

BPT Retirement Benefits Scheme

Statement of Investment Principles – September 2020

Purpose of statement

This statement sets out the principles governing the investment of the assets of the BPT Retirement Benefits Scheme ("the Scheme"). This statement is issued by the Trustees to comply with Section 35 of the Pensions Act 1995, amended by Section 244 of the Pensions Act 2004 and the Occupational Pension Schemes (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.

Advice & Consultation

The Trustees of the Scheme ("the Trustees") have obtained appropriate written advice on the content of this statement from Broadstone Corporate Benefits Limited ("Broadstone"), who are authorised and regulated by the Financial Conduct Authority in this area.

The Trustees have consulted Grainger Employees Limited ("the Principal Employer"), and the Scheme Actuary on the content of this statement.

The day to day management of the Scheme's assets has been delegated to investment managers who are authorised and regulated by the Financial Conduct Authority. The Trustees currently utilise Rathbones to manage the assets of the Scheme and entered into a contract with them in July 2017.

A copy of this Statement has been provided to the investment managers appointed and is available to the members of the Scheme on a publically available website.

Investment Powers

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.

Choosing investments

The Trustees' policy for securing compliance with Section 36 of the Pensions Act 1995 is set out in this section.

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.

The Trustees' policy is to invest assets in the best interests of the members and their beneficiaries and, in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries. Any powers or discretion exercised by the Trustees or the investment managers will be exercised with a view to the security, quality, liquidity and profitability of the portfolio as a whole.

The assets will consist predominantly of investments that are traded on regulated markets, as defined in Regulation 4(11) of the 2005 Investment Regulations. Any other assets will be kept at a prudent level.

The Trustees shall only invest in derivatives in so far as they contribute to a reduction of risks or facilitate efficient portfolio management, and even then will be such as to minimise exposure to excessive risk to a single counterparty or other derivative operations.

The Trustees' policy is to review the investments over which they retain control (principally bank account investments) and to consider reports of the investment managers at least annually.

When deciding whether or not to make any new investments the Trustees will obtain appropriate written advice and consider whether future decisions about those investments should be delegated to the investment manager. The written advice will consider the suitability of the investments, the need for diversification and the principles contained in this statement.

The provider of the advice pertaining to investments will have the knowledge and experience required under Section 36(6) of the Pensions Act 1995, and in particular will be authorised to give such advice under the Financial Services and Markets Act 2000.

The Trustees' policy in relation to Regulation 4(4) (appropriateness in relation to Technical Provisions) and Regulation 4(7) (Diversification) of the 2005 Investment Regulations is covered below.

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 is currently necessary to accept some risk in the investment strategy to achieve the long-term funding objective.

The Trustees' policy in relation to Regulation 4(4) (appropriateness in relation to Technical Provisions) and Regulation 4(7) (Diversification) of the 2005 Investment Regulations is covered below.

Investment Policy

Technical Provisions

To the extent that the Scheme's assets are held to cover its Technical Provisions (as defined in the 2005 Pensions Act), these assets will be held in a manner appropriate to the nature and duration of the future liabilities of the Scheme. The Scheme Actuary has advised the

Trustees on this matter and, having considered this advice, the Trustees have determined the Investment Policy set out in this section.

The Trustees have taken into account the funding position and the views and strength of the Principal Employer, in determining the investment strategy below.

Types of investment

The Trustees will invest in a range of assets, consisting of equities and other growth assets, bonds and cash, traded in the UK and overseas.

The Trustees have appointed investment managers who are regulated by the Financial Conduct Authority and Prudential Regulation Authority. The Trustees are responsible for ensuring that the allocation of the portfolio between the different types of investment takes account of the Trustees' policy as set out in this statement by regularly monitoring the pooled funds that the Scheme invests in. The investment managers are given absolute discretion over the selection of individual stocks, pooled and collective funds within each type of investment.

The investment managers will exercise their investment powers with a view to giving effect to the principles contained in this statement, so far as is reasonably practicable. In particular, the fund managers must have regard to the suitability and diversification of the investments made.

Within the categories of investment permitted by the Trustees, the investment managers can purchase any new investments, as long as they do not breach the provisions of the fund management agreement. The investment managers will report all investment activity, income receipts and payments made from the fund in their regular reports to the Trustees.

Balance between different types of investment

The Trustees have considered advice and have formulated the following broad asset split:

Investment Class	Target	Range
Equities	50%	35% - 65%
Bonds	50%	35% - 65%
Cash	0%	0% - 5%
Total	100%	

The average duration of the bonds should be between 10 and 15 years.

This is based on a broad strategy of 50% Defensive (bonds and cash) and 50% Growth (other assets) Assets. Further restrictions are imposed under "Diversification" below

Investment Risk Measurement and Management

The Trustees acknowledge that there are risks associated with any investment policy. The Trustees' policy is to review and manage these risks with the Scheme Actuary and other advisers in relation to:

- the Scheme's funding position;
- the nature and duration of the Scheme's liabilities;
- the strength of the Principal Employer;
- the performance of the appointed investment managers, and
- the nature of the investments held.

The Trustees' policy is to ensure that any risks relating to the members' benefits that stem directly from their investment policy are managed by investing in assets that are consistent with the principles of this statement.

The Trustees recognise that the key source of financial risk (in relation to meeting their objectives) arises from strategic asset allocation. The Trustees therefore retain responsibility for setting asset allocation, and take advice as required from their professional advisors.

The strategic asset allocation is assessed triennially in conjunction with the actuarial valuation of the Scheme, following which the Trustees take advice on the continued appropriateness of the existing investment strategy.

The Trustees are also aware of the risks presented by any change to the covenant of the Principal Employer and the Trustees will be informed of Employer-related Notifiable Events. On receipt of such notification, the Trustees will consult with their advisors, Broadstone Corporate Benefits Limited, and ascertain whether the Scheme's existing investment strategy remains appropriate.

The Trustees monitor the performance of the investments on a regular basis.

The investment managers provide the Trustees with regular reports setting out a valuation of the invested funds.

The investment managers periodically attend Trustee meetings in order to report on their activity and performance, to outline their views on future investment conditions and to answer any questions the Trustees may have.

Custody

Investment in pooled funds gives the Trustees a right to the market value of the units rather than to the underlying assets. The managers of the pooled funds are responsible for the appointment and monitoring of the custodian of the fund's assets.

The custodians are independent of the employer.

Expected Return

The investment managers have set their own benchmarks and the Trustees expect each investment manager to consistently outperform the benchmarks over rolling three year periods.

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

Market Index (Total Return)	Weighting
FTSE Actuaries UK Gilt 5-15 Years	20%
FTSE Actuaries UK Gilt Over 15 Years	30%
FT All Share	25%
FTSE World ex UK	25%

Diversification

It is the Trustees' policy to invest in a diverse range of assets, and not to rely on any particular asset class or group. The Trustees recognise that there may be a large concentration of assets with any one investment manager or provider, however the underlying assets are suitably diverse to minimise the risks to the portfolio as a whole.

The Trustees impose the following constraints on the investment managers:

- (i) No single investment to be more than 10% of the total value of the investment portfolio;
- (ii) Maximum holding of any class of issued share or debt in any company to be 10%;
- (iii) No investment in unquoted companies;
- (iv) No investment in non-Financial Conduct Authority regulated collective investment schemes;
- (v) No more than 10% of Corporate Bonds should be rated B or less using Standard and Poor's Rating System.
- (vi) The bonds portfolio should consist of a mix of Government, corporate, index linked and overseas bonds.
- (vii) No direct investment into Grainger plc (equity & credit).

Liquidity

The Trustees' policy is to invest only in assets that are readily realisable in order to meet the pension payments as they fall due. The Trustees consider the assets above to be readily realisable. In relation to property, the Trustees' policy is to invest only in unitised vehicles of sufficient size to enable assets to be easily realisable.

Employer related investments

The Trustees do not directly hold any employer-related investments, as defined by section 40 of the Pensions Act 1995.

Socially Responsible Investments (SRIs)

The Trustees believes 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 expects its investment managers, when exercising discretion in investment decision making, to take financially material ESG factors into account. On an ongoing basis the Trustees (delegating to Broadstone where appropriate) assesses the ESG integration capability of its investment managers.

The Trustees believes that in order to protect and enhance the value of the investments, over the time horizon over which the benefits are paid, it must act as a responsible asset owner. The Trustees expects its investment managers to exercise its ownership rights, including voting and engagement rights, in order to safeguard sustainable returns over this time frame. On an ongoing basis the Trustees (delegating to Broadstone where appropriate) assesses the stewardship and engagement activity of its investment managers.

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 believes these should not drive investment decisions. The Trustees expects its investment managers, 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. Members' views are not sought on non-financial matters (including ESG and ethical views) in relation to the selection, retention and realisation of investments.

Responsibility for monitoring the makeup 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.

Portfolio Turnover Costs

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.

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

The investment managers when requested by the Trustees shall provide information on portfolio turnover and associated costs so that this can be monitored, as appropriate.

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 and the funds 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.

Fee Structures

The investment managers are paid a management fee on the basis of assets under management. Broadstone is paid fees on a project basis which may be a fixed fee or based on time cost, as negotiated by the Trustees in the interests of obtaining best value for the Scheme.

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.

Review of this statement

The Trustees will review this statement at least once every three years or within one month of any formal change in investment strategy. The Trustees will consult with the Employer and take appropriate written advice when revising the statement.

On reviewing this statement, the Trustees employ Broadstone to help review the investment strategy.

The investment managers will inform the Trustees immediately of any breach of this statement, or of any breach of internal operating procedures, or any material change in the knowledge and experience of those involved in managing the Scheme's investments.

Signed in agreement by all Trustees:

..... Date.....
(Trustee)

..... Date.....
(Trustee)

..... Date.....
(Trustee)