

# BPT Retirement Benefits Scheme

## **Statement of Investment Principles**

August 2024

## Contents

1	Introduction .....	3
2	Investment Decision Making .....	3
3	Investment Objectives .....	4
4	Setting the Investment Strategy .....	5
5	Realisation and Rebalancing of Assets .....	6
6	Expected Returns .....	6
7	Risks .....	7
8	Security of Assets .....	7
9	Responsible Investment & Stewardship .....	8
10	Conflicts of Interest .....	9
11	Duration of Investment Arrangements .....	9
12	Incentivisation of Investment Manager .....	10
13	Portfolio Turnover Costs .....	10
14	Monitoring .....	10
15	Review of Statement .....	11
Appendix A	Investment Strategy Implementation Summary .....	12

## 1 Introduction

This Statement sets out the principles governing decisions relating to the investment of the assets of the BPT Retirement Benefits Scheme (the “Scheme”).

The Scheme is a defined benefit arrangement set up under trust and registered with HM Revenue and Customs (HMRC). 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.

This Statement has been prepared in line with the following legislation and regulations:

- Section 35 of the Pensions Act 1995
- Section 244 of the Pensions Act 2004 and 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
- The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019

A copy of this Statement will be made available to Scheme members on request to the Trustees or online.

## 2 Investment Decision Making

The investment of the Scheme’s assets is the responsibility of the Trustees. The investment powers of the Trustees are set out in the Trust Deed and Rules. This statement is consistent with those powers. Neither the statement nor the Trust Deed and Rules restrict the Trustees’ investment powers by requiring the consent of the participating employers in the setting of investment strategy.

The Trustees have obtained and considered professional advice on the content of this Statement from Broadstone Corporate Benefits Limited (Broadstone), their appointed investment adviser. Broadstone is authorised and regulated by the Financial Conduct Authority / Institute and Faculty of Actuaries. Broadstone has confirmed to the Trustees that it has the appropriate knowledge and experience to give the advice required under legislation. Broadstone is remunerated a fee for its advice and its appointment is reviewed from time to time by the Trustees.

The Trustees have also consulted the Principal Employer, Grainger Employees Limited, when setting their investment objectives and strategy, and in the preparation of this Statement.

Responsibility for maintaining the Statement and determining the Scheme’s investment strategy rests solely with the Trustees. The Trustees will obtain such advice as they consider appropriate and necessary whenever they intend to review or revise this Statement.

### 3 Investment Objectives

The Trustees' objectives for setting the investment strategy of the Scheme have been set broadly with regard to the Scheme's Statutory Funding Objectives as set out in the Statement of Funding Principles.

The Trustees' primary objectives are:

- "funding objective" – to ensure that the Scheme is fully funded using assumptions that contain an appropriate margin for prudence. Where an actuarial valuation reveals a deficit, a recovery plan will be put in place which will take into account the financial covenant of the Principal Employer;
- "stability objective" – to monitor the absolute level and stability of contributions required when setting the investment strategy of the Scheme; and
- "security objective" – to endeavour to improve the funding position of the Scheme and in turn the asset coverage of members' benefits.

The Trustees appreciate that these objectives are not necessarily mutually exclusive.

The Trustees also recognise that it may be necessary to accept some risk in the investment strategy to achieve the long-term funding objective.

## 4 Setting the Investment Strategy

Details of the investment strategy are set out in the Appendix to this Statement.

The Trustees' policies in setting the investment strategy are set out below:

Policy	
<b>Selection of Investments</b>	<p>The Trustees will invest in a range of assets. Consisting of bonds, other matching assets (such as a buy-in insurance policy) and cash, traded in the UK and overseas.</p> <p>Within the categories of investment permitted by the Trustees, the Investment Manager can purchase any new investments, as long as they do not breach the provision of the fund management agreement. The Investment Manager will report all investment activity, income receipts and payments made from the fund in their regular reports to the Trustees.</p>
<b>Target Asset Allocation</b>	<p>The Trustees will set a Target Asset Allocation from time to time, determined with the intention of meeting their investment objectives.</p> <p>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.</p>
<b>Delegation to Investment Managers</b>	<p>The Trustees rely on professional investment managers for the day-to-day management of the majority of the Scheme's assets and have delegated discretion in relation to most day-to-day decisions. The investment managers have been provided with a copy of this statement and have been instructed to take into account its contents so far as is practicable, however to the extent that the assets are invested in pooled funds, it is up to the Trustees to monitor whether those pooled funds remain appropriate for the Scheme.</p>
<b>Employer Related Investments</b>	<p>The Trustee's policy is not to hold any employer related investments as defined in the Pensions Act 1995, the Pensions Act 2004 and the Occupational Pension Scheme (Investment) Regulations 2005.</p>

## 5 Realisation and Rebalancing of Assets

The Trustees' policy is to invest only in assets that are readily realisable or that provide an income aligned with the pension payments as they fall due.

## 6 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 Returns
Buy-in insurance policy	To provide income aligned with the pension payments as they fall due.
Cash	To achieve a long-term return in line with market interest rates.

## **7 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.

The Target Asset Allocation has been determined with due regard to the characteristics of the Scheme's buy-out liabilities.

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 buy-out liabilities.

To reduce the risk of concentration within the portfolio, the Trustees will monitor the overall mix of asset classes in the investment strategy with their investment adviser, Broadstone.

The Trustees will monitor the investment, covenant 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.

In addition, the Trustees will review wider operational risks as part of maintaining their risk register.

## **8 Security of Assets**

The day-to-day activities that the Investment Manager carries 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.

Safe-keeping of the Scheme's assets held with the Investment Manager is performed by custodians appointed by them. The custodians are independent of the Principal Employer.

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.

## 9 Responsible Investment & Stewardship

The Trustees believe that in order to protect and enhance the value of the investments, during the period over which the benefits are paid, they must act as a responsible asset owner.

The Scheme is also 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, both financial and non-financial.

The Trustees' policies in respect of responsible investment are set out below:

Policy	
<b>Financially Material Considerations</b>	<p>The Trustees believe that the consideration of financially material Environmental (including climate change), Social and Governance (ESG) factors in investment decision making can lead to better risk adjusted investment returns. The Trustees expect its Investment Manager, when exercising discretion in investment decision making, to take financially material ESG factors into account. On an ongoing basis the Trustee assesses the ESG integration capability of its Investment Manager.</p> <p>.</p> <p>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 receive information on request from the Investment Manager on its 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 their investment adviser.</p>
<b>Non-Financially Material Considerations</b>	<p>Where ESG factors are non-financial (i.e. they do not pose a risk to the prospect of the financial success of the investment) the Trustees believe these should not drive investment decisions. The Trustees expect the Investment Manager, when exercising discretion in investment decision making, to consider non-financial factors only when all other financial factors have been considered and in such a circumstance the consideration of non-financial factors should not lead to a reduction in the efficiency of the investment.</p>
<b>Engagement and Voting Rights</b>	<p>The Trustees' voting and engagement policy is to use their investments to improve the Environmental, Social and Governance behaviours of the underlying investee companies (where possible). These ESG topics encompass a range of priorities, which may over time include climate change, biodiversity, the remuneration and composition of company boards, as well as poor working practices. The Trustees believe that having this policy and aiming to improve how companies behave in the medium and long term will protect and enhance the value of their investments and is in the members' best interests. The Trustees will aim to monitor the actions taken by the investment managers on their behalf and if there are significant differences from the policy detailed above, they will escalate their concerns which could ultimately lead to disinvesting their assets from the manager.</p>



## Policy

<b>Capital Structure of Underlying Companies</b>	Responsibility for monitoring the capital structure of investee companies is delegated to the Investment Manager. The Trustees expect the extent to which the Investment Manager monitors capital structure to be appropriate to the nature of the mandate.
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The Trustees wish to begin to align the investments with the sustainability strategy of Grainger plc with a focus on 3 pillars as follows:

### **People**

Avoid exposure to companies (direct equities and bonds) that consistently display poor employment practices and scores as lagging in Social factors in the view of our investment managers.

### **Assets**

Exclude companies (direct equities and bonds) that are involved in the production of thermal coal.

### **Environment**

Promote inclusion of companies that have shown a commitment to achieving net zero carbon emissions in the view of our investment managers.

## 10 Conflicts of Interest

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

## 11 Duration of Investment Arrangements

The Trustees are long-term investors and have not set an explicit target to review the duration of their arrangement with the investment manager. However, the arrangements will be reviewed in conjunction with any review of the investment strategy.

## **12 Incentivisation of Investment Manager**

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

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

Neither do the Trustees 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 the investment objectives of the funds used by the Scheme.

## **13 Portfolio Turnover Costs**

The Trustees expect the Investment Manager 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.

The Trustees therefore do not set a specific portfolio turnover target for their strategy or the underlying funds.

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

## **14 Monitoring**

The Trustees employ Broadstone to assist them in monitoring the performance of the Scheme's investment strategy and Investment Manager.

The Trustees receive quarterly reports from the Investment Manager and meet with its representatives periodically to review their investment performance and processes.

The Investment Manager will supply the Trustees with sufficient information each quarter to enable them to monitor financial and non-financial performance. The Trustees and Broadstone will monitor the Investment Manager's performance against their 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 strategy, and the success or otherwise a manager has had in meeting its objectives, both financial and non-financial.

The Trustees will consider on a regular basis whether or not the Investment Manager remains appropriate to continue to manage the Scheme's investments.

## 15 Review of Statement

The Trustees will review this Statement if there is a significant change in the Scheme's investment strategy or a significant change in the regulations that govern pension scheme investment.

A handwritten signature in black ink, appearing to be 'Mark Withers', is positioned above a horizontal line.

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For and on behalf of BPT Retirement Benefits Scheme

Date: 27 September 2024

## Appendix A Investment Strategy Implementation Summary

### A.1 Asset Allocation

The Trustees purchased a buy-in contract from Aviva Life & Pensions UK Limited (“Aviva”) in June 2024. The contract is held in the Scheme’s name and is an asset of the Scheme. As the insurance company, Aviva will guarantee the Scheme’s ongoing cash flow needs for future benefit payments as projected for the participants and agreed in the contract.

At the date of the buy-in transaction, the value of the Scheme’s assets was greater than the premium payable to Aviva. The Scheme retained the surplus assets which are invested in cash.

The asset allocation for the Scheme is as follows:

Asset Class	Asset Allocation (30 June 2024)
Buy-in insurance policy	76%
Cash portfolio	24%
<b>Total</b>	<b>100.0%</b>

The balance between the buy-in insurance policy and the cash portfolio will vary over time and will not be rebalanced.

### A.2 Investment Manager For The Cash Portfolio

The Trustees entered into a contract with Rathbones in July 2017. 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.

### A.3 Cash Portfolio – Performance Measurement

Performance of the investment portfolio will be measured against the following composite benchmark:

Market Index	Weighting
Sterling Overnight Index Average (SONIA)	100.0%

### A.4 Investment Management Charges

Rathbones charge an annual management fee based upon the value of the Portfolio at the end of each quarter of 0.3% + VAT per annum.