

**THE PENSION AND LIFE ASSURANCE PLAN OF SANDERSON SYSTEMS
LIMITED (the "Plan")**

STATEMENT OF INVESTMENT PRINCIPLES

Introduction

This statement sets out the principles governing decisions about the investment of the assets of the Plan. The Trustees of the Plan ("the Trustees") have prepared this statement to comply with section 35 of the Pensions Act 1995 and the Occupations Pension Schemes (Investment) Regulations 2005 (2005/3378) as amended ("Investment Regulations").

Before preparing this statement, the Trustees have:

- a. obtained and considered the written advice of a person who is reasonably believed by the Trustees to be qualified by his ability and practical experience of financial matters and to have the appropriate knowledge and experience of the management of the investments of occupational pension schemes; and
- b. consulted the employer in relation to the Plan.

This statement will be reviewed at least every three years and without delay after any significant change in investment policy.

The assets of the Plan are solely invested in a Group Pension Contract held with Clerical Medical (a trading name of Scottish Widows Limited), which is a 'wholly insured contract'. The Plan is a "wholly-insured" scheme for the purposes of regulation 8 of the Investment Regulations and the Trustees do not consider that Clerical Medical is an "asset manager" for the purposes of Regulation 2(3)(d) of the Investment Regulations and therefore this statement is required to cover:

- a. the Trustees' policy for compliance with the requirements of section 36 of the Pensions Act 1995 (*choosing investments*); and
- b. the reasons for the Plan being a wholly-insured scheme

The Trustees' policy for compliance with the requirements of section 36 of the Pensions Act 1995 (*choosing investments*)

The Trustees policy for compliance with the requirements of section 36 of the Pensions Act 1995 (*choosing investments*) is as follows.

- 1. In relation to investing in the Group Pension Contract, the Trustees have considered and where appropriate taken advice on whether the Group Pension Contract is satisfactory having regard to the requirements of the Investment Regulations, so far as relating to the suitability of the investment and to the principles contained in this statement.
- 2. The Trustees have determined at what intervals the circumstances, and in particular the nature of the investment, make it desirable to obtain the advice referred to in paragraph 1 above going forward and will obtain and consider such advice accordingly.

The reasons why the Plan is a wholly-insured scheme

The Trustees consider the Group Pension Contract to be a suitable investment vehicle for a small fund and therefore the reasons why the Plan is a wholly-insured scheme are as follows.

1. In administrative terms the Group Pension Contract operates like a bank deposit account - contributions are paid into a 'pool' and money is taken from that pool to provide benefits as and when required. Until the time when provision of benefits becomes necessary there is no specific allocation in respect of any one member. This approach obviates the need for a re-allocation of monies if events do not proceed as planned; for example, in the case of early retirements and leavers, when benefits may be provided earlier than anticipated.
2. The contributions paid to the Group Pension Contract are invested in Clerical Medical's With-Profits Fund. The aim of the fund is to generate capital growth over the medium to long term (at least 5 years), with some stability over the short term. This ties in with the three main features of with-profits investment which are:
 - Investment in a mix of assets, including company shares
 - Smoothing of the investment performance to reduce the investment risk
 - An element of guaranteed investment performance
3. The investment performance of different types of asset can vary considerably, reflecting what is happening in the economy. Clerical Medical change the asset mix as their view of the economy and the likely future performance changes. In times of uncertainty, stock markets are volatile and Clerical Medical may sometimes need to reduce the amount of higher risk assets such as equities and property to be sure that the fund can meet its guarantees.

Table of asset split for the CM With-Profits Fund as at end Q4 2019

Fixed Interest UK	
(a) UK Government Bonds	4.3%
(b) UK Corporate Bonds	18.2%
Fixed Interest OS	0.6%
Property	13.7%
Equity Shares	
(a) UK shares	18.9%
(b) Non-UK shares	21.9%
(c) unlisted shares	0.0%
Other investments	
Index Linked	0.0%
Cash	5.1%
Absolute Return Fund	12.9%
Insight LIBOR Plus Fund	2.0%
CRE	2.4%
Totals	100.0%

4. The With-Profits contract utilises the guaranteed annuity rates under the Group Pension Contract for members who joined before 1 July 2001. These are only specified for single life annuities which do not increase in payment, however, the underlying basis can be used to determine the guaranteed rates that apply for pensions which do increase in payment and/or reversionary pensions.

For the Plan, the applicable rate of increases for pensions in payment is 5% per annum. Included in the table below for comparison are the annuity rates both for pensions which do not increase and for those which increase at 5% per annum. The single life annuity rates are expressed as the amount of pension that would be purchased for £100, whilst, the reversionary factors are the cost of securing £1 of reversionary pension. All figures shown are for members retiring at age 65 at 1 July 2020, and are referred to as current annuity rates (CAR). These guaranteed annuity rates (GARs) are very attractive for securing the annuities of members as they reach retirement:

		GARs		CARs	
		0%	5%pa	0%	5%pa
Male	Annuity Rate	Not Required	4.23	4.48	2.14
	Reversionary Factor	Not Required	13.74	7.27	27.14
Female	Annuity Rate	Not Required	3.54	4.04	1.84
	Reversionary Factor	Not Required	3.12	1.97	6.03

5. Clerical Medical are regulated by the Prudential Regulation Authority and the Financial Conduct Authority (FCA) and are covered by the Financial Services Compensation Scheme.
6. Although not strictly an investment issue, the Trustees are able to take advantage at a competitive price of Clerical Medical's bundled services for administration, investment and actuarial services by using the With-Profits contract. Clerical Medical's administrative, actuarial and investment expenses are not charged for explicitly, but are allowed for in the yield payable. The yield under the Group Pension Contract is paid in the form of a declared rate of interest, which is applied to the amount that stands to the credit of the contract. The yield does not follow immediate fluctuations in the stock market but emerges in a steady manner to reflect the long-term performance of the investments. The amount available on surrender of the contract will depend on market conditions at the time and the amount, if any, being distributed from the excess assets of the estate of the With-Profits Fund and may be higher or lower than the face value of the contract.
7. Clerical Medical are committed to being responsible investors on behalf of their customers, whether through the investments they make directly, the mandates they have in place with their Fund Managers or through their position as an asset owner. They have a strong emphasis not only on governance within their own company but also on fund governance and this influences their assessment of Fund Managers and Investment Partners. Most importantly, they recognise that their role is to keep people's money safe and deliver good retirement outcomes. Members need to know that material financial risks and opportunities linked to environmental, social and governance issues have been addressed.

Clerical Medical are committed to developing a better understanding of Sustainable Investment so that customers can make informed choices that may help secure a future worth living in. However, their customers are clear that whilst they should adapt

and improve their investment strategy, this should only be done where it is not detrimental to overall returns.

At Clerical Medical they believe that all companies have an important role to play on ESG. Their approach is therefore to broadly favour an Engagement Model and this is in line with the approaches adopted by their key Asset Manager partners. They believe their scale and expertise has the potential to positively influence Investee companies to make changes where necessary. In addition, access to investment is vital for those companies looking to make improvements to their operations. Influencing a company, from their role as an investor, is much more likely where it is clear that they are prepared to invest in them in the right circumstances than if they have an automatic exclusion.

As a signatory to the UN PRI, Scottish Widows committed to having more than 50% of AUM with ESG issues incorporated into their investment strategy by the end of 2019, thus demonstrating an input led approach. They have made significant improvements in this regard and have reached 58% of total AUM as at November 2018 (having been at 10% initially) which is strong evidence of the ESG approach taken to their direct and delegated investment activity.

Within this they have confirmed that 100% of the equity assets managed within their With-Profits funds meet the UN PRI standard for ESG.

AVCs

The Plan has a small number of Additional Voluntary Contributions (AVC) members who no longer pay any contributions. The policies are held with Clerical Medical. The attention of the members has been drawn to the need to continue to monitor the AVC investment performance to ensure they meet with each member's requirements.

Chair of the Trustees
September 2020