

Lowman Pension Scheme – Defined Contribution Section

Statement of Investment Principles

1 Background

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| Purpose of Statement | <p>This Statement sets out the principles governing decisions relating to the investment of the assets of the Defined Contribution Section of the Lowman Pension Scheme (the Scheme).</p> <p>The principles governing the Defined Benefit Section are covered in a separate document.</p> |
| Nature of Scheme | <p>The Scheme is set up under trust and registered with HM Revenue and Customs (HMRC).</p> |
| Compliance with Legislation | <p>This Statement has been prepared to meet the requirements of Section 35 of the Pensions Act 1995, Section 244 of the Pensions Act 2004, the Occupational Pension Scheme (Investment) Regulations 2005, and the Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.</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 will obtain and consider 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

Investment Objectives

The Trustees' investment objectives, in relation to the Defined Contribution Section, are as follows:

Investment options provided to members

The Trustees' objective is to provide members with access to a suitable range of funds that provide an appropriate range of expected risk and returns. Each fund offered would be expected to achieve at least one of the following aims:

- To generate investment growth in excess of price inflation over the long-term;
- To preserve capital; or
- To provide a relatively secure stream of income through interest payments and return of capital.

The range of funds should also offer value for money to members, have clear objectives that can be easily communicated and be sufficiently limited to avoid the risk of confusion from excessive choice.

Members who do not make their own choices

Where members do not make any investment choices, the Trustees will provide a default investment approach with the following objectives:

- To generate investment growth in excess of price inflation over the long-term;
- To reduce the potential variability of returns as members approach retirement; and
- As members approach retirement, to reduce uncertainty in the level of retirement benefits that will be paid to members.

3 Principles for Setting the Investment Strategy

Investments that may be used in the Scheme

The Trustees may offer 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 offer investment 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.

Selection of Funds for use by Members

Investment decisions regarding the fund choices to be made available to members are taken by the Trustees based on advice provided by their advisers, and taking into account the views of the Principal Employer.

In selecting funds to offer to members of the Scheme, the Trustees will consider the investment objectives, expected returns, risks and other relevant characteristics of each fund.

The Trustees regularly review the suitability of the fund options provided and, from time to time, may change investment managers or introduce additional investment options as appropriate.

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.

Arranging Investment Transactions

The Trustees will invest, disinvest and transfer members' investments with the assistance of the Scheme's administrator, IFA (South) Ltd.

4 The Investment Strategy

Investment Manager The Trustees entered into a contract with Legal & General Assurance (Pension Management) Limited ('LGAS'). The Investment Manager undertakes day-to-day investment management of the Scheme's assets.

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

Investment Options The Trustees have made the following pooled funds available for members to invest in:

| Asset Class | Fund Name |
|----------------------------------|---|
| UK equities | LGIM UK Equity Index Fund |
| Global equities | LGIM Global Equity Fixed Weights (50:50) Index Fund |
| Emerging market equities | LGIM World Emerging Markets Equity Index Fund |
| Ethical global equities | LGIM Ethical Global Equity Index Fund |
| Sharia-compliant global equities | HSBC Amanah Global Equity Index Fund |
| Multi-asset | LGIM Multi-Asset Fund |
| Fixed interest gilts | LGIM All Stocks Gilts Index Fund |
| Index-linked gilts | LGIM All Stocks Index-Linked Gilts Index Fund |
| Commercial property | LGIM Property Fund |
| Cash | LGIM Cash Fund |
| Fixed pension matching | LGIM Pre-Retirement Fund |

Investment Management Charges The annual management charges for each of the funds available are given below:

| Fund | Fund Management Charge |
|---|------------------------|
| LGIM UK Equity Index Fund | 0.10% p.a. |
| LGIM Global Equity Fixed Weights (50:50) Index Fund | 0.10% p.a. |
| LGIM World Emerging Markets Equity Index Fund | 0.25% p.a. |
| LGIM Ethical Global Equity Index Fund | 0.30% p.a. |
| HSBC Amanah Global Equity Index Fund | 0.55% p.a. |
| LGIM Multi-Asset Fund | 0.13% p.a. |
| LGIM All Stocks Gilts Index Fund | 0.08% p.a. |
| LGIM All Stocks Index-Linked Gilts Index Fund | 0.08% p.a. |
| LGIM Property Fund | 0.89% p.a. |
| LGIM Cash Fund | 0.10% p.a. |
| LGIM Pre-Retirement Fund | 0.12% p.a. |

Default Investment Approach – Hybrid Members

For hybrid members who are accumulating defined contribution benefits but also have an entitlement to a defined benefit pension, the Trustees have selected the Lowman Equity Multi-Asset 15-Year Lifestyle (Cash) approach as the default investment option. The broad aim of the default investment approach is to provide investment growth in excess of price inflation for the majority of a typical member’s working life before gradually reducing the uncertainty in the level of benefits emerging as a member approaches retirement

In choosing this default investment approach, the Trustees have considered the needs of the members and taken advice from their investment advisers. The default investment approach has been chosen to target a 100% cash benefit at retirement, reflecting an expectation that this will be the form of benefit taken by the majority of hybrid members at retirement.

Under this default investment approach, a member’s accumulated fund will be invested as follows:

| Period prior to member’s normal retirement age | Investment Default Approach |
|--|---|
| More than 15 years | The approach invests in the LGIM Global Equity Fixed Weights (50:50) Index Fund. |
| 15 years to 5 years | Phased switches are made between the LGIM Global Equity Fixed Weights (50:50) Index Fund and the LGIM Multi-Asset Fund to achieve an allocation of 100% LGIM Multi-Asset Fund at the end of the period. |
| 5 years to 0 years | Phased switches are made from the LGIM Multi-Asset Fund to the LGIM Cash Fund to achieve an allocation of 100% LGIM Cash Fund at the end of the period. |
| At retirement | 100% invested in the LGIM Cash Fund. |

Default Investment Approach – DC only

For members who are accumulating defined contribution benefits only, with no entitlement to an element of defined benefit pension, the Trustees have selected the Lowman Equity Multi-Asset 15-Year Lifestyle approach as the default investment option. The broad aim of the default investment approach is to provide investment growth in excess of price inflation for the majority of a typical member’s working life before gradually reducing the uncertainty in the level of benefits emerging as a member approaches retirement

In choosing this default investment approach, the Trustees have considered the needs of the members and taken advice from their investment advisers. The default investment approach has been chosen to target a cash benefit with 25% of the member’s accumulated fund at retirement and to purchase a fixed level or increasing annuity with the remainder of the fund, reflecting a view that this is an appropriate form of benefit to provide members who do not have any defined benefits in the Scheme.

Under this default investment approach, a member’s accumulated fund will be invested as follows:

| Period prior to member’s normal retirement age | Investment Default Approach |
|--|--|
| More than 15 years | The approach invests in the LGIM Global Equity Fixed Weights (50:50) Index Fund. |
| 15 years to 5 years | Phased switches are made between the LGIM Global Equity Fixed Weights (50:50) Index Fund and the LGIM Multi-Asset Fund to achieve an allocation of 100% LGIM Multi-Asset Fund at the end of the period. |
| 5 years to 3 years | Phased switches are made from the LGIM Multi-Asset Fund to the LGIM Pre-Retirement Fund to achieve an allocation of 60% LGIM Multi-Asset Fund and 40% LGIM Pre-Retirement Fund at the end of the period. |
| 3 years to 0 years | Phased switches are made from the LGIM Multi-Asset Fund to the LGIM Pre-Retirement Fund and LGIM Cash Fund to achieve an allocation of 75% LGIM Pre-Retirement Fund and 25% LGIM Cash Fund at the end of the period. |
| At retirement | 75% invested in the LGIM Pre-Retirement Fund and 25% invested in the LGIM Cash Fund. |

**Performance
Benchmarks and
Objectives**

The property and cash funds are actively managed, with an objective to outperform a specified market benchmark. Their objectives are summarised below:

| Fund name | Benchmark | Performance Objective |
|--------------------|--|---|
| LGIM Property Fund | AREF/IPD UK Quarterly All Balanced PFI | To exceed the benchmark over three and five year periods. |
| LGIM Cash Fund | 7 Day LIBID | To perform in line with 7 Day GBP LIBID, without incurring excessive risk |

The remaining funds are passive, with an objective to broadly track a specified market benchmark. Their objectives are summarised below:

| Fund name | Benchmark | Performance Objective |
|---|---|--|
| LGIM UK Equity Index Fund | FTSE All-Share Index | To track the performance of the benchmark to within +/-0.25% p.a. for two years out of three |
| LGIM Global Equity Fixed Weights (50:50) Index Fund | Composite fixed weight benchmark of 50% UK equities and 50% overseas equities | To track the performance of the composite benchmark |
| LGIM World Emerging Markets Equity Index Fund | FTSE Emerging Index | To track the performance of the benchmark to within +/-1.5% p.a. for two years out of three |
| LGIM Ethical Global Equity Index Fund | FTSE 4Good Developed Index | To track the performance of the benchmark to within +/-0.5% p.a. for two years out of three |
| HSBC Amanah Global Equity Index Fund | Dow Jones Islamic Titans 100 Net total return index | To create long term appreciation of capital through investment in a diversified portfolio of securities as defined by the benchmark. |
| LGIM Multi-Asset Fund | ABI Mixed Investment 40-85% Shares Sector | To provide long-term investment growth through exposure to a diversified range of asset classes, excluding physical property. |
| LGIM All Stocks Gilts Index Fund | FTSE Actuaries UK Conventional Gilts All Stocks Index | To track the performance of the benchmark to within +/-0.25% p.a. for two years out of three. |
| LGIM All Stocks Index-Linked Gilts Index Fund | FTSE Actuaries UK Index-Linked Gilts All Stocks Index | To track the performance of the benchmark to within +/-0.25% p.a. for two years out of three. |
| LGIM Pre-Retirement Fund | Composite of gilts and corporate bond funds | To track the performance of the composite benchmark |

**Employer Related
Investment**

Neither the Trustees nor the Investment Manager directly hold any employer related investments.

5 Expected Returns and Risks

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

| Asset Class | Expected return |
|---|--|
| UK and 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. |
| Emerging market equities | In excess of the return on developed market equities, reflective of the increased risk associated with emerging markets. |
| Ethical 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. |
| Multi-asset | Comparable with the return from global equities over an economic cycle of five to seven years, with reduced volatility. |
| Fixed interest gilts and Index-linked gilts | In line with the market yields available on the relevant underlying securities. |
| Commercial property | To achieve a rate of return in excess of price inflation over the longer term. |
| Cash | To achieve a return broadly in line with rates of interest available on short-term money market instruments. |
| Fixed pension matching | In line with the market yields available on the relevant underlying securities used to price annuity policies. |

Consideration of Risks

The Trustees have considered the various risks faced by members in determining the default investment approach and in choosing the funds to be offered to members who wish to select their own investments. These include:

- The risk of adverse market movements on investments.
- The risk that the value of investments may be eroded in real (inflation adjusted) terms.
- The risk of adverse currency movements on investments.
- The risk of investments being concentrated either by asset class, sector or geographical region.
- The risk of default of the underlying holdings within the investments.
- The risk of investments being concentrated with a particular investment manager.

The Trustees consider that the default investment approach strikes a reasonable balance between seeking an appropriate level of return for members, whilst suitably mitigating key risks relative to the range of potential target benefits at retirement.

The Trustees also consider that the funds offered provide members with an appropriate range of investment approaches that enable them to express their own attitudes to risk and return.

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| Diversification | The Trustees believe that the default investment approach provides an appropriately diversified strategy over the course of a member’s working life-time, whilst the range of investment options offered to members allows them to construct a suitably diversified investment approach, if they decide to select their own investments. |
| Manager Controls | <p>The day-to-day activities that LGAS carries out for the Trustees are periodically reviewed by the fund manager and its independent auditors to ensure that their internal operating procedures, guidelines and restrictions remain appropriate.</p> <p>Safe-keeping of assets is performed by external custodians on behalf of LGAS, and the ongoing appointment of the custodians is reviewed by LGAS from time to time.</p> |
| Manager Security | The Trustees have considered the security of the Scheme’s holdings with the Investment Manager, allowing for its status as a reputable regulated firm, and consider the associated protection offered to be reasonable and appropriate. |
| Monitoring and Management of Risks | <p>The Trustees will monitor the investment risks faced by members of the Scheme with the assistance of their investment advisers at least every three years.</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

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 members invest. In turn, ESG issues can and will have a material financial impact on the returns provided by those assets.

The Trustees delegate responsibility for day-to-day decisions on the selection of investments to the Investment Manager. The Trustees have an expectation that the Investment Manager will consider ESG issues in selecting investments, or will otherwise engage with the issuers of the underlying holdings of the Defined Contribution Section on such matters in a way that is expected to improve the long-term return on its assets.

The Trustees do not currently impose any specific restrictions on the Investment Manager with regard to ESG issues, but will review this position from time to time. The Trustees have made available to members the option of investing in an ethical UK equity fund.

The Trustees receive regular information from the Investment Manager on its approach to selecting investments and engaging with issuers with reference to ESG issues.

With regard to the specific risk to performance of the investments of the Defined Contribution Section associated with the impact of climate change, the Trustees take the view that this falls within their general approach to ESG issues. The Trustees will continue to monitor market developments in this area in conjunction with their adviser.

Views of Members and Beneficiaries

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 have made available to members the option of investing in an ethical UK equity fund, to provide an option for members who require an ethically orientated fund expected to produce a return in excess of price inflation over the longer term.

Engagement and Voting Rights

Responsibility for engagement with the issuers of the underlying investment holdings, including the use of voting rights, is delegated to the Investment Manager. The Trustees can therefore only indirectly influence engagement and voting policy.

The Investment Manager provides information to the Trustees on its actions in relation to engagement and use of voting rights. The Trustees are therefore aware of the policies adopted by the Investment Manager.

Capital Structure of Investee Companies

Responsibility for monitoring the make up and development of the capital structure of investee companies is delegated to the Investment Manager. The Trustees expect the extent to which the Investment Manager monitors these capital structures to be appropriate to the nature of the mandate.

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 Manager, while also setting out a process for their management.

Incentivisation of Investment Managers

The Investment Manager is primarily remunerated based on an agreed fixed annual percentage of the asset value for each underlying fund.

Neither the Trustees nor the members directly incentivise the Investment Manager to align the approach it adopts for a particular fund with the policies and objectives of the Trustees and/or members. Instead, the Investment Manager is selected so that the returns produced are expected to meet the investment objectives of members.

Neither do the Trustees or members directly incentivise the Investment Manager 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 members' investment objectives.

7 Compliance 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 of the regulations that govern pension scheme investment.

Monitoring the Investment Strategy and Manager The Trustees employ BBS to assist in monitoring LGAS, and to help review the investment options and default investment approach.

The Trustees receive quarterly reports from LGAS, and meets with its representatives periodically to review investment performance and processes.

The Trustees will monitor LGAS's performance against their stated performance objectives.

The appropriateness of the Investment Manager's remuneration will be assessed relative to market costs for similar strategies, the skill and resources required to manage the default and fund options, and the success or otherwise a manager has had in meeting its objectives, both financial and non-financial.

Portfolio Turnover Costs The Trustees expect the Investment Manager to change underlying holdings only to an extent required to meet its investment objectives. The reasonableness of such turnover will vary by fund and change according to market conditions.

The Trustees therefore do not set a specific portfolio turnover target for the underlying funds used by members.

The Investment Manager can provide information on portfolio turnover and associated costs to the Trustees so that this can be monitored, as appropriate.

Review of Fund Manager The Trustees will consider on a regular basis whether or not LGAS has the appropriate knowledge, philosophy, experience and processes to continue to manage the investments on behalf of members.

Signed

Name

Date

On behalf of the Trustees of the Lowman Pension Scheme