Sandberg Pension Plan

Statement of Investment Principles

September 2020

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01 **Introduction**

This document constitutes the Statement of Investment Principles ("the SIP") required under Section 35 of the Pensions Act 1995 for the Sandberg Pension Plan ("the Plan"). This SIP details the matters that are required to be covered under Section 2 of the Occupational Pension Schemes (Investment) Regulations 2005 (the "Regulations"). It also has been prepared in accordance with the Government's voluntary code of conduct for Institutional Investment in the UK ("the Myners Principles"). .

The Trustees of the Plan confirm that, in preparing this SIP, they have consulted with Sandberg LLP ("the Employer") and the Scheme Actuary and have obtained and considered written advice from the Investment Adviser. The Scheme Actuary is Mofozul Ali of XPS Pensions and the Investment Adviser is XPS Investment. The Trustees believe the Investment Adviser to be qualified by their ability and practical experience of financial matters and to have appropriate knowledge of the investment arrangements that the Plan requires.

The Trustees are responsible for the investment of the Plan's assets and arrange administration of the Plan. In order to meet the requirements of S36 of the Pensions Act (choosing investments), where they are required to make an investment decision, the Trustees will always obtain written advice from the Investment Adviser first. They consider this to be proper advice as such term is defined Pensions Act 1995 because the Investment Adviser is authorised and regulated by the Financial Conduct Authority.

Given the size of the Plan, the Trustees have decided the most cost effective way of investing the Plan assets is to invest in pooled funds, rather than via segregated accounts with investment managers. Decisions about which pooled funds to invest in are made after receiving investment advice from the Investment Adviser.

There are two sections within the Plan: a defined benefit section and a defined contribution section. The Trustees believe that the investment decisions for the defined contribution section should be considered separately to the defined benefit section. Therefore, there is a separate part in this SIP that addresses the specific defined contribution issues.

In accordance with the Regulations this SIP will be reviewed at least every three years or on a significant change of investment policy.

Confirmation of advice

Before a Statement of Investment Principles, as required by the Pensions Act 1995, is prepared or revised by the trustees of a pension scheme, they must have consulted with the principal employer and obtained and considered the written advice of a person who is reasonably believed by it to be qualified by his ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of the investments of such schemes.

The Investment Advisor hereby confirms to the Trustees that they have the appropriate knowledge and experience to give the advice required by the Act.

Declaration

The Trustees confirm that this SIP reflects the Investment Strategy they have decided to implement. The Trustees acknowledge that it is their responsibility, with guidance from the Advisers, to ensure the assets of the Plan are invested in accordance with these Principles.

02 **Plan Governance**

The Trustees are responsible for the governance and investment of the Plan's assets. The Trustees consider that the governance structure set out in this SIP is appropriate for the Plan as it allows the Trustees to make the important decisions on investment policy having obtained appropriate advice, while delegating the day-to-day aspects to managers of the pooled funds.

The Trustees believe that they should be collectively involved in the investment decision-making function and have therefore decided not to appoint an Investment Sub-Committee to deal with investment matters.

03 Investment Objectives for the Defined Benefit Section

The Trustees' investment objectives for the defined benefit section are:

> to ensure that the Plan has sufficient monies at all times to meet its financial obligations as and when they fall due in the future;

> to control the risk of significant adverse movements in the Plan's on-going funding level arising from changes in economic conditions and investment markets;

> to minimise the long-term cost of the Plan by maximising the return on the assets whilst having regard to the other objectives shown above; and

> to ensure the Plan's investment strategy is prudent, in accordance with the provisions of the Trust Deed and Rules.

04 Investment Strategy for the Defined Benefit Section

04.01 Asset allocation strategy

Having considered advice from the Investment Adviser, and also having due regard for the objectives, the liabilities of the Plan, the risks of and to the Plan and the covenant of the Employer, the Trustees have decided upon the following strategic target asset allocation for the Defined Benefit Section:

Asset Class	Allocation %
Return seeking assets i.e. on risk assets	60.0
Matching assets i.e. off risk assets	40.0
Total	100.0

The pooled funds that the Trustees have selected to achieve the investment objectives are detailed in Appendix A. If any changes are required to be made to the pooled funds, the Trustees will first consult with the Investment Adviser but for the avoidance of doubt any such change will not in and of itself constitute a change of investment policy requiring a revision to this SIP.

04.02 Rebalancing policy

The Trustees will review the allocation of assets between the pooled funds and between asset classes informally at least quarterly. A formal review will be carried out annually and if the allocation has moved significantly from that set out in this SIP, the Trustees will seek advice from the Investment Adviser as to whether it is appropriate to rebalance between pooled funds and how to rebalance.

04.03 Rates of return

The benchmark and target rates of return expected are detailed in Appendix A for each fund.

04.04 Diversification

The use of pooled funds with minimum diversification requirements is designed to ensure that the Plan's investments are adequately diversified given the Plan's investment objectives. The Trustees will monitor the strategy regularly to ensure that they are comfortable with the level of diversification.

04.05 Liquidity

The great majority of the assets are held in pooled funds with frequent redemption dates that are sufficiently liquid to be realised ahead of any planned or unexpected demand for cash. Furthermore the vast majority of underlying investments are traded regularly on a public exchange and accordingly there are no foreseeable circumstances in which redemption requests could not be met.

04.06 Active and passive management

The Trustees have chosen to use active and passively managed funds options in the implementation of the investment strategy in the belief that active management is expected to provide additional investment return (net of additional fees) over passively managed alternatives.

04.07 Custody

The custodian of the assets in the pooled funds is appointed by the respective funds.

04.08 Suitability

The Trustees have taken advice from the Investment Adviser that the choice of investments is suitable.

05 Defined Contribution Section

A defined contribution section was introduced with effect from 1 October 2001. The Trustees recognise the different investment requirements of the assets held in respect of these entitlements.

05.01 Investment objectives

The Trustees' general investment objectives for the Defined Contribution Section are:

> to offer suitable funds for the members so that they are able to select from a range of pooled funds that reflect the attitude to risk and time to retirement of each member;

> to offer a small number of pooled funds commensurate with the investment objective above so as to ensure appropriate governance arrangements can be put in place and to reduce the burden on members who wish to make their own investment decisions; and

> to offer those members who are unable or unwilling to choose their own investments a default investment strategy which reflects the period of time until their retirement.

The Trustees will review any investment funds they have chosen that either underperform their benchmarks over a significant period, are inadequately diversified, carry a level of risk that is inappropriate in the context of the Plan's objectives or put the security of the investments at risk. Such a review would be carried out with the support of the Investment Adviser.

The Trustees' specific investment objectives for the default investment strategy are set out below.

05.02 Strategy

Having considered advice from the Investment Adviser, and also having due regard for the objectives and the members of the Plan, the Trustees have set a lifestyling investment strategy as the default option as well as making available a number of other pooled funds.

Lifestyling aims to help ensure that members are invested in the most appropriate type of fund between the time they join the Plan and retirement. It does so by systematically switching members from funds that are focused on growth to funds that look to address members' needs in retirement.

The Defined Contribution Section's investments relate to two principal categories:

a. Active members and deferred pensioners: Typical investments for this category would be growth assets such as equities and property, where income and capital values can be expected to be maintained in real terms. However, as members approach retirement it is prudent to move the investments into those asset classes designed to best match the benefits that are expected to be taken at retirement. This could mean maintaining some exposure to growth assets whilst moving a proportion into fixed interest or index-linked securities and cash as a member approaches retirement.

b. Pensioners: For this category, benefits are either secured by means of matching insurance policies or by transferring the assets to another registered arrangement.

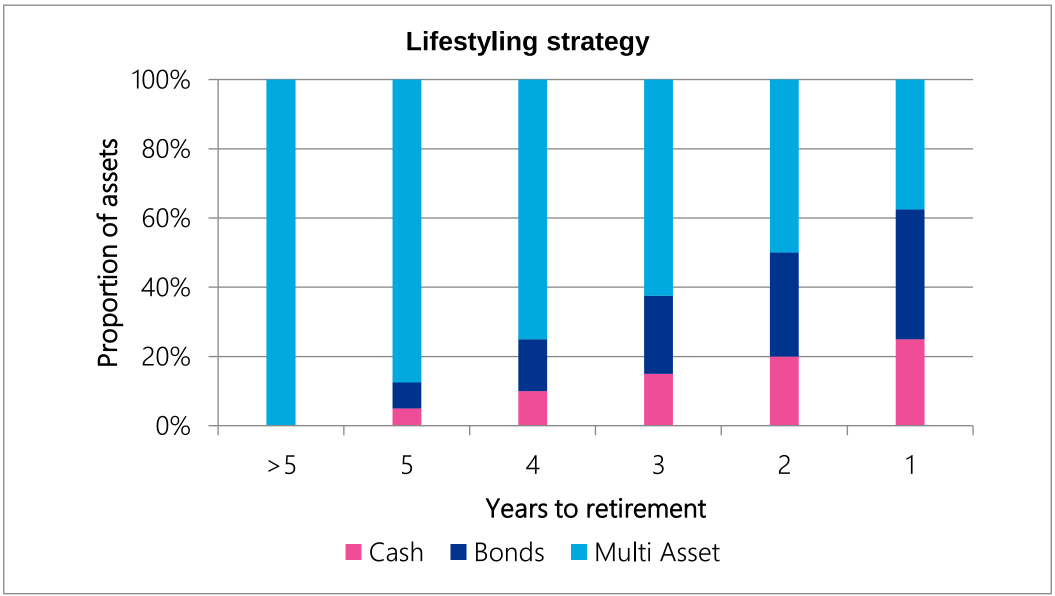
Prior to the change in investment strategy in the period leading up to retirement, the assets held for active members and deferred pensioners are invested in a diversified manner so as to spread the risk of adverse investment experience over a range of investment sectors, whilst maintaining the greatest exposure to asset classes, which have historically provided the highest returns in real terms. The Dynamic Multi Asset Growth Fund ("Multi Asset") is used for this. In the 5 years prior to retirement, some of the assets are moved to an index-linked gilt fund and some to a cash fund.

The Trustees have made available additional investment options in the form of an active managed fund, an active bond fund and a passive equity fund. They have also provided a cash fund to enable members to invest in a broader range of asset classes and to meet different needs and attitudes to risk. The Trustees will ensure that each member's funds are invested in accordance with the investment selections made by the member.

The pooled funds that the Trustees have selected in accordance with the investment objectives are detailed in Appendix B.

05.03 Default Fund

The default fund available to members is a managed, active fund, with a proportion changing gradually to a mixture of an active index-linked gilt fund and a cash fund over the 5 years prior to retirement. This is illustrated in the chart below.



This strategy is based on the assumption that members will take 25% as tax-free cash at retirement and so 25% of the investments are moved into cash over the period. The remainder is split between a bond fund and a diversified growth fund in order to provide a balance between growth and protection for all members given the uncertainty over which of the three options (taking cash, purchasing an annuity and/or remaining invested for growth and drawing down income gradually) most members will choose at retirement. The Trustees believe that this is suitable for the vast majority of members, but have made available alternative options to suit members with alternative requirements. The Trustees do not give advice on alternative options.

05.04 Rates of return

The benchmark and target rates of return expected are detailed in Appendix B for each fund.

05.05 Diversification

The Trustees offer a range of investment funds that cover different asset classes and each of those pooled funds has investment guidelines which require the investment manager to hold a diversified portfolio of investments. The Trustees have accordingly chosen funds that provide adequate diversification regardless of whether members choose to invest in more than one such pooled fund.

The Trustees will continue to monitor the performance and the level of diversification within the pooled funds and, in conjunction with their Investment Adviser, consider whether changes are required.

05.06 Active and passive management

The Trustees have chosen to offer both active and passively managed funds.

05.07 Investment managers

The Trustees have selected a range of pooled funds to deliver the investment strategy for each section of the Plan and accordingly have not directly appointed an investment manager. The investment funds are listed in Appendix B.

05.08 Custody

The custodian of the assets in the pooled funds is appointed by the respective funds. The members' holdings in the pooled funds will be uncertificated and accordingly is held in book form only.

05.09 Administrator

Administration for the Defined Contribution Section is provided by the Plan's administrator, XPS Administration.

05.10 Investment of contributions

The contributions received by the Plan will be invested in line with members' selected choice of funds.

Where a member of the Defined Contribution Section has not made an active selection, their contributions will be invested in accordance with the default lifestyling strategy.

05.11 Performance objectives

The objective for all of the funds is to perform in line with their respective benchmarks and targets.

05.12 Suitability

The Trustees have taken advice from the Investment Adviser that the range of investment options and the default strategy offered to members is suitable. Members who opt out of the default arrangement are responsible for choosing which of the funds is most appropriate for the investment of their own and the Employer's contributions, based on their own individual circumstances.

05.13 Liquidity

All of the assets are held in pooled funds traded on a daily basis, which can be realised easily if the members so require.

06 **Assessment of Performance**

06.01 Investment managers

Appointments of Investment Managers are expected to be long-term, but the Trustees will review the appointment of the Investment Managers in accordance with their responsibilities. Such reviews will include analysis of each Investment Manager's performance and processes and an assessment of the diversification of the assets held by the Investment Manager. The review will include consideration of the continued appropriateness of the mandate given to the Investment Manager within the framework of the Trustees' investment policies.

The Trustees will monitor the performance of the pooled funds against their performance targets.

The Trustees, or the Investment Adviser on behalf of the Trustees, will regularly review the performance of the pooled funds to satisfy themselves that the funds selected are continuing to meet the investment objectives within a tolerable level of underperformance risk. If there are concerns, the Trustees may carry out a more in-depth review of a particular Investment Manager. Investment Managers will also attend Trustees meetings as requested

If the Trustees are still not satisfied with the performance of one or more pooled funds they will ask the investment manager to justify any underperformance. If the investment manager is not able to offer a satisfactory explanation which gives comfort that the underperformance will be reversed, the Trustees will ask the Investment Adviser to advise on an alternative pooled fund that is expected to meet the investment objectives.

The Trustees consider performance of their investment managers at least at each Trustee meeting, looking over the quarter, one and three year periods. This, alongside views provided by the Investment Adviser, help to determine an Investment Manager's ongoing role in implementing the investment strategy. If there are concerns, the Trustees may carry out a more in-depth review of a particular Investment Manager. Investment Managers will also attend Trustees meetings as requested.

Fund manager remuneration is considered as part of the manager selection process. It is also monitored regularly with the help of the Investment Adviser to ensure it is in line with the Trustees' policies and with fee levels deemed by the Investment Adviser to be appropriate for the particular asset class and fund type.

The Trustees require the Investment Managers to report on actual portfolio turnover at least annually, including details of the costs associated with turnover, how turnover compares with the range that the Investment Manager expects and the reasons for any divergence.

06.02 Advisers

The Trustees will monitor the advice given by their appointed advisers on a regular basis and will assess their performance on the basis of their ability to explain the expected return on investments, how the investments will help the Trustees meet their investment objectives and the risks that will impact on such return.

07 **Risks**

The Trustees recognise a number of risks involved in the investment of assets of the Plan:

i. **Interest rate risk** – the risk that liabilities will increase as a result of a fall in interest rates is measured by reference to the percentage of liabilities that are interest rate hedged and addressed by holding a significant proportion of the Plan in assets that are matching assets that will increase in value as interest rates fall.

ii. **Inflation risk** – the risk that liabilities will increase as a result of an increase in the expected rate of inflation is measured by reference to the percentage of liabilities that are inflation hedged and managed by holding assets such as equities that are expected to increase in value in the long term as a result of inflation and by holding index-linked gilts whose value increases as inflation expectations increase.

iii. **Diversification risk** – the risk that the Plan is exposed to a significant loss from esoteric factors relating to a single investment are measured by reference to the maximum exposure limits in each pooled fund and addressed by investing in pooled funds that have minimum diversification requirements.

iv. **Liquidity risk** – the risk that liabilities cannot be met when due is considered too insignificant to measure and is addressed through the use of pooled funds, the majority of which have frequent redemption dates, and by ensuring the Plan's investment in each fund is not disproportionate relative to the overall size of the pooled fund(s).

v. **Underperformance risk** – the risk of pooled funds failing to achieve their target returns is measured by reference to how much discretion the manager of each pooled fund has relative to the benchmark and by regularly reviewing the asset allocation against the target. Underperformance risk is managed by investing in passive funds except where there is a reasonable expectation that a manager can add value and through the rebalancing policy.

vi. **Market risk** – the risk of the Plan failing to meet its investment objectives due to a general decline in markets is measured by reference to the expected volatility of return seeking assets relative to equity markets and is managed by investing across a diverse selection of return seeking assets which are expected to have uncorrelated returns.

vii. **Organisational risk** – the risk of losses arising through operational mistakes or errors is measured by reference to the number of past such operational losses and is managed by seeking to minimise the number of changes to the pooled funds.

viii. **Sponsor risk** – the risk that the Employer ceases to exist or otherwise is unable to fully support the Plan is measured by reference to the strength of the Employer covenant and is managed by ensuring the asset allocation strategy takes into account the level of sponsor risk.

ix. **Currency risk** – the risk of losses through depreciation of non-sterling currencies is measured by reference to the exposure of the Plan to pooled funds with unhedged currency risk and is managed by investing predominantly in sterling assets and only taking currency risk where it increases the level of diversification;

x. **Credit risk** – the risk that a bond issuer will default on its obligations is measured by reference to the exposure of pooled funds to corporate or emerging market debt and is managed by investing in pooled funds with a diversified list of credits of sufficient quality.

xi. **Counterparty risk** – the risk that a counterparty fails whilst owing money on a derivative contract is measured by reference to the exposure to such counterparties and is managed by ensuring the investment managers choose counterparties with a strong credit rating.

The Trustees recognise that it is in the nature of return seeking assets that they may underperform liability matching assets, particularly in the short term, and accordingly it is possible that the funding position could worsen from one actuarial valuation to the next. The Trustees are prepared to accept this risk because over the longer term the holding of return seeking assets is expected to improve the funding position

The Trustees will keep these risks under regular review.

08 **Other Issues**

08.01 Statutory Funding Requirement

The Trustees will obtain and consider proper advice on the question of whether the investments are satisfactory having regard to both the investment objectives and the requirement to meet statutory funding requirements. The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation every three years.

The Trustees will consider with their appointed advisers whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the statutory funding requirement.

08.02 Environmental, social and governance matters

The Trustees will seek advice from the Investment Adviser on the extent to which their views on ESG and climate change risks may be taken into account in any future investment manager selection exercises. Furthermore, the Trustees, with the assistance of the Investment Adviser, will monitor the processes and operational behaviour of the investment managers from time to time, to ensure they remain appropriate and in line with the Trustees' requirements as set out in this Statement.

As the Plan invests in pooled funds, the Trustees acknowledge that they cannot directly influence the policies and practices of the companies in which the pooled funds invest They have therefore delegated responsibility for the exercise of rights (including voting rights) attached to the Plan's investments to the investment managers and encourage them to engage with investee companies and vote whenever it is practical to do so on financially material matters including those deemed to include a material ESG and/or climate change risk in relation to those investments. The Trustees require the Investment Managers to report on significant votes made on behalf of the Trustees.

If the Trustees become aware of an Investment Manager engaging with the underlying issuers of debt or equity in ways that they deem inadequate or that the results of such engagement are mis-aligned with the Trustees' expectation then the Trustees may consider terminating the relationship with that Investment Manager.

The Trustees' policy is that non-financial matters should not be taken into account in the selection, retention and realisation of investments.

Based on the structure set out in Appendix A, the Trustees consider the arrangements with the Investment Managers to be aligned with the Plan's overall strategic objectives. Details of each specific mandate are set out in agreements and pooled fund documentation with each Investment Manager. The amounts allocated to any individual category or security will be influenced by the overall benchmark and objectives, varied through the Investment Managers' tactical asset allocation preferences at any time, within any scope given to them through asset allocation parameters set by the Trustees or governing the pooled funds in which the Plan is invested.

The Trustees will ensure that the Plan's assets are invested in regulated markets to maximise their security.

Investment Managers are incentivised to perform in line with expectations for their specific mandate as their continued involvement as Investment Managers as part of the Plan's investment strategy – and hence the fees they receive – are dependent upon them doing so. They are therefore subject to performance monitoring and reviews based on a number of factors linked to the Trustees' expectations.

The Trustees encourage Investment Managers to make decisions in the long-term interests of the Plan. The Trustees expect engagement with management of the underlying issuers of debt or equity and the exercising of voting rights. This expectation is based on the belief that such engagement can be expected to help Investment Managers to mitigate risk and improve long term returns. As covered in more detail in Section 8, the Trustees also require the Investment Managers to take ESG factors and climate change risks into consideration within their decision-making as the Trustees believe these factors could have a material financial impact in the long-term. The Trustees therefore make decisions about the retention of Investment Managers, accordingly.

Appendix A
Defined Benefit Section Funds

After advice from the Investment Adviser, the Trustees have appointed three managers (Aberdeen Standard, Artemis and M&G), to provide selected pooled funds for investment of the assets of the Defined Benefit section of the Plan.

A.01 Benchmark returns and performance monitoring

The Trustees have selected funds with the following benchmarks/objectives

Asset class	Fund	Benchmark	
Return seeking	Artemis UK Select Fund	FTSE All-Share Total Return Index +4.0% p.a.	To exceed benchmark by 3% to 5% p.a.
	M&G Episode Income Fund	-	To grow capital by 2% to 4% p.a. and to grow income
	Aberdeen Standard Vanguard FTSE Developed World (ex UK) Index Fund Aberdeen Standard Vanguard FTSE Developed World Equity Hedged Index Fund	To exceed a composite index of 50% FTSE Developed ex UK Index and 50% FTSE Developed ex UK Index (Hedged)	To exceed benchmark
Matching assets	Aberdeen Standard Annuity Targeting Fund	Composite Benchmark	To exceed benchmark
	Aberdeen Standard Long Corporate Bond Fund	iBoxx Sterling Non-Gilt (10+ Years)	To exceed benchmark

Appendix A

A.02 Asset allocation

Having considered advice from the Investment Adviser, and also having due regard for the objectives, the current liabilities of the Plan together with their expected timing, the risks of and to the Plan and the covenant of the Employer, the Trustees have decided upon the following benchmark allocation as being the basis for measuring investment performance.

Asset Class	fund	Benchmark Allocation (%)
Equities	Artemis UK Select Fund	30.0
Multi-asset	M&G Episode Income Fund	15.0
Equities	Aberdeen Standard Vanguard FTSE Developed World (ex UK) Index Fund	7.5
Equities	Aberdeen Standard Vanguard FTSE Developed World Equity Hedged Index Fund	7.5
Bonds	Aberdeen Standard Annuity Targeting Fund	30.0
Bonds	Aberdeen Standard Long Corporate Bond Fund	10.0

A.03 Expected returns

Taking account of the discount rates used in the actuarial valuation funding basis, together with the strategic asset allocation, the Trustees expect the investment strategy to achieve, as a minimum, the following returns:

> **Return seeking assets:** 2.5% per annum above the return on the FTSE Actuaries Over 15 Years Yield Index

> **Matching assets:** in line with the return on the FTSE Actuaries Over 15 Years Yield Index

Appendix B
Defined Contribution Section Funds

B.01 Benchmark returns and performance monitoring

The Trustees have selected the following funds for the default strategy with the following benchmarks/objectives:

Fund	Objective
Aberdeen Standard Dynamic Multi Asset Growth Fund	To exceed MSCI AC World Net Total Return (Daily Hedged to GBP)
Aberdeen Standard Index Linked Bond Fund	To exceed FTSE UK Index Linked >5 years
Aberdeen Standard Deposit and Treasury Fund	To exceed Sterling Overnight Index Average

The Trustees also offer the following funds for members wishing to make their own choice:

Fund	Objective
Aberdeen Standard Managed Fund	To exceed CAPS Balanced Median
Aberdeen Standard Vanguard FTSE UK All Share Index Fund	To exceed ABI (Pension) UK All Companies Sector
50% Aberdeen Standard Vanguard FTSE Developed World ex UK Equity Index Fund and 50% Aberdeen Standard Vanguard FTSE Developed World Equity Hedged Index Fund	To exceed a composite index of 50% FTSE Developed ex UK Index and 50% FTSE Developed ex UK Index (Hedged)
Aberdeen Standard Annuity Targeting Fund	To exceed composite benchmark
Aberdeen Standard Long Bond Pension Fund	To exceed FTSE Actuaries UK Conventional Gilts Over 15 Years Index

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