

# Statement of Investment Principles Polychrome Retirement Benefits Scheme

## Introduction

- 1 This document is the Statement of Investment Principles ('SIP') made by the Trustee of the Polychrome Retirement Benefits Scheme (the 'Scheme') in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and regulations made under it).
- 2 The Trustee will review this SIP at least every three years and without delay after any significant change in investment policy. The ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

## Scheme objectives

- 3 The Trustee has the following objectives:

The acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet the cost of current and future benefits which the Scheme provides.

To limit the risk of assets failing to meet the liabilities, both over the long term and on a shorter-term basis.

To secure the Scheme's liabilities with an insurance company and wind the Scheme up.

- 4 In determining the Scheme's investment objectives, the Trustee has had regard to historical rates of return earned on the various asset classes available for investment, as well as forward-looking assumptions of the expected future returns on those asset classes and the expected short-term volatility of the asset classes.
- 5 the Trustee will put in place a De-Risk Plan for the Scheme with the intention of reducing the "target return" of the Scheme's investment portfolio and increasing the level of liability hedging (the "target hedge ratio") over time as the self-sufficiency funding level improves. The target return and target hedge ratio for the purposes of this SIP are shown in the Schedule to this statement.

Those terms are explained more fully in the Schedule. In summary:

target return - is the annual percentage by which the investment portfolio is targeted to perform over the next 6 years.

target hedge ratio - is the Trustee's target for the sensitivity of the value of the assets to variations in interest rates and inflation expectations, expressed as a percentage of the sensitivities of liabilities to movements in interest rates and inflation expectations.

### **Investment strategy**

6 The Trustee will take advice to determine an appropriate investment strategy. The Trustee has a desire to diversify its risk exposures and to manage its investments efficiently. All decisions will be recorded in the minutes.

7 The Trustee can make use of a wide range of investments:

using a range of instruments that provide a better match to changes in liability values , including inflation and interest rate gilts and/or swaps.

Sale and repurchase agreements in respect of securities (also known as "repo transactions"). These may be documented under a general master repurchase agreement or any similar transactional document. The purpose of the "repo transactions" is to reduce risk in the Scheme, facilitate efficient portfolio management and provide liquidity for the Scheme on a temporary basis.

Individual or Bulk Purchase Annuity policy which significantly improves the degree of matching for a significant proportion of the liabilities.

a diversified range of return-seeking assets, including (but not limited to) public equity, private equity, diversifying strategies (strategies designed to be uncorrelated with traditional equity and bond markets), corporate bonds, property, secure income assets (assets which provide secure contractual income streams for investors), insurance and commodities.

Illiquid assets may be held where it is believed a significant return premium will be achieved , however liquid assets are generally favoured.

The Trustee makes use of both passive and active management in the Scheme's asset portfolios.

8 The Trustee makes these investments through pooled vehicles and funds, including contracts where returns are calculated by reference to actual or notional funds, as well as by appointing investment managers to manage segregated portfolios which include direct holdings.

9 The balance within and between these investments will be determined from time to time with a view to ensuring that the expected overall long-term return on the investments remains broadly consistent with the objectives as set out in paragraphs 4 and 6, above.

10 The Scheme will hold assets in cash and other money market instruments from time to time as may be deemed appropriate.

- 11 The Trustee will monitor the liability profile of the Scheme and will regularly review, in conjunction with the Investment Consultant and the Scheme Actuary, the appropriateness of its investment strategy.
- 12 The expected return of an investment will be monitored regularly and will be directly related to the Scheme's investment objective. It is the Trustee's policy that the investment strategy and asset allocation of the Scheme will be structured so as to ensure that the expected long-term return on the investment portfolio is consistent with achieving the overall objectives as set out in paragraph 4 and 6, above.
- 13 The Trustee's policy is that there will be sufficient investments in liquid or readily realizable assets to meet cashflow requirements in foreseeable circumstances so that the realization of assets will not disrupt the Scheme's overall investments, where possible. The Trustee, together with the Scheme's administrators, will hold sufficient cash to meet benefit and other payment obligations.

### **Investment managers**

- 14 In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policy, but will delegate the responsibility for selection of specific investments to an appointed investment manager or managers. The investment managers shall provide the skill and expertise necessary to manage the investments of the Scheme competently. Similarly, where the Trustee invests in pooled vehicles and funds, responsibility for the management of the underlying assets rests with the investment managers of the funds. Prior to any new appointment of a manager or investment in a pooled vehicle or fund, the Trustee will seek advice from the Investment Consultant on the suitability of the appointment or investment proposed. It will also, periodically, seek further advice on the ongoing suitability of its appointments and investments.
- 15 The Trustee is not involved in the investment managers' day-to-day method of operation and does not directly seek to influence attainment of their performance targets. The Trustee will maintain processes to ensure that performance is assessed on a regular basis against a measurable objective for each manager, consistent with the achievement of the Scheme's long-term objectives, and an acceptable level of risk. As part of this process, the Trustee has delegated the detailed monitoring of the Scheme 's investment managers to its Investment Consultant.
- 16 The Trustees' policy is to consider factors that are financially material. ESG considerations (these considerations include broad corporate governance issues, effective stewardship and more specific considerations such as climate change and research and development practices) are considered to be financially material by the Trustee. The Trustee expects that the extent to which social, environmental or ethical issues may have a fundamental impact on the portfolio will be taken into account by the investment managers in the exercise of their delegated duties.
- 17 The Trustee recognizes that a company's long-term financial success is influenced by a range of factors including appropriate management of environmental, social and corporate governance issues (ESG issues). Whilst it is the Trustee's preference that all companies should be run in a socially responsible way, it takes the view that its primary responsibility is to act in

the best financial interest of the members of the Scheme. Where ESG factors are considered to be financially material, the Trustee will consider these factors over an appropriate time horizon which the Trustee considers the investments will be needed for funding benefits payable for the Scheme.

- 18 The Trustee expects its investment managers to consider a range of sustainable investment factors in its responsibility of the Scheme's assets, such as, but not limited to, those arising from ESG considerations, including climate change, in the context of a broader risk management framework. The Trustee has reviewed the investment managers' policies in these areas and is satisfied they broadly meet with the Trustee's views.
- 19 The investment advisor has a dedicated sustainable investment resource and a network of subject matter experts. The consideration of sustainable investment is fully embedded in the manager recommendation process and is monitored on an ongoing basis. Whilst considering the limitations for each manager, the investment advisor expects managers to have sustainability processes to align with the investment risk and return characteristics of the strategy. Where a manager does not comply or improve on their current stance on sustainable investment, the manager's position in the portfolio may be reviewed.
- 20 Other matters considered by the Trustee to be non-financial matters, such as members' views, are not taken into account.
- 21 The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and to encourage the managers to exercise those rights.
- 22 The Trustee encourages the Scheme's investment managers to discharge their responsibilities in respect of investee companies in accordance with the Stewardship Code published by the Financial Reporting Council. The Trustee will monitor the activities of all its managers on a regular basis but appreciates that its applicability may be limited for certain asset classes.

### **Other matters**

- 23 The Scheme is a Registered Pension Scheme for the purposes of the Finance Act 2004.
- 24 The Scheme's AVC arrangement provides for benefits to be accrued on a money purchase basis, with the value of members' funds being determined by the value of accumulated contributions adjusted for investment returns net of charges. In selecting appropriate investments, the Trustee is aware of the need to provide a range of investment options, which broadly satisfy the risk profiles of all members, given that members' benefits will be directly determined by the value of the underlying investments.
- 25 The Trustee recognizes a number of risks involved in the investment of the Scheme's assets:  
  
Solvency risk and mismatching risk
  - is addressed through the asset allocation strategy and through ongoing triennial actuarial valuations.

- is managed through assessing the progress of the actual growth of the liabilities relative to the selected investment policy.

#### Manager risk

- is measured by the expected deviation of the prospective risk and return, as set out in the manager's objectives, relative to the investment policy.
- is managed through diversification across investment managers and by the ongoing monitoring of the performance of the investment manager as well as a number of qualitative factors supporting the manager's investment process.

#### Liquidity risk:

- is measured by the level of cashflow required by the Scheme over a specified period.
- is managed by the Scheme's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy and through holding assets of appropriate liquidity.

#### Currency risk:

- is measured by the level of overseas investment and the translation effect of currencies leading to the risk of an adverse influence on investment values.
- is managed by reducing the translation risk of investing overseas by hedging a proportion of the overseas investments ' currency translation risk for those overseas currencies that can be hedged efficiently.

#### Custodial risk

- is measured by assessing the credit-worthiness of the custodian bank and the ability of the organization to settle trades on time and provide secure safekeeping of the assets under custody.
- is addressed through the ongoing monitoring of the custodial arrangements. Restrictions are applied to who can authorize transfer of cash and the account to which transfers can be made.

#### Political risk

- is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention.
- is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.

#### Employer risk

- is measured by the level of ability and willingness of the Employer to support the

continuation of the Scheme and to make good any current or future deficit.

- is managed by assessing the interaction between the Scheme and the Employer's business, as measured by the number of factors, including the creditworthiness of the sponsor and the size of the pension liability relative to the financial strength of the sponsor.

Derivatives risk (where used)

- is measured through the monitoring of the activities of the investment managers.
- is managed through the use of standard ISDA documentation, appropriate Credit Support Annexes and collateral management.
- is managed so as to avoid excessive risk exposure to a single counterparty and to other derivative operations.
- The Trustee may permit the investment managers to use derivative instruments if they contribute to a reduction of risks or facilitate efficient portfolio management.

## **Schedule**

### **Target return and target hedge ratio adopted by the Trustee for the purposes of this SIP**

Target return: 1.5% p.a. Target hedge ratio: 70%