

STATEMENT OF INVESTMENT PRINCIPLES

The Firmin Coates Retirement Pension Fund

11th November 2021

1. Introduction

This document is the “Statement of Investment Principles” (SIP) for The Firmin Coates Retirement Pension Fund (the Scheme). The SIP has been produced in accordance with the requirements of Section 35 of the Pensions Act 1995, Section 244 of the Pensions Act 2004 and the Occupational Pension Scheme (Investment) Regulations 2005.

The arrangement is a Defined Benefit Occupational Pension Scheme. The Scheme was closed to new members in 2008 with existing members still accruing. The Scheme was contracted out of the State Earning Related Pension Scheme.

At the last Actuarial Valuation Report the Technical Provisions funding level was 67% on the “ongoing” valuation basis, reflecting the position as at 5th April 2018.

The Schedule of Contributions dated 30th May 2019 confirms that HW Coates Limited (the Principal Employer) has an ongoing obligation to pay contributions 2019-2028 as agreed in the “Recovery Plan”. It should be noted that, on 10th July 2019, the Principal Employer paid three years’ contribution (2019-2021) on the Plan. In addition, all expenses of the Scheme will be met separately by the Employer.

2. Preparation and review of the SIP

Before preparing this SIP, the Trustees have consulted with the Employer.

The Trustees are responsible for the investment strategy of the Scheme and have obtained investment advice from a suitable Investment Adviser with the required knowledge, qualifications and experience.

The Trustees have considered when to take advice, the circumstances of that advice, the types of investment to be held and when to seek further investment advice.

This document was prepared with an effective date of 11th November 2021 and may be reviewed no later than the earlier of 30th September 2022 or immediately after a significant change in the investment policy.

The Trustees are aware of the penalties for failing to comply with the Pension Act 1995, the Pensions Act 2004 and subsequent regulations.

3. Scheme Objectives

The Scheme objective is the security of rights and expectations of the members in order to provide the benefits due.

The Trustees will use prudent assumptions to ensure the Scheme is appropriately funded. Where an actuarial valuation shows a deficit, a recovery plan is put in place, taking into account the financial wellbeing of the Employer.

4. Investment Objective

The Trustees investment objective is to invest the assets to meet the Scheme liabilities. The estimated liabilities consist of a series of projected cash flows calculated on assumptions contained within the actuarial valuation.

The Trustees have an investment policy that, when combined with Employer contributions, is expected to eliminate the Scheme deficit as calculated with reference to the Technical Provisions.

The Trustees have chosen investments that they believe will achieve this objective, whilst maintaining an appropriate degree of risk and diversification in the Scheme. The Trustees recognise that greater allocation to more defensive assets may provide greater Scheme security however the Employer may find it difficult to support the level of contributions required. The Trustees have considered both the Employers ability to fund the Scheme and that some investment risk should be taken in order to assist with the funding of future benefits.

5. Strategic Asset Allocation

The Trustees acknowledge that when setting the strategic asset allocation there may be significant investment risk. These risks are considered constantly. The Trustees take appropriate investment advice and review the existing investment strategy when required.

The Trustees consider the Employer covenant when setting the strategic asset allocation. The Employer covenant will be monitored by receiving periodic financial updates from the Employer. The Trustees may reconsider the suitability of the existing investment strategy at any time.

The Trustees monitor the risks associated with the underlying fund managers on a regular basis in conjunction with the investment reports they receive.

The Trustees understand the investment risk in meeting the objectives will arise from the chosen asset allocation. The Trustees retain the responsibility for selecting the asset allocation after consulting with the Employer and after considering advice.

The Trustees have decided that a diverse investment approach using pooled funds is appropriate considering the size of the Scheme. The Trustees will regularly review this decision. Within the range of pooled funds used the day to day investment management is delegated to fund managers to ensure the security, liquidity and quality of the portfolio. The Trustees will select and review the performance of the fund managers against their specific benchmarks. The fund managers are responsible for the appointment and monitoring of the custodian of the pooled fund assets.

The Trustees receive performance reports and fund specifications. These include information, where appropriate, on duration, turnover, ethical, environmental, social, governance and underlying holdings. These can be compared by the Trustees to the objectives and fund specification that the Trustees have appointed the manager for.

6. Investment Policy

The Trustees policy is to achieve the investment objective by investing in a combination of defensive assets that provide a close link to the Schemes liabilities and growth assets that aim of providing real returns, by type, at an acceptable level of risk.

In establishing the investment policy, the Trustees have considered the historical and expected future returns of each asset class. The Trustees have considered that equity funds may provide returns higher than the assumed actuarial rate of return to meet the Scheme liabilities. The Trustees believe there may be periods when equity and credit underperform UK government bonds and are prepared to accept this risk.

The investment strategy is implemented by delegating the day to day management of assets to the specialist investment managers.

To minimise underlying fund management costs the Trustees are inclined to use passively managed (index tracking) funds.

The Trustees will hold cash assets to facilitate management of the Scheme. This may be in both the Trustee bank account and money market funds.

There will be enough investments in liquid and readily realisable assets to meet expected and occasional unexpected cash flow requirements in all foreseeable circumstances.

7. Existing Asset Allocation

The Scheme investments are held on the Scottish Widows Platform. The underlying funds invest in various asset classes within pooled funds. The purpose of diversification is to limit excessive reliance on any one particular asset. The strategic asset allocation is driven by the financial characteristics of the Scheme such as:

- The duration of the liabilities
- The sensitivity of value of the liabilities to future inflation and interest rates
- The risk tolerance of the Trustees
- The overall investment benchmark and asset spread

As a result of the current investment review the asset classes of the underlying Trustees investments are held in the following approximate proportions:

- [Growth]
- UK equities, 29%
- Global equities (ex UK), 43%
- [Defensive]
- Bonds, 17%
- Cash, 5%
- Other, 6%

The Trustees believe that these proportions will be broadly stable although some variation is expected, for example due to relative change in asset values and cash flow.

8. Investment Risk

Prior to deciding to take investment risk relative to the liabilities, the Trustees have reviewed the most recent actuarial comments within the actuarial valuation report regarding key risks and uncertainties that could affect the funding position.

In particular, the Trustees have considered carefully the following possible consequences:

- The assets may not achieve the return required to meet liabilities. This would result in a deterioration in the Schemes financial position and potentially higher Employer contributions than currently expected at a later date;
- Equity investments may produce a return that is not correlated with the Schemes liabilities. A fall in equity value may reduce the funding level and increase the shortfall within the Scheme.

The Trustees inclination to take investment risk, and the level of tolerance to risk, is dependent on the continuing financial strength of the Employer and their willingness and ability to contribute to the Scheme. The Trustees will consider reducing the investment risk relative to the liabilities should either of these deteriorate.

The Trustees review the Scheme investment performance on a regular basis. The Trustees are aware of the benchmarks for the underlying funds and believe collectively they are suitable to meet the objective of the Trustees in maintaining a suitable level of risk within the Scheme. If the Trustees identify any significant issues relating to the performance or other risk management matters, they will seek further advice from an adviser.

The Trustees do not hold any investments in the Employer and do not intend to make any such investments.

9. Expected Rate of Return

Over the long term, the Trustees expectation for UK Equity and Overseas Equity is to at least keep pace with inflation. The Trustees believe that fixed interest investments may provide a return that is likely to be both lower and more stable than the other asset classes. Although a lower return is expected, the fixed interest holdings may reduce the level of overall volatility of the Scheme relative to the funding standard. The following asset classes are measured against their relevant benchmarks:

- UK Equity, FTSE All Share Index
- Global Equity, FTSE World (ex UK) index
- Bonds, FTSE Actuaries UK Index-Linked Gilts Over 15 Years Index

10. Realisation of Investments

The Scheme investments are held in unitised funds with leading institutional investment managers. Accordingly, the Trustees are comfortable that due to the liquidity of these funds and their underlying investments, the units can be realised when required. There is a documented procedure between the Trustees and Scottish Widows, as operator of the investment platform, that states that only authorised signatories can realise investments.

11. Ethical, Environmental, Social and Governance (ESG) Investment Considerations

The Trustees have been made aware of ESG considerations and will review and continue to review from time to time the policies of the fund managers in this light. The Trustees will do likewise with specific regard to climate change.

12. Voting Rights

As the Trustees are invested in units of pooled funds, voting rights as such do not pass to the Trustees.

The Trustees receive information from the underlying investment managers on how they exercise the voting rights entrusted to them on behalf of the Scheme and in the interests of the members. These matters are considered at Trustee meetings.

13. Representations

The Trustees invest money on behalf of the members of the Scheme and after consultation with the Employer. The Trustees welcome comment from the members on matters of governance decisions. Contact information is provided in the Annual Report and Financial Statements produced by the Trustees.

Ends.