

## **Dehns Retirement Benefits Scheme**

### **Statement of Investment Principles – September 2023**

#### **1. Introduction**

The Trustees of the Dehns Retirement Benefits Scheme (“the Scheme”) have drawn up this Statement of Investment Principles (“the Statement”) to comply with the requirements of Section 35 of the Pensions Act 1995 (“the Act”), and subsequent legislation. The Statement is intended to affirm the investment principles that govern decisions about the Scheme’s investments.

In preparing this Statement, the Trustees have consulted with the sponsoring employer and obtained written advice from Mercer Limited (“Mercer”), who the Trustees reasonably believe to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments. Where matters described in this Statement may affect the Scheme’s funding policy, input has also been obtained from the Scheme Actuary.

The Statement is subject to review by the Trustee at least once every three years, and in particular following formal actuarial valuations and investment strategy reviews.

#### **2. Scheme Governance**

Investment decisions are made collectively by the whole Trustee Board.

The Investment Manager is responsible for day-to-day management of the Scheme’s assets in accordance with guidelines agreed with the Trustees. The Investment Manager has discretion to buy, sell or retain individual securities in accordance with these guidelines.

The Scheme Actuary performs a valuation of the Scheme at least every three years, in accordance with regulatory requirements. The main purpose of the actuarial valuation is to assess the extent to which the assets cover the accrued liabilities and agree an appropriate funding strategy for the Scheme.

The Trustees consider that the governance structure that they employ is appropriate for the Scheme, as it allows the Trustees to make the important decisions on investment policy, while delegating the day-to-day aspects to the manager or other advisers as considered appropriate.

#### **3. Investment Objectives**

The Trustees’ overriding objective is to invest the Scheme’s assets in the best interest of the members and other stakeholders and, in the case of a potential conflict of interest, in the sole interest of the members. Within this framework, the Trustees’ primary aim is to ensure all benefits, as defined in the Scheme Rules, in respect of Scheme members and their beneficiaries, are paid when they fall due.

The investment objective is linked to the funding objective. The funding objective aims to meet the benefits over the long term from a combination of contributions and investment return. The Trustees aim to maximise the return achieved on the Scheme's assets through maintaining a balanced and prudent investment exposure, subject to an acceptable level of risk with reference to the liabilities held and contributions agreed. The Trustees are aware that by focussing on long-term expected returns, the assets of the Scheme will be subject to short-term fluctuations, which may affect the funding position of the Scheme from time to time.

Over the longer term, the Trustees would like to adopt a 'self-sufficiency' approach, where affordable, whereby the Scheme's assets are less risky and there is a reduced probability of a funding deficit opening up in the future.

#### **4. Risk Measurement and Management**

The Trustees recognise that it is necessary to take some degree of investment risk to meet the objectives outlined in Section 3.

In formulating the investment objective the Trustees believe the following risks to be financially material over the lifetime of the Scheme:

- The risk of a deterioration in the Scheme's ongoing funding level;
- The risk that change in financial conditions can lead to a substantial shortfall of assets relative to the liabilities;
- The risk of the appointed manager underperforming its objectives, failing to carry out operational tasks, not ensuring safe-keeping of assets or breaching agreed guidelines;
- The risk of an adverse influence on investment values from the poor performance of underlying investments and/or lack of diversification leading to an underperformance relative to the funding objective;
- The risk that the day-to-day management of the assets will not achieve the rate of investment return within each asset class expected by the Trustees;
- The risk that the return on markets after allowing for inflation is less than expected;
- The risk that the Scheme's assets cannot be realised at short notice in line with member demand;
- The risk that the sponsoring employer is not able and/or willing to support the Scheme;
- The risk that climate change may impact the value of investments, due to its effect on natural and human systems, across geographical regions. However, due to the inherent uncertainty, the Trustees have not made explicit allowance for it when determining the investment strategy.

The Trustees regularly monitor the investment risks the Scheme is exposed to. There are clear strategic risk and return objectives for each investment mandate. The performance of individual investment mandates and the aggregate portfolio is assessed relative to these objectives on a regular basis. As appropriate, the Trustees will take action to ensure that the individual investment mandates and aggregate portfolio remain appropriate given the Scheme's overall objectives.

In addition to targeting an appropriate overall level of investment risk, the Trustees seek to spread risks across a range of different sources. The Trustees aim to take on those risks for which the Trustees expect to be rewarded over time, in the form of excess returns. The Trustees believe that diversification limits the impact of any single risk.

The Trustees expect the chosen investment manager to monitor and control other investment risks, within the mandate for the funds offered by them, e.g. credit risk within a bond portfolio, currency risk etc. The Trustees also expect them to ensure that suitable internal operating procedures are in place to control individuals making investments for the funds.

The Trustees believe that the arrangements adopted represent a satisfactory trade-off between target return (net of all costs) and investment risk after taking into account the resources available to implement and monitor the arrangements.

In addition, the Trustees are required to provide narrative disclosures in their Annual Report and Accounts on the credit and market risks arising from the investment arrangements of the Scheme. These risks are defined as follows:

- **Credit risk:** this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
- **Market risk:** this is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk, each of which is further detailed as follows:
  - *Currency risk:* this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
  - *Interest rate risk:* this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
  - *Other price risk:* this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

## 5. Investment Strategy

The Trustees consider that the selection of asset classes has the greatest effect in meeting the investment objectives and therefore the focus of their attention is on this before they consider other aspects.

Following an improvement in the Scheme's funding position over 2022 as a result of a notable increase in gilt yields the Trustees carried out an investment strategy review in March 2023. In order to set the Scheme's investment strategy in line with the investment and funding objectives, the Trustees considered the long-term expected performance of a range of asset classes available with the incumbent investment manager ("Scottish Widows").

The Trustees believe the agreed investment strategy below takes a sufficient and suitable level of investment risk to generate an expected outperformance over gilts (in line with the Scheme Actuary's assumption used for setting the Scheme's future contribution rates) over the long term whilst also reducing risk relative to the previous investment strategy.

<b>Fund</b>	<b>Asset Allocation</b>
<b>Total Growth Portfolio</b>	<b>50%</b>
Scottish Widows Managed	42%
Scottish Widows Property	8%
<b>Total Matching Portfolio</b>	<b>50%</b>
Scottish Widows PM UK Long Corporate Bond	8%
Scottish Widows PM Index Linked Gilt Tracker	28%
Scottish Widows Protection Pn	13%
Scottish Widows PM Cash	1%
<b>Total</b>	<b>100%</b>

Whilst the Trustees do not have strict control ranges, the Scheme's asset allocation is monitored regularly and will be rebalanced as deemed necessary.

The expected return on investments will be in line with the target investment strategy which is set to support the technical provisions discount rate and is aligned with the Trustees' long term funding target.

## 6. Management of assets

### Day to day management of the assets

The Trustees delegate the day-to-day management of the assets to the investment manager. The Trustees have taken steps to satisfy themselves that the manager has the appropriate knowledge and experience for managing the Scheme's investments and that they are carrying out their work competently.

The Trustees review the continuing suitability of the Scheme's investments as well as the appointed manager. Any adjustments will be done with the aim of ensuring the overall level of risk and return is consistent with that being targeted.

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 for.

As the Trustees invest in pooled investment vehicles they accept that they have no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy.

#### Investment Restrictions

The Trustees have not set any investment restrictions on the appointed Manager in relation to particular products or activities, but may consider this in future.

#### Realisation of Investments

The Trustees regularly assess the liquidity profile of the assets to ensure that the overall position is appropriate for the Scheme's needs.

#### Rebalancing

The Trustees monitor the allocation between asset classes and will rebalance the portfolio as and when necessary.

#### Monitoring the Investment Manager

Performance is sourced from the underlying manager and valuations reports are available when required by the Trustees. As required, the Trustees will liaise with the investment adviser to discuss the underlying investment manager performance, activity and strategy.

## **7. Responsible Investment and Corporate Governance**

#### Financially material considerations and Stewardship

The Trustees believe that good stewardship and environmental, social and governance ("ESG") issues may have a material impact on investment risk and returns. The Trustees also recognise that long-term sustainability issues, particularly, but not limited to, climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustees have given the manager full discretion when evaluating ESG issues and in exercising voting rights and stewardship obligations attached to the Scheme's investments. This includes engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest and risks, in accordance with their own corporate governance policies, and taking account of

current best practice including the UK Corporate Governance Code and the UK Stewardship Code.

The Trustees do not monitor or engage directly with issuers or other holders of debt or equity. They expect the manager to exercise ownership rights and undertake monitoring and engagement in line with the manager's general policies on stewardship, as provided to the Trustees from time to time, considering the long-term financial interests of the beneficiaries.

Managers will be expected to report on their own ESG policies and voting activity (as relevant) as and when requested by the Trustees.

## **8. Non-Financial Matters**

The Trustees do not take into account any non-financial matters (i.e. matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

## **9. Investment Manager Appointment, Engagement and Monitoring**

### **9.1 Aligning Manager Appointments with Investment Strategy**

The managers are appointed by the Trustees based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and desired risk characteristics.

If the investment objective for a particular manager's fund changes, the Trustees will review the fund appointment to ensure that it remains appropriate and consistent with the wider Trustees' investment objectives.

The Scheme's investments are all made through pooled investment vehicles. The Trustees accept that they have no ability to specify the risk profile and return targets of the manager. Such issues are taken into consideration when selecting and monitoring the manager to align with the overall investment strategy requirements.

### **Incentivising Managers to Consider Long-Term Financial and Non-financial Performance**

The Trustees can challenge decisions made from the underlying manager including voting history and engagement activity to ensure the best performance over the medium to long term.

The manager is aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed. If the Trustees are dissatisfied, then they will consider replacing the manager.

### **Evaluating Investment Manager Performance and Remuneration**

Performance is sourced from the underlying manager and valuations reports are available when required by the Trustees.

The Trustees' focus is primarily on long-term performance but, as noted above, may review a manager's appointment if:

- There are sustained periods of underperformance;
- There is a change in the portfolio manager or portfolio management team;
- There is a change in the underlying objectives of the investment manager.

The manager is remunerated by way of a fee calculated as a percentage of assets under management.

If managers are not meeting performance objectives, or investment objectives for mandates have changed, the Trustees may ask the investment advisor or investment manager to review the Annual Management Charge or decide to switch managers.

#### Portfolio Turnover Costs

The Trustees do not currently monitor portfolio turnover costs.

The Trustees will continue to monitor industry improvements concerning the reporting of portfolio turnover costs. In future, the Trustees may ask managers to report on portfolio turnover cost. They may assess this by comparing portfolio turnover across the same asset class, on a year-on-year basis for the same manager fund, or relative to the manager's specific portfolio turnover range in the investment guidelines or prospectus.

#### Manager Turnover

The Trustees are long-term investors and are not looking to change the investment arrangements on a frequent basis.

For open-ended funds (which all of the Scheme's assets are invested in), there is no set duration for the manager appointments. The Trustees will therefore retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;
- The manager appointed has been reviewed and the Trustees have decided to terminate the mandate.

### **10. Compliance With and Review of This Statement**

The Trustees will monitor compliance with this Statement.

On a regular basis, the Trustees will review this Statement in response to any material changes to any aspects of the Scheme, its liabilities, finances and the attitude to risk of the Trustees and the sponsoring employer, which it judges to have a bearing on the stated Investment Policy.

**For and on behalf of the Trustees of the Dehns Retirement Benefits Scheme**



**ADAM YATES**

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Trustee

**14 March 2024**

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Date



**REBECCA GARDNER**

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Trustee

**14 March 2024**

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Date