

# Petty, Wood & Company Limited Retirement Benefits Scheme

## Statement of Investment Principles

December 2021

## 1. Introduction

This Statement of Investment Principles has been drawn up by the Trustees of the Petty, Wood & Company Limited Retirement Benefits Scheme ('the Scheme') in accordance with Section 35 of the Pensions Act 1995, amended by Section 244 of the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005.

## 2. Decision Making Process

### The Trustees

The investment of the Scheme's assets is the responsibility of the Trustees and the Scheme Rules give the Trustees broad powers on investment. There are no restrictions (however expressed) on any power to make investments by reference to the consent of the Employer.

The Trustees' policy is to seek professional advice on investment strategy. They decide on the investment strategy after considering investment advice from the Investment Consultant. The Trustees recognise that their level of investment expertise must be kept under review in order to be able to critically evaluate this advice.

The Trustees meet regularly and ensure that adequate time is set aside to discuss investment issues. In determining their investment strategy, the Trustees address the following:

- the need to consider a full range of asset classes
- the risks and rewards of a range of alternative asset allocation strategies
- the suitability of each asset class
- the need for appropriate diversification
- the Scheme's Investment and Funding Objectives

### The Investment Consultant

The Investment Consultant advises on an investment strategy appropriate to the investment objectives. This advice is provided after each formal actuarial valuation and on a regular basis between formal valuations.

The Investment Consultant is paid a fee for their advice and their appointment is reviewed from time to time by the Trustees.

Broadstone Corporate Benefits Limited has been appointed as Investment Consultant to the Trustees on the basis that the Trustees believe them to be suitably qualified and have the appropriate knowledge and experience of the management of the investments of such schemes.

Broadstone Corporate Benefits Limited is authorised and regulated by the Financial Conduct Authority.  
The Employer

The Trustee Directors will consult with the Employer as part of the process for deciding on their investment strategy.

#### Delegation

The Trustees have a policy of delegating all day-to-day powers of investment to the Investment Managers who are authorised and regulated under the Financial Services and Markets Act 2000.

The safe custody of the Scheme's assets is delegated to professional custodians via the use of pooled vehicles.

### 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.

#### Investment Objectives

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

- achieve a return which is sufficient, over the longer 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 Objective

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

#### 4. Investment Strategy

The Trustee has adopted a target return approach for its investments in order to more closely align its investment strategy with its funding strategy and to reduce the overall level of volatility of investment return achieved.

Given its investment objectives, the Trustee has agreed the following long term strategic asset allocation, which should be broadly adhered to within a reasonable control range. The assets are held in a combination of pooled funds and are fully and readily realisable:

	<b>Strategic Asset Allocation</b>
Diversified Growth Funds	50%
Absolute Return Bond Funds	10%
<b>Total Return Seeking Assets</b>	<b>60%</b>
Liability matching / protection portfolio (LDI)	20%
Investment grade credit/ cashflow driven investment (CDI)	20%
<b>Total LDI and CDI</b>	<b>40%</b>

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

The Trustees agreed the range of funds used in the strategy taking into account the maturity of the liabilities. The Trustees are satisfied that the funds selected are consistent with their investment objectives and that the range agreed is sufficiently robust to allow easy adjustment between the funds as the risk appetite changes and the Scheme matures.

The Trustees may, from time to time, decide to change the funds used within the overall investment strategy and the investment allocation between the funds as alternatives emerge, funds change and the Scheme develops.

#### 5. Cash flow and Rebalancing

New money will be invested (or disinvestments required for cash flow made) on a mechanical basis to bring the asset allocation back to the benchmark strategy as far as possible.

The Trustees are mindful of the need to rebalance the assets of the Scheme in line with the Scheme's strategic benchmark asset allocation and/or when any control limits are breached. The Trustees will monitor the Scheme's actual asset allocation on a regular basis and will decide on a course of action which may involve redirecting cash flows, a switch of assets or taking no action, taking into account advice from the Investment Consultant.

## 6. Expected Return

The Trustees expect the return on assets to be consistent with the investment objective and investment strategy outlined on the previous pages.

The Trustees expect to generate a return over the long-term of circa 1.75% per annum (net of expenses) above a portfolio of long dated UK Government bonds (which are considered to change in value in a similar way to the Scheme's liability values). This return is a 'best estimate' of future returns that has been arrived at given the Scheme's longer term asset allocation and in the light of advice from the Investment Consultant.

The Trustees recognise that, over the short-term, performance may deviate significantly from this long-term expectation. This 'best estimate' will also generally be higher than the estimate used for the actuarial valuation of the Scheme's liabilities. For this purpose, a more prudent estimate of returns will generally be used, agreed by the Trustees on the basis of advice from the Scheme Actuary.

## 7. Investment Managers

The Trustees utilise a platform provider to manage the assets of the Scheme. The platform provider is regulated under the Financial Services and Markets Act 2000. The Trustees entered into a contract with Mobius in January 2018.

The Trustees have decided to invest in pooled funds, other collective investment vehicles, and cash. The Scheme does not invest directly in stocks, shares, bonds, derivatives etc.

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
- pooled funds provide a more liquid form of investment than certain types of direct investment

The platform provider appoints individual custodians to hold the securities owned by the Scheme.

## 8. Investment Monitoring

The platform provider provides the Trustees with monthly reports setting out a valuation of the funds.

The Investment Consultant will provide periodic advice to the Trustees, commenting on performance and asset allocation.

## 9. 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 when requested by the Investment Consultant shall provide information on portfolio turnover and associated costs so that this can be monitored, as appropriate.

## 10. Corporate Governance

The Trustees wish to encourage best practice in terms of activism. The Trustees accept that by using pooled investment vehicles, the day-to-day application of voting rights will be carried out by the Investment Managers. Consequently, the Trustees expect the Scheme's Investment Managers to adopt a voting policy that is in accordance with best industry practice.

## 11. Socially Responsible Investment

The Trustees have appointed authorised professional Investment Managers through the platform provider and have given them discretion in relation to the selection, retention and realisation of investments.

The Trustees do not impose social, environmental or ethical considerations on the Investment Managers in relation to the selection, retention and realisation of investments as they believe these might conflict with their overriding responsibilities to the Scheme beneficiaries.

## 12. Environmental, social and governance (ESG) investment considerations

- Financial factors relating to ESG: When considering investment 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.

This Statement of Investment Principles sets down how we operate and is our over-riding guidance. We seek professional advice in investment strategy and expect the Investment Consultant to include ESG considerations, such as climate change over the time horizon of the investment, within their recommendations. If any ESG considerations impact our ability to meet our investment objectives they are fully discussed and deliberated on by the Trustees and conclusions made thereon.

- 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 good reason to consider members have a contrary view; we are satisfied that any new investment does not present 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 will therefore not be taking non-financial factors into account. Should any element of that change in the future then we will review our policy accordingly.

Responsibility for monitoring the makeup and development of the capital structure of investee companies is delegated to the Investment Managers. The Trustees expect the extent to which the Investment Managers monitor capital structure to be appropriate to the nature of the mandate.

### 13. Conflicts of Interest

The Trustees maintain a separate conflicts of interest policy and 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 Managers, while also setting out a process for their management.

### 14. 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 and the funds are selected so that, in aggregate, the 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.

### 15. Employer Related Investments

The Trustees' 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.

## 16. Risks

The Trustees recognise that a number of risks are involved in the investment of the assets of the Scheme. They have identified the following principal risks which have the potential to cause deterioration in the Scheme's funding level:

- Solvency risk: The risk that the fund has insufficient assets to meet all its liabilities as they fall due
- Mismatching risk: The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors
- Manager risk: The failure by the Investment Managers to achieve the rates of investment return assumed
- Liquidity risk: The risk of a shortfall of liquid assets relative to the Scheme's immediate liabilities
- Custodian risk: The risk of failed or inadequate performance by the custodian
- Concentration Risk: The risk that the performance of any single investment that constituted a large proportion of the assets would disproportionately influence the overall level of assets
- Political risk: The financial risk that a country's government will suddenly change its policies
- Sponsor risk: The possibility of failure of the Scheme's sponsoring employers
- Counterparty risk: The risk that other parties in any trade or position will default, i.e. will renege on their contractual obligations, resulting in a financial loss to the Scheme

Due to the complex and interrelated nature of these risks, the Trustees consider the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review. Some of these risks may also be modelled explicitly during the course of such reviews.

The policy of the Trustees is to monitor, where possible, these risks on a regular basis. The Trustees therefore consider:

- The actual funding level versus the Statutory Funding Objective
- Actual performance versus the Scheme's investment and funding objectives
- Investment Managers' performance versus their respective benchmarks and targets
- Any significant issues with the Investment Manager that may impact their ability to meet investment performance objectives set by the Trustees

## 17. Fee Structures

The Investment Managers are paid a management fee on the basis of assets under management. Monitoring and assessment of Investment Managers financial and non-financial performance is regularly conducted by the Trustees to ensure performance aligns with investment policies including



in relation to ESG matters. This is via regular investment reports provided by Investment Managers. Failure to achieve the expected return on assets will, over time, result in Trustees looking at alternative funds solutions.

The Investment Consultant is paid on a project basis which may be a fixed fee or based on time cost, as negotiated by the Trustees in the interests of obtaining best value for the Scheme.

## 18. Best Practice Principles

In October 2008, the Government published the results of its consultation on revisions to the Myners' principles in response to recommendations made by the National Association of Pension Funds (NAPF) in 2007. This takes the form of six high level 'Best Practice' principles set out below, supported by best practice guidance and trustee tools that can be used to assess compliance.

1. Effective decision-making
2. Clear objectives
3. Risk and Liabilities
4. Performance assessment
5. Responsible ownership
6. Transparency and Reporting

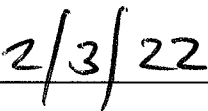
The Trustees periodically review their compliance with the best practice Principles. The Trustees believe that they comply with the spirit of the Principles. There may be some instances of deviation from the published 'Best Practice Guidance' on the Principles where the Trustees believe this to be justified.

## 19. Review of this Statement

The Trustees will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believe to be qualified by their ability in, and experience of, financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.




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



Date

Signed



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**For and behalf of the Employer**

2/3/22

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Date