XPS Investment

Chemviron Carbon Pension Plan (“the Plan”)

Statement of Investment Principles

September 2020

Statement of Investment Principles

The Trustees of the Chemviron Carbon Pension Plan ("the Plan") have prepared this Statement of Investment Principles ("the SIP") in accordance with the Pensions Act 1995[1] ("the Act") as amended and the Occupational Pension Scheme (Investment) Regulations 2005 as well as the principles recommended by the Myners Code.

It supersedes any previous SIP and reflects the investment policy agreed by the Trustees in respect of assets covering Defined Benefit liabilities and AVCs.

This SIP will be reviewed at least every three years or immediately after any significant change in investment policy.

Before preparing this SIP the Trustees have:

- Obtained and considered the written advice from the Plan's Investment Consultant, XPS Pensions Group, who is suitably qualified through ability and experience and has appropriate knowledge.
- Consulted the employer.

Choosing investments

The Trustees set the investment strategy and investment policies for the Plan.

The Trustees have considered the Plan's liabilities and strength of Employer covenant when setting the investment strategy and policies.

The Trustees rely on Investment Managers for the day-to-day management of the Plan's assets but retain control over all decisions made about the investments in which the Plan invests.

Where Investment Managers are delegated discretion under Section 34 of the Act, the Investment Manager will exercise their investment powers in accordance with the Act, relevant and subsequent regulations, and this SIP.

The Trustees rely on the Investment Managers to appoint appropriate Custodians for pooled funds who are responsible for the safekeeping of the assets of the Plan.

The Trustees rely on the Investment Managers to appoint appropriate Administrators or Registrars for pooled funds who are responsible for keeping records of the Plan's entitlement within the pooled funds.

[1] *As amended 30th November 2018*

Investment objective and strategy

Investment objective

The Trustees have set the following objectives:

- To hold sufficient assets to be able to meet members' full benefits as they fall due.
- To implement an investment strategy targeting a return of 1.1% pa in excess of gilts, where gilts are represented by the yield on the Bank of England yield curve.
- To acquire suitable assets to achieve the above objective whilst controlling volatility and the long term costs of the Plan.
- To adhere to the provisions contained within this SIP.

Whilst it is not a formal objective, it is expected that the Plan will move towards a low dependency strategy, in anticipation of a future buy-in policy within the short to medium term. This target and time horizon is taken into consideration in setting the strategy (for example, the Plan holds liquid assets, and are designed to be low risk and hedged against interest rates and inflation).

Investment strategy and range of assets

Based on the structure set out in the Appendix, the Trustees consider the arrangements with the Investment Managers to be aligned with the Plan's overall strategic objectives. Details of each specific mandate are set out in investment management agreements and pooled fund documentation with each Investment Manager. The amounts allocated to any individual category or security will be influenced by the overall benchmark and objectives, varied through the Investment Managers' tactical asset allocation preferences (where appropriate) at any time, within any scope given to them through asset allocation parameters set by the Trustees or governing the pooled funds in which the Plan is invested.

The Trustees will ensure that the Plan's assets are invested in regulated markets to maximise their security.

Investment Managers are incentivised to perform in line with expectations for their specific mandate as their continued involvement as Investment Managers as part of the Plan's investment strategy – and hence the fees they receive – are dependent upon them doing so. They are therefore subject to performance monitoring and reviews based on a number of factors linked to the Trustees' expectations.

The Trustees encourage the Investment Managers to make decisions in the long-term interests of the Plan. The Trustees expect engagement with management of the underlying issuers of debt or equity and the exercising of voting rights. This expectation is based on the belief that such engagement can be expected to help Investment Managers to mitigate risk and improve long term returns. As covered in more detail in the responsible investment section, the Trustees also require the Investment Managers to take ESG factors and climate change risks into consideration within their decision-making as the Trustees believe these factors could have a material financial impact in the long-term. The Trustees therefore make decisions about the retention of Investment Managers accordingly.

The Trustees intend to meet the investment objective by investing in a diversified portfolio of return-seeking and liability-matching assets.

The Trustees can utilise a wide range of passively and actively managed investments, including (but not limited to):

- Assets or funds primarily utilised to match liability risk (typically movements in long term interest rates and inflation) including gilts, swaps and repos and the use of derivatives and leverage.

- Assets or funds primarily used to outperform the liabilities over the long term including equity, private markets, hedge funds, commodities, currency, bonds and other forms of credit, property, infrastructure and insurance including the use of derivatives and leverage. Illiquid assets can be used where a higher return or lower risk is expected.
- Assets or funds primarily used to provide immediate liquidity such as cash or cash instruments.
- Assets or funds that combine liability outperformance, liability hedging or liquidity characteristics including the use of derivatives and leverage.
- Annuity or insurance policies designed to match the specific characteristics of the Plan's liabilities or membership.

The actual strategy adopted for the Plan, including the allocation to different assets, and expected returns is set out in the Appendix.

Investment Manager review process

Appointments of Investment Managers are expected to be long-term, but the Trustees will review the appointment of the Investment Managers in accordance with their responsibilities.

The Trustees receive quarterly performance monitoring reports from the Investment Consultant which consider performance over the quarter, one and three year periods. In addition, any significant changes relating to the criteria below that the Investment Consultant is aware of will be highlighted, which may lead to a change in the Investment Consultant's rating for a particular mandate. These ratings help to determine an Investment Manager's ongoing role in implementing the investment strategy. If there are concerns, the Trustees may carry out a more in-depth review of a particular Investment Manager. Investment Managers will also attend Trustee meetings as requested.

Fund manager remuneration is considered as part of the manager selection process. It is also monitored regularly with the help of the Investment Consultant to ensure it is in line with the Trustees' policies and with fee levels deemed by the Investment Consultant to be appropriate for the particular asset class and fund type.

Portfolio turnover

The Trustees require the Investment Managers to report on actual portfolio turnover at least annually, including details of the costs associated with turnover, how turnover compares with the range that the Investment Manager expects and the reasons for any divergence.

Investment restrictions

The Trustees intend to adhere to the following restrictions:

- No more than 5% of Plan assets can be held in investments related to the Employer.

- Whilst borrowing on a temporary basis is permitted, this option will only be utilised where absolutely necessary or where it is expected to reduce overall risk (e.g. for very short time periods during an asset transfer).
- Investment in derivative instruments may only be made where they contribute to risk reduction or facilitate efficient portfolio management.
- Stock lending is permitted at the discretion of the Plan's Investment Managers in line with their overall investment objectives, policies and procedures.

Investment risk

The Trustees have identified a number of risks including (but not limited to):

- Employer covenant risk
- Liability risks: Interest rate risk, Inflation risk, Longevity risk
- Asset risks: Equity risk, Property risk, Currency risk, Credit risk, Interest rate risk, Inflation risk
- Strategy risks: Asset allocation risk, Liquidity risk (including collateral risk), Growth asset risk (including currency risk)
- Implementation risks: Investment manager risk, Counterparty risk, Operational risk

These risks are measured and managed by the Trustees as follows:

- The Trustees have set an investment strategy that adheres to the contents of this SIP.
- The Trustees receive strategic investment advice from the Investment Consultant that may include risk modelling and quantification (e.g. Value at Risk) whenever strategic changes are considered.
- The Trustees undertake regular monitoring of the Plan's investments supplemented by information provided by both the Investment Managers and Investment Consultant, as well as advice from the latter.
- The Trustees periodically assess the strength of the Employer covenant and uses external expertise where appropriate.
- The Trustees delegate the day-to-day management of some of these risks to the appointed Investment Managers. This includes any voting rights.
- The Trustees consider the Investment Managers' role and approach to managing risk is considered when selecting appropriate Investment Managers.
- The Trustees utilise custodian relationships to ensure Plan assets are held securely.
- The Trustees assess whether appropriate controls are put in place by themselves, the Investment Consultant, Investment Managers and Custodians (where there is a direct relationship).

Responsible and sustainable investment

The Trustees have considered their approach to environmental, social and corporate governance ("ESG") factors for the long term time horizon of the Plan and believe there can be financially material risks relating to them. The Trustees have delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Plan's investment managers. The Trustees require the Plan's investment managers to take ESG and climate change risks into consideration within their decision-making in relation to the selection, retention or realisation of investments, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest.

The Trustees will seek advice from the Investment Adviser on the extent to which its views on ESG and climate change risks may be taken into account in any future investment manager selection exercises. Furthermore, the Trustees, with the assistance of the Investment Adviser, will monitor the processes and operational behaviour of the investment managers from time to time, to ensure they remain appropriate and in line with the Trustees' requirements as set out in this Statement.

As the Plan invests in pooled funds, the Trustees acknowledge that they cannot directly influence the policies and practices of the companies in which the pooled funds invest.

The Trustees have therefore delegated responsibility for the exercise of rights (including voting rights) attached to the Plan's investments to the Investment Managers. The Trustees encourage them to engage with investee companies and vote whenever it is practical to do so on financially material matters such as strategy, capital structure, conflicts of interest policies, risks, social and environmental impact and corporate governance as part of their decision-making processes. The Trustees require the Investment Managers to report on significant votes made on behalf of the Trustees.

If the Trustees become aware of an Investment Manager engaging with the underlying issuers of debt or equity in ways that they deem inadequate or that the results of such engagement are mis-aligned with the Trustees' expectation and the investment mandate guidelines provided, then the Trustees may consider terminating the relationship with that Investment Manager.

When considering the selection, retention or realisation of investments, the Trustees have a fiduciary responsibility to act in the best interests of the beneficiaries of the Plan, although they have neither sought nor taken into account the beneficiaries' views on risks including (but not limited to) ethical, social and environmental issues.

The SIP has been approved and adopted by the Trustees on 18 September 2020.

Appendix – Investment strategy

Overall strategy

The investment strategy of the Plan is summarised in the table below.

Asset class	Strategic allocation	Manager and fund	Role
Credit	30%	Legal & General Buy & Maintain Credit Fund	To provide a stable source of returns above gilts whilst providing some matching characteristics
Credit	30%	Allianz Global Multi Sector Credit Fund	Achieve a return in excess of 3 month LIBOR +3.0% pa
LDI	30%	Legal & General Matching Core LDI Portfolio	Match the movement in the value of cashflows for a typical scheme pension liability profile
LDI	10%	Legal & General Over 15 Year Fixed and Index Linked Gilt Funds	Match the movement in the value of cashflows for a typical scheme pension liability profile

** The costs and charges information included in the SIP has been provided to the Trustees to assist in the elements of the new SIP regulations that require trustees to monitor asset manager costs. However, that information does not need to be published to comply with the SIP regulations on publication, specifically, and XPS has taken the view that only the information that is actually required to be disclosed should be made publicly available. We are therefore providing a "full disclosure" version for the Trustees' records, along with a second version that should be used to fulfil the requirement to make the SIP publicly available on a website.*

Liability hedging

This strategy is designed to achieve liability hedging of:

- 100% of the interest rate risk, as a proportion of the Plan's total liabilities, as assessed against the current technical provisions basis.
- 100% of the inflation risk as a proportion of the Plan's total liabilities, as assessed against the current technical provisions basis.

Rebalancing investments

The Plan does not have any formal rebalancing arrangements in place. The Trustees will review the allocation quarterly and if required will instruct the Investment Managers to rebalance towards the strategic allocation, if deemed appropriate.

Realising investments

The Trustees have established a cashflow management protocol outlining how the Plan's investments and disinvestments should be managed by the Plan's administrators and the Trustees. The protocol for investments and disinvestments is summarised below:

Investments:

- Any excess monies held in the Trustee bank account should be invested in the LGIM Sterling Liquidity Fund.

Disinvestments:

- If any disinvestments are required for member benefits due to a shortfall in the Trustee bank account, the monies should firstly be sourced from the LGIM Sterling Liquidity Fund, and secondly from the LGIM Buy & Maintain Credit Fund (if there is insufficient monies in the LGIM Sterling Liquidity Fund).

AVCs

The Trustees have made the following AVC investment options available to members of the Plan:

- Clerical Medical Halifax Pension.

The Trustees will review the AVC providers, as well as the funds available, in the light of their performance on a periodic basis. Performance of these funds will be measured relative to the individual benchmarks and objectives for the funds offered and/or to other providers offering similar fund options.

The Trustees are aware that members' AVC funds are subject to the same risks faced by the Plan's investments, such as inflation risk eroding real returns. In addition, AVC members face the risk that their investments will not meet their future expectations (for example, if they are planning to purchase an annuity at retirement), lack of transparency on how their fund is managed and also that their AVC fund may fall in value.

The Trustees consider that, in making a number of funds available, they provide these members with sufficient options to meet their reasonable expectations and to mitigate the risks faced.

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