W.A. Fairhurst & Partners Staff Pension Fund

Statement of Investment Principles

September 2020

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01 **Introduction**

This document constitutes the Statement of Investment Principles ('the SIP') required under Section 35 of the Pensions Act 1995 for the W.A. Fairhurst & Partners Staff Pension Fund ('the Fund'). It describes the investment policy being pursued by the W.A. Fairhurst Trust Company Limited ('the Trustee Directors') and is in accordance with the Government's voluntary code of conduct for Institutional Investment in the UK ("the Myners Principles"). This SIP also reflects the requirements of Occupational Pension Schemes (Investment) Regulations 2005.

The Scheme Actuary is Gerry Devenney of XPS Pensions Limited and the Investment Adviser is XPS Investment Limited (collectively termed 'the Advisers').

The Trustee Directors confirm that, before preparing this SIP, they have consulted with Fairhurst ('the Partnership') and the Scheme Actuary and have obtained and considered written advice from the Investment Adviser. The Trustee Directors believe the Advisers to be qualified by their ability and practical experience of financial matters and to have appropriate knowledge of the investment arrangements that the Fund requires.

The Trustee Directors are responsible for the investment of the Fund's assets and arranges administration of the Fund. Where it is required to make an investment decision, the Trustee Directors always receive advice from the Advisers first and they believe that this ensures that they are appropriately familiar with the issues concerned.

Given the size of the Fund, the Trustee Directors have decided the most cost effective way of investing the Fund assets is to invest in pooled funds managed by an organisation, rather than directly appointing an individual investment manager. Decisions about which pooled funds to invest in are made after receiving investment advice from the Investment Adviser.

01.01 Declaration

The Trustee Directors confirm that this Statement of Investment Principles reflects the Investment Strategy they have implemented and/or intend to implement for the Fund. The Trustee Directors acknowledge that it is their responsibility, with guidance from the Advisers, to ensure the assets of the Fund are invested in accordance with these Principles.

Signed by the Trustee Directors September 2020

Signed **Date**

For and on behalf of the Trustee Directors of the W.A Fairhurst & Partners Staff Pension Fund

02 **Scheme Governance**

The Trustee Directors are responsible for the governance and investment of the Fund's assets. The Trustee Directors consider that the governance structure set out in this SIP is appropriate for the Fund, as it allows the Trustee Directors to make the important decisions on investment policy, while delegating the day-to-day aspects to the managers of the pooled funds and seeking advice from the Advisers as necessary. The responsibilities of each of the parties involved in the Fund's governance are detailed in Appendix A.

03 **Investment Objectives**

The Trustee Directors' objectives for the Fund investments are:

> To seek to recover any shortfall in assets relative to the current value placed on future liabilities over the term of the recovery plan;
> To seek to mitigate the impact on the Fund's ongoing funding level arising from changes in economic conditions and investment markets.
> To ensure that the assets of the Fund have a reasonable long-term expectation of being able to meet 100% of benefits as they fall due for payment to members.
> To monitor the funding level on a monthly basis, and automatically trigger a de-risking asset transition in the event of a 2% (or more) improvement in the funding level.

The Fund's investment strategy should be set in accordance with the Fund's Trust Deed and Rules.

The Trustee Directors believe the investment objectives and the resultant investment strategy are consistent with the actuarial valuation methodology and assumptions used by the Scheme Actuary.

04 **Asset Allocation Strategy**

The Trustee Directors have taken the view that the investment objective is best achieved by determining, and investing in accordance with, an appropriate split between "on-risk" assets (e.g. equities, property, high-yield corporate bonds and 'rotational' funds) and "off-risk" assets (e.g. fixed and index-linked gilts and investment grade corporate bonds).

The allocation between the asset classes making up the on-risk and off-risk assets will vary over time to reflect, amongst other factors, the profile of the liabilities, the perceived relative value of the different asset classes and the perceived risk to the investment objective arising from any shortfall in the funding of the Scheme. The current benchmark and target allocation is set out in Appendix C and any changes in such allocations will only be made after receiving written advice from the Investment Advisers that such allocation remains consistent with the investment objectives.

Due to the size of the fund, the Trustee Directors have decided to use pooled funds to invest the Scheme's assets.

04.01 Integrated Risk Management

In order to move to the 'liability-aligned' allocation in the longer term, the Trustee Directors have adopted a trigger-based funding approach. The Trustee Directors, in conjunction with the Advisers, will monitor the actual asset allocation of the Fund on a monthly basis. In the event of a 2% (or more) improvement in the funding level on the ongoing funding basis, the Investment Adviser will automatically arrange for a transition of the assets from return-seeking assets into matching assets to reduce risk. The Trustee Directors also reserve the right to perform such switches on an ad-hoc basis in order to capture the benefit of more incremental gains that may accumulate gradually over a sustained period without ever breaching the 2% trigger in any one month.

In the case of a deterioration in the funding position of 5% or more, the Trustee Directors will consult with the Investment Adviser as to whether or not to change the asset allocation, having regard to any changes in the strength of the employer covenant. Bearing in mind the advice of the Investment Adviser, the Trustee Directors will make this decision and arrange for its execution within a reasonable time period. At the date of signing this Statement of Investment Principles, the Trustee Directors regard the Partnership's covenant as "strong".

04.02 Rebalancing Policy

The proportions invested in each asset class will be managed by the Investment Manager in line with the benchmark set by the Trustee Directors. The Trustee Directors, in conjunction with the Advisers, will monitor the actual asset allocation of the Fund on a regular basis at Trustee Directors' meetings. If the actual allocation moves further than -/+ 10% from the strategic allocation, the Trustee Directors will make a decision as to whether to switch assets back to the strategy following consideration of advice.

04.03 Rates of Return

The target rates of return for each asset class are detailed in Appendix B.

04.04 Diversification

The Trustee Directors have sought to achieve diversification by investing in pooled funds, which have investment restrictions, i.e. funds which impose concentration limits on individual positions and limits on the exposure to individual issuers. Generally speaking each asset class would expect to have different issuers and therefore add to the diversification of the Fund. The Trustee Directors will monitor the strategy regularly to ensure that they remain comfortable with the level of diversification.

04.05 Suitability

The Trustee Directors have taken advice from the Investment Adviser to ensure that the pooled funds selected to implement the investment strategy are suitable.

The Trustee Directors have chosen to hold a significant portion of the Scheme's assets in pooled funds invested in bonds (the 'off-risk' assets) to provide some degree of matching with the Fund's liabilities. A corporate bond fund has been selected in order to benefit from the higher expected long-term returns over fixed interest gilts, and the Trustee Directors consider the additional credit risk to be consistent with the investment objectives.

The aim of the return-seeking assets (e.g. property and diversified growth funds) is to provide additional expected return above that achieved by the off-risk assets, consistent with the investment objectives.

Recognising that non-sterling investments carry an element of currency risk the Trustee Directors have a policy of holding the majority of the assets in Sterling-denominated investments, to match the Fund's liabilities (or employing currency hedging).

04.06 Liquidity

The majority of the assets are held in asset classes that are sufficiently liquid to be realised promptly if the Trustee Directors require, i.e. the Scheme holds units/shares in pooled funds with frequent dealing dates.

04.07 Alignment of Interests

Based on the structure set out in the Appendix, the Trustee Directors consider the arrangements with the Investment Managers to be aligned with the Scheme's overall strategic objectives. Details of each specific mandate are set out in guidelines, agreements and pooled fund documentation with each Investment Manager.

The amounts allocated to any individual category or security will be influenced by the overall benchmark and objectives, varied through the Investment Managers' tactical asset allocation preferences at any time, within any scope given to them through any asset allocation parameters or guidelines set by the Trustee Directors or governing the pooled funds in which the Scheme is invested.

Investment Managers are incentivised to perform in line with expectations for their specific mandate as their continued involvement as Investment Managers as part of the Scheme's investment strategy – and hence the fees they receive – are dependent upon them doing so. They are therefore subject to performance monitoring and reviews based on a number of factors linked to the Trustees Director's expectations, including the selection / deselection criteria.

The Trustee Directors encourage Investment Managers to make decisions in the long-term interests of the Scheme. The Trustee Directors expect engagement with management of the underlying issuers of debt or equity and the exercising of voting rights in line with the investment mandate guidelines provided.

This expectation is based on the belief that such engagement can be expected to help Investment Managers to mitigate risk and improve long term returns.

As covered in more detail in this document, the Trustee Directors also require the Investment Managers to take ESG factors and climate change risks into consideration within their decision-making as the Trustee Directors believe these factors could have a material financial impact in the long-term. The Trustee Directors therefore make decisions about the retention of Investment Managers, accordingly.

05 **Strategy Implementation**

The Trustee Directors have decided to invest in actively managed funds, although the LGIM diversified fund invests in passive funds, and active management is confined to asset allocation decisions.

05.01 Mandate and Performance Objectives

The Trustee Directors have received advice on the suitability of each pooled fund that the Fund is invested in from the Advisers and believe them to be suitable to meet the Fund's investment objectives.

05.02 Manager Agreement

The Trustee Directors have invested in pooled funds and as such there is no formal Manager Agreement setting out the scope of any Investment Manager's activities, its charging basis and other relevant matters. However, Appendix B contains a note on the charging structures set by each organisation for the pooled funds in which the Trustee Directors have decided to invest.

05.03 Diversification

The assets are invested in pooled funds with diversification requirements. Further diversification is achieved by investing in funds offered by two or more organisations. The Trustee Directors will monitor the strategy regularly to ensure that they are comfortable with the level of diversification being achieved.

05.04 Custody

Custody of the underlying assets is at the discretion of the pooled funds, whilst shares and/or units in the funds are held in book form only. Cash is held securely in separate accounts with approved counterparties.

06 **Monitoring**

06.01 Investment Managers

The Trustee Directors will monitor the performance of the funds against their stated performance objectives.

The Trustee Directors, or the Advisers on behalf of the Trustee Directors, will regularly review the performance of the funds to satisfy themselves that the funds remain suitable.

If the Trustee Directors are not satisfied with the performance of the funds they will ask the manager of those funds what steps they intend to take to rectify the situation. If the funds still do not meet the Trustee Directors' requirements, they will look to purchase other funds - potentially with a different manager - after consultation with the Investment Adviser.

06.02 Advisers

The Trustee Directors will monitor the advice given by the Advisers on a regular basis.

06.03 Other

The Trustee Directors are required to review this SIP on a triennial basis, or, without undue delay, following any changes to the investment strategy.

07 **Fees**

07.01 Investment Manager

The Trustee Directors will ensure that the fees charged by funds and their expense ratios are consistent with levels typically available in the industry for similar funds. The current fee basis for each of the funds is set out in Appendix B.

The Trustee Directors are aware of the policy regarding soft commission arrangements for the organisations that run the pooled funds. The organisations disclose their fees, commissions and other transaction costs in the accounts of the pooled funds in accordance with the Financial Conduct Authority ('FCA') Disclosure Code.

Appointments of Investment Managers are expected to be long-term, but the Trustee Directors will review the appointment of the Investment Managers in accordance with their responsibilities.

The Trustee Directors receive, and consider, regular performance monitoring reports from the Investment Consultant which consider performance over the quarter, one and three year periods. In addition, any significant changes relating to the Trustee Director's selection and deselection criteria that the Investment Consultant is aware of will be highlighted, which may lead to a change in the Investment Consultant's rating for a particular mandate.

These ratings help to determine an Investment Manager's ongoing role in implementing the investment strategy. If there are concerns, the Trustee Directors may carry out a more in-depth review of a particular Investment Manager. Investment Managers will also attend Trustee's meetings as requested.

The Investment Consultant has also carried out a review of how well the Trustee Director's guidelines in relation to ESG factors are incorporated into each Investment Manager's processes and the Trustees will re-assess progress on ESG issues periodically.

Fund manager remuneration is considered as part of the manager selection process. It is also monitored regularly with the help of the Investment Consultant to ensure it is in line with the Trustee Director's policies and with fee levels deemed by the Investment Consultant to be appropriate for the particular asset class and fund type.

07.02 Advisers

The Advisers are remunerated on the basis of a fixed annual fee agreed with the Trustee Directors, with fees for specifically defined projects out with the annual fee being agreed in advance.

07.03 Custodian

There is no custodian appointed directly by the Trustee Directors.

07.04 Trustee Directors

The Trustee Directors are not paid directly for their duties. Their expenses are met and they are given time off from their other employment duties to attend the periodic Trustee Directors' meetings.

08 **Risks**

The Trustee Directors recognise a number of risks involved in the investment of assets of the Fund:

i. The risk of failing to meet the objectives, as set out in Section 3 – the Trustee Directors will regularly monitor the investments to mitigate this risk.

ii. The risk of adverse consequences arising through a mismatch between the Fund's assets and its liabilities – this is addressed through the asset allocation strategy and through regular actuarial and investment reviews and the funding target.

iii. Risk of lack of diversification of investments – addressed through investing in pooled funds with minimum diversification requirements and in different asset classes.

iv. Risk of holding assets that cannot be easily sold, should the need arise – addressed through the use of pooled funds with frequent dealing dates.

v. Underperformance risk – addressed by limiting active management on the part of the diversified fund to making asset allocation decisions, by regular monitoring of performance, by reducing exposure to return-seeking funds following any outperformance and by having more than one manager.

vi. Organisational risk – addressed through the use of pooled funds to reduce governance requirements

vii. Credit risk – addressed through investing in a pooled fund with limits on the exposure to any one credit and which are focussed on investment grade bonds.

viii. Sponsor risk – the risk of the Partnership ceasing to exist, which for reasons of prudence, the Trustee Directors have taken into account when setting the asset allocation strategy.

ix. Environmental, Social and Governance risk **–** the risk that environmental, social and governance factors are not given significant consideration. This is addressed by having a policy whereby such factors should be given appropriate consideration in relation to current and future investment decisions made.

The Trustee Directors will keep these risks under regular review.

09 **Other Issues**

09.01 Statutory Funding Requirement

The Trustee Directors will obtain and consider proper advice on the question of whether the investments are satisfactory having regard to both the investment objectives and the requirement to meet statutory funding requirements. The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation every three years.

The Trustee Directors will consider with the Advisers whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the statutory funding requirement.

09.02 Environmental, social and corporate governance issues

The Trustee Directors have determined their approach to financially material considerations over the Scheme's long term funding horizon – including environmental, social and corporate governance ("ESG") factors – by acknowledging that there can be risks relating to them. The Trustee Directors have delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Scheme's Investment Managers. The Trustee Directors require the Scheme's Investment Managers to take ESG and climate change risks into consideration within their decision-making, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest.

The Trustee Directors will seek advice from the Investment Adviser on the extent to which its views on ESG and climate change risks may be taken into account in any future Investment Manager Selection exercises. Furthermore, the Trustee Directors, with the assistance of the Investment Adviser, will monitor the processes and operational behaviour of the Investment Managers from time to time, to ensure they remain appropriate and in line with the Trustee Directors' requirements as set out in this Statement.

The Trustee Directors have delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the Investment Managers and encourage them to vote whenever it is practical to do so on financially material matters including those deemed to include a material ESG and/or climate change risk in relation to those investments.

Further, the Trustee Directors' policy is that "non-financial matters" (as defined in the Occupational Pension Schemes (Investment) Regulations 2005, as amended) should not be taken into account in the selection, retention and realisation of investments.

09.03 Turnover Costs

The Trustee Directors require the Investment Managers to report on actual portfolio turnover at least annually, including details of the costs associated with turnover, how turnover compares with the range that the Investment Manager expects and the reasons for any divergence. The Trustee Directors do not believe it appropriate to set a specific turnover target or limit, but they expect their Investment Managers to keep turnover to a minimum and be able to justify any turnover in terms of improved performance or reduced risk.

09.04 Voting rights

For the Scheme's investments in pooled funds, the Trustee Directors acknowledge that they cannot directly influence the policies and practices of the companies in which the pooled funds invest. The Trustee Directors have delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the investment managers and encourages them to engage with investee companies and vote whenever it is practical to do so on financially material matters including those deemed to include a material ESG and/or climate change risk in relation to those investments.

If the Trustee Directors become aware of an Investment Manager engaging with the underlying issuers of debt or equity in ways that they deem inadequate or that the results of such engagement are mis-aligned with the Trustee Director's expectation and the investment mandate guidelines provided, then the Trustee Directors may consider terminating the relationship with that Investment Manager.

Appendix A Responsibilities

Trustee Directors

The Trustee Directors of the Fund are responsible for, amongst other things:

i. Determining the investment objectives of the Fund and reviewing these from time to time.

ii. Agreeing an investment strategy designed to meet the investment objectives of the Fund.

iii. Reviewing triennially, or on a change of strategy, the content of this SIP and modifying it if deemed appropriate, in consultation with the Advisers.

iv. Reviewing the suitability of the investment policy following the results of each actuarial or investment review, in consultation with the Advisers.

v. Assessing the quality of the performance and process of the Investment Managers by means of regular reviews of the investment results and other information, by way of meetings and written reports, in consultation with the Advisers.

vi. Selecting pooled funds, which are suitable, after obtaining written advice from the Investment Advisers.

vii. Assessing the ongoing effectiveness of the Advisers.

viii. Consulting with the Partnership when reviewing investment policy issues.

ix. Monitoring compliance of the investment arrangements with this SIP on an ongoing basis.

x. Notifying the Advisers of any changes to Fund benefits and significant changes in membership.

Investment Adviser

The Investment Adviser will be responsible for, amongst other things:

i. Participating with the Trustee Directors in reviews of this SIP.

ii. Advising the Trustee Directors how any changes within the Fund's benefits, membership and funding position may affect the manner in which the assets should be invested.

iii. Advising the Trustee Directors of any changes in the funds that could affect the interests of the Fund.

iv. Advising the Trustee Directors of any changes in the investment environment that could either present opportunities or problems for the Fund.

v. Undertaking reviews of the Fund's investment arrangements, including reviews of the asset allocation policy and current pooled funds, and advising on the selection of new funds.

vi. Providing written advice to the Trustee Directors in relation to any investment in or disinvestment from pooled funds, and in the implementation of integrated risk management policy.

Scheme Actuary

The Scheme Actuary will be responsible for, amongst other things:

i. Liaising with the Investment Adviser on the suitability of the Fund's investment strategy.

ii. Performing the triennial (or more frequently as required) valuations and advising on the appropriate contribution levels.

iii. Commenting on the appropriateness of the investment strategy relative to the liabilities of the Fund at the triennial valuations.

iv. Advising the Trustee Directors and Investment Adviser of any changes to contribution levels and funding level.

v. Monitoring the funding level on a monthly basis and advising on the appropriate asset allocation relative to the funding level. This includes implementing the automated triggers when they are "hit".

Investment Manager

Each Investment Manager will be responsible for, amongst other things:

i. At its discretion, but within any guidelines given by the Trustees, implementing changes in the asset mix and selecting and undertaking transactions in specific investments within each asset class.

ii. Providing the Trustees with sufficient information each quarter to facilitate the review of its activities, including:

- A report of the strategy followed during the quarter.
- The rationale behind past and future strategy.
- A full valuation of the assets and a performance summary.
- Transaction report and cash reconciliation.
- Corporate actions taken by the Investment Manager.
- Any changes to the process applied to the portfolio.
- A summary of the engagement activities that have taken place with investee companies, in particular on Environmental, Social and Governance issues.
- A summary of the voting record of the investment manager over the quarter, highlighting where they have voted against management or abstained, and the reasons for this.
- Future intentions in the investment management of the Scheme's assets.

iii. Informing the Trustees immediately of:

a. Any breach of this SIP that has come to their attention.

b. Any serious breach of internal operating procedures.

c. Any material change in the knowledge and experience of those involved in managing the Scheme's investments.

d. Any breach of investment restrictions agreed between the Trustees and the Investment Manager from time to time.

Appendix B
Pooled Funds

The Trustee Directors have decided to invest in the pooled funds of two organisations; Legal & General Investment Management ("LGIM") and Aberdeen Standard Investments ("ASI"). For information, the strategic allocation as at 30 June 2020 is set out below:

Manager	Fund	(%)	Style
LGIM	Investment Grade Corporate Bonds > 15 Year	55	Passive
	Diversified Fund	38	Active
Aberdeen Standard	Pooled Property	7	Active
Total		100	

Expected Returns and Performance Monitoring

The Trustee Directors have accepted the following performance targets attached to the pooled funds they have decided to invest in:

Fund	Benchmark	Performance Target
Investment Grade Corporate Bonds > 15 year Index	Markit iBoxx £ Non-Gilts over 15 year Index	Track the performance of the benchmark to within +/-0.5% p.a. for two years out of three.
Fund	**Comparator**	**Performance Target**
Diversified Fund	FTSE Developed World Index (50% hedged to GBP)	To provide long-term investment growth through exposure to a diversified range of asset classes. Shown against a comparator, not a benchmark.

Aberdeen Standard Investments

Fund	Benchmark	Performance Target
Pooled Property	AREF/IPD UK Property Funds Index – All Balanced Funds Weighted Averaged	Outperform Benchmark over rolling three-year periods.

Fees

The investment annual management fees paid to the Investment Managers are as follows (these do not include additional expenses or performance related fees):

LGIM

Asset Class	Fee % p.a.			
	First £5m	Next £5m	Next £20m	Over £30m
Investment Grade Corporate Bonds > 15 year Index	[redacted]	[redacted]	[redacted]	[redacted]
	First £25m		Over £25m	
Diversified Fund	[redacted]		[redacted]	

ASI

Asset Class	Annual Management Charge % p.a.	Additional Expenses % p.a.	Total Expense Ratio % p.a.
Pooled Property	[redacted]	[redacted]	[redacted]

Appendix C
Current Asset Allocation

Having considered advice from the Investment Adviser, and also having due regard for the objectives, the liabilities of the Fund, the risks of and to the Fund and the covenant of the Partnership, the Trustee Directors have implemented the following strategic target asset allocation (current as at 30 June 2020):

Asset Class	Benchmark Index	%
Corporate Bonds	Markit iBoxx £ Non-Gilts (ex-BBB) over 15 year Index	55.0
Diversified Fund	FTSE Developed World Index (50% hedged to GBP)	38.0
Property	AREF/IPD UK Property Funds Index – All Balanced Funds Median	7.0

The corporate bonds are classified as matching assets, while the diversified fund and property are return-seeking assets.

Against the backdrop of a strong covenant, this asset allocation has been chosen rather than a more liability aligned strategy of 30/70 (return-seeking/liability matching).

The Trustee Directors, in conjunction with the Investment Adviser, will monitor the actual asset allocation of the Fund on a regular basis.

Contact us

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Registration

XPS Pensions Consulting Limited, Registered No. 2459442.

XPS Investment Limited, Registered No. 6242672.

XPS Pensions Limited, Registered No. 3842603.

XPS Administration Limited, Registered No. 9428346.

XPS Pensions (RL) Limited, Registered No. 5817049.

All registered at: Phoenix House, 1 Station Hill, Reading, RG1 1NB.

Authorisation

XPS Investment Limited is authorised and regulated by the Financial Conduct Authority for investment and general insurance business (FCA Register No. 528774).