

Petty, Wood & Company Limited Retirement Benefits Scheme

Statement of Investment Principles

18 November 2024

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1 Introduction

This Statement sets out the principles governing decisions relating to the investment of the assets of the Petty, Wood & Company Limited Retirement Benefits Scheme (the Scheme).

The Scheme is a defined benefit arrangement set up under trust and registered with HM Revenue and Customs (HMRC). The Scheme is subject to the Statutory Funding Objective (SFO) introduced by the Pensions Act 2004, i.e. that it should have sufficient and appropriate assets to cover its Technical Provisions, as calculated in accordance with the Trustees' Statement of Funding Principles.

This Statement has been prepared in line with the following legislation and regulations:

- Section 35 of the Pensions Act 1995
- Section 244 of the Pensions Act 2004 and the Occupational Pension Scheme (Investment) Regulations 2005
- The Pension Protection Fund (Pensionable Service) and Occupational Pension Scheme (Investment and Disclosure) (Amendment and Modification) Regulations 2018
- The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019

A copy of this Statement will be made available to Scheme members on request to the Trustees or online.

2 Investment Decision Making

The investment of the Scheme's assets is the responsibility of the Trustees. The Trustees' investment powers are set out in Rule 47 of the Scheme's Trust Deed and Rules, dated 2002, as amended. The powers granted to the Trustees under this Clause are wide and this Statement is consistent with those powers.

The Trustees have obtained and considered professional advice on the content of this Statement from Broadstone Corporate Benefits Limited (Broadstone), their appointed investment adviser. Broadstone is authorised and regulated by the Financial Conduct Authority. Broadstone has confirmed to the Trustees that it has the appropriate knowledge and experience to give the advice required under legislation. Broadstone is remunerated a fee for its advice and its appointment is reviewed from time to time by the Trustees.

The Trustees have also consulted the Principal Employer when setting their investment objectives and strategy, and in the preparation of this Statement.

Responsibility for maintaining the Statement and determining the Scheme's investment strategy rests solely with the Trustees. The Trustees will obtain such advice as they consider appropriate and necessary whenever they intend to review or revise this Statement.

3 Investment Objectives

Funding Objective

The primary funding objective of the Scheme is to ensure, as far as possible, that there are sufficient assets to provide benefits to the Scheme members as and when these fall due.

In determining their investment objectives and strategy, the Trustees have considered the strength of the Principal Employer's willingness and ability to support the Scheme. They have determined that it is reasonable to take a long-term view in determining their investment objectives and strategy.

The Trustees' investment objectives are as follows:

Investment Objectives

The Trustees' high-level objectives with regard to investing the Scheme assets are to:

- Achieve a return which is sufficient, over the long term, to meet the Funding Objective.
- Adopt an approach that recognises the need to balance risk with the achievement of a satisfactory investment return.

Performance Objectives

- The Investment Managers have each been set performance objectives to achieve returns in line with, or in excess of a benchmark.

4 Setting the Investment Strategy

Details of the investment strategy are set out in the Appendix to this Statement.

The Trustees' policies in setting the investment strategy are set out below:

Policy	
Selection of Investments	<p>The Trustees may select investments from a wide range of asset classes from time to time, including, but not restricted to UK equities, overseas equities, government bonds, corporate bonds, commercial property and alternative asset classes, such as hedge funds, private equity and infrastructure.</p> <p>The investments selected will generally be traded on regulated markets and, where this is not the case, any such investments will be kept to a prudent level.</p> <p>The Trustees may also:</p> <ul style="list-style-type: none"> Invest in products that use derivatives where this is for the purpose of risk management or to improve the efficiency of the management of the Scheme's investments. Hold insurance policies such as deferred or immediate annuities which provide income to the Scheme, matching part or all of the future liabilities due from it. Hold a working cash balance for the purpose of meeting benefit payments due to members and the expenses of running the Scheme.
Target Asset Allocation	<p>The Trustees will set a Target Asset Allocation from time to time, determined with the intention of meeting their investment objectives.</p> <p>The Target Asset Allocation will be set taking account of the characteristics of different asset classes available and will be reviewed in light of any changes to the Trustees' view of the Principal Employer's covenant, the nature of the Scheme's liabilities or relevant regulations governing pension scheme investment.</p> <p>The Trustees have agreed the range of funds to be used in the investment strategy, taking into account the maturity of the Scheme's liabilities, and to ensure the range is sufficiently robust to allow easy adjustment between the funds as the Trustees' risk appetite changes and the Scheme matures</p>
Delegation to Investment Managers	<p>The Trustees will delegate the day-to-day management of the Scheme's assets to professional investment managers and will not be involved in the buying or selling of investments.</p>
Maintaining the Target Asset Allocation and Target Hedging Ratios	<p>The Trustees have responsibility for maintaining the overall balance of the asset allocation relative to the Target Asset Allocation and Target Hedging Ratios. The Trustees monitor the asset allocation on a regular basis with the assistance of their adviser, Broadstone, and will consider switching assets between funds should the allocation move significantly away from the Target Asset Allocation or Target Hedging Ratios. Maintaining the Target Hedge Ratios will take precedence over maintaining the Target Asset Allocation.</p>
Employer Related Investments	<p>The Trustee's policy is not to hold any employer related investments as defined in the Pensions Act 1995, the Pensions Act 2004 and the Occupational Pension Scheme (Investment) Regulations 2005.</p>

The Trustees have decided to invest in pooled funds because:

- the Scheme is not large enough to justify direct investment in equities or bonds on a cost-effective basis;
- pooled funds allow the Scheme to invest in a wider range of assets which serves to reduce risk; and
- pooled funds provide a more liquid form of investment than certain types of direct investment.

5 Realisation and Rebalancing of Assets

The assets are held in a combination of pooled funds and are fully and readily realisable.

The Trustees make disinvestments from the Investment Managers with the assistance of their administrators, Broadstone, as necessary, to meet the Scheme's cashflow requirements.

New money will be invested (or disinvestments required for cash flow purposes) to bring the asset allocation back to the Target Asset Allocation, as far as possible.

6 Expected Returns

The Trustees' objective is for the Scheme's assets to produce a return in excess of the growth in the value of its Solvency liabilities. The Trustees expect the assets to produce a return in excess of the long-term growth in the value of the Solvency liabilities.

Over the long-term, the Trustees' expectations are to achieve the following rates of return from the asset classes they make use of:

Asset Class	Expected Returns
Corporate bonds	To achieve a long-term return in excess of the yield available on a comparable portfolio of UK gilts to compensate for the additional risk associated with investing in a diversified portfolio of corporate bonds.
Government bonds	To achieve a long-term return in line with the yield available on a comparable portfolio of UK gilts or index-linked gilts.

7 Risks

The Trustees have considered various risks the Scheme faces, including market risk, interest rate risk, inflation risk, default risk, concentration risk, manager risk and currency risk, and consider that the target asset allocation strikes a reasonable balance between risk mitigation and seeking an appropriate level of return, taking account of the strength of the Principal Employer's covenant.

The Target Asset Allocation has been determined with due regard to the characteristics of the Scheme's Solvency liabilities.

The calculation of the Scheme's Solvency liabilities uses assumptions for future investment returns and price inflation expectations that are based upon market values of financial securities such as fixed interest and index-linked government bonds. This means that the Solvency liabilities are sensitive to changes in the price of these assets as market conditions vary and can have a volatile value.

To mitigate the risk of the Scheme's funding level deteriorating, the Scheme has implemented a new investment strategy designed to broadly match the movement of the Scheme's solvency liabilities. Furthermore, the Trustees also accept that there is a risk that the assets will not achieve the rates of investment return assumed in the calculation of the Scheme's Solvency liabilities.

To reduce the risk of concentration within the portfolio, the Trustees will monitor the overall mix of asset classes in the investment strategy with their investment adviser, Broadstone.

The Trustees will monitor the investment, covenant and funding risks faced by the Scheme with the assistance of their investment advisers and the Scheme Actuary at least every three years. The Trustees will consider the appropriateness of implementing additional risk mitigation strategies as part of such reviews.

In addition, the Trustees will review wider operational risks as part of maintaining their risk register.

8 Security of Assets

The day-to-day activities that the Investment Managers carry out for the Trustees are subject to regular internal reviews and external audits by independent auditors to ensure that operating procedures and risk controls remain appropriate.

Safe-keeping of the Scheme's assets held with the Investment Managers are performed by custodians appointed by them.

The Trustees have considered the security of the Scheme's holdings with the Investment Manager, allowing for its status as a reputable regulated firm, and consider the associated protection offered to be reasonable and appropriate.

9 Responsible Investment & Stewardship

The Trustees believe that in order to protect and enhance the value of the investments, during the period over which the benefits are paid, they must act as a responsible asset owner.

The Scheme is also comprised of a diverse membership, expected to hold a broad range of views on ethical, political, social, environmental, and quality of life issues. The Trustees therefore do not explicitly seek to reflect any specific views through the implementation of the investment strategy, both financial and non-financial.

The Trustees' policies in respect of responsible investment are set out below:

Policy	
Financially Material Considerations	Financial Factors relating to ESG: When considering decisions/setting investment strategy, we take into account all factors that are financially material to the performance of an investment including but not limited to ESG considerations. Before we carry out any investment strategy review, we first ensure our training and knowledge, and the reports received from the Investment Manager on stewardship activities, scenario analysis and impact on asset allocation are adequate.
Non-Financially Material Considerations	Non financial factors: there is no legal requirement for Trustees to take non-financial factors into account, but we may do so if we have a good reason to consider members have a contrary view; we are satisfied that any new investment ideas do not preened a risk of significant financial detriment; and the costs involved with making the changes are justified. To date we have not received any communications from members setting out ethical concerns about some individual investments held within the Scheme's portfolio. Based on this we have no reason to think that members share a particular view and therefore not be taking non-financial factors into account. Should any element of that change in future then we will review our policy accordingly.
Engagement and Voting Rights	The Trustees' voting and engagement policy is to use their investments to improve the Environmental, Social and Governance behaviours of the underlying investee companies. These ESG topics encompass a range of priorities, which may over time include climate change, biodiversity, the remuneration and composition of company boards, as well as poor working practices. The Trustees believe that having this policy, and aiming to improve how companies behave in the medium and long term, are in the members' best interests. The Trustees will aim to monitor the actions taken by the investment managers on their behalf and if there are significant differences from the policy detailed above, they will escalate their concerns which could ultimately lead to disinvesting their assets from the manager.
Capital Structure of Underlying Companies	Responsibility for monitoring the capital structure of investee companies is delegated to the Investment Manager. The Trustees expect the extent to which the Investment Manager monitors capital structure to be appropriate to the nature of the mandate.

The voting policies of the Investment Managers, can be found at the following websites:

- LGIM - <https://www.lgim.com/uk/en/responsible-investing/investment-stewardship/>
- M&G - <https://www.mandg.com/who-we-are/mandg-investments/responsible-investing-at-mandg-investments>

The Trustees' views on how ESG issues are taken account of in each asset class used is set out below:

Asset Class	Active/Passive Managed	ESG Views
Corporate Bonds	Active	Corporate bond funds have underlying investee companies, but the nature of these securities is so that they do not have any voting rights attached to their ownership. Therefore, the Trustees believe there is less scope for the consideration of ESG issues to improve risk-adjusted returns in this asset class because of the nature of the securities.
Gilts and Index-Linked Gilts	Passive	Government bond fund have no underlying investee companies as such. Therefore, the Trustees believe there is less scope for the consideration of ESG issues to improve risk-adjusted returns in this asset class because of the nature of the securities.

The Trustees will review the stewardship policies/review whether their stewardship policies are aligned of any new investment managers appointed, as well as assessing the stewardship and engagement activity of the current Investment Managers on an ongoing basis.

10 Conflicts of Interest

The Trustees maintain a separate conflicts of interest policy and a conflicts register.

Subject to reasonable levels of materiality, these documents record any actual or potential conflicts of interest in relation to investee companies or the Investment Manager, while also setting out a process for their management.

11 Duration of Investment Arrangements

The Trustees are long-term investors and have not set an explicit target to review the duration of their arrangement with the investment manager. However, the arrangements will be reviewed in conjunction with any review of the investment strategy.

12 Incentivisation of Investment Managers

The Investment Managers are primarily remunerated based on an agreed fixed annual percentage of the asset value for each underlying fund.

The Trustees do not directly incentivise the Investment Managers to align the approach they adopt for a particular fund with the Trustees' policies and objectives. Instead, the Investment Managers are selected so that, in aggregate, the risk-adjusted returns produced are expected to meet the Trustees' objectives.

Neither do the Trustees directly incentivise the Investment Managers to make decisions about the medium to long-term performance of an issuer of debt or equity, or to engage with those issues to improve their performance. The Trustees expect such assessment of performance and engagement to be undertaken as appropriate and necessary to meet the investment objectives of the funds used by the Scheme.

13 Portfolio Turnover Costs

The Trustees expect the Investment Managers to change underlying holdings only to an extent required to meet their investment objectives. The reasonableness of such turnover will vary by fund and change according to market conditions.

The Trustees therefore do not set a specific portfolio turnover target for their strategy or the underlying funds.

The Investment Managers provide information on portfolio turnover and associated costs to the Trustees so that this can be monitored, as appropriate.

14 Monitoring

The Trustees employ Broadstone to assist them in monitoring the performance of the Scheme's investment strategy and Investment Manager.

The platform provider provides the Trustees with monthly reports setting out a valuation of the funds on the platform. The Trustees also receive quarterly reports from the platform provider and meet with its representatives periodically to review their investment performance and processes.

The platform provider and Investment Managers will supply the Trustees with sufficient information each quarter to enable them to monitor financial and non-financial performance. The Trustees and Broadstone will monitor the Investment Manager's performance against their performance objectives.

The appropriateness of the Investment Manager's remuneration will be assessed relative to market costs for similar strategies, the skill and resources required to manage the strategy, and the success or otherwise a manager has had in meeting its objectives, both financial and non-financial.

The Trustees will consider on a regular basis whether or not the Investment Managers and AVC providers remain appropriate to continue to manage the Scheme's investments and AVCs.

15 Review of Statement

The Trustees will review this Statement if there is a significant change in the Scheme's investment strategy or a significant change in the regulations that govern pension scheme investment.

Richard Trussler

For and on behalf of Petty, Wood & Company Limited Retirement Benefits Scheme

Date: 27 November 2024

Appendix A Investment Strategy Implementation Summary

A.1 Target Asset Allocation

The Target Asset Allocation for the Scheme's assets is as follows:

Asset Class	Target Asset Allocation
Gilts and Index-Linked Gilts	63.0%
Corporate bonds	35.0%
Cash	2.0%
Total	100.0%

The balance between the gilt and index-linked gilt funds and corporate bond fund will vary over time. The target is indicative only and the underlying objective for these assets will be to maintain the target hedging levels, which protect against changes in long-term interest rates and inflation expectations.

A.2 Platform Provider

The Trustee has appointed Mobius Life Limited ("the Platform Provider") to provide a platform for the majority of the Scheme's assets. The Platform Provider is regulated under the Financial Conduct Authority and the Prudential Regulation Authority and has been selected in order to effect cost and operational efficiencies in the management of the assets. The Trustee utilises Mobius Life to access the Legal & General Investment Management ('LGIM') and M&G Investment Management fund investments. The Investment Managers are regulated under the Financial Conduct Authority.

A.3 Strategies and Funds

The Trustees use the following funds operated by the Investment Manager:

Asset Class	Funds
Gilts and Index-Linked Gilts	L&G Life All Stocks Gilts Index Fund
	L&G Life Over 15 Year Gilts Index Fund
	L&G Life Over 15 Year Index-Linked Gilts Index
Corporate bonds	M&G All Stocks Corporate Bond Fund
Cash	L&G Life Sterling Liquidity Fund

A.4 Target Hedging Ratios

The target hedging ratios against the interest rate risk and inflation risk associated with the Scheme's Solvency liabilities are summarised below:

	Target Hedging Ratio
Long-term interest rates	100%
Long-term inflation expectations	100%

A.5 Fund Performance Benchmarks and Objectives

The gilt and index-linked gilt funds and cash fund are index-tracking funds, meaning that their objective is to track the total return on a specified market index within an agreed margin over a specified timescale. The benchmark and tracking criterion for these funds are given below:

Fund	Benchmark	Tracking Criterion
L&G Life All Stocks Gilts Index Fund	FTSE Actuaries UK Conventional Gilts All Stocks Index	Track the performance of the benchmark to within $\pm 0.25\%$ p.a. for two years out of three.
L&G Life Over 15-year Gilts Index Fund	FTSE Actuaries UK Conventional Gilts Over 15 Years Index	Track the performance of the benchmark to within $\pm 0.25\%$ p.a. for two years out of three.
L&G Life Over 15-Year Index-Linked Gilts Index Fund	FTSE Actuaries UK Index Linked Gilts Over 15 Years Index	Track the performance of the benchmark to within $\pm 0.25\%$ p.a. for two years out of three.
L&G Life Sterling Liquidity Fund	SONIA	The investment objective of the fund is to provide diversified exposure and a competitive return in relation to its benchmark.

The M&G All Stocks Corporate Bond Fund used by the Trustees is actively managed, with an objective to outperform a specified market benchmark, as summarised below:

Fund	Benchmark	Performance Target
M&G All Stocks Corporate Bond Fund	iBoxx Sterling Non-Gilts Index	To outperform the benchmark by 0.80% per annum gross of fees on a rolling three-year basis.

A.6 Investment Management Charges

The annual management charges for each of the funds used, based on the assets under management at the date of this Statement, are given below:

Fund	Annual Management Charge
L&G Life All Stocks Gilts Index Fund	0.04% p.a.
L&G Life Over 15-Year Gilts Index Fund	0.04% p.a.
L&G Life Over 15-Year Index-Linked Gilts Index Fund	0.04% p.a.
L&G Life Sterling Liquidity Fund	0.05% p.a.
M&G All Stocks Corporate Bond Fund	0.29% p.a.

These charges exclude any Mobius Life Platform Fees.

A.7 Additional Voluntary Contributions (AVCs)

Members are not permitted to make AVCs to the Scheme. AVCs previously paid by members are invested with Aviva, Royal London and Utmost.