Statement of Investment Principles for the Edward Pryor & Son Ltd Retirement Benefits Scheme 8

24 March 2022

1. Introduction

This Statement of Investment Principles (SIP) sets out the policy of Edward Pryor & Son Limited Retirement Benefit Pension Scheme 8 (the “Scheme”).

This SIP replaces the previous SIP dated 5th December 2013.

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 (“the Act”), the Occupational Pension Schemes (Investment) Regulations 2005 (as amended) and the Pension Regulator’s guidance for defined benefit pension Schemes (March 2017).

This SIP has been prepared in accordance with applicable legislation, taking into account guidance from The Pensions Regular and after obtaining and considering written professional advice from Barker Tatham Investment Consultants Ltd (“the Investment Consultant”). The Trustees have delegated day-to-day investment decisions and investment management to Investec Wealth and Management Limited (“the Investment Manager”). The Trustees believe that both the Investment Consultant and Investment Manager to be suitably qualified and experienced to provide such advice.

The advice considers the suitability of investments including the need for diversification given the circumstances of the Scheme and the principles contained in this SIP. The Trustees have consulted with the relevant employer in producing this SIP.

The Trustees will review this SIP from time to time and, with the help of its advisers, will amend it as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy and at least once every three years.

- Appendix 1 sets out details of the Scheme’s investment governance structure, including the key responsibilities of the Trustees, investment consultant and investment managers. It also contains a description of the basis of remuneration of the investment consultant and the investment managers.

- Appendix 2 sets out the Trustees’ policy towards risk appetite, capacity, measurement and management.

2. Investment objectives

The Trustees' overall investment policy is guided by the following objectives:

What constitutes risk?

The Trustees appreciate that the most important aspect of the security of the members' benefits is the continued support of the scheme sponsor. Events that reduce the sponsor's willingness or ability to support the scheme are the biggest potential threats from the members' perspective.

The most significant risk from the Trustees' perspective is that the funding level (as calculated in the triennial actuarial valuations) deteriorates.

- This could jeopardise the deficit recovery plan and necessitate additional contributions from the sponsor.
- The funding level in percentage terms is of more importance than the size of the deficit in monetary terms.

The deficit on an accounting basis is also a potential concern, but not quite as important as the ongoing version.

Appetite for risk

Balance is required here. Taking too little risk can be as damaging for a pension scheme as taking too much risk. The reduction in long-term expected investment returns may push the costs of the scheme to become unsustainably high.

Taking into account the specifics of the scheme, and in particular the strength of the employer's covenant, the Trustees rates their appetite for risk as "5 to 7".

This is on a scale of "0" (no tolerance for risk whatsoever, regardless of the impact on cost) to "10" (risk is irrelevant; maximising long-term expected returns is the only consideration).

Other considerations

- Property and infrastructure exposure
  There are no significant exposures of the sponsor to property or infrastructure prices, so investing the scheme in either asset class would not represent a doubling up of risks.

- Flexibility
  The Trustees are not aware of any plans to radically change the scheme (such as buy-out or a merger), so there is no overarching need for flexibility in the investment strategy.

- Environmental, Social and Corporate Governance issues
  The Trustees' focus is the financial interests of the beneficiaries of the Scheme. No specific account needs to be taken of these issues over and above normal ethical market practices and meeting legislative requirements.

3. Investment strategy

The Trustees, with the help of its advisers and in consultation with the employer, reviewed the investment strategy for the DB Section in 2022, considering the objectives described in Section 2 above.

However, the review has not yet been concluded. The current medium-term investment strategy of the Scheme is based on the allocation set out below.

Asset class	Target allocation	Ranges
UK equities	30%	20-50%
Overseas equities	32%	20-50%
Fixed interest	27%	20-35%
Property	5.5%	0-10%
Alternatives	5%	0-10%
Cash	0.5%	0-5%
Total	**100%**	

4. Considerations in setting the investment arrangements

When deciding how to invest the Scheme's assets, the Trustees consider several risks, including, but not limited to, those set out in Appendix 2. Some of these risks are more quantifiable than others, but the Trustees have tried to allow for the relative importance and magnitude of each risk.

The Trustees consider a wide range of asset classes for investment, taking account of the expected returns and key individual risks associated with those asset classes as well as how these risks can be mitigated where appropriate.

In setting the strategy the Trustees have considered:

- the Scheme's investment objectives, including the target return required to meet the Trustees' investment objectives;
- the Scheme's cashflow requirements in order to meet benefit payments in the near to medium term;
- the best interests of all members and beneficiaries;
- the circumstances of the Scheme, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the strength of the employer covenant;
- the risks, rewards and suitability of a number of possible asset classes and investment strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken;
- the need for appropriate diversification between different asset classes to ensure that both the Scheme's overall level of investment risk and the balance of individual asset risks are appropriate;
- any other considerations which the Trustees consider financially material over the time horizon that the Trustees consider is needed for the funding of future benefits by the investments of the Scheme; and
- the Trustees' investment beliefs about how investment markets work, and which factors are most likely to impact investment outcomes.

The Trustees' key investment beliefs, which influenced the setting of the investment arrangements, are as follows:

- asset allocation is the primary driver of long-term returns;
- risk-taking is necessary to achieve return, but not all risks are rewarded;
- equity, credit and illiquidity are the primary rewarded risks;
- risks that do not have an expected reward should generally be avoided, hedged or diversified;
- investment markets are not always efficient and there may be opportunities for good active managers to add value;
- environmental, social and governance (ESG) factors are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors;
- long-term environmental, social and economic sustainability is one factor that trustees should consider when making investment decisions;

- investment costs have a significant impact on long-term performance and therefore obtaining value for money from the costs of investments is important.

5. Implementation of the investment arrangements

The Trustees have signed agreements with the investment managers, setting out in detail the Terms on which the portfolios are to be managed. The investment managers' primary role is the day-to-day investment management of the Scheme's investments.

The Trustees and investment managers to whom discretion has been delegated exercise their powers to giving effect to the principles in this Statement of Investment Principles, so far as is reasonably practicable.

The Trustees views are that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high-quality service that meets the stated objectives, guidelines and restrictions of the fund.

It is the Trustees responsibility to ensure that the managers' investment approaches are consistent with their policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustees expect investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. It assesses this when selecting and monitoring managers.

The Trustees evaluate investment manager performance by considering performance over both shorter and longer-term periods as available. The duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. Generally, the Trustees would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustees policy is to evaluate its investment managers by reference to the manager's individual performance as well as the role it plays in helping the Scheme meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity.

Each manager's remuneration and the value for money it provides, is assessed in light of these considerations.

The Trustees recognise that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustees expect their investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates.

6. Realisation of investments

The investment managers have discretion over the timing of realisation of investments of the Scheme within the portfolios that they manage, and in considerations relating to the liquidity of investments.

When appropriate, the Trustees, on the administrators' recommendation, decide on the amount of cash required for benefit payments and other outgoings and informs the investment managers of any liquidity requirements. The Trustees' preference is for investments that are readily realisable but it recognises that achieving a well-diversified portfolio may mean holding some investments that are less liquid (eg property).

7. Financially material considerations and non-financial matters

The Trustees consider how environmental, social, governance ("ESG") and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Scheme and its members.

The Trustees expect its investment managers to take account of financially material considerations (including climate change and other ESG considerations). The Trustee seeks to appoint managers that have appropriate skills and processes to do this, and from time to time reviews how its managers are taking account of these issues in practice.

The Trustees have limited influence over managers' investment practices where assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

8. Voting and engagement

The Trustees recognise their responsibilities as an owner of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments. The Trustees have delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations.

The Trustees do not monitor or engage directly with issuers or other holders of debt or equity. It expects the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustees from time to time, considering the long-term financial interests of the beneficiaries. The Trustees seek to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and from time to time the Trustee reviews how these are implemented in practice.

9. Additional Voluntary Contributions

The Trustees have selected Utmost Life and Pensions as the Scheme's AVC provider.

SIP signed for and on behalf of the Edward Pryor & Son Limited Retirement Benefits Scheme 8 by the Trustees on 24th March 2022.

Appendix 1: Investment governance, responsibilities, decision-making and fees

The Trustees have decided on the following division of responsibilities and decision-making for the Scheme. This division is based upon the Trustees understanding of the various legal requirements placed upon it, and its view that the division of responsibility allows for efficient operation and governance of the Scheme overall. The Trustees investment powers are set out within the Scheme's governing documentation.

1. Trustees

In broad terms, the Trustees are responsible in respect of investment matters for:

- developing a mutual understanding of investment and risk issues with the employer;
- setting the investment strategy, in consultation with the employer;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- formulating a policy on taking account of non -financial matters in the selection, retention and realisation of investments;
- setting the policy for rebalancing between asset classes;
- setting a policy on the exercise of rights (including voting rights) and undertaking engagement activities in respect of the investments;
- putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- appointing, monitoring, reviewing and dismissing investment managers, investment advisers, actuary and other service providers;
- monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Act;
- communicating with members as appropriate on investment matters, such as the Trustees' assessment of their effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged;
- reviewing the investment policy as part of any review of the investment strategy;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employer when reviewing the SIP.

2. Investment managers

In broad terms, the investment managers will be responsible for:

- managing the portfolios of assets according to their stated objectives, and within the guidelines and restrictions set out in their respective investment manager agreements and/or other relevant governing documentation;
- taking account of financially material considerations (including climate change and other ESG considerations) as appropriate when managing the portfolios of assets;
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments;
- providing the Trustees with regular information concerning the management and performance of their respective portfolios; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The custodians of the portfolios (whether there is a direct relationship between the custodian and the Trustees or not) are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

3. Investment adviser

In broad terms, the investment adviser will be responsible, in respect of investment matters, as requested by the Trustees, for:

- advising on how material changes within the Scheme's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;
- advising on the selection, and review, of the investment managers, incorporating its assessment of the nature and effectiveness of the managers' approaches to financially material considerations (including climate change and other ESG considerations); and
- participating with the Trustees in reviews of this SIP.

4. Fee structures

The Trustees recognise that the provision of investment management and advisory services to the Scheme results in a range of charges to be met, directly or indirectly, by deduction from The Scheme's assets.

The Trustees have agreed Terms of Business with the Scheme's investment advisers, under which work undertaken is charged for by an agreed fixed fee or on a 'time-cost basis'.

The investment managers receive fees calculated by reference to the market value of assets under management. The fee rates are believed to be consistent with the manager's general terms for institutional clients and are considered by the Trustees to be reasonable when compared with those of other similar providers. See also Section 5 of the SIP.

The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustees view as to the most appropriate arrangements for the Scheme. However, the Trustees will consider revising any given structure if and when it is considered appropriate to do so.

5. Performance assessment

The Trustees are satisfied, taking into account the external expertise available, that there are sufficient resources to support its investment responsibilities. The Trustees believe that it has sufficient expertise and appropriate training to carry out its role effectively.

It is the Trustees' policy to assess the performance of the Scheme's investments, investment providers and professional advisers from time to time. See Section 5 of the SIP. The Trustee will also periodically assess the effectiveness of its decision-making and investment governance processes and will decide how this may then be reported to members.

6. Working with the Scheme's employer

When reviewing matters regarding the Scheme's investment arrangements, such as the SIP, the Trustees seek to give due consideration to the employer's perspective. While the requirement to consult does not mean that the Trustees needs to reach agreement with the employer, the Trustees believe that better outcomes will generally be achieved if the Trustees and employer work together collaboratively.

Appendix 2: Policy towards risk

1. Risk appetite and risk capacity

Risk appetite is a measure of how much risk the Trustees are willing to bear within the Scheme in order to meet its investment objectives. Taking more risk is expected to mean that those objectives can be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action. Risk capacity is a measure of the extent to which the Trustees can tolerate deviation from its long-term objectives before attainment of those objectives is seriously impaired. The Trustees' aim is to strike the right balance between risk appetite and risk capacity.

When assessing the risk appetite and risk capacity, the Trustees considered a range of qualitative and quantitative factors, including:

- the strength of the employer's covenant and how this may change in the near/medium future;
- the agreed journey plan and employer contributions;
- the Scheme's long-term and shorter-term funding targets;
- the Scheme's cash flow and target return requirements; and
- the level of expected return and expected level of risk, now and as the strategy evolves.

More details, including the underlying assumptions, are available on request.

2. Approach to managing and monitoring investment risks

The Trustees consider that there are several different types of investment risk that are important to manage and monitor. These include, but are not limited to:

2.1. Risk of inadequate returns

A key objective of the Trustees is that, over the long-term, the Scheme should generate its target return so that it has adequate assets to meet its liabilities as they fall due. The Trustees therefore invest the assets of the Scheme to produce a sufficient long-term return in excess of the liabilities. There is also a risk that the performance of the Scheme's assets and liabilities diverge in certain financial and economic conditions in the short term. This risk has been considered in setting the investment strategy and is monitored by the Trustees on a regular basis.

2.2. Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Scheme's assets. The Trustees believe that the Scheme's assets are adequately diversified between different asset classes and within each asset class. This was a key consideration when determining the Scheme's investment arrangements and is monitored by the Trustees on a regular basis.

2.3. Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, the Trustees receives written advice from a suitably qualified individual and will typically undertake an investment manager selection exercise. The Trustees monitor the investment managers on a regular basis to ensure they remain appropriate for their selected mandates.

2.4. Illiquidity/marketability risk

This is the risk that the Scheme is unable to realise assets to meet benefit cash flows as they fall due, or that the Scheme will become a forced seller of assets in order to meet benefit payments. The Trustees are aware of the Scheme's cash flow requirements and believe that this risk is managed by maintaining an appropriate degree of liquidity across the Scheme's investments.

2.5. Environmental, social and governance (ESG) risks

Environmental, social and corporate governance (ESG) factors are sources of risk to the investments which could be financially material, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Trustees seek to appoint investment managers who will manage these risks appropriately on their behalf and from time to time reviews how these risks are being managed in practice.

2.6. Currency risk

Whilst the majority of the currency exposure of the Scheme's assets is to Sterling, the Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets. The Trustees consider the overseas currency exposure in the context of the overall investment strategy and believe that the currency exposure that exists diversifies the strategy and is appropriate.

2.7. Interest rate and inflation risk

The Scheme's assets are subject to interest rate and inflation risk because some of the assets are held in bonds, including via pooled funds. The net effect of the Trustees approach to interest and inflation risk will be to reduce the volatility of the funding level, and so the Trustees believe that it is appropriate to manage exposures to these risks in this manner and to review them on a regular basis.

2.8. Other non-investment risks

The Trustees recognise that there are other, non-investment, risks faced by the Scheme, and take these into consideration as far as practical in setting the Scheme's investment arrangements as part of its assessment of the other aspects of the Scheme's Integrated Risk Management framework.

Examples include:

- longevity risk (the risk that members live, on average, longer than expected); and
- sponsor covenant risk (the risk that, for whatever reason, the sponsoring employer is unable to support the Scheme as anticipated).

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the funding position falls below what is considered an appropriate level. The Trustees regularly review progress towards the funding target, both in the longer-term as well as against short-term milestones, comparing the actual versus the expected funding level.

By understanding, considering and monitoring the key risks that contribute to funding risk, the Trustees believe that it has appropriately addressed and are positioned to manage this general risk.