

John Townsend Trust Pension and Assurance Scheme

Statement of Investment Principles

September 2021

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 entered an assessment period for the Pension Protection Fund (the "PPF") on 7 December 2015. The Scheme exited the PPF assessment period on 16 August 2017 and is authorised by the PPF to operate as a closed scheme from that date. Therefore, in preparing this statement the Trustee has consulted the PPF and obtained advice from Barnett Waddingham LLP, the Trustee's investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.
- 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 a bulk annuity policy, 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. The Trustee has secured a bulk annuity policy with Legal & General Assurance Society (L&G). L&G is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.
- 2.3 The Trustee reviews the appropriateness of the Scheme's investment strategy on an on-going basis. 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;
 - to reduce the risk of the assets failing to meet the liabilities over the long term.
- 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 secured a bulk annuity policy, which meets the benefits due to all members. They expect the remaining assets 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 As the Scheme's investments consist predominantly of the bulk annuity policy with L&G, there should be minimal (if any) employer-related investment content within the Scheme's portfolio.

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 Scheme holds a bulk annuity policy which will meet the benefit entitlements of each of the Scheme's members. The Trustee considers the merits of both active and passive management for the various elements of the invested assets and may select different approaches for different asset classes. The current arrangements are set out in the Appendix to this Statement. The remainder of the Scheme's assets are held in cash in the Scheme's bank account.

5.3 The nature of the bulk annuity policy means that L&G will accommodate any cashflow requirements in respect of benefit payments. Expenses will be met from the residual assets.

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 risk of the assets behaving differently from the Scheme's liabilities has been mitigated by purchasing an annuity policy with L&G that matches the benefit payments due.

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 Scheme's main asset is the annuity policy with L&G and there is no exposure to investment manager risk in relation to this asset. For the remaining assets, 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** In relation to the bulk annuity policy, it is at L&G's discretion how the underlying assets are invested and L&G bear the risk in relation to the assets' performance. For the remaining assets, the fund manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual securities.

- 6.6 **Loss of investment** The biggest risk is in relation to the bulk annuity policy with L&G. In the event of L&G becoming insolvent, the Scheme could suffer losses (but would still retain the liability to pay members' benefits). This risk is mitigated by the regulatory regime and capital requirements in place for UK insurers. The Trustee has carried out due diligence on L&G. 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. Responsibility for providing the monies to pay member benefits lies with L&G as the provider of the bulk annuity policy, which mitigates the majority of the potential liquidity risk.

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.

8 Realisation of investments

- 8.1 The Scheme's main investment is an annuity policy which is not readily realisable, but is structured so as to pay benefits to members as they fall due. For the remaining investments, 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.

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. For the bulk annuity policy, incorporating Environmental, Social and Governance (ESG) factors is at L&G's discretion.
- 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 responsibility for the exercising of rights (including voting rights) attaching to the bulk annuity policy belongs to L&G. The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to the remaining 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.

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.

Policy on arrangements with asset managers

9.6 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. This is not applicable to the bulk annuity policy. The Trustee's policy for the remaining assets is set out below.

9.7 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 further benefits are secured with the 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 Scheme's holdings and, where relevant, the Scheme monitors this activity within the Implementation Statement in the Scheme'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.

10 Agreement

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:.....

Signed:.....15 October 2021.....

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 September 2021 in relation to the current Statement of Investment Principles

Choosing investments

The Trustee has secured insurance contracts in respect of the Scheme's liabilities with Legal & General Assurance Society (L&G). L&G is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

The Trustee has appointed Legal & General Investment Management Limited (LGIM) to carry out the day-to-day investment of the fund. 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.

Fee Arrangements

There are no ongoing fees in respect of the Legal & General Assurance Society annuity policies.

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 charges detailed above, LGIM levy a flat charge of £1,500 per annum.

Barnett Waddingham are remunerated on a fixed fee and time cost basis depending on the work carried out.

Kinds of investments to be held

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

- Annuity policies
- Fixed interest Gilts
- Index Linked Gilts
- Buy and Maintain bonds
- Cash

The balance between different kinds of investment and rebalancing

Annuity policy

The Trustee main asset is a bulk annuity policy with Legal & General Assurance Society.

Gilts and bonds

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%

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.

Cash

The Scheme will also hold cash in the bank account to cover expenses.

Realisation of investments

The annuity policies have been structured to provide sufficient income to meet all benefit payments as they fall due. Therefore, the Trustee does not foresee any need to surrender (i.e. realise) the value of its annuity policies. However, in such an event, the Trustee will take appropriate advice before making any decisions. The Trustee expects any fees and other expenses to be met using the existing bank reserves.

The remaining assets with LGIM will be used to top up member benefits provided by L&G in due course.