

# **Carver Pension Scheme (the 'Scheme')**

## **Statement of Investment Principles (the 'Statement')**

### **Defined Benefit Section**

#### **Scope of Statement**

This Statement has been prepared in accordance with s35 and s36 of the Pensions Act 1995, as amended by s244 and s245 of the Pensions Act 2004, respectively, and the Occupational Pension Schemes (Investment) Regulations 2005.

The effective date of this Statement is July 2019. The Trustees will review this Statement and the Scheme's investment strategy no later than three years after the effective date of this Statement and without delay after any significant change in investment policy.

This Statement is purely for the Defined Benefit section of the Scheme. There is no cross-subsidy between the different sections. The Trustees therefore consider it appropriate to look at each section separately when considering investment policy.

#### **Consultations made and parties involved**

The Trustees have consulted with the relevant Employers ("the Employers") prior to writing this Statement and have considered their recommendations, and will take the Employers' comments into account when they believe it is appropriate to do so.

The Trustees have decided to invest the Scheme's assets in Aon Hewitt's Delegated Consulting Service ('DCS'). Management of the Scheme's assets has been delegated to Hewitt Risk Management Services Limited ('HRMSL'), who are authorised and regulated by the Financial Conduct Authority. Under DCS, HRMSL manage the Scheme's assets in a range of funds which can include multi-asset, multi-manager and specialist third party liability matching funds. HRMSL conducts the necessary day to day management of the funds required to meet the Trustees' objectives.

A copy of this Statement is available to the members of the Scheme.

#### **Objective**

The objective of the investment strategy is to ensure that the Scheme's assets and future contributions are invested in such a manner that the benefits due to members and their beneficiaries can be paid from the Scheme as they arise.

## The balance between different kinds of investment

Under DCS the Scheme will have an allocation between two different funds as detailed in the table below.

The Nominal and Real Funds contain exposure to both the Growth Fund and liability hedging instruments.

Investment	Objective	Return Target
Nominal +2 Fund	<p>There are two components:</p> <ul style="list-style-type: none"> <li>It invests in a portfolio of leveraged fixed interest gilt funds, which are designed to match a typical pension scheme's liabilities with around 20 year duration.</li> <li>It invests in growth assets to target 2% outperformance.</li> </ul> <p>This is expected to broadly match the Scheme's nominal liabilities and add returns.</p>	Gilts <sup>(1)</sup> +2% p.a.
Real +2 Fund	<p>There are two components:</p> <ul style="list-style-type: none"> <li>It invests in a portfolio of leveraged index linked gilt funds which are designed to match a typical pension scheme's liabilities with around 20 year duration.</li> <li>It invests in growth assets to target 2% outperformance.</li> </ul> <p>This is expected to broadly match the Scheme's real liabilities and add returns.</p>	Gilts <sup>(1)</sup> +2% p.a.

(1) The manager will calculate a notional benchmark which reflects the underlying gilts held to match a typical pension scheme liabilities with around 20 year duration

The Trustees review the investment strategy in conjunction with each formal actuarial valuation of the Scheme (or more frequently should the circumstances of the Scheme change in a material way). The Trustees take written advice from its professional advisers regarding an appropriate investment strategy for the Scheme.

### Asset allocation strategy

The Scheme's investment strategy has been established as laid out below. The Scheme's actual position relative to this asset allocation strategy is to be formally reviewed on an annual basis in order to determine whether any rebalancing is required.

Investment	Target Weight (%)
Nominal +2 Fund	95.0%
Real +2 Fund	5.0%

## **Expected returns on assets**

The target return of each individual investment is outlined on the previous page. Broadly speaking, the Nominal and Real Funds seek to generate long term capital growth to varying degrees, whilst simultaneously providing a broad match to the Scheme's movements in liabilities relating to changes in interest rates and expected inflation.

## **Risks arising from the investments and risk management**

The Trustees measure and manage the credit risk, market risk and liability mismatching risk of the Scheme's investments on a regular basis. In the case of market risk, the Trustees make distinction between risks that arise from, currency exposure, interest rate and inflation exposure, and other pricing risks.

Measurement of each of the risks is detailed in ongoing reporting provided by Aon Hewitt. The methods the Trustees employ for managing each risk is set out on below

### **Credit risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other part by failing to discharge an obligation.

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The manager carries out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitors any changes to the operating environment of a pooled manager.

Indirect credit risk arises in relation to exposure to underlying bond pooled investment vehicles. This risk is mitigated through the underlying exposures on an aggregate basis being predominantly investment grade credit securities, and by funds holding a diverse portfolio of investments with exposure to a range of issues and issuers.

Cash is held within financial institutions which are at least investment grade credit rated.

### **Currency risk**

Currency risk is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.

The Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets via pooled investment vehicles. HRMSL may enter into currency exchange transactions and/or use techniques and instruments to seek to protect against fluctuation in the relative value of its portfolio positions as a result of changes in currency exchange rates between the trade and settlement dates of specific securities transactions or anticipated securities transactions.

### **Interest rate and inflation risk**

Interest rate and inflation risk is the risk that the fair value or future cash flows of a financial asset, primarily bonds, interest rate swaps and pooled investment vehicles held mainly in bonds, will fluctuate because of changes in market interest rates.

The Scheme is subject to interest rate and inflation risk because some of the Scheme's investments are held in gilt derivatives, through pooled vehicles, and cash. These investments are held in order to mitigate the impact of interest rate and inflation changes on the Scheme's liabilities. The Scheme also has some exposure to bond pooled investment vehicles as part of its diversified return seeking growth portfolio.

### **Liability mismatching risk**

Liability mismatching risk is the risk that changes in the value placed on the Scheme's liabilities are not matched by appropriate changes in the value of the Scheme's assets.

The Scheme's investment strategy is determined in conjunction with a discussion with the Scheme Actuary in relation to the actuarial valuation and recovery plan. The investment consultant and Actuary work closely to agree the required level of expected return above the discount rate and appropriate levels of liability hedging that broadly reflects the Scheme's liability profile.

### **Other price risk**

The Trustees define other price risk as the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Other price risk arises principally in relation to the Scheme's return seeking assets which are held in pooled vehicles, investing in turn in a diversified range of pooled vehicles including, but not limited to, equities, fixed income, debt, property, infrastructure, hedge funds and other asset classes.

### **Realisation of investments and liquidity**

The Trustees recognise that there is a risk in holding assets that cannot be easily realised should the need arise.

The majority of the assets held are realisable at short notice (through the sale of units in pooled funds).

## Social, environmental or ethical considerations

The Trustees consider investment risk to include ESG factors and climate change. These risks could negatively impact the Plan's investments. The Trustees consider these risks by taking advice from its investment adviser. The Trustees have appointed Hewitt Risk Management Services Limited ("HRMSL") to manage the Scheme's assets. HRMSL invests in a range of underlying investment vehicles.

As part of HRMSL's management of the Scheme's assets, the Trustees expect HRMSL to:

- Where relevant, assess the integration of ESG factors in the investment process of underlying managers;
- Use its influence to engage with underlying managers to ensure the Scheme's assets are not exposed to undue risk; and
- Report to the Trustees on its ESG activities as required.
- Ensure that (where appropriate) underlying managers exercise the Trustees voting rights in relation to the Scheme's assets; and
- Report to the Trustees on stewardship activity by underlying managers as required.
- In setting and implementing the Scheme's investment strategy the Trustees do not explicitly take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors"<sup>[1]</sup>).

## Activism, and the exercise of the rights attaching to investments

The Trustees do not currently have a specific policy in relation to the exercise of the rights (including voting rights) attaching to investments. These matters are, however, kept under review.

## Signed on behalf of the Trustees of the Carver Pension Scheme

STUART PYE

Name (print)



Signature

25/7/19

Date

<sup>[1]</sup> The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018

# **The Carver Pension Scheme (the “Scheme”) Statement of Investment Principles (the “Statement”) Defined Contribution Section**

## **Scope of Statement**

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The effective date of this Statement is July 2019. The Trustees will review this Statement and the Scheme’s investment strategy no later than three years after the effective date of this Statement and without delay after any significant change in investment policy.

This Statement is purely for the Defined Contribution section of the Scheme. There is no cross-subsidy between the different sections. The Trustees therefore consider it appropriate to look at each section separately when considering investment policy.

## **Consultations Made**

The Trustees have consulted with the relevant Employers (“the Employers”) prior to writing this Statement and have considered their recommendations, and will take the Employers’ comments into account when they believe it is appropriate to do so. The Trustees are responsible for the investment strategy of the Carver Pension Scheme. The Trustees have typically obtained written advice on the investment strategy appropriate for the Scheme and on the preparation of this Statement. This advice was provided by Aon who are authorised and regulated by the Financial Conduct Authority.

The day to day management of the Scheme’s assets has been delegated to investment managers who are authorised and regulated by the Financial Conduct Authority. A copy of this Statement has been provided to the investment managers appointed and is available to the members of the Scheme.

## **Scheme Objectives**

The Trustees’ primary objectives are:

- “asset choice” to ensure members have an appropriate choice of assets for investment;
- “return objective” to enable members to benefit from investment in “growth” assets until they approach retirement, when they will be able to switch to “matching” assets which are more related to the purchasing cost of their income and cash in retirement.

## **Investment Risk Measurement and Management**

The Trustees recognise that members take the investment risk. They take account of this in the selection and monitoring of their investment managers and the choice of funds offered to members.

## **Balance Between Different Kinds of Investments**

The Trustees recognise that the key source of financial risk (in relation to meeting their objectives) normally arises from the choice of funds offered to members.

They therefore retain responsibility for choosing the funds available, and typically take expert advice as required from their professional advisers. A broad range of available asset classes has been considered. This includes consideration of so called "alternative" asset classes (namely property, private equity, and hedge funds).

The Trustees acknowledge that they have no direct holding in derivatives, however these instruments may be used by Standard Life in order to reduce investment risks or facilitate efficient portfolio management. These are managed such as to avoid excessive risk exposure to a single counterparty or other derivative operations.

## **Choosing Investments**

The investment options offered to members are deemed appropriate, given the nature of the membership.

A range of funds is available to members through the investment managers and the objectives for each of these funds are set out in the Appendix.

Day to day selection of stocks is delegated to investment managers appointed by the Trustees. The Trustees typically take professional advice when formally reviewing their investment managers or funds offered to members. This advice will typically be taken at least every three years. The last review was carried out in June 2017.

## **Custody**

Investment in pooled funds gives the Trustees a right to the cash value of the units rather than to the underlying assets. The investment managers of the pooled funds are responsible for the appointment and monitoring of the custodian of the funds' assets.

The custodians are independent of the Employers.

## **Expected Returns on Assets**

Over the long-term the Trustees' expectations are:

- For units representing "growth" assets (UK and overseas equities, absolute return), to achieve a return which keeps pace with the increase in national average earnings [price inflation plus 2% pa] over the same period. The Trustees consider short-term volatility in equity price behaviour is acceptable, given the general expectation that over the long-term these assets will outperform the other asset classes.

For the "monetary and index-linked" assets;

- for units representing index-linked bonds, to achieve a rate of return in excess of price inflation, and short-term price behaviour in line with the cost of providing index-linked annuities.
- for units representing monetary assets (corporate bonds, gilts, cash etc), to achieve a rate of return which is at least in line with changes in the cost of providing fixed income annuities.

Returns achieved by each investment manager are assessed against performance benchmarks set by the Trustees in consultation with their advisers and investment managers.

## **Realisation of Investments/Liquidity**

The Trustees recognise that there is a risk of holding assets that cannot easily be realised should the need arise.

The majority of assets held on behalf of members are realisable at short notice (through the sale of units in pooled funds).

## **Social, Environmental or Ethical Consideration**

In setting the Scheme's investment strategy, the Trustees' primary concern is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. The Trustees believe that in order to fulfil this commitment and to protect and enhance the value of the Scheme's investments, it must act as a responsible steward of the assets in which the Scheme invests.

The Trustees further acknowledge that an understanding of financially material considerations including environmental, social and corporate governance ("ESG") factors (such as climate change) and risks related to these factors can contribute to the identification of investment opportunities and financially material risks.

As part of their delegated responsibilities, the Trustees expect the Scheme's investment managers to take into account corporate governance, social, and environmental considerations (including long-term risks posed by sustainability concerns including climate change risks) in the selection, retention and realisation of investments. Any decision should not apply personal ethical or moral judgments to these issues but should consider the sustainability of business models that are influenced by them.

## **Activism, and the Exercise of the Rights Attaching to Investments**

The Trustees do not currently have a specific policy in relation to the exercise of the rights (including voting rights) attached to investments. These matters are however kept under review and the Trustees are aware of the policy towards corporate governance adopted by their investment managers and receive regular reports on their activity.

## **Effective Decision Making**

The Trustees recognise that decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. They also recognise that where they take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.

The Trustees believe that given the small number of Trustees that a separate investment sub-committee would not be appropriate. Therefore, all investment decisions are discussed by the whole Trustee body with assistance from the Scheme's investment advisers before decisions are taken.

## **Additional Voluntary Contributions Arrangements ("AVC's")**

Some members obtain further benefits by paying AVC's to the Scheme. These contributions are paid into the funds available in the Scheme (set out in the Appendix) as the member directs. The liabilities in respect of these AVCs are equal to the value of the investments bought by the contributions.

From time to time the Trustees review the choice of investments available to members to ensure that they remain appropriate to the members' needs.



## The Carver Pension Scheme (the “Scheme”) Appendix Statement of Investment Principles Defined Contribution Section

This Appendix sets out the Trustees’ current investment strategy, and is supplementary to the Trustees’ Statement of Investment Principles (the “attached Statement”).

The Trustees’ investment strategy has been established in order to maximise the likelihood of members achieving the primary objectives set out in the attached Statement. The details are laid out below:-

### Asset Options

Asset Class	Fund
UK Equities	Legal & General UK Equity Index
Global Equities	Legal & General Global Equity (50:50) Fixed Weights Index
Overseas Equities	Legal & General Overseas Equity*
Absolute Return	Standard Life GARS
Bonds	Legal & General Pre-Retirement
Cash	Legal & General Cash

All of the fund options outlined above are offered as freestyle investment options for members.

\* Members can either invest in the Overseas Equity Fund or the underlying sector funds included within the Overseas Equity Fund i.e. North America, Europe, Japan, Asia Pacific ex Japan or Emerging Markets.

### Default Matrix

The Trustees invest the assets of the Scheme in a range of funds designed to meet the changing investment needs of members during their membership of the Scheme and in their approach to retirement. This approach, which is known as lifestyling, aims to ensure that, over the fifteen years leading to normal retirement age, each member’s account will be moved gradually from equities into absolute return and finally into bonds and cash as set out in the table below.

Term to Retirement	Equities		Standard Life GARS	LGIM Pre-Retirement	LGIM Cash
	LGIM UK	LGIM o/seas			
	%	%	%	%	%
1	0	0	0	75	25
2	0	0	10	75	15
3	0	0	25	75	0
4	0	0	40	60	0
5	0	0	55	45	0
6	0	0	70	30	0
7	0	0	85	15	0
8	0	0	100	0	0
9	0	0	100	0	0
10	5	5	90	0	0
11	12	13	75	0	0
12	20	20	60	0	0
13	27	28	45	0	0
14	35	35	30	0	0
15	42	43	15	0	0
16	50	50	0	0	0

## Investment Management Arrangements

### Legal & General Investment Management

The following describes the mandates given to Legal & General Investment Management within each asset class.

Asset Class	Fund	Benchmark	Target
UK Equities	UK Equity Index	FTSE All-Share Index	To track the benchmark
Global Equities	Global Equity (50:50) Fixed Weights Index	Composite Index	To track the benchmark
Overseas Equities	Overseas Equity	Composite	To track the benchmark
Bonds	Pre-Retirement	Composite	To track the benchmark
Cash	Cash	LIBID 7 Day Notice	To track the benchmark

### Standard Life Investments

The following describes the mandate given to Standard Life.

Asset Class	Fund	Benchmark	Target
Absolute Return	GARS	UK 6 Month LIBOR	Benchmark + 5% pa (gross of fees)

### Fee structure for advisers and manager

#### Advisers

The Trustees' investment advisers are paid for advice received on the basis of the time spent by the adviser. For significant areas of advice (for example large projects, such as a review of the operation of lifestyle), the Trustees will endeavour to agree a project budget. These arrangements recognise the bespoke nature of the advice given, and that no investment decisions have been delegated to the adviser.

#### Investment managers

Legal & General Investment Management and Standard Life Investments are remunerated as a set percentage of the assets under management. This is in keeping with market practice.

### Summary of investment management fee arrangements

Manager/Fund	Fee (% pa)
Legal & General UK Equity Index	0.10
Legal & General Global Equity (50:50) Fixed Weights Index	0.165
Legal & General Overseas Equity	0.275
Standard Life GARS	0.70
Legal & General Pre-Retirement	0.15
Legal & General Cash	0.125

### Fees for Administration

The administration of the Defined Contribution Section of the Carver Pension Scheme is carried out by Aon Hewitt. The cost of administration is borne by the Employers, not the member.

**Payment of Fund Management Charges**

The fund management charges of the Scheme are borne by members via a deduction from the unit price.

**Additional Voluntary Contributions ("AVC's")**

Additional Voluntary Contributions (AVC's) are invested in the Funds outlined on the previous page.

