Yattendon Group Pension Scheme

Statement of Investment Principles

September 2020

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01 **Introduction**

This document constitutes the Statement of Investment Principles ('the SIP') required under Section 35 of the Pensions Act 1995 for the Yattendon Group Pension Scheme ('the Scheme'). It describes the investment policy being pursued by the Trustees of the Scheme and is in accordance with the Government's voluntary code of conduct for Institutional Investment in the UK ("the Myners Principles"). This SIP also reflects the requirements of Occupational Pension Schemes (Investment) Regulations 2005.

The Scheme Actuary is Robert Wallace of XPS Pensions Limited and the Investment Adviser is XPS Investment Limited (collectively termed 'the Advisers').

The Trustees confirm that, before preparing this SIP, they have consulted with the employer, Yattendon Group Plc ('the Employer'), and the Advisers and have obtained and considered written advice. The Trustees believe the Advisers to be qualified by their ability and practical experience of financial matters and to have appropriate knowledge of the investment arrangements that the Scheme requires.

The Trustees are responsible for the investment of the Scheme's assets and the administration of the Scheme. Where they are required to make an investment decision, the Trustees always receive advice from the Advisers first and they believe that this ensures that they are appropriately familiar with the issues concerned.

In view of the size of the Scheme and the need to achieve adequate diversification the Trustees have decided to invest in pooled funds offered through a life platform rather than directly appointing one or more investment managers.

01.01 Declaration

The Trustees confirm that this Statement of Investment Principles reflects the Investment Strategy they have decided to implement. The Trustees acknowledge that it is their responsibility, with guidance from the Advisers, to ensure the assets of the Scheme are invested in accordance with these Principles.

02 **Scheme Governance**

The Trustees are responsible for the governance and investment of the Scheme's assets. The Trustees consider that the governance structure set out in this SIP is appropriate for the Scheme as it allows the Trustees to make the important decisions on investment policy, while delegating the day-to-day investment decisions to the managers of the pooled funds and seeking advice from the Advisers where necessary. The responsibilities of each of the parties involved in the Scheme's governance are detailed in Appendix A.

The Trustees have decided not to appoint an Investment Sub-Committee to deal with investment matters.

03 Investment Objectives

The Trustees aim to invest the assets of the Scheme prudently with a view to ensuring that the benefits promised to members can be met from the assets of the Scheme (the "principal objective").

Having regard to the principal objective, the Trustees will seek to benefit from the long term nature of the liabilities and the strong employer covenant with a view to achieving investment returns which will reduce the Scheme's reliance on employer contributions in the long term. The Trustees will also pay due regard to the likely level and volatility of required contributions when setting the Scheme's investment strategy.

The Trustees believe the investment objectives and the resultant investment strategy are consistent with the actuarial valuation methodology and assumptions used for funding the Scheme.

04 **Asset Allocation Strategy**

The Trustees have taken the view that the investment objective is best achieved by determining, and investing in accordance with, an appropriate split between "return-seeking" assets (e.g. equities, property, high-yield corporate bonds and 'rotational' funds) and "matching" assets (e.g. fixed and index-linked gilts and high quality corporate bonds).

The Trustees policy is to assume that return-seeking assets will outperform matching assets over the long term and accordingly to only invest in matching assets to the extent liabilities are expected to arise within three years. The Trustees recognise the potential volatility in equity returns and the mismatching risk with the Scheme's liabilities should the return-seeking assets not achieve the expected return.

The Trustees also recognise the allocation between the asset classes making up the return-seeking and matching assets will vary over time to reflect, amongst other factors, the profile of the liabilities, the perceived relative value of the different asset classes, the strength of the employer covenant and the perceived risk to the primary investment objective arising from any shortfall in the funding of the Scheme.

The Trustees have taken the view that there are some circumstances under which active management can be expected to add value. The Trustees have decided to invest in equities, diversified growth funds and gilts. The current benchmark and the allocation ranges of each portfolio are set out in Appendix B. Any changes in such allocations will only be made after receiving written advice from the Investment Advisers that such allocation remains consistent with the investment objectives.

04.01 Rebalancing Policy

Given the maturity of the Scheme, the Trustees recognise that assets will need to be disinvested on a regular basis. Disinvestments will be made from the Scheme's gilt holdings. Automatic rebalancing of assets other than the gilt holdings will take place on a quarterly basis. The Trustees will consider the asset allocation on a quarterly basis to determine whether overall rebalancing (i.e. including the gilt holdings) is required.

04.02 Rates of Return

The target rates of return for each pooled fund are detailed in Appendix B.

04.03 Diversification

The Trustees have sought to achieve diversification by investing in pooled funds which have investment restrictions i.e. funds which impose concentration limits on individual positions and limits on the exposure to individual issuers. Generally speaking each portfolio class (except Gilts) would expect to have different issuers and therefore add to the diversification of the Scheme. Additional diversification is provided by investing in diversified growth funds which invest across a range of asset classes. The Trustees will monitor the strategy regularly to ensure that they are comfortable with the level of diversification.

Asset Allocation Strategy
continued

04.04 Suitability

The Trustees have taken advice from the relevant Advisers to ensure that the asset allocation strategy is suitable for the Scheme, given its investment objectives.

The Trustees have chosen to hold a portion of the Scheme's assets in pooled funds invested in fixed interest gilts in order to provide some degree of matching with the Scheme's short term liabilities. The Trustees have chosen not to directly hedge against inflation risk or interest rate risk because they consider the long term expected benefits of higher returns from return seeking assets to outweigh the shorter term benefit of a greater level of hedging.

The aim of the return-seeking assets (equity funds and diversified growth funds) is to provide additional expected return above that achieved by the matching assets, consistent with the investment objectives.

04.05 4.5 Liquidity

All of the non-cash assets are held in pooled funds with frequent dealing dates. The Trustees have agreed to hold between 2 and 3 years worth of cash cover, held in short dated gilts, to meet benefit payments out of the Scheme. The Trustees have agreed to review the level of cash cover on a regular basis with a view to rebalancing to the gilt fund unless the Trustees believe that the market conditions make it inappropriate to do so.

05 **Strategy Implementation**

The Trustees have selected funds managed by two managers, Legal & General Investment Management ("LGIM") and Columbia Threadneedle (together "the Investment Managers").

The Scheme Asset Allocation is set out in Appendix B and the Trustees consider the arrangements with the Investment Managers to be aligned with the Scheme's overall strategic objectives. There are agreements in place and pooled fund documentation between the Platform Provider (Mobius Life) and each of the Investment Managers which set out further detail. The Investment Mangers make tactical asset allocation decisions in accordance with the benchmarks, objectives and parameters that are set out by the Trustees and in the pooled fund agreements.

The Trustees will ensure that the Scheme's assets are predominantly invested in regulated markets to maximise their security.

Investment Managers are incentivised to perform in line with expectations for their specific mandate as their continued involvement as Investment Managers as part of the Scheme's investment strategy – and hence the fees they receive – are dependent upon them doing so. They are therefore subject to performance monitoring and reviews based on a number of factors linked to the Trustees' expectations.

The Trustees encourage Investment Managers to make decisions in the long-term interests of the Scheme. The Trustees expect engagement with management of the underlying issuers of debt or equity and the exercising of voting rights, on the basis that such engagement can be expected to help Investment Managers to mitigate risk and improve long term returns. As covered in more detail in Section 9, the Trustees also require the Investment Managers to take ESG factors and climate change risks into consideration within their decision-making as the Trustees believe these factors could have a material financial impact in the long-term. The Trustees therefore make decisions about the retention of Investment Managers, accordingly.

The Trustees have decided to invest in diversified growth funds as part of the Scheme's on-risk assets because they believe the diversified growth funds will be less volatile than equities thereby reducing the potential volatility of employer contributions.

The remainder of the assets (equities and gilts) are in passively managed funds managed by LGIM.

05.01 Mandate and Performance Objectives

The Trustees have received advice on the suitability of each pooled fund that the Scheme is invested in from the Investment Adviser and believe them to be suitable to meet the Scheme's investment objectives. The benchmark for each portfolio held and its objectives are set out in Appendix B.

05.02 Manager Agreement

Although the Scheme is invested in pooled funds and as such there is no formal agreement between the Trustees and an individual fund manager relating to investments in each portfolio there is an investment management agreement covering the rebalancing arrangements between portfolios including the approach to investment and disinvestment on the life platform.

05.03 Platform Provider

The Trustees hold their investments with Mobius Life ("the Platform Provider") in the form of a life policy. The Platform Provider is authorised by the Prudential Regulatory and regulated by the Financial Conduct Authority. The Trustees consider that the Platform Provider enhances their ability to transfer the Scheme assets between pooled funds and also reduces administrative risks.

05.04 Diversification

The assets are invested in pooled funds with diversification requirements. Further diversification is achieved by investing in funds offered by two or more Investment Managers. The Trustees will monitor the strategy regularly to ensure that they are comfortable with the level of diversification being achieved.

05.05 Custody

Custody of the underlying assets is at the discretion of the pooled funds, whilst shares and/or units in the funds are held in book form only. Cash is held securely in separate accounts with approved counterparties.

06 **Monitoring**

06.01 Pooled funds

Appointments of Investment Managers are expected to be long-term, but the Trustees will review the appointment of the Investment Managers in accordance with their responsibilities.

The Trustees will monitor the performance of the funds against their stated performance objectives.

The Trustees, or the Investment Adviser on behalf of the Trustees, will regularly review the performance of the funds to satisfy themselves that the funds remain suitable. The Trustees receive half yearly performance monitoring reports from the Investment Adviser which consider performance over the 6 months, one and three year periods. In addition, any significant changes that the Investment Adviser is aware of will be highlighted, which may lead to a change in the Investment Adviser's rating for a particular mandate. These ratings help to determine an Investment Manager's ongoing role in implementing the investment strategy. If there are concerns, the Trustees may carry out a more in-depth review of a particular Investment Manager. Investment Managers will also attend Trustee meetings as requested.

Fund manager remuneration is considered as part of the manager selection process. It is also monitored regularly with the help of the Investment Adviser to ensure it is in line with the Trustees' policies and with fee levels deemed by the Investment Adviser to be appropriate for the particular asset class and fund type.

If the Trustees are not satisfied with the performance of the funds they will ask the manager of those funds what steps they intend to take to rectify the situation. If the funds still do not meet the Trustees' requirements, they will look to purchase other funds - potentially with a different manager - after consultation with the Investment Adviser.

06.02 Platform Provider

The Trustees together with the Investment Adviser keep the credit rating and solvency ratios of the platform provider under regular review as well as the choice of pooled funds on the platform.

06.03 Advisers

The Trustees will monitor the advice given by the Advisers on a regular basis.

06.04 Other

The Trustees are required to review this SIP on a triennial basis, or, without undue delay, following any changes to the investment strategy.

07 **Fees**

07.01 Pooled Funds

The Trustees will ensure that the investment management fees paid to the Investment Managers are in line with industry standards. The Investment Managers are remunerated by receiving a percentage of the Scheme's assets under management. In addition, a performance related fee may be payable. It is felt that this method of remuneration provides appropriate incentives for the Investment Managers to target the agreed level of outperformance whilst adhering to the level of risk specified by the Trustee.

07.02 Portfolio Turnover

The Trustees also require the Investment Managers to report on actual portfolio turnover at least annually, including details of the costs associated with turnover, how turnover compares with the range that the Investment Manager expects and the reasons for any divergence.

07.03 Platform Provider

The charge for the Platform Provider is 0.035% of the Scheme's non-insured assets per annum. This charge is included in the investment management fees summarised in Appendix B.

07.04 Advisers

Fees paid to the Advisers on investment matters are based either on actual time spent and hourly rates for relevant individuals, or on fixed fees agreed in advance for specifically defined projects.

07.05 Custodian

There is no custodian appointed directly by the Trustees.

07.06 Trustees

None of the Trustees is paid directly by the Scheme for their duties.

08 **Risks**

The Trustees recognise a number of risks involved in the investment of assets of the Scheme:

i. The risk of failing to meet the objectives as set out in Section 3 – the Trustees have agreed an investment strategy which they consider, after consulting with the Advisers, has a reasonable expectation of meeting the investment objectives.

ii. The risk of adverse consequences arising through a mismatch between the Scheme's assets and its liabilities. This is addressed through the asset allocation strategy and through regular actuarial and investment reviews and the funding target.

iii. Risk of lack of diversification of investments – addressed through investing in pooled funds with diversification requirements and through investing the growth assets in pooled funds which invest across a range of assets.

iv. Risk of holding assets that cannot be easily sold should the need arise – addressed through the use of pooled funds with frequent dealing dates.

v. Underperformance risk – addressed through utilising two different managers and by monitoring closely the performance of each fund and taking necessary action when this is not satisfactory.

vi. Organisational risk – addressed through regular monitoring of the Investment Manager and the Investment Adviser.

vii. Sponsor risk – the risk of the Employer ceasing to exist, which for reasons of prudence, the Trustees have taken into account when setting the asset allocation strategy.

viii. Credit risk – the risk that the platform provider fails is managed by using an insurer with no general insurance risks and by monitoring the credit rating of the platform provider.

ix. Interest rate risk – the risk that the liabilities will increase as a result of a fall in interest rates is addressed through reviewing the funding position with the Scheme Actuary on a triennial basis.

x. Inflation risk – the risk that the liabilities will increase as a result of an increase in inflation is addressed through reviewing the funding position with the Scheme Actuary on a triennial basis and by investing in return seeking assets that are expected, in the long term, to increase in value should inflation increase.

The Trustees will keep these risks under regular review.

09 **Other Issues**

09.01 Statutory Funding Requirement

The Trustees will obtain and consider proper advice on the question of whether the investments are satisfactory having regard to both the investment objectives and the requirement to meet statutory funding requirements. The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation every three years.

The Trustees will consider with the Advisers whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the statutory funding requirement.

09.02 Corporate Governance

The Trustees have considered corporate governance issues and have agreed that they will have no specific policy in place. The Trustees have reviewed the Investment Managers' policies on corporate governance issues and have agreed that all corporate governance decisions should be delegated to the Investment Managers.

09.03 Social, environmental and ethical issues

The Trustees have determined their approach to financially material considerations over the appropriate time horizon of the investments – including environmental, social and corporate governance ("ESG") factors - by acknowledging that there can be risks relating to them. The Trustees have delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Scheme's investment managers. The Trustees require the Scheme's investment managers to take ESG and climate change risks into consideration within their decision-making, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest.

The Trustees will seek advice from the Investment Adviser on the extent to which their views on ESG and climate change risks may be taken into account in any future investment manager selection exercises. Furthermore, the Trustees, with the assistance of the Investment Adviser, will monitor the processes and operational behaviour of the investment managers from time to time, to ensure they remain appropriate and in line with the Trustees' requirements as set out in this Statement.

As the Scheme invests in pooled funds, the Trustees acknowledge that they cannot directly influence the policies and practices of the companies in which the pooled funds invest. They have therefore delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the investment managers. The Trustees encourage them to vote whenever it is practical to do so on financially material matters such as strategy, capital structure, conflicts of interest policies, risks, social and environmental impact and corporate governance as part of their decision-making processes. The Trustees require the Investment Managers to report on significant votes made on behalf of the Trustees.

If the Trustees become aware of an Investment Manager engaging with the underlying issuers of debt or equity in ways that they deem inadequate or that the results of such engagement are mis-aligned with the Trustees' expectation, then the Trustees may consider terminating the relationship with that Investment Manager.

Further, the Trustees' policy is that non-financial matters should not be taken into account in the selection, retention and realisation of investments.

Appendix A Responsibilities

Trustees

The Trustees of the Scheme are responsible for, amongst other things:

i. Determining the investment objectives of the Scheme and reviewing these from time to time.

ii. Agreeing an investment strategy designed to meet the investment objectives of the Scheme.

iii. Reviewing triennially the content of this SIP and modifying it if deemed appropriate, in consultation with the Advisers.

iv. Reviewing the suitability of the investment policy following the results of each actuarial or investment review, in consultation with the Advisers.

v. Assessing the quality of the performance and process of the pooled funds by means of regular reviews of the investment results and other information, by way of meetings and written reports, in consultation with the Investment Adviser.

vi. Selecting pooled funds which are consistent with the investment strategy after consultation with the Advisers.

vii. Assessing the ongoing effectiveness of the Advisers.

viii. Consulting with the Employer when reviewing investment policy issues.

ix. Monitoring compliance of the investment arrangements with this SIP on an ongoing basis.

x. Informing the Advisers of any changes to Scheme benefits, significant changes in membership.

Platform Provider

The platform provider's responsibilities include:

1. The safekeeping of all the assets of the Scheme held on the platform.
2. Processing the settlement of all transactions.
3. Undertaking all appropriate administration of the Scheme's assets.
4. Processing all dividends and tax reclaims in a timely manner.
5. Dealing with corporate actions.
6. Providing access to a range of appropriate pooled funds.

Appendix A – Responsibilities continued

Investment Adviser

The Investment Adviser will be responsible for, amongst other things:

i. Participating with the Trustees in reviews of this SIP.
ii. Advising the Trustees how any changes within the Scheme's benefits, membership and funding position may affect the manner in which the assets should be invested.
iii. Advising the Trustees of any changes in the funds that could affect the interests of the Scheme.
iv. Undertaking reviews of the Scheme's investment arrangements including reviews of the asset allocation policy and current pooled funds and advising on the selection of new funds.
v. Advising the Trustees on the returns achieved by the Investment Managers

Scheme Actuary

The Scheme Actuary will be responsible for, amongst other things:

i. Performing the triennial (or more frequently as required) valuations and advising on appropriate assumptions and contribution levels.
ii. Commenting on the appropriateness of the investment strategy relative to the liabilities of the Scheme at the triennia valuations.
iii. Advising the Trustees of any changes in the deficit and/or funding level.

Appendix B
Asset Allocation

The Trustees have appointed Columbia Threadneedle and LGIM to manage the assets of the Scheme. Having considered advice from the Advisers, and also having due regard for the objectives, the current liabilities of the Scheme together with their expected timing, the risks of and to the Scheme, and the covenant of the Employer, the Trustees decided upon the following benchmark allocation as being the basis for measuring investment performance:

Asset Class	Actual allocation as at 30 September 2017 (%)	Recommended strategic allocation (%)
RETURN SEEKING ASSETS	91.1	**90.0**
Equities	45.8	**45.0**
LGIM World Equity Index	45.8	**45.0**
Diversified Growth Funds	45.2	**45.0**
Columbia Threadneedle Dynamic Real Return Fund	22.6	**22.5**
LGIM Dynamic Diversified Fund	22.6	**22.5**
MATCHING ASSETS	9.0	10.0
LGIM 0 to 5 Year Gilts Index	9.0	10.0
Total	100.0	100.0

B.01 Expected Returns and Performance Monitoring

The Trustees have agreed the following performance target with the Investment Managers:

Fund	Benchmark Index	Objective
LGIM World Equity Index	**FTSE World Index**	**n/a**
Columbia Threadneedle Dynamic Real Return Fund	**n/a**	**Consumer Prices Index inflation + 3.5% over 3 to 5 years (after deduction of Total Expense Ratio of 0.5%) with less than 2/3 of global equity volatility**
LGIM Dynamic Diversified Fund	**n/a**	**Bank of England base rate + 4.115% over full market cycle (typically 5 years) (after deduction of Total Expense Ratio of 0.385%) with less than 2/3 of global equity volatility**
LGIM 0 to 5 Year Gilts Index	**FTSE A Government (0 to 5 Year) Gilt Index**	**To provide a secure cash flow to cover scheme liabilities for the medium term (1 – 5 years)**

Contact us

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Registration

XPS Pensions Consulting Limited, Registered No. 2459442.

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Authorisation

XPS Investment Limited is authorised and regulated by the Financial Conduct Authority for investment and general insurance business (FCA Register No. 528774).