# 2017 Stannah Pension Scheme

# Chair's statement regarding the governance of defined contribution arrangements

# Scheme year - 1 January 2021 to 31 December 2021

## 1. Introduction

1.1. This statement has been prepared by the Trustees of the 2017 Stannah Pension Scheme ("the Scheme"), to report on compliance with governance standards.

1.2. The statement covers six key areas:

- The investment strategy in relation to the Scheme's default investment arrangement;
- The net investment returns for the Scheme's investment options;
- The processing of core financial transactions;
- Charges and transaction costs within the Scheme;
- Value for members assessment; and,
- The Trustees' compliance with statutory knowledge and understanding requirements.

1.3. The governance standards apply to defined contribution (DC) arrangements and are designed to help members achieve good outcomes from their pension savings.

1.4. This statement covers the Scheme Year 1 January 2021 to 31 December 2021.

1.5. A copy of this statement will be included in the Scheme's Annual Report and Accounts and will be published on a publicly available website https://www.stannah.com/stannah-pension-governance/.

1.6 This statement does not contain advice in respect of actions that members should take and it 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 Helper website at https://www.moneyhelper.org.uk/en/pensions-and-retirement/taking-your-pension/find-a-retirement-adviser.

## 2. The Scheme's DC arrangements

2.1. The Scheme is a hybrid scheme with a defined benefit (DB) and DC section. The DC arrangements considered for this statement comprise:

2.1.1. The Scheme's benefits, arising from standard contributions and additional voluntary contributions (AVCs) to the DC section.

2.1.2. The AVC funds in respect of the DB section benefits.

2.2. All of the DC arrangements are administered by Scottish Widows.

2.3. The DC section is a Qualifying Scheme for auto-enrolment purposes and is open to future contributions. The DB section is closed to future accrual and therefore no further AVCs in respect of the DB section can be paid.

## 3. Default investment arrangements

3.1. The Scheme had taken advice regarding the default investment strategy with a full review undertaken during 2021. A presentation of the investment recommendation advice was delivered by the investment consultant at a Trustee meeting on 26 April 2021 with the summary of the final advice being presented to the Trustees in a letter dated 13 July 2021. Further to this review it was agreed to implement a change to the default investment strategy under the Scheme.

3.2. As the implementation to change the default strategy commenced during 2021, the Scheme has had two default investment arrangements over the reporting period for the purposes of the governance standards:

3.2.1. The Annuity Lifestyle Profile Strategy ("the Old Default"), which was used as the default prior to 8 November 2021; and

3.2.2. The Drawdown Lifestyle Strategy ("the New Default"), which is the default investment arrangement used for auto-enrolment purposes at the end of the period.

## The Old Default

3.3. Prior to 8 November 2021, the Scheme's default investment arrangement was the Old Default.

3.4. This was designed for those members intending to buy an income for life (known as annuity) and take the maximum amount of tax-free cash at retirement. Historically this was how most members accessed their funds at retirement, but it may not be suitable for those who do not intend to take their retirement savings in this way.

3.5. The Old Default:

3.5.1. Was designed to reduce exposure to investment risk in the later years of membership, aiming to help the member invest appropriately given the way in which benefits were likely to be taken.

3.5.2. Invested entirely in the Scottish Widows Newton Global Balanced CS1 Fund until a member was in the five years from their retirement age.

3.5.3. Gradually switched members' investments in the five years prior to retirement age, so members had a 75% allocation to L&G's Pre-Retirement Fund and a 25% allocation to the BlackRock Sterling Liquidity Fund.

3.6. It was agreed that members would still be offered the choice of retaining the Old Default on an opt-out basis. Members close to retirement (i.e. within 5 years) would not be transitioned to the New Default, although they have the option to do so. The Old Default will continue to be considered a default for the purposes of governance standards.

## The New Default

3.7. The New Default was implemented as the Scheme's default investment arrangement from 8 November 2021, in which all future contributions, as well as those previously invested in the Old Default, would be invested.

3.8. It was designed for a typical Scheme member, who the Trustees believe will be likely to take 25% of their pot as tax free cash, and draw down on the remainder of their savings, taking a flexible income in retirement (albeit through another arrangement outside the Scheme).

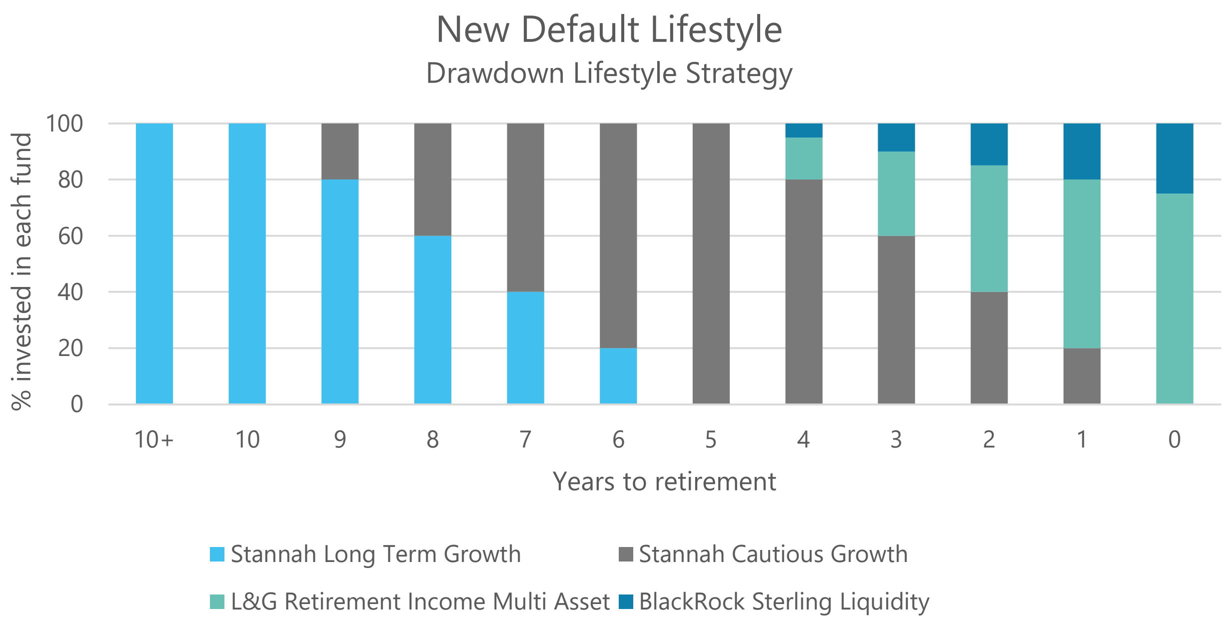
3.9. A phased transition from November 2021 to May 2022 saw the assets move to the New Default.

3.10. The New Default:

3.10.1. Was designed to reduce exposure to investment risk in the later years of membership, aiming to help the member invest appropriately given the way in which benefits are likely to be taken.

3.10.2. Invests entirely in the Stannah Long Term Growth Fund until a member is in the ten years from their retirement age. The Stannah Long Term Growth Fund is what is known as a "white labelled", blended fund created by the Trustees and designed to grow members' assets.

3.10.3. Gradually switches members' investments in the ten years prior to retirement age, firstly into the Stannah Cautious Growth Fund (another "white labelled", blended fund with a greater allocation to lower risk assets (relative to the Stannah Long Term Growth Fund), then to L&G's Retirement Income Multi Asset Fund and the BlackRock Sterling Liquidity Fund, which will have a 75% and 25% allocation at retirement age respectively. We provide an overview of the switching in the graph below.




## Technical Default

3.11. The Trustees note that at the time of transition of investments in 2017, 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. 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.

## Aims and objectives of the New Default

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

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

### Review of the default arrangements

3.14. As noted above the Trustees undertook a review of the Old Default investment strategy and its performance. The review formally concluded during the reporting period with final advice being presented in a letter dated 13 July 2021. It took into account the historic performance of the Old Default as well as understanding the membership profile, fund sizes, contribution levels, investment, and benefit withdrawal patterns.

3.15. The outcome of the review was to implement a new default investment strategy which takes a more diversified, 'multi-phase' approach and changing the expected retirement benefit to better reflect members' expected retirement behaviour, aiming to achieve a comfortable level of retirement income. We provided more detail on the New Default above.

3.16. Further details of the default are set out in the attached 'statements of investment principles' ("SIPs"). Given the change in investments during the period, there are two SIPs attached which provide details of the default before and after the changes were implemented. These cover the investment policy in relation to the entire Scheme.

3.17. Over the period the Trustees and their professional advisers, Mercer Limited (during the period covered by this statement), reviewed how the funds under the Scheme (within the Old Default and self-select options) performed against the investment managers' objectives and benchmarks at both Trustee meetings and via the quarterly investment updates.

## 4. Net investment returns

4.1. This section states the annual return, after the deduction of member borne charges and transaction costs, for all default arrangements and investment options that members are able, or were previously able, to select and in which members' assets were invested during the Scheme Year. When preparing this section of the statement the Trustees have taken account of the relevant statutory guidance.

4.2. For the arrangements where the investment returns vary with age, such as for the default strategies and for the alternative lifestyle strategies, the investment returns are shown over various periods to the end of the Scheme year for a member aged 25, 45 and 55 at the start of the period the returns are shown over.

### Default Strategy – The Drawdown Lifestyle Strategy

The default lifestyle strategy, along with the share classes of some other funds utilised in its construction, were launched during the reporting period. As such, we are unable to report on net investment returns for a period to 31 December 2021 as the funds were not in existence.

### Self-Select funds

| Fund | Annualised returns to 31 December 2021 | | |
|---|---|---|---|
| | 1 year | 3 years (p.a.) | 5 years (p.a.) |
| Stannah Cautious Growth Fund | n/a* | n/a* | n/a* |
| Stannah Long Term Growth Fund | n/a* | n/a* | n/a* |
| SW Artemis Global Capital CS1 | 23.52% | 13.35% | 9.85% |
| SW Baillie Gifford UK Equity CS1 | 15.85% | 10.98% | 7.93% |

| Fund | Annualised returns to 31 December 2021 | | |
|---|---|---|---|
| | 1 year | 3 years (p.a.) | 5 years (p.a.) |
| SW BlackRock Sterling Liquidity CS1 | -0.13% | 0.23% | 0.26% |
| SW BNY Mellon Global Balanced CS1 | 17.22% | 13.69% | 9.69% |
| SW BNY Mellon Global Equity CS1 | 20.38% | 18.54% | 12.58% |
| SW BNY Mellon UK Equity CS2 | 16.53% | 8.82% | n/a* |
| SW L&G 30/70 Global Equity Index Currency Hedged CS1 | 20.06% | 16.19% | 10.88% |
| SW L&G Pre-Retirement CS1 | -5.03% | 5.76% | 3.68% |
| SW LGIM Retirement Income Multi Asset CS1 | 6.24% | n/a* | n/a* |
| SW MFS Meridian Global Equity CS1 | 18.85% | 17.86% | 12.09% |
| SW Schroder Diversified Growth CS1 | 7.40% | 8.42% | 5.12% |
| SW Standard Life Corporate Bond CS1 | -3.59% | 4.60% | 3.29% |

*Net investment returns are not available for these funds as they have not been in existence for the reported periods.

4.3. In view of the reported net investment returns as well as the more frequent reviews of investment performance against their set benchmarks and objectives which occurred throughout the period, the Trustees are comfortable with the performance of the funds generally, especially the BNY Mellon Global Balanced fund (which forms a significant proportion of the default strategy), albeit a few of the self-select options have underperformed their benchmark. These will continue to be carefully monitored by the Trustees on an ongoing basis.

## 5. Core financial transactions

5.1. The Trustees have a duty to ensure that 'core financial transactions' are processed promptly and accurately.

5.2. Core financial transactions comprise the following:

- investment of contributions;
- transfers into and out of the Scheme;
- investment switches within the Scheme;
- payments out of the Scheme.

5.3. Over the course of the year, the administration functions for the DC arrangements, including core financial transactions were undertaken on behalf of the Trustees by Scottish Widows.

## Controls and monitoring arrangements

5.4. The controls in place in relation to ensuring the promptness and accuracy of core financial transactions are:

5.4.1. The Trustees have a Service Level Agreement (SLA) in place with the administrator, Scottish Widows. The SLA sets out the timeline standards expected for each step of the Scheme's main administration tasks, including core financial transactions. The administrator aims to process at least 97% of core financial transactions within the service level for each type of transaction – the service levels which applied during the period are set out in Item B attached to this Statement.

5.4.2. The Trustees receive quarterly reports on performance against the SLA and review the latest report at each trustee meeting.

5.4.3. In terms of accuracy, the administrator works to set controls and processes, which include daily monitoring of bank accounts, a dedicated contribution processing team, and two individuals checking all investment and banking transactions

5.4.4. Additional measures that help to monitor the accuracy of core financial transactions are the external audit of the Scheme's annual report and accounts and the administrator's annual checks on data quality.

5.4.5. 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 2021 (published in March 2022) 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.

5.4.6. Any material issues uncovered regarding inaccuracies with core financial transactions are included within the administrator's quarterly reporting to the Trustees.

## Performance during the Scheme Year

5.5. The Trustees received quarterly reports from the administrator during the Scheme Year and were broadly satisfied with the performance against the SLA. Several SLAs continued to underperform similar to the prior reporting period, namely SLA 6 General Enquiries, SLA 7 Payments Out, and SLA 10 Helpline.

5.6. The monthly performance against SLAs for the core financial transactions during 2021 were 100% in respect of contribution processing, investment transactions and transfers in. With regard to payments out, SLA7, this only achieved 100% in 5 months with the other 7 months showing poor performance against target.

5.7. The Trustees discussed this poor performance with Scottish Widows and action was taken by the Administrator to improve the position. Performance against target was back on track by the end of the period with the service improving to 100% throughout Q4 2021.

5.8. The Trustees were advised that Scottish Widows provided training to their staff and implemented strategic changes to improve overall performance. Their internal team has grown by 26% over the period and processes have been revised to reduce the waiting time for payments of retirement funds. Due to this, the standard of the aforementioned SLAs improved towards the end of the Scheme Year.

5.9. 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 2021 confirmed a Common Data score of 99.1% and Conditional Data score of 99.2%.

5.10. Neither the administrator's quarterly reports nor the audit of the annual report and accounts identified material issues with the accuracy of core financial transactions.

### Assessment

5.11. In view of the controls and monitoring arrangements, and the lack of material issues experienced during the Scheme Year, the Trustees believe that core financial transactions have been processed promptly and accurately, with no material administration errors.

## 6. Member-borne charges and transaction costs

6.1. Members bear charges and transaction costs, which will differ depending on the investment options in which their pension savings are invested:

6.1.1. Charges: these are expressed as a percentage of the value of a member's holdings within an investment fund, and can be made up of a combination of charges, e.g. annual management charge and additional expenses. We refer to the total annual charge as the Total Expense Ratio (TER).

6.1.2. Transaction costs: these relate to the variable costs incurred within an investment fund arising from the trading activities of the fund, e.g. incurred in the buying and selling of securities, which are not accounted for in the TER charge.

### Charges in relation to the DC Section

6.2. The following table shows details of the charges and transaction costs for each of the investment options provided through the DC Section over the scheme year (data sourced from Scottish Widows):

| Investment option | TER (p.a.) | Transaction costs (p.a.) |
|---|---|---|
| Drawdown Lifestyle Strategy (New Default)* | 0.368% - 0.662% | 0.012% - 0.093% |
| Pre 2021 Annuity Lifestyle Strategy (Old Default)* | 0.236% - 0.68% | 0.012% - 0.104% |
| Annuity Lifestyle Strategy* | 0.236% - 0.662% | 0.013% - 0.093% |
| The Cash Lifestyle Strategy* | 0.21% - 0.662% | 0.015% - 0.093% |
| Stannah Cautious Growth Fund | 0.59% | 0.058% |
| Stannah Long Term Growth Fund | 0.662% | 0.093% |
| SW Artemis Global Capital CS1 | 0.98% | 0.860% |
| SW Baillie Gifford UK Equity CS1 | 0.60% | 0.077% |
| SW BlackRock Sterling Liquidity CS1 | 0.21% | 0.015% |
| SW BNY Mellon Global Balanced CS1 | 0.68% | 0.104% |
| SW BNY Mellon Global Equity CS1 | 0.73% | 0.034% |
| SW BNY Mellon UK Equity CS2 | 0.72% | 0.105% |
| SW L&G 30/70 Gbl Equity Ind Currency Hdg CS1 | 0.253% | 0.036% |
| LGIM Retirement Income Multi Asset | 0.42% | 0.011% |
| SW L&G Pre-Retirement CS1 | 0.245% | 0.012% |
| SW MFS Meridian Global Equity CS1 | 0.84% | 0.041% |
| SW Schroder Diversified Growth CS1 | 0.77% | 0.351% |
| SW Standard Life Corporate Bond CS1 | 0.49% | 0.054% |

* The quoted charges and transaction costs for each lifestyle strategy are calculated as a composite of the underlying fund charges and transaction costs – for the default strategies these are shown in the tables below. These fund holdings and therefore also charges will vary depending upon each member's term to retirement age.

### Pre 2021 Annuity Lifestyle (Old Default)

| Fund name | Term to Target Retirement Date (years) | | | | | |
|---|---|---|---|---|---|---|
| | 5+ | 4 | 3 | 2 | 1 | 0 |
| **Newton Global Balanced** | 100% | 80% | 60% | 40% | 20% | 0% |
| **L&G Pre-retirement** | 0% | 15% | 30% | 45% | 60% | 75% |
| **BlackRock Sterling Liquidity** | 0% | 5% | 10% | 15% | 20% | 25% |
| **TOTAL** | 100% | 100% | 100% | 100% | 100% | 100% |
| **Weighted TER (%p.a.)** | **0.680** | **0.591** | **0.503** | **0.414** | **0.325** | **0.236** |

### Drawdown Lifestyle Strategy (New Default)

| Fund name | Term to Target Retirement Date (years) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 10+ | 9 | 8 | 7 | 6 | 5 | 4 | 3 | 2 | 1 | 0 |
| **Stannah Long Term Growth** | 100% | 80% | 60% | 40% | 20% | 0% | 0% | 0% | 0% | 0% | 0% |
| **Stannah Cautious Growth** | 0% | 20% | 40% | 60% | 80% | 100% | 80% | 60% | 40% | 20% | 0% |
| **L&G Retirement Income Multi Asset** | 0% | 0% | 0% | 0% | 0% | 0% | 15% | 30% | 45% | 60% | 75% |
| **BlackRock Sterling Liquidity** | 0% | 0% | 0% | 0% | 0% | 0% | 5% | 10% | 15% | 20% | 25% |
| **TOTAL** | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| **Weighted TER (%p.a.)** | **0.662** | **0.648** | **0.633** | **0.619** | **0.604** | **0.590** | **0.546** | **0.501** | **0.457** | **0.412** | **0.368** |

## Impact of costs and charges

6.3. To demonstrate the impact of member-borne charges and transaction costs on the value of members' pension savings, the Trustees set out below illustrations in accordance with statutory guidance, which have been produced by Scottish Widows. These show the impact of charges and transaction costs for representative cross-sections of the membership and investment options.

### *Parameters used for the illustrations*

6.4. The membership of the Scheme and the investment options offered were analysed in determining the parameters to be used.

6.4.1. Pot size: initial pot size of £13,000 has been used.

6.4.2. Active members and deferred members: illustrations have been provided for active members assuming total regular contributions of £250pm, and for deferred members assuming no future contributions. Contributions are assumed to grow at 2.5% per year.

6.4.3. Timeframe: the illustrations are shown over a time frame appropriate to cover the approximate duration that the youngest member would take to reach retirement age.

6.4.4. Investment options: the investment options selected for the illustrations include the most popular by number of members (the Default), the highest charged fund, the lowest charge fund, the fund with the highest assumed net investment return and the fund with the lowest assumed investment return.

| Investment option | Rationale for inclusion | Assumed return above inflation* | TER | Transaction cost** |
|---|---|---|---|---|
| Drawdown Lifestyle Strategy (New Default) | Default strategy and most popular choice | Please see tables below | 0.38% - 0.40% | 0.27% - 0.29% |
| SW BlackRock Sterling Liquidity CS1 | Lowest Charge | -2.00% | 0.420% | 0.052% |
| SW L&G (30/70) Global Equity Index Currency Hedged Fund | Highest assumed net investment return | 1.90% | 0.204% | 0.036% |
| SW LGIM Retirement Income Multi Asset | Lowest assumed investment return | -2.00% | 0.125% | 0.002% |
| SW Artemis Global Capital | Highest charge | 2.70% | 0.600% | 0.536% |

* *Projected growth rates, gross of costs and charges, for each investment option are in line with the Statutory Money Purchase Illustrations (SMPIs).*

** *The statutory guidance requires trustees to use an average of the last five years' transaction costs (insofar as they are able) when producing the illustrations. As we have data for the last two years only, the figures are two year averages.*

## *Guidance to the illustrations*

6.5.1 For each illustration, the savings pot has been projected twice: firstly for the assumed investment return gross of costs and charges; and secondly for the assumed investment return net of costs and charges.

6.5.2 Projected pot sizes are shown in today's terms, so do not need to be reduced further for the effects of future inflation. Inflation is assumed to remain constant throughout the term of the illustrations, at 2.5% per year.

6.5.3 Values shown are estimates and not guaranteed and are rounded to the nearest £100.

6.5.4 The starting date for the illustrations is 31 December 2021.

6.5.5 The illustrations are presented in two different ways:

6.5.5.1 For the default, a lifestyle strategy, the illustrations should be read based on the number of years until the member reaches their retirement age. This is because the underlying funds used and therefore the costs and charges change over time and this is reflected in the illustrations.

6.5.5.2 For the self-select funds, the illustrations should be read based upon the number of future years that a member expects to be invested in those funds

## *The Default Lifestyle Strategy*

6.6. This is based on the New Default strategy (the Drawdown Lifestyle Strategy) for the Scheme and the most popular choice by number of members. The table below outlines the projections for active members of the Scheme.

6.7. Note on how to read this table: If an active member aged 55 had £13,000 invested in this option on 31 December 2021, when they came to retire in 10 years, the savings pot could grow to £42,100 (in today's monetary terms) if no charges are applied but to £40,600 with charges applied.

| Years | Age now 60 | | Age now 55 | | Age now 45 | | Age now 35 | | Age now 16 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Before charges | After charges | Before charges | After charges | Before charges | After charges | Before charges | After charges | Before charges | After charges |
| 1 | 15,900 | 15,900 | 16,100 | 16,000 | 16,100 | 16,000 | 16,100 | 16,000 | 16,100 | 16,000 |
| 3 | 21,700 | 21,400 | 22,500 | 22,100 | 22,700 | 22,200 | 22,700 | 22,200 | 22,700 | 22,200 |
| 5 | 26,900 | 26,400 | 28,800 | 28,800 | 29,400 | 28,600 | 29,400 | 28,600 | 29,400 | 28,600 |
| 10 | | | 42,100 | 40,600 | 47,100 | 44,800 | 47,100 | 44,800 | 47,100 | 44,800 |
| 15 | | | | | 64,800 | 60,500 | 66,300 | 61,700 | 66,300 | 61,700 |
| 20 | | | | | 76,900 | 71,100 | 87,000 | 79,300 | 87,000 | 79,300 |
| 25 | | | | | | | 106,000 | 95,600 | 109,000 | 97,600 |
| 30 | | | | | | | 117,000 | 104,000 | 133,000 | 116,000 |
| 35 | | | | | | | | | 159,000 | 136,000 |
| 49 | | | | | | | | | 214,000 | 174,000 |

6.8. The table below outlines the projections for deferred members of the Scheme

6.9. Note on how to read this table: If a deferred member aged 55 had £13,000 invested in this option on 31 December 2021, when they came to retire in 10 years, the savings pot could grow to £13,200 (in today's monetary terms) if no charges are applied but to £12,400 with charges applied.

| Years | Age now 60 | | Age now 55 | | Age now 45 | | Age now 35 | | Age now 16 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Before charges | After charges | Before charges | After charges | Before charges | After charges | Before charges | After charges | Before charges | After charges |
| 1 | 13,000 | 12,900 | 13,100 | 13,000 | 13,200 | 13,100 | 13,200 | 13,100 | 13,200 | 13,100 |
| 3 | 12,900 | 12,600 | 13,400 | 13,200 | 13,600 | 13,300 | 13,600 | 13,300 | 13,600 | 13,300 |
| 5 | 12,500 | 12,200 | 13,600 | 13,200 | 14,000 | 13,500 | 14,000 | 13,500 | 14,000 | 13,500 |
| 10 | | | 13,200 | 12,400 | 15,100 | 14,000 | 15,100 | 14,000 | 15,100 | 14,000 |
| 15 | | | | | 15,900 | 14,300 | 16,400 | 14,600 | 16,400 | 14,600 |
| 20 | | | | | 15,400 | 13,400 | 17,700 | 15,200 | 17,700 | 15,200 |
| 25 | | | | | | | 18,600 | 15,400 | 19,100 | 15,800 |
| 30 | | | | | | | 18,000 | 14,500 | 20,600 | 16,400 |

| | | | |
|---|---|---|---|
| 35 | | 22,300 | 17,100 |
| 49 | | 24,100 | 16,900 |

6.10. The investment return assumptions for active and deferred members in the New Default are given below:

| Active | | | Deferred | | |
|---|---|---|---|---|---|
| Years to retirement | Projected Growth Rate (Average) | | Years to retirement | Projected Growth Rate (Average) | |
| 1 | 1.80% | Below Inflation | 1 | 1.80% | Below Inflation |
| 3 | 1.30% | Below Inflation | 3 | 1.30% | Below Inflation |
| 5 | 0.90% | Below Inflation | 5 | 0.80% | Below Inflation |
| 10 | 0.20% | Below Inflation | 10 | 0.10% | Above Inflation |
| 15 | 0.20% | Above Inflation | 15 | 0.60% | Above Inflation |
| 20 | 0.50% | Above Inflation | 20 | 0.80% | Above Inflation |
| 25 | 0.70% | Above Inflation | 25 | 0.90% | Above Inflation |
| 30 | 0.80% | Above Inflation | 30 | 1.00% | Above Inflation |
| 35 | 0.90% | Above Inflation | 35 | 1.10% | Above Inflation |
| 49 | 1.10% | Above Inflation | 49 | 1.20% | Above Inflation |

## Self-Select Funds Fund

6.11. Please see the table under 6.4 for the reasoning as to why the funds below have been selected. The table below outlines the projections for active members of the Scheme.

6.12. Note on how to read this table: If an active member had £13,000 invested in the SW Artemis Global Capital fund on 31 December 2021, after 10 years of membership, the savings pot could grow to £51,100 (in today's monetary terms) if no charges are applied but to £45,200 with charges applied.

| Years | SW BlackRock Sterling Liquidity CS1 | | SW L&G 30/70 Global Equity Ind Currency Hedged CS1 | | SW LGIM Retirement Income Multi Asset CS1 | | SW Artemis Global Capital CS1 | |
|---|---|---|---|---|---|---|---|---|
| | Before charges | After charges | Before charges | After charges | Before charges | After charges | Before charges | After charges |
| 1 | 15,600 | 15,600 | 16,200 | 16,200 | 15,600 | 15,600 | 16,300 | 16,000 |
| 3 | 20,800 | 20,700 | 22,900 | 22,700 | 20,800 | 20,600 | 23,300 | 22,300 |
| 5 | 25,900 | 25,600 | 29,800 | 29,500 | 25,900 | 25,500 | 30,700 | 28,700 |
| 10 | 37,600 | 37,000 | 48,500 | 47,500 | 37,600 | 36,600 | 51,100 | 45,200 |
| 15 | 48,200 | 47,200 | 69,000 | 67,100 | 48,200 | 46,400 | 74,500 | 62,400 |
| 20 | 57,800 | 56,400 | 91,700 | 88,500 | 57,800 | 55,200 | 101,000 | 80,500 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 25 | 66,500 | 64,600 | 116,000 | 111,000 | 66,500 | 62,900 | 132,000 | 99,400 |
| 30 | 74,500 | 72,000 | 144,000 | 136,000 | 74,500 | 69,800 | 167,000 | 119,000 |
| 35 | 81,700 | 78,600 | 174,000 | 164,000 | 81,700 | 75,900 | 208,000 | 139,000 |

6.13. The table below outlines the projections for deferred members of the Scheme.

6.14. Note on how to read this table: If an active member had £13,000 invested in the SW Artemis Global Capital fund on 31 December 2021, after 10 years of membership, the savings pot could grow to £17.100 (in today's monetary terms) if no charges are applied but to £14,200 with charges applied

| Years | SW BlackRock Sterling Liquidity CS1 | | SW L&G 30/70 Gbl Equity Ind Currency Hdg CS1 | | SW LGIM Retirement Income Multi Asset CS1 | | SW Artemis Global Capital CS1 | |
|---|---|---|---|---|---|---|---|---|
| | Before charges | After charges | Before charges | After charges | Before charges | After charges | Before charges | After charges |
| 1 | 12,700 | 12,700 | 12,700 | 12,700 | 12,700 | 12,700 | 12,700 | 12,700 |
| 3 | 12,200 | 12,100 | 13,700 | 13,600 | 12,200 | 12,100 | 14,100 | 13,300 |
| 5 | 11,700 | 11,600 | 14,300 | 14,100 | 11,700 | 11,500 | 14,900 | 13,600 |
| 10 | 10,600 | 10,400 | 15,800 | 15,300 | 10,600 | 10,200 | 17,100 | 14,200 |
| 15 | 9,700 | 9,380 | 17,400 | 16,700 | 9,700 | 9,090 | 19,600 | 14,900 |
| 20 | 8,800 | 8,410 | 19,200 | 18,100 | 8,800 | 8,070 | 22,500 | 15,500 |
| 25 | 7,980 | 7,540 | 21,200 | 19,700 | 7,980 | 7,160 | 25,800 | 16,300 |
| 30 | 7,240 | 6,760 | 23,400 | 21,500 | 7,240 | 6,360 | 29,600 | 17,000 |
| 35 | 6,560 | 6,070 | 25,900 | 23,400 | 6,560 | 5,640 | 34,000 | 17,800 |

## Value for members

6.15. The Trustees are required to assess annually the extent to which the charges and transaction costs borne by members represent good value.

6.16. Analysis was undertaken by the Trustee's professional advisers, Barnett Waddingham LLP, and the findings set out in a report dated July 2022.

6.17. Recognising that low cost does not necessarily mean good value, the assessment considered whether the services for which members pay or share the costs are suitable for, relevant to and (likely to be) valued by members and whether performance of the services had been effective. Consideration was also made of the costs relative to other options available in the market.

6.18. Various investment-related services for which members do not directly bear the costs are nevertheless inextricably linked to creating the environment under which investment returns are delivered, e.g. strategy, monitoring and the investment governance structure, so these were included in the assessment.

6.19. Other services paid for by Stannah Lifts Holdings Limited ("the Company") were excluded but nevertheless deliver value to members, e.g. the services of professional advisers and the operation of the trustee board, with a duty to act in the best interest of members.

6.20. In relation to the Scheme, the member-borne charges and transaction costs relate to:

- investment services
- administration services
- communication services

6.21. The assessment considered:

6.21.1. in relation to investment services:

- the investment strategy, e.g. the design of the default and range of alternative options
- the arrangements for monitoring the performance of the investment options and reviewing the investment strategy
- the investment governance arrangements

6.21.2. in relation to administration services:

- the general administration arrangements
- arrangements in relation to financial transactions
- data and record keeping

6.21.3. in relation to communication services:

- communication strategy
- pre-retirement communications
- at/post retirement communications

6.22. The Trustees concluded that the Scheme offers good value in relation to the charges and transaction costs borne by members.

6.23. In reaching this conclusion, the Trustee recognised:

6.23.1. whilst some of the administration service levels may have fallen in respect of a few individual cases, on the whole the administration service and underlying processes together with the Trustees' monitoring of the service and interaction by the Company on individual cases added value for the members.

6.23.2. the communication services, on-line functionality and presentations undertaken by the provider during the period provided excellent value for members.

6.23.3. the work undertaken to implement the changes to the default considered the membership needs and the pricing of the new funds, as well as the timing of the transition, with charge negotiations having been undertaken by the Trustees with the provider to ensure the best price possible for the funds.

## 7. Trustee knowledge and understanding

### The Trustee Board

7.1. The Trustee Board comprises of three trustees: a member nominated Trustee, and two Trustees appointed by the Company.

7.2. One of the Company appointed trustees, PAN Trustees UK LLP (represented by Andrew Firbank, FIA), is the Chair of Trustees and is a professional trustee.

## Trustee knowledge and understanding requirements

7.3. Trustees are required to be conversant with a scheme's main documents and have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational schemes and investment of scheme assets.

## Approach

7.4. The Trustees aim to remain conversant with the Scheme's trust deed and rules as well as all other Scheme documents such as the statement of investment principles, the risk register and current policies, e.g. conflicts of interest. They do so through their experience in governing the Scheme, as well as specific activities over the Scheme Year and access to professional advice.

7.5. The Trustees aim to achieve and maintain knowledge and understanding of the law relating to pensions and trusts, the funding of occupational schemes and investment of scheme assets through a combination of training, taking professional advice and the inclusion of a professional trustee as the Chair.

7.6. The Trustees with the help of their advisers consider training typically as required due to scheme activity as well as changes in legislative/regulatory requirements. The Trustees' advisers proactively raise changes in governance requirements and other relevant matters as they become aware of them and will typically deliver training on such matters at Trustee meetings

7.7. Scheme specific training is supplemented with training activities such as attending seminars and conferences, and reading pensions-related articles.

7.8. An induction process is provided for newly appointed trustees, which involves the provision of Scheme documents, a training session with the Trustees' advisers – there have been no new trustees appointed in the period.

7.9. The Trustees consult with professional advisers as and when required, for example on consultancy, investment and legal matters. The professional advisers are engaged to pro-actively alert the trustees on relevant changes to pension and trust law. Professional advisers also provide support in relation to understanding and reviewing the Scheme's documents, attending trustee meetings and often in the delivery of training at these meetings.

## Activities over the Scheme Year

7.10. The Trustees reviewed the Scheme's SIP to take account of investment changes. The SIP was updated in July 2022, following implementation of the changes.

7.11. The Trustees reviewed the following Scheme documents during the period:

7.11.1. the risk register

7.11.2. the conflicts of interest policy

7.11.3. the internal disputes resolution procedure

7.11.4. annual report and accounts

7.12. The Trustees received training at trustee meetings over the Scheme Year on the following topics:

7.12.1. consideration of Environmental, Social and Governance (ESG) risks in relation to investment strategy.

7.13. No new trustees were appointed during the Scheme Year, so the induction process was not required.

7.14. Andrew Fairbank maintained accreditation for the professional trustee standards, including fitness and propriety, governance skills, ongoing professional development, managing conflicts of interest and the additional standards for professional trustees who act as chair. His training log for the year had 39 hours of relevant training events including topics such as ESG; pension scam prevention; the new consolidated code of practice; Effective Systems of Governance requirements as well as topics relevant for the wider scheme benefits such as GMP equalisation.

7.15. The non-professional trustees both undertook formal training during the year completing the Pension Regulator's Toolkit Pension Scams module, attending Newton's investment conference in addition to staying up-to-date with the latest articles in the Pensions industry press as well as reading investment publications on the monetary regime and inflation. Training on ESG was also undertaken by one of the trustees.

7.16. During the Scheme Year, the Trustees took professional advice on:

7.16.1. undertaking the annual value for members assessment

7.16.2. reviewing the default investment arrangement, with subsequent changes to the SIP

7.16.3. disclosure of costs, charges and investments

## Assessment

7.17. The Trustees consider that their combined knowledge and understanding, together with their access to professional advice, enables them to properly and effectively exercise their trustee functions in the following ways:

7.17.1. The Trustees are able to challenge and question advisers, service providers and other parties effectively

7.17.2. Trustees' decisions are made in accordance with the Scheme rules and in line with trust law duties

7.17.3. The Trustees' decisions are not compromised by such things as conflicts or hospitality arrangements

## Chair's Declaration

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

............AJFirbank....................................................  21st July 2022............

Andrew Firbank, Chair of the Trustees  Date

## Item A1 and A2 – Statements of Investment Principles

# 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:

| Risk | How it is managed | How it is measured |
|---|---|---|
| **The investment return over members' working lives will not keep pace with inflation** | 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 |
| **The range of funds made available to members is not appropriate for their needs** | 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 |
| **The investment vehicles in which monies are invested underperforms the expectation of the Trustees** | 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 |

| Risk | How it is managed | How it is measured |
|---|---|---|
| **Relative market movements in the years just prior to retirement lead to substantial reduction in the benefits received** | 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 |
| **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)** | 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 |
| **The pooled funds through which the Trustees allow members to invest, do not provide the required level of liquidity** | 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 |
| **The investment profile of the default investment option is unsuitable for the requirements of some members** | 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 |
| **Environmental, Social and Corporate Governance Risk** | 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;

| Type of Risk | | Description | How is the risk managed and measured? |
|---|---|---|---|
| **Market Risk** | **Inflation Risk** | 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. |

| Type of Risk | | Description | How is the risk managed and measured? |
|---|---|---|---|
| | **Currency Risk** | The risk that fluctuations in foreign exchange rates will cause the sterling value of overseas investments to fluctuate. | Members are able to set their own investment allocations, in line with their risk tolerances. |
| | **Credit Risk** | The risk that the issuer of a financial asset, such as a bond, fails to make the contractual payments due. | During the growth phase of the default option, members are invested in an allocation which is expected to grow their pension savings in excess of inflation. |
| | **Equity, property and other price risk** | The risk that investment market movements lead to a substantial reduction in the market value of investments. | Within active funds, management of many of these risks is the responsibility of the investment manager.<br><br>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:

| Number of Years until retirement age | Assets in Newton Global Balanced Fund (%) | Assets in L&G Pre-Retirement Fund (%) | Assets in BlackRock Sterling Liquidity Fund (%) |
|---|---|---|---|
| 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 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:

| Number of Years until retirement age | Assets in Newton Global Balanced Fund (%) | Assets in BlackRock Sterling Liquidity Fund (%) |
|---|---|---|
| 5 | 100 | 0 |
| 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.

| Fund | Previous Arrangement | Reason for identification as a 'default arrangement' |
|---|---|---|
| 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.

| Fund | Aim and Objective | Primary Investments Held | Expected Risk and Return |
|---|---|---|---|
| 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, | This fund generally invests in highly rated short term debt instruments, where the risk of loss of capital is | The aim of the fund is to achieve a competitive cash return over time with low risk. It is not expected to |

| | | | |
|---|---|---|---|
| | with an emphasis on capital preservation. | significantly lower than with other classes. | 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.

Investment Manager Fees

8.3 The table below details the total expense ratio ("TER") charged for each fund available used within the Scheme:

| Fund | TER |
|---|---|
| L&G Cash Fund | 0.125% p.a.<br>plus £1,500<br>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. |

| Fund | TER |
|---|---|
| BlackRock Sterling Liquidity Fund | 0.210% p.a. |

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

## 9. Realisation of Investments

9.1 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.

## 10. 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).

## 11. Socially Responsible Investment and Corporate Governance

11.1 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 is 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 prudency which informs the policy of to invest in sustainable assets in the long term.

11.2 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.

11.3 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.

11.4 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.

11.5 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.

11.6 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

11.7 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 renumerated 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.

11.8 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.

11.9 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.

11.10 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.

## 12. Monitoring the Investment Managers

12.1 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.

## 13. Compliance with this Statement

13.1 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.

## 14. Review of this Statement

14.1 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.

14.2 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**

# STATEMENT OF INVESTMENT PRINCIPLES
# JULY 2022

## 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") and Barnett Waddingham LLP ("BW"), 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 Defined Contribution ("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.

**Investment consultants**

- Advise on investment of the Scheme assets, including implementation (Mercer in respect of the Defined Benefit ("DB") assets and BW in respect of the DC assets;
- Advise on this Statement;
- Provide required training; and
- Advise 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 consultants, 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 DB 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 DB 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 DB 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:

| Risk | How it is managed | How it is measured |
|---|---|---|
| **The investment return over members' working lives will not keep pace with inflation** | 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 |
| **The range of funds made available to members is not appropriate for their needs** | 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 |
| **The investment vehicles in which monies are invested underperforms the expectation of the Trustees** | 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 |

| Risk | How it is managed | How it is measured |
|---|---|---|
| **Relative market movements in the years just prior to retirement lead to substantial reduction in the benefits received** | 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 |
| **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)** | 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 |
| **The pooled funds through which the Trustees allow members to invest, do not provide the required level of liquidity** | 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 |
| **The investment profile of the default investment option is unsuitable for the requirements of some members** | 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 |
| **Environmental, Social and Corporate Governance Risk** | The risk that environmental, social or corporate governance concerns have a financially material impact on the return of the Scheme's assets. | See section 12 below for the Trustees' responsible investment and corporate governance statement. |

The Trustees also consider the following market risks in respect of the DC section;

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

| Type of Risk | | Description | How is the risk managed and measured? |
|---|---|---|---|
| | **Currency Risk** | The risk that fluctuations in foreign exchange rates will cause the sterling value of overseas investments to fluctuate. | Members are able to set their own investment allocations, in line with their risk tolerances. |
| | **Credit Risk** | The risk that the issuer of a financial asset, such as a bond, fails to make the contractual payments due. | During the growth phase of the default option, members are invested in an allocation which is expected to grow their pension savings in excess of inflation. |
| | **Equity, property and other price risk** | The risk that investment market movements lead to a substantial reduction in the market value of investments. | Within active funds, management of many of these risks is the responsibility of the investment manager.<br><br>The Trustees consider 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 Trustees consider financially material considerations. The Trustees believe 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, the Trustees have considered the proximity to target retirement dates.

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 DB section assets are invested in the Legal & General Investment Management ("L&G") Cash Fund.

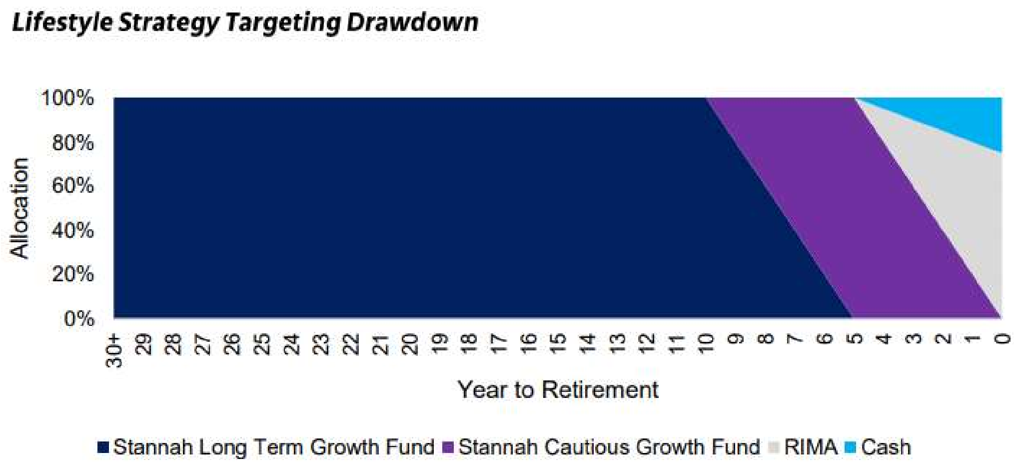
The Trustees expect that investing the Scheme's remaining DB assets in this fund should help to protect the capital value of these assets.

**Defined Contribution Section**

5.2 The Trustees offer two types of options to members, lifestyle options (including 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, Lifestyle Strategy Targeting Drawdown is structured around a multi-phase approach where assets are progressively switched from the Stannah Long Term Growth Fund (in the growth phase) to the Stannah Cautious Growth Fund (in the mid phase) and then into a mix of the LGIM Retirement Income Multi-Asset Fund and BlackRock Sterling Liquidity Fund. The graph below shows this progressive switch of assets.




The Lifestyle Strategy Targeting Drawdown is the default option for members who have not expressed an investment choice. It is aimed at members who are likely to want to draw down their Scheme savings in retirement. It is designed around member needs for a comfortable level of income in retirement (as defined by the Pension and Lifetime Savings Association's Retirement Living Standards).

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 Stannah Long Term Growth Fund, which invests in the Newton Global Balanced Fund and LGIM Diversified 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 want to draw down their Scheme savings in retirement, so the lifestyle strategy is designed to provide some protection in the swings in value compared to a drawdown strategy at the point of 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 'post-retirement' strategies and relative to inflation.*

  *The lifestyle strategy therefore aims to reduce volatility and provide some downside protection as a member approaches retirement via automated lifestyle switches over the ten-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 Retirement Income Multi-Asset Fund (to reduce investment risk and preserve purchasing power).*

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 drawdown 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 members' 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.

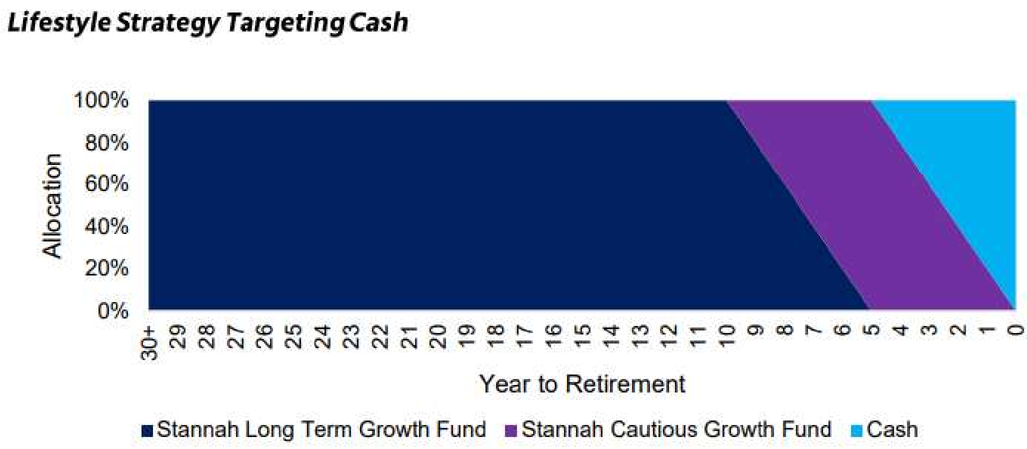
- The selection, retention and realisation of assets within the pooled funds are delegated to the investment manager in line with the mandates of the funds. Further information regarding the Trustees' policies on on the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments is set out in section 12.

5.4 *Self-Select Investment Options*

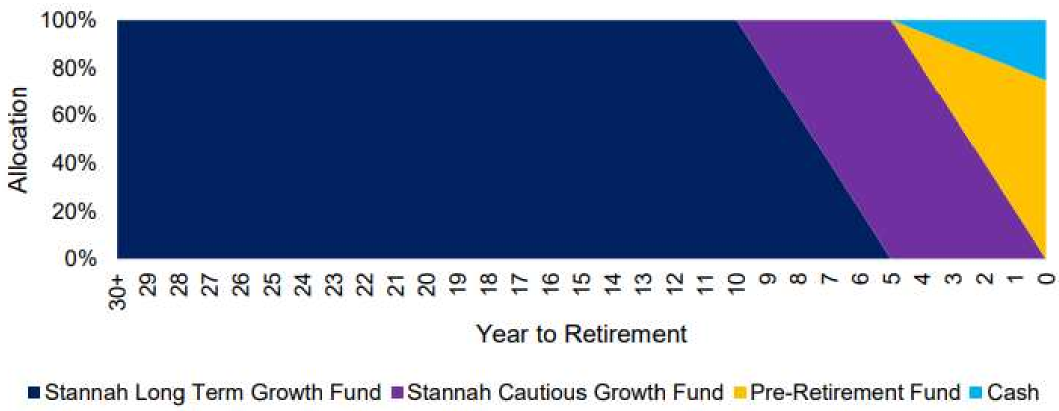
In addition to the Trustees' Investment Objectives and Beliefs (section 3), the Trustees have the following aims for the self-select investment options so that the assets are invested in the best interest of members:

The Trustees aim to make available a self-select investment range which serves 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 two alternative lifestyle strategies, the Stannah Cash Targeting Lifestyle and the Stannah Annuity Targeting Lifestyle, which target a different retirement benefit than that targeted by the default option, namely full encashment of benefits at retirement and the purchase of an annuity at retirement respectively. The graphs below show the progressive switch of assets in each case.



*Lifestyle Strategy Targeting Annuity*




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
- LGIM 30/70 Global Equity Index Currency Hedged Fund
- MFS Meridian Global Equity Fund
- BNY Mellon Newton Global Balanced Fund
- BNY Mellon Newton UK Equity Fund
- BNY Mellon Newton Global Equity Fund
- Schroder Diversified Growth Fund
- Standard Life Corporate Bond Fund
- LGIM Pre-Retirement Fund
- BlackRock Sterling Liquidity Fund
- LGIM Retirement Income Multi-Asset Fund
- Stannah Long Term Growth Fund (two-thirds invested in the Newton Global Balanced Fund and one-third in the LGIM Diversified Fund)
- Stannah Cautious Growth Fund (equally invested in the Newton Global Balanced Fund and LGIM Retirement Income Multi-Asset 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 Trustees believe 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 Trustees have 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 members' 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.

| Fund | Previous Arrangement | Reason for identification as a 'default arrangement' |
|---|---|---|
| LGIM 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.

| Fund | Aim and Objective | Primary Investments Held | Expected Risk and Return |
|---|---|---|---|
| LGIM Pre-Retirement Fund | Invests in fixed income securities and aims to broadly match the | This fund primarily invests in bonds (government and corporate) | Reduce investment risk relative to equity markets and preserve annuity |

| | | | |
|---|---|---|---|
| | changes in the prices of fixed annuities. | | 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. |

As part of the changes to the Scheme's investment arrangements initiated in 2021, the default investment option was changed from one targeting the purchase of an annuity at retirement to one targeting drawdown. However, the assets of those members within five years of retirement remained in the previous strategy targeting an annuity. This is called the Pre-2021 Annuity Targeting Lifestyle and is classified as an additional default arrangement as contributions have been automatically directed to these funds without members having instructed the Trustees where their contributions are to be invested.

The Trustees took appropriate investment advice when deciding to retain these members' assets in the Pre-2021 Annuity Targeting Lifestyle. They considered this strategy to be suitable for members close to retirement who may have been planning to purchase an annuity in order to keep them exposed to a similar level of investment risk as they were in previously. The TER is below the charge cap legislation requirement of 0.75% p.a. that applies to default investment options.

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

- To provide members with funds that are a suitable replacement for the ones that were removed from the Scheme.

- To provide members who are close to retirement with a strategy that exposes them to a similar level of risk to that previously offered assuming they are planning to purchase an annuity.

- 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/strategy 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 DC 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:

- LGIM;
- BNY Mellon 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.

**LGIM 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.

**BNY Mellon 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.

**BNY Mellon 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.

**BNY Mellon 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 a near-cash benchmark through investing in a wide range and variety of assets.
Benchmark: ICE Bank of America Sterling 3-Month Government Bill Index
Target: To outperform the benchmark by 4.5% p.a. before fees

**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.

**LGIM 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.

**LGIM Retirement Income Multi-Asset Fund** – the fund aims to provide long-term investment growth up to and during retirement, and to facilitate the draw down of retirement income.
Benchmark: Bank of England base rate
Target: To outperform the benchmark by 3.5% p.a.

**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.

**Stannah Long Term Growth Fund** – the fund aims to achieve a return above inflation by investing in a mixture of the Newton Global Balanced Fund and the LGIM Diversified Fund.
Benchmark: Consumer Price Index
Target: To outperform the benchmark by 4% p.a. net of fees

**Stannah Cautious Growth Fund** – the fund aims to achieve a return above inflation by investing in a mixture of the Newton Global Balanced Fund and the LGIM Retirement Income Multi-Asset Fund.
Benchmark: Consumer Price Index
Target: To outperform the benchmark by 2.5% p.a. net of 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:

| Fund | TER |
|---|---|
| L&G Cash Fund | 0.125% p.a.<br>plus £1,500<br>fixed fee p.a. |
| Artemis Global Capital Fund | 0.980% p.a. |
| Baillie Gifford UK Equity Fund | 0.600% p.a. |
| LGIM 30/70 Global Equity Index Currency Hedged Fund | 0.253% p.a. |
| MFS Meridian Global Equity Fund | 0.830% p.a. |
| BNY Mellon Newton Global Balanced Fund | 0.680% p.a. |
| BNY Mellon Newton UK Equity Fund | 0.720% p.a. |
| BNY Mellon Newton Global Equity Fund | 0.730% p.a. |
| Schroder Diversified Growth Fund | 0.870% p.a. |
| Standard Life Corporate Bond Fund | 0.490% p.a. |
| LGIM Pre-Retirement Fund | 0.245% p.a. |
| LGIM Retirement Income Multi-Asset Fund | 0.480% p.a. |
| BlackRock Sterling Liquidity Fund | 0.210% p.a. |
| Stannah Long Term Growth Fund | 0.620% p.a. |
| Stannah Cautious Growth Fund | 0.580% p.a. |

*Source: Scottish Widows, L&G. TERs as at December 2021.*

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 Trustees consider the investment objectives and policies when choosing investments either for the self-select range or for inclusion within the default investment option. The Trustees receive written advice from their Investment Consultants on any investments prior to them being implemented. The advice received and arrangements implemented are, in the Trustees' 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 is to a certain extent not necessarily appropriate. The Trustees believe it is their duty to the members to ensure that assets are invested within certain boundaries of prudency 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 advisers' assessments 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 Trustees may review the suitability of the manager, and change managers where required. As managers are renumerated 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 Trustees have 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 DB section investment manager whilst BW fulfil this role in respect of the DC section.

## 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 in July 2022**

## Item B – Scheme Administrator Service Level Agreements

The Trustees have an administration agreement in place with Scottish Widows, throughout the period and up to 31 March 2022 this was on the Mercer Workplace Savings platform, at which point is became a direct agreement with Scottish Widows. The administration agreement sets out the service standards expected of Scottish Widows and if Scottish Widows fall short of these standards then financial penalties were in place until the situation is rectified.

The expected service standards which applied during the period were:

| 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 were 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.<br><br>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. |

| SLA | Description | Target Service Level (%) | Description |
|---|---|---|---|
| 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.