

# The M&H Staff Pension Plan

## Statement of Investment Principles

August 2019

# The M&H Staff Pension Plan

August 2019

## Contents

1.	Introduction	3
2.	Investment Objectives	4
3.	Investment Strategy	5
4.	Other Investment Considerations	7
5.	Monitoring	9
6.	Risks	10
	Appendix A – Responsibilities	12

# 1. Introduction

This document constitutes the Statement of Investment Principles (the "SIP") required under Section 35 of the Pensions Act 1995 for the M&H Staff Pension Plan (the "Plan"). It describes the investment policy being pursued by the Maynard & Harris Plastics Pension Trustee Limited (the "Trustee") and is constructed having in regards the Government's voluntary code of conduct for Institutional Investment in the UK (the "Myners Principles"). This SIP also reflects the requirements of Occupational Pension Schemes (Investment and Disclosure)(Amendment and Modification) Regulations 2018.

The Plan's Advisers include the Scheme Actuary, Stephanie Cole of XPS Pensions Limited, and the Investment Adviser, River and Mercantile Solutions (together, the "Advisers").

The Trustee confirms that, before preparing this SIP, they have consulted with Maynard & Harris Plastics ('the Sponsoring Employer') and the Scheme Actuary and has obtained and considered written advice from the Investment Adviser.

River and Mercantile Solutions have confirmed to the Trustee they are qualified by their ability in a practical experience of financial matters and have appropriate knowledge and experience of the management of investments of such schemes to give the advice required by the Pensions Act.

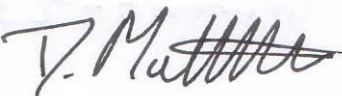
The Trustee is responsible for the investment of the Plan's assets and where they are required to make an investment decision, the Trustee always receives advice from the relevant Advisers first. The Trustee believe that this ensures that it is appropriately familiar with the issues concerned.

In accordance with the Financial Services & Markets Act 2000 ('FSMA'), the Trustee sets general investment policy, but has delegated day-to-day investment of the Plan's assets to be undertaken through the fiduciary management service of River and Mercantile Investments Limited, hereafter referred to as the 'Fiduciary Manager'.

The Plan is governed by its Trust Deed and Rules which set out all of the benefits in detail and specifies the Trustees' investment powers. This statement is consistent with those powers.

## Declaration

The Trustee confirms that this Statement of Investment Principles reflects the investment strategy it has implemented for the Plan. The Trustee acknowledges that it is its responsibility, with guidance from the Advisers, to ensure the assets of the Plan are invested in accordance with these Principles.

Signed 

Date 05/09/2019

For and on behalf of the Trustee of the M&H Staff Pension Plan.

## 2. Investment Objectives

The Pensions Act 2004 requires that, in most cases, a defined benefit occupational pension scheme is subject to a requirement (the statutory funding objective) that it must have or be due to receive or generate sufficient and appropriate assets to cover the scheme's 'Technical Provisions', that is, the amount required, on an actuarial calculation, to make provision for the scheme's liabilities.

The Trustees set as the main objective that they can meet their obligations to the beneficiaries. In meeting this objective the Trustee has set a number of specific qualitative and quantitative investment objectives.

### 2.1 Qualitative investment objectives

The Trustee's overall investment policy is guided by the following qualitative objectives:

- to ensure that the Plan's assets and future contributions are invested in such a manner that the benefits due to members and their beneficiaries can be paid from the Plan as they arise;
- to ensure the Plan's assets are invested in such a manner as to best assist in ensuring that the Statutory Funding Objective is met, having due regard to the risks set out in Section 6 of this statement;
- to ensure that the day to day investment policy takes account of the nature of the Plan's liabilities which are linked to final salary and are subject to annual increases in payment;
- to set and monitor realistic performance targets for the assets;
- to avoid significant volatility in the funding position of the Plan and the pensions expense in the Sponsoring Employer's company accounts; and
- to protect the Plan's funding against foreseeable risks by investing in appropriate insurance policies (such as life assurance policies to cover death benefit risks).

The ultimate long term objective of the Plan is to achieve a full buyout of all pension liabilities with an insurance company.

Finally the Trustee is required to use its power to invest in the best interests of members and beneficiaries and in a manner calculated to ensure the security, quality, liquidity, and profitability of the Plan.

### 2.2 Quantitative investment objective

The Trustee has translated these qualitative objectives into a measurable and quantifiable objective in relation to a gilts-based "Liability Benchmark" in order to monitor the ongoing performance of the Plan's investments.

The financial objective involves outperforming the Liability Benchmark by 3.2% p.a. The Liability Benchmark represents a proxy for the Plan's liabilities. It is defined as the estimated change in the present value of the expected Technical Provisions liability cashflows, after rolling forward and allowing for changes in gilt rates and implied inflation expectations. The Liability Benchmark is calculated by the Investment Adviser using cashflow information provided by the Scheme Actuary.

## 3. Investment Strategy

### 3.1 General Policies

The Trustee sets the investment strategy with regard to the Sponsor covenant and the Plan's liabilities. In setting the investment strategy, the Trustee has defined:

- A suitable liability-related return objective
- The 'matching/'growth' asset split to meet this objective.
- A liability hedge strategy to mitigate interest rate and inflation risk inherent in the liabilities.
- A fiduciary framework for the day-to-day management and implementation of the assets.

The 'matching and 'growth' components are comprised as follows:

#### **Growth assets**

- The focus is on return generation and taking risk in a controlled manner.
- Key principles applied for the growth assets include:
  - High degree of diversification.
  - Asset allocation based on prevailing market conditions.
  - Hedging of unwanted risks where cost effective to do so.
  - Appropriate use of active and passive management.
- Growth assets could include equities, credit including emerging market debt and high yield bonds, property, commodities, insurance-linked securities and absolute return funds, as well as other asset classes.
- Types of investments could include pooled vehicles, authorised unit funds, exchange traded funds, derivatives, segregated accounts and individual bonds.

#### **Matching assets**

- Invested in low risk assets such as fixed interest gilts, index-linked gilts and cash.
- Invested in assets for use as collateral to support and complement the Liability Hedge.

The Trustee's investment return objective guides the split of assets between the Matching and Growth components.

#### **Liability Hedge**

- Invested in interest rate swaps, inflation swaps and other derivatives.
- When combined with the Matching Assets:
  - The focus is risk management and protection relative to the liabilities.
  - The objective is to deliver a movement broadly in line with the movement in the Plan's liabilities for changes in interest rates and inflation expectations.

#### **Fiduciary Management**

- Day-to-day management and implementation of the investment strategy is delegated to a Fiduciary Manager subject to objectives and constraints set by the Trustee.
- River and Mercantile Investments Limited is appointed as the Plan's Fiduciary Manager.

## 3.2 Return Objective and Asset Allocation

Having considered advice from the Advisers, the Trustee has decided upon the following strategic asset allocation and long-term return objectives:

	Allocation	Long Term Return objective (net of fees)
Growth Assets	80%	4.0% p.a. in excess of 3 month LIBOR
Matching Assets	20%	Low risk assets to complement the liability hedge
<b>Total Fund objective</b>	<b>100%</b>	<b>3.2% p.a. in excess of Liability Benchmark</b>

## 3.3 Matching Assets and Liability Hedge

The Trustee has agreed the combination of the Matching Assets and Liability Hedge will target the following broad parameters:

	Interest Rates	Inflation
Liability basis to mitigate	Technical Provisions	Technical Provisions
Target liability hedge amount	100% across size of the assets	100% across size of the assets

## 3.4 Fiduciary Management

The Trustee employs River and Mercantile Investments Limited as Fiduciary Manager for day-to-day management and implementation of the assets. Delegated responsibilities are noted in Appendix A but include:

- Determining the asset allocation within the Growth Assets, Matching Assets and Liability Hedge.
- Selecting and determining the allocations to underlying funds or securities.
- Making changes to the assets where appropriate.

The Trustee and the Fiduciary Manager have agreed and will maintain a formal Investment Manager Agreement setting out the scope of the Fiduciary Manager's activities, the charging basis and other relevant matters. Asset class ranges and other restrictions have been set by the Trustee, under advice, for the Fiduciary Manager to operate within. The Fiduciary Manager is authorised and regulated by the Financial Conduct Authority.

## 4. Other Investment Considerations

### 4.1 Corporate Governance and Stewardship

The Plan's investments are generally made via pooled investment funds, in which the Plan investments are pooled with those of other investors. As such, direct control of the process of engaging with the companies that issue these securities, whether for corporate governance purposes or other financially material considerations, is delegated to the Underlying Managers.

The Trustee has delegated responsibility for monitoring and voting on their Underlying Manager holdings to the Fiduciary Manager. Due to the nature of these assets, there is a specific voting policy in relation to pooled fund general meetings. For any resolutions or extraordinary general meeting, the preparation of the votes are considered by the appropriate R&M Solutions Committee.

### 4.2 Financially material investment considerations

These considerations which include the "Risks" noted in section 6 can affect the long-term financial performance of investments and can (but do not have to) include environmental, social and governance factors (otherwise known as "ESG") where relevant. The Trustee delegates consideration of financially material factors to the Fiduciary Manager who considers these when constructing the portfolio, including looking at Underlying Managers. All references to ESG relate to financial factors only. All references to ESG also include climate change.

ESG factors and stewardship are considered, in the context of long term performance, by the Investment Manager as part of the manager selection criteria. This review occurs before Underlying Managers are approved for investment in the portfolio. Once an Underlying Manager is appointed, the Fiduciary Manager monitors the ESG implementation and ongoing compliance with other factors, such as stewardship, as a part of overall engagement.

### 4.3 Non-financially material investment considerations

The Trustee does not at present take into account non-financially material factors (such as members' ethical considerations, social and environmental impact matters or future quality of life considerations for members and beneficiaries) when making investment decisions as there is no likely common view on any ethical matters which members are likely to hold. At this time the Trustee has no plans to seek the views of the membership on ethical considerations.

### 4.4 Employer-Related Investments (ERI)

The Trustee policy is to fully satisfy the Investment Regulations on ERI.

### 4.5 Use of Derivatives

The Trustee may enter into contracts with counterparties, including investment banks, in order to execute derivative transactions. The Trustee has taken advice on the suitability of the contracts used and may delegate responsibility to an investment manager to implement these instruments on its behalf. These derivatives will typically be used for risk

management purposes (for example, for hedging currency risk, interest rate and inflation risks inherent in the Plan's liabilities, or falls in equity markets). However derivatives may also be used for efficient portfolio management purposes. All contracts will be fully collateralised to prevent excessive risk exposure to any counterparty.

## 4.6 Custody

The Trustee's regards the safekeeping of the Plan's assets as being of paramount importance.

The Trustee has appointed KAS Bank N.V. to arrange custodial services to safeguard the Plan's assets through a tri-partite Custody Agreement that includes the Fiduciary Manager. Although the Trustee has a direct contractual relationship with the Custodian, the appointment and monitoring of the Custodian is delegated to the Fiduciary Manager.

## 4.7 Realisation of Assets

The Trustee's policy is to ensure the assets invested are sufficiently realisable to enable it to meet its benefit obligations as they fall due. The Trustee is satisfied the arrangements in place adhere this policy as the majority of assets are held in readily tradable securities or pooled funds. The Trustee allows a limited amount of investment in illiquid assets (assets taking more than six months to fully liquidate) as they believe the expected return and risk reduction benefits are sufficient to compensate for the illiquidity and associated risks.



## 5. Monitoring

### 5.1 Fiduciary Manager

The Trustee, or Advisers on behalf of the Trustee, will monitor the performance of the Fiduciary Manager against the agreed performance objectives through the regular receipt of reporting.

The Trustee, or the relevant Adviser on behalf of the Trustee, will regularly review the activities of the Fiduciary Manager to satisfy itself that the Fiduciary Manager continues to carry out its work competently and has the appropriate knowledge and experience to manage the assets of the Plan.

As part of this review, the Trustee will consider whether or not the Fiduciary Manager:

- Is carrying out their function competently.
- Has regard to the need for diversification of investments.
- Has regard to the suitability of each investment and each category of investment.
- Has been exercising their powers of investment with a view to giving effect to the principles contained in this SIP, so far as is reasonably practical.

### 5.2 Advisers

The Trustee will monitor the advice given by the Advisers on a regular basis.

### 5.3 SIP

The Trustee will review this SIP at least every three years, or following any significant changes to the investment policy, and modify it if appropriate with consultation from the Advisers and the Sponsoring Employer. There will be no obligation to change this SIP, the Fiduciary Manager or Advisers as part of such a review.

### 5.4 Trustee

Through the minutes of each meeting, the Trustee maintains a record of all decisions taken, together with the rationale in each case.

## 6. Risks

The Trustee recognises a number of risks involved in the investment of the assets of the Plan. These risks, and how they are measured and managed, include:

- i. **Funding and asset/liability mismatch risk** – the risk that the funding level is adversely affected due to a mismatch between the assets and liabilities. This risk is managed in the following ways:
  - A Liability Benchmark is used as a proxy for the liabilities (as described in Section 2) in order to measure the approximate changes in the liabilities (due to changes to the relevant gilt yields and inflation expectations only). The Trustee monitors this change relative to the change in asset values on a quarterly basis. The Liability Benchmark is reviewed following each actuarial review or more frequently if required.
  - The Trustee also recognises the risk of a negative impact on the funding level due to changes in the actuarial assumptions used to calculate the liabilities and variation in experience. This is managed through aiming for a higher overall investment return than implied by the liabilities.
  - When setting and reviewing investment strategy, the Trustee examines how the investment strategy impacts on downside risk. Downside risk of the investment strategy is also measured by reference to the Liability Benchmark and can therefore be assessed as part of the quarterly review process.
  - This risk is also monitored through regular actuarial and investment reviews.
- ii. **Underperformance risk** – the risk of underperforming the benchmarks and objectives set by the Trustee. This risk is minimised using the following techniques:
  - Appropriate diversification across asset classes, within sectors and between individual stocks to minimise the effect of a particular stock or sector performing badly.
  - The use of instruments and strategies designed to control the extent of downside exposure.
  - The use of passive management for asset classes where the downside risk of active management is considered too high.
  - Regular monitoring of the active managers' performance, processes and capabilities with respect to their mandate, and by use of more than one manager to avoid over exposure to one organisation.
- iii. **Country risk** – the risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across many countries.
- iv. **Concentration risk** – the risk of an adverse influence on investment values from the concentration of holdings is reduced by the diversification of the assets.
- v. **Mismanagement risk** – the risk of unsuitable investment activity by the Fiduciary Managers. This is addressed in the agreements with the Fiduciary Manager which contain a series of restrictions. The activity of the Fiduciary Manager and its processes are monitored regularly by the Advisers on behalf of the Trustee.
- vi. **Organisational risk** – the risk of inadequate internal processes leading to problems for the Plan. This is addressed through regular monitoring of the Fiduciary Manager and Advisers.
- vii. **Counterparty risk** – the risk of the counterparty to an agreement not carrying out their side of the deal. Where derivatives are used, the risk of counterparty default is reduced through the requirement in the relevant documentation that regular collateral or margin payments be made. It is also considered in the selection of

counterparties and the incorporation of protection mechanisms in the documentation in the event of a downgrade in credit quality of an existing counterparty.

- viii. **Cash flow risk** – addressed through the monitoring of the cash flow requirement of the Plan to control the timing of any investment/disinvestment of assets.
- ix. **Sponsor risk** – the risk of the Sponsoring Employer ceasing to exist which, for reasons of prudence, has been taken into account when setting the asset allocation strategy. The Trustee regularly reviews the covenant of the Sponsoring Employer.
- x. **Credit risk** – the risk of income from assets not being paid when promised. This is addressed through restrictions for the Fiduciary Manager and that a high proportion of the bonds held are UK government bonds which have a lower probability of default risk.
- xi. **Market risk** which is comprised of three types of risk: currency risk, interest rate risk and other price risk.
  - Interest rate risk – the risk that the value of and income from a financial instrument will fluctuate because of changes in market interest rates. This can be mitigated with the implementation of liability hedging.
  - Currency Risk - the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The effect of this can be reduced by the Fiduciary Manager placing currency hedge trades to offset movements in exchange rates.
  - Other price risk – the risk that the value of and cash flow from a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). This price risk can be mitigated through effective diversification and asset allocation decisions.
- xii. **ESG risk** – the risk of adverse performance due to ESG related factors including climate change. This is addressed by the Fiduciary Manager’s ESG assessment at the point of investment with Underlying Managers. A summary of the overall ESG characteristics in the portfolio in the quarterly governance report.

## Appendix A – Responsibilities

### Trustee

The Trustee of the Plan is responsible for, amongst other things:

- i. Determining the investment objectives of the Plan and reviewing these from time to time.
- ii. Agreeing an investment strategy designed to meet the investment objectives of the Plan.
- iii. Reviewing regularly the content of this SIP and modifying it if deemed appropriate, in consultation with the Advisers and the Sponsoring Employer.
- iv. Reviewing the suitability of the investment policy following the results of each actuarial or investment review, in consultation with the Advisers.
- v. Assessing the quality of the performance and process of the Fiduciary Manager by means of regular reviews of the investment results and other information, by way of meetings and written reports, in consultation with the Advisers.
- vi. Appointing and dismissing the Fiduciary Manager and custodian in consultation with the Advisers.
- vii. Assessing the ongoing effectiveness of the Advisers.
- viii. Consulting with the Sponsoring Employer when reviewing investment policy issues.
- ix. Monitoring compliance of the investment arrangements within this SIP on an ongoing basis.
- x. Advising the Advisers of any changes to Plan benefits and significant changes in membership.

### Fiduciary Manager

The Fiduciary Managers will be responsible for, amongst other things:

- i. At their discretion, but within any guidelines given by the Trustee, implementing changes in the asset mix and selecting and undertaking transactions in specific investments within each asset class to achieve the stated objective.
- ii. Providing the Trustee with sufficient information each quarter to facilitate the review of its activities, including:
  - A report of the strategy followed during the quarter.
  - The rationale behind past and future strategy.
  - A full valuation of the assets and a performance summary.
  - A transaction report and a cash reconciliation (if requested).
- iii. Informing the Trustee immediately of:
  - Any breach of this SIP that has come to their attention.
  - Any serious breach of internal operating procedures.
  - Any material change in the knowledge and experience of those involved in managing the Plan's investments.

- Any breach of investment restrictions agreed between the Trustee and the Fiduciary Manager from time to time.

## Investment Adviser

The Investment Adviser will be responsible for, amongst other things:

- i. Participating with the Trustee in reviews of this SIP.
- ii. Advising the Trustee how any changes within the Plan's benefits, membership and funding position may affect the manner in which the assets should be invested.
- iii. Advising the Trustee of any changes in the Plan's Fiduciary Manager that could affect the interests of the Plan.
- iv. Advising the Trustee of any changes in the investment environment that could either present opportunities or problems for the Plan.
- v. Undertaking reviews of the Plan's investment arrangements including reviews of the asset allocation policy.
- vi. Assisting with the on-going governance of the investment strategy.

## Scheme Actuary

The Scheme Actuary will be responsible for, amongst other things:

- i. Liaising with the Investment Adviser on the suitability of the Plan's investment strategy.
- ii. Performing the triennial (or more frequently as required) valuations and advising on the appropriate contribution levels.
- iii. Commenting on the appropriateness of the investment strategy relative to the liabilities of the Plan at the triennial valuations.
- iv. Advising the Trustee and Investment Adviser of any changes to contribution levels and funding level.

## Custodian

The Custodian will be responsible for, amongst other things:

- i. Safe-keeping and administration of all the directly held assets.
- ii. Collecting income from assets and transferring it to the Trustee.
- iii. Processing all tax reclaims in a timely manner.
- iv. Reconciling records of assets held with those of the Fiduciary Manager.

## Legal Adviser

The Legal Adviser will be responsible for, amongst other things:

- i. Liaising with the Trustee to ensure legal compliance, including those in respect of investment matters.