

# **2017 Stannah Pension Scheme - Defined Contribution ('DC') Benefits (the "Scheme")**

## **Chairman's Statement**

### **Scheme year-ended 31 December 2020**

As Chair of Trustees I am pleased to present this statement of Governance, as set out in regulation 23 of The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (as amended) (the 'Administration Regulations'), showing how we have met certain governance standards in relation to the defined contribution benefits within the Scheme, over the period from 1 January 2020 to 31 December 2020. This Statement will be included in the Scheme's Annual Report and Accounts and is also being published on a publically available website.

The governance standards cover the following principal areas relating to the Scheme's defined contribution benefits:

- The investment strategy relating to the Scheme's default option;
- The processing of Scheme financial transactions;
- Value for Money Assessment;
- Charges and transaction costs within the Scheme; and
- The Trustees' compliance with the statutory knowledge and understanding requirements.

In describing how the Trustees have sought to achieve the standards, we provide the various statutory disclosures required by the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

This Statement does not contain advice in respect of actions that members should take and is not intended to be used for that purpose. If members need advice, they can get help finding a regulated financial adviser through the Money Advice Service website at

<https://www.moneyadviceservice.org.uk/en/categories/getting-advice-about-retirement>

### **Important note regarding the Covid-19 pandemic**

This Statement covers the period when the UK was hit by the Covid-19 pandemic which required the Trustees and their providers to activate business continuity measures since March 2020. I am pleased to confirm that all of the Scheme's operations have been maintained successfully while these measures have been deployed. All monthly contributions due to the Scheme have been paid on time by its sponsoring employer. The Trustees have adopted an approach of managing Trustee meetings on-line. It is recognised that the Scheme administrator had to quickly adapt to facilitating home working and, whilst some service levels were impacted by both these changes and the significant increase in member activity, the Trustees have not experienced any significant service disruption from the Scheme's administrator or investment managers in the period.

### **The default investment arrangement**

The Scheme is used by its sponsoring employer as a Qualifying Scheme for auto-enrolment purposes. Members who join the Scheme and do not choose an investment option are placed into the default investment arrangement for the Scheme. The Trustees are responsible for the Scheme's investment governance, which includes setting and monitoring the investment strategy for the Scheme's default arrangement.

The aims of the default investment arrangement that was in place during the period covered by this statement are detailed below:

- To generate returns in excess of inflation during the growth phase of the strategy whilst managing downside risk.

- To provide a strategy that reduces investment risk relative to the benefits members are likely to take at retirement, as members approach retirement.
- To provide exposure, at retirement, to assets that are broadly appropriate for an individual planning to purchase an annuity and take a tax-free cash lump sum at retirement.

The previous formal investment review was concluded on 1 March 2017 which implemented the current fund range. During 2020, the Trustees commenced a review of the Schemes' investment arrangements, including that of the Default Option, having regard to opportunities for growth on the one hand and maintaining a suitable balance of risk and return on the other. It compared the risk and return characteristics of the Default Option with those of different strategies and over different time horizons. The Scheme's default investment performance and the Trustees' understanding of the membership profile, fund sizes, contribution levels, investment and benefit withdrawal patterns also received careful examination. The review is still ongoing and the Trustees have not made any final decisions but its principal outcomes are to provide a richer set of investments while ensuring the aims of the default investment arrangement are met. Further detail on any changes to the investment arrangements resulting from the review will be communicated to members in advance and included in next year's Chair statement.

As the changes from the current review have not yet been finalised the remainder of the Statement focuses on the arrangements currently in place. The Scheme's default investment is a lifestyle option that targets the purchase of a level (fixed) annuity at retirement, after taking the maximum tax-free cash available (25% of a member's Personal Account).

Under the Annuity Lifestyle Strategy, a member's Personal Account is invested in Newton's Global Balanced Fund until 5 years prior to retirement before switching to L&G's Pre-Retirement Fund and BlackRock's Sterling Liquidity Fund. The table below summarises the approach, although in practice the switches occur quarterly:

<b>Number of years until retirement age</b>	<b>Assets in Global Balanced Fund (%)</b>	<b>Assets in Pre-Retirement Fund (%)</b>	<b>Assets in Sterling Liquidity Fund (%)</b>
5	100	0	0
4	80	15	5
3	60	30	10
2	40	45	15
1	20	60	20
0	0	75	25

Members also have the option of a lifestyle strategy targeting full cash withdrawal at retirement as well as a range of self-select funds.

The Trustees are consider whether to add a lifestyle strategy targeting income drawdown at retirement as part of the ongoing strategy review.

The Trustees note that at the time of transition of investments in 2017 following the last formal review, a number of additional 'technical' default arrangements were created. These were a result of the mapping of self-select members to new underlying funds as part of the move to a new investment platform. These are not defaults for the purposes of auto-enrolment and any new members will not be moved into these funds on joining the Scheme. The Trustees regularly monitor the performance of these funds on an ongoing basis and reviewed the suitability of the funds as part of the broader investment strategy review, last completed in Q1 2017. These funds are in scope as part of the current investment strategy review. The funds in question are:

- LGIM Pre-Retirement Fund, as a result of the mapping of members from the Newton Long Term Gilt Fund
- BlackRock Sterling Liquidity Fund as a result of the mapping of members from the BNY Mellon Sterling Liquidity Fund.

Prior to mapping members' investments across to the replacement funds, the Trustees took appropriate investment advice and considered these funds to be suitable for members in order to keep them in a similar type of investment fund as they were in previously and taking account of the demographics of the members invested in the funds. The Total Expense Ratios ('TERs'), which is the cost associated with the managing and operating of the funds, are below the charge cap legislation requirement of 0.75% p.a. that applies to default investment options for auto-enrolment purposes.

In accordance with the Administration Regulations, the Trustees of the Scheme have included the latest copy of the Statement of Investment Principles ('the SIP') dated September 2020 prepared for the Scheme in compliance with Section 35 of the Pensions Act 1995 and Regulation 2/Regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005. This can be found towards the end of the statement as item A, which forms part of this document.

Over the Scheme year, the Trustees and their professional advisers, Mercer Limited, reviewed how the funds within the Scheme's default investment arrangement (and self-select fund options) performed against the investment managers' objectives and benchmarks at each Trustees' meeting (usually twice a year) via the quarterly investment updates produced by Mercer Workplace Savings (MWS).

### **Requirements for processing financial transactions**

As required by the Administration Regulations, the Trustees must ensure that core financial transactions are processed promptly and accurately. This includes:

- Investment of contributions paid to the Scheme;
- Transfer of members' assets into and out of the Scheme;
- Transfers of members' assets between different investment options available in the Scheme; and
- Payments from the Scheme to, or in respect of, members.

The Schedule of Contributions sets out timescales for the sponsoring employer to remit monthly contributions to the Scheme in accordance with legislative requirements. However, agreed practice provides for payment of contributions in advance of these timescales. The deduction and payment of contributions is reviewed by the sponsoring employer. Once received, contributions are invested in accordance with the timescales set out in the administration agreement with Scottish Widows, the Scheme Administrators. The Scheme Auditor, Harmer Slater Limited, checks that contributions are paid in accordance with the Schedule of Contributions.

The Trustees receive detailed quarterly administration reports produced by Scottish Widows which are reviewed at each of their meetings and enables the Trustees to monitor that the requirements for the processing of financial transactions are being met.

The service level agreement (SLA) with Scottish Widows sets out the approach (including timescales) for the transfer of members' assets into and out of the Scheme, the transfer of members' assets between different investment options available in the Scheme and payments from the Scheme to, or in respect of, members. The service level standards are reviewed periodically to ensure they remain appropriate and meet legislative requirements. Further detail regarding the service level agreements can be found in item B towards the end of the statement, which forms part of this document.

Additional disclosures are required in respect of any transactions and benefit processing activity that have not been completed within the agreed timescales including the cause of the delay, the extent to which agreed timescales were breached and the proposed remedial measures. The relevant SLAs for the core financial transactions are SLA 4 Contribution Processing, SLA 5 Investment Transactions, SLA 7 Transfers Out and SLA 8 Transfers In. During the period all of these SLAs apart from SLA7, met or exceeded their target. SLA 7 failed to meet the SLA targets through the second half of 2020. The Trustees were advised that in all cases where an SLA was not met a detriment calculation was performed to ensure that the members impacted were no worse off due to the delay.

The other main area which saw a failure to meet the service level targets was in respect of SLA10 which is in respect of the helpline facility for use by members. It is recognised and appreciated that the helpline was maintained throughout the whole of the Covid-19 lockdown periods. However, the issues

experienced in respect of failure of the SLA were fundamentally due to increased member activity that was seen throughout the year. Scottish Widows have assured the Trustees that this is being remedied with a large recruitment and training drive which has progressed in Q4 2020 and into Q1 2021.

There were some other ad-hoc issues that had been highlighted to the Trustees throughout the course of the year, such as a duplicate payment of a benefit which Scottish Widows remedied at no cost to the Scheme and an historic anomaly being flagged regarding early leavers not been treated as such, which (after agreement with the Trustees) has seen Scottish Widows retain members' records and benefits within the Scheme. There was also a delay in the issue of the benefit statements during 2020 due to reprogramming activity to ensure statements appropriately reflected signposting to the Chair's Statement. Statements were eventually published in November 2020 and therefore still met the disclosure requirements. In the interim period prior to issue, members continued to have full access to their benefit details and projections online. Finally, it has recently been brought to the Trustees' attention that a proportion of benefit statements issued in 2020 included overestimated projections. Scottish Widows have communicated this issue to impacted members and have notified the regulatory authorities about this. The programming error has been rectified for the production of the 2021 statements.

During the year the Trustees expressed concern about the number of ad-hoc issues that had arisen. As a result of this there is now in place a structure for fortnightly meetings between the administrator and the Mercer Workplace Savings Consultant on behalf of the Trustees, to identify any systematic issues and ensure outstanding matters are dealt with effectively.

In addition to monitoring of the quarterly reporting, the Trustees also monitor the accuracy of the Scheme's common and conditional data. A summary report is received from the Scheme administrator annually, the latest report as at 30 September 2020 confirmed a Common Data score of 98.6% and Conditional Data score of 100%. As a wider review of the Scheme administrator in general, the Trustees receive an assurance report on the administrator's internal controls. The latest report received was for the period to 31 December 2020 (published in April 2021) and noted the Independent Service Auditor's opinion that, in all material aspects, its controls were suitably designed and those tested operated with sufficient effectiveness.

The Trustees are satisfied that over the period covered by this statement:

- the administrator was operating appropriate procedures, checks and control;
- there have been no material administration errors in relation to processing core financial transactions; and
- all core financial transactions have been processed promptly and accurately during the Scheme year, or where there have been delays these have been remedied by the administrator to ensure the effected members have suffered no financial loss.

### **Charges and transaction costs**

As required by legislation, the Trustees are required to report on charges and transaction costs for the investments used by the Scheme and their assessment of the extent to which the charges and costs represent value for members. The charges and transaction costs have been supplied by Scottish Widows and have been checked to ensure there is no missing transaction cost data.

The Trustees are required to set out the on-going charges borne by members in this statement, which are annual fund management charges plus any additional fund expenses, such as custody costs, but excluding transaction costs; this is also known as the total expense ratio ("TER"). The TER is paid by the members and is reflected in the unit price of the funds. The stated charges includes administration and investment costs, since these are met by the members.

The Trustees are also required to separately disclose transaction cost figures that are borne by members. In the context of this statement, the transaction costs shown are those incurred by the Scheme's fund managers to operate the fund and include costs associated with buying and selling assets within investment funds.

The administration services costs for the Scheme are borne by members. Members pay for administration costs (of 0.13% p.a. for all funds, except the Scottish Widows BlackRock Sterling Liquidity Fund which

carries an administration cost of 0.07% p.a.) levied by Scottish Widows. These administration services costs reflect competitive terms as exclusively negotiated through Mercer Workplace Savings when the business was placed with Scottish Widows on 1 April 2017. As such, given there have been no material changes to the Scheme's high-level demographics, we believe that these costs are still competitive.

The following table provides information on the member-borne charges for all investment options available in the Scheme, together with the administration charge. The constituent funds that make up the default Lifestyle strategy are marked with an asterisk.

Fund	Total member charge including administration charge (TER% p.a.)	Transaction Costs (% p.a.)
Scottish Widows Artemis Global Capital	0.980	0.351
Scottish Widows Baillie Gifford UK Equity	0.600	0.034
Scottish Widows BlackRock Sterling Liquidity*	0.210	0.011
Scottish Widows Legal & General 30/70 Global Equity Index Currency Hedged	0.253	0.063
Scottish Widows Legal & General Pre-Retirement*	0.245	0.004
Scottish Widows MFS Meridian Global Equity	0.830	0.080
Scottish Widows Newton Global Balanced*	0.680	0.046
Scottish Widows Newton Global Equity	0.730	0.000
Scottish Widows Schroder Diversified Growth	0.890	0.376
Scottish Widows Standard Life Corporate Bond	0.490	0.027
Scottish Widows Newton UK Equity	0.720	0.045

Source: Scottish Widows. TERs and transaction costs are as at 31 December 2020.

- Transaction cost totals represent annualised transaction costs incurred by the fund manager within the underlying fund over the year. Figures do not currently contain the impact of dilution adjustments incurred at the Scottish Widows fund level when Scottish Widows deals in the underlying funds.
- A positive value represents a reduction in performance as a result of the fees.
- Fund managers may use different methodologies to calculate their transaction costs; therefore, overall transaction cost figures may not be directly comparable, or may exclude some elements or breakdowns of the total cost.

The total member-borne charges, inclusive of the administration charge levied by Scottish Widows, payable under the default lifestyle investment arrangement varies depending on a member's age relative to their Target Retirement Date. It should be noted that expenses are a function of the size of the fund and will change over time. The following table details the weighted TER for each year in the 5 years to retirement based on the allocation of the underlying components which make up the default lifestyle strategy.

Components of default strategy	% Allocation (years to retirement)					
	>5	4	3	2	1	0
Global Balanced Fund (%)	100	80	60	40	20	0
Pre-Retirement Fund (%)	0	15	30	45	60	75
Sterling Liquidity Fund (%)	0	5	10	15	20	25
<b>TOTAL % Allocation</b>	100	100	100	100	100	100
<b>Weighted TER (% p.a.)</b>	<b>0.680</b>	<b>0.591</b>	<b>0.503</b>	<b>0.414</b>	<b>0.325</b>	<b>0.236</b>

## Reporting of Costs and Charges

Using the charges and transaction cost data provided by Scottish Widows and in accordance with regulation 23(1)(ca) of the Administration Regulations, as inserted by the 2018 Regulations, the Trustees set out below the illustration detailing the impact of the costs and charges typically paid by a member of the Scheme on their retirement savings pot. These illustrations have been produced for the Trustees by Scottish Widows. The statutory guidance provided has been considered when providing these examples.

The below illustration has taken into account the following elements:

- Savings pot size;
- Contributions;
- Real terms investment return gross of costs and charges;
- Adjustment for the effect of costs and charges; and
- Time.

To make this representative of the membership, there is a starting pot size of £12,000 and contributions of £250pm for the active member example (Illustrations 1 and 3) and no further contributions for a deferred member (Illustrations 2 and 4). Illustrations 1 and 2 shown below are for a representative selection of the funds members may invest in including the most expensive and the cheapest fund as well as the funds with the highest and lowest expected investment return. They were selected to reflect the range of projected returns and charges for the available funds. For the Default Lifestyle Strategy the development of the projected pension pot depends on the member's current age because the mix of funds changes as the member approaches retirement. Given this, we have also provided two further illustrations showing the development of the projected pot size over time for a sample of ages assuming the pension pot is invested in the Default Lifestyle Strategy – Illustrations 3 and 4.

### Illustration 1 – continuing contributions

Projected Pot sizes in Today's Money (£)								
	SW BlackRock Sterling Liquidity CS1		SW L&G 30/70 Gbl Equity Ind Currency Hdg CS1		SW L&G Pre-Retirement CS1		SW Artemis Global Capital CS1	
Year End	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1	14,700	14,700	15,200	15,100	14,800	14,700	15,200	15,000
3	20,100	20,000	21,800	21,700	20,400	20,200	22,000	21,300
5	25,400	25,200	28,800	28,400	25,800	25,600	29,100	27,700
10	37,900	37,400	47,300	46,400	39,100	38,500	48,200	44,200
15	49,500	48,600	67,900	65,900	51,700	50,500	69,700	61,500
20	60,300	58,900	90,600	87,100	63,700	61,900	93,800	79,600
25	70,400	68,300	115,000	110,000	75,100	72,600	120,000	98,600
30	79,700	77,100	143,000	135,000	86,000	82,700	151,000	118,000
35	88,400	85,100	174,000	162,000	96,400	92,200	184,000	139,000

#### Notes:

1. The Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
2. The Retirement is assumed to be at age 65
3. The starting pot size is assumed to be £12,000.
4. Inflation is assumed to be 2.5% each year.
5. Gross contributions of £250 per month are assumed from the start of the projection to retirement and are assumed to increase in line with inflation at 2.5% per year.
6. Values shown are estimates and are not guaranteed.
7. The projected growth rates for each fund are:

- SW BlackRock Sterling Liquidity CS1: 1.5% below inflation
- SW L&G 30/70 Gbl Equity Ind Currency Hdg CS1: 2.0% above inflation
- SW L&G Pre-Retirement CS1: 1.0% below inflation
- SW Artemis Global Capital CS1: 2.3% above inflation

8. The charges assumed for each fund are the current charges as shown in the Chair's Statement.

### Illustration 2 – no further contributions

Projected Pot sizes in Today's Money (£)								
	SW BlackRock Sterling Liquidity CS1		SW L&G 30/70 Gbl Equity Ind Currency Hdg CS1		SW L&G Pre-Retirement CS1		SW Artemis Global Capital CS1	
Year End	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1	11,800	11,800	12,200	12,200	11,800	11,800	12,200	12,100
3	11,400	11,400	12,700	12,600	11,600	11,500	12,800	12,300
5	11,100	11,000	13,200	13,000	11,400	11,200	13,400	12,500
10	10,300	10,100	14,600	14,100	10,800	10,600	15,000	13,100
15	9,640	9,330	16,100	15,400	10,300	9,990	16,800	13,800
20	8,970	8,580	17,800	16,800	9,880	9,400	18,900	14,400
25	8,340	7,890	19,700	18,200	9,410	8,840	21,100	15,100
30	7,750	7,250	21,800	19,800	8,960	8,320	23,700	15,900
35	7,210	6,670	24,100	21,600	8,540	7,830	26,600	16,600

Notes: Assumptions as per Illustration 1, except no further contributions

The next two Illustrations reflect the development of the projected pot size over time for a sample of ages assuming the pension pot is invested in the Default Lifestyle Strategy.

### Illustration 3 – Default Lifestyle continuing contributions

Projected Pot sizes in Today's Money (£)								
	Age now 60		Age now 55		Age now 45		Age now 35	
Year End	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1	15,000	14,900	15,000	14,900	15,000	14,900	15,000	14,900
3	21,000	20,700	21,300	21,000	21,300	21,000	21,300	21,000
5	26,600	26,100	27,800	27,000	27,800	27,000	27,800	27,000
10			42,300	40,000	44,400	42,300	44,400	42,300
15					61,900	57,900	61,900	57,900
20					76,400	70,900	80,300	73,600
25							99,700	89,600
30							114,000	101,000
35								

Notes:

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.

2. Retirement is assumed to be at age 65
3. The starting pot size is assumed to be £12,000.
4. Inflation is assumed to be 2.5% each year.
5. Gross contributions of £250 per month are assumed from the start of the projection to retirement and are assumed to increase in line with inflation at 2.5% per year.
6. Values shown are estimates and are not guaranteed.
7. The projected growth rates varies over time as the funds invested change. The table below shows the average projected growth rates for the lifestyle strategy for a sample of terms to retirement

Years to Retirement	Projected Growth Rate (average)
1	0.9% Below inflation
3	0.6% Below inflation
5	0.2% Below inflation
10	0.2% Below inflation
15	0.4% Below inflation
20	0.6% Below inflation
25	0.6% Below inflation
30	0.7% Below inflation
35	0.7% Below inflation

8. The charges assumed for each fund are the current charges as shown in the Chair's Statement.

#### Illustration 4 – Default Lifestyle no further contributions

Projected Pot sizes in Today's Money (£)								
Year End	Age now 60		Age now 55		Age now 45		Age now 35	
	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1	12,000	12,000	12,100	12,000	12,100	12,000	12,100	12,000
3	12,100	11,900	12,300	12,100	12,300	12,100	12,300	12,100
5	11,900	11,600	12,600	12,100	12,600	12,100	12,600	12,100
10			12,500	11,800	13,200	12,300	13,200	12,300
15					13,900	12,500	13,900	12,500
20					13,900	12,200	14,700	12,700
25							15,400	12,900
30							16,200	13,100
35								

Notes: Assumptions as per Illustration 3 but with no further contributions and projected growth rates as follows

Years to Retirement	Projected Growth Rate (average)
1	0.9% Below inflation
3	0.5% Below inflation
5	0.1% Below inflation
10	0.4% Below inflation
15	0.6% Below inflation

20	0.7% Below inflation
25	0.8% Below inflation
30	0.8% Below inflation
35	0.8% Below inflation

## Value for Members

The Trustees' advisers have carried out a review, dated 7 July 2021, of the extent to which the fees and charges represent value for members considering the period to 31 December 2020. The assessment considered the split of the member fee between the investment and administration elements to check they both represented good value. In accordance with the Pensions Regulator's DC Code of Practice No. 13 (paragraphs 18-41) and with the relevant legislation, they concluded that the level of charges incurred by Scheme members provides good value for money for the members.

Value for members is further augmented by their membership of the Scheme, which was further improved through the employer matched contribution scheme. Members also get the benefit of ongoing oversight and review of the fund range, the efficiency of the administration processes and the Trustees' and Company's governance of the services, and the wide-ranging support and governance of the Scheme from the Trustees, the Company and the Trustees' professional advisers.

The Trustees recognise that good value does not necessarily mean the cheapest fund. Accordingly, the Value for Members assessment for the year to 31 December 2020 covered the following aspects:

- Member borne investment charges for the default and self-select options against comparable alternatives;
- Net of fees investment performance;
- Investment fund range and ratings;
- Other services paid for by members including administration and communication; and
- Wider key areas of the Scheme including governance oversight and features paid for by the Company.

We note that the details of transaction costs were also included as part of the Value for Members assessment this year and these were considered to be at an appropriate level given the mandates of the funds. Although the Trustees note that there are no industry-wide benchmarks for transaction costs currently, they will continue to monitor the costs for value and monitor developments in assessing such costs.

The outcome of the formal Value for Members assessment to 31 December 2020 concluded that the Scheme's overall benefits represent **good value for money** in comparison to the costs payable by members. The executive summary of the assessment concluded:

- Overall, charges are competitive relative to peers and alternative investment platforms. Investment Manager fees are challenged by the Trustees where necessary.
- Most funds have met their long term objectives, and any manager performance issues are given due attention by the Trustees, with action taken as deemed necessary.
- Softer elements of value remain strong. In particular administration is appropriately monitored and reviewed.

The reasons underpinning this conclusion include:

- The funds used by the Scheme are generally highly rated by our investment advisors as having good prospects of achieving their objectives.

- Other services paid for members, including administration and communication services, on-line functionality and at retirement support were deemed good value.
- The Scheme was deemed to be well governed which helps the chances of members achieving good member outcomes in retirement.
- The members also receive value from features paid by the Company, including the cost of maintaining a Trustee board with duties to act in the best interests of beneficiaries. These costs include the board's advisory costs.

### **Trustee Knowledge and Understanding**

In accordance with sections 247 and 248 of the Pensions Act 2004, the Trustees are required to maintain an appropriate level of knowledge and understanding which enables them to properly exercise their functions and duties in relation to the Scheme.

The Trustees have measures in place to comply with the legal and regulatory requirements regarding conversance and knowledge and understanding.

During the period, the Trustees undertook a number of activities that involved giving consideration to pensions and trust law, the Scheme's governing documents and the Statement of Investment Principles. This allowed them to exercise their knowledge and understanding and to further strengthen their capabilities, for example, by developing their knowledge and understanding of the relevant principles relating to the funding and investment of occupational pension schemes. Details of how the conversance and knowledge and understanding requirements have been met during the period covered by this statement are set out below.

- The Trustees, with the help of their advisers, regularly consider training requirements to identify any knowledge gaps. The Trustees' investment advisers proactively raise any changes in governance requirements and other relevant matters as they become aware of them. The Trustees' advisers would typically deliver training on such matters at Trustee meetings if they were material. The Trustees have undertaken ongoing training, both collectively as a group and individually to keep abreast of pension legislation and regulations and relevant developments over the Scheme year as well as demonstrating conversance with the Scheme documentation. In particular:
  - o The Trustees have undertaken the Regulator's online trustee training and continue to do so as new modules are added. The Chair has also completed the newly introduced pension scam module.
  - o The Trustees reviewed formal publications from their advisers covering current pension topics as part of each Trustee meeting and in particular the impact on the Scheme such as CMA objectives and reporting requirements.
  - o The Statement of Investment Principles was updated in 2020 and the Trustees received appropriate training to understand the changes to that document.
  - o The structure of the Trustee board changed during 2020 and the Trustees reviewed the MNT policy for the Scheme as part of that change.
  - o The Trustees have undertaken training throughout the process of agreeing the framework for the investment strategy review which is currently underway.
- The Trustees have regularly reviewed their training needs to ensure that any new needs that arise are identified and that a plan is put in place to address them. This is considered at the first Trustee meeting of year and used to plan any training sessions for the rest of the year..
- A training log is maintained in line with best practice and the training programme is reviewed annually to ensure it is up to date.

- As a professional independent trustee the Chair completed in excess of 50 hours CPD time during 2020, topics included specialist investment seminars; several webinars on Covid-19 and the impact on pensions; DC retirement targets; supporting pensions decision making; DB scheme funding and GMP equalisation.
- The Trustees have policies for the appointment of new Trustees and the Chair. These include the nomination and election processes for MNTs and cover the responsibilities associated with these including training requirements. During the period covered by this statement PAN Trustees UK LLP (represented by Mr Andrew Firbank) replaced PAN Trustees Limited (represented by Mr Andrew Cheeseman) as the independent professional trustee to the Scheme. Additionally one of the MNTs left the Company and was removed as a Trustee. This restructuring led to the Trustees review of the MNT policy under the Scheme.

The Trustees receive professional advice to support them in reviewing the performance of the Scheme and in governing the Scheme in line with the Trust Deed and Rules. The relevant skills and experience of those advisers is a key criterion when evaluating advisor performance or selecting a new adviser. If there are any ambiguities over the interpretation of the Rules, legal advice is sought.

The Trustees have confirmed that they are conversant with, and have a working knowledge of, the current Statement of Investment Principles, which was updated during the period. The Trustees also confirm that they have access to and working knowledge of all relevant Scheme documents, including the Trust Deed and Rules. This has been achieved on an ongoing basis with preparation for and discussion at Trustee meetings, and input and training from the Scheme’s lawyers when needed.

Taking into account the knowledge and experience of the Trustees with the specialist advice (both in writing and whilst attending meetings) received from the appointed professional advisers, the Trustees believe they are well placed to exercise their functions as Trustees of the Scheme properly and effectively.

I confirm that the above Statement has been produced by the Trustees to the best of their knowledge.

Signature: **AJFirbank**.....

Name: Andrew Firbank.....

Position: Chair of Trustees.....

Date: 23<sup>rd</sup> July 2021.....

# **STATEMENT OF INVESTMENT PRINCIPLES SEPTEMBER 2020**

## **2017 Stannah Pension Scheme**

### **1. Introduction**

1.1 This Statement has been prepared by the Trustees of the 2017 Stannah Pension Scheme (the "Scheme"). It sets out the principles governing our decisions about the investment of the Scheme's assets. We refer to this Statement when making investment decisions, to ensure that they are consistent with the principles set out in it.

1.2 This Statement is designed to meet the requirements of:

- The Pensions Act 1995 (the "Act"), as amended by the Pensions Act 2004;
- The Occupational Pension Schemes (Investment) Regulations 2005, as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015; and,
- Subsequent legislation.

This Statement has been prepared after obtaining written professional advice from Mercer (the "Investment Consultant"). The Trustee believes that the Investment Consultant meets the requirements of Section 35 (5) of the Pensions Act 1995.

1.3 This Statement provides an overview of the Scheme's investment arrangements. The Trustees have obtained advice from the Scheme's investment consultants, Mercer Limited ("Mercer"), regarding the investment policy described by this statement. The Trustees' investment powers are set out within the Scheme's governing documentation and overriding legislation. If necessary, the Trustees will take appropriate legal advice regarding the interpretation of these. We note that, according to the law, we have ultimate power and responsibility for the Scheme's investment arrangements. A copy of the Scheme's Trust Deed is available on request.

1.4 We seek to maintain a good working relationship with the sponsoring company, Stannah Lifts Holdings Limited (the "Company"), and we will discuss any proposed changes to our investment principles with the Company. However, our fiduciary obligations to Scheme members will take precedence over the Company's wishes, should these ever conflict.

1.5 We, as Trustees, believe that our investment policies and their implementation are in keeping with the Pensions Regulator's DC Code of Practice No. 13 (the "Code"). We endeavour to ensure that the features set out in the Code are present within the DC Section, but recognise that not all features will be present, in equal measure, at all times.

1.6 We will review this Statement following any significant change in the Scheme's investment arrangements and, in any event, at least once every three years or sooner if required due to changes in the Scheme such as member demographics.

## 2. **Roles and Responsibilities**

- 2.1 The Trustees have ultimate responsibility for the investment of the Scheme's assets. The Trustees take some decisions themselves and delegate others. When deciding which decisions to take and which to delegate, the Trustees have taken into account whether it has the appropriate training and expertise in order to take an informed decision. The Trustees have established the following decision making structure:

### **Trustees**

- Set structures and processes for carrying out their role;
- Set investment structures and their implementation;
- Select and monitor investment advisers and fund managers;
- Set structures for implementing investment strategy;
- Select and monitor direct investments; and
- Make on-going decisions relevant to the principles of the Scheme's investment strategy.

### **Mercer, the investment consultant**

- Advises on investment of the Scheme assets, including implementation;
- Advises on this Statement;
- Provides required training; and
- Advises the Trustees on the suitability of each fund's structure, composition and benchmark.

### **Scottish Widows Limited, the bundled services platform provider for the DC Section**

- Operates within the terms of this Statement and the written long-term insurance contract with the Trustees;
- Provides access to a platform through which third party funds can be accessed by the Trustees, for the Scheme's members; and
- Provides pension administration services for the Scheme.

- 2.2 The Trustees undertake engagement activities, under the advice of the Scheme's investment consultant, with relevant persons (including investment managers and providers) about relevant matters in respect of the investments of the Scheme.

## **Underlying fund managers**

- Responsible for the day-to-day management of the Scheme's assets invested in the funds they manage;
- Select individual investments with regard to their suitability and diversification, in line with their prospectuses and investment mandates; they have full discretion to decide whether to buy, sell or retain individual securities in accordance with these guidelines;
- Select and monitor the custodians of the investments within the pooled funds in which the Scheme invests; and
- Report to the Trustees (upon invitation) regarding the performance of those assets.

2.3 The investment managers levy a fee based on a percentage of the value of the assets under their management. Fees for the Scheme advisors are determined on a time-cost basis, with agreed fees for particular projects.

2.4 The Statement is divided into sections which the Trustees believe contain, in aggregate, the prescribed contents under the Act and subsequent legislation. Sections 3 to 5 deal with the strategic management of the Scheme's assets which is fundamentally the responsibility of the Trustees. Sections 6 to 12 deal with the day to day management of those assets (which is delegated to professional investment managers).

2.5 The Trustees are committed to maintaining the accuracy of this Statement on an on-going basis. However, their fiduciary obligations to Scheme members will take precedence over this Statement, should these ever conflict.

## **3. Investment Objectives and Beliefs**

### **Defined Benefit Section**

3.1 As the defined benefit section of the Scheme is closed to new entrants and the future accrual of benefits, the Trustees' primary objective is to protect the benefits accrued to date.

3.2 Following a decision by the Trustees and Company to secure the defined benefit liabilities of the Scheme, the Trustees purchased a bulk annuity policy which is held with Rothesay Life. The policy remains in the name of the Trustees and forms part of the assets of the defined benefit section of the Scheme.

### **Defined Contribution Section**

3.3 The Trustees' objective is to make available to members a range of investments which seek to achieve real returns on members' assets while controlling, to an acceptable level, the risks arising from the potential volatility of such investments.

3.4 The Trustees recognise that members have differing investment needs and that these may change during the course of members' working lives. The Trustees also recognise that members have different attitudes to risk.

3.5 The Trustees believe that members should make their own investment decisions based on their individual circumstances. However, the Trustees recognise that members may not wish or believe themselves able to make investment decisions. As such, the

Trustees make available a default investment option, having considered advice from their investment consultants. The default option aims to deliver a moderate level of real return, at an acceptable level of investment risk, taking into account a typical member's varying risk profile over their working lifetime. The aims and policies regarding the default investment option are set out in section 5.3.

- 3.6 The Trustees also regard their duty as making available a range of other investment options to enable members to tailor their investment strategy to their own needs. The Trustees aim to make available a range of options which satisfy the needs of the majority of members whilst balancing flexibility and choice, as well as simplicity and cost control.

#### 4. Risk Management and Measurement

##### Defined Contribution Section

- 4.1 The Trustee recognises that, under defined contribution arrangements, members bear the investment risk including, where applicable, the conversion of this accumulated sum into income in retirement, and that members' investment requirements will vary, particularly between members of different ages. The Trustee therefore provides a range of investment options (including three lifestyle strategies) which enable members to reflect in their selection of funds the level of risk they wish to take in light of their own individual circumstances.
- 4.2 The Trustees have considered risk from a number of perspectives in relation to the DC Section, including the default option. The list below is not exhaustive, but covers the main risks considered by the Trustee in formulating the policy regarding the default investment options. The Trustees believe that these risks may be financially material. These risks, how they are managed and measured are as follows:

<b>Risk</b>	<b>How it is managed</b>	<b>How it is measured</b>
<b>The investment return over members' working lives will not keep pace with inflation</b>	The Trustees provide members with a range of funds, across various asset classes, with the majority expected to keep pace with inflation (with the exception of the money market and bond funds)	Considering the real returns (i.e. return above inflation) of the funds, with positive values indicating returns that have kept pace with inflation
<b>The range of funds made available to members is not appropriate for their needs</b>	The Trustees make available a modest range of funds, covering key asset classes and different management styles; the Trustees aim to balance the conflicting objectives of providing an expansive range versus governing the range well	It is not possible to ascertain the appropriateness of the fund range for all members, so this risk is not explicitly measured
<b>The investment vehicles in which monies are invested underperforms the expectation of the Trustees</b>	The Trustees seek advice from their investment consultants on the suitability of investment vehicles and aim to invest in funds that are highly rated by their investment consultant, based on forward-looking expectations of meeting objectives	Considering the returns of funds relative to their benchmarks and stated targets/objectives

<b>Risk</b>	<b>How it is managed</b>	<b>How it is measured</b>
<b>Relative market movements in the years just prior to retirement lead to substantial reduction in the benefits received</b>	The Trustees offer lifestyle strategies, one of which is the default investment option for the Scheme, which automatically switches member assets into less risky investments (relative to the targeted form of benefits) as they approach retirement, in order to reduce the risk of a substantial fall in the value of the targeted benefits near to retirement	Considering the returns of the funds used within the switching phase of the lifestyle strategies both in absolute terms as well as relative to the targeted benefits
<b>Investment in overseas markets will be affected by changes in exchange rates leading to lower returns in pound sterling terms (e.g. due to appreciation of pound sterling relative to overseas currencies)</b>	The Trustees provide investment options that invest in local markets as well as overseas markets	Considering the movements in foreign currencies relative to pound sterling
<b>The pooled funds through which the Trustees allow members to invest, do not provide the required level of liquidity</b>	The Trustees access daily dealt and daily priced pooled funds through a unit-linked insurance contract from Scottish Widows	The pricing and dealing terms of the funds underlying the unit-linked insurance contract
<b>The investment profile of the default investment option is unsuitable for the requirements of some members</b>	The Trustees provide a range of self-select options that span different asset classes and risk characteristics. The Trustees also seek to ensure that the objectives of the default option are clearly communicated to members.	It is not possible to ascertain the suitability of all members investing in the default investment option, so this risk is not explicitly measured
<b>Environmental, Social and Corporate Governance Risk</b>	The risk that environmental, social or corporate governance concerns have a financially material impact on the return of the Plan's assets.	See section 12 below for the Trustee's responsible investment and corporate governance statement.

The Trustee also consider the following market risks;

<b>Type of Risk</b>	<b>Description</b>	<b>How is the risk managed and measured?</b>
<b>Market Risk</b> <b>Inflation Risk</b>	The risk that the investment return over members' working lives will not keep pace with inflation.	The Trustee makes available a range of funds, across various asset classes, with the majority expected to keep pace with or exceed inflation over the long term.

<b>Type of Risk</b>	<b>Description</b>	<b>How is the risk managed and measured?</b>
	<b>Currency Risk</b>	The risk that fluctuations in foreign exchange rates will cause the sterling value of overseas investments to fluctuate.
	<b>Credit Risk</b>	The risk that the issuer of a financial asset, such as a bond, fails to make the contractual payments due.
	<b>Equity, property and other price risk</b>	The risk that investment market movements lead to a substantial reduction in the market value of investments.  The Trustee considers fund performance, including that of the default investment option, on a quarterly basis.

The Trustees believe that the investment objectives, beliefs and risks outlined above are in relation to what the Trustee considers financially material considerations. The Trustee believes the appropriate time horizon for which to assess these considerations is based on individual member's horizons, and are dependent on member age and target retirement dates. In designing the default lifestyle option and the Trustees have considered the proximity to target retirement dates when designing the strategy.

4.3 The Trustees also use a further number of methods to manage these risks.

- The Trustees receive regular reports from their investment consultants and monitor the returns achieved by the pooled funds managed by the investment managers, relative to the respective benchmarks. The Trustees will ensure relative returns are consistent with those expected and that excessive risk levels are not taken to achieve these returns.
- The Trustees will continue to monitor the range of funds offered by the Scheme to ensure they remain appropriate given members' needs of real investment returns. The Trustees will look to ensure members of all risk profiles are catered for within the Scheme's investment arrangements.

4.4 Should the Scheme's circumstances alter in a material way, the Trustees will review whether and to what extent the Scheme's investment arrangements should be altered; in particular, whether the risk profile of the current investment options remains appropriate.

## 5. **Investment Strategy**

### **Defined Benefit Section**

5.1 In addition to the bulk annuity policy held with Rothesay Life, the remaining defined benefit section assets are invested in the Legal & General Investment Management

("L&G") Cash Fund. The Trustees expect that investing the Scheme's remaining defined benefit assets in this fund should help to protect the capital value of these assets.

### Defined Contribution Section

5.2 The Trustees offer two types of options to members, lifestyle options (the default investment option) and self-select options (in which members can choose to invest in any combination of the selection of funds offered).

### 5.3 *Default Investment Option*

The Scheme's default lifestyle strategy, the Annuity Lifestyle Strategy, currently invests in funds managed by Newton Investment Managers ("Newton"), L&G and BlackRock Advisors UK Limited ("BlackRock"). It invests in the Newton Global Balanced Fund until 5 years prior to retirement before switching to the L&G Pre-Retirement Fund and the BlackRock Sterling Liquidity Fund. The table below summarises the approach, although in practice the switches occur monthly:

<b>Number of Years until retirement age</b>	<b>Assets In Newton Global Balanced Fund (%)</b>	<b>Assets In L&amp;G Pre-Retirement Fund (%)</b>	<b>Assets In BlackRock Sterling Liquidity Fund (%)</b>
5	100	0	0
4	80	15	5
3	60	30	10
2	40	45	15
1	20	60	20
0	0	75	25

The Annuity Lifestyle Strategy is the default option for members who have not expressed an investment choice. It is aimed at members who are likely to purchase a fixed annuity (75%) and withdraw cash (25%) at retirement.

Typically, a proportion of members will actively choose the default option because they feel it is most appropriate for them. However, the vast majority of members invested in the default option have not made an active investment decision.

Taking into account the demographics of the Scheme's membership and the Trustees' views of how the membership will take their benefits at retirement, the Trustees believe that the current default investment option is appropriate and will continue to review this over time, at least triennially, or after significant changes to the Scheme's demographic or investment policy, if sooner.

The aims of the default option, and the ways in which the Trustees seek to achieve these aims are detailed below:

- To generate returns in excess of inflation during the growth phase of the strategy whilst managing downside risk.

*The default option's growth phase invests in equities, property, bonds and cash (through the Newton Global Balanced Fund). These investments are expected to provide a real return over the long term with some downside protection (relative to a 100% equity strategy).*

- To provide a strategy that reduces investment risk relative to the benefits members are likely to take at retirement, as members approach retirement.

*As a member's pot grows, investment risk will have greater impact on member outcomes. Therefore, the Trustees believe that a strategy that seeks to reduce investment risk as the member approaches retirement is appropriate. Moreover, the Trustees believe that the majority of members in the DC Section who are enrolled in the default option will purchase an annuity at retirement, so the lifestyle strategy is designed to provide some protection of the amount of pension a member can buy in the form of an annuity, in the lead up to retirement.*

*In view of the above, the Trustees consider the level of risk within the default option in the context of the variability of returns relative to annuity prices and cash rates.*

*The lifestyle strategy therefore aims to reduce volatility and provide some protection against changing annuity prices as a member approaches retirement via automated lifestyle switches over the five-year period to a member's selected retirement date. Investments are switched into the (25%) BlackRock Sterling Liquidity Fund (for members to take tax-free cash) and (75%) L&G Pre-Retirement Fund (to reduce investment risk and preserve annuity purchasing power).*

- To provide exposure, at retirement, to assets that are broadly appropriate for an individual planning to purchase an annuity and take a tax-free cash lump sum at retirement.

*At the member's selected retirement date, 25% of member's assets will be invested in the BlackRock Sterling Liquidity Fund and 75% in the L&G Pre-Retirement Fund.*

The Trustees' policies in relation to the default option are detailed below:

- In addition to the Trustees' Investment Objectives and Beliefs (section 3), the Trustees believe, in order that assets are invested in the best interests of members, that:
- The default option manages investment risks through a diversified strategic asset allocation consisting of different types of traditional assets, through an allocation to a "balanced" fund. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. In designing the default option, the Trustees have explicitly considered the trade-off between risk and expected returns. Any investment in derivative instruments contributes to risk reduction, or efficient portfolio management.
- The Trustees has considered the balance of investments to be held in the default investment option, including the characteristics of particular asset classes and the balance between the use of active and passive investments where appropriate.

- Assets in the default option are invested in the best interests of members and beneficiaries, taking into account the profile of the membership. Based on the Trustees' understanding of the membership, a default option that targets annuity purchase is considered appropriate.
- Members are supported by clear communications regarding the aims of the default and the access to alternative investment approaches. If members wish to, they can opt to choose their own investment strategy on joining but also at any other future date. Moreover, members do not have to take their retirement benefits in line with those targeted by the default option; the target benefits are merely used to determine the investment strategy held pre-retirement.
- Assets in the default option are invested in daily traded pooled funds which hold highly liquid assets. The pooled funds are commingled investment vehicles which are managed by an investment manager.
- Assets in the default option are invested in a manner which aims to ensure the security, quality, liquidity and profitability of member's savings.
- Assets are invested mainly on regulated markets and investment in derivative instruments contributes to risk reduction, or assists in the efficient portfolio management for the members.
- The selection, retention and realisation of assets within the pooled funds are delegated to the investment manager in line with the mandates of the funds. Further information regarding the Trustees' policies on the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments is set out in section 12.

#### 5.4 *Self-Select Investment Options*

In addition to the Trustee's Investment Objectives and Beliefs (section 3), the Trustee has the following aims for the self-select investment options so that the assets are invested in the best interest of members:

The Trustee aims to make available a self-select investment range which serve to meet the varying investment needs, risk tolerances, return objectives and time horizons for Scheme members to choose as they see fit based on their individual risk appetite and tolerance. The risks of these options are not considered in isolation but in conjunction with expected investment returns and anticipated retirement outcomes for members.

The self-select options consist of one alternative lifestyle strategy, the Cash Lifestyle Strategy, which targets a different retirement benefit than that targeted by the default option, namely full encashment of benefits at retirement. It invests in the Newton Global Balanced Fund until 5 years prior to retirement before switching to the BlackRock Sterling Liquidity Fund. The table below summarises the approach, although in practice the switches occur monthly:

<b>Number of Years until retirement age</b>	<b>Assets in Newton Global Balanced Fund (%)</b>	<b>Assets in BlackRock Sterling Liquidity Fund (%)</b>
5	100	0

<b>Number of Years until retirement age</b>	<b>Assets in Newton Global Balanced Fund (%)</b>	<b>Assets in BlackRock Sterling Liquidity Fund (%)</b>
4	80	20
3	60	40
2	40	60
1	20	80
0	0	100

In addition, a range of individual self-select funds are offered to members, where members can choose to invest in any combination of the following below.

- Artemis Global Capital Fund
- Baillie Gifford UK Equity Fund
- L&G 30/70 Global Equity Index Currency Hedged Fund
- MFS Meridian Global Equity Fund
- Newton Global Balanced Fund
- Newton UK Equity Fund
- Newton Global Equity Fund
- Schroder Diversified Growth Fund
- Standard Life Corporate Bond Fund
- L&G Pre-Retirement Fund
- BlackRock Sterling Liquidity Fund

Members can also combine investments in self-select funds alongside investments in a lifestyle strategy. Members can choose their investment options when they join the Scheme and also change them at any date in the future.

The Trustee believes that the self-select options available offer varying risk/return profiles and risks are managed by the members. In designing the available fund range, the Trustee has explicitly considered the trade-off between risk and expected returns. Assets in the self-select investment options are invested in a manner which aims to ensure the security, quality, liquidity and profitability of member's savings. Assets are invested mainly on regulated markets and investment in derivative instruments contributes to risk reduction, or assists in the efficient portfolio management for the members.

5.5 General guidelines for the funds mentioned above are provided in Section 7.

5.6 The Trustees keep the default strategy and the investment funds offered under regular review, at least every three years and without delay after any significant change in investment policy or the demographic profile of relevant members, to ensure they remain

appropriate for meeting the Scheme's objectives set out in Section 3 and controlling the risks identified in Section 4 for the membership as a whole. This Statement will be updated following any significant revisions to the investment strategy for the DC Section. The performance of the default strategy is reviewed on a quarterly basis by the Trustees.

## 5.7 Additional default arrangements

In accordance with the Occupational Pension Schemes (Charges and Governance) Regulations 2015, the Scheme has identified the investment options listed in the table below as 'default arrangements' (as defined by these regulations) in addition to the current default investment option in which new members are directed.

These have been identified as 'additional default arrangements' as members' accrued funds and contributions have been automatically directed to these funds without members having instructed the Trustees where their contributions are to be invested, these are not default arrangements for the purposes of auto-enrolment.

<b>Fund</b>	<b>Previous Arrangement</b>	<b>Reason for identification as a 'default arrangement'</b>
L&G Pre-Retirement Fund	Newton Long Gilt Fund	These defaults were created when funds were mapped to the Scottish Widows Limited Platform (previously Zurich) as part of the transition of the Scheme assets to the platform in H1 2017
BlackRock Sterling Liquidity Fund	BNY Mellon Sterling Liquidity Fund	

Prior to mapping members' investments across to the replacement funds, the Trustees took appropriate investment advice and considered these funds to be suitable for members in order to keep them in a similar type of investment fund as they were in previously and taking account of the demographics of the members invested in the funds. The Total Expense Ratios ('TERs'), which is the cost associated with the managing and operating of the funds, are below the charge cap legislation requirement of 0.75% p.a. that applies to default investment options.

The aims of the additional default arrangements and the ways in which the Trustees seek to achieve these aims are detailed below.

<b>Fund</b>	<b>Aim and Objective</b>	<b>Primary Investments Held</b>	<b>Expected Risk and Return</b>
L&G Pre-Retirement Fund	invests in fixed income securities and aims to broadly match the changes in the prices of fixed annuities.	This fund primarily invests in bonds (government and corporate)	Reduce investment risk relative to equity markets and preserve annuity purchasing power through matching changes in the prices of annuity
BlackRock Sterling Liquidity Fund	invests in a range of UK short-term money market investments and aims to provide a positive return across all market conditions, with an emphasis on capital preservation.	This fund generally invests in highly rated short term debt instruments, where the risk of loss of capital is significantly lower than with other classes.	The aim of the fund is to achieve a competitive cash return over time with low risk. It is not expected to produce returns that exceed inflation.

The Trustees' policies in relation to the additional default arrangements are detailed below:

- To provide members with a fund that is a suitable replacement for one that was removed from the Scheme.
- Assets in these additional default arrangements are invested in daily traded pooled funds which hold highly liquid assets. The pooled funds are commingled investment vehicles which are managed by an investment manager. The selection, retention and realisation of assets within the pooled funds are delegated to the investment manager in line with the mandates of the funds. Likewise, the investment manager has full discretion (within the constraints of their mandates) on the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments.
- The performance of these funds are monitored quarterly, with a strategic review being carried out at least triennially since falling under the categorisation of a 'default arrangement'.
- Risks associated with these investments have been considered in line with the defined contribution section of the Risk Management and Measurement section of this document (Section 4.1).

## 6. **Expected Return**

### **Defined Benefit Section**

- 6.1 The L&G Cash Fund aims to provide capital protection with growth at short term interest rates. The Trustees expect that the L&G Cash Fund will, over the long term, generate returns in line with that of its performance target.

### **Defined Contribution Section**

- 6.2 The Trustees expect that each of the underlying investment funds available to members will, over the long term, generate returns in line with their respective performance targets.
- 6.3 It is members' decisions to determine the balance between different kinds of investments they hold. This balance will determine the expected return on members' assets and should be related to the members' own risk appetite and tolerances.

## 7. **Day to day management of the assets**

### **Main Assets**

- 7.1 Day-to-day management of the assets is delegated to professional investment managers who are all regulated by the Financial Conduct Authority (the "FCA").
- 7.2 The investment managers have full discretion to buy and sell investments on behalf of the Scheme, subject to the constraints of their respective mandates. The Trustees invest the assets of the Scheme in pooled fund arrangements with
- L&G;
  - Newton;
  - BlackRock;
  - Artemis Investment Management;
  - Baillie Gifford & Co.;
  - MFS International (UK) Limited;
  - Schroder Investment Management; and
  - Standard Life Investments.
- 7.3 The investment managers have been selected for their expertise in the different specialisations and manage investments for the Scheme in each pooled fund to a specific mandate, which includes performance objectives, risk parameters, and timescales over which their performance will be measured.

## Defined Benefit Section

### 7.4 L&G Cash Fund

The portfolio managers of the L&G Cash Fund must comply at all times with the rules governing the management of collective investment schemes set by the regulator, the FCA.

Within this framework, L&G also impose a set of internal restrictions, which are commensurate with the objectives of the Fund and nature of the unit holders. These self-imposed restrictions may be subject to change.

## Defined Contribution Section

7.5 General guidelines for each of the funds are provided below:

**Artemis Global Capital Fund** – the fund aims to achieve capital growth from a diversified portfolio investing in any economic sector in any part of the world.  
Benchmark: MSCI All Country World Index  
Target: To outperform the benchmark by 5% p.a. over a market cycle.

**Baillie Gifford UK Equity Fund** – the fund aims to achieve above average total returns by investing in UK equities (stocks normally listed on the London Stock Exchange).  
Benchmark: FTSE All-Share  
Target: To outperform the benchmark by 1% – 1.5% p.a. (before fees) over rolling 3-year periods.

**L&G 30/70 Global Equity Index Currency Hedged Fund** – the fund aims to capture the total returns of the UK and overseas equity markets in line with the FTSE All-Share Index in the UK and the FTSE All-World (ex-UK) Index. The fund aims to maintain a fixed 30/70 weighting between UK and overseas assets. A total of 75% of the overseas assets will be currency hedged to sterling (£), this will exclude assets priced in emerging market currencies.  
Benchmark: 30% FTSE All-Share Index, 70% FTSE All-World (ex-UK) Index (with 75% of developed overseas currency exposure hedged to sterling)  
Target: To capture the total returns of the benchmark, within an acceptable tolerance.

**MFS Meridian Global Equity Fund** – the fund aims to achieve capital appreciation, measured in US dollars.  
Benchmark: MSCI World Index  
Target: To outperform the benchmark by 2% p.a. over a market cycle.

**Newton Global Balanced Fund** – the fund seeks to implement a balanced investment strategy, with an emphasis on equities, but also invests in bonds, property and cash.  
Benchmark: 37.5% FTSE All Share, 37.5% FTSE World (ex-UK), 20% FTSE Government All Stocks and 5% LIBID 7 day cash  
Target: To outperform the comparative index by 1% - 2% p.a. over rolling 5 year periods.

**Newton UK Equity Fund** – this aims to provide a return by investing in UK companies. The fund will primarily invest in larger companies and may invest in fixed interest and convertible securities as well as ordinary shares.  
Benchmark: FTSE All-Share Index  
Target: To outperform the benchmark by 1% - 2% p.a. over rolling 5 year periods.

**Newton Global Equity Fund** – this aims to achieve long term growth by investing in stocks and shares, quoted on major stock markets around the world. The fund may also invest in collective investment schemes.

Benchmark: MSCI AC World

Target: To outperform the benchmark by 2% p.a. over rolling 5 year periods.

**Schroder Diversified Growth Fund** – the fund aims to exceed Retail Price Inflation over an interest rate cycle through investing in a wide range and variety of assets.

Benchmark: UK Retail Price Inflation

Target: To outperform the benchmark by 5% p.a. over an economic cycle, typically a five year period, but this is not guaranteed.

**Standard Life Corporate Bond Fund** – the fund aims to provide long term growth mainly from the reinvestment of income generated by investing predominantly in Sterling denominated corporate bonds. The fund is actively managed and may also invest a proportion of assets in other bonds (e.g. overseas bonds and gilts) and/or money market instruments to try to take advantage of opportunities they have identified.

Benchmark: Merrill Lynch Sterling UK Non-Gilt All-stocks index

Target: To outperform the benchmark by 0.8% p.a. over a rolling market cycle.

**L&G Pre-Retirement Fund** – the fund aims to invest in assets that reflect the investments underlying a typical non-inflation linked pension annuity product

Benchmark: Composite benchmark

Target: To capture the total returns of the composite benchmark, within an acceptable tolerance.

**BlackRock Sterling Liquidity Fund** – the fund aims to achieve an investment that is in line with wholesale money market short-term interest rates.

Benchmark: Seven Day LIBID

Target: To outperform the benchmark before fees.

7.6 As the assets of the Scheme are invested in pooled fund vehicles the investment restrictions applying to these funds are determined by the investment manager. The Trustees are satisfied that the spread of assets by type and the investment managers' policies on investing in individual securities within each asset class provides adequate diversification of investments.

## 8. Other Assets

8.1 Assets in respect of members' AVCs are held in one of the above funds available under the Defined Contribution Section.

8.2 Working cash balances are held separately.

## 9. Investment Manager Fees

- 9.1 The table below details the total expense ratio (“TER”) charged for each fund available used within the Scheme:

<b>Fund</b>	<b>TER</b>
L&G Cash Fund	0.125% p.a. plus £1,500 fixed fee p.a.
Artemis Global Capital Fund	1.020% p.a.
Baillie Gifford UK Equity Fund	0.600% p.a.
L&G 30/70 Global Equity Index Currency Hedged Fund	0.253% p.a.
MFS Meridian Global Equity Fund	0.830% p.a.
Newton Global Balanced Fund	0.680% p.a.
Newton UK Equity Fund	0.720% p.a.
Newton Global Equity Fund	0.730% p.a.
Schroder Diversified Growth Fund	0.870% p.a.
Standard Life Corporate Bond Fund	0.493% p.a.
L&G Pre-Retirement Fund	0.245% p.a.
BlackRock Sterling Liquidity Fund	0.210% p.a.

*Source: Scottish Widows, L&G. TERs as at August 2019.*

## 10. Realisation of Investments

- 10.1 In general, the Scheme’s investment managers have discretion in the timing and realisation of investments and in considerations relating to the liquidity of those investments.

## 11. Choosing Investments

The Trustee considers the investment objectives and policies when choosing investments either for the self-select range or for inclusion within the default investment option. The Trustee receives written advice from their Investment Consultant on any investments prior to them being implemented. The advice received and arrangements implemented are, in the Trustee’s opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

## 12. Socially Responsible Investment and Corporate Governance

- 12.1 The Trustees believes that environmental (including climate change), social, and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for

companies and markets as a whole. The Trustees note that each of the categories of environmental, social and corporate governance can be viewed independently and grouping these together to a certain extent may not be appropriate. The Trustees believe it is their duty to the members to ensure that assets are invested within certain boundaries of prudence which informs the policy of to invest in sustainable assets in the long term.

- 12.2 When making investment decisions, the Trustees will consider the widest set of information available to them to help identify potentially material financial issues, however the responsibility of implementation will lie with investment managers.
- 12.3 The Trustees expect the underlying managers to evaluate ESG factors, including climate change considerations, exercising voting rights and stewardship obligations attached to investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code. Equity managers registered with the appropriate regulator are expected to report on their adherence to the UK Stewardship Code on an annual basis.
- 12.4 The Trustees consider how ESG, climate change and stewardship is integrated within investment processes of new investment managers and monitoring of existing investment managers. Monitoring is undertaken on a regular basis through consideration of ESG ratings provided by the Trustees' advisors. The Trustees have also undertaken an explicit review of the managers in the default investment option and have confirmed that the managers process contains a reasonable level of ESG oversight within the bounds of a sustainable investment approach.
- 12.5 The Trustees keep the topic of corporate governance and responsible investment under periodic review and will review this policy regularly to ensure that the policy is applicable, appropriate and in line with expectations of the majority of the membership. The Trustees believe that their current approach is aligned with members best interests.
- 12.6 The Trustees believe that an understanding of, and engagement with, investment managers' arrangements is required to ensure they are aligned with Trustees' policies, including its policy with regard to ESG. In accordance with latest regulation, it is the Trustees' policy to ensure that the following are understood and monitored:
- How investment manager arrangements incentivise managers to align their strategy and decisions with the Trustees' policies
  - How investment manager arrangements incentivise managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term
  - How the method (and time horizon) of the evaluation of investment managers' performance and their remuneration are in line with the Trustees' policies
  - Portfolio turnover costs incurred by the investment managers, in the context of the investment manager's targeted portfolio turnover (defined as the frequency within which the assets are expected to be bought or sold)
  - Duration of the arrangement with the investment manager
- 12.7 The Trustees note that each investment manager of the underlying pooled funds offered on the platform has an investment management agreement or re-assurance agreement

with the platform provider. The investment managers are responsible for managing the portfolios of assets within the investment guidelines, objectives, risk parameters and restrictions set out in the respective agreements but, subject to that, exercise discretion as appropriate when investing the portfolio. The investment managers have regard to the need for diversification of investments so far as appropriate and to the suitability of investments. They appoint custodians for the assets managed in the underlying funds. The pooled investment vehicles are daily-dealt, with assets mainly invested in regulated markets and therefore should be realisable at short notice, based on either Trustees' or member demand. The selection, retention and realisation of investments within the pooled investment vehicles is the responsibility of the relevant investment manager.

As there is no direct relationship between the Trustees and the investment manager and due to the pooled fund structure, the Trustee believes the level of engagement and influence they can exert on the funds invested is relatively low. The Trustees have the following policies in order to understand and monitor their arrangements with investment managers set out below:

- The Trustees consider their investment adviser's assessment of how each investment manager embeds ESG into its investment process and how the investment manager's responsible investment philosophy aligns with the Trustees' responsible investment policy. This includes consideration of the underlying investment managers' policy on voting and engagement and compliance with the Stewardship Code. The Trustees will use this assessment as part of their considerations when taking decisions around selection, retention and realisation of investment manager appointments.
- The underlying investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected. Whilst the Trustees note that their ability to influence decision making within pooled fund structures is limited, the underlying investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been chosen to manage. As such, the Trustees believe this creates alignment between investment managers and themselves. Consequently, if the Trustees are dissatisfied, then they will look to replace the manager. If the investment objective for a particular investment manager's fund changes, the Trustees will review it to ensure it remains appropriate and consistent with the Trustees' wider investment objectives.
- The Trustees will meet with their investment managers where necessary and receive updates from the managers on their ESG policies and engagement activity. Where needed the Trustees will challenge managers on their policies and instances where managers may not be aligned with best practices within the industry. This action is taken to try to ensure continuing improvement over the medium to long term in the performance of assets from both a financial and non-financial perspective.
- The Trustees receive and considers performance reports from their investment advisors on a quarterly basis, which present performance information for the funds over three months, one year, three years, five years, and since inception. The Trustees review the absolute performance, relative performance against a suitable index used as the benchmark, and against the underlying manager's stated target performance (over the relevant time period) on a net-of-fees basis. Whilst the Trustees' focus is on long-term performance, they also take shorter-term performance into account.

- If an underlying manager is not meeting performance objectives, or their investment objectives for the fund have changed, the Trustee may review the suitability of the manager, and change managers where required. As managers are remunerated based on the level of assets managed, there is a direct interest for investment managers to perform in line with objectives in order to retain mandates and continue to receive compensation on an ongoing basis.
- The Trustees do not currently define target portfolio turnover ranges for investment managers, particularly as the Trustees use pooled funds. The Trustees consider portfolio turnover costs indirectly through consideration of trading costs incurred throughout the year for a fund, provided within transaction cost data received annually, and is considered as part of the annual value for members assessment.
- All the funds used are open-ended, with no set end date for the arrangements. The default arrangement and the self-select fund range are reviewed on at least a triennial basis. An underlying manager's appointment may be terminated if it is no longer considered to be optimal, nor have a place in the Scheme's arrangements.

12.8 Non-financial matters refer to the views of the members and beneficiaries including (but not limited to) their ethical views and their views in relation to social and environmental impacts of investments and the future quality of life of members.

12.9 The Trustee has not sought member views in informing the policy regarding the selection, retention and realisation of investments. This position is reviewed periodically in line with the wider review of the policy on corporate governance and responsible investment.

12.10 These policies relating to responsible investment, corporate governance and non-financial matters are applicable to both the default investment option and all other arrangements within the DC section including the self-select fund range options.

### **13. Monitoring the Investment Managers**

13.1 The Trustees aim to meet each investment management organisation regularly to review the investment manager actions together with the reasons for and background behind the investment performance. Mercer has been retained as investment consultant to assist the Trustees in fulfilling their responsibility for monitoring the investment managers.

**14. Compliance with this Statement**

- 14.1 The Trustees will monitor compliance with this Statement annually and will undertake to advise the investment managers and other related parties promptly and in writing of any material change to this Statement.

**15. Review of this Statement**

- 15.1 The Trustees will review this Statement at least every three years or in response to any material changes to any aspects of the Scheme and the attitude to risk of the Trustees and the Company which they judge to have a bearing on the principles set out in this Statement.
- 15.2 Any such review will again be based on written, expert investment advice and will be in consultation with the Company.

**Adopted by the Trustees of the 2017 Stannah Pension Scheme on 21 September 2020**

## Item B – Scheme Administrator Service Level Agreements

The Trustee has an administration agreement in place with Scottish Widows through the Mercer Workplace Savings platform. The administration agreement sets out the service standards expected of Scottish Widows and if Scottish Widows fall short of these standards then financial penalties are in place until the situation is rectified.

The expected service standards are:

SLA	Description	Target Service Level (%)	Description
2	Website Availability	99.5	Scottish Widows shall ensure that the Website is available to Users during the hours of 0800 and 1730 on Business Days.
3	Documentation	97.0	Scottish Widows shall provide electronic access to policy documentation held within the portal library to members within two (2) Business Days of receipt of all required new joiner details submitted in an electronic format from either the Client or a Member. Hard copies where issued will be issued within five (5) Business days of receipt of all required new joiner details submitted in hard copy format.
4	Contribution Processing	100.0	Subject to the completion of the longest delayed dealing cycle, Scottish Widows shall process regular contributions and allocate to Member policies within two (2) Business Days of receipt of the validated contribution schedule and reconciled payment.
5	Investment Transactions	97.0	Scottish Widows shall action investment transaction (switches, redirections and single contributions where appropriate) requests from Members or Trustees within three (3) Business Days from the date of receipt of complete instructions.
6	General Enquiries	97.0	Scottish Widows shall respond to non-complex general enquiries from Members (such as valuations, projections, contribution statements and change of details) within five (5) Business Days of receipt of the enquiry.
7	Payments Out	97.0	Subject to the completion of the longest delayed dealing cycle, Scottish Widows shall process payments out within five (5) Business Days of receipt of the completed payment authority form and all required documentation from the authorised party. In respect of payments to Members on retirement, the period of five (5) Business Days referred to in this SLA shall commence from the normal retirement age of the retiring Member.
8	Payments In	97.0	Subject to the completion of the longest delayed dealing cycle, Scottish Widows shall issue confirmation to Members or Trustee Clients that transferred assets have been allocated as at the date of receipt of both payment and complete documentation within five (5) Business Days of receipt.
9	Complaints	0.01	Scottish Widows shall ensure that upheld complaints constitute not more than 1 in every 10,000 (0.01%) lives within the Mercer Platform book on a monthly basis.
10	Helpline	97.0	Scottish Widows shall answer all calls to the Mercer helpline during the hours of 0800 and 1730 Monday to Friday (excluding Bank/Public Holidays).

The administrator has adopted a number of processes to ensure that core transactions are carried out promptly and accurately. These include:

- Daily monitoring of bank accounts,
- A dedicated contribution processing team, and
- Two individuals checking all investment and banking transactions.