Bespak Plc Staff Retirement Benefits Scheme

Statement of Investment Principles – April 2023

1. Introduction

The Trustees of the Bespak Plc Staff Retirement Benefits Scheme (the “Scheme”) have drawn up this Statement of Investment Principles (the “Statement”) to comply with the requirements of the Pensions Act 1995 (the" Act”) and subsequent legislation. The Trustees have consulted a suitably qualified person by obtaining written advice from Mercer Limited (the” Investment Consultant”). The Trustees in preparing this Statement have also consulted the Principal Employer and other participating employers, in particular on the Trustees’ objectives.

Overall investment policy falls into two parts; the strategic management of the assets, which is fundamentally the responsibility of the Trustees, and the day-to-day management of the assets, which is delegated to professional investment managers.

This Statement sets out the general principles underlying the investment policy. Details of how this policy has been implemented are set out in a separate Investment Policy Implementation Document (“IPID”), which should be read in conjunction with this Statement.

2. Investment Objectives and Risk

2.1 Investment Objectives

The Trustees’ primary objective is to invest the Scheme’s assets in order to meet the contractual benefit obligations to the Scheme’s membership, as and when they fall due.

Subject to the above, the Trustees’ overall investment policy is to maximise the return on the investments without exceeding the limits of prudent pension fund investment, which, over the long term, is expected to satisfy the long term rate of return assumption adopted by the Scheme Actuary. Over the short term, the objective is to achieve a favourable return against the Scheme-specific strategy, as defined in Section 2.3.

2.2 Risk Management and Measurement

The primary risk upon which the Trustees focus is that arising through a mismatch between the Scheme’s assets and its liabilities.

The Trustees recognise that in order to increase potential returns over a long period, it is necessary to take some investment risk. This also increases the risk of a shortfall in returns relative to that required to cover the Scheme’s accrued liabilities as well as producing more short-term volatility in the Scheme’s funding position. The Trustees have taken advice on the matter and (in light of the objectives noted previously) considered carefully the implications of adopting different levels of risk.

The Trustees recognise that in order to achieve an expected return in excess of gilts, there is a likelihood of volatility in returns relative to movements in the value of the Scheme’s liabilities. The value of the liabilities moves in line with gilt yields (and, hence, with gilt prices), so investing a significant proportion of the Scheme’s assets in equities and other non-gilt assets introduces a mismatch risk.

Whilst this risk could lead to volatility in the funding level disclosed at a subsequent actuarial valuation, it is felt that this risk is acceptable in view of the potential benefits of the expected extra returns. The additional returns should work through ultimately to greater security for members of the Scheme and lower costs falling on the Principle Employer.

In addition to this primary risk, the Trustees also recognise the risks that may arise from the lack of diversification of investments and the risk of holding unsuitable investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustees aim to ensure the asset allocation policy in place results in an adequately diversified portfolio. Additionally, the documents governing the manager appointments include a number of guidelines, which are designed to ensure that only suitable investments are held by the Scheme.

The Trustees also acknowledge the risk that ESG factors and climate change (including but not limited to carbon emissions) may impact the value of investments, due to its effect on natural and human systems, across geographies in different ways. The Trustees intend to explicitly consider these factors when determining the investment strategy. This position is kept under review.

During 2017, the Trustees implemented a Liability Driven Investment ("LDI") solution with the purpose of improving the degree to which the Scheme's assets match the interest rate and inflation sensitivities of the Scheme's liabilities. In doing so, the Trustees expect the Scheme's funding level to exhibit less volatility. Further, as the LDI solution deployed leverage, the Scheme was able to do so without reducing its allocation to return seeking assets (e.g. equities).

The use of leverage, within the LDI solution, exposes the Scheme to some additional risks:

- **Counterparty risk** arises from the possibility that counterparty to a derivative contract will default on its contractual obligations.

- **Collateral adequacy** risk which requires the Trustees to make available assets to meet derivative obligations in response to changes in interest rates and inflation expectations (typically arises when interest rates rise and inflation falls). A strong collateral management process should be used to mitigate the risk of not being able to meet these requirements. The Trustees have in place an Enhanced Arrangement with the LDI manager, which includes a pre-defined collateral waterfall which helps to manage collateral adequacy. Additionally, the strategic asset allocation to the LDI portfolio has been determined by the Trustees to ensure that sufficient liquid assets are available to meet collateral calls from the leveraged funds, in line with guidance from regulators.

- **Roll risk** which can arise if the manager forgets to roll a derivative contract or liquidity may become poor at future roll dates and in extreme circumstances, you may not be able to roll the position.

The Trustees delegate, to their LDI manager, the responsibility to monitor and manage these risks on a day-to-day basis.

The safe custody of the Scheme's assets is delegated to professional custodians (either directly or via the use of pooled vehicles).

Additionally, the Trustees are required to provide narrative disclosures on the credit and market risks (namely credit, interest rate and other price risk) arising from its investment arrangements in the Trustees Annual Report and Accounts.

2.3 Strategic Asset Allocation

The Trustees have set the following strategic asset allocation:

Asset Class	Benchmark Allocation %	Allowed Range %
Return-Seeking assets	20.0	15.0 – 25.0
- Global Equities (50% currency hedged)	20.0	-
Bond assets	80.0	75.0 – 85.0
- UK Corporate Bonds and Buy & Maintain Credit	35.0	-
- LDI Solution (incl. cash)	45.0	-
Total	**100.0**	

The Trustees believe that the asset allocation benchmark above is currently appropriate for controlling the risks identified in Section 2.2.

Although member views are not currently taken into account when determining the investment strategy or underlying manager structure, the Trustees will review the position periodically.

3. Day to Day Management of the Assets

3.1 Main Assets

The Trustees delegate the day to day management of the assets to Legal & General Investment Management. The Trustees have taken steps to satisfy themselves that the manager has the appropriate knowledge and experience for managing the Scheme's investments and that it is carrying out the work competently. As schemes mature it is not uncommon to see assets invested with one manager, particularly as the matching portfolio grows in importance and size.

The Trustees regularly review the continuing suitability of the Scheme's investments, including the appointed manager and the balance between active and passive management, which may be adjusted from time to time. However, any such adjustments would be done with the aim of ensuring the overall level of risk is consistent with that being targeted as set out in Section 2.

The Trustees review the Scheme's asset allocation on a quarterly basis and will transfer assets between asset classes or direct any future net cash flows to rebalance the asset allocation if agreed and required.

As the Scheme only invests in pooled vehicles, the Trustees have limited scope to influence the investment restrictions on the underlying assets held. The Trustees do not currently monitor exposure to sensitive areas but this position is kept under review.

Details of the appointed manager can be found in the IPID.

3.2 **Additional Voluntary Contributions**

In addition to the above, for members who have previously paid Additional Voluntary Contributions (AVCs), the Trustees make available six funds managed by abrdn plc (formerly Standard Life Aberdeen plc) into which they may invest their AVCs. No new AVCs can be paid by members.

The Trustees regularly review the arrangements and, in so doing, obtain appropriate advice.

4. Responsible Investment and Corporate Governance

The Trustees believe that good stewardship and environmental, social and governance (“ESG”) issues are consistent with their fiduciary duties and may have a material impact on investment returns. It also recognises that long term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration. Over time, the Trustees intend to develop a means of measuring the impact of these issues on the asset portfolio. As the Scheme only invests in pooled vehicles, the Trustees recognise that the Investment Manager has full discretion when evaluating ESG issues and in exercising rights and stewardship obligations attached to the Scheme's investments as well as the degree to which they are integrated into its investment processes.

Similarly, the Scheme's voting rights are exercised by its investment manager in accordance with its own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code. The investment manager is expected to provide voting reports to the Trustees on request.

The Trustees will review the extent, and the manner in which, the Scheme’s manager exercises its voting rights and undertake engagement activity on an annual basis. As part of their due diligence ahead of funding a new mandate, the Trustees will consider and review the manager’s policies in respect of voting and engagement. This will be supplemented by Mercer’s ESG rating’s which are used as part of the ongoing monitoring of the Scheme’s investments. The Mercer ESG ratings, for the strategies held, are reviewed on a quarterly basis and, once a year, the Trustees will consider them relative to their peers. The Trustees intend to supplement this with specific ESG metrics as they become more widely available.

5. Manager Arrangements

5.1 **How the arrangements with the Manager incentivises it to align its investment strategy and decisions with the Trustees’ policies**

Managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class they are selected to manage.

Ahead of investing, the Trustees undertake due diligence[1] and seek the views of their investment advisors to support decisions around selection (and retention). Should a Manager make changes to any of these factors, the Trustees will assess their impact and (where no longer aligned) consider what action to take.

The Trustees currently only invest in pooled investment vehicles. The Trustees therefore accept they cannot specify the risk profile and return targets of the manager, but pooled funds are chosen with appropriate characteristics to align with the overall investment strategy.

5.2 **How the arrangements incentivises the Manager to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer**

The Trustees aim to meet with the Manager as deemed appropriate, to discuss performance and other investment related matters (including integration of ESG and climate change into the investment process and voting and engagement activities). As part of this, the Trustees will challenge decisions that appear out of line with the Scheme’s stated objectives and/or policies.

To assist with this, the Trustees consider Mercer’s assessment of how the Manager embeds ESG considerations into its investment process and explores how it aligns with its responsible investment policy. This is monitored on a quarterly basis as part of the Scheme’s performance reporting.

The Trustees consider the method of remunerating the Manager to be consistent with incentivising it to make decisions based on assessments of medium to long-term financial and non-financial performance of the issuer of debt or equity. By encouraging medium to long-term view, it will in turn encourage the Manager to engage with issuers of debt and equity in order to improve its performance in the medium to long-term.

The Manager is aware that its ongoing appointment is based on its success in delivering the mandate for which it is appointed over the long term. Consistent periods of underperformance could lead to the Manager being terminated.

5.3 **How the method (and time horizon) of the evaluation of the Manager’s performance and the remuneration for asset management are in line with the policy of the Trustees**

The Trustees review the performance of the Manager on a regular basis versus agreed benchmarks and targets, over multiple time periods, with an emphasis on the long-term.

The Trustees take a long-term view when assessing whether to replace the underlying investment managers, and such decisions would not be made solely based on short-term performance concerns. Instead, changes would be driven by a number of factors

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[1] Which includes but not limited to: the underlying assets held and how they will allocate between them; risks associated with the underlying mix of assets and the steps the Manager takes to mitigate them; expected return targeted by the Managers and details around realisation of the investment; and impact of financial and non-financial factors, including but not limited to ESG factors and climate change, on the investment over the long term.

that may lead to significant reduction in the Trustees' confidence that the Manager will be able to perform in line with the stated objective of a strategy over the long term.

5.4 **How the Trustees monitor portfolio turnover costs and how they define and monitor them**

Portfolio turnover costs refer to those incurred due to the buying, selling, lending or borrowing of investments. Given that the Scheme invests in a range of pooled investment vehicles, some of which invest across a wide range of asset classes, the Trustees do not have an overall portfolio turnover target.

The Trustees receive MiFID II reporting from the Manager, which provides this information, but do not monitor portfolio turnover costs and have not set ranges in respect of them. This position is kept under review.

5.5 **Duration of arrangement with Manager**

As the Trustees are long-term investors, they do not expect to make changes to the Manager on a frequent basis.

The Scheme only holds open-ended vehicles and expects to retain them unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class;

- The Manager appointed has been reviewed and the Trustees have decided to terminate the mandate.

6. Compliance with this Statement

The Trustees will monitor compliance with this Statement regularly, and in any event will review this Statement at least once every three years and without delay after any significant change in investment policy. The Statement will also be reviewed in response to any material changes to any aspects of the Scheme and its liabilities, finances and attitude to risk of the Trustees and Principle Employer, which they judge to have a bearing on the stated investment policy. Any such review will be based on written expert investment advice and will be in consultation with the Trustees and Principle Employer.

Approved: ……………………Carolan Dobson for Investment Trustee and Adviser Ltd.………….. Date:………24.07.2023…………………..
Trustee

For and on behalf of the Trustees of the Bespak Plc Staff Retirement Benefits Scheme