

**VEDIUS PENSION TRUST**

**STATEMENT OF INVESTMENT PRINCIPLES**

**March 2021**

This Statement of Investment Principles is produced to meet the requirements of the Pensions Act 2004 and to reflect the Government's voluntary code "the Myners Principles". The Trustee also complies with the requirements to maintain and take advice on the Statement and with the disclosure requirements.

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## INTRODUCTION

This Statement of Investment Principles (the “**Statement**”) has been prepared by the directors of Vedium Trustee Limited (the “**Trustee**”) in discussion with Gallium Capital Limited. This Statement sets out the details of the principles governing the investment policy of Vedium Pension Trust (the “**Scheme**”).

The Statement complies with the requirements of the Pensions Act 1995, as amended, and the Occupational Pension Schemes (Investment) Regulations 2005 (together the “**Regulations**”).

The Statement is reviewed annually or whenever the Trustee is alerted to a material change in the Scheme’s funding position, which is outside the boundaries the Trustee has determined for automatic changes to the strategic asset allocation and risk tolerance, or to any of the matters which this Statement is required to cover by the Regulations. The Trustee will obtain and consider advice from the Investment Manager before revising this Statement.

In preparing and revising this Statement, the Trustee has considered advice from the Investment Manager, who is qualified to provide such advice by its qualifications, regulated permissions and practical experience of financial matters.

## GOVERNANCE OF THE SCHEME

Gallium Capital Limited has appointed the Trustee to make proper arrangements for the governance, management, benefits and financial administration and investment of the Scheme, and as such decides on the investment policy most suitable to meet the liabilities within the Scheme and has ultimate responsibility for the investment strategy.

The Trustee has set the investment policy for the Scheme as set out below. The Trustee has appointed the Investment Manager to implement the investment policy on a day to day basis.

## OBJECTIVES AND RESPONSIBILITIES OF THE TRUSTEE

The Trustee is responsible for the stewardship of the Scheme’s assets. The Trustee’s responsibilities also include:

- Ensuring all beneficiaries receive the benefits to which they are entitled under the Rules of the Scheme; and
- Ensuring there are sufficient assets to meet the Scheme’s liabilities as they fall due.
- Ensuring that no more than 5% of the current market value of the scheme's assets is invested in 'employer-related investments' (as defined in section 40(2) of the Pensions Act 1995).

The Trustee will ensure that the Investment Manager:

- invests the assets in the best interests of members and beneficiaries, and in the case of a potential conflict of interest in the sole interest of members and beneficiaries;
- invests in a manner calculated to ensure the security, quality, liquidity and profitability of the asset portfolio as a whole;

- ensures that the assets consist predominantly of investments admitted to trading on 'regulated markets', and any assets not admitted to trading on such markets must be kept to a prudent level; and
- ensures that the assets are properly diversified so as to avoid excessive reliance on any particular asset, issuer or group of undertakings, and so as to avoid accumulations of risk in the portfolio as a whole.

Where the Investment Manager makes investments on behalf of the Scheme, the Trustee must ensure such investments are in members' best financial interests, and must ensure that neither the Investment Manager nor the Trustee puts their own ethical or social concerns above this duty to members.

The Trustee recognises that in setting investment policy to meet the liabilities, it must have regard to both the potential for the investment policy to generate positive returns that will lead to improvement in the Scheme's funding position and to the potential for poor returns that would cause it to deteriorate. Therefore the Trustee recognises there is a natural conflict between improving the potential for positive return and limiting the potential for poor returns. The Trustee has specified objectives for the investment policy that balance these requirements.

#### **OBJECTIVES AND RESPONSIBILITIES OF THE INVESTMENT MANAGER**

The Investment Manager's main objectives are to:

- invest the assets in the best interests of members and beneficiaries;
- invest in a manner calculated to ensure the security, quality, liquidity and profitability of the asset portfolio as a whole;
- ensure that the assets consist predominantly of investments admitted to trading on 'regulated markets'; and
- ensure that the assets are properly diversified so as to avoid excessive reliance on any particular asset, issuer or group of undertakings, and so as to avoid accumulations of risk in the portfolio as a whole.

Before investing in any manner, the Investment Manager will obtain and consider advice from appropriately qualified professionals in respect of the suitability of investments.

Active members are invested in the Scheme's default fund and deferred members are invested in the Scheme's main fund, unless they indicate a preference otherwise. The asset classes that form the investments of the default fund are selected to meet the investment objectives of the default fund, as set out in the default fund's statement of investment principles.

There are many different combinations of assets and investment management approaches that could be adopted in targeting a particular level of investment risk and/or expected return. The Investment Manager's objective is to identify those combinations that it believes are likely to minimise the level of risk taken for the level of return sought.

Members are reminded that investments can go up or down in value over time and that the Investment Manager cannot guarantee positive returns will be achieved.

## INVESTMENT POLICY

The Trustee sets the Investment Policy and the Investment Policy is reviewed following each actuarial valuation or asset liability study. When setting the Investment Policy, the Trustee must comply with the provisions of the Occupational Pension Schemes (Investment) Regulations 2005 (the "**Investment Regulations**") to ensure that the majority of the portfolio is invested in investments listed on regulated markets.

The Trustee delegates the responsibility for implementing the Investment Policy to Gallium Fund Solutions Limited (the "**Investment Manager**"). The Investment Manager, in conjunction with investment advisers, appoints, monitors the performance of and removes fund managers. It oversees asset allocation and directs the cash flow of the Scheme between investment mandates, adjusting portfolios as necessary. The Investment Manager monitors, reviews and recommends changes to the Trustee's policies in respect of investment and corporate governance.

It is the Scheme's intention to offer its members a balanced investment strategy. The majority of the funds are invested in listed investment schemes or products. The remainder of the funds are invested in alternative investment schemes and products, to provide diversification and access to potentially higher returning investment opportunities.

The scheme aims to achieve on average an annualised return for its membership of 5% after running costs, fees and expenses.

## INVESTMENT SUMMARIES

### Listed investment schemes/products

The scheme will invest predominantly in multi-manager investment schemes and products provided by leading investment houses and banks and other listed investment schemes. This will provide a diversified investment across numerous investment managers and provide a solid and stable foundation to the Members' investment portfolio.

### Alternative investment schemes/products

The scheme will invest a proportion of the available funds in alternative schemes, products and/or funds. The intention will be to gain access to higher returning investment opportunities to increase the value of the investment pot and to provide Members with a more diversified portfolio of investments.

An alternative investment is not one of the three traditional asset types (stocks, bonds and cash). Alternative investment assets may be complex in nature and may have a relative lack of liquidity. Alternative investments are favoured mainly because their returns have a low correlation with those of standard asset classes.

The Investment Manager will consider a range of alternative investments including, residential property, commercial property, precious metals, commodities, bridging loan schemes and mezzanine loan schemes.

### Asset classes

At any one time the asset allocation of the Scheme's funds can include the following asset classes. The following list is not exhaustive and the Investment Manager and Trustee regularly review the Scheme's exposure to asset class:

- developed market equities
- emerging market equities
- developed market small-cap equities
- emerging market small-cap equities
- high yield bonds
- real estate
- emerging market sovereign bonds
- UK and overseas gilts
- UK & overseas index-linked gilts
- UK investment-grade bonds
- global investment-grade bonds
- sovereign bonds
- inflation-linked bonds
- investments in alternative investment funds
- money market investments

The Scheme is invested in a pool of funds that are each managed by regulated investment managers. These fund managers are responsible for appointing a custodian in respect of the safekeeping of the underlying assets.

### RESPONSIBLE INVESTMENT

The Trustee aims to be an engaged and responsible long-term investor in the assets and markets in which it invests. The Trustee believes that the integration of these factors within the Investment Manager's investment processes is not detrimental to the risks and the sustainable long term expected returns from the Scheme's investments. The Investment Manager is encouraged to take these factors into account.

The Trustee maintains a Risk Management Policy, a Conflicts of Interest Policy and a Socially Responsible Investment Policy. The Socially Responsible Investing Policy includes that the Trustee will seek a balance between the financial objectives of the Scheme and the socially responsible performance of an investment. Investments are directed towards acquisitions that demonstrate a positive and sustainable approach to governance, the environment and society.

With regard to ethical and environmental considerations, the Investment Manager has been instructed by the Trustee to not knowingly invest in:

- Countries that are on the United nations trade embargo list;
- Companies that are involved in terrorism, money laundering, drug trafficking or any other serious crime; and

- Companies that do not take into account the reasonable long terms interest of their stakeholders.

The Trustee asks the Investment Manager to avoid investing in companies that in the Investment Manager's opinion persistently behave without due regard to the environment or society as a whole.

The allocation of investments will vary as the Scheme responds to changes in its funding ratio and required rate of return.

Ultimately, the Trustee's objectives are to act in the best interest of the Scheme's members in order to provide for their retirement. The Trustee invest in a manner calculated to ensure the security, quality, liquidity and profitability of the asset portfolio as a whole and the pursuit of financial return is a paramount concern. Therefore, the Trustee may take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment. The Trustee believes that the decisions to invest in, or divest from, a particular asset/fund should be made by an investment manager based on a holistic analysis of financially material issues, including environmental, climate change, social and governance issues.

#### REALISATION OF INVESTMENTS

Most of the Scheme's investments are in liquid markets and can be expected to be sold relatively quickly if required. A proportion of the Scheme's investments (such as property and alternative investment funds) have less or limited liquidity and would therefore take longer to be sold. The overall liquidity of each of the Scheme's assets is considered in the light of potential demands for cash and the mitigation of risk. The investments with limited liquidity assist the Trustee to obtain an improved return. The Trustee intends to realise the Scheme's holdings in alternative investment funds in the near future.

#### RISKS

Investment risk management involves identifying the various factors that may affect scheme members' retirement funds, how changes to these factors interrelate and what the Trustee can do to alleviate them. In order to create a best practice risk management framework, the Trustee has identified the following guidelines:

- identify the most significant risk factors
- understand risks both individually and holistically
- identify available risk management tools and options - for each identified risk factor, a set of tools is used to monitor exposure to the risk and help to choose between the solutions to mitigate them
- invest within the risk parameters set in the Statement

The Trustee recognises that uncertainty in the following factors can be managed, to some extent, by the choice and allocation of investments. The list below is not exhaustive but covers the main risks that the Trustee faces and how they can be managed.

RISK AND DEFINITION	CONTROLS AND MITIGATION
<p><b>Concentration/Correlation</b> - The risk that the Scheme has a significant exposure to assets that rise and fall in value at the same time.</p>	<p>Diversify investments across and within asset classes, to avoid over-exposure to any one market. Monitor Scheme assets.</p>
<p><b>Market</b> – That risk that the Scheme’s assets are exposed to poor performance in the financial markets.</p>	<p>Diversify investments across and within asset classes, to avoid over-exposure to any one market. Monitor Scheme assets.</p>
<p><b>Inflation</b> – The risk that the Scheme’s assets fall in value to the effects of inflation.</p>	<p>Diversify investments across a range of assets that are likely to grow in real terms.</p>
<p><b>Currency</b> – The risk that the Scheme has a large exposure to overseas currency</p>	<p>Monitor currency exposure. Ensure that Scheme’s overseas investments are diversified across currencies.</p>
<p><b>Liquidity</b> – The risk of the Scheme not meeting the liabilities as they fall due.</p> <p>There is a liquidity risk attached to assets which may not always be readily realisable or whose market values may be adversely affected by the Scheme seeking to realise them.</p>	<p>Regularly review and adjust the amount of cash held to pay benefits to minimise the impact of cash flow on investment policy.</p> <p>The Trustee believes the Scheme’s long-term investment horizon justifies a degree of liquidity risk where such a risk is rewarded and a proportion of the Scheme’s assets are invested in less liquid assets.</p>
<p><b>Matching</b> – The risk that cash-flows and investment returns generated fail to meet the liabilities.</p>	<p>Give consideration to the specific characteristics of the Scheme’s liabilities when setting the investment strategy. Regularly review progress of the Scheme’s investments relative to its liabilities.</p>
<p><b>Operational</b> - The risk that there is a breakdown of the Scheme’s investment back office or services from third parties or in the operation of financial markets</p>	<p>Monitor the Scheme’s investment back office, the ability of third party service providers to continue to provide the necessary services and the ability of the custodian holding the Scheme assets to settle trades on time and to provide secure custody.</p>
<p><b>Valuation</b> – The risk that the Scheme’s assets are overvalued or worth less than expected when the investments are realised.</p>	<p>Ensure that the Scheme’s assets are revalued regularly and that investments are diversified.</p>
<p><b>Conversion</b> – The risk that the income and returns from the Scheme’s investments do not match the expected drawings by pensioners.</p>	<p>The Scheme’s asset allocations will be monitored, particularly during the drawdown phase, to ensure that the allocation more closely matches how scheme members are expected to use their pension pots.</p>

<p><b>Regulatory Risk</b> – the risk arises from investing in a market environment where the regulatory regime may change.</p>	<p>Monitor regulatory changes.</p>
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The Trustee, with the assistance of the Investment Manager, gives qualitative and quantitative consideration to these risks and generates a risk rating for the risks identified. The existing members of the Scheme, during the application process, have indicated an appetite to risk as being low to medium risk. The Trustee seeks to mitigate risks identified such that the overall risk rating for the Scheme is maintained between low to medium risk.

The Investment Manager also assists the Trustee to mitigate risk by ensuring an alignment of interest. The Investment Manager utilises the Scheme as its corporate occupational pension scheme, such that the pension interests of the Investment Manager and its employees are aligned with the Scheme and its members.

The Trustee believes that the investment strategy outlined in this Statement is appropriate for managing the risks outlined above and for the Scheme’s members who do not wish to take an active role in the investment decisions relating to their pension account.

The Trustee believes that the Scheme’s funds provide, as far as is practical, an adequately diversified distribution of assets

**INVESTMENT MANAGEMENT**

The Trustee has delegated day to day investment decisions to the Investment Manager. The Investment Manager is responsible for all the investment decisions and for managing those investments during the life of the Scheme. The Trustee is satisfied that the Investment Manager and its investment adviser have sufficient knowledge and experience to carry out their roles.

The Investment Manager is authorised and regulated by the Financial Conduct Authority (FCA No 487176). The Investment Manager specialises in establishing and operating collective investment schemes. It possesses considerable experience in designing fund structures, identifying investors, managing the launch process and the regulatory and administrative aspects once a fund is launched. Its directors have previously been retained to act as operator or adviser on transactions totalling over £14 billion. The Investment Manager is well placed to identify a number of suitable alternative investment opportunities.

**COMPLIANCE WITH AND REVIEW OF THIS STATEMENT**

The Trustee will review compliance with this Statement on a regular basis. The Statement reviewed at least annually or whenever the Trustee is alerted to a material change in the Scheme's funding position, which is outside the boundaries the Trustee have determined for automatic changes to the strategic asset allocation and risk tolerance, or to any of the matters which this Statement is required to cover by the Regulations.

The Investment Manager will provide written confirmation that they have complied with their obligations under the Pensions Act 1995. The Trustee undertakes to advise the Investment Manager promptly and in writing of any material change to this Statement.

Signed on behalf of Vedius Trustee Limited

Signed: 

**Michael Bailey - Director**

**Date:** 28 April 2021