

**John Parker & Son
Limited Pension and
Assurance Scheme**

Statement of Investment Principles

September 2020

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1. INTRODUCTION

- 1.1 This document outlines the investment principles adopted by the Trustee in relation to the John Parker & Son Limited Pension and Assurance Scheme (“the Scheme”). The sponsoring employer was John Parker & Son Limited, which underwent an insolvency event on 20 August 2019 and the Scheme has recently entered an assessment period with the Pension Protection Fund (PPF).
- 1.2 This document has been prepared in order to comply with the requirements of the Legislation, in particular:
- Section 35 of the Pensions Act 1995
 - The Occupational Pension Schemes (Investment) Regulations 2005.
 - The Occupational Pension Schemes (Investment) (Amendment) Regulations 2010.
 - The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018
 - The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.
- 1.3 The Trustee has also considered:
- The 2001 Myners review of institutional investment (and subsequent updates)
 - Guidance issued by the Pensions Regulator
 - The UK Stewardship Code
- 1.4 In preparing this Statement the Trustee has documented the existing investment strategy which was agreed previously with the sponsoring employer at the time the investment strategy was implemented. As the Scheme has recently entered an assessment period with the PPF, the Trustee will shortly review the investment strategy and take written advice from Quattro Pensions, their appointed investment adviser. The Scheme has no remaining solvent sponsoring employer with which the Trustee could consult. The Trustee will consult with the PPF over any future changes to investment strategy.
- 1.5 Previous advice and consultation process considered the suitability of the Trustee’s investment policy for the Scheme, which the Trustees monitor regularly.
- 1.6 The Scheme provides defined benefits and is a registered pension scheme. There is no employer-related investment and none is intended. No further contributions are expected to the Scheme other than through any recoveries that may arise during the administration.
- 1.7 The Trustee will review this document at least every three years.
- 1.8 A copy of this Statement is available for inspection by Scheme members and is published on an easily accessible website.

2. GOVERNANCE STRUCTURE

2.1 The Trustee sets the general investment policy, based on professional advice, but delegates responsibility for day-to-day investment decisions to their appointed investment managers. The Trustee ensures that any person to whom such responsibility is delegated is authorised under the Financial Services and Markets Act 2000. A copy of this Statement will be provided to the investment manager.

2.2 The Trustee's responsibilities include, but are not limited to the following tasks:

- setting the overall investment objectives in light of the Scheme's circumstances
- making strategic investment decisions to achieve these objectives, eg the risk / return profile and proportion of the investments to hold in which asset classes
- considering the extent to which non-financial matters should be taken into account in relation to the selection, intention and realisation of investments.
- reviewing the content of this document and amending if necessary, in consultation with the PPF and insolvency practitioner and based on written advice from appropriately qualified advisers
- ensuring the investment policy remains appropriate for the nature of the Scheme's liabilities and taking into account guidance from the PPF
- ensuring that benefits can be paid as and when they fall due
- appointing the investment managers and investment advisers and considering how to incentivise investment managers
- monitoring and evaluating the investment managers performance, remuneration and portfolio turnover activity
- ensuring compliance of the investment arrangements with the principles outlined in this document
- managing conflicts of interest

2.3 The investment manager's responsibilities include:

- using their discretion to invest the assets of the Scheme as they deem appropriate, within the guidelines contained in this document
- having regard to the need for diversification

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- providing the Trustee with regular statements describing the investment performance of funds under their management, portfolio turnover as well as comparable figures from benchmark indices
 - monitoring the make-up and development of the capital structure of investee companies

2.4 The investment adviser's responsibilities include:

- advising on an appropriate investment strategy to meet the Trustee's investment objectives within an appropriate level of risk
- advising the Trustee on the choice of investment managers

2.5 The Scheme's lawyer may be consulted to advise on:

- How the Trustee's investment strategy achieves and maintains compliance with Legislation
- The contractual aspects of agreements with investment managers

2.6 The Scheme Actuary's responsibilities include:

- advising the Trustee of any significant changes in liability profile that could affect the investment strategy

2.7 The Scheme Administrator's responsibilities include:

- advising the Trustee of the cash required to meet benefit payments as and when they fall due. This includes provision of periodic cash flow forecasts

3. BELIEFS

The Trustee's investment beliefs, which underpin their decision making, are as follows:

- 3.1 Risks that are not sufficiently rewarded should generally be avoided, hedged or diversified.
- 3.2 Finding investment managers who can consistently spot and exploit market opportunities is generally difficult; passive management is usually better value.
- 3.3 Well governed companies that manage their businesses in a responsible way will produce higher returns over the long term.
- 3.4 Climate change could be a long-term risk for the scheme if it does not transfer to the PPF and has the potential to impact the scheme's investment strategy.
- 3.5 Investing responsibly and engaging as long-term owners reduces risk over time and may positively impact scheme returns.

4. OBJECTIVES

- 4.1 When the investment strategy was set the Trustee's investment objectives were to select assets which are likely to produce a real return over and above wage inflation over the medium to longer term (i.e. 5 years plus).
- 4.2 Following the Scheme's entry into an assessment period with the PPF, the Trustee is reviewing the investment strategy and the revised investment objectives are as follows:
- to achieve a low risk of a deterioration in the PPF funding level
 - set an investment strategy which is considered acceptable by the PPF, taking account of the PPF's Trustee Good Practice Guide
 - to minimise the investment expenses during the PPF assessment period as far as possible, taking into account the objectives above
- 4.3 The Trustee will set its future investment objectives in the expectation that the Scheme is more likely than not to enter the PPF. If the Trustee becomes aware of a change in circumstances the Trustee will take steps to adjust the investment strategy as appropriate at the time.

5. CURRENT INVESTMENT STRATEGY

The kinds of investment to be held

- 5.1 The Scheme is permitted to invest in a wide range of assets including equities, bonds, cash, property, alternatives, LDI, and annuity policies.

Current asset allocation

- 5.2 The Trustee has delegated the day-to-day management of their assets to Albert E Sharp LLP and the asset allocation is shown below:

Fund	Allocation
Equity	44%
Fixed Income	32%
Absolute Return	13%
Property	1%
Alternatives	5%
Cash	5%

- 5.3 The asset allocations are approximate and apply as at 22 September 2020 and may change over time as a result of market movements or cash investments or disinvestments.
- 5.4 As previously discussed, the Trustee is currently reviewing the investment strategy which may result in changes to the asset allocation. An updated Statement of Investment Principles will be provided once the strategy review has been implemented.

Managers' Objectives

- 5.5 The investment managers are aiming to achieve the following under the existing strategy:

Investment manager	Objective
Albert E Sharp	The object is to choose assets which are likely to produce a real return over and above wage inflation over the medium to longer term (i.e. 5 years plus). In the short term the target is to provide returns greater or equal to that assumed in the Actuary's triennial valuation. The Investments will be predominantly in real assets, i.e. stocks and shares and commercial property. Investments will be arranged which match liabilities as they arise. The asset allocation will be defined as UK equities 0-80%, overseas equities 0-50%, commercial property 0-50%, gilt edged securities 0-50% and cash 0-100%.

The balance between different kinds of investment

- 5.6 Broadly speaking, the Trustee regards the assets invested in fixed income, absolute return and cash investments as being “protection” assets., whilst other assets are invested for growth. The overall split between growth and protection assets as at 29 March 2019 was therefore, approximately, 50% growth, % protection.

Manager Monitoring

- 5.7 The Trustee will assess the performance of the investment managers regularly. The Trustee will consider the managers’ compliance with the requirements of the Pensions Act concerning diversification and suitability, where relevant.
- 5.8 The Trustee expect the Investment Manager to change underlying holdings only to the extent required to meet their investment objectives. The reasonableness of such turnover will vary by fund and change according to market conditions. The Trustee therefore does not set a specific portfolio turnover target for their strategy or the underlying funds.

Rebalancing

- 5.9 The Trustee may use cashflows payable to/from the Scheme to help rebalance the allocations occasionally. However, a full rebalance will only take place if there is a formal strategy review, and there will no automatic rebalancing.
- 5.10 The Trustee will review the asset allocation and the choice of investment manager in the next few months as a result of entering an assessment period with the PPF, and may change those shown in the above table. Thereafter the Trustee will review the asset allocation the choice of investment manager at least every three years if the Scheme does not transfer to the PPF. Any changes to the strategy or to the manager will be made only after obtaining written investment advice and after consulting with the PPF and insolvency practitioner.

6. SUITABILITY

Scheme Funding

- 6.1 The previous trustees are expected to have taken advice to confirm that the Scheme's investment strategy is consistent with the Trustee's historic investment and funding objectives. The Trustee will take advice on any changes to the investment strategy to ensure that it is consistent with the Trustee's revised investment and funding objectives as a result of entering the PPF assessment period.

Risk capacity

- 6.2 Risk capacity is the maximum level of risk that the Trustee believes it is appropriate to take in the investment strategy.
- 6.3 The Trustee has acknowledged that it is appropriate to take a low risk approach given the circumstances of the Scheme and the fact that there is no sponsoring employer which is able to make good any fall in the funding position.

Risk appetite

- 6.4 Risk appetite is a measure of how much risk the Trustee is willing to take within the investment strategy, having considered the PPF's views and the maximum risk capacity. The Trustee and the PPF will review the Scheme's existing asset allocation to ensure it is suitable for the PPF assessment period and consistent with their risk appetite.
- 6.5 The Trustee may adjust the investment strategy if there is a change in the Scheme's circumstances.

7. TRUSTEE INVESTMENT POLICIES

Liquidity and cashflow management

- 7.1 Through the information provided by the Scheme Administrator the Trustee will monitor the cash flow requirements of the Scheme regularly.
- 7.2 The Trustee maintains a bank account and aims to maintain a cash balance sufficient to cover 6 months' worth of the Scheme's net cash outgo. This cash balance can be reviewed from time to time and the Trustee may decide to maintain cash to cover the net cash outgo expected during the PPF Assessment period.
- 7.3 When investments or disinvestments are required the Trustee will consider at the time which fund should be used to accept or provide the money.
- 7.4 The Trustee's policy is to ensure that the invested assets are sufficiently realisable to enable the Trustee to meet their obligations to provide benefits and management expenses as they fall due.

Custody Risk

- 7.5 The investment manager is responsible for the appointment and monitoring of the custodians of the fund's assets.

Financially material considerations

- 7.6 The Trustee believes that Environmental, Social and Governance ("ESG") issues may have a material financial impact on investment returns. However, as the Scheme is in a PPF assessment period the Trustee expects assets to be encashed in the short term. The Trustee therefore does not consider ESG risk including climate change to be a financially material risk to the Scheme over that time horizon.
- 7.7 An assessment of the ESG and responsible investment policies forms part of the manager selection process when appointing new managers and these policies are also reviewed regularly for existing managers with the help of the investment consultant. The Trustee will only invest with investment managers that are signatories for the United Nations Principles of Responsible Investment ('UN PRI') or other similarly recognised standard.

NON-FINANCIALLY MATERIAL CONSIDERATIONS

- 7.8 The Trustee has not considered non-financially material matters in the in the selection, retention and realisation of investments.

STEWARDSHIP

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- 7.9 The Trustee's policy on the exercise of rights attaching to investments, including voting rights, is that these rights should be exercised by the investment manager on the Trustee's behalf, having regard to the best financial interests of the beneficiaries.
- 7.10 The investment manager should engage with companies to take account of ESG factors in the exercise of such rights as the Trustee believes this will be beneficial to the financial interests of members over the long term.
- 7.11 The Trustee also expect the fund manager to engage with investee companies on the capital structure and management of conflicts of interest.
- 7.12 If the policies or level of engagement are not appropriate, the Trustee will engage with the investment manager, with the help of its investment consultant, to influence the investment managers' policy. If this fails, the Trustee will review the investments made with the investment manager.
- 7.13 The Trustee has taken into consideration the Financial Reporting Council's UK Stewardship Code and expect investment managers to adhere to this where appropriate for the investments they manage.

INVESTMENT MANAGER ARRANGEMENTS

Incentives to align investment managers investment strategy and decisions with the trustees' policies

- 7.14 The Scheme invests in pooled funds and so the Trustee acknowledges the fund's investment strategy and decisions cannot be tailored to the Trustee's policies. However, the Trustee sets its investment strategy and then selects managers that best suits its strategy taking into account the fees being charged, which acts as the fund managers incentive.
- 7.15 The Trustee uses the fund objective/benchmark as a guide on whether its investment strategy is being followed and monitors this from time to time.

Incentives for the investment manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term

- 7.16 The Trustee will select Investment Managers who are primarily remunerated via an agreed fixed annual percentage of the asset value for each underlying fund. The Trustee may also agree to pay a performance related fee to its fund managers.
- 7.17 The Trustee does not directly incentive the Investment Manager to align its investment strategy and decisions with the Trustee's policies and objectives. Neither does the Trustee incentivise the asset manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.

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- 7.18 However, the Trustee may review their Investment Managers from time to time and will select funds that they believe operate in line with the Trustee's policies and objectives.

How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the trustees' policies

- 7.19 The Trustee reviews the performance of each fund periodically on a net of fees basis compared to its objective.
- 7.20 The Trustee assesses the performance periods of the funds over at least a 3-5 year period when looking to select or terminate a manager, unless there are reasons other than performance that need to be considered.
- 7.21 The fund managers' remuneration is considered as part of the manager selection process and is also monitored periodically with the help of its investment consultant to ensure it is in line with the Trustee's policies.

How the trustees monitor portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range

- 7.22 The Trustee expects the Investment manager 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, and the Trustee does not set a specific portfolio turnover target.
- 7.23 The Trustee does not monitor portfolio turnover costs incurred by the asset manager as it is not a financially material concern over the investment time horizon.

The duration of the arrangement with the asset manager

- 7.24 The duration of the arrangement with the asset manager is expected to be short term due to the expected transfer to the PPF.

Long-term journey planning

- 7.25 The Trustee will consider any adjustment to strategy required in the event that the Scheme does not transfer to the PPF.

Liability hedging

- 7.26 The Trustee does not set any targets for liability hedging ratios for the Scheme, though LDI products are included within the permitted asset allocation for broad interest rate and inflation protection.

8. INVESTMENT RESTRICTIONS

8.1 No direct investment shall be made in any of the following:

- securities issued by the former sponsoring employer.
- property owned by or leased to the former sponsoring employer.
- securities issued by associate companies of the investment manager.

8.2 The Trustee recognises that where investments are held in insurance company pooled funds or an investment company they may not be able to apply investment restrictions. However, for any direct investment or where feasible the following additional restrictions shall be observed by the investment manager:

- It is expected that no more than 10% of the Scheme assets will be invested in futures, options, currency forwards, hedge funds, or derivatives as part of efficient portfolio management.
- No more than 5% of the Scheme assets can be held in the securities of any one company unless this is an investment company where the underlying assets are highly diversified.
- No more than 5% of the Scheme assets can be invested in assets that are not readily realisable.
- There should be no gearing of the portfolio.
- The manager may not use the portfolio to underwrite new issues.

9. RISK MANAGEMENT

9.1 The Trustee recognises that there are a number of risks involved with investment of the assets of the Scheme.

- *Volatility / capital loss:* the investments are subject to market fluctuations and other risks inherent in investing in securities. The value of investments and the income derived from them may fall as well as rise and investors may not recoup the original amount they invest. There is no certainty that the investment objective of a fund will actually be achieved. The Trustee's main concern is to protect the Scheme's funding and so are more concerned with reducing mismatching risk than fluctuating capital values.
- *Mismatching risk / risk versus measurement of Scheme liabilities:* the Trustee is currently reviewing the investment strategy and will aim to reduce the risk of the funding level falling.
- *Manager risk:* addressed by the performance objectives set out in Section 5; and by regular monitoring of each manager's performance.
- *Liquidity risk:* the Trustee will monitor cash flow requirements regularly.
- *Political risk:* the risk of political intervention having an adverse effect on asset performance is reduced by diversification of the growth assets across companies, geographical regions and restrictions on the amounts invested in foreign countries.
- *Currency risk:* the risk of mismatching the currency of the assets to that of the liabilities is reduced by the choice of fund or restricting the amount of overseas investment.
- **Climate Change:** The risk that losses are caused as a result of the impact of climate change on the underlying investments

9.2 The Trustee will regularly monitor these risks.

This statement has been agreed as the final version by the Trustee

On 29 September 2020