# Laird Pension Scheme ("the Scheme")

## Statement of Investment Principles of the Trustees of the Scheme

### Introduction

1 This is the Statement of Investment Principles ("SIP") required under section 244 of the Pensions Act 2004 ('the Pensions Act').

2 In preparing this Statement, the Trustees have consulted with the Principal Employer and the Trustees will consult with the Principal Employer before any subsequent revisions to this document. However, the ultimate responsibility for investment strategy rests solely with the Trustees.

3 The Trustees regularly review the Principal Employer's covenant and have noted that the Scheme remains small relative to the size of the Principal Employer. The Principal Employer is committed to funding the liabilities of the Scheme.

4 The Trustees will review this Statement:

- at least once a year,
- following an unscheduled actuarial valuation, or
- where the Trustees think a review is needed for other reasons. In preparing this Statement, the Trustees have obtained advice from the Scheme's investment consultants, Towers Watson Limited, ("the Advisers"). Towers Watson Limited is authorised and regulated by the Financial Services Authority to carry out designated investment business. The Trustees will similarly obtain such advice as appropriate whenever they revise the Statement.

5 Before preparing this document the Trustees have had regard to the requirements of the Occupational Pension Scheme (Investment) Regulations 2005 ('OPS IRegs 05') concerning diversification of investments and suitability of investments (the legal requirements are set out in Appendix 3). The Trustees will consider those requirements on any review of this document or any change in their investment strategy. The Trustees will refer to this document where necessary to ensure that they exercise their powers of investment so as to give effect to the principles set out in it as far as is reasonable.

6 The Trustees will obtain and consider written advice on investments held where there is not an investment manager with discretion to select securities.

7 In the opinion of the Trustees, the key characteristics of the Scheme and supporting covenant which are relevant to the development of an appropriate investment strategy are:

- As at 31 December 2019, around 99% of the Scheme's liabilities have been secured through annuity contracts held with insurance companies. This includes an insurance contract with Rothesay Life Plc ("Rothesay Life") covering c.94% of the Scheme's liabilities (the "buy-in"). The remainder of the insured liabilities are contracts held with other insurance providers.

- As at 31 December 2019, the Scheme held further cash and Index-Linked gilts amounting to c. 4% of the total assets. It is expected that these should be broadly sufficient to secure any outstanding liabilities and meet the cost of winding up the Scheme without further material recourse to Laird Limited.

- There are no Active Members in the Scheme

- The Scheme triggered wind up on 31 March 2019 and all relevant parties have been notified.

**Investment objectives**

8 In setting the investment strategy the Trustees are mindful of the following legislative requirements:

- To invest in the best interests of the members and dependants;

- To ensure the powers of investment are exercised in a manner calculated to ensure the security, quality, liquidity and profitability of the portfolio as a whole;

- To invest assets in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the Scheme;

- To ensure that investment in assets which are not admitted to trading on a regulated exchange is kept to a prudent level.

9 In light of the above characteristics of the Scheme, the expected return on assets, and the investment strategy work carried out, the Trustees have decided after receiving written advice from the Scheme's investment advisers, on the following investment objectives:

- Following the buy-in, residual assets of the Scheme will be invested in a portfolio of Index-Linked gilts and cash until ultimate buyout.

**Decision making process**

10 The policy of the Trustees is to determine the investment strategy for investing the assets of the Scheme on the basis of advice from the Trustees' advisers and in consultation with the Principal Employer. The strategy is influenced by the following factors:

> the Principal Employer's desire to control costs;

> the strength and visibility of the covenant of the Principal Employer; and

> the Trustees' assessment of the investment risks involved (see Appendix 2)

However, the ultimate responsibility for investment strategy rests with the Trustees.

11 The management of the residual assets of the Scheme following the buy-in is delegated to BlackRock. The Trustees and BlackRock have signed an Investment Management Agreement which complies with this Statement.

12 The Trustees receive actuarial and investment advice from teams within Towers Watson Limited.

13 In accordance with the Trust Deed, all strategy (i.e. not day to day) decisions on investments will be taken by unanimous decision of the Trustees.

14 To ensure that investment decisions are only taken by persons or organisations with the skills, information and resources necessary to make them effectively, the Trustees act upon advice of their investment consultant and other appropriately qualified advisers.

**Manager structure**

15 Appendix 1 sets out the different asset classes held by the Trustees and the approximate split of assets at 31 December 2019. The assets of the Scheme in excess of the insurance contracts are allocated to a portfolio of index-linked gilts, managed by BlackRock. The Scheme also has around £1,000 in cash with Royal London. The scheme also holds annuity contracts with a value of around £118m as at 31 December 2019. Residual cash assets will be placed on deposit via the Trustee bank account.

16 No major asset categories are specifically excluded for the Scheme as a whole by the Trust Deed.

17 The Trust Deed and Rules of the Scheme do not permit the Trustees to invest in any employer related investments. (Further details of the legislative restrictions on employer related investment are contained within Appendix 3).

18 Having considered the range of asset classes available and views of the Principal Employer, the Trustees' strategy is currently:

- to invest the vast majority of the assets in bonds and annuities
- to manage the bond investments passively, not actively;
- to hold 100% of the bonds in index-linked gilts
- to retain a small element of cash on short-term deposit in the portfolio

19 The Trustees will only use the assets of the Scheme to invest in derivative instruments insofar as they are to:

- contribute to a reduction of risks, or
- facilitate efficient portfolio management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk), and

Any such investments in derivative instruments that are made will be managed so as to avoid excessive risk exposure to a single counterparty and to other derivative operations.

20 All investments and disinvestments are client directed. The managers have no investment discretion.

21 Under new Regulation applicable from 1 October 2020, the Trustees are required to document their policy in relation to their arrangements with asset managers, as follows:

i) The Trustees invest in a combination of annuity contracts that match the majority of the liabilities of the Scheme and in index-linked gilt funds.
ii) The annuity contracts held with various insurers will be monitored to ensure that they continue to deliver what is expected under the contracts, which is to provide cashflows aligned with the benefits due to the members covered by the policy.
iii) The index-linked gilt funds specifically target the Trustees' objective to hold index-linked gilts until the point at which the Scheme is wound up. The index-linked gilt fund manager does not have sufficient scope within their mandate to invest outside of gilts and therefore the asset manager's investment strategy is aligned with the Trustees' policies.
iv) Because of the nature of the index-linked gilt fund it is very low risk in nature and there is little scope for the asset manager to engage with the bond issuer to improve their performance.
v) The Trustees will maintain processes to ensure that manager performance is assessed on a regular basis against a measurable objective, consistent with the achievement of the Scheme's objectives, and an acceptable level of risk. As part of this process, the Trustees have delegated the detailed monitoring of the Scheme's investment managers to its Investment Consultant. Should the Trustees' monitoring process reveal that a manager's portfolio is not aligned with the Trustees' policies, the Trustees will engage with the manager to encourage alignment.
vi) Where applicable, the Trustees review the costs incurred in managing the Scheme's assets and how this compares with the expected costs for the mandate.
vii) The Trustees have appointed the insurers providing the annuity contracts with the expectation of a long-term partnership with both the Trustees and the member, following the novation of the annuity contracts into the name of the member at the point of winding up the Scheme. As annuity contracts cannot be traded on the open market, and by definition will perform as expected, the Trustees would not expect to review the insurer's appointment.
viii) The Trustees appoint the investment manager for the index-linked gilt fund with an expectation of a short-term partnership over the period until the Scheme is wound-up. When assessing a manager's performance, the focus is on the performance relative to benchmark, and the Trustees would not expect to terminate a manager's appointment based purely on short term performance. However, the manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team, or a change in the objectives of the fund.

**Liquidity**

22 The Scheme's main assets in excess of the insurance contracts are invested in a pooled fund with BlackRock. The units within this fund may be surrendered at any time for equivalent values of cash (and potentially stock) therefore ensuring sufficient liquidity to meet any benefit payments. The Scheme also holds a

small proportion of the Scheme's total assets in cash in the Trustee bank account at any given time.

23 The Scheme's funds in excess of the annuity contracts are ultimately invested in assets that consist predominantly of investments admitted to trading on regulated markets.

24 If any future investments are to be made in assets that are not admitted to trading on such markets these will be kept to a prudent level.

**Multi-employer schemes**

**25** The OPS IRegs 05 requires the Trustees to consult with all participating employers before preparing or revising their Statement of Investment Principles. The only participating company is the Principal Employer which has nominated the Finance Director or the Group Financial Controller of the Principal Employer to consult with the Trustees on their behalf.

**Additional Voluntary Contributions (AVCs)**

26 Since 6 April 2006 no new AVC accounts have been set up, following a change introduced by the Pensions Act 2004. There are now no members contributing AVCs.

27 The existing AVC funds are provided by the Prudential.

**Risk**

28 The Trustees have agreed to measure and manage the investment risks inherent in management of the Scheme. These risks are monitored against a risk register. Appendix 2 includes a copy of the register.

**Social, environmental and ethical considerations**

29 The majority of the Scheme's assets are now held in insurance contracts with a small residual balance passively invested in a managed pooled fund with BlackRock. The use of this investment means that the Trustees are unable to influence directly social, environmental and ethical considerations, in their selection, retention and realisation of investments. In practice, the insurers are tightly supervised and limited on the types of investments that can be held.

30 However the Trustees have discussed with BlackRock their policy on such matters and will continue to do this on a regular basis. The Trustees have noted that BlackRock's guidelines on social, environmental and ethical matters are based on those published by the Association of British Insurers. In particular, the Trustees have noted that where a company fails to meet BlackRock's SEE Policy guidelines, then the manager aims to discuss the issues with the company to ensure that their clients' interests as shareholders are protected.

31 The Trustees take account of all financially material risks and opportunities in consultation with its advisers. All risks and opportunities are considered for materiality and impact within an integrated risk management framework, which

takes account of the Scheme's investment and funding time horizon along with sponsor covenant, as the Scheme approaches wind up.

32 The Trustees consider sustainable investment factors, such as (but not limited to) those arising from Environmental, Social and Governance (ESG) considerations, including climate change, in the context of the broader risk management framework described above.

33 The Trustees have articulated the following sustainability beliefs to reflect the collective responsibility to ultimately deliver member benefit security:

- The Trustees have adopted a short to medium-term time horizon, due to the expected completion of the wind up of the Scheme, for the assessment of financially material risks, with a focus on good governance and stewardship.
- The Trustees believe that understanding how an investment manager takes account of sustainability factors is a relevant consideration when selecting investments. They rely on their advisers to reflect their beliefs in all aspects of investment advice (particularly when selecting managers) and industry engagement, and monitors and engage with their advisers to ensure this happens appropriately. In doing this, the Trustees rely on the transparency of its adviser's research process, which considers ESG integration, team diversity, documented policies, voting policies, engagement, transparency and alignment of all investment managers that are researched.
- Sustainable investment and ESG factors are important risks, and can have financial impacts on the Scheme's portfolio. As such, they should be considered in a balanced risk/return framework when making investment decisions.
- Where applicable, the Trustees also consider other relevant matters including the capital structure of investee companies, actual and potential conflicts, other stakeholders, and ESG impact of underlying holdings as part of its overall strategy.
- Understanding how an investment allows for stewardship and ESG factors (including climate change) is relevant, but exclusion and impact investing is not likely to be a material part of investment strategy. The Trustees monitor reporting from its managers and advisers on at least an annual basis to ensure these issues are assessed and taken account of in the investment decision making process. Should the Trustees determine that a manager's approach to stewardship or ESG considerations are not appropriate, the Trustees will raise this with the relevant manager and, if not remedied, will ultimately consider terminating their appointment.
- The Trustees expect the investment managers to invest with a medium term time horizon. Due to the nature of the investments the Trustees do not expect manager engagement activity to drive improved performance over this period.
- When the risk and return characteristics of potential investments are suitable, the Trustees may consider which of the possible investments will provide the greatest long term societal benefit.
- The Trustees do not intend to use pension scheme money to implement any kind of moral/ethical/lobbyist agenda, but recognises the collaborative initiatives undertaken on their behalf by their managers and advisers.

## Exercise of voting rights

34 The Trustees invest in annuity contracts with a number of insurers and a pooled fund with BlackRock. Although the Trustees have no voting rights, they recognise that the insurers are likely to have limited investments giving rise to voting rights and further they are tightly regulated. In relation to the holdings with BlackRock, they have reviewed and discussed BlackRock's Corporate Governance Policies and their policy on voting. The Trustees have noted that BlackRock's policy complies with the majority of the Financial Reporting Council UK Stewardship Code and related guidance issued by the Institutional Investor Committee, the ABI and PLSA and other organisations. The Trustees receive and review regular reports on how BlackRock has voted.

## Performance Objectives and Investment Manager Monitoring

35 The Trustees monitor the passively managed pooled fund against the managers' objectives of closely tracking the appropriate indices.

36 The Trustees expect the Scheme's investments to broadly match any residual liabilities over the period until buy-out is complete.

## Reporting to members

37 A copy of this statement is available to members on request. In addition the Trustees publish key points from the SIP in their Annual Report which is available to Members, and this document will also be available online from 1 October 2020

**Approved by the Trustees**

**September 2020**

**Appendix 1**

## Laird Pension Scheme

### Investment arrangements

BlackRock manage the residual assets of the Scheme following the buy-in. Annuity contracts have been purchased to secure the majority of members' benefits and the Scheme holds a contract with Royal London which transferred with the Linear Pension Scheme.

**Existing assets**:

The following table summarises the Scheme's assets as at 31 December 2019

| Asset class | Benchmark performance | Assets held at 31 December 2019 |
|---|---|---|
| ***BlackRock*** | | |
| *UK index-linked gilts* | *FTSE Gilts Index-Linked Over 5 Year Index* | *3%* |
| *Cash* | *7 Day LIBID* | *<1%* |
| ***Other*** | | |
| *Annuities* | *n/a* | *96%* |
| *Cash* | *n/a* | *1%* |

The figures in the above table may not sum to 100% due to rounding.

The Trustees will keep the appropriateness of this strategy under review.

The investment management agreement with BlackRock also states that:

- The manager may use derivative instruments in the circumstances and within the limits set out in the investment management agreement so long as they are only used for:
    - contributing to a reduction of risks; or
    - facilitating efficient portfolio management.
- The manager may underwrite or sub-underwrite.

**Appendix 2**

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LAIRD PENSION SCHEME
FINANCIAL RISK ASSESSMENT

Introduction

The Trustees' investment consultants, Towers Watson Limited, have identified a number of potential financial risks the Scheme is exposed to. The risks and the Trustees' actions/comments are summarised below:

| Risk | Comment |
|---|---|
| Default by the Company on any deficit that may arise in future | The Principal Employer provides regular information to the Trustees regarding the strength of the covenant. Also it is noted that the Scheme is a small scheme relative to the size of the Principal Employer and it is expected to have sufficient assets to buyout all of the liabilities without material recourse to the Principal Employer.<br><br>The Trustees receive regular presentations on Laird Limited's business and financial strength from its Finance Director. |
| Default by Rothesay Life | Financial due diligence undertaken. |
| Longevity | Measured through regular asset liability work and managed through choosing assets of appropriate duration for the liabilities of the Scheme. The Trustees' sizeable holding in annuities mitigates most of this risk. |
| Derivative Risk | Managed by BlackRock not breaching the regulations set out in the OPS IRegs 05 (regarding the investment in derivative instruments that are not used solely for the purpose of reducing risk or facilitating efficient portfolio construction). |
| Political Risk | The risk of an adverse influence on investment values from political intervention. It is measured by the level of concentration in any one market leading to the risk of an adverse influence on investment values arising from political intervention. As an example, the Scheme's investments in UK index-linked gilts may be affected by 'Brexit' but the pricing of annuities for the residual liabilities by Rothesay Life should also be impacted in the same way by virtue of the |

| | |
|---|---|
| | closely matching nature of index-linked gilts to the liabilities of the Scheme. |
| Liquidity Risk | Liquidity risk has been reduced as the large bulk annuity with Rothesay Life provides the monthly cash to meet benefit payments.<br><br>The Scheme’s main assets in excess of the annuity contracts are held in BlackRock units which may be surrendered at any time for equivalent values of cash (and potentially stock) therefore ensuring sufficient liquidity.<br><br>The Scheme also holds a small proportion of the Scheme's total assets in cash in the Trustee bank account at any given time.<br><br>If any future investment is to be made in assets that are not admitted to trading on regulated markets these will be kept to a prudent level. |

**Appendix 3**

**The law**

Regulation 4 of the OPS IRegs 05 requires that Trustees and any fund manager exercise their powers of investment in relation to the assets of the Scheme:

- *in the best interests of members and beneficiaries of the Scheme;*
- *in the case of potential conflict of interest, in the sole interest of the member and beneficiaries;*
- *in a manner calculated to ensure the security, quality, liquidity and profitability of the portfolio as a whole,*
- *so that assets held to cover the Scheme's technical provisions must also be invested in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the Scheme,*
- *so that the assets of the Scheme consist predominantly of investments admitted to trading on regulated markets,*
- *so that investments in assets which are not admitted to trading on regulated markets are kept to a prudent level,*
- *so that the assets of the Scheme are properly diversified in such a way as to avoid excessive reliance on any particular asset, issuer or group of undertakings and so as to avoid accumulations of risk in the portfolio as a whole,*
- *so that investments in assets issued by the same issuer or issued by issuers belonging to the same group do not expose the Scheme to excessive risk concentration,*
- *so that investments in derivative instruments are only made insofar as they:*
  - *contribute to a reduction of risks, or*
  - *facilitate efficient portfolio management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk), and*
- *so that any such investment in derivative instruments is made and managed so as to avoid excessive risk exposure to a single counterparty and to other derivative operations.*

The statement must cover at least the Trustees' policies on the following matters:

- *for securing compliance with the requirements of regulation 2(3) of the Occupational Pension Schemes (Investment) Regulations 2005;*
- *the kinds of investments to be held;*
- *the balance between different kinds of investments;*

- *risk, including the ways in which risks are to be measured and managed;*
- *the expected return on investments;*
- *the realisation of investments; and*
- *the extent, if at all, to which they take account of social, environmental and ethical considerations in selecting, retaining and realising investments; and*
- *on the exercise of rights (including voting rights) attaching to investments.*

In addition to the legal requirements, the Government has further stipulated that it is best practice for the Statement of Investment Principles to set out:

- The decision making framework and why this structure has been selected;
- The Scheme's investment objectives;
- The Scheme's planned asset allocation strategy, including projected investment returns on each asset class, and how the strategy has been arrived at;
- The mandates given to all advisers and managers; and
- The nature of the fee structures in place for all advisers and managers, and why this set of structures has been selected.

**Employer related investments**

The OPS IRegs 05 stipulate the following restrictions on employer related investments:

- *Not more than 5% (of market value) can be invested in employer-related investments.*
- *None of the assets may be invested in any employer-related loan.*
- *None of the assets may be invested in any employer-related investment where the Trustees enter into the transaction at an undervalue (as defined by the Insolvency (Northern Ireland) Order 1989) where the agreement was made on or after the 6 April 1997.*

Employer related investments are defined as:

- *any guarantee of, or security given to secure, obligations of the employer (or an associate or connected person), or*
- *any loan arrangement where repayment depends on the employer's actions or situation (unless it was not the Trustees' purpose in entering into the arrangement to provide financial assistance to the employer).*