

Lowman Pension Scheme – Defined Benefit Section

Statement of Investment Principles

1 Background

Purpose of Statement	<p>This Statement sets out the principles governing decisions relating to the investment of the assets of the Defined Benefit Section of the Lowman Pension Scheme (the Scheme). This Statement is primarily concerned with the Scheme’s invested assets, rather than assets held in the form of annuities.</p> <p>The principles governing the Defined Contribution Section are covered in a separate document.</p>
Nature of Scheme	<p>The Scheme is a defined benefit arrangement set up under trust and registered with HM Revenue and Customs (HMRC).</p>
Compliance with Legislation	<p>The Statement has been prepared to comply with Section 35 of the Pensions Act 1995, Section 244 of the Pensions Act 2004, the Occupational Pension Scheme (Investment) Regulations 2005, the Pension Protection Fund (Pensionable Service) and Occupational Pension Scheme (Investment and Disclosure) (Amendment and Modification) Regulations 2018, and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019</p>
Availability to Members	<p>A copy of this Statement will be made available to Scheme members on request to the Trustees of the Scheme.</p>
Investment Advice	<p>The Trustees have obtained and considered professional advice on the content of this Statement from BBS Consultants & Actuaries Ltd (BBS), their appointed investment adviser. BBS has confirmed to the Trustees that it has the appropriate knowledge and experience to give the advice required under legislation.</p> <p>The Trustees will obtain such advice as they consider appropriate and necessary whenever they intend to review or revise this Statement.</p>
Consultation with the Principal Employer	<p>The Trustees have consulted the Principal Employer, Lowman Manufacturing Company Limited, when setting their investment objectives and strategy, and in the preparation of this Statement.</p> <p>Responsibility for maintaining the Statement and determining the Scheme’s investment strategy rests solely with the Trustees.</p>
Investment Powers	<p>The Trustees’ investment powers are set out in Clause 51 of the Trust Deed and Rules dated 22 August 2005, as amended. The powers granted to the Trustees are wide and this Statement is consistent with those powers.</p>

2 Investment Objectives

Strength of Employer Covenant	The Trustees have considered the strength of the Principal Employer's willingness and ability to support the Scheme when setting the investment objectives and strategy.
Key Funding Measure	<p>The Scheme is subject to the Statutory Funding Objective (SFO) introduced by the Pensions Act 2004, i.e. that it should have sufficient and appropriate assets to cover its Technical Provisions, as calculated in accordance with the Trustees' Statement of Funding Principles.</p> <p>The Trustees have agreed that the funding position measured under the SFO is the assessment of scheme funding that is of most importance to the Trustees, the Principal Employer and members when setting the investment objectives and strategy, as it determines the Scheme's funding requirements.</p>
Investment Objectives	<p>The Trustees' investment objectives are as follows:</p> <ul style="list-style-type: none">• To ensure that the assets are of a nature to enable the Trustees to meet the Scheme's benefits as they fall due.• To invest the Scheme's assets in an appropriately diverse and liquid range of investments.• To invest in a way that is consistent with the Scheme's funding objectives, i.e. to invest so that the investment return assumptions used to determine the Trustees' funding plan have a reasonable chance of being achieved in practice.• To appropriately constrain volatility in the Scheme's funding position, allowing for the Trustees' perception of the strength of the Principal Employer's covenant.• Where future opportunities arise the Trustees will consider steps to further reduce the volatility of the Scheme's funding position relative to its liabilities calculated under the SFO.
Paying Regard to the Principal Employer's Views	The Trustees will have regard to the Principal Employer's views on the potential costs and risks associated with the investment objectives set and their implementation through the practical strategy.

3 Principles for Setting the Investment Strategy

Selection of Investments

The Trustees may select investments from a wide range of asset classes from time to time, including, but not restricted to UK equities, overseas equities, government bonds, corporate bonds, commercial property and alternative asset classes, such as hedge funds, private equity and infrastructure.

The investments selected will generally be traded on regulated markets and, where this is not the case, any such investments will be kept to a prudent level.

The Trustees may invest in products that use derivatives where this is for the purpose of risk management or to improve the efficiency of the management of the Scheme's investments.

The Trustees may hold insurance policies such as deferred or immediate annuities which provide income to the Scheme, matching part or all of the future liabilities due from it.

The Trustees may hold a working cash balance for the purpose of meeting benefit payments due to members and the expenses of running the Scheme.

Balance of Investments

The Trustees will set a Target Asset Allocation from time to time, determined with the intention of meeting their investment objectives.

The Target Asset Allocation will be set taking account of the characteristics of different asset classes available and will be reviewed in light of any changes to the Trustees' view of the Principal Employer's covenant, the nature of the Scheme's liabilities or relevant regulations governing pension scheme investment.

Delegation to Investment Managers

The Trustees will delegate the day-to-day management of the Scheme's assets to professional investment managers and will not be involved in the buying or selling of investments.

Realising Investments

The Trustees make disinvestments from the Investment Managers with the assistance of their administrator, IFA (South) Ltd, and investment adviser, as necessary, to meet the Scheme's cashflow requirements.

4 Setting the Strategy

Target Asset Allocation

The Target Asset Allocation for the Scheme's non-annuity assets is as follows:

Asset Class	Target Asset Allocation
Global equities	15.0%
Private markets	7.5%
Balanced fund	28.0%
Risk-controlled multi-asset funds	38.5%
LDI solution	11.0%
Total	100.0%

The Trustees also hold a portfolio of annuities that provide cashflows expected to match future benefit outgo in respect of specific pensioner liabilities.

Investment Managers

The Trustees entered into contracts with Legal & General Investment Management (LGIM) in June 1997, Baillie Gifford & Co. (Baillie Gifford) in June 2000, Aberdeen Standard Investments (ASI) in March 2013 and Mobius Life Limited in September 2019. Mobius Life Limited provides an investment platform for the Scheme, through which the Vontobel Global Equity Life Fund and Partners Generations Fund is invested. These companies undertake the day-to-day investment management of the Scheme's assets.

The Investment Managers are authorised and regulated by the Financial Conduct Authority (FCA) under the Financial Services and Markets Act 2000.

Strategies Used

The Trustees use the following funds operated by the Investment Managers.

Fund	Target Asset Allocation
Global equities	
Vontobel Global Equity Life Fund	15.0%
Private Markets	
Partners Generations Fund	7.5%
Managed Fund	
Baillie Gifford Managed Fund	28.0%
Risk-controlled multi-asset funds	
ASI Global Absolute Return Strategies Fund	14.5%
LGIM Dynamic Diversified Fund	24.0%
LDI solution	
LGIM Matching Core Funds	11.0%
Total	100.0%

The funds used to implement the LDI solution may be reviewed and amended by the Trustees from time to time to maintain the target hedging levels.

Target Hedging Ratios

For the funds which form part of the LDI allocation, the target hedging ratios set relative to the value of the funded Technical Provisions (excluding insured liabilities), are as follows:

	Target Hedging Ratio
Interest rate risk	33%
Inflation risk	33%

Maintaining the Target Asset Allocation

The Trustees have responsibility for maintaining the overall balance of the asset allocation relative to the Target Asset Allocation and Target Hedging Ratios. The Trustees monitor the asset allocation on a regular basis with the assistance of their adviser, BBS, and will consider switching assets between funds should the allocation move significantly away from the Target Asset Allocation.

Performance Benchmarks and Objectives

All of the funds are actively managed, with an objective to outperform a specified market benchmark. Their objectives are summarised below:

Fund name	Benchmark	Performance Objective
Vontobel Global Equity Life Fund	MSCI All Country World Index	The fund aims to outperform the index by 2% – 3% per annum over the full market cycle, with less volatility than the index.
Partners Generations Fund	MSCI World 100% Hedged to GBP Index	To provide long term capital growth.
Baillie Gifford Managed Fund	Investment Association Mixed Investment 40 – 85% Shares sector median	To achieve capital growth over rolling five-year periods.
LGIM Dynamic Diversified Fund	Bank of England base rate	To outperform the return benchmark by 4.5% p.a. (gross of fees) over the course of an investment cycle with around two thirds of the volatility compared to equity markets.
ASI Global Absolute Return Strategies Fund	6-month LIBOR	To outperform the return benchmark by 5.0% p.a. (gross of fees) over rolling three-year periods with between one third and one half of the risk associated with developed equity markets.

The LGIM Matching Core funds have an objective to provide a prescribed level of sensitivity to changes in long-term interest rates and inflation expectations, so that, in total, they meet the target hedging levels set out in the Trustees’ Investment Objectives.

The combinations of funds used is intended to meet the Trustees’ target levels of hedging against the interest rate risk and inflation risk associated with the Scheme’s liabilities.

**Investment
Management
Charges**

The annual management charge for each of the funds used including those on the Mobius Life Platform, based on the assets under management at the date of this Statement, are given below:

Fund	Annual Management Charge
Vontobel Global Equity Life Fund	0.70% p.a.
Partners Generations Fund	1.31% p.a.*
Baillie Gifford Managed Fund	0.40% p.a.
LGIM Dynamic Diversified Fund	0.50% p.a.**
ASI Global Absolute Return Strategies Fund	0.70% p.a.
LGIM Matching Core Funds	0.24% p.a.

*A performance fee is also payable for the Partners Generations Fund of 10.0% of growth above the previous net asset value for the fund.

**The AMC is being discounted to 0.40% p.a. until further notice.

**Employer
Related
Investment**

Neither the Trustees nor the investment managers directly hold any employer-related investments.

5 Expected Returns and Risks

Overall Return Target The Trustees' overall return target is for the Scheme's assets to produce a return in excess of the growth in the value of its liabilities calculated under the SFO.

The Trustees expect the assets to produce a return in excess of the long-term growth in the value of the liabilities calculated under the SFO of between 0.8% per annum and 2.8% per annum, depending on the level of prudence used in assessing future returns.

Expected Returns Over the long-term, the Trustees' expectations are to achieve the following rates of return from the asset classes they make use of:

Asset Class	Expected return
Global equities	In excess of UK price inflation, as measured by the Retail Prices Index, and in excess of the yield currently available on long-dated gilts.
Private markets	In excess of the return on developed market equities over a market cycle, net of all costs.
Balanced fund	In excess of UK price inflation, as measured by the Retail Prices Index, over five-year rolling periods, and in excess of the yield currently available on long-dated gilts.
Risk-controlled multi-asset funds	Comparable with the return from global equities over an economic cycle of five to seven years, with significantly reduced volatility.
LDI funds	In line with the sensitivity of the Scheme's Technical Provisions to changes in interest rates and inflation expectations, allowing for the target level of hedging specified by the Trustees from time to time.

Consideration of Risks The Trustees have considered various risks the Scheme faces, including market risk, interest rate risk, inflation risk, default risk, concentration risk, manager risk and currency risk, and consider that the Target Asset Allocation strikes a reasonable balance between risk mitigation and seeking an appropriate level of return, taking account of the strength of the Principal Employer's covenant and the long-term nature of the Scheme.

Risk Relative to the Value of the Scheme's Key Funding Measure The Target Asset Allocation has been determined with due regard to the characteristics of the Scheme's Technical Provisions.

The calculation of the Scheme's Technical Provisions uses assumptions for future investment returns and price inflation expectations that are based upon market values of financial securities such as fixed interest and index-linked government bonds. This means that the Technical Provisions are sensitive to changes in the price of these assets as market conditions vary, and can have a volatile value.

The Trustees accept that their investment strategy may result in volatility in the Scheme's funding position. Furthermore, the Trustees also accept that there is a risk that the assets will not achieve the rates of investment return assumed in the calculation of the Scheme's Technical Provisions.

Concentration of Risk and Diversification	<p>To reduce the risk of concentration within the portfolio, the Trustees will monitor the overall mix of asset classes and stocks in the investment strategy with their investment adviser, BBS.</p> <p>The Trustees invest in a wide range of asset classes through the funds and strategies they use and consider the Scheme’s strategy to be well diversified.</p>
Manager Controls and Custodianship	<p>The day-to-day activities that the Investment Managers carry out for the Trustees are subject to regular internal reviews and external audits by independent auditors to ensure that operating procedures and risk controls remain appropriate.</p> <p>Safe-keeping of the Scheme’s assets held with the Investment Managers is performed by custodians appointed by the Investment Managers.</p>
Manager Security	<p>The Trustees have considered the security of the Scheme’s holdings with the Investment Managers, allowing for their status as reputable regulated firms, and consider the associated protection offered to be reasonable and appropriate.</p>
Monitoring and Management of Risks	<p>The Trustees will monitor the investment and funding risks faced by the Scheme with the assistance of their investment advisers and the Scheme Actuary at least every three years. The Trustees will consider the appropriateness of implementing additional risk mitigation strategies as part of such reviews.</p> <p>In addition, the Trustees will review wider operational risks as part of maintaining their risk register.</p>

6 Responsible Investing, Governance and Engagement

Financially Material Considerations Related to Environmental, Social and Governance Considerations	<p>The Trustees recognise that Environmental, Social and Governance (ESG) issues can and will have a material impact on the companies, governments and other organisations that issue or otherwise support the assets in which the Scheme invests. In turn, ESG issues can be expected to have a material financial impact on the returns provided by those assets.</p> <p>The Trustees delegate responsibility for day-to-day decisions on the selection of investments to the Investment Managers. The Trustees have an expectation that the Investment Managers will consider ESG issues in selecting investments, or will otherwise engage with the issuers of the Scheme's underlying holdings on such matters in a way that is expected to improve the long-term return on the associated assets.</p> <p>The Trustees do not currently impose any specific restrictions on the Investment Managers with regard to ESG issues, but will review this position from time to time. The Trustees receive information on request from the Investment Managers on their approach to selecting investments and engaging with issuers with reference to ESG issues.</p> <p>With regard to the specific risk to the performance of the Scheme's investments associated with the impact of climate change, the Trustees take the view that this falls within their general approach to ESG issues. The Trustees regard the potential impact of climate change on the Scheme's assets as a longer term risk and likely to be less material in the context of the short to medium term development of the Scheme's funding position than other risks. The Trustees will continue to monitor market developments in this area with its investment adviser.</p>
Views of Members and Beneficiaries	<p>The Scheme is comprised of a diverse membership, expected to hold a broad range of views on ethical, political, social, environmental, and quality of life issues. The Trustees therefore do not explicitly seek to reflect any specific views through the implementation of the investment strategy.</p>
Engagement and Voting Rights	<p>Responsibility for engagement with the issuers of the Scheme's underlying investment holdings and the use of voting rights is delegated to the Investment Managers. The Trustees can therefore only influence engagement and voting policy indirectly.</p> <p>The Investment Managers provide, on request, information to the Trustees on their actions in relation to engagement and use of voting rights. The Trustees are therefore aware of the policies adopted by the Investment Managers.</p>
Capital Structure of Investee Companies	<p>Responsibility for monitoring the make up and development of the capital structure of investee companies is delegated to the Investment Managers. The Trustees expect the extent to which the Investment Managers monitor capital structure to be appropriate to the nature of the mandate.</p>

Conflicts of Interest

The Trustees maintain a separate conflicts of interest policy and register.

Subject to reasonable levels of materiality, these documents record any actual or potential conflicts of interest in relation to investee companies or the Investment Managers, while also setting out a process for their management.

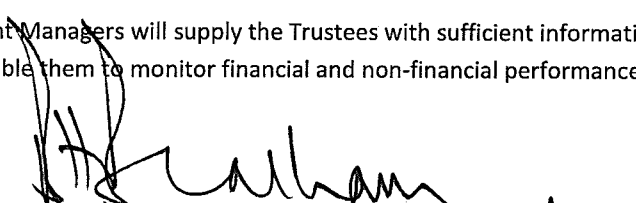
Incentivisation of Investment Managers

The investment managers are primarily remunerated based on an agreed fixed annual percentage of the asset value for each underlying fund.

The Trustees do not directly incentivise the Investment Managers to align the approach they adopt for a particular fund with the Trustees' policies and objectives. Instead, the Investment Managers are selected so that, in aggregate, the returns produced are expected to meet the Trustees' objectives.

Neither do the Trustees directly incentivise the Investment Managers to make decisions about the medium to long-term performance of an issuer of debt or equity, or to engage with those issues to improve their performance. The Trustees expect such assessment of performance and engagement to be undertaken as appropriate and necessary to meet the investment objectives of the funds used by the Scheme.

7 Review and Monitoring

Frequency of Review	The Trustees will review this Statement at least every three years or if there is a significant change in the Scheme's circumstances or the regulations that govern pension scheme investment.
Monitoring the Investment Strategy and Managers	<p>The Trustees employ BBS to assist them in monitoring the performance of the Scheme's investment strategy and Investment Managers.</p> <p>The Trustees receive quarterly reports from the Investment Managers and meet with their representatives periodically to review their investment performance and processes.</p> <p>The Trustees and BBS will monitor the Investment Managers' performance against their performance objectives.</p> <p>The appropriateness of the Investment Managers' remuneration will be assessed relative to market costs for similar strategies, the skill and resources required to manage the strategy, and the success or otherwise a manager has had in meeting its objectives, both financial and non-financial.</p>
Portfolio Turnover Costs	<p>The Trustees expect the Investment Managers to change underlying holdings only to an extent required to meet their investment objectives. The reasonableness of such turnover will vary by fund and change according to market conditions.</p> <p>The Trustees therefore do not set a specific portfolio turnover target for their strategy or the underlying funds.</p> <p>The Investment Managers provide information on portfolio turnover and associated costs to the Trustees so that this can be monitored, as appropriate.</p>
Review of Investment Managers	The Trustees will consider on a regular basis whether or not the Investment Managers remain appropriate to continue to manage the Scheme's investments.
Information from Investment Managers	The Investment Managers will supply the Trustees with sufficient information each quarter to enable them to monitor financial and non-financial performance.
Signed	
Name	BRUCE H. REACHMAN
Date	24 September 2019
On behalf of the Trustees of the Lowman Pension Scheme	

