PENSION AND ASSURANCE SCHEME OF BMS ASSOCIATES LIMITED
STATEMENT OF INVESTMENT PRINCIPLES

JULY 2019

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1 INTRODUCTION

This Statement of Investment Principles ("the Statement") has been prepared by the Trustee Directors of the Pension and Assurance Scheme of BMS Associates Limited ("the Scheme") in accordance with Section 35 of the Pensions Act 1995, as amended, and its attendant Regulations.

The Statement outlines the principles governing the investment policy of the Scheme and the activities undertaken by the Trustee Directors to ensure the effective implementation of these principles.

In preparing the Statement, the Trustee Directors have:

- Obtained and considered written advice from a suitably qualified individual, employed by their investment consultants, JLT Employee Benefits (JLT EB), a trading name of JLT Benefit Solutions Limited, ("JLT"), whom they believe to have a degree of knowledge and experience that is appropriate for the management of their investments; and
- Consulted with the Sponsoring Employer, although they affirm that no aspect of their strategy is restricted by any requirement to obtain the consent of the Sponsoring Employer.

The advice and the consultation process considered the suitability of the Trustee Directors' investment policy for the Scheme.

The Trustee Directors will review the Statement formally at least every three years to coincide with the triennial Actuarial Valuation or other actuarial advice relating to the Statutory Funding Requirements. Furthermore, the Trustee Directors will review the Statement without delay after any significant change in investment policy. Any changes made to the Statement will be based on written advice from a suitably qualified individual and will follow consultation with the Sponsoring Employer.

2 INVESTMENT OBJECTIVES

The Trustee Directors’ primary investment objective for the Scheme is to achieve an overall rate of return that is sufficient to ensure that assets are available to meet all liabilities as and when they fall due.

In doing so, the Trustee Directors also aim to maximise returns at an acceptable level of risk taking into consideration the circumstances of the Scheme.

The Trustee Directors have received confirmation from the Scheme Actuary during the process of revising the investment strategy that their investment objectives and the resultant investment strategy are consistent with the actuarial valuation methodology and assumptions used in the Statutory Funding Objective.

3 INVESTMENT RESPONSIBILITIES

3.1. Trustee Directors' Duties and Responsibilities

The Trustee Directors are responsible for setting the investment objectives and determining the strategy to achieve the objectives. They carry out their duties and fulfil their responsibilities as a single body.

The duties and responsibilities of the Trustee Directors include, but are not limited to, the following tasks and activities:

- The regular approval of the content of the Statement
- The appointment and review of the Investment Manager and investment adviser
- The assessment and review of the performance of each investment manager
- The setting and review of the parameters within which the Investment Manager can operate
- The assessment of the risks assumed by the Scheme at total scheme level and manager by manager
- The approval and review of the asset allocation benchmark for the Scheme
- The compliance of the investment arrangements with the principles set out in the Statement

3.2. Investment Adviser's Duties and Responsibilities

The Trustee Directors have appointed JLT EB as the independent investment adviser to the Scheme. JLT EB provides advice as and when the Trustee Directors require it, as well as raising any investment-related issues, of which it believes the Trustee Directors should be aware. Matters on which JLT EB expects to provide advice to the Trustee Directors include the following:

- Setting of investment objectives
- Determining investment strategy and asset allocation
- Determining an appropriate investment structure
- Liaising with JLT Investment Management ("JLT IM") to determine funds and investment managers that are suitable to meet the Trustee Directors' objectives
- Monitoring the underlying investment managers to ensure their continuing appropriateness to the mandates given
- Setting cashflow management (investment and withdrawal) policies (see Appendix 2)

Section 3.3 describes the responsibilities of JLT IM as investment manager to the Scheme.

The Trustee Directors may seek advice from JLT EB with regard to both strategic and tactical investment decisions (see Section 4 - Investment Strategy); however, they recognise that they retain responsibility for all such decisions, including those that concern investments and disinvestments relating to cashflows (see Appendix 2). JLT EB may be proactive in advising the Trustee Directors regarding tactical investment decisions; however, there is no responsibility placed on JLT EB to be proactive in all circumstances.

JLT EB monitors the performance of the Scheme's investment managers against their benchmarks.

JLT makes a fund based charge. This charge covers the services of both JLT IM and JLT EB as specified within their respective agreements.

Any additional services provided by JLT EB will be remunerated primarily on a time-cost basis.

JLT EB does not receive commission or any other payments in respect of the Scheme that might affect the impartiality of its advice, and as noted below, any discounts negotiated by JLT IM with the underlying managers are passed on in full to the Scheme.

The Trustee Directors are satisfied that this is the most appropriate adviser remuneration structure for the Scheme.

JLT is authorised and regulated by the Financial Conduct Authority ("FCA").

3.3. Investment Managers' Duties and Responsibilities

The Trustee Directors, after considering appropriate investment advice, have appointed JLT IM as investment manager to the Scheme.

The key duty of JLT IM is to select investment managers suitable to each mandate within the Trustee Directors' agreed asset allocation.

If a manager is significantly downgraded by JLT's Manager Research Team, JLT IM will replace that manager with a suitable alternative, after appropriate discussion with the Trustee.

JLT IM is also responsible for appointing a suitable Platform provider, which will provide the infrastructure to support the Scheme's investments and host the underlying investment managers' funds. The current Platform provider is Mobius Life Limited, whose appointment foregoes the need for a Custodian. Mobius Life Limited is authorised by the Prudential Regulation Authority ("PRA") and regulated by the FCA and the PRA.

The underlying investment managers are responsible for all decisions concerning the selection and de-selection of the individual securities within the portfolios they manage.

In the case of multi-asset mandates, the underlying investment managers are responsible for all decisions concerning the allocation to individual asset classes and changes in the allocations to individual asset classes.

JLT IM is authorised and regulated by the FCA.

All of the Investment Managers that are engaged by the Trustee Directors are authorised and regulated by the FCA or the PRA home state regulator.

The underlying investment managers are remunerated by ad valorem charges based on the value of the assets that they manage on behalf of the Scheme. Discounts have been negotiated by JLT IM with the underlying managers on their standard charges.

JLT IM makes a fund based charge for the services it provides. This charge is specified in the contractual agreement between the Trustee Directors and JLT IM.

JLT IM does not receive commission or any other payments in respect of the Scheme that might affect the impartiality of its actions and any discounts negotiated by JLT IM with the underlying managers are passed on in full to the Scheme. The Trustee Directors believe that this is the most appropriate basis for remunerating managers.

3.4. Summary of Responsibilities

A summary of the responsibilities of all relevant parties, including the Scheme Actuary and the administrators, so far as they relate to the Scheme's investments, is set out at Appendix 4.

4 INVESTMENT STRATEGY

4.1. Setting Investment Strategy

The Trustee Directors have determined their investment strategy after considering the Scheme's liability profile and requirements of the Statutory Funding Objective, their own appetite for risk, the views of the Sponsoring Employer on investment strategy, the Sponsoring Employer's appetite for risk, and the strength of the Sponsoring Employer's covenant. The Trustee Directors have also received written advice from their Investment Adviser.

Taking all of these factors into consideration, the Trustee Directors have determined that the benchmark asset allocation, as set out in Appendix 1, is suitable for the Scheme.

In making this decision, the Trustee Directors have been satisfied that this is consistent with its investment objectives and is supported by both the Sponsoring Employer and the Sponsoring Employer's covenant.

In respect of the investment of contributions and any disinvestments to meet member benefit payments, the Trustee Directors have decided on a structured approach to rebalance the assets in accordance with the overall strategy. This approach is set out in Appendix 2.

4.2. Investment Decisions

The Trustee Directors distinguish between three types of investment decision: strategic, tactical and stock-level.

Strategic Investment Decisions

These decisions are long-term in nature and are driven by an understanding of the objectives, needs and liabilities of the Scheme.

The Trustee Directors take all such decisions themselves. They do so after receiving written advice from their investment adviser and consulting with the Sponsoring Employer. Examples of such decisions and of tasks relating to the implementation of these decisions include the following:

- Setting investment objectives
- Determining the split between the growth and the stabilising portfolios
- Determining the allocation to asset classes within the growth and stabilising portfolios
- Determining the Scheme benchmark
- Reviewing the investment objectives and strategic asset allocation

Tactical Investment Decisions

These decisions are short-term and based on expectations of near-term market movements. Such decisions may involve deviating temporarily from the strategic asset allocation and may require the timing of entry into, or exit from, an investment market or asset class.

These decisions are the responsibility of the Trustee Directors. However, where such decisions are made within a pooled fund, they are the responsibility of the investment manager of the fund.

Stock Selection Decisions

All such decisions are the responsibility of the investment managers of the pooled fund in which the Scheme is invested.

4.3. Types of Investments to be Held

The Trustee Directors are permitted to invest across a wide range of asset classes.

All the funds in which the Scheme invests are pooled and unitised. The use of derivatives is as permitted by the guidelines that apply to the pooled fund.

The Trustee Directors recognise the benefits of diversification across growth asset classes, as well as within them, in reducing the risk that results from investing in any one particular market. The Trustee Directors have therefore decided to invest in Diversified Growth Funds (DGFs), which are actively managed multi-asset funds. The managers of the DGFs invest in a wide range of assets and investment contracts in order to implement their market views.

The Trustee Directors note that the actuarial value of the Scheme's future benefits payments to members is sensitive to changes in long term interest rates and long term inflation expectations. The Trustee Directors have decided to invest in Liability Driven Investment ("LDI") funds which aim to respond in a similar way to changes in these factors and reduce the volatility of the Scheme's funding position. This is referred to as hedging.

4.4 Financially Material Considerations

The Trustees understand that they must consider all factors that have the ability to impact the financial performance of the Scheme's investments over the appropriate time horizon. This includes, but is not limited to, environmental, social and governance (ESG) factors.

The Trustees recognise that ESG factors, such as climate change, can influence the investment performance of the Scheme's portfolio and it is therefore in members' and the Scheme's best interests that these factors are taken into account within the investment process.

As noted earlier, the Scheme's assets are invested in pooled funds. The Trustees accept the fact that they have very limited ability to influence the ESG policies and practices of the companies in which its managers invest.

The Trustees have reviewed the ESG policies of its managers and concluded that they are appropriate. The Trustees will therefore rely on the policies and judgement of its investment managers when assessing the impact on the value of the Schemes investments.

4.5 Non-Financial Considerations

The Trustees only consider factors that are expected to have a financial impact on the Scheme's investments. Non-financial considerations, such as ethical views, are not implemented in the current investment strategy.

4.6 Corporate Governance and Voting Policy

The Trustees have concluded that the decision on how to exercise voting rights should be left with their investment managers, who will exercise these rights in accordance with its respective published corporate governance policies. These policies, which are provided to the Trustees from time to time, take into account the financial interests of shareholders and should be for the Scheme's benefit.

Where the Trustees are specifically invited to vote on a matter relating to corporate policy, the Trustees will exercise their right in accordance with what it believes to be the best interests of the majority of the Scheme's membership.

4.7 Stewardship

JLT IM and JLT EB will monitor the performance, strategy, risks, ESG policies and corporate governance of the investment managers on behalf of the Trustees. If the Trustees have any concerns, it will raise them with JLT IM or JLT EB, verbally or in writing.

5 RISK

Under the Pensions Act 2004, the Trustee Directors are required to state their policy regarding the ways in which risks are to be measured and managed. These are set out below.

Solvency Risk and Mismatching Risk

- These are measured through a qualitative and quantitative assessment of the expected development of the assets relative to the liabilities.
- These are managed by setting a scheme-specific strategic asset allocation with an appropriate level of risk.

Manager Risk

- This is assessed as the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy.
- It is measured by monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment process, and by appointing JLT IM to monitor and replace any managers where concerns exist over their continued ability to deliver the investment mandate.

Liquidity Risk

- This is monitored according to the level of cashflows required by the Scheme over a specified period.
- It is managed by holding an appropriate amount of readily realisable investments. The Scheme's assets are invested in pooled funds which are readily realisable.

Political Risk

- This is measured by the level of concentration in any one market leading to the risk of adverse influence on investment values arising from political intervention.
- It is managed by regular reviews of the investments and through investing in funds which give a wide degree of diversification.

Corporate Governance Risk

- This is assessed by reviewing the Scheme's investment managers' policies regarding corporate governance.
- It is managed by delegating the exercise of voting rights to the managers, who exercise this right in accordance with their published corporate governance policies. Summaries of these policies are available to the Trustee Directors and take into account the financial interests of the shareholders, which should ultimately be to the Scheme's advantage.

Sponsor Risk

- This is assessed as the level of ability and degree of willingness of the sponsor to support the continuation of the Scheme and to make good any current or future deficit.
- It is managed by assessing the interaction between the Scheme and the sponsor's business, as measured by a number of factors, including the creditworthiness of the sponsor and the size of the pension liability relative to the sponsor. Regular updates on employer covenant are provided to the Trustee Directors by senior staff of the sponsor.

Legislative Risk

- This is the risk that legislative changes will require action from the Trustee Directors so as to comply with any such changes in legislation.

- The Trustee Directors acknowledge that this risk is unavoidable but will seek to address any required changes so as to comply with changes in legislation.

Credit Risk

- This is the risk that is associated with the inability of a borrower to repay, in full or part the monies which it owes to a creditor.
- The Scheme invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles and is indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles.
- The Scheme's holdings in pooled investment vehicles are unrated. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements.
- Indirect credit risk arises in relation to underlying bond investments held in the pooled funds. This risk is mitigated by investing in funds with diversified portfolios and in respect of the LDI funds is managed by the investment manager's counterparty management and collateralisation procedures.

Currency Risk

- This is the risk that occurs when the price of one currency moves relative to another (reference) currency. In the context of a UK pension scheme, it may be invested in overseas stocks or assets, which are either directly or indirectly linked to a currency other than Sterling. There is a risk that the price of that overseas currency will move in such a way that devalues that currency relative to Sterling, thus negatively impacting the overall investment return.
- This risk is managed by investing the growth assets in DGFs. Within the DGFs the management of currency risk related to overseas investments is delegated to the underlying investment managers. However, the DGFs have a Sterling benchmark and by investing in a diversified investment portfolio, the impact of currency risk is mitigated.

Interest Rate Risk

- This is the risk that an investment's value will change due to a change in the level of interest rates. This affects debt instruments more directly than growth instruments.
- The Trustee Directors recognise that the Scheme's liabilities are exposed to a significant level of interest rate risk movement and for this reason it is desirable for the Scheme's assets to be exposed to interest rate risk and the Trustee Directors have invested in LDI funds to partially manage this risk.

Other Price Risk

- This is the risk of volatility that principally arises in relation to the return seeking assets.
- The Trustee Directors acknowledge that a scheme can manage its exposure to price risk by investing in a diverse portfolio across various markets and have therefore invested the Scheme's return seeking assets in DGFs in order to achieve a diversified exposure to different investment markets and manage this risk.

6 MONITORING OF INVESTMENT ADVISER AND MANAGERS

6.1. Investment Adviser

The Trustee Directors continually assess and review the performance of their adviser in a qualitative way.

6.2. Investment Managers

The Trustee Directors receive quarterly monitoring reports on the performance of the underlying investment managers from JLT EB.

The reporting reviews the performance of the Scheme's individual funds against their benchmarks, of the Scheme's assets in aggregate against the Scheme's strategic benchmark and of the Scheme's assets compared to expected changes in the value of its liabilities.

7 ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

The Scheme has Additional Voluntary Contributions ('AVC') contracts with Standard Life and Aviva for the receipt of members' AVCs. There are also contracts with Standard Life for the receipt of Retirement Account Plan contributions. These arrangements are reviewed from time to time.

8 CODE OF BEST PRACTICE

The Trustee Directors are aware of the recommendations of the Myners report with respect to greater transparency within their Statement. The Trustee Directors will review their compliance in due course.

The six principles are detailed in Appendix 5.

9 COMPLIANCE

The Scheme's Statement of Investment Principles and annual report and accounts are available to members on request.

A copy of the Scheme's current Statement plus Appendices is also supplied to the Sponsoring Employer, the Scheme's auditors and the Scheme Actuary.

This Statement of Investment Principles, taken as a whole with the Appendices, supersedes all others and was approved by the Trustee Directors on ....

Signed on behalf of the Trustee Directors by.. ....

On ....

Full Name ....

Position ....

APPENDIX 1: ASSET ALLOCATION BENCHMARK

The Scheme's initial strategic asset allocation benchmark is set out below.

Asset Class	Strategic Allocation (%)	Guideline Range (%)
Growth Assets	**85**	**+/- 15**
Diversified Growth	85	+/- 15
Stabilising Assets	**15**	**+/- 15**
LDI – Real	7.5	+/- 7.5
LDI – Nominal	7.5	+/- 7.5
Total	**100**	

The policy for rebalancing and investment / disinvestment of cashflows is set out in Appendix 2.

Appendix 3 provides information about the selection of investment managers at outset. However, it is noted this is subject to change depending on the rating review by JLT MRT.

APPENDIX 2: CASHFLOW AND REBALANCING POLICY

Rebalancing Policy

The asset allocation will be monitored by the Investment Manager and a suitable procedure has been put in place for rebalancing.

Details of this procedure are specified in the Investment Management Agreement (IMA) with JLT IM.

Any change to the Central Allocation or guideline range will require a signed revision to the IMA.

Cashflows Policy

The Trustee Directors have put in place a suitable procedure for managing the Scheme’s cashflows.

Details of this procedure are specified in the IMA with JLT IM.

For avoidance of doubt, this Statement will not be revised purely in relation to a change in cashflow policy.

LDI Recapitalisation

The Trustee Directors note that the LDI manager may require additional assets from time to time in order to support the operation of the LDI funds or may release assets from time to time. The Trustee Directors have put in place a policy regarding this recapitalisation/release procedure.

This policy is set out in the IMA with JLT IM.

APPENDIX 3: INVESTMENT MANAGER INFORMATION

The Scheme invests with the following investment managers at outset:

- Invesco Fund Managers Limited (“Invesco Perpetual”)
- Threadneedle Pensions Limited (“Threadneedle”)
- Baillie Gifford & Co Limited (“Baillie Gifford”)
- Pictet Asset Management Limited (“Pictet”)
- BMO Global Asset Management (“BMO”)

The tables below show the details of the mandate(s) with each manager.

Growth Assets

Manager / Fund	Benchmark	Objective	Dealing Frequency
Diversified Growth			
Invesco Perpetual Global Targeted Returns	3-month LIBOR	5% per annum above the UK 3-month LIBOR (gross of fees) over a rolling three-year periods.	Daily
Threadneedle Multi Asset Fund	Bank of England Base Rate	To outperform the UK base rate by 4% p.a. (gross of fees)	Daily
Baillie Gifford Diversified Growth	Bank of England Base Rate	At least 3.5% p.a. ahead of the UK base rates (net of fees)	Daily
Pictet Multi Asset Portfolio	3-month LIBOR	3-month LIBOR + 4% (net of fees) over a 3-5 year period	Daily

STABILISING ASSETS

Manager / Fund	Benchmark	Objective	Dealing Frequency
Liability Driven Investments			
BMO F&C Real Dynamic LDI Fund	Cashflows for a typical pension scheme	To track a set of cashflows resembling a typical scheme, which will mature through time.	Daily
BMO F&C Nominal Dynamic LDI Fund	Cashflows for a typical pension scheme	To track a set of cashflows resembling a typical scheme, which will mature through time.	Daily

APPENDIX 4: RESPONSIBILITIES OF PARTIES

Trustee Directors

The Trustee Directors' responsibilities include the following:

- Reviewing at least triennially, and more frequently if necessary, the content of this Statement in consultation with the Investment Adviser and modifying it if deemed appropriate
- Reviewing the investment strategy following the results of each actuarial review, in consultation with the Investment Adviser and Scheme Actuary
- Appointing the Investment Manager(s) and custodian (if required)
- Assessing the quality of the performance and processes of the Investment Manager(s) by means of regular reviews of investment returns and other relevant information, in consultation with the Investment Adviser
- Consulting with the Sponsoring Employer regarding any proposed amendments to this Statement
- Monitoring compliance of the investment arrangements with this Statement on a continuing basis

Investment Adviser

The Investment Adviser’s responsibilities include the following:

- Participating with the Trustee Directors in reviews of this Statement of Investment Principles
- Production of performance monitoring reports
- Advising the Trustee Directors, at their request, on the following matters:
  - Through consultation with the Scheme Actuary, how any changes within the Scheme’s benefits, membership, and funding position may affect the manner in which the assets should be invested
  - How any significant changes in the Investment Managers’ organisation could affect the interests of the Scheme
  - How any changes in the investment environment could present either opportunities or problems for the Scheme
- Undertaking project work, as requested, including:
  - Reviews of asset allocation policy
  - Research into and reviews of Investment Managers
- Advising on the selection of new managers and/or custodians

Investment Managers

As noted in this SIP, JLT IM has been appointed as Investment Manager and will select underlying investment managers on behalf of the Trustee Directors.

JLT IM’s responsibilities include the following:

- Providing the Trustee Directors on a quarterly basis (or as frequently as required) with a statement and valuation of the assets
- Having regard to the need for diversification of investments, so far as appropriate for the particular mandate, and to the suitability of investments
- Managing the Scheme’s assets in accordance with the mandate set out in the IMA
- Appointing a suitable Platform provider on behalf of the Trustee Directors

The responsibilities of the underlying investment managers include:

- Informing the Platform provider of any changes in the internal performance objectives and guidelines of their funds

- Having regard to the need for diversification of investments, so far as appropriate for the particular mandate, and to the suitability of investments
- Managing their funds in accordance with their stated mandates

Scheme Actuary

The Scheme Actuary's responsibilities include the following:

- Liaising with the Investment Adviser regarding the suitability of the Scheme's investment strategy given the financial characteristics of the Scheme
- Assessing the funding position of the Scheme and advising on the appropriate response to any shortfall
- Performing the triennial (or more frequent, as required) valuations and advising on the appropriate contribution levels

Administrator

The Administrator's responsibilities include the following:

- Ensuring there is sufficient cash available to meet benefit payments as and when they fall due
- Paying benefits and making transfer payments
- Investing contributions not required to meet benefit payments with the Investment Managers according to the Trustee Directors' instructions.

APPENDIX 5: GOVERNANCE – MYNERS PRINCIPLES

The six Myners principles are as follows:

Trustee Directors should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation. Trustee Directors should have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.

Trustee Directors should set out an overall investment objective(s) for the Scheme that takes account of the Scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the Trustee Directors and the sponsor, and clearly communicate these to advisers and investment managers.

In setting and reviewing their investment strategy, Trustee Directors should take account of the form and structure of liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

Trustee Directors should arrange for the formal measurement of the performance of the investments, investment managers and advisers. Trustee Directors should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members

Trustee Directors should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents. A statement of the Scheme's policy on responsible ownership should be included in the Statement of Investment Principles (SIP). Trustee Directors should report periodically to members on the discharge of such responsibilities

Trustee Directors should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. Trustee Directors should provide regular communication to members in the form they consider most appropriate (e.g. Statement of Investment Principles, including Statement of Funding Principles; Websites / helplines (for larger schemes); and annual report and accounts).