Trustee, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the Employer, the fund manager, the actuary and the Scheme auditor upon request.

Date:......10 September 2020......

Signed

Agreed on behalf of the Trustee of the John Townsend Trust Pension and Assurance Scheme

Appendix 1 Note on investment policy of the Scheme as at April 2020 in relation to the current Statement of Investment Principles

Choosing investments

The Trustee has appointed the following fund manager to carry out the day-to-day investment of the fund:

- Legal & General Investment Management Limited ("LGIM")

The fund manager is authorised and regulated by the Financial Conduct Authority.

The Trustee has appointed Barnett Waddingham LLP to advise on investment matters in addition to advice received from the fund manager on suitability of investments.

The fee arrangements with the fund manager are summarised below:

LGIM	Fees
All Stocks Index-Linked Gilts Index Fund	0.100% for the first £5m 0.075% for the next £5m 0.050% for the next £20m
Single Stock Gilt Funds	0.100% for the first £5m 0.075% for the next £5m 0.050% for the next £20m
Buy and Maintain Credit Fund	0.150% per annum

In addition to the ad-valorem charges detailed above, LGIM levy a flat charge of £1,500 per annum.

Barnett Waddingham is usually remunerated on a time cost basis.

The Trustee has an Additional Voluntary Contribution ("AVC") arrangement with Windsor Life Ltd and Phoenix Life Ltd for the receipt of members' AVCs. The arrangement is reviewed from time to time.

Kinds of investments to be held

The Trustee has considered all asset classes and have gained exposure to the following asset classes

- Fixed interest Gilts
- Index Linked Gilts
- Buy and Maintain bonds

The balance between different kinds of investment and rebalancing

The asset allocation has been agreed after considering the Scheme's liability profile, funding position, the expected return of the various asset classes and the need for diversification.

The investment benchmark and objectives for the fund manager are given below:

LGIM	Benchmark	Objective
Over 15 Year Gilts Index Fund	FTSE A UK Conventional Gilts (Over 15 Year) Index	The Fund aims to track the sterling total return of the benchmark to within +/- 0.25% p.a. for two years in three
All Stocks Index Linked Gilts Index Fund	FTSE A UK Index-Linked Gilts All Stocks Index	The Fund aims to track the sterling total return of the benchmark to within +/- 0.25% p.a. for two years in three
Single Stock Gilt Funds	Relevant single stock gilts	To achieve a return in line with the relevant single stock gilts
Buy and Maintain Credit Fund	N/A	To capture the credit risk premium with a diversified portfolio by avoiding defaults/credit downgrades

The performance of the fund manager will be monitored as frequently as the Trustee considers appropriate in light of the prevailing circumstances. The monitoring takes into account both short term and long term performance.

The Trustee reviews the split between asset classes on a regular basis. The Trustees recognises that the asset allocation of investments in different asset classes will vary over time as a result of market movements.

The Trustee invests the LGIM portfolio in gilt index funds and Buy and Maintain credit, the allocations to which at inception were as detailed in the table below. The allocation was determined based on a broad analysis of the profile of the liabilities, and so the allocation is expected to vary overtime as the profile of the liabilities changes, rather than be subject to rebalancing.

LGIM – Bonds	Allocation
All Stocks Index-Linked Gilts Index Fund	50.0%
Single Stock Gilt Fund (equally split between the 2047, 2049, 2055, 2060, 2065, 2068, 2071 Single Gilt Funds)	30.0%
Buy and Maintain Credit Fund	20.0%
Total	**100.0%**

Investments and disinvestments

Investments and disinvestments are usually made so as to maintain the actual asset allocation as at the date of the investment or disinvestment.