

# Watts of Lydney Limited Pension and Assurance Scheme

## Statement of Investment Principles

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### 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 the Trustees have obtained advice from Hughes Price Walker Limited. 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 secure the benefits for members by having purchased a bulk annuity policy from Legal & General Assurance Society Limited (“L&G”); and
- (b) Invest the remainder in growth assets.

The Trustees have agreed to appoint Baillie Gifford & Co as their growth assets manager. As at 30 November 2021 the allocation was broadly:

Fund	Allocation
Baillie Gifford Diversified Growth Fund	£2.2m
Baillie Gifford Managed Fund	£1.6m

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.

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 and high expectation of meeting the above objectives.

### Disinvestments

Day to day disinvestments will be made from the two Baillie Gifford funds.

## Delegation of Investment Discretion

The Trustees have delegated day-to-day investment management to Baillie Gifford & Co 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
L&G bulk annuity policy	The policy provides cash flows to match the benefit payments from the Scheme
Baillie Gifford Diversified Growth Fund	The fund aims to achieve (after deduction of costs) an annualised return over rolling five-year periods that is at least 3.5% more than UK Base Rate; a positive return over rolling three-year periods; and annualised volatility of returns over rolling five-year periods that is below 10%
Baillie Gifford Managed Fund	The fund aims to achieve capital growth over rolling five-year periods

The terms of the delegation are set out in agreements between the Trustees and the investment managers. The agreement with Baillie Gifford & Co 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 considering the Trustees’ appetite for risk, in consultation with the Employer. The income provided by the investment strategy was chosen to match the benefits to be paid by the Scheme. 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* – mitigated by the purchase of a bulk annuity policy.
- *Manager risk* – addressed through the performance objectives and the ongoing monitoring of Baillie Gifford & Co.

- *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* – mitigated by the purchase of a bulk annuity policy.
- *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* – mitigated by the purchase of a bulk annuity policy.
- *Risk from lack of diversification* – mitigated by the Trustees investing in pooled funds with a diversified asset allocation and the purchase of a bulk annuity policy.
- *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 Baillie Gifford & Co and will meet with its representatives as necessary to review its investment performance and processes. Through this process of regular reporting and review, the Trustees aim to ensure that the investment manager is performing competently and in compliance with this statement.

## Environmental, Social and Corporate Governance Matters

The Trustees’ 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.

Baillie Gifford & Co has opted to sign the United Nations-supported Principles for Responsible Investment (PRI). As signatories to the PRI, Baillie Gifford & Co has 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.

Baillie Gifford & Co's 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 and a bulk annuity policy, the underlying investment manager and insurer 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 and a bulk annuity policy. Therefore, the Trustees are not able to specify risk profiles and return targets for the underlying investment manager and insurer. 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 manager and insurer 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 manager is 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 manager is appointed based on its capabilities and, therefore, its 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 manager is 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 manager, 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 manager 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 pooled funds 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: \_\_\_\_\_