STILL Materials Handling Limited Pension Scheme ("the Scheme")

Statement of Investment Principles ("the Statement")

Scope of Statement

This Statement has been prepared in accordance with section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005).

The effective date of this Statement is September 2020. The Trustees will review this Statement and the Scheme's investment strategy no later than three years after the effective date of this statement and without delay after any significant change in investment policy.

Consultations made

The Trustees have consulted with the employer, STILL Materials Handling Limited, prior to writing this Statement and will take the employer's comments into account when they believe it is appropriate to do so.

The Trustees are responsible for the investment strategy of the STILL Materials Handling Limited Pension Scheme. They have obtained written advice on the investment strategy appropriate for the Scheme and on the preparation of this Statement. This advice was provided by Aon Consulting Ltd who are authorised and regulated by the Financial Services Authority.

The day-to-day management of the Scheme's assets has been delegated to investment managers who are authorised and regulated by the Financial Services Authority. A copy of this Statement has been provided to the appointed investment managers and is available to the members of the Scheme.

Objectives and policy for securing objectives

The Trustees' objectives for setting the investment strategy of the Scheme have been set with regard to the Scheme's Statutory Funding Objectives as set out in the Statement of Funding Principles.

The Trustees' primary objectives are:

- "funding objective" - to ensure that the Scheme is fully funded using assumptions that contain a margin for prudence. Where an actuarial valuation reveals a deficit, a recovery plan will be put in place which will take into account the financial covenant of the employer;
- "stability objective" – to have due regard to the likely level and volatility of required contributions when setting the Scheme's investment strategy; and
- "security objective" – to ensure that, where an actuarial valuation deficit is identified, the solvency position of the Scheme (as assessed on a gilt basis) is expected to improve. The Trustees will take into account the strength of employer's covenant when determining the expected improvement in the solvency position of the Scheme.

The Trustees recognise that these objectives may conflict. For example, a greater allocation to more defensive assets may give greater security but may result in a level of contributions which the employer may find too difficult to support. The Trustees also recognise that in resolving this conflict, it is necessary to accept some risk.

In setting the Scheme's investment strategy, the Trustee's primary concern is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. This includes the risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly. The Trustee considers this risk by taking advice from their investment adviser when setting the Scheme's asset allocation, when selecting managers and when monitoring their performance.

Choosing investments

The types of investments held and the balance between them is deemed appropriate given the liability profile of the Scheme, its cashflow requirements, the funding level of the Scheme and the Trustees' objectives.

The assets of the Scheme are invested in the best interests of the members and beneficiaries.

The Trustees exercise their powers of investment (or delegation where these powers have been delegated to an investment manager) in a manner calculated to ensure the security, quality, liquidity and profitability of the portfolio as a whole. To avoid an undue concentration of risk, a spread of assets is held. The diversification is both within and across the major asset classes.

Assets held to cover the Scheme's technical provisions (the liabilities of the Scheme) are invested in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the Scheme.

The assets of the Scheme are invested predominantly in regulated markets (with investments not in regulated markets being kept to a prudent level) and properly diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings so as to avoid accumulations of risk in the portfolio as a whole.

Investment in derivatives is made only in so far as they contribute to the reduction of investment risks or facilitate efficient portfolio management and are managed such as to avoid excessive risk exposure to a single counterparty or other derivative operations.

The balance between different kinds of investments

The Trustees recognise that the key source of financial risk (in relation to meeting their objectives) arises from asset allocation. They therefore retain responsibility for setting the Scheme's overall asset allocation and take expert advice as required from their professional advisers.

The Trustees review their investment strategy in conjunction with each formal actuarial valuation of the Scheme (or more frequently should the circumstances of the Scheme change in a material way). The Trustees take written advice from their professional advisers regarding an appropriate investment strategy for the Scheme.

The asset allocation set out in the Appendix was implemented after considering the results of the actuarial valuation and following discussions with the employer and the Scheme's advisors.

A broad range of available asset classes in which to invest has been considered by the Trustees. For example, this includes consideration of property, private equity and hedge funds.

Investment risk measurement and management

The key investment risks are recognised as arising from asset allocation. These are assessed triennially in conjunction with the actuarial valuation of the Scheme, following which the Trustees take advice on the continued appropriateness of the existing investment strategy.

Risks associated with changes in the employer covenant are assessed by monitoring the Failure Score (as defined for the purposes of calculating the risk-based element of the Pension Protection Fund levy).

The Trustees also have an agreement with the employer to receive notification of any events which have the potential to alter the creditworthiness of the sponsoring employer. In particular, the Trustees will be informed of Type A events, as defined in appropriate guidance issued by the Pensions Regulator, and employer-related Notifiable Events. On receipt of such notification, the Trustees will re-consider the continued appropriateness of the Scheme's existing investment strategy.

The Trustees monitor the risks arising through the selection or appointment of their investment managers on a quarterly basis via investment monitoring reports prepared by their investment managers. Expected deviation from the benchmark for the passive mandates or out-performance target (for the active mandate) is detailed in the Appendix to this statement. The Trustees have appointed Aon Hewitt to alert them on any matters of material significance that might affect the ability of their investment managers to achieve its objectives.

The Trustees acknowledge that investment returns achieved outside the expected deviation (positive or negative) maybe an indication that the investment manager is taking a higher level of risk than indicated. For due diligence purposes the Trustees will review the need to see their active investment manager on a regular basis. The Trustees do not meet their passive investment manager.

Other risks include the risk of the extent to which ESG factors are not appropriately reflected in asset prices and/or not considered in investment decision making processes leading to underperformance relative to targets.

There is also the risk of the extent to which climate change causes a material deterioration in asset values as a consequence of factors including but not limited to policy change, physical impacts and the expected transition to a low-carbon economy.

Custody

Investment in pooled funds gives the Trustees a right to the cash value of the units rather than to the underlying assets. The managers of the pooled funds are responsible for the appointment and monitoring of the custodians of the funds' assets.

Expected returns on assets

Over the long-term the Trustees' expectations are:

- for the real assets (UK and overseas equities), to achieve a return which at least keeps pace with the increase in national average earnings over the same period. The Trustees are willing to incur short-term volatility in equity price behaviour with the expectation that over the long-term equities will outperform the other major asset classes.
- for index-linked bonds, to achieve a rate of return which is at least in line with price inflation, and short-term price behaviour in line with the cost of providing index-linked annuities.
- for the monetary assets (UK and overseas bonds and cash) to achieve a rate of return which is at least in line with changes in the cost of providing fixed income annuities.

Aon Hewitt's current expected nominal return assumptions for the next 10 years, as taken from their 'Capital Market Assumptions' dated 30 June 2020, are as follows:

- UK inflation, CPI 2.0% pa / RPI 2.8% pa
- UK equities, 7.0% pa
- 15-year UK index-linked gilts, -0.5% pa
- 15-year UK fixed income gilts, 0.3% pa
- 10-year UK investment grade corporate bonds, 0.8% pa

Returns achieved by the fund managers are assessed against performance benchmarks set by the Trustees in consultation with their advisers and fund managers.

Realisation of Investments/Liquidity

The Trustees recognise that there is a risk in holding assets that cannot be easily realised should the need arise.

Most of the assets held are realisable at short notice through the sale of units in pooled funds.

Effective decision making

The Trustees recognise that decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. They also recognise that where they take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.

The Trustees believe that given the scale of the Scheme and the relatively small number of Trustees, a separate investment sub-committee would not be appropriate. Therefore, all investment decisions are discussed by the whole Trustee body before decisions are taken. The Trustees seek assistance from the Scheme's Investment Consultant where they deem it to be necessary.

Social, Environmental or Ethical Considerations

The Trustees monitor the investments to consider the extent to which the investment strategy and decisions of the asset managers are aligned with Trustee policies, including those on non-financial matters. This includes monitoring the extent to which asset managers:

- make decisions based on assessments about medium- to long-term financial and non-financial performance of an issuer of debt or equity; and
- engage with issuers of debt or equity to improve their performance in the medium- to long-term.

The Trustees also receive annual stewardship reports on the monitoring and engagement activities carried out by their asset manager, which supports the trustees in determining the extent to which the Scheme's engagement policy has been followed throughout the year.

The Trustees share the policies, as set out in this SIP, with the scheme's asset managers, and request that the asset managers review and confirm whether their approach is in alignment with the Trustees' policies.

The Trustees believe that having appropriate governing documentation, setting clear expectations to the asset managers by other means (where necessary), and regular monitoring of asset managers' performance and investment strategy, is in most cases sufficient to incentivise the asset managers to make decisions that align with the Trustees' policies and are based on assessments of medium- and long-term financial and non-financial performance.

Where asset managers are considered to make decisions that are not in line with the Trustees' policies, expectations, or the other considerations set out above, the Trustees will typically first engage with the manager but could ultimately replace the asset manager where this is deemed necessary. However, these matters are kept under review by the Trustees.

Cost Monitoring

The Trustees are aware of the importance of monitoring their asset managers' total costs and the impact these costs can have on the overall value of the Scheme's assets. The Trustees recognise that in addition to annual management charges, there are other costs incurred by asset managers that can increase the overall cost incurred by their investments.

The Trustees receive annual cost transparency reports from their managers. These reports present information in line with prevailing regulatory requirements for managers. They clearly set out on an itemised basis:

- The total amount of investment costs incurred by the Scheme;
- The amount of portfolio turnover costs (transaction costs) incurred by the investment managers;
    - The trustees define portfolio turnover costs as the costs incurred in buying and selling underlying securities held within the funds of the investment managers appointed by the fiduciary manager;
- Any charges incurred through the use of pooled funds (custody, administration, and audit fees)
- The impact of costs on the investment return achieved by the Scheme.

The Trustees acknowledge that portfolio turnover costs are a necessary cost to generate investment returns and that the level of these costs varies across asset classes and manager.

Activism, and the Exercise of the Rights Attaching to Investments

The Trustees recognise the importance of their role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the scheme invests, as this ultimately this creates long-term financial value for the scheme and its beneficiaries.

The Trustees review the suitability of the scheme’s appointed asset managers in broader stewardship matters and the exercise of voting rights. If an incumbent manager is found to be falling short of standards expected by the Trustees, the Trustees undertake to engage with the manager and seek a more sustainable position but may look to replace the manager.

The Trustees annually review the stewardship activities of their asset managers covering both engagement and voting actions. The Trustees will review the alignment of their policies to those of the scheme’s asset managers and ensure their managers, or other third parties, use their influence as major institutional investors to carry out the Trustees’ rights and duties as a responsible shareholder and asset owner. This will include voting, along with – where relevant and appropriate – engaging with underlying investee companies and assets to promote good corporate governance, accountability, and positive change.

The Trustees will engage with their managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned.

In setting and implementing the Scheme's investment strategy the Trustees do not explicitly take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors"[1]).

[1] The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018

Additional Voluntary Contributions ("AVCs") Arrangements

Some members obtain further benefits by paying AVCs to the Scheme. The liabilities in respect of these AVCs are equal to the value of the investments bought by the contributions.

From time to time the Trustees review the choice of investments available to members to ensure that they remain appropriate to the members' needs.

Agreed by the Trustees at their meeting in September 2020

STILL Materials Pension Scheme (“the Scheme”)

Appendix to the Statement of Investment Principles

This Appendix sets out the Trustees’ current investment strategy and is supplementary to the Trustees’ Statement of Investment Principles (“the attached Statement”).

The Trustees’ investment strategy has been established to maximise the likelihood of achieving the primary objectives set out in the attached Statement. The details are laid out below:

1. Asset Allocation Strategy

The Trustees’ long-term asset allocation strategy is set out below:

Proposed Fund/Asset Class	Target Weight (%)	
Matching Assets		**80.0**
Investment Grade Corporate Bonds	40.0	
Index-Linked Gilts	40.0	
Growth Assets		**20.0**
Global Equities	20.0	
Total		**100.0**

2. Investment Management Arrangements

The Scheme’s assets are invested with Legal & General Investment Management (“L&G”) and M&G Financial Services Limited (“M&G”). The following describes the mandates given to each investment manager:

2.1 Legal & General Investment Management

L&G has been appointed to passively manage 60% of the Scheme’s assets. The following describes the mandates given to the investment manager within each asset class.

Manager/Fund	Performance Measurement Benchmark	Benchmark Outperformance Target	Allocation	Expected Tracking Error
L&G Over 5 Year Index-Linked Gilt Index Fund	FTSE A Index-Linked (Over 5 Year) Index	Track Index	40.0%	+/-0.25% pa two years out of three
L&G Global Equity Fixed Weight (50:50) Index Fund	Composite of 50/50 distribution between UK and overseas.	Track Index*	20.0%	No overall target – there are target tracking errors at underlying fund level

*The investment objective is to provide diversified exposure to the UK and overseas equity markets. The Fund will invest 50% in the UK and 50% overseas. The Fund’s overseas asset distribution is fixed with 17.5% in North America, 17.5% in Europe (ex UK), 8.75% in Japan and 6.25% in Asia Pacific (ex Japan).

2.2 M&G Investments

M&G has been appointed to passively manage 40% of the Scheme's assets. The following describes the mandate given to the investment manager.

Manager/Fund	Performance measurement Benchmark	Benchmark Outperformance Target	Allocation	Expected Tracking Error
M&G Long Dated Corporate Bond Fund	iBoxx Sterling Over 15 Years Non-Gilts Index	To outperform the index by 0.8% pa, gross of fees, on a three-year rolling basis.	40.0%	±1.0% – 1.5% p.a.

2.3 Cash Balances

A working balance of cash is held for imminent payment of benefits, expenses, etc. Under normal circumstances it is not the Trustees' intention to hold a significant cash balance and this is carefully monitored by the Scheme's administrator.

2.4 Re-balancing Arrangements

To ensure the assets are re-balanced in line with the asset allocation strategy, the Trustees review the balance of the assets on a regular basis, following which appropriate corrective action is taken if necessary.

3 Fee Structure for Advisers and Managers

3.1 Advisers

The Trustees' investment advisers are paid for advice received on the basis of the time spent by the adviser. For significant areas of advice (e.g. one off special jobs, or large jobs, such as asset and liability modelling), the Trustees will endeavour to agree a project budget.

These arrangements recognise the bespoke nature of the advice given and that no investment decisions have been delegated to the adviser.

3.2 Investment Managers

The investment managers are remunerated as a set percentage of the assets under management. This is in keeping with market practice.

3.3 Summary of Investment Management Fee Arrangements

Manager	Fund	Fee Scale
Legal & General*	Over 5 Year Index-Linked Gilt Index Fund	0.10% pa
	Global Equity Fixed Weight (50:50) Index Fund	0.165% pa
M&G	Long Dated Corporate Bond Fund	0.30% pa

*In addition to the annual management charge shown above L&G charge a flat fee of £1,500 pa.