Statement of Investment Principles

Bishop & Sons' Depositories Ltd Pension and Assurance Scheme

September 2020

1. Introduction

Under the Pensions Act 1995, trustees are required to prepare and review regularly a Statement of Investment Principles, dealing with certain specific matters.

This Statement sets out the principles governing decisions about the investment of the assets of the Bishop & Sons' Depositories Ltd Pension and Assurance Scheme (the Scheme). Before preparing it, the trustee of the Bishop & Sons' Depositories Ltd Pension and Assurance Scheme (the Trustee) obtained and considered written professional advice from Barker Tatham Investment Consultants Limited as its investment consultants. Prior to finalising this document, it also consulted with the sponsoring employer. Barker Tatham Investment Consultants Limited are licensed by the Institute and Faculty of Actuaries to provide investment advice.

The trustee reviews this statement on a regular basis and will also do so in response to any material changes to the investment arrangements of the Scheme. Formal reviews will be undertaken no less frequently than every 3 years to coincide with the actuarial valuations. Any such review will again be based on written expert investment advice and will be in consultation with the Scheme's sponsoring employer, Bishop & Sons' Depositories Limited.

Signed for and on behalf of Open Trustees Limited

Signed: …………………………………………………… Date: 17 September 2020 ………………………………………

2. Decision Making

The Trustee distinguish between two types of investment decision:

Strategic investment decisions

These decisions are long-term in nature, and driven by an understanding of the objectives, needs and liabilities of the Scheme.

The Trustee takes all such decisions. Where appropriate this is after receiving written advice from their investment consultant, and consulting, as appropriate, with the employer.

Examples of such decisions include:

- setting investment objectives;
- setting strategic asset allocation;
- setting benchmarks;
- drafting the Statement of Investment Principles; and
- appointing and removing fund managers.

Work is charged for either by an agreed fee or on a time cost basis. In particular, the investment consultant does not receive commission or any other payments in respect of the Scheme that might affect the impartiality of their advice. The Trustee believes that this is the most appropriate fee structure for the Scheme.

Tactical investment decisions

Tactical investment decisions are based on views of future market movements.

The Trustee employs fund managers to make such judgements, and do not interfere with their decisions. Examples of such decisions include:

- selecting individual stocks;
- temporarily deviating from the strategic asset allocation to take advantage of better market opportunities; and
- timing of entry or exit from a market.

Each investment manager is remunerated by ad valorem charges based on the value of assets managed on behalf of the Scheme. The Trustee believes that this is the most appropriate fee structure for the Scheme.

The investment consultant and fund managers used by the Trustee are authorised and regulated by the FCA or relevant designated professional bodies.

3. Investment Objectives

The Trustee's overall investment policy is guided by the following objectives:

What constitutes risk?

The Trustee appreciates that the most important aspect of the security of the members' benefits is the continued support of the Scheme sponsor. Events that reduce the Sponsor's willingness or ability to support the Scheme are the biggest potential threats from the members' perspective.

1. The most significant risk from the Trustee's perspective is that the funding level (as calculated in the triennial actuarial valuations) deteriorates.
    - This could jeopardise the deficit recovery plan and necessitate additional contributions from the sponsor.
    - The funding level in percentage terms is of more importance than the size of the deficit in monetary terms.

2. The next risk considered is the accounting version of the liabilities (and hence deficit).

Appetite for risk

Balance is required here. Taking too little risk can be as damaging for a pension scheme as taking too much risk. The reduction in long-term expected investment returns may push the costs of the Scheme to become unsustainably high.

The Trustee wants to ensure that excessive risks are not taken.

The level of risk that is acceptable is dependent on the strength of the covenant from the company.

Other considerations

- **Net cashflows**
  Short term cashflows should be taken into account to avoid unnecessary transaction costs.

- **Flexibility**
  There is no specific need to take into account flexibility. (There are no known plans for major changes to the Scheme.)

- **Environmental, Social and Corporate Governance Issues**
  No specific account needs to be taken of these issues other than that required by legislation. This is set out on page 12 under 'Responsible Investment and Corporate Governance'.

4. Myners' Investment Principles

The Trustee recognises the relevance to pension schemes of the Myners' Investment Principles that were published by the Government in October 2001 and updated in March 2008. The Scheme's adherence to (or otherwise) the Myners' Investment Principles is set out below.

Principle 1: Effective Decision-Making

"Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.

Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest."

- The Trustee makes investment decisions by consulting with professionals that it believes to be best equipped to give that advice. Long-term strategic investment decisions are made in consultation with the Scheme's investment consultant, whereas tactical decisions are made by the appropriate fund manager.

Principle 2: Clear Objectives

"Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers."

- The Trustee has formally reviewed their investment objectives with the assistance of their investment consultant.

- The investment objectives are explicitly stated in Section 3 of this document.

- The strength of the Sponsor's covenant is reviewed on a regular basis.

- All the assets of the Scheme are invested via pooled funds. In each case, the fund manager has an explicit benchmark and, where relevant, an outperformance target, as well as clear constraints within which to operate.

- The Scheme's overall investment objective is supported by the Scheme's Asset Liability Model and the Scheme's employer covenant.

Principle 3: Risk and Liabilities

"In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk."

- In reviewing the investment strategy, the Trustee commissioned an Asset Liability Model (ALM) from their investment consultant. This explicitly took account of the form and structure of the liabilities, as well as longevity risk.

- This ALM was used to find a strategy which best met the Trustee's investment objectives. Those investment objectives were influenced by the strength of the sponsor covenant and the risk of sponsor default.

Principle 4: Performance Assessment

"Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisors. Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members."

- The Trustee currently receives:
  - quarterly performance reports from the fund managers;
  - annual audited accounts;
  - annual monitoring reports from the investment consultant.

- The investment monitoring reports include an assessment of how successful the Trustee's investment strategy has been in improving the funding position of the Scheme. The Trustee will report on this in their annual report to members and the annual summary funding statement.

Principle 5: Responsible Ownership

"Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents. A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles. Trustees should report periodically to members on the discharge of such responsibilities."

- The fund managers confirm their adherence to the UK Stewardship Code (which replaced the 2005 ISC Statement of Principles).

- The Trustee's policy on responsible ownership is described in Section 6 of this Statement of Investment Principles.

- The Trustee will report on the Scheme's policy on responsible ownership in the annual report.

Principle 6: Transparency and Reporting

"Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.

Trustees should provide regular communication to members in the form they consider most appropriate."

- Members are provided with annual summary funding statements, and also information on this is provided in the Scheme's annual report to members.

- A copy of this Statement of Investment Principles is available to members on request.

- Other documents such as actuarial valuation reports, the Statement of Funding Principles, the schedule of contributions and the annual report and accounts are also available to members on request.

- A representative from the employer regularly attends Trustee meetings and this helps communication with the employer over investment matters.

5. Implementation

In light of the objectives set out in Section 3, and following written advice from the investment consultants, the Trustee agreed to a revised investment strategy after a review in July 2020. The revised strategy is set out below and the trustee will aim to move towards this allocation in stages completing the switching by early 2021:

Manager	Fund	Initial Allocation
Ninety One	Diversified Growth Fund	8.6%
Schroders	Diversified Growth Fund	8.6%
LGIM	Managed Property Fund	9.2%
LGIM	Self-sufficiency Credit - Fixed Long Fund	11.5%
LGIM	Matching Core LDI Fixed Long Fund	34.0%
LGIM	Matching Core LDI Real Long Fund	17.1%
LGIM	Cash Fund	11.0%
Total		**100.0%**

Ninety One – Diversified Growth Fund

- The Ninety One Diversified Growth Fund targets equity-like returns with about half the volatility over an investment cycle.
- It does this using a variety of asset classes, changing the mix to suit market conditions. This DGF includes a substantial number of derivative based strategies.
- The objective of this fund is to outperform CPI + 5% p.a. (gross of fees) over rolling five-year periods.

Schroders – Diversified Growth Fund

- The Schroders Diversified Growth Fund targets equity-like returns with about half to two thirds of the volatility over an investment cycle.
- It does this using a variety of asset classes, changing the mix to suit market conditions.
- The objective of this fund is to outperform RPI inflation by 5% p.a. over a full economic cycle, typically five years, net of fees.

LGIM – Managed Property Fund

- This fund invests in commercial and industrial property as well as external property funds.
- It aims to outperform the Association of Real Estate Funds/Investment Property Databank UK Quarterly All Balanced Property Funds Index ("PFI") over three- and five-year periods.

LGIM – Matching Core Funds

- These funds aim to protect the Scheme from movements in either long-term interest rates or expected inflation.
- If long-term interest rates fall, or inflation expectations rise, then the value of pension scheme liabilities will increase. These funds will mitigate the impact on pension scheme funding levels by rising as interest rates fall and/or inflation expectations increase.
- However, the reverse is also true. If the liabilities fall in value, these funds will also lose value, and so no net gains will be made by pension schemes. These funds can be very volatile.

- These funds use a combination of UK government bonds (gilts) and derivatives including swaps depending on which the fund manager considers the most cost-effective way of hedging these two risks.

LGIM – Self-Sufficiency Credit Funds

- These funds invest in investment grade corporate bonds and uses an overlay of inflation linked assets for the Real versions of the funds, to give a range of profile credit funds, which for the Long dated versions of the funds will match a typical pension scheme's liability profile.
- The funds aim to generate an expected return of gilts + 0.5% per annum.

Rebalancing

There is no regular/automatic rebalancing between the funds listed above. Doing so could lead to under- or over-hedging of the Scheme's liabilities. It could also result in unnecessary transaction costs. Hence the actual asset allocation will vary from the initial asset allocation set out above due to market movements.

Contributions into the Scheme and withdrawals of money will be allocated to / taken proportionately (i.e. pro rata as at the date of investment or disinvestment) from the Cash Fund, unless advice to the contrary has been received.

6. Prescribed Matters

Introduction

This section covers those matters prescribed in Sections 35 and 36 of The Pensions Act 1995, The Pensions Act 2004 and the 2005 Investment Regulations 2005/3378 (as amended from time to time).

Choosing Investments

The assets of the Scheme are invested in pooled vehicles. Selection of the individual underlying assets has been wholly delegated to the fund managers listed in the Appendix.

Kinds of Investments

The Trustee may invest in the following asset classes (via pooled funds) on behalf of the Scheme:

- UK equities
- Overseas equities
- Corporate bonds
- Gilts (conventional and index-linked)
- Cash
- Overseas bonds
- Property
- Derivatives

The presence of an asset class on the list does not imply that the Scheme is currently invested in such assets.

Securities Lending

The Trustee recognises that the fund managers may engage in securities lending in order to produce additional incremental returns, subject to supervision rules as detailed in the fund managers' prospectuses.

Balance between Investments

The Trustee recognises the advantages of diversifying across different asset classes in order to take advantage of different asset class characteristics.

- Reducing the risk that results from investment in any one particular market; and
- Enhancing return.

Risk

The Trustee pays close regard to the risks that may arise through a mismatch between the Scheme's assets and its liabilities, and to the risks that may arise from the lack of diversification of investments. They believe that the investment policies to be followed by their investment manager do have adequate regard for the need to diversify within each asset class as well as in terms of stock selection.

Under the Pensions Act 2004, trustees must now state their policy on the ways in which risks are to be measured and managed. These are set out below.

- **Solvency / funding risk:**
  - is managed through setting an investment strategy (primarily asset allocation) with an appropriate level of risk.
  - is measured using an Asset Liability Model from the investment consultant.
  - is monitored in annual reports from the investment consultant.

- **Manager risk:**
  - is managed through selecting funds with a suitable target level of risk, and that the investment consultant has deemed the manager's risk controls as acceptable.
  - is measured and monitored in annual reports from the investment consultant.

- **Liquidity risk:**
  - is managed by ensuring that the majority of the pooled funds used by the Scheme are liquid.

- **Political risk:**
  - is managed by investing globally.

- **Sponsor risk:**
  - is managed via the actuarial valuation process.
  - is measured and monitored by regular assessment of the Sponsor's covenant by the Trustee.

Expected Return on Investments

Gilts are the easiest asset class for which to predict the long-term returns. Providing that they are held to maturity, and ignoring reinvestment risk, the return on gilts over their lifetime will be the current Gross Redemption Yield (GRY).

The Trustee bases expected investment returns for other asset classes on this GRY as a starting point. Over the long-term, they expect the following returns per year over and above that of gilts:

Developed market equities	+3.0%
Emerging market equities	+4.5%
Diversified Growth Funds	+2.5%
Property	+2.75%
Corporate bonds	+1.0%

Realisation of Investments

The Scheme's assets are invested in the investment managers' pooled vehicles, which in turn invest in securities traded on recognised exchanges. The Trustee concluded that the majority of the Scheme's investments can be realised at short notice if necessary.

Environmental, Social and Corporate Governance Policies

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustee has elected to invest through pooled funds. They acknowledge that they cannot directly influence the environmental, social and governance ("ESG") policies and practices of the companies in which the pooled funds invest. The Trustee also acknowledges that where passive pooled fund vehicles are employed it is not always possible to take ESG considerations into account due to the nature of the investment.

In principle, the Trustee believes that ESG factors can have an impact on the performance of its investments and that the management of ESG risks and the exploitation of ESG opportunities, especially in relation to climate change, can add value to the portfolio. To that effect, the Trustee expects the fund managers to have integrated ESG factors as part of their investment analysis and decision- making process where appropriate.

Appropriate weight will be given to ESG factors in the appointment of fund managers.

The Trustee views that the stewardship responsibilities attached to the ownership of shares is important but recognise that investment in pooled funds limits their ability to be fully involved. The Trustee expects its investment managers to report in detail on how they have exercised voting rights attached to shares (including across passive equity mandates). Managers are expected to be signatories to the FRC UK Stewardship Code.

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations which expand the requirements for Statements of Investment Principles such as this. To be compliant with these regulations by 1 October 2020, the Trustee has set further ESG policies.

The Trustee's policies are set out below:

- **How they incentivise their appointed investment managers to align investment strategy and decisions with the trustees' policies, including risk, return and ESG.**
  The Scheme invests solely in pooled funds where fees charged are a combination of fixed fees and a proportion of the assets under management. There are no performance-related components of the fees.

  The only incentivisation that the Trustee can exert is through the decision to retain or to liquidate their holdings in each fund.

The investment strategies of the pooled funds are aligned to the Trustee's investment objectives by selecting funds with suitable characteristics:

- Benchmarks
- Risk budgets
- Constraints
- Approaches (this includes ESG where appropriate)

The Trustee maximise the probability of their investment objectives being met by selecting an appropriate and Scheme-specific combination of such funds with advice from their investment consultant.

- **How the asset manager is incentivised to make decisions on assessments about medium to long term financial and non-financial performance of an issuer of debt or equity. Also, how the managers are incentivised to engage with the issuers in order to improve their performance.**
  Active fund managers are retained subject to, amongst other criteria, achieving adequate medium- to long- term performance. In order to do so, they will need to make assessments about the medium to long term financial performance of debt and equity issuers. They will also need to assess non-financial performance in as much as it may be a source of risk.

  It also incentivises them to engage with issuers where this is in the financial interests of the Scheme (i.e. where it will make a material impact on the performance of the fund).

  Passive fund managers are not expected to make assessments about the financial or non-financial performance of the issuers of securities they invest in.

- **How the method and time horizon of the evaluation of managers' performance and remuneration are in line with the trustees' policies.**
  The Trustee receives quarterly reports from the fund managers and annual analysis from their investment consultant. The investment consultant takes into account the performance of the fund managers but does not restrict their analysis to performance alone. However, given these funds are passively managed, the performance is expected to be broadly in line with the benchmarks.

  Performance is compared to the benchmark and tracking error target of each fund, in order to ensure that this is in alignment to the objectives and policies of the Trustee.

  In selecting pooled funds, the Trustee and its investment consultant take into account the fees charged by the fund manager. These are judged in terms of value for money given the nature of the fund, particularly the asset class and outperformance target.

  Fund managers need to give the Trustee notice if they plan to change the level of the fees. If this occurs, the Trustee seeks advice from their investment consultant on whether to retain or replace the manager.

- **How the trustees monitor portfolio turnover costs incurred by the manager/s (and how they define and monitor targeted portfolio turnover or turnover range).**
  Given the size of the Scheme's investment it would not be cost effective to monitor the turnover or turnover costs directly. The performance figures that the Trustee and their

investment consultant analyse are net of transactions costs, so this is taken into account indirectly.

The Trustees do not believe that they should micro-manage the level of turnover provided that the net outcome to the Scheme is acceptable.

- **The duration of their arrangement with the asset manager**.
  In order to maintain an incentive for the fund manager to performance well, the Trustee does not enter any fixed term arrangements with their manager. Investments in each pooled fund are only retained for as long as the aim of the fund is consistent with the overall investment objectives of the Scheme, and the Trustee has confidence that the fund managers can credibly deliver that aim in a cost-effective manner.

Appendix: Third Party Arrangements

Advisors

The following advisors assist the Trustee:

Scheme Administrators
Legal & General Assurance Society
Legal & General House
Kingswood
Tadworth
Surrey
KT20 6EU

Scheme Actuary
Geoffrey Arnold FIA
Focus Pensions Limited
Longdene House
Hedgehog Lane
Haslemere
Surrey GU27 2PH

Legal Advisors
Stephenson Harwood LLP
1 Finsbury Circus
London
EC2M 7SH

Investment Consultant
Barker Tatham Investment Consultants Ltd
5th Floor, AMP House
Dingwall Road
Croydon
CR0 2LX

Pension Advisors
Simplicity Pensions Limited
Calverley House
55 Calverley Road
Tunbridge Wells
Kent
TN1 2TU

Independent Auditors
Menzies LLP
Victoria House
Victoria Road
Farnborough
Hampshire
GU14 7PG

Bankers
The Royal Bank of Scotland plc
London Belgravia Branch
24 Grosvenor Place
London
SW1X 7HP

Fund Managers

The Trustee has appointed the following fund managers:

Legal & General Investment Management
One Coleman Street
London
EC2R 5AA

Ninety One Asset Management
55 Gresham St,
London
EC2V 7EL

Schroder Investment Management
31 Gresham Street
London
EC2V 7QA