

A&P Group Pension Scheme

Statement of Investment Principles – September 2020

Introduction

The Trustees of the A&P Group Pension Scheme (the “Scheme”) have drawn up this Statement of Investment Principles (the “Statement”) to comply with the requirements of the Pensions Act 1995, the Pensions Act 2004, the Occupational Pension Schemes (Investment) Regulations 2005, and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2018 and 2019. The Statement is intended to affirm the investment principles that govern decisions about the investments in the Scheme’s three sections: A&P section; Falmouth section; and Ship Repairers section (the “Sections”). In preparing this Statement the Trustees have consulted A&P GH 2006 (the “Employer”) on the Trustees’ investment principles.

Governance

The Trustees make all major strategic decisions including, but not limited to, each Section’s asset allocation and the appointment and termination of investment managers. The process for making investment decisions is as follows:

- Identify appropriate investment objectives
- Agree the level of risk consistent with meeting the objectives
- Implement an investment strategy and investment manager structure in line with the level of risk and objectives agreed

When making such decisions, and when appropriate, the Trustees take proper advice. The Trustees’ investment consultants, Capita, are qualified by their ability in and practical experience of financial matters, and have the appropriate knowledge and experience to provide such advice.

Investment Objectives

The Trustees are required to invest each Section’s assets in the best interest of members, and their main objectives with regard to investment policy are:

- To achieve, over the long term, a return on each Section’s assets which is consistent with the assumptions made by the Scheme Actuary in determining the funding of each Section;
- To ensure that sufficiently liquid assets are available to meet benefit payments as they fall due; and
- To consider the interests of the Employer in relation to the size and volatility of the Employer’s contribution requirements.

The Trustees understand, following discussions with the Employer, that they are willing to accept a degree of volatility in the company’s contribution requirements in order to reduce the long-term cost of providing each Section’s benefits.

Risk Management and Measurement

The Trustees are aware of and pay close attention to a range of risks inherent in investing the assets of the Scheme. The Trustees believe that the investment strategies adopted for the respective Sections provide adequate diversification both within and across different asset classes. The Trustees further believe that the current investment strategies are appropriate given the liability profiles of the Scheme's three Sections. The Trustees' policy on risk management is as follows:

- The primary investment risk faced by each Section arises as a result of a mismatch between each Section's assets and its liabilities. This is therefore the Trustees' principal focus in setting investment strategy, taking into account the nature and duration of each Section's liabilities.
- The Trustees recognise that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover each Section's liabilities as well as producing more short-term volatility in each Section's funding position. The Trustees have taken advice on the matter and (in light of the objectives noted previously) considered the implications of adopting different levels of risk.
- The Trustees recognise the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustees aim to ensure the asset allocation strategies in place result in adequately diversified portfolios. Due to the size of each Section's assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles.
- The documents governing the managers' appointment include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by each Section.
- The Trustees recognise that, where appropriate, the use of active management involves a risk that the assets do not achieve the expected return. However, they believe this risk is outweighed by the potential gains from successful active management, in particular in regions or asset classes where this potential is greater than others. Therefore, each Section's assets are managed through a mixture of active and passive management which may be adjusted from time to time.
- The safe custody of each Section's assets is delegated to professional custodians via the use of pooled vehicles.

Should there be a material change in the circumstances for any Section, the Trustees will review whether the current risk profile remains appropriate.

Investment Strategy

Given their investment objectives the Trustees have agreed to the investment strategies detailed in Appendix 2. The Trustees believe that the investment risk arising from the investment strategies is consistent with the overall level of risk being targeted.

The Trustees have adopted a dynamic approach to asset allocation. They have set triggers to change the asset allocation as the Self-Sufficiency funding level increases. Full details are contained in a letter of variation signed December 2019. A summary of the triggers is shown in Appendix 1.

The Trustees intend to maintain an on-going programme to reduce investment risk relative to the liabilities of the Scheme's A&P Section and Falmouth Section ('de-risk') over time and at a pace dictated by a combination of investment market conditions and funding levels.

De-risking involves changes to the balance between return seeking assets and liability-matching assets. However the timing and implementation of changes to the target allocation is not fixed but is designed to be dynamic and able to adapt to future market opportunities to accommodate de-risking by the Trustees.

The Trustees believe that the investment strategies and consideration of future de-risking programmes are appropriate for controlling the risks identified and meeting the required level of return to meet the funding objectives.

Expected Return

The Trustees expect the return on assets to be consistent with the investment objectives and investment strategies outlined in Appendix 2 for the A&P Section and the Falmouth section. The Ship Repairers section has implemented a full buy-in of member benefits and so only holds residual cash. The annuities in respect of members are held with Aviva.

The Trustees expect the initial asset allocations of the three Sections to generate net-of-expenses returns, over the long term, above a portfolio of long-dated UK Government bonds (which are considered to change in value in a similar way to each Section's liability value) by the following amounts:

- A&P section; circa 1.35% p.a.
- Falmouth section; circa 2.85% p.a.
- Ship Repairers section; circa 0% p.a. (as residual assets following a full buy-in)

These returns are "best estimates" of future returns that have been arrived at given each Section's initial asset allocation and in the light of advice from the investment consultant. The expected returns are likely to decrease if, and when, the required returns to obtain full funding on a self-sufficiency basis decrease enough to cause a trigger to be reached and return seeking assets to be switched to liability matching assets.

The Trustees recognise that over the short term, performance may deviate significantly from this long term expectation. These "best estimate" returns will also generally be higher than the estimates used for the actuarial valuation of each Section's liabilities on a Technical Provisions basis. For the purpose of setting Technical Provisions a more prudent estimate of returns will generally be used, as agreed by the Trustees on the basis of advice from the Scheme Actuary.

Platform Provider

The Trustees have appointed Legal & General Assurance (Pensions Management) Limited ("LGIM") (the "Platform Provider") to manage all of the assets of the Scheme. The Platform Provider is regulated under the Financial Services and Markets Act 2000. All decisions about the day-to-day management of the assets have been delegated to the Platform Provider via a written agreement, including the realisation of investments.

Investment Mandates

The Trustees have selected Legal & General Investment Management Ltd ("LGIM"), Newton Investment Management Limited ("Newton"), Royal London Asset Management Limited ("RLAM"), Invesco Asset Management Limited ("Invesco"), BMO Global Asset Management ("BMO"), Ninety One plc ("Ninety One") and Capital Group Limited ("Capital") as the appointed Investment Managers (the "Investment Managers") to manage the assets of each Section via individual policies with the Platform Provider. The Investment Managers are themselves regulated under the Financial Services and Markets Act 2000.

The Trustees have rolling contracts with their Investment Managers.

The Trustees monitor the performance of their Investment Managers on a quarterly basis. This monitoring is contained in a report provided by their advisors.

The Trustees have set performance objectives, including time periods, consistent with the investment strategy set out in this statement.

Investment Manager Remuneration

The Trustees monitor the remuneration, including incentives, that is paid to their Investment Managers and how they reward their key staff who manage client funds, along with how the pay and incentives motivate employees who manage client funds.

As part of the monitoring that the Trustees carry out on a regular basis, they should ensure that this policy is in line with their investment strategy.

Investment Manager Philosophy and Engagement

The Trustees monitor the Investment Managers' process for assessing the businesses they invest in, and whether business performance over the medium to long-term involves a holistic look beyond mainly accountancy measures. The Trustees consider if the Investment Managers are incentivised to make decisions on a short-term basis or on a medium to long-term basis and whether this coincides with the business assessments. The Trustees are conscious of whether the Investment Managers are incentivised by the agreement with the Trustees to engage with the investee business and to what extent any engagement focuses on improving medium to long-term performance.

Investment Manager Portfolio Costs

The Trustees will monitor the costs of buying, selling, lending and borrowing investments and they will look to monitor the costs breakdown annually, as long as the Investment Managers provide these costs using the Cost Transparency Initiative template. They will also ensure that, where appropriate, their Investment Managers monitor the frequency of transactions and portfolio turnover. If there are any targets then they will monitor compliance with these targets.

Financially material considerations over the Scheme's time horizon

The Trustees believe that their main duty, reflected in their investment objectives, is to protect the financial interests of the Scheme's members. The Trustees believe that ESG considerations (including but not limited to climate change) and stewardship in the selection, retention and realisation of their investments is an integral part of this duty and can contribute to the generation of good investment returns. Legislation requires that the Trustees form a view of the length of time that they consider is needed for the funding of future benefits by the investments of the Scheme. The Trustees recognise that this is a defined benefit scheme closed to accrual with an ageing membership. Nevertheless, the Trustees believe that an appropriate time horizon for the Scheme could still be over 15 years, which gives plenty of scope for ESG considerations to be financially material.

The Trustees have elected to invest in predominantly pooled funds and cannot, therefore, directly influence the ESG policies, including the day-to-day application of voting rights, of the funds in which they invest. However, the Trustees will consider these policies in all future selections and will seek to deepen their understanding of their existing managers' policies by reviewing these at least annually. In cases where they

are dissatisfied with a manager's approach, they will take this into account when reviewing them. They are also keen that all their managers are signatories of the UN Principles of Responsible Investment, which is currently the case.

The Trustees believe that stewardship is important, through the exercising of rights (including voting rights) attaching to investments. The Trustees are keen that their managers can explain when, and by what practical methods, the managers monitor and engage with relevant persons about relevant matters in this area. They will be liaising with their managers (including their passive managers) to obtain details of the voting behaviour (including the most significant votes cast on the Trustees' behalf). The Trustees are also keen that their managers are signatories of the UK Stewardship Code. This is currently the case.

The Trustees will monitor the voting being carried out by Investment Managers and custodians on their behalf. They will do this by receiving reports from their Investment Managers which should include details of any significant votes cast and proxy services that have been used.

The Trustees are aware that ESG and stewardship considerations involve an ongoing process of education for themselves and engagement with their investment managers. To that end they dedicate time regularly to the discussion of this topic and intend to review and renew their approach periodically with the help of their investment consultants, where required. Consequently, the Trustees expect the Scheme's Investment Managers to have effective ESG policies (including the application of voting rights) in place and look to discuss the investment managers' ESG policies with them when the managers attend Trustee meetings.

Non-financial matters, including members' views are currently not taken into account.

Compliance with Myners' Principles

The Trustees believe that they comply with the spirit of the Myners' Principles. There may be some instances of deviation from the published 'Best Practice Guidance' on the Principles where the Trustees believe this to be justified.

Employer-Related Investments

The Trustees' policy is not to hold any direct employer-related investments as defined in the Pensions Act 1995, the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005.

Fee Structures

The Platform Provider and the Investment Managers are paid a management fee on the basis of assets under management. The investment consultant is paid on a fixed fee basis for providing 'core services'. The Trustees can also request that Capita undertake 'out-of-scope' projects, which may be undertaken on a fixed fee or time-cost basis - as negotiated between the Trustees and Capita.

Review of this Statement

The Trustees will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believe to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

Statement approved and signed on behalf of the Trustees 11 September 2020. The signed copy is held separately on the Scheme's files.

Appendix 1 – Governance Framework for Dynamic De-risking Implementation

A&P Section¹

Triggers (Required return above SS ² p.a.)	Equities %	Diversified Growth %	Corporate Bonds %	Nominal Gilts %	Index Linked Gilts %	Cash %	LDI Real %	LDI Nominal %
Current	15.0	20.0	20.0	20.0	-	5.0	5.0	15.0
0.45%	7.0	15.0	25.0	38.7	-	5.0	4.8	4.5
0.0%	-	10.0	30.0	44.0	10.0	6.0	-	-

¹ Where the Trustees use more than one investment mandate/fund to access a particular asset class they may use discretion when deciding how much to allocate to each fund. In addition, the Trustees may liaise with the investment manager regarding the split between LDI funds as funding improves

² SS is defined as 0.25% p.a. above the gilt curve.

Falmouth Section¹

Triggers (Required return above SS ² p.a.)	Equities %	Emerging Markets Multi Asset %	Equity Linked Bonds %	Diversified Growth %	Corporate Bonds %	Index Linked Gilts %	Nominal Gilts %	Cash %	LDI Real %	LDI Nominal %
Current	30.0	20.0	10.0	20.0	-	-	-	-	10.0	10.0
1.85%	24.0	16.0	8.0	18.0	5.0	2.0	7.0	-	10.0	10.0
1.40%	18.0	12.0	6.0	16.0	10.0	4.0	14.0	-	10.0	10.0
0.90%	12.0	8.0	4.0	14.0	15.0	6.0	21.0	-	10.0	10.0
0.45%	6.0	4.0	2.0	12.0	20.0	8.0	28.0	4.5	9.5	6.0
0.0%	-	-	-	10.0	28.0	10.0	35.0	5.5	9.5	2.0

Appendix 2 – Initial Investment Mandates

The Trustees have appointed the Investment Managers to manage the assets of each Section via the Legal & General investment platform. The Investment Managers are regulated under the Financial Services and Markets Act 2000. Their mandates are set out below:

A & P Group Pension Scheme - A&P Section

Asset Class	Investment Manager	Fund Name	Active / Passive Management	Strategic Allocation %
Return-seeking Asset Types				35.0
Equities	LGIM	Global Equity Fixed Weights (60:40) Index Fund	Passive	15.0
Diversified Growth Funds	Invesco	Global Targeted Returns Fund	Active	10.0
	Newton	Real Return Fund	Active	10.0
Matching Asset Types				65.0
UK Corporate Bonds	LGIM	Active Corporate Bond – Over 10 Year – Fund	Active	6.64
	RLAM	UK Long Corporate Bond Fund	Active	13.36
UK Gilts	LGIM	Over 15 Year Gilts Index Fund	Passive	20.0
LDI	BMO	Short Profile Nominal Dynamic LDI	Passive	15.0
	BMO	Short Profile Real Dynamic LDI	Passive	5.0
Cash	LGIM	Sterling Liquidity Fund	Active	5.0

A & P Group Pension Scheme - Falmouth Section

Asset Class	Investment Manager	Fund Name	Active / Passive Management	Strategic Allocation %
Return-seeking Asset Types				80.0
Equities	LGIM	Global Equity Fixed Weights (60:40) Index Fund	Passive	30.0
Diversified Growth Funds	Invesco	Global Targeted Returns Fund	Active	10.0
	BNY Mellon	Real Return Fund	Active	10.0
Equity Linked Bond Funds	BMO	UK Equity Linked UK Gilt Fund	Passive	5.0
	BMO	Overseas Equity Linked UK Gilt Fund	Passive	5.0
Emerging Market Multi Asset	Capital	Emerging Markets Total Opportunities Fund	Active	10.0
	Ninety One	Emerging Markets Multi-Asset Fund	Active	10.0
Matching Asset Types				20.0
LDI	BMO	Short Profile Nominal Dynamic LDI	Passive	10.0
	BMO	Short Profile Real Dynamic LDI	Passive	10.0

A & P Group Pension Scheme – Ship Repairers Section (excludes buy-out)

Asset Class	Investment Manager	Fund Name	Active / Passive Management	Strategic Allocation %
Matching Asset Types				100
Cash	LGIM	Sterling Liquidity Fund	Active	100