

## **ANM Group Limited Pension and Life Assurance Fund**

### **Statement of Investment Principles**

#### **Introduction**

The Trustees of the ANM Group Limited Pension and Life Assurance Fund (the “Fund”) have drawn up the Statement of Investment Principles (the “Statement”) to comply with the requirements of The Pensions Act 1995, as amended by the Pensions Act 2004, The Occupational Pension Funds (Investment) Regulations 2005 and other subsequent regulations. It is subject to periodic review by the Trustees at least every three years and more frequently as appropriate.

In preparing this Statement, the Trustees have consulted with the Sponsoring Employer.

In considering the appropriate investments for the Fund, the Trustees have obtained and considered expert written advice from an individual whom the Trustees believe to be suitably qualified to provide such advice. 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).

#### **Investment objective**

The primary objective of the Fund is to provide pension and lump sum benefits for the current members on their retirement, and/or benefits on death, before or after retirement for their dependents, on a defined benefit basis.

The Trustees’ medium term objective is to reach and maintain a funding position of 100% of Technical Provisions – such a target being consistent with the strength of the Company covenant and the Trustee’s investment risk tolerance.

The long term funding objective is to reach a funding position such that all Members’ benefits can be secured within an insurance contract (i.e. reach full funding on an insurance buy-out basis). The Trustees also consider the Fund’s funding position on other relevant bases for valuation and accounting. Funding positions are monitored regularly by the Trustees and formally reviewed at each triennial valuation, or more frequently as required by the Pensions Act 2004.

#### **Investment strategy**

Following a review of the Fund’s investment strategy during Q1 2021, the Trustee translated the Fund’s objectives into a suitable strategic asset allocation benchmark for the Fund (the “strategic benchmark”). The Fund benchmark is consistent with the Trustees’ views on the appropriate balance between seeking an enhanced long term return on investments and an appropriate level of investment risk. Detail on the strategic benchmark is provided in Appendix 1.

The investment strategy takes due account of the maturity profile of the Fund, together with the level of disclosed surplus or deficit (relative to the Technical Provisions valuation). The Trustees monitor fund performance relative to the agreed asset allocation benchmark. It is intended that the investment strategy will be reviewed at least every three years following actuarial valuations, and will normally be monitored annually. In monitoring performance and setting strategy, the Trustees seek written advice from a suitably

qualified person as required, currently Isio.

The Fund employs a mix of both active and passive management. Detail on the investment management structure of the Fund is provided in Appendix 1.

### **Investment Management Arrangements**

The Trustees have appointed six investment managers to manage the assets of the Fund as listed in Appendix 1. The investment managers are regulated under the Financial Services and Markets Act 2000.

All decisions about the day-to-day management of the assets have been delegated to the investment managers via a written agreement. The delegation includes decisions about:

- Selection, retention and realisation of investments including taking into account all financially material considerations in making these decisions;
- The exercise of rights (including voting rights) attaching to the investments;
- Undertaking engagement activities with investee companies and other stakeholders, where appropriate.

The Trustees take investment managers' policies into account when selecting and monitoring managers. The Trustees also take into account the performance targets the investment managers are evaluated on. The investment managers are expected to exercise powers of investment delegated to them, with a view to following the principles contained within this statement, so far as is reasonably practicable.

As the Fund's assets are invested in pooled vehicles, the custody of the holdings is arranged by the investment manager. The Trustee acknowledges that it cannot directly influence the environmental, social and governance policies and practices of the companies in which the pooled funds invest. However, the Trustee does expect its fund managers and investment consultant to take account of financially material considerations when carrying out their respective roles.

The Trustees have appointed the following investment managers: Legal and General Assurance (Pension Management) Limited ("LGIM"), BMO Global Asset Management ("BMO"), Apollo Management International LLP ("Apollo"), BlackRock Asset Management UK Limited ("BlackRock"), Ninety One Fund Managers UK Limited ("Ninety One") and J.P Morgan Asset Management ("JPM") as investment managers.

The LGIM equity allocation is managed on a passive, or index tracking, basis, whereby the objective is to match, rather than exceed, the performance of the benchmark index for each fund respectively. The JPM diversified credit, BlackRock & Ninety One diversified growth, BlackRock long lease property and Apollo semi-liquid credit mandates are actively managed with the aim of exceeding a performance target.

The Trustees consider the different managers and asset classes described above, and the balance between them, to be suitable given the circumstances of the Fund. This combination results in a diversified mix of assets, geographic spread and number of investments held. An analysis of the Fund's investments by fund manager and asset class, as at 30 April 2021, is set out in Appendix 1.

### **Investment Manager Monitoring and Engagement**

The Trustees monitor and engage with the Fund's investment managers and other stakeholders on a variety of issues. Below is a summary of the areas covered and how the Trustees seek to engage on these matters with investment managers.

| Areas for engagement   | Method for monitoring and engagement   | Circumstances for additional monitoring and engagement  |
|--|--|---|
| Performance, Strategy and Risk   | <ul style="list-style-type: none"> <li>• The Trustees receive a quarterly performance report which details information on the underlying investments' performance, strategy and overall risks, which are considered at the relevant Trustees meeting.</li> <li>• The Fund's investment managers are invited, in person, to present to the Trustees on their performance, strategy and risk exposures.</li> </ul> | <ul style="list-style-type: none"> <li>• There are significant changes made to the investment strategy.</li> <li>• The risk levels within the assets managed by the investment managers have increased to a level above and beyond the Trustees' expectations.</li> <li>• Underperformance vs the performance objective over the period that this objective applies.</li> </ul> |
| Environmental, Social, Corporate Governance factors and the exercising of rights | <ul style="list-style-type: none"> <li>• The Trustees' investment managers provide annual reports on how they have engaged with issuers regarding social, environmental and corporate governance issues (including capital structure and conflicts of interest).</li> <li>• The Trustees receives information from their investment advisers on the investment managers' approaches to engagement.</li> </ul>    | <ul style="list-style-type: none"> <li>• The manager has not acted in accordance with their policies and frameworks.</li> <li>• The manager's policies are not in line with the Trustees' policies in this area.</li> </ul>   |

Through the engagement described above, the Trustees will work with the investment managers to improve their alignment with the above policies. Where sufficient improvement is not observed, the Trustees will review the relevant investment manager's appointment and will consider terminating the arrangement.

### Expected return on investments

The investment strategy aims to achieve a return on Fund assets which, taken in conjunction with contributions, is sufficient, over time, to match growth in the Fund's pension liabilities.

The overall performance target (i.e. the expected return on the Fund's investments) has been set at Gilts + 2.9% p.a. based on Isio's central assumptions as at 31 March 2021. Further detail on the expected return on investments is provided in Appendix 1.

### Realisation of Investments

The Trustees operate a bank account for daily cash flow needs.

On a quarterly basis, via the regular investment reporting, the Trustees consider the strategic positioning of each of the Fund's mandates, to identify the various over/under weight allocations. Written advice is provided by the investment consultant as to the appropriate source of funding in the event that there is insufficient cash to meet Fund cashflow requirements.

### **Additional Assets**

Assets in respect of members' additional voluntary contributions are held with Prudential in their with-profits policy. Assets are also invested in Prudential's unitized discretionary fund.

In addition, some of the Fund's pensions were secured by annuity contracts with various providers during the 1980s.

Signed for and on behalf of ANM Group Limited Pension and Life Assurance Fund

**9 June 2021**

## Appendix 1

Strategic asset allocation split by fund manager (as at 30 April 2021)

| Fund Manager | %            | Mandate | Assets              |
|--------------|--------------|---------|---------------------|
| LGIM         | 17.5         | Passive | Global Equity       |
| BlackRock    | 12.5         | Active  | Diversified Growth  |
|              | 10.0         |         | Long Lease Property |
| Ninety One   | 5.0          | Active  | Diversified Growth  |
| JPM          | 20.0         | Active  | Diversified Credit  |
| Apollo       | 12.5         | Active  | Semi Liquid Credit  |
| BMO          | 22.5         | Passive | LDI                 |
| <b>Total</b> | <b>100.0</b> |         |                     |

Totals may not sum due to rounding.

Asset split by asset class (as at 30 April 2021)

| Asset Class         | Strategic Benchmark (%) | Expected Return <sup>1</sup> (%) |
|---------------------|-------------------------|----------------------------------|
| Global Equity       | 17.5                    | Gilts + 4.0%                     |
| Diversified Growth  | 17.5                    | Gilts + 3.5%                     |
| Diversified Credit  | 20                      | Gilts + 2.6%                     |
| Semi Liquid Credit  | 12.5                    | Gilts + 3.7%                     |
| Long Lease Property | 10                      | Gilts + 2.5%                     |
| LDI                 | 22.5                    | Gilts                            |
| <b>Total</b>        | <b>100.0</b>            | <b>Gilts + 2.9%</b>              |

Totals may not sum due to rounding

<sup>1</sup> Expected return assumptions are based on Isio's central (best estimate) assumptions as at 31 March 2021

## Appendix 2 – Risks, Financially Material Considerations and Non-Financial matters

A non-exhaustive list of risks and financially material considerations that the Trustees have considered and sought to manage is shown below.

The Trustees adopt an integrated risk management approach. The three key risks associated within this framework and how they are managed are stated below:

| Risks      | Definition  | Policy  |
|------------|---|---|
| Investment | <ul style="list-style-type: none"> <li>The risk that the Fund's position deteriorates due to the assets underperforming.</li> </ul>                                     | <ul style="list-style-type: none"> <li>Selecting an investment objective that is achievable and is consistent with the Fund's funding basis and the sponsoring company's covenant strength.</li> <li>Investing in a diversified portfolio of assets.</li> </ul>   |
| Funding    | <ul style="list-style-type: none"> <li>The extent to which there are insufficient Fund assets available to cover ongoing and future liability cash flows.</li> </ul>    | <ul style="list-style-type: none"> <li>Funding risk is considered as part of the investment strategy review and the actuarial valuation.</li> <li>The Trustees will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time.</li> </ul> |
| Covenant   | <ul style="list-style-type: none"> <li>The risk that the sponsoring company becomes unable to continue providing the required financial support to the Fund.</li> </ul> | <ul style="list-style-type: none"> <li>When developing the Fund's investment and funding objectives, the Trustees take account of the strength of the covenant ensuring the level of risk the Fund is exposed to is at an appropriate level for the covenant to support.</li> </ul>   |

The Fund is exposed to a number of underlying risks relating to the Fund's investment strategy, these are summarised below:

| Risk                         | Definition  | Policy   |
|------------------------------|---|--|
| Interest rates and inflation | <ul style="list-style-type: none"> <li>The risk of mismatch between the value of the Scheme assets and present value of liabilities from changes in interest rates and inflation expectations.</li> </ul> | <ul style="list-style-type: none"> <li>To hedge 80% of movements in interest rates and inflation on a Technical Provisions basis.</li> </ul>   |
| Liquidity                    | <ul style="list-style-type: none"> <li>Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.</li> </ul>                              | <ul style="list-style-type: none"> <li>To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they fall due (including transfer values).</li> </ul> |

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|--------------------------------------|--|--|
| Market                               | <ul style="list-style-type: none"> <li>Experiencing losses due to factors that affect the overall performance of the financial markets.</li> </ul>   | <ul style="list-style-type: none"> <li>To remain appropriately diversified and hedge away any unrewarded risks, where practicable.</li> </ul>  |
| Credit                               | <ul style="list-style-type: none"> <li>Default on payments due as part of a financial security contract.</li> </ul>  | <ul style="list-style-type: none"> <li>To diversify this risk by investing in a range of credit markets across different geographies and sectors</li> </ul>  |
| Environmental, Social and Governance | <ul style="list-style-type: none"> <li>Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Fund's investments.</li> </ul> | <ul style="list-style-type: none"> <li>To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria: <ul style="list-style-type: none"> <li>Responsible Investment ('RI') Policy / Framework</li> <li>Implemented via Investment Process</li> <li>A track record of using engagement and any voting rights to manage ESG factors</li> <li>ESG specific reporting</li> <li>UN PRI Signatory (or equivalent)</li> </ul> </li> <li>The Trustees monitor the managers on an ongoing basis.</li> <li>The Trustees consider ESG issues as part of the investment process, and believe that financially material considerations (including climate change) are implicitly factored into the expected risk and return profile of the asset classes they are investing in.</li> </ul> |
| Currency                             | <ul style="list-style-type: none"> <li>The potential for adverse currency movements to have an impact on the Fund's investments.</li> </ul>  | <ul style="list-style-type: none"> <li>Hedge all currency risk on all assets that deliver a return through contractual income.</li> <li>Hedge 50% of currency risk on equities.</li> </ul>   |
| Non-financial                        | <ul style="list-style-type: none"> <li>Any factor that is not expected to have a financial impact on the Fund's investments.</li> </ul>  | <ul style="list-style-type: none"> <li>Non-financial matters are not taken into account in the selection, retention or realisation of investments.</li> </ul>  |

### Appendix 3 - Policy on Investment Manager Arrangements

The Trustees have the following policies in relation to the investment management arrangements for the Fund:

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| <p>How the investment managers are incentivised to align their investment strategy and decisions with the Trustees policies.</p>  | <ul style="list-style-type: none"> <li>• As the Fund is invested in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustees policies. However, the Trustees invest in a portfolio of pooled funds that are aligned to the strategic objectives.</li> <li>• The Trustees believe the annual fee paid to the fund managers incentivises them to stick to the fund objective, which is used to reflect the investment strategy.</li> </ul>                                      |
| <p>How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.</p> | <ul style="list-style-type: none"> <li>• The Trustees review the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements.</li> <li>• The Trustees monitor the investment managers' engagement and voting activity on an annual basis as part of their ESG monitoring process.</li> <li>• The Trustees do not incentivise the investment managers to make decisions based on non-financial performance.</li> </ul>   |
| <p>How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustees policies.</p>  | <ul style="list-style-type: none"> <li>• The Trustees review the performance of all of the Fund's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives.</li> <li>• The Trustees evaluate performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years.</li> <li>• Investment manager fees are reviewed annually to make sure the correct amounts have been charged and that they remain competitive.</li> </ul>   |
| <p>The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.</p>  | <ul style="list-style-type: none"> <li>• The Trustees do not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.</li> </ul>  |
| <p>The duration of the Fund's arrangements with the investment managers</p>   | <ul style="list-style-type: none"> <li>• The duration of the arrangements is considered in the context of the type of fund the Fund invests in.             <ul style="list-style-type: none"> <li>– For closed ended funds or funds with a lock-in period the Trustees ensure the timeframe of the investment or lock-in is in line with the Trustees objectives and Fund's liquidity requirements.</li> <li>– For open ended funds, the duration is flexible and the Trustees will from time-to-time consider</li> </ul> </li> </ul> |

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|  | the appropriateness of these investments and whether they should continue to be held. |
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