E.M.I.A. Pension Scheme

Statement of Investment Principles

September 2020

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1. Introduction

1.1. Scheme Background

This Statement of Investment Principles (the “Statement”) details the principles governing investment decisions for the E.M.I.A. Pension Scheme (the “Scheme”).

The Scheme:

- operates for the exclusive purpose of providing retirement and death benefits to eligible participants and beneficiaries;
- provides benefits calculated on a defined benefit basis;
- is closed to new entrants but continues to offer future benefit accrual to existing active members.

The Trustee’s Investment Consultants are Willis Towers Watson in respect of the DB assets and Buck Consultants (Administration and Investment) in respect of the AVC assets.

1.2. Statement Structure

This Statement is divided into two main sections as follows:

- **Statutory Section:** This section covers the requirements of and the Scheme’s compliance with the provisions of the Pensions Act 1995 and 2004 as amended by the Occupational Pension Schemes (Investment) Regulations 2005.
- **Myners Section:** This section includes additional non-statutory information that was set out in the Myners Principles and is now included in a strengthened Statement.

2. Statutory Information

2.1. Introduction

This section of the Statement covers the requirements of the Pensions Act 1995 and 2004 as amended by the Occupational Pension Schemes (Investment) Regulations 2005. In accordance with section 35 of the Pensions Act 1995, the Trustee has reviewed and considered written advice from the Investment Consultant prior to the preparation of this Statement and has consulted the Sponsoring Employer.

The Trustee has full regard to its investment powers under the Trust Deed and Rules and the suitability of the various types of investments, the need to diversify, the custodianship of assets and any self-investment.

The Investment Managers will prepare detailed quarterly reports on their activities and the Trustee will meet with them periodically.

This Statement will be reviewed periodically or whenever changes to the investment strategy or Investment managers are necessary. Any changes to this Statement will be undertaken following advice from the Investment Consultant, as will any removal or appointment of the Investment Managers.

All of the Scheme's investment decisions are under the control of the Trustee, with no constraint by the Sponsoring Employer. All investment decisions are taken by the Trustee Board as a whole. The Trustee believes that collective responsibility is the appropriate structure, given the size of the board, except for specific projects when an investment sub-committee may be set up. The Trustee will examine regularly whether additional investment training is desirable for the board as a whole or for any individual Trustee Director.

2.2. Statutory requirements

This section of the Statement details the Trustee's policies in compliance with the requirements of sections 35 and 36 of the Pensions Act 1995.

2.2.1. Investment objectives and suitability of investments

The investment strategy for the Scheme has been agreed by the Trustee, having taken advice from the Investment Consultant and takes due account of the liability profile of the Scheme along with the level of disclosed surplus or deficit.

The Trustee's agreed investment strategy is based on an analysis of the liability profile of the Scheme, the required investment return and the returns expected from the various asset classes over the long-term. Long-term returns from equities are expected to exceed the returns from bonds and cash, although returns and capital values may demonstrate higher volatility. The Trustee is prepared to accept this higher volatility in order to aim to achieve the overall investment objectives.

The primary objectives for the Trustee are:

- to provide appropriate security for all beneficiaries;
- to achieve long-term growth in the assets sufficient to provide the benefits from the Scheme; and,
- to achieve an appropriate balance between risk and return with regards to the cost of the Scheme and the security of the benefits.

The Trustee has translated its objectives into a suitable strategic asset allocation benchmark for the Scheme, details of which are included in the Scheme's Investment Policy Implementation Document.

Some of the funds make use of derivatives to implement their portfolio decisions. This is particularly true for hedge fund investments, where the use of derivatives is commonplace, particularly if the manager is trading on a frequent basis. The Trustee recognises that certain derivative-focused investments, such as LDI, require a specific level of knowledge and understanding. The Trustee has resolved to undertake appropriate training and education before investing in such assets

The Trustees (or the fund managers they appoint) will not borrow money or act as guarantor for the purpose of providing liquidity, unless such activity is short-term and undertaken in order to achieve orderly settlement of transactions and/or efficient portfolio management.

In accordance with the Financial Services & Markets Act 2000, the Trustee is responsible for setting the general investment policy, but the responsibility for all day-to-day investment management decisions has been delegated to Investment Managers authorised under the Act. Details are included in the Scheme's Investment Policy Implementation Document.

The Trustee is responsible for reviewing both the asset allocation and the investment strategy of the Scheme following each actuarial valuation in consultation with the Investment Consultant. The Trustee may also reconsider the asset allocation and the investment strategy outside the triennial valuation period where necessary.

The Trustee considers the Scheme's current strategic asset allocation to be consistent with the current financial position of the Scheme. This assessment will be reviewed from time to time, including with reference to the technical provisions set out in the Scheme's Statement of Funding Principles as each actuarial valuation is completed. Technical provisions is the value of the Scheme's liabilities for funding purposes.

2.2.2. Diversification

The Trustee, after taking appropriate investment advice, has selected a strategic benchmark asset allocation including control ranges for each asset class.

Subject to their respective benchmarks and guidelines, the Investment Managers are given full discretion over the choice of securities and are expected to maintain a diversified portfolio.

The Trustee is satisfied that the investments selected are consistent with its investment objectives, particularly in relation to diversification, risk, expected return and liquidity.

Given the size and nature of the Scheme, the Trustee has decided to invest on a pooled fund basis; any such investment is effected through a direct agreement with an investment manager or through an insurance contract.

The Trustee is satisfied that the range of pooled vehicles in which the Scheme's assets are invested provides adequate diversification.

2.2.3. Balance between different kinds of investments

The appointed Investment Managers will hold a diversified mix of investments in line with their agreed benchmark and within their discretion to diverge from the benchmark. Within each major market each manager will maintain a diversified portfolio of securities.

2.2.4. Risk

The Trustee considers the main risk to be that of the assets being insufficient to meet the Scheme's liabilities as they fall due. The Trustee has assessed the likelihood of undesirable financial outcomes arising in the future.

Investment policies are set with the aim of having sufficient and appropriate assets to cover the Scheme's technical provisions, and with the need to avoid undue contribution rate volatility.

In determining their investment strategy, the Trustee has received advice from the Investment Consultant as to the expected level of investment risk relative to the Scheme's liability profile. Taking this into account, along with the expected returns underlying the most recent actuarial valuation, the Trustee has adopted a strategy outlined in the Scheme's Investment Policy Implementation Document.

Although the Trustee acknowledges that the main risk is that the Scheme will have insufficient assets to meet its liabilities, the Trustee recognises other contributory risks, including the following risks:

- **Investment strategy**: The Trustee recognises that the key source of financial risk (in relation to meeting its objectives) arises from asset allocation. The Trustee therefore retains responsibility for setting the asset allocation and take expert advice as required from their Investment Consultant. The Trustee reviews their investment strategy following each formal actuarial valuation of the Scheme (or more frequently should the circumstances of the Scheme change in a material way) taking into account the Scheme liabilities. The Trustee takes written advice from their Investment Consultant regarding an appropriate investment strategy for the Scheme.

- **Investment manager**: The Trustee monitors the risks arising through the selection or appointment of fund managers on a quarterly basis via investment monitoring reports prepared by the Investment Consultant.

- **Employer**: Risks associated with changes in the Employer covenant are assessed by monitoring the Pension Protection Score (as defined for the purposes of calculating the risk-based element of the Pension Protection Fund levy), and through regular financial reports from the Employer. The Trustee has also appointed a covenant adviser to monitor and advise on the strength of the covenant offered by the Employer.

- **Currency**: The risk is measured by the level of concentration of assets in a market denominated in a foreign currency, leading to the risk of an adverse influence on the Scheme's investments arising from exchange rate movements. The risk of an adverse influence on investments from exchange rate movements is reduced by the diversification of foreign denominated assets across many currencies, and by using currency hedging where this is deemed appropriate.

- **Liquidity**: The risk is measured by the level of cashflow required by the Scheme over a specified period. It is managed by the Scheme's administrators who assess the level of cash held in order to limit the impact of the cashflow requirements on the investment policy. The majority of the assets are expected to be able to be liquidated in a timescale which, in aggregate, is appropriate to the overall cashflow profile of the liabilities of the Scheme.

- **Longevity risk**: This risk is measured by the increase in the Scheme's liabilities as a result of increasing the life expectancy of its members. The Trustee, on advice from the Scheme Actuary, assesses the impact of intra-valuation mortality experience on the funding position and selects a prudent mortality assumption for setting the Technical Provisions.

- **Political**: The risk is measured by the level of concentration in any one market leading to the risk of an adverse influence on investments arising from political intervention. It is managed by regular reviews of the actual investments through assessment of the levels of diversification within the existing policy. The risk of an adverse influence on investments from political intervention is reduced by the diversification of the assets across many countries.

- **Custodial**: Investment in pooled funds gives the Trustee a right to the cash value of the units rather than to the underlying assets. The managers of the pooled funds are responsible for the appointment of and monitoring the custodian of the pooled funds' assets. The custodians are independent of the Employer. The encashment of units can only occur in a manner complying with the Scheme's Trust Deed. Assets can only be transferred on the written instructions of the Trustee. The Trustee's auditors produce an annual statement detailing any issues requiring further consideration.

The Trustee manages and measure these risks on a regular basis via actuarial, investment and covenant reviews, and in the setting of investment objectives and strategy.

The Trustee undertakes monitoring of the Investment Managers' performance against their targets and objectives on a regular basis.

Each fund in which the Scheme invests has a stated performance objective by which investment performance will be measured. Within each asset class, the Investment Managers are expected to maintain a portfolio of securities (or funds), which ensures that the risk being accepted in each market is broadly diversified.

The divergence of the actual distribution of the investments from the benchmark weighting will be monitored by the Trustee in conjunction with the Investment Consultant. Any deviation from the target asset allocation will be discussed periodically with the Investment Consultant.

2.2.5. Expected return on investments

The investment strategy is believed to be capable of exceeding, in the long run, the overall required rate of return as set out in the Scheme Actuary's published actuarial valuation report.

2.2.6. Kind of investments to be held

The Scheme may invest in quoted and unquoted securities of UK and overseas markets including, for example, equities, fixed interest and index-linked bonds, cash, property, private equity, hedge funds and pooled investment vehicles, that are considered to be appropriate for tax-exempt registered occupational pension schemes. The Trustee has considered the attributes of the various asset classes (including derivative instruments), these attributes being:

- security (or quality) of the investment;
- yield (expected long-term return);
- spread (or volatility) of returns;
- term (or duration) of the investment;
- exchange rate risk;
- marketability/liquidity (i.e., the tradability on regulated markets); and
- taxation.

The Trustee considers all of the classes of investment stated in the Investment Policy Implementation Document to be suitable to the circumstances of the Scheme.

2.2.7. Realisation of investments

In the event of an unexpected need to realise all or part of the assets within the portfolio, the Trustee requires the Investment Managers to be able to realise the Scheme's investments within a reasonable timescale. By reference to the market conditions existing at the time, the disposal may be required and in the best interests of the Scheme. The majority of the assets are expected to be able to be liquidated in a timescale which, in aggregate, is appropriate to the overall cashflow profile of the liabilities of the Scheme.

2.2.8. Social, environment and ethical issues

The Trustee recognises that a company's long-term financial success is influenced by a range of factors including appropriate management of environmental, social, ethical and corporate governance issues. Consequently the Trustee seeks to be an engaged long-term shareholder and via its selection and oversight of its investment managers, seeks to encourage the companies in which the Scheme invests to adopt sustainable business practices and high standards of corporate governance with the aim of protecting and enhancing long-term shareholder value. 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.

Therefore, the Trustee's policy is that the extent to which environmental, social and corporate governance considerations (including climate change) may have a financial impact on the portfolio will be taken into account by their Investment Manager(s) in the exercise of their delegated duties. The Trustee's focus is explicitly on financially material considerations. The Trustee's policy at this time is not to take into account non-financially material considerations, nor to seek or to take into account members' views.

The Trustee expects their manager(s) to sign up to their local stewardship code, in-keeping with good practice. The Trustee will monitor the activities of all of their managers on a regular basis with respect to relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings. However, the Trustee appreciates that its applicability may be limited for certain asset classes. These matters are kept under review by the Trustee, in consultation with their investment consultant and investment managers.

2.2.9. Voting rights attaching to investments

The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments and to encourage the Investment Managers to exercise those rights. The Investment Managers are expected to be able to provide regular reports to the Trustee detailing their voting activity. The Trustee will take corporate governance policies into account when appointing and reviewing such investment managers.

2.3. Investment Decisions

The Trustee has not delegated any decision-making, other than delegating the day-to-day management of the investments to the Investment Managers. The Trustee considers that this is appropriate, bearing in mind the size and objectives of the Scheme.

All investment decisions relating to the Scheme are under the Trustee's control without constraint by the Sponsoring Employer. The Trustee is obliged to consult with the Sponsoring Employer when changing the Statement.

All day-to-day investment decisions are delegated to properly qualified and authorised fund managers of pension fund portfolios. Investment management agreements have been exchanged with the Investment Managers, and are reviewed from time-to-time to ensure that the manner in which they make investments on the Trustee's behalf is suitable for the Scheme, and appropriately diversified.

2.4. Investment Managers

The Scheme uses many different Investment Managers and mandates to implement its investment policies. The Trustee ensures that, in aggregate, its portfolio is consistent with the policies set out in this Statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). The Trustee will also ensure that the investment objectives and guidelines of any particular pooled vehicle are consistent with its policies, where relevant to the mandate in question.

To maintain alignment, Investment Managers are provided with the most recent version of the Scheme's Statement of Investment Principles on appointment and as and when this Statement is updated.

Should the Trustee's monitoring process reveal that an Investment Manager's portfolio is not aligned with the Trustee's policies, the Trustee will engage with the Investment Manager further to encourage alignment. This monitoring process includes specific consideration of the sustainable investment/ESG characteristics of the portfolio and Investment Managers' engagement activities. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the Investment Manager will be terminated and replaced.

All investment decisions, and the overall performance of the Investment Managers, are monitored by the Trustee with the assistance of the Investment Consultant.

The Investment Managers will provide the Trustee with quarterly statements of the assets held along with a quarterly report on the results of the past investment policy and the intended future policy, and any changes to the investment processes applied to their portfolios. The Investment Managers will also report orally on request to the Trustee.

The Investment Managers will inform the Trustee of any changes in the internal performance objective and guidelines of any pooled funds used by the Scheme as and when they occur.

The Trustee will assess the quality of the performance, processes and cost effectiveness of the Investment Managers by means of a review periodically in consultation with the Investment Consultant. For most of the Scheme's investments, the Trustee expects the Investment Managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods. The Trustee invests in certain strategies (e.g. hedge fund strategies or government bonds) where such engagement is not deemed appropriate, due to the nature of the strategy and/or the investment time horizon underlying decision making. The appropriateness of the Scheme's allocation to such mandates is determined in the context of the Scheme's overall objectives.

The Trustee appoints its Investment Managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate an Investment Manager's appointment based purely on short term performance. However, an Investment Manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

Appropriate written advice will be taken from the Investment Consultant before the review, appointment or removal of any Investment Managers.

See the Scheme's Investment Policy Implementation Document for details on the Investment Managers' target asset allocations, performance objectives and details on remuneration of the Investment Managers.

2.5. Additional assets

The Trustee has full discretion as to the appropriate investment vehicles made available to members of the Scheme for their voluntary contributions. Only investment vehicles normally considered suitable for voluntary contributions will be considered by the Trustee, having taken appropriate written advice from properly qualified and authorised investment consultants.

In selecting this range of funds offered the Trustee has taken advice from its professional advisers on:

- the risks faced by members in investing in defined contribution funds, and
- the Trustee's responsibilities in the selection and monitoring of the investment options offered.

The Trustee will continue to manage AVC arrangements having taken professional advice on these matters.

The Trustee will monitor the performance of AVC providers periodically.

Members are directed to seek independent financial advice when considering their AVC arrangements.

See Appendix 1 for details on the AVC providers.

3. Myners Principles

The Myners Review of “Institutional Investing in the UK” was published in March 2001. It included a set of 10 Principles that pension scheme trustees were recommended to use when considering their investment strategy for defined benefit pension schemes and 11 Principles for defined contribution pension schemes. The Government endorsed the report with some minor modifications in October 2001. Pension scheme trustees were asked to comply with the Principles on a voluntary basis. The Myners Principles recommend that certain issues are included in the Statement.

The Myners Principles were subsequently reviewed in October 2008. The explicit requirement to include certain items in a strengthened Statement was removed and replaced with a requirement for trustees to act in a transparent and responsible manner. In making the following statements, the Trustee believes that it is complying with the spirit of these Principles.

3.1. Responsible ownership

Details of the responsibility for the exercising of rights (including voting rights) attaching to the Scheme’s investments are included in Section 2.2.9.

3.2. Transparency & reporting

The Trustee has discretion over the form of reporting they wish to undertake. This Statement provides the following details of the Trustee’s investment approach:

- Who is taking which decisions and why has the structure been selected?

  Details of the Trustee’s decision making structure are included in Section 2.1.

- What is the Trustee’s investment objective?

  Details of the Trustee’s investment objectives are included in Section 2.2.1, with the Investment Managers’ specific objectives set out in the Scheme’s Investment Policy Implementation Document.

- What is the Trustee’s asset allocation strategy, including projected investment returns in each asset class, and how the strategy has been selected?

Details of the Trustee’s asset allocation strategy can be found in the Scheme’s Investment Policy Implementation Document. The strategy was determined after taking advice from the Investment Consultant and consultation with the Sponsoring Employer and the Scheme Actuary, also taking consideration of the likely range of returns from each asset class.

- What are the mandates given to all advisers and managers?

  The responsibilities of the Trustee, the Investment Consultant and the Investment Managers are outlined in Section 3.3, while the Investment Managers’ mandates are specified in the Investment Policy Implementation Document.

- What is the nature of the fee structures in place for all advisers and managers; and why this set of structures has been selected?

  Details of the fees charged by the Investment Managers and the Investment Consultant are included in the Scheme’s Investment Policy Implementation Document. The Trustee has discussed and agreed these fees following consultation with its advisers, where appropriate, and believes they are reasonable for the services it receives.

  Investment Managers are paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement. Fees linked to investment performance are only used where the Trustee determines that this is in the long term interests of the Scheme, taking into consideration the nature of the investment being considered.

  The Trustee reviews the costs incurred in managing the Scheme’s assets periodically, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustee will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

3.3. Appointments & responsibilities

3.3.1. Trustee

The Trustee's primary responsibilities regarding investments include:

- Preparation of the Statement and reviewing the content of the Statement and modifying it if deemed appropriate, in consultation with the Sponsoring

Employer and the Investment Consultant, at least every three years. The Statement will also be reviewed following a significant change to investment strategy and/or Investment Managers.

- Appointing investment consultants and investment managers as necessary for the good stewardship of the Scheme's assets.

- Reviewing the investment strategy following the results of each triennial actuarial valuation, and/or asset liability modelling exercise, and/or significant changes to the Scheme's liabilities, taking advice from the Investment Consultant and the Scheme Actuary.

- Assessing the processes (and therefore the performance) of the Investment Managers by means of regular, but not less than annual, reviews of information obtained (including investment performance).

- Monitoring compliance of the investment arrangements with this Statement on a regular basis.

- Monitoring risk and the way in which the Investment Managers have cast votes on behalf of the Trustee in respect of the Scheme's equity holdings.

3.3.2. Investment consultant

The main responsibilities of the Investment Consultant include:

- Assisting the Trustee in the preparation and periodic review of this Statement in consultation with the Sponsoring Employer.

- Undertaking project work including reviews of the investment strategy, investment manager structure and the performance of the Investment Managers, as required by the Trustee.

- Advising the Trustee on the selection and review of Investment Managers.

- providing training or education on any investment related matter as and when the Trustee sees fit; and

- Monitoring and advising upon where contributions should be invested or disinvested on a periodic basis.

3.3.3. Investment managers

The Investment Managers' main responsibilities include:

- Investing assets in a manner that is consistent with the objectives set.

- Ensuring that investment of the Scheme's assets is in compliance with prevailing legislation and the constraints detailed in this Statement.

- Providing the Trustee with quarterly reports including any changes to their investment process and a review of the investment performance.

- Attending meetings with the Trustee as and when required.

- Informing the Trustee of any changes in the fee structure, internal performance objectives and guidelines of any pooled fund used by the Scheme as and when they occur.

- Exercising voting rights on shareholdings in accordance with their general policy.

3.3.4. Custodian

The custodianship arrangements are those operated by the Investment Managers for all clients investing in their pooled funds.

3.3.5. Administrators

The Scheme's administration is carried out by Buck Consultants (Administration and Investment) Limited.

3.3.6. Scheme Actuary

The Scheme Actuary's main responsibilities in respect of investment policy include:

- Commenting on the suitability of the Scheme's investment strategy given the financial characteristics of the Scheme.

- Performing the triennial (or more frequently as required) actuarial valuation and advising on the Scheme's funding level and therefore the appropriate level of contributions in order to aid the Trustee in balancing short-term and long-term investment objectives.

3.4. Performance monitoring

Each of the funds in which the Scheme invests has a stated performance objective against which the performance is measured.

The Trustee will review the performance of the Investment Managers from time to time, based on the results of their performance and investment process;

The Investment Managers are expected to provide written reports on a quarterly basis and report orally on request to the Trustee; and

The Trustee receives an independent investment performance monitoring report from the Investment Consultant on a quarterly basis.

4. Review of Statement

This Statement will be reviewed at least once in each three-year period or following any material change in investment policy.

The Trustee will also monitor as appropriate at the formal meetings with the Investment Managers, Investment Consultant and Scheme Actuary that the various reviews mentioned in this Statement are carried out.

Agreed by the Trustee of the E.M.I.A. Pension Scheme as at 9 September 2020.

Appendix 1 – Additional Voluntary Contributions (“AVCs”)

AVC arrangements

The Scheme provides a facility for members to pay additional voluntary contributions (“AVCs”) to enhance their benefits at retirement.

The AVC arrangements have been provided by Aegon Asset Management (“Aegon”) since November 2009. Prior to this the AVC arrangements were provided by either The Equitable Life Assurance Society or Clerical Medical Investment Group.

The AVC arrangement with Aegon offers members a default investment option or self-select investment option.

The default investment option is an investment in the Aegon Scottish Equitable BGI 50/50 Global Equity Lifestyle Index Fund. This lifestyle investment option automatically switches the fund from the higher risk Global Equity Index Fund to the lower risk Long Gilt and Cash Funds as members approach retirement.

The self-select investment option offers a range of unit-linked funds and two with-profits funds for members to select.