Close Brothers Limited (1979) Pension Plan

Statement of Investment Principles

September 2020

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Section 1: Introduction

Pensions Acts

1.1 Under Section 35 of the Pensions Act 1995 (as updated by the Pensions Act 2004 and regulations made under it), the Trustees are required to prepare a statement of the principles governing investment decisions. This document constitutes that statement and describes the investment policy of the Trustees of the Close Brothers Limited (1979) Pension Plan (the Plan).

1.2 Before preparing this document, the Trustees have consulted Close Brothers Limited, as the Principal Employer to the Plan, and will consult the Close Brothers Limited before revising this document. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustees.

1.3 In addition, the Trustees have sought advice from Willis Towers Watson, the Plan's Actuary and Investment Consultant. The Trustees will review this document, in consultation with their advisers, at least once every three years, or sooner following an unscheduled actuarial valuation, or where the Trustees consider a review is needed for other reasons.

Plan Details

1.4 The Plan operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries. The Plan has been closed to accrual since April 2012. Administration of the Plan is managed by the Trustees, who are ultimately responsible for the investment of the Plan's assets.

1.5 Exempt approval has been granted to the Plan by the Inland Revenue under Chapter 1 of part XIV of the Income and Corporation Taxes Act 1988. In addition, members of the Plan were contracted-out of the State Second Pension Scheme (S2P) under the Pensions Schemes Act 1993. The Plan is a Registered Pension Scheme for the purposes of the Finance Act 2004.

Financial Services and Markets Act 2000

1.6 In accordance with the Financial Services and Markets Act 2000, the Trustees will set general investment policy, but will delegate the responsibility for selection of specific investments to an appointed Investment Manager, which may include an insurance company. The Investment Manager shall provide the skill and expertise necessary to manage the investments of the Plan competently.

The Occupational Pension Schemes (Investment) Regulations (2005)

1.7 The Plan may use different managers and mandates to implement its investment policies. The Trustees ensure that, in aggregate, the Plan's portfolio is consistent with the policies set out in this Statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). The Trustees will also ensure that the investment objectives and guidelines of any particular pooled vehicle are consistent with their policies, where relevant to the mandate in question. Where segregated mandates are used, the Trustees will use their discretion, where appropriate, to set explicit guidelines within the Investment Management Agreement to ensure consistency with the Trustees' policies, where relevant to the mandate.

1.8 To maintain alignment, managers are provided with the most recent version of the Plan's Statement of Investment Principles on an annual basis and are required to confirm that the management of the assets is consistent with those policies relevant to the mandate in question.

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Section 2: Division of responsibilities

2.1 The Trustees have ultimate responsibility for decision-making on investment matters. In order to ensure that investment decisions are taken only by persons or organisations with the skills, information and resources necessary to take them effectively, the Trustees delegate some of these responsibilities.

Trustees

2.2 The Trustees' responsibilities include:

a. Reviewing, at least every three years and immediately after any significant changes in investment policy, the content of this Statement of Investment Principles (SIP), in conjunction with the investment consultant and Scheme Actuary, and modifying it if deemed appropriate.

b. Reviewing the investment policy following the results of each actuarial valuation, and/or asset liability modelling exercise.

c. Appointing the investment manager(s).

d. Assessing the quality of the performance and processes of the investment manager(s) by means of regular, but not less than annual, reviews of the investment results and other information.

e. Consulting with the Employer when considering any amendments to this Statement.

f. Allocating assets and cash flow between the investment mandate.

g. Monitoring compliance of the investment arrangements with this Statement on an ongoing basis.

The Trustees recognise that thee responsibilities require a high level of skill and expertise, and they will undertake training and seek advice from their professional advisors as required.

Investment manager

2.3 The investment manager's responsibilities include:

a. Maintaining and allocating assets and cash flows in line with the Trustees' instructions.

b. Appointing and monitoring the Custodian.

c. Providing the Trustees with quarterly statements of the assets along with a quarterly report on actions and future intentions, and any changes to the processes applied to their portfolios.

d. Having regard to the need for diversification of investments so far as appropriate and to the suitability of investments.

e. Giving effect to the principles contained in this Statement of Investment Principles as far as reasonably practicable.

f. Providing the Trustees with any other reporting as required in this Statement, including reporting on sustainability and stewardship.

g. Reporting in person at a meeting of the Trustees as required.

h.

Investment consultant

2.4 The investment consultant's responsibilities include:

a. Participating with the Trustees in reviews of this Statement.

b. Advising the Trustees, as requested, on:

- through consultation with the Scheme Actuary on how any changes within the Plan in respect of benefits, membership, and funding position may affect the manner in which the assets should be invested.
- how any changes in the investment manager's organisations or ownership could affect the interests of the Plan
- how any changes in the investment environment could present either opportunities or problems for the Plan.

c. Undertaking project work as requested including:

- reviews of asset allocation policy
- research reviews of investment managers.

d. Advising on the selection of new managers and/or custodians.

e. The Trustees will agree fees in advance for all significant projects undertaken by the Plan's investment consultant on their behalf.

Scheme Actuary

2.5 The Scheme Actuary's responsibilities include:

– Performing the triennial (or more frequently, as required) valuations of the Plan and advising on the appropriate contribution levels for the future (if any).

– Liaising with the investment consultant on the suitability of the Plan's investment strategy given the financial characteristics of the Plan.

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Section 3: Objectives and long-term policy

Objectives

3.1 The Trustees' objectives include:

a. The acquisition of suitable assets of appropriate liquidity which will generate income and/or capital growth to meet, together with new contributions from the Employer, the cost of benefits which the Plan provides.

b. To limit the risk of the assets failing to meet the liabilities over the long term.

c. To minimise the long-term costs of the Plan by maximising the return on the assets whilst having regard to the objective shown under b.

d. Over time, noting that the Plan is now closed to new accrual and in conjunction with the Employer, consider the ultimate outcome for the Plan (for example buyout or running on in a "self-sufficient" state) and the implications of this for investment policy.

Policy

3.2 The Trustees' policy is to seek to achieve the objectives through investing in a suitable mixture of real and monetary assets. They recognise that the returns on return-seeking assets (such as equities), while expected to be greater over the long term than those on matching assets (cash and bonds), are likely to be more volatile. A mixture across asset classes should reasonably be expected to provide the level of returns required by the Plan to meet its liabilities at an acceptable level of risk for the Trustees and an acceptable level of cost to the Employer.

3.3 The Trustees have considered the use of both passive and active investment management. The resultant use of passive management is formed following consideration of the efficiency, liquidity and level of transaction costs likely to prevail within each market as well as the impact of the investment manager fees on future expected returns net of fees.

3.4 The Trustees acknowledge that adopting a portfolio that broadly matches the Plan's liability profile (which is advised periodically by the Scheme Actuary) would enable the Plan to better manage its interest rate and inflation risks. An investment policy of matching pensioners with bonds would imply that the proportion of bonds should have been around 40% as at the 31 July 2015 valuation. However, the Trustees are comfortable that the strong current funding position and the strong Employer covenant justifies an investment strategy with lower risks than that implied by the liability profile. In light of this, the Trustees consider that the following asset allocation is likely to achieve these objectives, and this has been adopted as the fund-specific benchmark for the Plan:

3.5

	%	Ranges
Growth assets	**30**	**+- 5**
Global (ex UK) equities (unhedged)	6	+- 2
Global equities (hedged into GBP)	24	+- 2
Matching assets	**70**	**+- 5**
UK fixed interest gilts	40.8	+- 5
UK fixed interest non-gilts	6.7	+- 2
UK index-linked gilts	22.5	+- 5
Cash	0	+10*

Asset categories not included here may only be used following a revision of this benchmark which specifically permits their inclusion.

*The Trustees have instructed the investment manager not to borrow money or otherwise leverage the portfolio, except some short-term borrowing for settlement is allowed, but is strictly limited for the purpose of trade settlement only (which is standard practice in investment management).

3.6 This benchmark allocation was determined in discussions over several months from late 2016 and finalised at the 22 March 2018 Trustees meeting following a review of investment strategy in line with the 31 July 2015 triennial actuarial valuation. It is expected that the holding of bonds will continue to increase in order to de-risk the Plan as it matures. The Trustees consider that an asset allocation policy for the Plan which corresponds to this benchmark will ensure that the assets of the Plan include suitable investments, which are appropriately diversified and will provide a reasonable expectation of meeting the objectives in 3.1. The Plan's investment manager is responsible for ensuring that the actual allocation of the Plan's assets remains within the ranges shown in the table at any point.

3.7 The assets will be rebalanced quarterly to keep them in line with the plan-specific benchmark as outlined above The investment manager has been advised of sensible ranges to ensure this remains the case.

Additional Voluntary Contributions (AVCs)

3.8 A facility has historically been provided for members to pay AVCs via the Plan to enhance their benefits at retirement. The Trustees have now closed this facility to future contributions.

3.9 The Trustees' objective is to provide funds which will provide a suitable long-term return and low level of risk for members, consistent with members' reasonable expectations.

3.10 The Trustees will monitor the performance of the AVC arrangements offered and may, from time to time, move the invested funds to other investment options as deemed appropriate for the relevant members.

Liquidity and realisation of investments

3.11 The Plan's administrator (Barnett Waddingham LLP) assesses the likely benefit outgo on a regular basis and ensures that sufficient cash reserves are available to meet this outgo.

3.12 The Trustees' policy is to hold sufficient investments in liquid or readily realisable assets to meet cash flow requirements in the majority of foreseeable circumstances so that realisation of assets will not disrupt the Plan's overall investment policy where possible.

Sustainable Investment

3.13 The Trustees recognise that a company's long-term financial success is influenced by a range of factors including appropriate management of environmental, social and corporate governance issues (ESG issues). Whilst it is the Trustees' preference that all companies should be run in a socially responsible way, they takes the view that their primary responsibility is to act in the best financial interests of the members of the Plan.

3.14 The Trustees' policy is to take into account factors that are considered to be financially material. Environmental, social and governance (ESG) considerations (these considerations include broad corporate governance issues, effective stewardship and more specific considerations such as climate change and research and development practices) are considered to be financially material by the Trustees.

The Trustees' policy is that the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments is left to the discretion of the investment manager. However, the Trustees expect that the extent to which social, environmental or ethical issues may have a fundamental impact on the portfolio will be taken into account by the investment manager in the exercise of its delegated duties. In the case of Blackrock, the Trustees recognise that it is likely that, as a result of the passive nature of the investments, there are likely to be limited occasions when the manager would take account of such considerations in its selection of investments.

3.15 The Trustees expect their investment manager to consider a range of sustainable investment factors in its responsibility of the Plan's assets such as, but not limited to, those arising from ESG considerations including climate change, in the context of a broader risk management framework.

3.16 Should the Trustees' monitoring processes reveal that an investment fund's objectives and guidelines, or an investment manager's approach to sustainable investment, do not appear to be sufficiently aligned with the Trustees' policies, the Trustees will engage with the investment manager to ascertain the reasons for this and whether closer alignment can be achieved. If this is not possible, the Trustees may consider alternative options available in order to terminate and replace the manager.

3.17 For most of the Plan's investments, the Trustees expect the investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods. The Trustees may invest in certain strategies (e.g. short-term strategies) where such engagement is not deemed appropriate, due to the nature of the strategy and/or the investment time horizon underlying decision making. The appropriateness of the Plan's allocation to such mandates is determined in the context of the Plan's overall objectives.

3.18 When considering the appointment of new managers, and reviewing existing managers, the Trustees, together with their investment consultant, looks to take account of and monitor the approach taken by managers with respect to sustainable investing including their approach to ESG integration and stewardship.

3.19 Other matters considered by the Trustees to be non-financial matters, such as members' views, are not taken into account.

3.20 The Trustees' policy is to delegate responsibility for exercising of ownership rights (including voting rights) to the Investment Managers. The extent to which ESG considerations are taken into account in this engagement policy is left to the discretion of the Investment Manager. However the Trustees believe ensuring good stewardship of assets by managers is an important part of the Trustees' fiduciary duty towards members and intends to monitor the stewardship practices of their managers, with respect to relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings, in order to understand how they exercise these duties on their behalf and receive reports on manager practices (covering engagement and voting). The Investment Managers shall maintain a policy on the exercise of voting rights. They shall maintain a record of how voting rights have been exercised and shall affirm to the Trustees that they have complied with their voting rights policy. Where the managers have voted in a manner different from their voting rights policies, the managers shall provide the Trustees with an explanation regarding the rationale for departing from the policies.

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Section 4: Investment manager arrangements

Manager structure and performance objective

4.1 The investment manager, Phoenix Corporate Investment Services*, is employed to manage the portfolio of assets as follows:

*Note that the underlying investments are in Blackrock pooled funds

Performance Target – to track the return of the market index for each of the underlying asset classes.

Benchmark

The benchmark is structured as follows:

Asset Class	Reference Index
6% Global (ex UK) equities (unhedged)	FTSE All-World Developed Series, all World Ex UK Index
24% Global equities (overseas equities hedged to GBP)	30% FTSE All-Share (UK) 70% FTSE All-World Developed (ex UK) (hedged into GBP)
40.8% UK Fixed Interest Gilts	FTSE A Govt Securities (Over 15 Year) Index
6.7% UK Fixed Interest Non Gilts	iBoxx £ Non-Gilts Over 15 years Index
22.5% UK Index Linked Gilts	FTSE A Index-Linked (Over 25 Year) Index

The nature and extent of investments within the asset classes above, are defined separately via the Investment Managers internal guidelines.

Manager monitoring

4.2 The Trustees will monitor the extent to which the investment manager follows the allocation shown above. The appointment of the investment manager will also be reviewed by the Trustees from time to time based on their monitoring of performance against the benchmark objectives. Occasional failure to meet these objectives would not automatically lead to a full review of the manager’s appointment.

4.3 The Trustees appoint their investment managers with an expectation of a long-term partnership, which encourages active ownership of the Plan’s assets. When assessing a manager’s performance, the focus is on longer-term outcomes, and the Trustees would not expect to terminate a manager’s appointment based purely on short term performance. However, a 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.

Fee structures

4.4 Managers are paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement. It is the Trustees' view that fees linked to investment performance increase complexity and in most cases do not materially improve alignment with long-term objectives. Such fee structures would therefore only be used in a limited number of cases.

4.5 The Trustees have agreed fees based on the value of assets in their respective portfolios. These fees are consistent with the manager's stated fee scale and are as follows:

Annual fees of 0.13% are currently paid on all funds

4.6 The Trustees review the costs incurred in managing the Plan's assets regularly, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustees will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

4.7 Advisors' fees are paid on either an hourly or a project basis.

Soft commission

4.8 The investment managers do not enter into soft commission arrangements with brokers in relation to the Plan's assets.

Section 5: Risk management

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

Solvency risk and mismatching risk

- are addressed through ongoing regular actuarial valuations
- are managed through assessing the progress of the actual growth of the liabilities relative to the selected investment policy

Interest rate and inflation risk

- are measured by comparing the likely movement in the Plan's liabilities and assets due to movements in inflation and interest rates.
- are managed by holding a portfolio of matching assets (physical bonds and/or derivatives) that enable the Plan's assets to better-match movements in the value of the liabilities due to inflation and interest rates. The Trustees will consider increasing this match over time in line with 3.1 d) above, although they may take the view that a strong Employer covenant enables some mismatch.

Liquidity risk

- is measured by the level of cash flow required by the Plan over a specified period
- is managed by the Plan's administrators who assess the level of cash held in order to limit the impact of the cash flow requirements on the investment policy and through holding assets of appropriate liquidity

Political risk

- 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
- the risk of an adverse influence on investment values from political intervention is reduced by the diversification of the assets across many countries
- is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy

Manager risk

- is measured by the expected deviation of the prospective risk and return, as set out in the manager's objectives, relative to the investment policy

- is managed by monitoring the actual deviation of returns relative to the objective and factors supporting the manager's investment process, and through the use of passive investment vehicles

Currency risk

- is measured by the level of overseas investment and the translation effect of currencies leading to the risk of an adverse influence on the investment values

- is managed by allocating part of the Plan's assets to a pooled currency hedging fund with the aim of reducing the risk of adverse currency fluctuations

Counterparty risk

- is measured through a combination of market indicators (credit ratings and credit default swap spreads) and qualitative considerations.
- is managed by having a diverse range of counterparties and through the negotiation of a suitable collateralisation process where appropriate. The Trustees have delegated the measurement and management of counterparty risk to the relevant investment managers.

Custodian risk

- is managed by regular discussions with the investment manager (who appoints the custodian)

Sponsor risk

- is measured by the level of ability and willingness of the sponsor to support the continuation of the Plan and to make good any current or future deficit

- is managed by monitoring the impact the Plan has on the sponsor's business. Sponsor risk is measured by a number of factors, including the creditworthiness of the sponsor and the size of the pension liability relative to the financial strength of the sponsor.

Market impact risk

- the risk that assets are bought or sold at sub-optimal prices. This risk is mitigated through the choice and ongoing monitoring of the investment manager and consideration of transition arrangements where appropriate.

Corporate governance risk

- measured by the level of concentration in the individual stocks leading to the risk of an adverse impact of investment values arising from corporate failure
- managed by adopting a diversified investment policy, both geographically between markets and within each market.

5.2 These measures do not render the investment policy free of risk. Rather, the measures endeavour to balance the need for risk control and the need for assets which are likely to achieve the required performance target.

5.3 The Trustees continue to monitor these risks.

September 2020

Appendix A: Ongoing Business Plan

The purpose of this business plan is to set out the Trustees' approach for the management of the assets. The plan has been drafted as an ongoing plan, although it will be reviewed and updated on a regular basis.

Full details of the investment objectives and current arrangements are set out in the Trustees' Statement of Investment Principles (SIP).

	Issues to be considered	Timetable
1	Manager monitoring, including investment manager fees	Ongoing
2	Investment Manager reporting	Ongoing, usually quarterly
3	Review Plan's strategic asset allocation, including consideration of alternative asset classes	Considered annually and in detail after the triennial valuation
4	Review of compliance with SIP	At least every three years
5	Review choice of AVC providers (and maybe whether to hold AVCs at all)	At least every three years
6	Review need for Trustee training	Annual
7	Reporting to members Annual Report & Accounts to include comments on investment performance	Annual
8	Review the Business Plan	Annual

Note: it is intended to consider these items annually in the September Trustees meeting in years when a funding update (as opposed to a full triennial valuation) is considered.