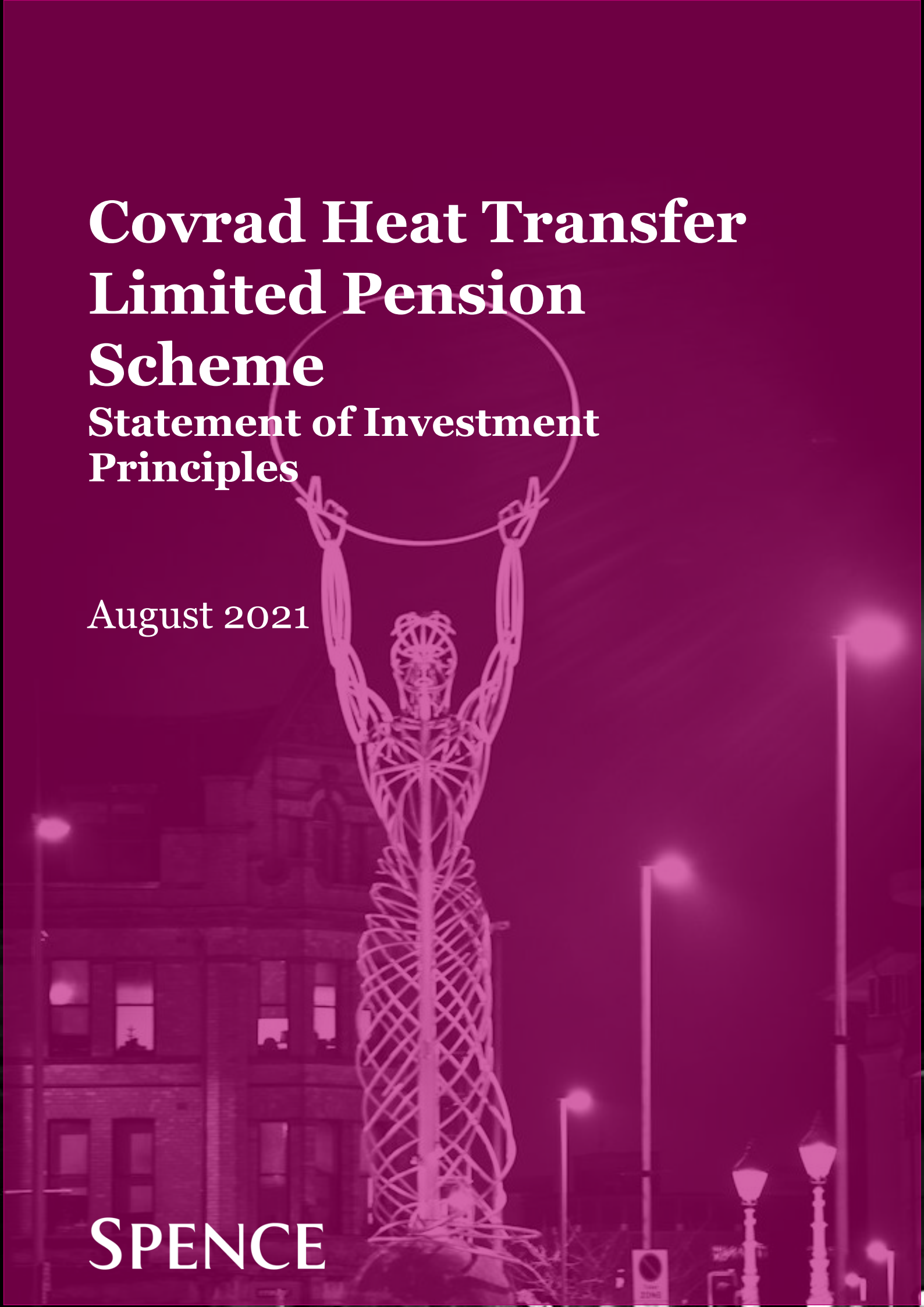
Covrad Heat Transfer Limited Pension Scheme

Statement of Investment Principles

August 2021



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Introduction

This Statement of Investment Principles ("the Statement") has been prepared by the Trustee of the Covrad Heat Transfer Limited Pension Scheme ("the Scheme"). It has been prepared to comply with Section 35 of the Pensions Act 1995 as amended by the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005 as amended by subsequent regulations.

This Statement sets out the principles governing decisions about investments for the Scheme and supersedes the previous Statement prepared by the Trustee of the Scheme ("the Trustee").

In preparing this Statement, the Trustee has:

1.	Consulted with the Pension Protection Fund ('PPF'), although responsibility for maintaining this Statement and setting investment policy rests solely with the Trustee.
2.	Obtained and considered written professional advice and recommendations from Spence and Partners Limited ("Spence") who are the Trustee's appointed investment adviser. Spence is authorised and regulated by the Financial Conduct Authority ("FCA"). It has confirmed to the Trustee that it has the appropriate knowledge and experience to give the advice required by the Pensions Acts.

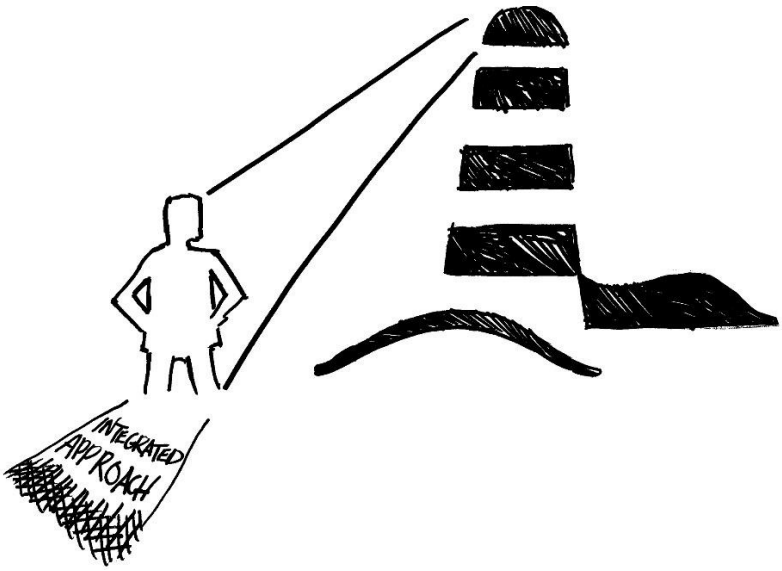
The Scheme has entered into the PPF assessment period and whilst in this period the Trustee retains responsibility for the day to day management of the Scheme. The Trustee does not expect to revise this statement as it covers broad principles rather than their implementation and the strategy of the Scheme is expected to be stable whilst the Scheme is in the assessment period, up until the point the Scheme enters PPF. If there are any significant changes in any of the areas covered by this Statement, the Trustee will review it without further delay. Any changes made will be based on written advice from a suitably qualified individual and will follow on from consultation with the PPF.

The Scheme is a defined benefits ("DB") plan. The Trustee's investment powers are set out in the Trust deed dated 30th March 1977. This Statement is consistent with those powers.

Investment Objectives

The Trustee's overall investment policy is guided by the following objectives:

1.	The Trustee's primary investment objective for the Scheme is to ensure sufficiently liquid assets are available to meet all liabilities as and when they fall due.
2.	The Scheme is in the PPF assessment period and will align itself with the PPF's long term objectives and ensure risk to members is minimised following the insolvency of the sponsor.



Investment Responsibilities

The Trustee

Under the legal documentation governing the Scheme, the power of investment is vested in the Trustee. Therefore, the Trustee is responsible for setting the investment objectives and determining the strategy to achieve those objectives. The Trustee sets the overall investment target and then monitor the performance of their investment managers against the target. In doing so the Trustee considers the advice of their professional advisers, who it considers to be suitably qualified and experienced for this role.

The duties and responsibilities include but are not limited to:

- ✓ Regular approval of this Statement and monitoring compliance with this Statement
- ✓ Appointment, removal (where applicable) and review of their investment managers or investment advisor and their performance relative to relevant benchmarks
- ✓ Assessment of the investment risks run by the Scheme
- ✓ Monitoring and review of the asset allocation

Investment Adviser's duties and responsibilities

The Trustee has appointed Spence as their investment adviser. Spence provides advice when the Trustee requires it and/or when Spence considers it is required. Areas on which Spence can provide advice are as follows:

- ✓ Setting investment objectives
- ✓ Determining strategic asset allocation
- ✓ Determining suitable funds and investment managers
- ✓ Managing cashflow

It should be noted that the Trustee retains responsibility for all decisions.

Spence charges a fixed fee for investment services. Any extra services provided by Spence will be remunerated on a time cost or fixed fee basis as agreed with the Trustee.

Spence does not receive any commission or any other payments in respect of the Scheme for investment services that will affect the impartiality of their advice.

The Trustee is satisfied that this is a suitable adviser compensation structure.

Investment Managers' Duties and Responsibilities

The Trustee, after considering suitable advice, has appointed Legal & General Investment Management ('LGIM') to manage the assets of the Scheme.

The underlying investment managers are detailed in the Appendix of this Statement. The investment manager is authorised and regulated by the FCA and are responsible for stock selection, asset allocation (if managing a multi-asset portfolio) and the exercise of voting rights. All the underlying managers are compensated by fund-based charges on the value of the Scheme's assets that they hold.

Setting the Investment Strategy

The Trustee has determined their investment strategy after considering the PPF's long term strategic objective and guidance given on setting investment strategy. It has also received written advice from its investment adviser.

Types of Investment

The Scheme's assets are invested on behalf of the Trustee by LGIM.

The Trustee is permitted to invest across a wide range of asset classes, including but not limited to equities, bonds, cash, property and alternative asset classes. The use of derivatives is as permitted by the guidelines that apply to the pooled funds and can be used for hedging and risk management purposes. The Trustee understands that some asset classes provide a better match to the liabilities than others and is investing in gilts and index linked gilts to minimise risk.

The Trustee is in the PPF assessment period and there are no employer-related investments.

Balance between different types of investment

The Scheme invests in assets that are expected to achieve the Scheme's objectives detailed previously. The allocation between the different asset classes is shown in the Appendix of this Statement.

The Trustee has chosen to invest in passively managed funds.

From time-to-time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate any short-term cashflow requirements or any other unexpected events.

The Trustee may also hold insurance policies which are for the benefit of certain members to match part, or all, of its liabilities.

Expected Return on Investments

The Trustee has noted the long-run relationships that exist between the returns from different asset classes and the different expected risk/return characteristics of the various asset classes.

The Trustee's chosen policy is to stabilise the Scheme's funding level rather than to pursue higher expected returns to improve the Scheme's funding level. Therefore it invests in gilts and invests in gilts and index linked gilts.

Realisation of Investments

The Scheme's assets are invested in pooled vehicles, which in turn invest in securities traded on recognised exchanges. The Scheme's investments in gilts and index linked gilts are very liquid and can be realised at short notice.

Financially Material Considerations

The Trustee has considered financially material factors such as environmental, social and governance ('ESG') issues as part of the investment process to determine a strategic asset allocation over the length of time during which the benefits are provided by the Scheme for members. It believes that financially material considerations (including climate change) are implicitly factored into the expected risk and return profile of the asset classes it is investing in.

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustee has elected to invest through pooled funds.

The Scheme is invested in gilts and index linked gilts and there is limited scope to take into account financially materials considerations and socially responsible investment. However, the Trustee does expect its fund manager and investment adviser to take account of financially material considerations when carrying out their respective roles, where possible.

The Trustee will only invest with investment managers that are signatories for the United Nations Principles of Responsible Investment ('UN PRI') or other similarly recognised standards.

Non-Financial Matters

The Trustee has not considered non-financial matters in the selection, retention and realisation of investments.

Stewardship

The Trustee's policy on the exercise of rights attaching to investments, including voting rights, is that these rights should be exercised by the investment manager on the Trustee's behalf, having regard to the best financial interests of the beneficiaries.

The investment manager should engage with companies to take account of ESG factors in the exercise of such rights as the Trustee believes this will be beneficial to the financial interests of members over the long term.

The Trustee invests in gilts and index linked gilts and so there are no voting rights and limited scope to engage in the investments, however, they do encourage the fund manager to do so where possible.

The Trustee has taken into consideration the Financial Reporting Council's UK Stewardship Code and expects investment managers to adhere to this where appropriate for the investments they manage.

Investment Manager Arrangements

Incentives to align investment managers' investment strategies and decisions with the Trustee's policies

The Scheme invests in pooled funds and so the Trustee acknowledges that decisions cannot be tailored to the Trustee's policies. However, the Trustee sets its investment strategy and then selects managers that best suits its strategy, taking into account the fees being charged, which acts as the fund manager's incentive.

The Trustee uses the fund objective/benchmark as a guide on whether its investment strategy is being followed and monitors this regularly.

Incentives for the investment 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

The Trustee invests passively solely in gilts and index linked gilts and so there is no scope to consider long-term financial and non-financial performance of UK government bonds.

How the method (and time horizon) of the evaluation of the fund managers' performance and the remuneration for asset management services are in line with the Trustee's policies

The Trustee will review quarterly reports from its investment manager, who reports performance on a net of fees basis compared to its benchmark.

The Trustee assesses the performance of the funds, where possible, over at least a 3-5 year period and will always consider this when looking to select or terminate a manager together with other relevant factors other than performance.

The fund manager's remuneration is considered as part of the manager selection process and will only be looked at in greater detail if it increases.

How the Trustee monitors portfolio turnover costs incurred by the fund managers, and how they define and monitor targeted portfolio turnover or turnover range

The Trustee recognises that portfolio turnover (being the frequency with which the assets are expected to be bought/sold) and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures.

The Trustee defines target portfolio turnover as the average turnover of the portfolio expected in the type of strategy the manager has been appointed to manage. This was considered as part of the initial selection of manager and will only be looked at in greater detail if there is a significant deviation in performance from the benchmark.

The duration of the arrangement with the fund managers

The Scheme is in the PPF assessment period and is only expected to hold the investments until it is transferred into the PPF, which is likely to be relative short.

Additional Voluntary Contributions (AVCs) and Annuities

The Scheme provided a facility for members to pay AVCs to enhance their benefits at retirement. The Trustee's objective was to provide vehicles that enabled members to generate suitable long-term returns, consistent with their reasonable expectations.

The investment funds were provided by Utmost Life and Aviva.

The Trustees selected these vehicles as they were believed to meet the Trustee's objective of providing investment options that enabled AVC members to generate suitable long-term returns, consistent with their reasonable expectations.

The Trustee also holds a bulk annuity with Scottish Widows.

The Trustee will look to discharge these benefits prior to the PPF transfer.

Risks

The Trustee recognises that whilst increasing risk may increase potential returns over a long period, it also increases the risk of producing more short-term volatility in the Scheme's funding position. Following the commencement of the PPF assessment period for the Scheme, the Trustee's focus has had to change away from targeting longer term growth towards protecting against short-term volatility. The overall level of investment risk is significantly influenced by the guidelines issued by the PPF for asset allocation during a PPF assessment period. A policy on more detailed risk issues is determined by the Trustee having considered expert advice (that includes assessment of the cost of change) and feedback from the PPF.

The Trustee is aware and seeks to take account of a number of risks in relation to the Scheme's investments. Under the Pensions Act 2004, the Trustee is required to state their policy regarding the ways in which risks are to be measured and managed. Overall, the Trustee measures and monitors its risks by receiving quarterly performance reports from the investment manager which report on the performance of its assets. The key risks and the policies are as follows:

Solvency and mismatching risk

The sponsor is insolvent and so the investment strategy is set to minimise risk relative to the liabilities.

Concentration risk

The scheme is invested in gilts and index linked gilts and so this risk is not applicable.

Investment Manager Risk

This is assessed as the deviation of actual risk and return relative to that specified in the investment managers' objectives. It is measured by monitoring on a regular basis the actual deviation of returns relative to investment managers' agreed objectives and an assessment of factors supporting the managers' investment process.

Sponsor risk

The Scheme is in the PPF assessment period and so this risk is no longer applicable.

Liquidity risk

This is monitored according to the level of cashflows required by the Scheme over a specified time period. The Scheme's administrators will assess the cash requirements to limit the impact of cashflow requirements on the Scheme's investment policy. The risk is managed by having a suitable amount of readily realisable investments and by holding a certain level of cash type assets. The Scheme invests in assets that there are invested in quoted markets and are as readily realisable as the Trustee feels suitable given the Scheme's cashflow position and the expected development of the liabilities.

Currency risk

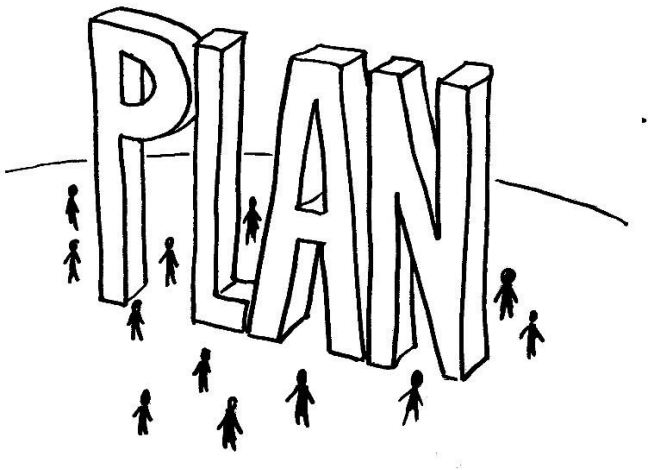
The Scheme's liabilities are denominated in sterling and so are all of it's investments. Therefore, the Scheme is not exposed to currency risk.

Loss of Investment risk

There is a risk of loss of investment by each investment manager and potentially the custodian. This includes losses beyond those caused by market movements e.g. losses caused by fraud. The Trustee understands the investment manager has ringfenced the funds and uses an independent custodian and believes this will minimise the risk of loss.

Environmental, Social and Governance (ESG) and Climate Change Risks

There is a risk that ESG issues and climate change are not considered as part of the investment process and so may expose the portfolio. This can lead to losses that may not have been factored into any assumptions. The Trustee has considered ESG issues including climate change as part of the investment process.



Compliance

The Trustee confirms that it has received and considered written advice from Spence on the establishment and implementation of its investment strategy.

The Trustee confirms that it has consulted with the PPF regarding their strategy.

The Trustee will monitor compliance with this Statement at least every three years or if any significant changes are made to the investment strategy.

Agreed as a final version by the Trustee of the Covrad Heat Transfer Limited Pension Scheme on 17th December 2021

Appendix

Appendix

Strategic Asset Allocation

The Scheme has a strategic asset allocation as set out in the table below:

Asset Class	Fund	Allocation	Control Range
Index Linked Gilts	LGIM Under 15 Year Index-Linked Gilts Index Fund	19.5%	+/- 4%
	LGIM Over 15 Year Index-Linked Gilts Index Fund	14.0%	+/- 3%
Fixed Interest Gilts	LGIM Under 15 Year Gilts Index Fund	19.5%	+/- 4%
	LGIM Over 15 Year Gilts Index Fund	47.0%	+/- 10%
Total		**100.0%**	

Rebalancing and Cashflow Management

The Trustee recognises that the asset allocation of investments will vary over time due to market movements. The Trustee seeks to keep the asset allocation in line with its benchmark but is cognisant of the costs of rebalancing.

Where possible, cash outflows will be met from the income of the Scheme's assets to minimise transaction costs. Where income is insufficient monies will be raised through the sale of assets so as to move the allocation closer to the central benchmark allocation subject to consideration of liquidity issues, transaction costs, market conditions and the speed with which monies are required. Similarly, where cashflows in are received, the money will be invested in such a way as to bring the allocation into line with the central benchmark allocation.

Investment Managers

The table below shows the investment manager that the Trustee has appointed to carry out the day to day management of the assets, as well as the funds that they manage, their benchmarks and relevant objectives.

Investment Manager	Fund	Benchmark	Objective
LGIM	Under 15 Year Index-Linked Gilts Index Fund	FTSE Actuaries UK Index-Linked Gilts up to 15 Years Index	Track benchmark within +/- 0.25% p.a. for two years out of three
	Over 15 Year Index-Linked Gilts Index Fund	FTSE Actuaries UK Index-Linked Gilts Over 15 Years Index	Track benchmark within +/- 0.25% p.a. for two years out of three
	Under 15 Year Gilts Index Fund	FTSE Actuaries UK Gilts up to 15 Years Index	Track benchmark within +/- 0.25% p.a. for two years out of three
	Over 15 Year Gilts Index Fund	FTSE Actuaries UK Gilts Over15 Years Index	Track benchmark within +/- 0.25% p.a. for two years out of three

Utmost Life and Aviva are appointed as provider of AVC services.

Scottish Widows is the bulk annuity provider.

Fees

The fee arrangements for the investment managers are summarised below:

Investment Manager	Fund	Annual Management Charge
LGIM	LGIM Under 15 Year Index-Linked Gilts Index Fund	0.1% p.a.
	LGIM Over 15 Year Index-Linked Gilts Index Fund	0.1% p.a.
	LGIM Under 15 Year Gilts Index Fund	0.1% p.a.
	LGIM Over 15 Year Gilts Index Fund	0.1% p.a.

LGIM Scheme charge of £1,500 p.a. in addition to the Annual Management Charge.

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