

RUNWOOD HOMES RETIREMENT BENEFIT SCHEME

STATEMENT OF INVESTMENT PRINCIPLES

1. Introduction

This Statement of Investment Principles has been produced by the Trustees in accordance with the requirements of Section 35 of the Pensions Act 1995 (“the Act”) and the relevant regulations. It sets out the broad principles used by us to govern our decisions on the investment of the scheme’s assets (except assets held in respect of Additional Voluntary Contributions).

We confirm that in preparing this Statement we have followed the requirements of the Act by: -

- consulting with the employer, and
- taking written advice from our investment adviser, **BARRETTS FINANCIAL SOLUTIONS LIMITED** of White House Corner, Clavering Road, Manuden, Essex CM23 1BQ. We consider **BARRETTS FINANCIAL SOLUTIONS LIMITED** to have the appropriate knowledge and experience of the management of the investment of defined benefit pension schemes.

We will review this Statement at regular intervals. Such reviews will be carried out when prudence dictates and, in any event, once every three years following completion of the actuarial valuation of the Scheme. It will also be revised whenever there is a significant change in our investment policy.

This Statement is available to members on request. A copy of this Statement will be given to the Scheme Actuary.

The Scheme's objectives are:

- a) To ensure sufficient income and investment return is available to meet benefit payments due, after allowing for scheme contributions from scheme members and the employer.
- b) To minimise the risk of the assets failing to meet liabilities over the long term.

2. Decision-making

Investment decisions are made by the trustees following guidance from our investment advisor and in accordance with the trust deed and rules of the Scheme. We have adopted this structure because we have a relatively small trustee board.

We consider that the selection of asset classes, and the geographic placement of assets, has the greatest effect in meeting our investment objectives and therefore the focus of our attention is on this before we consider other aspects.

Meetings are arranged on a quarterly basis in January, April, July, and October where the trustees examine the mandate under which the appointed investment managers operate, and the investment performance in the previous quarter is analysed. In addition, the Trustees are in regular contact with the investment managers as, and when, it is felt necessary to review the investment strategy being adopted, especially in light of any changing market conditions.

The trustees will work closely with the investment managers to monitor changes to the investments held within pension assets and any costs arising from changes made.

3. Day to day management

Professional fund managers perform the day to day management of the assets on our behalf. We select prudent managers that are authorised and regulated by the Financial Conduct Authority.

For reasons of liquidity and diversity, and with the aim of enhancing profitability by reducing costs, we invest predominately in pooled funds. We have responsibility for selecting which managers to use and which pooled funds to invest in to give us the asset allocation we require. In the short term we may also hold cash for paying benefits or awaiting investment.

Our use of unitised pooled funds means we can cancel units/shares to realise investments within the funds by submitting written instructions to disinvest. Units/shares can usually be cancelled [on any working day] to provide cash for meeting benefits or for reinvestment elsewhere.

4. Investment objective and strategy

Our investment objective is linked to our funding objective. At present our funding objective aims to meet the benefits over the long term from a combination of contributions and investment return.

Our long-term investment objective is to track the funding objective, but in a broad way, by investing through pooled funds in the following assets classes:

- **Equities** provide an equitable share in the assets and profits of companies. Income is provided through discretionary share dividends. Equities are listed in the UK or overseas or are unlisted (private equity). Equities have historically produced returns above inflation.
- **Gilts** are debt instruments issued by the UK Government. Typically, these provide interest payments on a regular basis over the life of the loan until capital is repaid at maturity. Some gilts provide interest payments and capital repayment value that is directly linked to price inflation (the Retail Price Index (RPI)). These are known as Index Linked Gilts and they provide the closest match to the Funds' liabilities, most of which are inflation-linked. Some other governments also issue this type of debt, but in different currencies tied to price inflation in their own countries.
- **Non-Gilt Debt instruments** are issued by a range of borrowers to finance their activities in various sectors of the economy, which means that they carry varying degrees of credit risk. Income is provided through interest, which is typically paid to the lender on a regular basis until the loan capital is repaid, generally at par by the issuer at a pre-determined date. Bonds can pay a fixed, variable or inflation-linked rate of interest. Bonds are listed in the UK or overseas or are unlisted (private debt).
- **Other Real Assets** are typically investments in a share of income and capital appreciation of tangible assets, including property (land and/or buildings for commercial or residential use), infrastructure (assets deemed essential to the orderly functioning of daily life, such as renewable energy generation and transmission assets, water utilities, airports and toll roads) and timberlands. Income comes from dividends and rents.

- **Cash** is also a form of investment used to provide instant or short-term liquidity and can be held in both sterling and foreign currencies (including Treasury Bills, Money Market Funds and Secured Investments). Cash generates interest income, but typically a lower rate than bonds and other debt.

We will also consider holding cash to meet cash liabilities, such as pension benefits.

The trustees following guidance from our investment adviser consider the following allocations to the various asset classes as providing the highest probability of success in achieving the investment objective:

Equities – 50%

Gilts and Non-Gilt Debt instruments – 40%

Cash – 10%

We can depart from the above if investment advice indicates that a different investment pattern is likely to give a better return, and this can be done at a risk level that is acceptable to us. We will review significant departures with the Scheme Actuary.

Investment managers are measured against mandate-specific benchmarks of risk and return by our investment adviser. Performance is assessed and reported to the trustees on a quarterly basis.

Our funding and investment objectives are considered at least annually and formally reviewed at the time of the three-yearly actuarial funding assessment.

5. Investment risk measurement and risk management processes

There are many risks surrounding investment and we will keep apprised of them, taking the advice of our investment adviser supplemented by information from reports by our fund managers. We will assess: -

- a) Investment matching risk – the risk that on a change in financial conditions asset values and liabilities move substantially relative to one another in a way that worsens scheme funding.
 - We will take investment matching advice from the Scheme Actuary after each actuarial funding assessment, including advice on how the matching position could change in the short term following any expected retirements.
 - After the actuarial funding assessment and thereafter no less frequently than annually, we will review with our investment adviser the prospective returns from the various classes of investment we hold and the risks to the funding position and to members' security in any mismatched position we have adopted. If the investment adviser's advice is that the asset classes are likely to move substantially against each other in a way that will worsen the funding of the scheme, we will consider changing the investments to reduce the mismatch. At the same time, we will assess market movements already experienced. If the investment adviser's view is that experienced returns have already moved against each other in an adverse way we will consider our response and consult the Scheme Actuary, as appropriate.
- b) Investment return risk – the risk that market returns underperform the nominal rates required to meet the funding objective.
 - We will monitor market returns against the rates expected at the most recent actuarial funding assessment no less frequently than annually.

- If markets do underperform, we will consider what advice should be taken from the Scheme Actuary about requesting additional contributions from the sponsoring employer.
- c) Inflation risk – the risk that the return on markets after allowing for inflation is less than expected.
- We will monitor market returns against expected future inflation no less frequently than annually.
 - If real returns are less than expected, we will consider what advice should be taken from the Scheme Actuary about requesting additional contributions from the sponsoring employer.
- d) Investment duration risk – the risk that the bonds we hold are adversely affected by fluctuations in interest rates.
- We will monitor interest rates at least annually and if interest rates move unexpectedly, we will consider taking advice from the Scheme Actuary.
- e) Manager performance risk – the risk that our chosen managers do not meet our expectations of them.
- We will monitor manager performance against the relevant market returns at least annually taking advice from our investment adviser as appropriate.
 - We will also monitor that the assets underlying each of the managers' funds continue to be in broadly in the proportions that led us to select the fund. If the structure of any fund appears to change significantly then we will take advice from our investment adviser, as appropriate.
 - At the commencement of each scheme operating year we will set a benchmark for the investment managers. The investment performance of the pension assets will be assessed at the end of each operating year against the targeted investment return. If the performance of the investment managers proves to be below expectation and there is no justifiable reason for this the trustees will consider the appointment of alternative investment managers.
- f) Currency risk – the risk that any overseas assets we hold are adversely affected by fluctuations in the local currency.
- We expect our chosen fund managers to prudently manage currency exposure within the mandate of the fund.
- g) Default risk – the risk that bonds we hold are adversely affected by a deterioration in market conditions
- We expect our chosen fund managers to prudently manage credit risk within the mandate of the fund.
- h) Environmental, Social and Governance (ESG) risks – the extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations.
- We expect our chosen fund managers to prudently consider ESG factors within the mandate of the fund.
- i) Climate risk - The extent to which climate change causes a material deterioration in asset values because of factors including but not limited to policy change, physical impacts, and the expected transition to a low-carbon economy.

- We expect our chosen fund managers to consider the extent investment decisions are affected by long term climate change.

We will lastly monitor at least annually that our chosen investment managers maintain a proper diversification of assets, invest predominately on regulated markets and if they use derivatives on our behalf only do so for the purpose of risk management.

6. Expected return on investments

The long-term annual return expected is an approximate of the target return at the last funding assessment: -

- After investment expenses, a return of at least 1.6% above the yield on the FTSE Actuaries UK Over 15 Year Gilt Index as at the 30th September for the following year.

7. Trustee Investment Management Engagement & Governance

The trustees are in regular contact with the investment adviser to confirm scheme objectives remain aligned to the interests of its members and to discuss possible investment alterations as current economic conditions evolve.

- The scheme targeted asset allocation is continuously assessed and reviewed with trustees and investment advisor at least quarterly and is weighted prudently according to the age of the scheme and its members.
- Scheme assets are mainly invested in pooled investment funds, each of which will have its own separate Asset management Charge (AMC).
- A 'buy and hold' strategy is operated in the management of the scheme assets; therefore, portfolio turnover is low. As the scheme predominantly invests in pooled investment funds portfolio turnover costs are low to non-existent.
- Investment manager performance is monitored and measured against each investment individual benchmark frequently by the investment advisor and reported at least quarterly to the trustees. Underperformance is monitored and an Investment manager is replaced if poor performance persists through consultation between the trustees and the investment advisor.
- The Investment adviser's management is also assessed by measuring the performance of the scheme assets against the schemes return objective on a quarterly basis. Underperformance is monitored and communicated to the investment advisor with the advisor being replaced by the trustees if poor performance persists.
- The Investment manger's fees are visible and accessible via the individual investment managers literature.
- Any external ongoing and 'ad-hoc' management fees (Investment advisor/scheme administrator/scheme investment management platform provider e.c.t.) have been agreed with the trustees and are reported quarterly.

8. Responsible Investment and Corporate Governance

The trustees have a duty to act responsibly with regards to the assets of its members.

- With liabilities extending decades into the future, it is in the trustee's interests to take their responsibilities as institutional asset owners seriously. To this end, the trustee's approach to responsible investment centres on effective stewardship of all their assets, with a focus on good corporate governance to deliver sustainable investor value.

- As part of this duty the trustee expects the managers for which it selects following guidance from our investment advisor to exercise its ownership rights, including voting and engagement rights, to safeguard sustainable returns in the long term.
- We intend to use these principles as a benchmark with which to guide our own approach to responsible investment, and in doing so will seek to apply responsible investment principles across all the assets in which we invest.
- As the investment of the scheme assets is predominantly in unitised or pooled funds, we will consider when selecting and maintaining fund managers as to their Environmental, Social and Governance (ESG) screening factors within the investment analysis and decision-making process.
- We will aim to actively avoid fund managers where there is an evident poor record of adhering to high ESG standards, to protect the long terms interest of the scheme members and provide long term sustainable investment returns.
- Following guidance from our investment adviser, we will utilise Morningstar's ESG suitability rating to review our current fund managers at least annually to consider whether they are adhering to the high ESG standards to which we expect.

9. Consideration of non-financially material factors

Given the objectives of the scheme, the trustees have not considered any non-financially material factors in the development and implementation of the investment strategy.

The trustees have not imposed any restrictions or exclusions to the assets of the scheme based on non-financially material factors.

10. Adoption of Statement

The Trustees Board agreed on 31st July 2020 that this Statement should be adopted as the formal Statement of Investment Principles.