The John Grooms Pension and Assurance Scheme

Statement of Investment Principles

September 2020

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1. Introduction

This document constitutes the Statement of Investment Principles ("the SIP") required under Section 35 of the Pensions Act 1995 for The John Grooms Pension and Assurance Scheme ("the Scheme"). This SIP details the matters that are required to be covered under Section 2 of the Occupational Pension Schemes (Investment) Regulations 2005 (the "Regulations"). It also has been prepared in accordance with the Government's voluntary code of conduct for Institutional Investment in the UK ("the Myners Principles").

The Investment Adviser is XPS Investment Limited.

The Trustees confirm that, in preparing this SIP, they have consulted with Livability ("the Employer") and the Scheme Actuary and have obtained and considered written advice from the Investment Adviser. The Trustees believe the Investment Adviser to be qualified by their ability and practical experience of financial matters and to have appropriate knowledge of the investment arrangements that the Scheme requires.

The Trustees are responsible for the investment of the Scheme's assets and arrange administration of the Scheme. In order to meet the requirements of S36 of the Pensions Act (choosing investments), where they are required to make an investment decision the Trustees obtain written advice from the Investment Adviser. They consider this to be proper advice as such term is defined in the Pensions Act 1995 because the Investment Adviser is authorised and regulated by the Financial Conduct Authority.

Given the size of the Scheme, the Trustees have decided the most cost effective way of investing the Scheme assets is to invest in pooled funds, rather than directly appointing an individual investment manager. Decisions about which pooled funds to invest in are made after receiving investment advice from the Investment Adviser.

In accordance with the Regulations this SIP will be reviewed at least every three years or on a significant change of investment policy.

1.1 Declaration

The Trustees confirm that this Statement of Investment Principles reflects the Investment Strategy they have decided to implement. The Trustees acknowledge that it is their responsibility, with guidance from the Advisers, to ensure the assets of the Scheme are invested in accordance with these Principles.

Signed ......[signature]...... **Date** ...21/9/20...

Name: ...Andrew WHITEHEAD...

For and on behalf of the Trustees of the Scheme

2. Scheme Governance

The Trustees are responsible for the governance and investment of the Scheme's assets. The Trustees consider that the governance structure set out in this SIP is appropriate for the Scheme as it allows the Trustees to make the important decisions on investment policy having obtained appropriate advice, while delegating the day-to-day aspects to the managers of pooled funds.

The Trustees have decided not to appoint an investment committee to delegate investment matters to.

3. Investment Objectives

The Trustees' main objectives are to seek to:

a) meet the benefit payments promised from the assets of the Scheme as they fall due;

b) maintain a degree of stability in terms of the value of the Scheme's assets compared to that of the Scheme's liabilities;

c) maximise the long term return on the Scheme's assets whilst having regard to the to the primacy of the above objectives; and

d) achieve a long-term return on the Scheme's assets that is at least equal to the discount rate assumed for actuarial valuations.

4. Asset Allocation Strategy

Having considered advice from the Investment Adviser, and also having due regard for the objectives, the liabilities of the Scheme, the risks of and to the Scheme and the covenant of the Employer, the Trustees have decided upon the strategic target asset allocation set out in the appendix.

The Trustees in conjunction with the Investment Adviser will regularly monitor the actual asset allocation of the Scheme's assets in each asset class against this benchmark.

The pooled funds that the Trustees have selected to achieve the investment objectives are detailed in the appendix. If any changes are required to be made to the pooled funds, the Trustees will first consult with the Investment Adviser but for the avoidance of doubt any such change will not in and of itself constitute a change of investment policy requiring a revision to this SIP.

4.1 Alignment of Incentives

Based on the structure set out in the Appendix, the Trustees consider the arrangements with the Investment Managers to be aligned with the Scheme's overall strategic objectives. Details of each specific mandate are set out in guidelines, agreements and pooled fund documentation with each Investment Manager.

The amounts allocated to any individual category or security will be influenced by the overall benchmark and objectives, varied through the Investment Managers' tactical asset allocation preferences at any time, within any scope given to them through any asset allocation parameters or guidelines set by the Trustees or governing the pooled funds in which the Scheme is invested.

The Trustees will ensure that the Scheme's assets are predominantly invested in regulated markets to maximise their security.

Investment Managers are incentivised to perform in line with expectations for their specific mandate as their continued involvement as Investment Managers as part of the Scheme's investment strategy – and hence the fees they receive – are dependent upon them doing so. They are therefore subject to performance monitoring and reviews based on a number of factors linked to the Trustees' expectations.

The Trustees encourage Investment Managers to make decisions in the long-term interests of the Scheme. The Trustees expect engagement with management of the underlying issuers of debt or equity and the exercising of voting rights in line with the investment mandate guidelines provided.

This expectation is based on the belief that such engagement can be expected to help Investment Managers to mitigate risk and improve long term returns.

As covered in more detail in this document, the Trustees also require the Investment Managers to take ESG factors and climate change risks into consideration within their decision making as the Trustees believe these factors could have a material financial impact in the long-term. The Trustees therefore make decisions about the retention of Investment Managers, accordingly.

4.2 Rebalancing Policy

Details of how the Trustees will review the allocation of assets compared to the benchmark strategy and any rebalancing policy in place are set out in the appendix.

4.3 Rates of Return and Fees

The objective returns allowing for the impact of fees and other expenses for each fund are detailed in the appendix.

4.4 Diversification

The use of pooled funds with minimum diversification requirements is designed to ensure that the Scheme's investments are adequately diversified given the Scheme's circumstances. Diversification is further enhanced by investing in funds which invest across multiple asset classes. The Trustees will monitor the strategy regularly to ensure that they are comfortable with the level of diversification.

4.5 Liquidity

The great majority of the assets are held in pooled funds with frequent redemption dates that are sufficiently liquid to be realised ahead of any planned or unexpected demand for cash. Furthermore the vast majority of underlying investments are traded regularly on a public exchange and accordingly there are no foreseeable circumstances in which redemption requests could not be met.

5. Monitoring

5.1 Pooled Funds

The Trustees will monitor the performance of the pooled funds against the target performance of the pooled fund.

The Trustees will receive regular performance monitoring reports from the Investment Adviser which consider performance over the quarter, one and three year periods.

This monitoring helps to determine an Investment Manager's ongoing role in implementing the investment strategy. If there are concerns, the Trustees may carry out a more in depth review of a particular Investment Manager. Investment Managers will also attend Trustee's meetings as requested. The Trustees will monitor the effectiveness of any rebalancing policy in place in ensuring the allocation remains consistent with the investment objectives.

If the Trustees are not satisfied with the performance of one or more pooled funds they will ask the investment manager to justify any underperformance. If the investment manager is not able to offer a satisfactory explanation which gives comfort that the underperformance will be reversed, the Trustees will ask the Investment Adviser to advise on an alternative pooled fund that is likely to meet the investment objectives.

The Investment Adviser has also carried out a review of how well the Trustees' guidelines in relation to ESG factors are incorporated into each Investment Manager's processes and the Trustees will re-assess progress on ESG issues periodically.

Fund manager remuneration is considered as part of the manager selection process. It is also monitored regularly with the help of the Investment Adviser to ensure it is in line with the Trustees' policies and with fee levels deemed by the Investment Adviser to be appropriate for the particular asset class and fund type.

The Trustees require the Investment Managers to report on actual portfolio turnover at least annually, including details of the costs associated with turnover, how turnover compares with the range that the Investment Manager expects and the reasons for any divergence.

Appointments of Investment Managers are expected to be long-term, but the Trustees will review the appointment of the Investment Managers in accordance with their responsibilities.

5.2 Advisers

The Trustees will monitor the advice given by their appointed advisers on a regular basis and will assess their performance on the basis of their ability to explain the expected return on investments, how the investments will help the Trustees meet their investment objectives and the risks that will impact on such return.

6. Risks

The Trustees recognise a number of risks involved in the investment of assets of the Scheme:

i. Interest rate risk – the risk that liabilities will increase as a result of a fall in interest rates is measured by reference to the percentage of liabilities that are interest rate hedged and addressed by holding a significant proportion of the Scheme in assets that are matching assets that will increase in value as interest rates fall.

ii. Inflation risk – the risk that liabilities will increase as a result of an increase in the expected rate of inflation is measured by reference to the percentage of liabilities that are inflation hedged and managed by holding assets such as equities that are expected to increase in value in the long term as a result of inflation and/or by holding index-linked gilts whose value increases as inflation expectations increase.

iii. Diversification risk – the risk that the Scheme is exposed to a significant loss from esoteric factors relating to a single investment are measured by reference to the maximum exposure limits in each pooled fund and addressed by investing in pooled funds that have minimum diversification requirements as well as by investing across a range of asset classes.

iv. Liquidity risk – the risk that liabilities cannot be met when due is considered too insignificant to measure and is addressed through the use of pooled funds, the majority of which have frequent redemption dates, and by ensuring the Scheme's investment is not disproportionate relative to the overall size of the pooled fund(s).

v. Underperformance risk – the risk of pooled funds failing to achieve their target returns is measured by reference to how much discretion the manager of each pooled fund has relative to the benchmark and by regularly reviewing the asset allocation against the target. Underperformance risk is managed by investing in passive funds except where there is a reasonable expectation that a manager can add value and through the rebalancing policy.

vi. Market risk – the risk of the Scheme failing to meet its investment objectives due to a general decline in markets is measured by reference to the expected volatility of return seeking assets relative to equity markets and is managed by investing across a diverse selection of return seeking assets which are expected to have uncorrelated returns.

vii. Organisational risk – the risk of losses arising through operational mistakes or errors is measured by reference to the number of past such operational losses and is managed by seeking to minimise the number of changes to the pooled funds and keeping the number of underlying managers to a minimum.

viii. Sponsor risk – the risk that the Employer ceases to exist or otherwise is unable to fully support the Scheme is measured by reference to the strength of the Employer covenant and is managed by ensuring the asset allocation strategy takes into account the level of sponsor risk.

ix. Currency risk – the risk of losses through depreciation of non-sterling currencies is measured by reference to the exposure of the Scheme to pooled funds with unhedged currency risk and is managed by investing predominantly in sterling assets and only taking currency risk where it increases the level of diversification.

x. Credit risk – the risk that a bond issuer will default on its obligations is measured by reference to the exposure of pooled funds to corporate or emerging market debt and is managed by investing in pooled funds with a diversified list of credits.

xi. Counterparty risk – the risk that a counterparty fails whilst owing money on a derivative contract is measured by reference to the exposure to such counterparties and is managed by ensuring the Investment Manager chooses counterparties with a strong credit rating.

The Trustees recognise that it is in the nature of return seeking assets that they may underperform liability matching assets in the short term and accordingly it is possible that the funding position could worsen from one actuarial valuation to the next. The Trustees are prepared to accept this risk because over the longer term the holding of return seeking assets is expected to improve the funding position

The Trustees will keep these risks under regular review.

7. Other Issues

7.1 Statutory Funding Requirement

The Trustees will obtain and consider proper advice on the question of whether the investments are satisfactory having regard to both the investment objectives and the requirement to meet statutory funding requirements. The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation every three years.

The Trustees will consider with their appointed advisers whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the statutory funding requirement.

7.2 Environmental, social and corporate governance (ESG) issues

The Trustees have considered their approach to environmental, social and corporate governance ("ESG") risks and they believe there can be financially material risks relating to ESG. The Trustees have delegated the ongoing monitoring and management of ESG risks (and those related to climate change) to the Scheme's investment managers. The Trustees expect the Scheme's investment managers to take into consideration ESG risks, as with other material factors, within their decision-making, recognising that how they do this will be dependent on the characteristics of the asset classes in which they invest.

The Trustees will seek advice from the Investment Adviser on the extent to which its views on ESG and climate change risks may be taken into account in any future investment manager selection exercises. Furthermore, the Trustees, with the assistance of the Investment Adviser, will monitor the processes and operational behaviour of the investment managers from time to time to ensure they remain appropriate and in line with the Trustees' requirements as set out in this Statement.

7.3 Voting rights

As the Scheme invests in pooled funds, the Trustees acknowledge that they cannot directly influence the policies and practices of the companies in which the pooled funds invest. They have therefore delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the Investment Managers.

The Trustees encourage them to engage with investee companies and vote whenever it is practical to do so on financially material matters such as strategy, capital structure, conflicts of interest policies, risks, social and environmental impact and corporate governance as part of their decision-making processes. The Trustees require the Investment Managers to report on significant votes made on behalf of the Trustees.

If the Trustees become aware of an Investment Manager engaging with the underlying issuers of debt or equity in ways that they deem inadequate or that the results of such engagement are mis-aligned with the Trustees' expectations and the investment mandate guidelines provided, then the Trustees may consider terminating the relationship with that Investment Manager.

When considering the selection, retention or realisation of investments, the Trustees have a fiduciary responsibility to act in the best interests of the beneficiaries of the Scheme, although it has neither sought, nor taken into account, the beneficiaries' views on matters including (but not limited to) ethical issues and social and environmental impact. The Trustees will review this policy if any beneficiary views are raised in future.

The Trustees will seek to invest in pooled funds where the investment managers have signed up to the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents where practicable and consistent with the investment objectives.

Appendix – Implementation of Investment Strategy

The Trustees have selected the following funds for investment so as to achieve the investment objectives. Having considered advice from the Advisers, and also having due regard for the objectives, the current liabilities of the Scheme together with their expected timing, the risks of and to the Scheme and the covenant of the Employer, the Trustees have decided upon the following benchmark allocation as being the basis for measuring investment performance. The objective return of the funds allowing for the impact of fees and other charges is also detailed in the table below.

Asset Class	Fund	Benchmark Allocation (%)	Management Fee (% p.a.)	Other Costs (% p.a.)	Net Objective[1]
Return seeking assets					
Diversified Growth Funds	*BlackRock Market Advantage Strategy Fund*	16.0	*redacted*	*redacted*	3 Month Libor + 4.57% p.a.
Global Equities	*Aquila Life Global Equity 50:50 Index Fund*	16.0	*redacted*	*redacted*	The fund aims to achieve returns consistent with the following benchmark: 50% FTSE All Share Index 50% Overseas Developed equities[2]
Matching assets					
UK Corporate bonds	*Aquila Life Over 15 Years Corporate Bond Index Fund*	20.5	*redacted*	*redacted*	The fund aims to achieve returns consistent with the underlying index.
UK Fixed Interest Gilts	*Aquila Life Over 25 Years UK Gilts Index Fund*	47.5[3]	*redacted*	*redacted*	The fund aims to achieve returns consistent with the underlying index.
UK Index Linked Gilts	*Aquila Life Up to 5 Years UK Index-Linked Gilts Index Fund*		*redacted*	*redacted*	
	Aquila Life Over 5 Years UK Index-Linked Gilts Index Fund		*redacted*	*redacted*	
LDI Pooled Funds	*Leveraged £ Long Liability Real Profile Fund*		*redacted*	*redacted*	The funds aim to provide investors with exposure to assets that efficiently hedge the interest rate and inflation risk of a typical UK pension fund liability profile.
	Leveraged £ Short Liability Real Profile Fund		*redacted*	*redacted*	
	Leveraged £ Long Liability Nominal Profile Fund		*redacted*	*redacted*	
	Leveraged £ Short Liability Nominal Profile Fund		*redacted*	*redacted*	

1. All of the selected pooled funds except the diversified growth funds are passively managed funds so are expected to produce returns broadly in line with the funds' objectives.
2. Overseas equities are split 33% US, 33% Europe ex-UK, 17% Japan and 17% Pacific Rim.
3. The Trustees will target a 90% level of protection against the impact of changes in interest and inflation rates on the Scheme's liabilities. The split between the individual bond and leveraged funds will be determined to provide the overall target level of hedging using this group of funds. The split between the funds may vary over time following updated analyses of the hedging protection provided by the portfolio.

Rebalancing Policy

The Trustees, in consultation with the Investment Advisers, will review the allocation of assets between the pooled funds and between asset classes not less than once a year. If the allocation has moved significantly from that set out in this SIP, the Trustees will seek advice from the Investment Adviser as to whether it is appropriate to rebalance between pooled funds and how to rebalance. The interest rate and inflation protection levels provided by the LDI and bond portfolio will change over time as market conditions change. The Trustees will review the hedging level and carry out a remodelling exercise where necessary, following each triennial actuarial valuation as a minimum.

Contact us
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Registration

XPS Pensions Consulting Limited, Registered No. 2459442. XPS Investment Limited, Registered No. 6242672. XPS Pensions Limited, Registered No. 3842603. XPS Administration Limited, Registered No. 9428346. XPS Pensions (RL) Limited, Registered No. 5817049. Trigon Professional Services Limited, Registered No. 12085392.

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Authorisation

XPS Investment Limited is authorised and regulated by the Financial Conduct Authority for investment and general insurance business (FCA Register No. 528774).