Mactaggart & Mickel Limited Retirement Benefits Scheme

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 Mactaggart & Mickel Limited Retirement Benefits Scheme ('the Scheme'). It describes the investment policy being pursued by the Trustee of the Fund and is in accordance with the Government's voluntary code of conduct for Institutional Investment in the UK ("the Myners Principles"). This SIP also reflects the requirements of Occupational Pension Schemes (Investment) Regulations 2005, as amended.

The Scheme Actuary is Gerry Devenney of XPS Pensions Group and the Investment Adviser is XPS Investment (collectively termed 'the Advisers').

The Trustees confirm that, before preparing this SIP, they have consulted with Mactaggart & Mickel Limited ('the Employer') and the Scheme Actuary and have obtained and considered written advice from the Investment Adviser. The Trustees believe the Advisers to be qualified by their ability and practical experience of financial matters and to have appropriate knowledge of the investment arrangements that the Scheme requires.

The Trustees are responsible for the investment of the Scheme's assets and arrange administration of the Scheme. Where it is required to make an investment decision, the Trustees always receive advice from the relevant Advisers first and they believe that this ensures that they are appropriately familiar with the issues concerned.

In accordance with the Financial Services & Markets Act 2000 ('FSMA'), the Trustees set general investment policy, but have delegated the day-to-day investment of the Scheme's assets to professional Investment Managers. The Investment Managers are authorised under the FSMA and provide the expertise necessary to manage the investments of the Scheme.

Declaration

The Trustees confirm that this Statement of Investment Principles reflects the Investment Strategy it has implemented for the Fund. The Trustees acknowledges that it is its responsibility, with guidance from the relevant Advisers, to ensure the assets of the Scheme are invested in accordance with these Principles.

Signed by the Trustees September 2020

Signed: **Date:**

Name:

For and on behalf of the Trustees of the Scheme.

02 Scheme Governance

The Trustees are responsible for the governance and investment of the Scheme's assets. The Trustees consider that the governance structure set out in this SIP is appropriate for the Scheme as it allows the Trustees to make the important decisions on investment policy, while delegating the day-to-day aspects to the Investment Managers or the relevant Advisers as appropriate. The responsibilities of each of the parties involved in the Scheme's governance are detailed in Appendix A.

The Trustees have decided not to appoint an Investment Sub-Committee to deal with investment matters.

03 **Investment Objectives**

The Trustees' objective for the Scheme is to operate an investment strategy which provides sound long-term asset growth and appropriate security for all beneficiaries, on the assumption that the Scheme is an on-going arrangement.

04 Investment Strategy

Having considered advice from the Investment Adviser, and also having due regard for the objectives, the liabilities of the Scheme, the risks of and to the Scheme and the covenant of the Company, the Trustees have decided upon the following strategic target asset allocation (with the breakdown of the Multi-Asset Fund allocation shown as at 31 March 2019 for information):

Underlying Asset Class		%
Multi-Asset		80
Equities	*40.1%*	
Alternatives	*26.4%*	
Bonds	*33.3%*	
Total	*99.8%*	
	(total does not sum due to rounding)	
Bonds		20

The Trustees will monitor the actual asset allocation of the Scheme.

While the Multi-Asset allocation includes a range of asset classes it behaves, overall, as a return-seeking asset. The allocation of the asset classes under the Multi-Asset Fund is determined by the investment manager (LGIM) and can vary from those illustrated in the table above. The Trustees accept that a position of 50% invested in return-seeking assets and 50% in bond type assets would lead to a more matched position for the Scheme. However, the Trustees are willing to accept higher risk and volatility of returns in order to benefit from the potential outperformance of the return-seeking assets.

04.01 Rebalancing Policy

The proportions invested in each asset class will be managed by the Investment Manager in line with the benchmark set by the Trustees. The Trustees will monitor the actual asset allocation of the Scheme. If the actual allocation moves further than -/+ 5% from the strategic allocation, the Trustees will make a decision as to whether to switch assets back to the strategy following consideration of advice.

04.02 Alignment of Incentives

Based on the structure set out in Appendix B, the Trustees considers the arrangements with the Investment Managers to be aligned with the Scheme's overall strategic objectives. Details of each specific mandate are set out in the 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 any asset allocation parameters or guidelines set by the Trustees or governing the pooled funds in which the Scheme is invested.

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

Investment Managers are incentivised to perform in line with expectations for their specific mandate because their continued involvement as Investment Managers as part of the Scheme's investment strategy – and hence the fees they receive – is 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 Scheme. The Trustees expect engagement with management of the underlying issuers of debt or equity and the exercising of voting rights in line with the investment mandate guidelines provided.

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 this document, 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.

04.03 Diversification

The choice of asset classes is designed to ensure that the Scheme's investments are adequately diversified given the Scheme's circumstances. The Trustees will monitor the strategy regularly to ensure that they are comfortable with the level of diversification.

04.04 Suitability

The Trustees have taken advice from the relevant Advisers to ensure that the asset allocation strategy is suitable for the Scheme, given its liability profile, any legal requirements, regulatory guidance and specifications in the Trust Deed.

04.05 Liquidity

The vast majority of the assets are held in asset classes that are sufficiently liquid to be realised easily if the Trustees require (i.e. the underlying investments are traded regularly on a public exchange or invested via units in a pooled fund with frequent dealing dates).

05 **Strategy Implementation**

The Trustees have decided to appoint one Investment Manager; Legal and General Investment Management ("LGIM"). The Trustees mandate LGIM using only passively managed funds.

05.01 Mandate and Performance Objectives

The Trustees have received advice on the appropriateness of the Investment Manager's target, benchmark and risk tolerance from the Investment Adviser and believes them to be suitable to meet the Scheme's investment objectives. The Investment Manager has been mandated by the Trustees to manage the investments in a particular way, and details of these mandates are described in Appendix B.

05.02 Manager Agreement

The Trustees have invested in pooled funds and as such there is no formal Manager Agreement setting out the scope of the Investment Manager's activities, its charging basis and other relevant matters. The Investment Manager has been provided with a copy of this SIP and is required to exercise their powers with a view to giving effect to the principles contained herein and in accordance with subsection (2) of Section 36 of the Pensions Act 1995.

05.03 Diversification

The assets are invested in a diversified range of suitable investments of different types to reduce investment risk given the circumstances of the Scheme. The Trustees wlll monitor the strategy regularly to ensure that it is comfortable with the level of diversification being achieved.

The range of, and any limitation to the proportion of, the Scheme's assets held in any asset class will be agreed between the Investment Manager and the Trustees. This range and set of limitations will be specified in writing and may be revised from time to time according to appropriate investment strategy advice provided to the Trustees and having regard to the investment powers of the Trustees as defined in the Trust Deed.

05.04 Custody

The custodians of the LGIM assets are HSBC Bank plc for UK assets and Citibank for overseas assets.

06 **Monitoring**

06.01 Investment Manager

The Trustees will monitor the performance of the Investment Manager against the agreed performance objectives.

The Trustees will regularly review the activities of the Investment Manager to satisfy themselves that the Investment Manager continues to carry out their work competently and has the appropriate knowledge and experience to manage the assets of Scheme.

As part of this review, the Trustees will consider whether or not the investment Manager:

- Is carrying out its function competently
- Has been exercising its powers of investment with a view to giving effect to the principles contained in this SIP, so far as is reasonably practical

If the Trustees are not satisfied with the Investment Manager they will ask the Investment Manager to takes steps to rectify the situation. If the Investment Manger still does not meet the Trustees' requirements, they will remove the Investment Manager and appoint another.

06.02 SIP

The Trustees are required to review this SIP on a triennial basis, or, without undue delay, following any changes to the investment strategy.

06.03 Portfolio Turnover Costs

The Trustees require the Investment Manager 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. The Trustees do not believe it appropriate to set a specific turnover limit, but does expect the Investment Manager to be able to justify any higher than expected turnover as part of their reporting.

06.04 Investment Manager Duration

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.

06.05 Performance and Remuneration Reporting

The Trustees will receive, and consider, regular performance monitoring reports from the Investment Manager which review performance over the quarter, one and three year periods.

This monitoring helps 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 Trustee meetings as requested.

07 **Fees**

07.01 Investment Manager

Fund manager remuneration is considered as part of the manager selection process. It is also monitored regularly to ensure it is in line with the Trustees' policies.

The Trustees will ensure that the fees paid to the Investment Manager are consistent with levels typically available in the industry and the nature of services provided. The current fee basis for each of the Investment Manager's funds is set out in Appendix B.

The Trustees are aware of the Investment Manager policy regarding soft commission arrangements. The Investment Manager discloses their fees, commissions and other transaction costs in accordance with the Financial Services Authority ('FSA') Disclosure Code.

07.02 Advisers

Any fees paid to the Advisers are based either on actual time spent and hourly rates for relevant individuals, or on fixed fees agreed in advance for specifically defined projects.

07.03 Custodian

There is no custodian appointed directly by the Trustees.

07.04 Trustees

None of the Trustees are paid directly for their duties. Their expenses are met and they are given time off from their other employment duties to attend appropriate training, meetings with their advisers and the periodic Trustee meetings.

08 **Risks**

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

i. The risk of failing to meet the objectives as set out in Section 3 – the Trustees will regularly monitor the investments to mitigate this risk.

ii. The risk of adverse consequences arising through a mismatch between the Scheme's assets and its liabilities. This is addressed through the asset allocation strategy and through regular actuarial and investment reviews and the funding target.

iii. Risk of lack of diversification of investments – addressed through the asset allocation policy.

iv. Risk of holding assets that cannot be easily sold should the need arise – addressed through the use of pooled funds with frequent dealing dates.

v. Underperformance risk – addressed through monitoring closely the performance of each fund and taking necessary action when this is not satisfactory.

vi. Country/political risk - the risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across many countries.

vii. Organisational risk – addressed through regular monitoring of the Investment Manager and the Advisers.

viii. Sponsor risk – the risk of the Employer ceasing to exist, which for reasons of prudence, the Trustees have taken into account when setting the asset allocation strategy.

ix. Liquidity risk – investing in assets that are generally realisable at short notice.

x. Environmental, Social and Governance risk – the risk that environmental, social and governance factors are not given significant consideration. This is addressed by having a policy whereby such factors should be given appropriate consideration in relation to current and future investment decisions made.

The Trustees will keep these risks under regular review.

09 **Other Issues**

09.01 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 the 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.

09.02 Environmental, Social and Governance

The Trustees have determined their approach to financially material considerations over the Scheme's long term funding horizon – including environmental, social and corporate governance ("ESG") factors – by acknowledging that there can be risks relating to them. The Trustees have delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Scheme's investment managers. The Trustees require the Scheme's investment managers to take ESG and climate change risks into consideration within their decision-making, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest.

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 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.

The Trustees have delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the investment managers and encourages them to 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.

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

09.03 Voting rights

As the Scheme 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. It has therefore delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the Investment Managers.

The Trustees encourage them to engage with investee companies and vote whenever it is practical to do so on financially material matters such as strategy, capital structure, conflicts of interest policies, risks, social and environmental impact and corporate governance as part of their decision-making processes. The Trustees require the Investment Managers to report on significant votes made on behalf of the Trustees.

If the Trustees becomes aware of an Investment Manager engaging with the underlying issuers of debt or equity in ways that it deems inadequate or that the results of such engagement are mis-aligned with the Trustees' expectations and the investment mandate guidelines provided, then the Trustees may consider terminating the relationship with that Investment Manager.

Appendix A Responsibilities

Trustees

The Trustees of the Fund are responsible for, amongst other things:

i. Determining the investment objectives of the Fund and reviewing these from time to time.

ii. Agreeing an investment strategy designed to meet the investment objectives of the Scheme.

iii. Reviewing triennially the content of this SIP and modifying it if deemed appropriate, in consultation with the Advisers.

iv. Reviewing the suitability of the investment policy following the results of each actuarial or investment review, in consultation with the Advisers.

v. Assessing the quality of the performance and process of the pooled funds by means of regular reviews of the investment results and other information, by way of meetings and written reports, in consultation with the Advisers.

vi. Appointing band dismissing investment manager(s), the performance measurer, custodian(s) and transition manager(s) in consultation with the Advisers. Assessing the ongoing effectiveness of the Advisers.

vii. Assessing the ongoing effectiveness of the Advisers.

viii. Consulting with the Employer when reviewing investment policy issues.

ix. Monitoring compliance of the investment arrangements with this SIP on an ongoing basis.

x. Advising the Advisers of any changes to Fund benefits, significant changes in membership.

Investment Manager

The Investment Manager will be responsible for, amongst other things:

i. Ensuring the asset classes remain within the controlled ranges or otherwise advising the Trustees if for any reason this is not achievable.
ii. Providing the Trustees with sufficient information each quarter to facilitate the review of the pooled funds, including:
    - A report of the strategy followed during the quarter.
    - The rationale behind past and future strategy.
    - A full valuation of the assets and a performance summary.
    - Transaction report and cash reconciliation.
    - Corporate actions taken by the Investment Manager.
    - Any changes to the process applied to the portfolio.
    - Future intentions in the investment management of the Scheme's assets.

Future intentions in the investment management of the Scheme's assets

iii. Informing the Trustees immediately of:

    - Any breach of the asset class controlled ranges that have come to their attention.
    - Any serious breach of internal operating procedures.
    - Any material change in the knowledge and experience of those involved in managing the Scheme's investments.
    - Any breach of investment restrictions agreed between the Trustees and the Investment Manager from time to time.

Investment Adviser

The Investment Adviser will be responsible for, amongst other things:

iv. Participating with the Trustees in reviews of this SIP.

v. Advising the Trustees how any changes within the Fund's benefits, membership and funding position may affect the manner in which the assets should be invested.

vi. Advising the Trustees of any changes in the funds that could affect the interests of the Fund.

vii. Undertaking reviews of the Fund's investment arrangements including reviews of the asset allocation policy and current pooled funds and advising on the selection of new funds.

Appendix A: Responsibilities continued

Scheme Actuary

The Scheme Actuary will be responsible for, amongst other things:

i. Liaising with the Investment Adviser on the suitability of the Scheme's investment strategy.

ii. Performing the triennial (or more frequently as required) valuations and advising on the appropriate contribution levels.

iii. Commenting on the appropriateness of the investment strategy relative to the liabilities of the Scheme at the triennial valuations.

iv. Advising the Trustees and Investment Adviser of any changes to contributions levels and funding level.

Appendix B
Investment Managers

The Trustees have appointed one Investment Manager: Legal & General Investment Management ('LGIM'), to manage the assets of the Scheme.

As at 31 August 2019,the assets of the Scheme invested with LGIM were as follows:

Asset Classes	Fund	%	Investment Style
Multi-Asset Fund	Formerly Consensus Index Fund	79	Passive
Fixed Interest Gilts	Over 15 Year Gilts Index Fund	21	Passive

Expected Returns and Performance Monitoring

The Trustees have agreed the following benchmarks/objectives

Fund	Benchmark Index	Objective
Multi-Asset Fund	ABI UK Mixed Investment 40%-85% Pension Sector	The fund aims to provide long-term investment growth through exposure to a diversified range of asset classes, excluding physical property
AAA-AA-A Bonds Over 15 years Index	FTSE Actuaries UK Conventional Gilts (Over 15 Year) Index	The fund aims to produce a total return in line with the performance of a subset of the FTSE Actuaries UK Conventional Gilts (Over 15 Year) Index, this being the gilts with maturities of 15 to 35 years, and to capture the yield spread of AAA-AA rated fixed interest securities over gilts

Returns and impact of Fees

The target return and the impact of fees and other charges on such return is detailed below:

LGIM charge a flat fee of £1,000 per annum plus ad valorem charges based on the average value of the Scheme's holdings which based on current investment values are as follows:

Fund	**% p.a.**	
	Management Fee	Other Costs
Multi-Asset Fund	[redacted]	[redacted]
AAA-AA-A Bonds Over 15 years Index	[redacted]	[redacted]

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