

# **Tullis Russell Pension Scheme**

## **Statement of Investment Principles**

### **Purpose of this document**

This document explains how the assets of the Tullis Russell Pension Scheme (the "Scheme") are to be invested. It also outlines the principles which govern the strategic investment decisions.

The principles are set by the Trustees of the Scheme. The Trustees have prepared this document and keep it up to date. The effective date of this statement is 30<sup>th</sup> June 2020.

The Scheme has a defined benefit ("DB") section only following the wind up of the defined contribution ("DC") section in 2018. In this document the Trustees set out the Scheme's investment objectives and investment principles for the DB section.

In preparing this document, the Trustees have consulted the employer, the Tullis Russell Group Limited (the Company). In setting the investment strategy, the Trustees have received written investment advice from Isio.

### **Investment objective**

The main purpose of the Scheme is to provide the benefits to its members and their dependants as set out in the Trust Deed and Rules. The Trustees' investment objective is to invest the assets and the contributions received from the Company and members to build up the assets to a level which is sufficient to pay these benefits as and when they fall due (i.e. to a funding level which, in the Trustees' view, minimises reliance on the sponsor).

The long term funding objective is to reach a funding position such that all Members' benefits can be secured within an insurance contract (i.e. reach full funding on an insurance buy-out basis). The Trustees also monitor the Scheme's funding position on a Technical Provisions basis – such a target being consistent with the strength of the employer covenant and the Trustees' investment risk tolerance. The Trustees consider other relevant bases for valuation and accounting. Funding positions are monitored regularly by the Trustees and formally reviewed at each triennial valuation, or more frequently as required by the Pensions Act 2004.

### **Kinds of investments and the balance between them**

The Trustees have translated their objectives into a suitable strategic asset allocation benchmark for the Scheme (the "strategic benchmark"). All day to day investment decisions have been delegated to a number of authorised investment managers. The strategic benchmark (set out in Appendix 1) is reflected in the choice and mix of funds in which the Scheme invests. The Scheme benchmark is consistent with the Trustees' views on the appropriate balance between seeking an enhanced long term return on investments and accepting greater short-term volatility and risk.

The investment strategy takes due account of the maturity profile of the Scheme, together with the level of disclosed surplus or deficit (relative to both Technical Provisions and Gilts, which serve as a proxy for an insurance buy-out funding basis). The Trustees monitor fund performance relative to their agreed asset allocation benchmark on a quarterly basis. It is intended that investment strategy will be reviewed at least every three years following actuarial valuations of the Scheme, and will normally be reviewed annually. In monitoring performance and setting strategy, the Trustees seek written advice from a suitably qualified person as required.

The Scheme has exposure to both public and private investment markets, and employs a mix of both active and passive management.

The Trustees believe that asset allocation is the most important investment decision in determining investment risk and return. The end of year asset allocation of the Scheme is set out in the latest version of the Annual Report and Accounts which is available on request. The strategic benchmark and manager objectives are included

within Appendix 1.

When deciding whether or not to make any new direct investments the Trustees will obtain written advice and consider whether future decisions about those investments should be delegated to the relevant fund manager(s) (recognising that responsibility for all strategic investment matters is retained by the Trustees).

#### **Investment risk measurement and management**

The principal risk for the Scheme is the failure to pay benefits as and when they are due. Therefore investing in assets that do not match the liabilities is a risk and this must be managed. The Trustees intend to make efficient use of investment risk to achieve its investment objective by hedging the principal underlying risks (interest rates and inflation) and regularly monitoring the performance of the growth assets relative to their performance objective.

In addition, the Scheme holds bulk annuities which pay out cashflow to match a portion of the benefit payments.

Further information on the risks, financially material considerations and non-financial matters that have been considered when deciding on the Scheme's investment strategy are set out in appendices 2 and 3.

#### **Selecting and monitoring asset managers**

The Trustees are responsible for investing the assets of the Scheme and are responsible for all strategic investment decisions. It has delegated the day to day decisions for buying and selling underlying investments to its asset managers as set out in Appendix 1.

#### **The expected return on investments**

The Scheme's present investment objective is to achieve a return of around 2.4% per annum above the return on a liability matching portfolio of UK Government bonds.

#### **The realisation of investments**

In both sections, the Trustees expect the underlying fund managers to exercise all day-to-day decisions about the investments that fall within each mandate, including the realisation of investments.

#### **Environmental, social and governance considerations**

The Trustees acknowledge that an understanding of financially material considerations including environmental, social and corporate governance (ESG) factors (such as climate change) and risks related to these factors can contribute to the identification of investment opportunities and financially material risks.

As part of their delegated responsibilities, the Trustees expect the Scheme's investment managers to take into account ESG considerations (including long-term risks posed by sustainability concerns including climate change risks) in the selection, retention and realisation of investments. Any decision should not apply moral judgments to these issues but should consider the sustainability of business models that are influenced by them. The Trustees' full policy on ESG is set out in Appendix 2.

#### **Stewardship - voting and engagement**

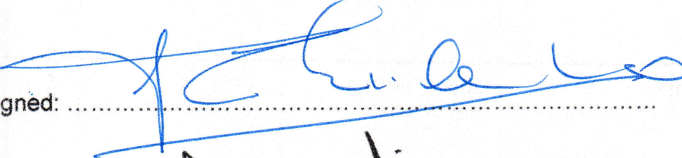
The Trustees recognise the importance of their role as a steward of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Trustees recognise that ultimately this protects the financial interests of the Scheme and its beneficiaries.

The Trustees expect the Scheme's investment managers to use their influence as major institutional investors to carry out the Trustees' rights and duties as a shareholder including voting, along with -

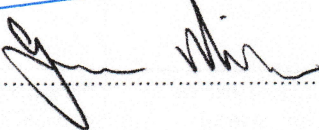
where relevant and appropriate - engaging with underlying investee companies to promote good corporate governance, accountability, and positive change.

The Trustees expect that their investment managers will provide details of their stewardship policy and activities on at least an annual basis and will monitor this with input from their investment consultant.

The Trustees will engage with their investment managers where necessary for more information.

Signed: 

Date: 09/09/2020

Signed: 

Date: 09/09/2020

For and on behalf of the Trustees of the Tullis Russell Pension Scheme

## Appendix 1 - Investment Funds

The end of year asset allocation of the Scheme is set out in the latest version of the Annual Report and Accounts which is available on request.

The Scheme's strategic benchmark and underlying manager terms are included below:

Fund Name	Benchmark Index	Performance Target	Annual Management Charge	Strategic Benchmark Allocation
M&G Alpha Opportunities Fund	UK LIBOR - 1 Month	Libor + 2.5% to 4.5% p.a. (net of fees)	0.5%	25%
CQS Credit Multi Asset Fund	UK LIBOR - 3 Month	Libor + 4% p.a. (net of fees)	0.60%	25%
Partners Group PMCS (2020)	N/A	Libor + 4% p.a. (net of fees)	0.8% p.a. on invested capital plus 0.1% establishment fee.  There is also a performance fee of 8% p.a. subject to a preferred return of 4% with catch up.	15%
BlackRock Liability Matching Funds	To hedge 70% of the movement in long-term interest rates and inflation (on a flat gilts basis)	To track and match the liabilities of the Scheme within a reasonable tolerance	0.15%	35%
M&G Cash Fund	UK LIBID 7 Day Deposit Rate	To outperform the benchmark gross of fees on a rolling three year basis	0.10%	n/a
BlackRock ICS Sterling Liquidity Fund	UK LIBID 7 Day Deposit Rate	To outperform the benchmark gross of fees on a rolling three year basis	0.07%	n/a

Notes: The Partners Group allocation to Direct Lending was agreed in principle by the Trustees in Q1 2020 but has not yet been committed due to the 2020 fund not being open at the point of writing. In addition to the above, the Scheme holds bulk annuities with Aviva PLC.



## Appendix 2 – Risks, financially material considerations and non-financial matters

A non-exhaustive list of risks and financially material considerations that the Trustees have considered and sought to manage is shown below.

The Trustees adopt an integrated risk management approach. The three key risks associated with-in this framework and how they are managed are stated below:

Risks	Definition	Policy
Investment	The risk that the Scheme's position deteriorates due to the assets underperforming.	<ul style="list-style-type: none"> <li>Selecting an investment objective that is achievable and is consistent with the Scheme's funding basis and the sponsoring company's covenant strength.</li> <li>Investing in a diversified portfolio of assets.</li> </ul>
Funding	The extent to which there are insufficient Scheme assets available to cover ongoing and future liability cash flows.	<ul style="list-style-type: none"> <li>Funding risk is considered as part of the investment strategy review and the actuarial valuation.</li> <li>The Trustees will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey Scheme is agreed to manage funding risk over time.</li> <li>Direct funding risks resulting from interest rates and inflation movements are hedged to a reasonable level.</li> </ul>
Covenant	The risk that the sponsoring company becomes unable to continue providing the required financial support to the Scheme.	<ul style="list-style-type: none"> <li>When developing the Scheme's investment and funding objectives, the Trustees take account of the strength of the covenant ensuring the level of risk the Scheme is exposed to is at an appropriate level for the covenant to support.</li> </ul>

The Scheme is exposed to a number of underlying risks relating to the Scheme's investment strategy, these are summarised below:

Risk	Definition	Policy
Interest rates and inflation	The risk of mismatch between the value of the Scheme assets and present value of liabilities from changes in interest rates and inflation expectations.	<ul style="list-style-type: none"> <li>To hedge 70% of movements in interest rates and inflation on a flat gilts basis.</li> </ul>
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	<ul style="list-style-type: none"> <li>To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members' benefits as they fall due (including transfer values), and to provide collateral to the LDI manager.</li> </ul>
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	<ul style="list-style-type: none"> <li>To remain appropriately diversified and hedge away any unrewarded risks, where practicable.</li> </ul>
Credit	Default on payments due as part of a financial security contract.	<ul style="list-style-type: none"> <li>To diversify this risk by investing in a range of credit markets across different geographies and sectors.</li> <li>To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Scheme for the risk of default.</li> </ul>
Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Scheme's investments.	<ul style="list-style-type: none"> <li>To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria:</li> </ul>

		<ol style="list-style-type: none"> <li>1. Responsible Investment ('RI') Policy / Framework</li> <li>2. Implemented via Investment Process</li> <li>3. A track record of using engagement and any voting rights to manage ESG factors</li> <li>4. ESG specific reporting</li> <li>5. UN PRI Signatory</li> </ol> <ul style="list-style-type: none"> <li>• The Trustees monitor the managers on an ongoing basis.</li> </ul>
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	<ul style="list-style-type: none"> <li>• Hedge all currency risk on all assets that deliver a return through contractual income</li> </ul>
Non-financial	The views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life of the members and beneficiaries of the Scheme in the selection, retention and realisation of investments.	<ul style="list-style-type: none"> <li>• Non-financial matters are not taken into account in the selection, retention or realisation of investments unless specifically requested as part of the evaluation criteria when selecting managers. However, the Trustees may take specific non-financial matters into consideration if they represent the view of a majority of Scheme members.</li> </ul>

### Appendix 3 – Policy on Investment Manager Arrangements

The Trustees have the following policies in relation to the investment management arrangements for the Scheme:

How the investment managers are incentivised to align their investment strategy and decisions with the Trustees policies.	<ul style="list-style-type: none"> <li>As the Scheme is invested in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustees policies. However, the Trustees invest in a portfolio of pooled funds that are aligned to the strategic objective.</li> </ul>
How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.	<ul style="list-style-type: none"> <li>The Trustees review the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements.</li> <li>The Trustees monitor the investment managers' engagement and voting activity on an annual basis as part of their ESG monitoring process.</li> <li>The Trustees do not incentivise the investment managers to make decisions based on non-financial performance.</li> </ul>
How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustees policies.	<ul style="list-style-type: none"> <li>The Trustees review the performance of all of the Scheme's investments on a quarterly basis and net of all costs to ensure a true measurement of performance versus investment objectives.</li> <li>The Trustees evaluate performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years.</li> <li>Investment manager fees are reviewed annually to make sure the correct amounts have been charged and that they remain competitive.</li> </ul>
The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.	<ul style="list-style-type: none"> <li>The Trustees do not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.</li> </ul>
The duration of the Scheme's arrangements with the investment managers	<ul style="list-style-type: none"> <li>The duration of the arrangements is considered in the context of the type of fund the Scheme invests in. <ul style="list-style-type: none"> <li>For closed ended funds or funds with a lock-in period the Trustees ensure the timeframe of the investment or lock-in is in line with the Trustees objectives and Scheme's liquidity requirements.</li> <li>For open ended funds, the duration is flexible and the Trustees will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.</li> </ul> </li> </ul>