Pandrol Group Pension Scheme

Statement of Investment Principles

Barnett Waddingham LLP

August 2020

Contents

BARNETT WADDINGHAM
beyond the expected

1. Introduction

1.1. This is the Statement of Investment Principles prepared by Pandrol Pension Trustees Limited ("the Trustees"), trustee of the Pandrol Group Pension Scheme ("the Scheme"). This statement sets down the principles which govern the decisions about investments that enable the Scheme to meet the requirements of:

- the Pensions Act 1995, as amended by the Pensions Act 2004;
- the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010, the Occupational Pension Schemes (Charges and Governance) Regulations 2015, the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the Occupational Pension Schemes (Investment and Disclosure) Regulations 2019.

1.2. In preparing this statement the Trustees have consulted Pandrol Limited, the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustees' investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.

1.3. This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.

1.4. The Trustees will review this statement at least every three years or if there is a significant change in any of the areas covered by the statement.

1.5. The investment powers of the Trustees are set out in Clause 6.1 of the Definitive Trust Deed & Rules, dated 1 April 2010. This statement is consistent with those powers.

2. Choosing investments

2.1. The Trustees' policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustees consider the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role. In light of the size of the Scheme and the number of members of the Trustee body, it was not considered appropriate to set up an investment sub-committee.

2.2. The day-to-day management of the Scheme's assets is delegated to one or more investment managers. The Scheme's investment managers are detailed in the Appendix to this Statement. The investment managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights.

2.3. The Trustees review the appropriateness of the Scheme's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the investment managers with respect to performance within any guidelines set. The Trustees will also consult the Principal Employer before amending the investment strategy.

3. Investment objectives

3.1. The Trustees have discussed key investment objectives in light of an analysis of the Scheme's liability profile as well as the constraints the Trustees face in achieving these objectives. As a result, the Trustees' main investment objectives are:

- to ensure that the Scheme can meet the members' entitlements under the Trust Deed and Rules as they fall due;
- to invest in assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from members and the employers, the cost of current and future benefits which the Scheme provides;
- to reduce the risk of the assets failing to meet the liabilities over the long term;
- to manage the expected volatility of the returns achieved in order to control the level of volatility in the Scheme's required contribution levels.

3.2. The Trustees are aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Scheme's liabilities. The Trustees have obtained exposure to investments that they expect will meet the Scheme's objectives as best as possible.

4. Kinds of investments to be held

4.1. The Scheme is permitted to invest in a wide range of assets including equities, bonds, cash, property, and alternatives.

4.2. The Trustees monitor from time-to-time the employer-related investment content of their portfolio as a whole and will take steps to alter this should they discover this to be more than 5% of the portfolio. Typically this check is carried out annually by the Scheme's auditors.

5. The balance between different kinds of investments

5.1. The Scheme invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained within the Appendix to this Statement.

5.2. The Trustees consider the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Appendix to this Statement.

5.3. From time to time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate any short-term cashflow requirements or any other unexpected items.

5.4. The Trustees are aware that the appropriate balance between different kinds of investments will vary over time and therefore the Scheme's asset allocation will be expected to change as the Scheme's liability profile matures.

6. Risks

6.1. The Trustees have considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities, and has considered ways of managing/monitoring these risks:

Risk versus the liabilities	The Trustees will monitor and review the investment strategy with respect to the liabilities in conjunction with each actuarial valuation. The investment strategy will be set with consideration to the appropriate level of risk required for the funding strategy as set out in the Scheme's Statement of Funding Principles.
Covenant risk	The creditworthiness of the employers and the size of the pension liability relative to the employers' earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the employer covenant.
Solvency and mismatching	This risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustees are aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Scheme's funding basis.
Asset allocation risk	The asset allocation is detailed in the Appendix to this Statement and is monitored on a regular basis by the Trustees.
Investment manager risk	The Trustees monitor the performance of each of the Scheme's investment managers on a regular basis in addition to having meetings with each manager from time to time as necessary. The Trustees have a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate.
Governance risk	Each asset manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustees monitor these and will report on the managers' practices in their annual Implementation Statement.
ESG/Climate risk	The Trustees have considered long-term financial risks to the Scheme and consider ESG factors, as well as climate risk, to potentially be financially material and will continue to develop their policy to consider these factors, alongside other factors, when selecting or reviewing the Scheme's investments in order to avoid unexpected losses.
Concentration risk	Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.
Liquidity risk	The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Scheme's cashflow requirements. The Scheme's administrators assess the level of cash held in order to limit the impact of the cashflow requirements on the investment policy.

Currency risk	The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management. Currency hedging is employed to manage the impact of exchange rate fluctuations.
Loss of investment	The risk of loss of investment by each investment manager and custodian is assessed by the Trustees. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud).

7. Expected return on investments

7.1. The Trustees have regard to the relative investment return and risk that each asset class is expected to provide. The Trustees are advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the investment managers.

7.2. The Trustees recognise the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

7.3. In considering the expected return from investments, the Trustees recognise that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.

7.4. Having established the investment strategy, the Trustees monitor the performance of each investment manager against an agreed benchmark as frequently as appropriate, according to market conditions and the Scheme's funding position. The Trustees meet the Scheme's investment managers as frequently as is appropriate in order to review performance.

8. Realisation of investments

8.1. The Trustees have delegated the responsibility for buying and selling investments to the investment managers. The Trustees have considered the risk of liquidity as referred to above.

8.2. Ultimately, the investments will all have to be sold when the Scheme's life comes to an end. In this situation, the Trustees are aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Scheme accounts.

9. Financially material considerations, non-financial matters, the exercise of voting rights and engagement activities

9.1. The Trustees have set policies in relation to these matters. These policies are set out in Appendix 2.

10. Policy on arrangements with asset managers

Incentivising alignment with the Trustees' investment policies

10.1. Prior to appointing an investment manager, the Trustees discuss the investment manager's approach to the management of ESG and climate related risks with the Scheme's investment consultant, and how their policies are aligned with the Trustees' own investment aims, beliefs and constraints.

10.2. When appointing an investment manager, in addition to considering the investment manager's investment philosophy, process and policies to establish how the manager intends to make the required investment returns, the Trustees also consider how ESG and climate risk are integrated into these. If the Trustees deem any aspect of these policies to be out of line with their own investment objectives for the part of the portfolio being considered, they will consider using another manager for the mandate.

10.3. The Trustees carry out a strategy review at least every three years where they assess the continuing relevance of the strategy in the context of the Scheme's membership and their aims, beliefs and constraints. The Trustees monitor the investment managers' approach to ESG and climate related risks on an annual basis.

10.4. In the event that an investment manager ceases to meet the Trustees' desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment will be terminated. The investment managers have been informed of this by the Trustees.

10.5. Investment manager ESG policies are reviewed in the context of best industry practice and feedback will be provided to the investment manager.

Incentivising assessments based on medium to long term, financial and non-financial considerations

10.6. The Trustees are mindful that the impact of ESG and climate change has a long-term nature. However, the Trustees recognise that the potential for change in value as a result of ESG and climate risk may occur over a much shorter term than climate change itself. The Trustees acknowledge this in their investment management arrangements.

10.7. When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustees assess these over a rolling timeframe. The Trustees believe the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon. Where a fund may have an absolute return or shorter term target, this is generally supplementary to a longer term performance target. In the case of assets that are actively managed, the Trustees expect this longer term performance target to be sufficient to ensure an appropriate alignment of interests.

10.8. The Trustees expect investment managers to be voting and engaging on behalf of the Scheme's holdings and the Scheme monitors this activity within the Implementation Statement in the Scheme's Annual Report and Accounts. The Trustees do not expect ESG considerations to be disregarded by the investment managers in an effort to achieve any short term targets.

Method and time horizon for assessing performance

10.9. The Trustees monitor the performance of their investment managers over medium to long term periods that are consistent with the Trustees' investment aims, beliefs and constraints.

10.10. The Scheme invests in pooled funds. The investment manager is remunerated by the Trustees based on the assets they manage on behalf of the Trustees.

10.11. The Trustees believe that this fee structure, including the balance between any fixed and performance related element, enables the investment manager to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.

10.12. The Trustees ask the Scheme's investment consultant to assess if the asset management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered regularly as part of the review of the Statement of Investment Principles.

Portfolio turnover costs

10.13. The Trustees acknowledge that portfolio turnover costs can impact on the performance of their investments. Overall performance is assessed as part of the quarterly investment monitoring process.

10.14. During the investment manager appointment process, the Trustees may consider both past and anticipated portfolio turnover levels. When underperformance is identified, deviations from the expected level of turnover may be investigated with the investment manager concerned if it is felt they may have been a significant contributor to the underperformance. Assessments reflect the market conditions and peer group practices. The Trustees acknowledge that for some asset classes, such as LDI, a higher turnover of contracts such as repurchase agreements, can be beneficial to the fund from both a risk and cost perspective.

Duration of arrangement with asset manager

10.15. For the open-ended pooled funds in which the Scheme invests, there are no predetermined terms of agreement with the investment managers.

10.16. The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustees' investment beliefs is assessed every three years, or when changes deem it appropriate to do so more frequently. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.

11. Agreement

11.1. This statement was agreed by the Trustees, following consultation with the Principal Employer, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the employers, the investment managers, the Scheme Actuary and the Scheme's auditor upon request.

Signed:.. **Date:**.....................

On behalf of the Pandrol Group Pension Scheme

Appendix 1: Investment policy of the Scheme as at August 2020

1. The balance between different kinds of investment

The Scheme has a strategic asset allocation as set out in the table below, which has been agreed after considering the Scheme's liability profile and funding position, the expected return of the various asset classes and the need for diversification.

The Trustees recognise that the asset allocation of investments in different asset classes will vary over time as a result of market movements. The Trustees seek to maintain a balance between maintaining the asset allocation in line with its benchmark and limiting the costs of rebalances.

Portfolio	Asset class	Allocation (%)	
Growth portfolio	**Passive equities**	**30.0**	
	LGIM Global Equity Market Weights (30:70) – 75% GBP Hedged Fund		30.0
	Diversified growth funds	**20.0**	
	Threadneedle Dynamic Real Return Fund		20.0
Protection portfolio	**Active bonds**	**15.0**	
	LGIM Buy and Maintain Global Credit Fund		15.0
	Liability Driven Investment ('LDI')	**25.0**	
	LGIM Matching Core LDI Funds		25.0
	Cash	**10.0**	
	LGIM Sterling Liquidity Fund		10.0

2. Choosing investments

The Trustees have appointed the following investment managers to carry out the day-to-day investment of the Scheme:

- Legal and General Investment Management ("LGIM");
- Columbia Threadneedle Investments ("Threadneedle").

The Trustees have an AVC contract with M&G Prudential for the receipt of members' Additional Voluntary Contributions (AVCs). They also have historic AVC policies with Scottish Equitable (AEGON), Equitable Life Assurance Company and Standard Life Assurance Limited, although these policies are closed to future contributions. Members are able to transfer these funds into the arrangement with M&G Prudential. The AVC arrangements and funds are reviewed by the Trustees annually.

LGIM, Threadneedle and the AVC providers are authorised and regulated by the Financial Conduct Authority. M&G Prudential, Scottish Equitable (AEGON), Equitable Life Assurance Company and Standard Life Assurance Limited are also authorised and regulated by the Prudential Regulation Authority.

Liability Driven Investment ("LDI")

The Trustees have structured the LDI portfolio according to their objective to hedge around 100% of the interest rate and inflation risk to which the funded technical provisions liabilities are exposed. The Trustees will review the level of hedging achieved by the LDI portfolio as part of any future strategy discussions. The Trustees will aim to keep the hedge ratios broadly equal as a proportion of the Scheme's liabilities.

The investment benchmarks and objectives for LGIM and Threadneedle are given below:

Investment manager	Fund	Benchmark	Objective
LGIM	Global Equity Market Weights (30:70) – GBP 75% Hedged Fund	Composite of 30/70 distribution between UK and overseas, 75% GBP Hedged 30% FTSE All-Share Index 70% FTSE AW – All World (ex UK) Index (75% GBP Hedged)	To capture the total returns of the UK and overseas equity markets as represented by the FTSE All-Share Index in the UK and the FTSE All World (ex UK) Index overseas while maintaining a fixed 30/70 weighting between the UK and the overseas assets. A total of 75% of the overseas assets will be currency hedged to sterling, excluding the emerging market currencies
	Sterling Liquidity Fund	7 Day LIBID	Provide capital stability, liquidity and diversification while providing a competitive level of return
	Buy and Maintain Global Credit Fund	n/a	The fund aims to capture the credit risk premium within a globally diversified portfolio of predominantly investment grade credit and to preserve value over the course of the credit cycle by avoiding defaults and securities experiencing a significant deterioration in credit quality
	Matching Core Fixed Short Fund	Gilt and swap composite index	Provide leveraged exposure to changes in nominal interest rates
	Matching Core Fixed Long Fund	Gilt and swap composite index	Provide leveraged exposure to changes in nominal interest rates
	Matching Core Real Short Fund	Gilt and swap composite index	Provide leveraged exposure to changes in real interest rates
	Matching Core Real Long Fund	Gilt and swap composite index	Provide leveraged exposure to changes in real interest rates
Columbia Threadneedle	Dynamic Real Return Fund	UK CPI	To provide a rate of return of 4% p.a. above UK CPI over 3 – 5 years (before fees)

The performance of the investment managers will be monitored as frequently as the Trustees consider appropriate in light of prevailing circumstances. The monitoring takes into account both short-term and long-term performance.

The investment benchmarks and objectives for M&G Prudential are given below:

Fund	Benchmark	Objective
Balanced Non-Property Fund	Composite of 75% equities (30% UK, 45% overseas), 25% bonds/cash. Indices set by the Prudential Portfolio Management Group.	To outperform the benchmark by 1.5% - 2.0% per annum gross of fees on a rolling three-year basis.
Index-Linked Passive Fund	FTSE A Index-Linked Over 5 Year Index	To match the performance of the benchmark as closely as possible.
Long Term Gilt Passive Fund	FTSE Actuaries UK Conventional Gilts Over 15 Years Index	To match the performance of the benchmark as closely as possible.
Long Dated Corporate Bond Fund	Markit iBoxx £ Non-Gilts Over 15 Year Index	To outperform the benchmark by 0.8% per annum gross of fees on a rolling three-year basis.
Long Term Bond Fund	50% FTSE A Conventional Gilts Over 15 Year Index 50% Markit iBoxx £ Non-Gilts Over 15 Year Index	To match the performance of the benchmark as closely as possible.
Long Term Growth Passive Fund	50% FTSE All-Share Index 12.5% FTSE World North America Index 17.5% FTSE World Europe (ex-UK) Index 7.5% FTSE Japan Index 10% FTSE World Asia Pacific ex-Japan Index 2.5% MSCI Emerging Markets Index	To match the performance of the benchmark as closely as possible.
Overseas Equity Passive Fund	25% FTSE World North America Index 35% FTSE World Europe (ex-UK) Index 15% FTSE Japan Index 20% FTSE World Asia Pacific ex-Japan Index 5% MSCI Emerging Markets Index	To match the performance of the benchmark as closely as possible.
Recovery Fund	FTSE All-Share Index	n/a
UK Equity Fund	FTSE All-Share Index	To outperform the benchmark by 0.75% - 1.0% per annum gross of fees on a rolling three-year basis.
UK Equity Passive Fund	FTSE All-Share Index	To match the performance of the benchmark as closely as possible.
Cash Fund	London Interbank LIBID 7 Day Deposit Rate	To outperform the benchmark gross of fees on a rolling three year basis.

The AVC arrangement is reviewed from time to time.

3. Fee agreements

The fee arrangements with the investment managers are summarised below:

Investment manager	Fund	Annual Management Charge
LGIM	Global Equity Market Weights (30:70) – GBP 75% Hedged Fund	0.2% p.a. on the first £2.5m, 0.19% p.a. on the next £7.5m, 0.175% p.a. on the next £15m, 0.15% p.a. on the next £25m, 0.13% p.a. on the balance over £50m.
	Sterling Liquidity Fund	0.125% p.a. on first £5m, 0.1% p.a. on the next £5m, 0.075% p.a. on the next £20m, 0.05% p.a. on the balance over £30m.
	Buy and Maintain Global Credit Fund	0.15% p.a.
	Matching Core Funds	0.24% p.a. on the first £25m, 0.17% p.a. on the balance over £25m.
Threadneedle	Dynamic Real Return Fund	0.5% p.a.

The fee arrangements with M&G Prudential are summarised below (these fees are deducted directly from the members' AVC accounts):

Fund	Annual Management Charge
Balanced Non-Property Fund	0.655% p.a.
Index-Linked Passive Fund	0.10% p.a.
Long Term Gilt Passive Fund	0.10% p.a.
Long Dated Corporate Bond Fund	0.31% p.a.
Long Term Bond Fund	0.21% p.a.
Long Term Growth Passive Fund	0.23% p.a.
Overseas Equity Passive Fund	0.25% p.a.
Recovery Fund	0.76% p.a.
UK Equity Fund	0.41% p.a.
UK Equity Passive Fund	0.10% p.a.
Cash Fund	0.10% p.a.

The Trustees have appointed Barnett Waddingham LLP to advise on investment matters. Barnett Waddingham are normally remunerated on a time-cost basis, although fixed fees may be agreed for specific tasks.

4. Investments and disinvestments

Investment of new money

Investments are usually made so as to move the actual asset allocation more in line with the target asset allocation. The growth/protection split is reviewed on a regular basis by the Trustees.

Meeting collateral calls on the LDI funds

The Trustees hold around 10% of total Scheme assets in an LGIM cash fund (the Sterling Liquidity Fund) in order to meet any cash calls from the LDI funds in the event that yields increase and result in the LDI funds hitting the upper leverage limit. This amount is intended to strike a reasonable balance between minimising the performance drag from holding excessive cash and the increased administration involved in realising alternative assets at short notice to meet these cash calls.

Although the 10% cash holding is intended to act as a reasonable cash buffer, if gilt yields rise or inflation falls sharply there could be a need for additional cash in order to reduce leverage within the LDI funds. Therefore the Trustees have instructed LGIM to automatically disinvest from the LGIM Global Equity Market

Weights (30:70) – GBP 75% Hedged Fund in the event that additional cash is required to meet collateral calls.

In the event that collateral payouts are made from the LGIM Matching Core LDI funds, this will be transferred directly into the Scheme's LGIM Sterling Liquidity Fund. The Trustees will then consider on a case-by case basis whether to invest these amounts or to retain them for benefit payment purposes.

Realisation of investments

The Scheme's cashflow requirements are expected to be met by the employers' contributions, however where this is insufficient the Trustees may disinvest some of its assets (excluding the LGIM LDI Portfolio) so as to move the actual asset allocation more in line with the target asset allocation.

Appendix 2: Financially material considerations, non-financially material considerations, the exercise of voting rights and engagement activities

1. Financially Material Considerations

After receiving training and advice from its investment advisor, Barnett Waddingham, the Trustees believe that Environmental, Social and Governance ("ESG") factors, including but not limited to climate change, are financially material – that is, they have the potential to impact the value of the Scheme's investments from time-to-time. The Trustees appreciate that the method of incorporating ESG in the investment strategy and process will differ between asset classes. The Trustees note that this financial materiality will be assessed over the length of time until the benefits can be bought out with an insurer.

The Trustees have reviewed the approach to ESG of their managers taking into account UN Principles for Responsible Investment scores where appropriate. The Trustees are comfortable that the funds currently invested in by the Scheme are managed in accordance with their views on financially material factors, as set out in this policy. This position is monitored periodically. As part of the monitoring process the Trustees are provided with updates on governance and engagement activities of the managers and input from the investment advisor on ESG matters. The Trustees have the opportunity to meet the managers and question them on policies. The views set out below will be taken into account when appointing and reviewing managers.

Passive Equities - The Trustees accept that investment managers must invest in line with the specified index and, therefore, may not be able to disinvest if they have concerns relating to ESG. However, the Trustees believe that positive engagement on ESG issues can lead to improved risk-adjusted returns over the Trustees' intended time horizon for the investment in question. Therefore, the Trustees look to the passive equity manager to positively engage with companies where there is scope to improve the way ESG issues are taken into account when running the company. However, engagement activities (including the exercise of rights) should be consistent with, and proportionate to, the rest of the investment process.

Diversified Growth Funds - The Trustees believe that ESG issues will be financially material to the risk-adjusted returns achieved by the Scheme's diversified growth fund managers over the Trustees' intended time horizon for the investment in question. The investment process for any diversified growth fund manager should take ESG into account when selecting holdings. The Trustees also support engagement activities and, where relevant, the exercise of rights attaching to the investments by the Plan's diversified growth fund manager. However, the process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

Buy and Maintain corporate bonds - The Trustees accept that the holding is largely a passive mandate once the initial bonds have been selected. However, the Trustees believe that positive engagement on ESG issues can lead to improved risk-adjusted returns over the Trustees' intended time horizon for the investment in question and would expect the manager to take this into account in the purchase of any new bonds within the portfolio. The Trustees support engagement activities, although they appreciate that fixed income assets do not typically provide voting rights. The process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

Liability Driven Investment - The Trustees believe that ESG issues are not financially material to the risk-adjusted returns achieved by the Scheme's Liability Driven Investment strategy, given its sole purpose is to provide a hedge against the Scheme's exposure to movements in nominal interest rates and inflation.

2. Non-financially material considerations

The Trustees do not take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future qualify of life of the members and beneficiaries of the Scheme (referred to as "non-financial matters" in the relevant Regulations) in the selection, retention and realisation of investments.

3. The exercise of voting rights

The Trustees' policy on the exercise of rights attaching to investments, including voting rights, and in undertaking engagement activities in respect of the investments is that these rights should be exercised by the investment managers on the Trustees' behalf. In doing so, the Trustees expect that the investment managers will use their influence as major institutional investors to exercise the Trustees' rights and duties as shareholders, including where appropriate engaging with underlying investee companies to promote good corporate governance, accountability and to understand how those companies take account of ESG issues in their businesses.

The Trustees will monitor and engage with the investment managers about relevant matters (including matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance), through the Scheme's investment consultant where needed.

Investment managers will be asked to provide details of their stewardship policy and engagement activities on at least an annual basis. The Trustees will, with input from their investment consultant as necessary, monitor and review the information provided by the investment managers. Where possible and appropriate, the Trustees will engage with their investment managers for more information and ask them to confirm that their policies comply with the principles set out in the Financial Reporting Council's UK Stewardship Code.

4. Engagement activities

The Trustees acknowledge the importance of ESG and climate risk within their investment framework. When delegating investment decision making to their investment managers they provide their investment managers with a benchmark they expect the investment managers to either follow or outperform. The investment manager has discretion over where in an investee company's capital structure it invests (subject to the restrictions of the mandate), whether directly or as an asset within a pooled fund.

The Trustees are of the belief that ESG and climate risk considerations extend over the entirety of a company's corporate structure and activities, i.e. that they apply to equity, credit and property instruments or holdings. The Trustees also recognise that ESG and climate related issues are constantly evolving and along with them so too are the products available within the investment management industry to help manage these risks.

The Trustees consider it to be a part of their investment managers' roles to assess and monitor developments in the capital structure for each of the companies in which the managers invest on behalf of the Scheme or as part of the pooled fund in which the Scheme holds units.

The Trustees also consider it to be part of their investment managers' roles to assess and monitor how the companies in which they are investing are managing developments in ESG related issues, and in particular climate risk, across the relevant parts of the capital structure for each of the companies in which the managers invest on behalf of the Scheme.

Should an investment manager be failing in these respects, this should be captured in the Scheme's regular performance monitoring.

The Scheme's investment managers are granted full discretion over whether or not to invest in the Principal Employer's business. Through their consultation with the Principal Employer when setting this Statement of Investment Principles, the Trustees have made the Principal Employer aware of their policy on ESG and climate related risks, how they intend to manage them and the importance that the pensions industry as a whole, and its regulators, place on them.

The Scheme's investment consultant, Barnett Waddingham, is independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes the Trustees confident that the investment manager recommendations they make are free from conflict of interest.

The Trustees expect all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so the Trustees believe they have managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustees/investment manager and the investee companies.

In selecting and reviewing their investment managers, where appropriate, the Trustees will consider investment managers' policies on engagement and how these policies have been implemented.