Ballyvesey Group Pension Scheme

Statement of Investment Principles

September 2020

Statement of Investment Principles

The Trustees of Ballyvesey Group Pension ("the Scheme") have prepared this Statement of Investment Principles ("the SIP") in accordance with the Pensions (Northern Ireland) Order 1995[1] ("the Order") as amended and the Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005 as well as the principles recommended by the Myners Code.

It supersedes any previous SIP and reflects the investment policy agreed by the Trustees in respect of assets covering Defined Benefit liabilities.

This SIP will be reviewed at least every three years or immediately after any significant change in investment policy.

Before preparing this SIP the Trustees have:

- Obtained and considered the written advice from the Scheme's Investment Consultant, XPS Pensions Group, who is suitably qualified through ability and experience and has appropriate knowledge.
- Consulted the employer.

Choosing investments

The Trustees set the investment strategy and investment policies for the Scheme.

The Trustees have considered the Scheme's liabilities and strength of Employer covenant when setting the investment strategy and policies.

The Trustees rely on Investment Managers for the day-to-day management of the Scheme's assets but retain control over all decisions made about the investments in which the Scheme invests.

Where Investment Managers are delegated discretion under Section 34 of the Order, the Investment Manager will exercise their investment powers in accordance with the Order, relevant and subsequent regulations, and this SIP.

The Trustees rely on the Investment Managers to appoint appropriate Custodians for pooled funds who are responsible for the safekeeping of the assets of the Scheme.

The Trustees rely on the Investment Managers to appoint appropriate Administrators or Registrars for pooled funds who are responsible for keeping records of the Scheme's entitlement within the pooled funds.

[1] *As amended 30th November 2018*

Investment objective and strategy

Investment objective

The Trustees have set the following objectives:

- To achieve a fully funded position on a Technical Provisions basis by 31 August 2025. In particular, the discount rates used in calculating the value of assets required underpinning that target are Gilts + 1.5% pa (pre-retirement) and Gilts + 0.5% pa (post-retirement), based on nominal gilt spot rates at 14 year duration.
- To implement an investment strategy targeting a return that is sufficient to reach the above funding objective.
- To acquire suitable assets to achieve the above objective whilst controlling volatility and the long term costs of the Scheme.
- To adhere to the provisions contained within this SIP.

Investment strategy

The Trustees intend to meet the investment objective by investing in a diversified portfolio of return-seeking and liability-matching assets.

The Trustees can utilise a wide range of passively and actively managed investments, including (but not limited to):

- Assets or funds primarily utilised to match liability risk (typically movements in long term interest rates and inflation) including gilts, swaps and repos and the use of derivatives and leverage.
- Assets or funds primarily used to outperform the liabilities over the long term including equity, private markets, hedge funds, commodities, currency, bonds and other forms of credit, property, infrastructure and insurance including the use of derivatives and leverage. Illiquid assets can be used where a higher return or lower risk is expected.
- Assets or funds primarily used to provide immediate liquidity such as cash or cash instruments.
- Assets or funds that combine liability outperformance, liability hedging or liquidity characteristics including the use of derivatives and leverage.
- Annuity or insurance policies designed to match the specific characteristics of the Scheme's liabilities or membership.

The actual strategy adopted for the Scheme, including the allocation to different assets, and expected returns is set out in the Appendix.

Range of assets

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 the 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 asset allocation parameters set by the Trustees or governing the pooled funds in which the Plan is invested.

The Trustees will ensure that the Scheme's assets are 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. 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 the responsible investment section, 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.

Investment restrictions

The Trustees intend to adhere to the following restrictions:

- No more than 5% of Scheme assets can be held in investments related to the Employer.
- Whilst borrowing on a temporary basis is permitted, this option will only be utilised where absolutely necessary or where it is expected to reduce overall risk (e.g. for very short time periods during an asset transfer).
- Investment in derivative instruments may only be made where they contribute to risk reduction or facilitate efficient portfolio management.
- Stock lending is permitted at the discretion of the Scheme’s Investment Managers in line with their overall investment objectives, policies and procedures.

Investment risk

The Trustees have identified a number of risks including (but not limited to):

- Employer covenant risk
- Liability risks: Interest rate risk, Inflation risk, Longevity risk
- Asset risks: Equity risk, Property risk, Currency risk Credit risk, Interest rate risk, Inflation risk

- Strategy risks: Asset allocation risk, Liquidity risk (including collateral risk), Growth asset risk (including currency risk)
- Implementation risks: Investment manager risk, Counterparty risk, Operational risk

These risks are measured and managed by the Trustees as follows:

- The Trustees have set an investment strategy that adheres to the contents of this SIP.
- The Trustees receive strategic investment advice from the Investment Consultant that may include risk modelling and quantification (e.g. Value at Risk) whenever strategic changes are considered.
- The Trustees undertake regular monitoring of the Scheme's investments supplemented by information provided by both the Investment Managers and Investment Consultant, as well as advice from the latter.
- The Trustees periodically assess the strength of the Employer covenant and use external expertise where appropriate.
- The Trustees delegate the day-to-day management of some of these risks to the appointed Investment Managers.
- The Trustees consider the Investment Managers' role and their approach to managing risk is considered when selecting appropriate Investment Managers.
- The Trustees utilise custodian relationships to ensure Scheme assets are held securely.
- The Trustees assess whether appropriate controls are put in place by themselves, the Investment Consultant, Investment Managers and Custodians (where there is a direct relationship).

Realising investments

The Trustees recognise that assets may need to be realised to meet Scheme obligations at any time.

The Trustees will ensure that an appropriate amount of readily realisable assets are held at all times, and this will be part of the assessment for including new investments within the strategy.

The Trustees will from time to time agree a policy for sourcing cash from the investments as required. Further details are set out in the Appendix.

Investment Manager arrangements

Review process

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.

The Trustees receive regular performance monitoring updates from the Investment Consultant which consider performance over various periods. In addition, any significant changes relating to the ratings criteria that the Investment Consultant is aware of will be highlighted, which may lead to a change in the Investment Consultant's rating for a particular mandate. These ratings help 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 Trustees meetings as requested.

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

Portfolio turnover

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.

Responsible investment

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

The Trustees will seek advice from the Investment Consultant 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 Consultant, 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.

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.

The Trustees have delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the investment managers and encourage them to engage with investee companies and vote whenever it is practical to do so on financially material matters including those deemed to include a material ESG and/or climate change risk in relation to those investments.

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' expectation, then the Trustees may consider terminating the relationship with that Investment Manager.

The Trustees' policy is that non-financial matters should not be taken into account in the selection, retention and realisation of investments.

Appendix – Investment strategy

Overall strategy

The investment strategy of the Scheme is summarised in the table below.

Asset class	Strategic allocation	Expected return (above gilts pa)	Manager and fund	Objective
Multi Asset	45-55%	3.3%	LGIM Retirement Income Multi Asset	Provide long term investment growth up to and during retirement and to facilitate the drawdown of retirement income. Comparator is the Bank of England Base Rate + 3.5% pa.
Multi Sector Credit	15-25%	1.8%	Allianz Global Multi Sector Credit	3 Month LIBOR + 3.0% pa (gross of fees).
LDI	20-40%	0.0%	LGIM Matching Core Fixed Short & Real Short	Match the movement in the value of cashflows for a typical pension scheme liability profile.
		2.0%		

*Notes: Expected returns and fees shown are those from the previous SIP dated and signed in September 2019; * Return expectations quoted above are best estimates for long-term returns.*

Liability hedging

This strategy is designed to target liability hedging of:

- 90% of the interest rate risk, as a proportion of the Scheme's total liabilities, as assessed against the current technical provisions basis.
- 90% of the inflation risk as a proportion of the Scheme's total liabilities, as assessed against the current technical provisions basis.

Income

The Scheme has the following arrangements in place for generating income:

- LGIM Retirement Income Multi Asset Fund – This holding generates a yield of c4.5% pa and pays out c£23k to £28.5k per month.
- Allianz Global Multi Sector Credit Fund – This holding generates a yield of c3.0% pa and pays out c£18k per quarter**.**

Notes: Expected income amounts shown are those from the previous SIP dated and signed in September 2019;

These arrangements will generate a total annual income of c£340k to c£410k, which together with employer contributions is expected to be sufficient to cover the majority of the Scheme's cashflow requirement.

The Trustees have the authority to change any of these arrangements at any point should it be deemed necessary for the Scheme.

Rebalancing investments

The Trustees have not set out formal rebalancing ranges for the strategy. The Trustees will periodically review the asset allocation and rebalance if considered necessary to ensure that the target strategy remains appropriate.

Realising investments

Should assets need to be realised to provide additional cashflow, then the source of disinvestments is expected to be the LGIM RIMA Fund, however, this will be decided by the Trustees in conjunction with advice from XPS Investment as the need arises.

Signatures

The Statement has been approved on 23 September 2020 by the Trustees of the Ballyvesey Group Pension Scheme and subsequently signed. For security reasons, signed copies of this statement are only available upon request.

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