The Padley & Venables Pension Fund

Statement of Investment Principles – December 2023 (replaces September 2020)

1. Introduction

The Pensions Act 1995 ("the Act") requires that the trustees of a pension scheme must ensure that a written statement of principles covering investment decisions about the scheme is prepared and maintained.

The Trustees of the Padley & Venables Pension Fund ("the Fund") have drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Act, as amended by the Pensions Act 2004 and subsequent legislation. The Statement is intended to affirm the investment principles that govern decisions about the Fund's investments.

In preparing this Statement the Trustees have consulted Padley & Venables Limited ("the Sponsoring Company") to ascertain whether there are any material issues that the Trustees should be aware of in agreeing the Fund's investment arrangements.

The Trustees will refer to this Statement when making investment decisions to ensure that they are consistent with the principles set out in it. The investment strategy will be reviewed at least every three years and without delay after any significant change in investment policy.

2. Process For Choosing Investments

The process for choosing investments is as follows:

- Identify appropriate investment objectives;
- Agree the level of risk consistent with meeting the objectives set;
- Take into account the Trustees' policies on the management of financially material considerations;
- Construct a portfolio of investments that is expected to maximise the return (net of all costs) given the targeted level of risk.

In considering the appropriate investments for the Fund, the Trustees have obtained and considered the written advice of Mercer, whom the Trustees believes to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustees' opinion, consistent with the requirements of Section 36 of the Act (as amended).

3. Investment Objectives

The Trustees objective is to invest the Fund's assets in the best interest of the members and beneficiaries, and in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries. Within this framework, the Trustees have agreed a number of objectives to help guide them in their strategic management of the assets and control of the various risks to which the Fund is exposed. The Trustees' primary objectives are as follows:

- To achieve sufficient stability in the ongoing funding level such that Fund assets remain in excess of accrued non-discretionary ongoing liabilities;

- To deliver performance in excess of the return that can be achieved by investing in the lowest risk investments, with a view to covering the cost of discretionary benefits and future service liabilities without recourse to the Sponsoring Company.

When these objectives conflict with each other the Trustees will aim to achieve a balance between them but with a higher weighting to the first objective than the second.

The Trustees consider these to be financially material considerations. Given the nature of the liabilities, the investment time horizon of the Fund is potentially long term, although opportunities for risk transfer (e.g. by purchase of a bulk annuity) could reduce the time horizon materially.

4. Risk Management and Measurement

There are various risks to which any pension scheme is exposed, which the Trustees believe may be financially material to the Fund. The Trustees recognise that whilst increasing investment risk increases expected returns over a long time period, it also increases the risk of a shortfall in returns relative to that required to pay the Fund's liabilities over time, as well as producing more short-term volatility in the Fund's funding position.

The primary investment risk faced by the Fund arises as a result of a mismatch between the Fund's assets and its liabilities. This is therefore the Trustees' principal focus in setting investment strategy, taking into account the nature and duration of the Fund's liabilities.

The Trustees have considered the following specific risks in relation to setting the investment strategy:

- The risk of investing in bonds that are not a perfect match for the Fund's ongoing liabilities.

- The risk of adverse market performance relative to liabilities leading to a shortfall of assets in relation to accrued non-discretionary and discretionary liabilities.

- The risk of the Fund winding-up with insufficient assets to secure accrued liabilities in full with an insurance company.

- The risk that members live longer than expected.

- The risks associating with a deterioration in the strength of the Sponsoring Company's covenant.

- The risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustees aim to ensure the asset allocation policy in place results in an adequately diversified portfolio. Because of the overall size of the Fund's assets, and recognising the need to diversify, investment exposure may be obtained via pooled vehicles.

- The risk that the day to day management of the assets will not achieve the rate of investment return expected by the Trustees. This will lead to higher than expected costs for the Sponsoring Company.

- The risk that an "active" manager will underperform the relevant market net of fees. The Trustees have chosen active management for over 10-year corporate bonds and buy and maintain bonds. The Trustees recognise that the use of an active manager involves risk. However, the Trustees believe that the risk is outweighed by the potential gains from successful active management.

- The risk of financial loss through exposure to defaults by issuers of corporate bonds which the Fund holds, or through reductions in the market values of those assets as a result of credit spreads widening.

- The documents governing the manager appointments include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Fund. The managers are prevented from investing in asset classes outside their mandate without the Trustees' prior consent.

- The operational risks involved in the use of inflation swap contracts, including the counterparty credit risk (potential for loss as a result of a counterparty default) and collateral risk (the requirement to post collateral to cover any losses on the derivative positions). The Trustees consider this risk to be adequately mitigated by the collateralisation process and diversification of counterparties by the underlying manager.

- The risk that the Fund is unable to raise cash when it needs to without incurring excessive costs.

- The risk that the Fund's assets are not held with sufficient security. The safe custody of the Fund's assets is delegated to professional custodians via the use of pooled funds.

- Environmental, Social and Governance ("ESG") risks which are covered in more detail in Section 10.

Should there be a material change in the Fund's circumstances, the Trustees will review whether and to what extent the investment arrangements should be altered; in particular whether the current risk profile remains appropriate.

5. Portfolio Construction

The Trustees have adopted the following control framework in structuring the Fund's investments:

- There is a role for active management.

- At the total fund level, and within individual manager appointments, investments should be broadly diversified to ensure there is not a concentration of investment with any one issuer. This restriction does not apply to investment in UK Government bonds.

- Investment in derivatives is permitted within pooled funds as long as they contribute to reduction of risk or facilitate efficient portfolio management.

6. Investment Strategy

The funding position improved following the 2019 Actuarial Valuation and as a result, the Trustees agreed to update the existing cashflow matching strategy, to better match the Fund's liability cashflow profile (including the use of inflation swaps to mitigate the risk of high inflation increasing pension payments).

The Trustees agreed the following target allocations:

	Initial Allocation
Corporate Bonds	69.9%
Gilts, Swaps and Cash	30.1%
Total	**100.0%**

Figures may not sum due to rounding.

The Trustees believe that this investment strategy is appropriate for controlling the risks identified in Section 4.

There is no automatic rebalancing in place to achieve this benchmark allocation. A cashflow policy has also been established to effectively manage the Fund's liquidity. This policy is set out in Section 7.

7. Day–to-Day Management of the Assets

The Trustees delegate the day-to-day management of the assets to professional investment managers who are regulated by the Financial Conduct Authority ("FCA"). The investment managers have full discretion to buy and sell investments on behalf of the Fund, subject to the constraints of their mandates. The investment managers have been selected for their expertise in different specialisations and each manages investments for the Fund to a specific mandate, which includes (but is not limited to) performance objectives, risk parameters and timescales over which their performance will be measured. All investments are made via multi-client pooled funds. Investment managers are responsible for the selection, retention and realisation of assets within individual pooled funds subject to relevant governing documentation.

With the exception of the Trustee bank account, the Fund's invested assets are held in a range of pooled funds managed by Legal & General Investment Management ("LGIM"). The Trustees are satisfied that the spread of assets by type and within each category provides adequate diversification of investments.

Bond Portfolio

As at October 2023, the Fund's main assets are invested in pooled bond funds with LGIM. The bond portfolio was initially invested on 2 November 2015. In October 2023, the following allocation was agreed to reflect changes to the characteristics of the Fund's liabilities:

Asset Class	Active/Passive	Allocation (%)	Index
Active Corporate Bonds - Over 10 Years	Active	47.2%	Markit iBoxx Non Gilts Over 10 Years
Maturing Buy and Maintain Credit 2020 – 2024 Fund	Active	3.7%	n/a
Short Dated Sterling Corporate Bond Index Fund	Passive	5.4%	Markit iBoxx Sterling Corporates 1-5 Index
Net Zero Sterling Active Corporate Bond Fund	Active	13.6%	Markit iBoxx Sterling Non Gilt
2047 Fixed Interest Gilt	Passive	0.7%	n/a
2053 Fixed Interest Gilt (Green)	Passive	0.5%	n/a
2060 Fixed Interest Gilt	Passive	0.7%	n/a
2065 Fixed Interest Gilt	Passive	0.3%	n/a
2050 Index Linked Gilt	Passive	3.4%	n/a
2058 Index Linked Gilt	Passive	0.6%	n/a
2062 Index Linked Gilt	Passive	0.4%	n/a
2068 Index Linked Gilt	Passive	0.1%	n/a
2073 Index Linked Gilt	Passive	0.1%	n/a
2025 Inflation Swap	Passive	1.8%	n/a
2030 Inflation Swap	Passive	3.1%	n/a
2035 Inflation Swap	Passive	1.5%	n/a
2040 Inflation Swap	Passive	1.9%	n/a
Sterling Liquidity Fund	Active	15.0%	Sterling Overnight Index Average
Total		**100.0**	**-**

This allocation is not considered to be a benchmark as the allocation is deliberately allowed to drift away from this to reflect similar drifts in the liability characteristics. Accordingly, there is no automatic rebalancing in place within the bond portfolio.

The Trustees will review the bond portfolio allocation on a triennial basis as part of the actuarial valuation process reflecting updated understanding of the liability characteristics.

Expected Return on Investments

The Trustees' main concern the performance of the Fund's assets relative to liabilities, which are assessed by reference to the gilt market. Investment performance relative to gilts will depend principally on the performance of individual asset classes and the proportions of assets held within them. In the case of passive funds, LGIM's investment objective is to track each fund's respective benchmark (or the performance of the reference gilt or inflation swap) to within acceptable tolerances. For active managers, a target has been agreed to exceed the benchmark over a rolling three-year period. The targets agreed will vary between funds, in line with governing documentation of the pooled fund.

It is recognised that over the short term, performance may deviate significantly from the long term target.

Cashflow policy

The majority of cashflow requirements will be provided by asset income. A cash buffer will also be created to ensure short term liquidity.

Investments and disinvestments from the Fund will be applied as follows, unless otherwise agreed:

- **Investments**

  Any cashflows into the Fund will be invested in the cash fund held with LGIM. Where assets become available for investment as a result of a re-leverage event in the inflation only funds, this will be invested in the LGIM cash fund. The Trustees will review the asset allocation periodically to consider whether the ongoing allocation to the cash fund remains appropriate. The Trustees will take the appropriate advice from the investment consultant as to where any excess cash should be reallocated as required.

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- **Disinvestments:**

  Monthly cashflow requirements will be disinvested from the cash fund held with LGIM, If the amount in the cash fund is insufficient, the Trustees will receive advice from the investment consultant as to where additional monies should be disinvested from.

  Where disinvestments are required to meet recapitalisation requirements of the inflation only funds, cashflow should be sourced from the cash fund and then the Active Corporate Bond Fund – over 10 years.

  Unusual and significant cashflows will be reviewed by the Trustees on a case by case basis.

  Subject to the above, the Fund's investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments and for generating any cash that is required by the Trustees to pay benefits.

8. Monitoring the Managers

The Trustees will meet with the investment manager periodically, if required, to review the investment manager's actions together with the reasons for and background behind the investment performance. In addition, the Trustees receive periodic reports from the investment manager.

With the assistance of Mercer, the Trustees will from time to time review the continuing suitability of the Fund's investments, including the appointed managers, for all matters deemed to be financially material. Should this monitoring show that assets are not invested in accordance with each investment manager's mandate or that a particular investment fund may no longer be appropriate, then the Trustees would expect the investment consultant to discuss this with them so they can decide upon a suitable course of action.

9. Additional Voluntary Contributions ("AVCs")

The Trustees are responsible for the investment of Additional Voluntary Contributions ("AVCs") paid by members. The Trustee reviews the investment performance of the AVC funds on a regular basis and communicates with members regarding their AVC investments. The assets are invested in accounts with Guardian Royal Exchange.

The Trustee's AVC investment policy is guided by the following objectives:

- To provide members with a range of investment options to enable them to tailor investment strategy to their own needs without being overwhelming.

- To avoid over-complexity in investment in order to keep administration costs and employee understanding to a reasonable level.

- To select arrangements which are capable of being administered properly.

The Trustees intend to monitor the Scheme's AVC arrangements against 'best practice' for Defined Contribution Schemes, as set by the Pensions Regulator or other relevant body. The Trustees acknowledge that not all DC Governance Regulations, such as all of the DC Quality Features, will be directly relevant to an AVC arrangement.

10. Responsible Investments and Corporate Governance

The Trustees believe that good stewardship and environmental, social and corporate governance ("ESG") factors may have a financially material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustees have given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies, and current best practice, including the UK Corporate Governance Code and UK Stewardship Code. As part of the Trustees' ongoing review of its investment manager(s), they will review how ESG, climate change and stewardship are integrated within their investment processes and in the monitoring process principally through ongoing ratings provided by Mercer. The managers may be asked to provide reporting on ESG integration process, stewardship monitoring results and climate-related metrics when they present to Trustees. If the information provided reveals that an investment manager is not adhering to its policies, or otherwise raises concerns in relation to such matters, the Trustees will explore with Mercer whether to take action including whether it would be more appropriate to use another manager for the mandate.

The Trustees will consider ESG factors as well as the manager's approach to stewardship, voting and engagement activities as part of the selection of any new investment manager based on information and advice provided by Mercer. The relative importance of these factors compared to other factors will depend on the asset class being considered. The Trustees will normally select managers who are a signatory to the United Nations supported Principles for Responsible Investment (PRI). Where the Trustees are contemplating investing with a manager who is not a signatory to the PRI the manager will be asked to explain why they are not a signatory. The Trustees may decide to invest with a non-signatory manager if they consider it appropriate to do so in the circumstances for example because such investment manager/investment vehicle has other characteristics which are important for meeting the Trustees' investment objectives.

The Trustees will not consider the ESG policies of existing annuity providers and AVC providers as these contracts are a small proportion of total assets.

11. Non-Financial Matters

Non-financial matters (as defined by relevant regulations) are not taken into account when determining investment policy or in the selection, retention or realisation of the investments. Member views are not actively sought. The Trustees will review this policy from time to time in response to significant member demand.

12. Investment Manager Arrangements

Aligning Investment Manager Appointments with the Trustees' Investment Strategy

Investment Managers are appointed based on perceived capabilities and, therefore, their perceived likelihood of achieving their expected return and risk characteristics for the asset class or specific investment strategy they are selected to manage over a suitably long time horizon. This includes, in relation to active management, appropriate levels of outperformance, and in relation to passive management, suitable levels of "tracking error" against a relevant benchmark.

The Trustees seek expert advice from their investment consultant in relation to these appointments. This advice may consider factors such as assessment of the manager's idea generation, portfolio construction, implementation and business management, as well as the appointed Investment Manager's engagement activity and approach to ESG, climate change and stewardship, as they apply to the specific investment strategy being considered.

The Trustees invest the Fund's assets in multi client pooled funds, the investment objectives and guidelines for which (as set out in relevant governing documents) have been agreed such that they are aligned with the Trustees' own policy.

The Trustees invest the remainder of the Fund's assets in multi-investor pooled investment vehicles and accept that they have little to no ability to specify, or incentivise the managers to adopt a particular risk profile, return target, underlying asset classes or investment policies for the pooled fund which are set by the manager and apply to all investors in such vehicle. The Trustees' ability to control such matters is limited to their selection of specific vehicles. The Trustees will therefore select vehicles that best align with their own policies in terms of investment objectives and guidelines (as set out in relevant governing documents) and, once appointed, will review the appointment should there be any material changes in these terms.

The Trustees make appointments with the view to them being long term (to the extent this is consistent with the Trustees' overall investment time horizon) and there is typically no set duration for the manager appointments. However, in normal circumstances all assets held may be redeemed for cash at short notice via funds that deal at least once weekly. Only in exceptional market conditions leading to a temporary reduction in liquidity in some underlying assets might a delay be possible or advisable.

For each appointment, retention is dependent on the Trustees having ongoing confidence that the investment manager will achieve its objective. The Trustees make this assessment taking into account various factors which includes performance to date as well as an assessment of future prospects.

Investment Managers are therefore incentivised both to achieve the objectives set for them, which are consistent with the Trustees' policies and objectives, and to ensure that they remain capable of doing so on a rolling basis. This encourages investment managers to take a suitable long term view when assessing the performance prospects of, and engaging with, the equity and debt issues in which they invest or seek to invest.

Monitoring Manager Appointments

The Trustees receive reporting on asset class and investment manager performance on a regular basis, via a combination of formal independent reports and presentations from the investment managers.

Investment returns (and volatility) are measured on both an absolute basis and relative to one or more suitable benchmarks and targets. Returns are considered net of fees and ongoing transaction costs. The Trustees' focus is on long-term performance but may put a manager 'on watch' if there are short-term performance concerns.

As well as assessing investment returns, the Trustees will consider a range of other factors, with the assistance of their investment consultant, when assessing investment managers, which may include:

- Personnel and business change;
- Portfolio characteristics (including risk and compatibility with objectives) and turnover;
- Engagement activity;
- Service standards;
- The investment consultant's assessment of ongoing prospects based on their research ratings.

The investment manager is typically remunerated by the way of a fee calculated as a percentage of assets under management. The principal incentive is for the investment manager to retain their appointment by achieving their stated objectives in order to continue to receive the associated fee. The Trustees will consider any performance related fees on a case by case basis and would also consider requesting fee reductions. Investment managers are not directly remunerated based on portfolio turnover.

Portfolio Turnover Costs

Turnover costs arise from (a) “ongoing” transactions within an investment manager’s portfolio and (b) “cashflow” costs incurred when investing or realising assets from a mandate.

The Trustees have not historically monitored investment managers’ ongoing transaction costs explicitly, but measure these implicitly through ongoing performance assessments that are net of these costs.

The Trustees do not monitor regular cashflow costs (but seek to minimise them through ongoing cashflow policy). The Trustees consider the costs of implementing strategic change with the assistance of their investment consultant.

13. Custodian and Investment Advisor

Custodian

The role of a custodian is to ensure the safe keeping of the assets and facilitate all transactions entered into by the appointed investment managers.

The Trustees are not responsible for the appointment of the custodian of the assets contained within the various pooled fund investments. However, the Trustees are comfortable that the investment managers have procedures in place for the appointment and monitoring of the relevant custodians and for conducting periodic reviews.

Investment Consultant

Whilst the day-to-day management of the Fund’s assets is delegated to investment managers, all other investment decisions, including strategic asset allocation, is based on advice received from the Investment Consultant. Mercer Limited has been appointed for this purpose.

14. Compliance with this Statement

The Trustees will monitor compliance with this Statement regularly, and undertake to advise the investment manager promptly and in writing of any material change to this Statement if it affects their investment mandates.

15. Review of this Statement

The Trustees will review this Statement at least once every three years on the advice of Mercer and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believes 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 fund investments.

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Trustee	Signed
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Trustee	Signed

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Date

The Trustees of the Padley & Venables Pension Fund