Watts of Lydney Limited Pension and Assurance Scheme

Statement of Investment Principles

Introduction

Section 35 of the Pensions Act 1995 ("the Act") requires the Trustees to prepare a statement of the principles governing investment decisions ("the Statement") for the purposes of the Scheme. This document fulfils that requirement.

In preparing this Statement, and to comply with Section 36 of the Act, the Trustees have obtained advice from Hughes Price Walker. The Trustees will obtain such advice, as they consider appropriate and necessary, whenever they intend to review or revise the Statement.

In preparing this Statement, the Trustees have consulted Watts of Lydney Group Limited and Watts Urethane Products Limited (collectively referred to as "the Employer") and will do so whenever the Trustees intend to revise the Statement. Responsibility for maintaining the Statement and deciding investment policy rests solely with the Trustees.

The Trustees will review the Statement at least every three years and after any significant change in investment policy.

Investment Objectives

The investment objectives of the Scheme are:

(a) To prepare the scheme for buy-out by holding buy-out aware funds that reflect the profile of £12m of the Scheme's liabilities;

(b) Have an initial allocation of around £1m to cash for forthcoming benefit payments (note it is not intended that this be maintained at £1m);

(c) Invest the remainder in growth assets; and

(d) So far as reasonably possible, to reduce the costs of switching between assets.

The Trustees have agreed to appoint a number of investment managers, utilising a variety of asset classes. As at 31 August 2020 the allocation was broadly:

Fund	Allocation
LGIM* Buy-out Aware Fixed Long Fund	£7.5m
LGIM* Buy-out Aware Fixed Short Fund	£5.8m
Baillie Gifford Diversified Growth Fund	£2.3m
Baillie Gifford Managed Fund	£1.8m

*LGIM is Legal & General Investment Management Limited

There was also an amount of around £3,400 in an LGIM cash fund as at 31 August 2020.

The Trustees believe that the assets are invested in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the Scheme, with particular regard for the Trustees intention to buy-out in the near future.

The Scheme's investments will be kept under regular review.

The Trustees consider that this policy represents investment in suitable asset classes, is appropriately diversified, and provides a reasonable expectation of meeting the above objectives.

Disinvestments

In the normal course of business, day to day investments and disinvestments will be made to and from the two Baillie Gifford funds.

Delegation of Investment Discretion

The Trustees have delegated day-to-day investment management to Baillie Gifford Limited and Legal & General Investment Management Limited ("LGIM").

The investment managers manage the investments of the Scheme's assets in accordance with the following objectives:

Fund	Objective
LGIM Buy-out Aware Fixed Long Fund	The fund aims to minimise buy-out funding level volatility, improve buy-out funding level and minimise buy-out transition costs.
LGIM Buy-out Aware Fixed Short Fund	The fund aims to minimise buy-out funding level volatility, improve buy-out funding level and minimise buy-out transition costs.
Baillie Gifford Diversified Growth Fund	The fund aims to achieve long-term capital growth at a level of risk lower than investment in shares.
Baillie Gifford Managed Fund	The fund aims to produce capital growth, over the long term, by investing in any economic sector worldwide.

The terms of the delegation are set out in agreements between the Trustees and the investment managers. The agreement includes such matters as investment objectives, the procedures for instructions, custody of the assets, voting, fees and charges.

Realisation of Investments

The Trustees will hold sufficient cash to meet the likely expenditure on benefits and expenses from time to time. The Trustees will also hold sufficient assets in liquid investments to meet unexpected cashflow requirements in the majority of circumstances so that, where possible, the realisation of assets will not disrupt the Scheme's overall investment policy.

Expected Return on Investments

The investment strategy was developed by balancing the Trustees key requirements, to minimise transaction risk by investing in buy-out aware funds and to minimise transactions costs as far as reasonably possible. The investment strategy was chosen to remove a large portion of the risk of adverse movements in buy-out pricing while maintaining sufficient liquid assets to meet likely cash flow needs. Any other assets have been left in place to minimise unnecessary transaction costs. In the Trustees' opinion, the chosen strategy offers an acceptable trade-off between risk and return.

Risk Management

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

- *Solvency risk and mismatching risk* – addressed through the underlying asset allocation, mitigated by the use of buy-out aware funds and monitored through ongoing triennial actuarial valuations.

- *Manager risk* – addressed through the performance objectives and the ongoing monitoring of the investment managers and enhanced by the diversification effect of using multiple managers.

- *Liquidity risk* – the Scheme's administrators monitor the level of cash held in order to limit the impact of cash flow requirements on the investment policy.

- *Sponsor risk* – measured by the level of ability and willingness of the Principal Employer to support the continuation of the Scheme and to make good any current or future deficit.

- *Third party risk* – the chosen funds invest in underlying assets. If the underlying investments suspend trading, the investment managers may defer trading and / or payment to investors. Therefore, the value ultimately payable will depend on the amount the investment manager receives or expects to receive from the underlying investments.

- *Interest rate risk* – changes to interest rates could affect the value of bond investments. Where long term interest rates rise, the value of bonds is likely to fall, and vice versa.

- *Risk from lack of diversification* – mitigated by the Trustees investing in pooled funds with a diversified asset allocation.

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

- *Credit risk* – the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Scheme is subject to credit risk because it invests in bonds or other types of debt via pooled funds. The Trustees manage their exposure to credit risk by only investing in pooled funds that have a diversified exposure to different credit issuers.

- *Political risk* – 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. Managed by regular reviews of the actual investments relative to policy and through assessment of the levels of diversification within the existing policy.

Investment Management Monitoring

The Trustees will receive quarterly reports from the investment managers and will meet with their representatives as necessary to review their investment performance and processes. Through this process of regular reporting and review, the Trustees aim to ensure that the investment managers are performing competently and in compliance with this statement.

Environmental, Social and Corporate Governance Matters

The Scheme's overarching responsibility is to deliver financially sustainable returns for an acceptable level of risk to meet the future pension benefits of the members as they fall due and in a way that Employer contributions paid into the Scheme are as stable and affordable as possible.

The Trustees have a duty to act in the best financial interests of the Scheme's beneficiaries and the Scheme is a long-term investor. This includes considering Environmental, Social and Corporate Governance ('ESG') risks and opportunities that may be financially material to the Scheme. The Trustees invest in pooled funds and so the assets are subject to the investment manager's own policies on ESG considerations, including climate change, capital structure and conflicts of interest. The Trustees undertake due diligence when appointing investment managers and review each of those managers' policies on ESG considerations. The Trustees appreciate that those investment managers which integrate ESG considerations can help mitigate risks and have the potential to lead to better, long-term financial outcomes.

The appointed investment managers have opted to sign the United Nations-supported Principles for Responsible Investment (PRI). As signatories to the PRI, the investment managers have made the following commitments:

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time).

We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5: We will work together to enhance our effectiveness in implementing the Principles.

Principle 6: We will each report on our activities and progress towards implementing the Principles.

The investment managers' reports related to PRI and their statements on compliance with the Financial Reporting Council (FRC) Stewardship Code, which is seen as the UK standard for good stewardship, are reviewed by the Trustees at least once every three years.

Non-financial matters are not taken into account in the selection, retention and realisation of investments. For the time being, the Trustees do not take into account members' own ESG considerations.

Exercise of rights

As the Trustees invest in pooled funds, the underlying investment managers make decisions related to:

- the exercise of any rights, including voting rights, attaching to the investments; and
- engagement activities in respect of the investments.

Arrangements with the investment managers

The Trustees have selected the funds for each mandate within the Trustees' agreed asset allocation. The Trustees only invest in pooled investment vehicles. Therefore, the Trustees are not able to specify risk profiles and return targets for the underlying investment managers. However, after considering appropriate investment advice, pooled funds with appropriate expected returns and risk characteristics are chosen for each asset class such that the aggregate portfolio aligns with the overall investment strategy.

The underlying investment managers are responsible for all decisions to select and remove individual investments within the portfolios they manage.

In the case of multi-asset funds, the underlying investment managers are responsible for the allocation to separate asset classes.

The Trustees are long term investors and do not look to change the investment arrangements on a frequent basis. The Trustees do not have any fixed-term agreement with any investment manager.

The underlying investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the respective asset class. The Trustees receive investment performance reports on a quarterly basis. As long-term investors, the Trustees' focus is on long term performance. The underlying investment managers are generally remunerated by charges based on the value of the assets that they manage on behalf of the Scheme. These charges are the primary means of incentivising managers as, if the funds are not performing as required, they may be replaced.

The Trustees therefore consider that the method of remunerating the underlying investment managers, combined with their own long term attitude towards performance, incentivises them to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity. This encourages the underlying investment managers to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.

Portfolio turnover costs

Portfolio turnover costs means the costs incurred by the buying, selling, lending or borrowing of investments.

The Scheme invests in a range of pooled funds, many of which invest in a wide range of asset classes. As a result, the Trustees do not currently have a target for portfolio costs and neither do they monitor portfolio turnover costs in the funds.

This statement has been agreed by the Trustees of the Watts of Lydney Limited Pension and Assurance Scheme

Signature:	______________________
Name:	______________________
Position:	Trustee
	Watts of Lydney Limited Pension and Assurance Scheme
Date:	______________________