GAS CONTROL EQUIPMENT LIMITED PENSION & LIFE ASSURANCE SCHEME

STATEMENT OF INVESTMENT PRINCIPLES

AUGUST 2020

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1 INTRODUCTION

This Statement of Investment Principles (the “Statement”) has been prepared by the Trustees of the Gas Control Equipment Pension and Life Assurance Scheme (the “Scheme”) in accordance with Section 35 of the Pensions Act 1995, as amended, and its attendant Regulations.

The Statement outlines the principles governing the investment policy of the Scheme and the activities undertaken by the Trustees to ensure the effective implementation of these principles.

In preparing the Statement, the Trustees have:

- Obtained and considered written advice from a suitably qualified individual, employed by their investment consultants, Mercer, whom they believe to have a degree of knowledge and experience that is appropriate for the management of their investments; and
- Consulted with the Sponsoring Employer, although they affirm that no aspect of their strategy is restricted by any requirement to obtain the consent of the Sponsoring Employer.

The advice and the consultation process considered the suitability of the Trustees’ investment policy for the Scheme.

The Trustees will review the Statement formally at least every three years to coincide with the triennial Actuarial Valuation or other actuarial advice relating to the statutory funding requirements. Furthermore, the Trustees will review the Statement without delay after any significant change in investment policy. Any changes made to the Statement will be based on written advice from a suitably qualified individual and will follow consultation with the Sponsoring Employer.

2 INVESTMENT OBJECTIVES

The Trustees' primary investment objective for the Scheme is to achieve an overall rate of return that is sufficient to ensure that assets are available to meet all liabilities as and when they fall due.

In doing so, the Trustees also aim to maximise returns at an acceptable level of risk taking into consideration the circumstances of the Scheme.

The Scheme Actuary has not raised any concerns during the process of revising the Scheme's investment strategy relating to any potential inconsistency with the actuarial valuation methodology and assumptions used in the Statutory Funding Objective.

3 SUMMARY OF RESPONSIBILITIES

3.1 TRUSTEES' DUTIES AND RESPONSIBILITIES

The Trustees are responsible for setting the investment objectives and determining the strategy to achieve the objectives. They carry out their duties and fulfil their responsibilities as a single body.

The duties and responsibilities of the Trustees include, but are not limited to, the following tasks and activities:

- The regular approval of the content of the Statement
- The appointment and review of the investment managers and investment adviser
- The assessment and review of the performance of each investment manager
- The setting and review of the investment parameters within which the investment managers can operate
- The assessment of the risks assumed by the Scheme at total scheme level and manager by manager
- The approval and review of the asset allocation benchmark for the Scheme
- The compliance of the investment arrangements with the principles set out in the Statement

3.2 INVESTMENT ADVISER'S DUTIES AND RESPONSIBILITIES

The Trustees seek investment advice from Mercer, which provides advice as and when the Trustees require it, as well as raising any investment-related issues, of which it believes the Trustees should be aware. Matters on which Mercer may be required to provide advice to the Trustees include the following:

- Setting of investment objectives
- Determining investment strategy and asset allocation
- Determining an appropriate investment structure
- Selecting and replacing investment managers
- Setting cashflow management (investment and disinvestment) procedures (see Appendix 2)

The Trustees may seek advice from Mercer with regard to both strategic and tactical investment decisions, however, they recognise that they retain responsibility for all such decisions, including those that concern investments and disinvestments relating to cashflows (see Appendix 2). Mercer may be proactive in advising the Trustees regarding tactical investment decisions; however, there is no responsibility placed on Mercer to be proactive in all circumstances.

The Trustees monitor the performance of the Scheme's investment managers against their benchmarks.

Mercer will be remunerated primarily on a time-cost basis.

In particular, Mercer does not receive commission or any other payments in respect of the Scheme that might affect the impartiality of their advice. The Trustees are satisfied that this is the most appropriate adviser remuneration structure for the Scheme.

Mercer is authorised and regulated by the Financial Conduct Authority ("FCA").

3.3 INVESTMENT MANAGERS' DUTIES AND RESPONSIBILITIES

The Trustees are long term investors and do not look to change the investment arrangements on a frequent basis.

The Trustees, after considering appropriate investment advice, have appointed professional, authorised investment managers to manage the assets of the Scheme.

Investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected.

The Trustees only invest in pooled investment vehicles and the Trustees therefore accept that they cannot specify the risk profile and return targets of the manager, but pooled funds are chosen with the appropriate characteristics to align with the overall investment strategy.

Details of the investment managers selected by the Trustees are set out in Appendix 3, with the details of each mandate.

The investment managers are responsible for all decisions concerning the selection and de-selection of the securities within the portfolios they manage. In the case of multi-asset mandates, the investment managers are responsible for all decisions concerning the allocation to individual asset classes and changes in the allocations to individual asset classes.

All of the investment managers engaged by the Trustees are authorised and regulated by the Prudential Regulation Authority ("PRA"), the FCA or both.

The investment managers are remunerated by ad valorem charges based on the value of the assets that they manage on behalf of the Scheme. The Trustees believe that this is the most appropriate basis for remunerating managers.

None of the underlying managers in which the Scheme's assets are invested have performance based fees which could encourage the managers to make short term investment decisions to hit their profit targets.

The Trustees therefore consider that the method of remunerating fund managers is consistent with incentivising them to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity. By encouraging a medium to long-term view, it will in turn encourage the investment managers to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.

The Trustees accept that they cannot influence the charging structure of the pooled funds in which the Scheme invests, but is satisfied that the ad-valorem charges for the different underlying funds are clear and are consistent with each fund's stated characteristics. The Trustees are therefore satisfied that this the most appropriate basis for remunerating the underlying investment managers and is consistent with the Trustees' policies as set out in this SIP.

3.4 SCHEME ACTUARY

The Scheme Actuary's responsibilities include the following:

- Liaising with the investment adviser regarding the suitability of the Scheme's investment strategy given the financial characteristics of the Scheme
- Assessing the funding position of the Scheme and advising on the appropriate response to any shortfall
- Performing the triennial (or more frequent, as required) valuations and advising on the appropriate contribution levels

3.5 ADMINISTRATOR

The Administrator's responsibilities include the following:

- Ensuring there is sufficient cash available to meet benefit payments as and when they fall due
- Paying benefits and making transfer payments
- Investing contributions not required to meet benefit payments with the investment managers according to the Trustees' instructions

4 INVESTMENT STRATEGY

4.1 SETTING INVESTMENT STRATEGY

The Trustees have determined their investment strategy after considering the Scheme's liability profile and requirements of the Statutory Funding Objective, their own appetite for risk, the views of the Sponsoring Employer on investment strategy, the Sponsoring Employer's appetite for risk, and the strength of the Sponsoring Employer's covenant. The Trustees have also received written advice from their Investment Adviser.

The basis of the Trustees' strategy is to divide the Scheme's assets between a "growth" portfolio, comprising of Equities and a "stabilising" portfolio, comprising of Gilts. The allocation is set with regard to the overall required return objective of the Scheme's assets, which is determined by the funding objective and current funding level. The Trustees regard the basic distribution of the assets to be appropriate for the Scheme's objectives and liability profile.

The Trustees have established a benchmark allocation to each asset class, which is set out in Appendix 1.

The Trustees recognise the benefits of diversification across growth asset classes, as well as within them, in reducing the risk that results from investing in any one particular market. Where they consider it advisable to do so, the Trustees have appointed investment managers to select and manage the allocations across asset classes, in particular where it would not be practical or appropriate for the Trustees to commit the resources necessary to make these decisions themselves.

In respect of the investment of contributions and any disinvestments to meet member benefit payments, the Trustees have decided on a structured approach to rebalance the assets in accordance with their overall strategy. This approach is set out in Appendix 2.

4.2 INVESTMENT DECISIONS

The Trustees distinguish between three types of investment decision: strategic, tactical and stock-level.

Strategic Investment Decisions

These decisions are long-term and are driven by an understanding of the objectives, needs and liabilities of the Scheme.

The Trustees take all such decisions themselves. They do so after receiving written advice from their investment adviser and consulting with the Sponsoring Employer. Examples of such decisions and of tasks relating to the implementation of these decisions include the following:

- Setting investment objectives
- Determining the split between the growth and the stabilising portfolios
- Determining the allocation to asset classes within the growth and stabilising portfolios
- Determining the Scheme benchmark
- Reviewing the investment objectives and strategic asset allocation

Tactical Investment Decisions

These decisions are short-term and based on expectations of near-term market movements. Such decisions may involve deviating temporarily from the strategic asset allocation and may require the timing of entry into, or exit from, an investment market or asset class.

These decisions are the responsibility of the Trustees. However, where such decisions are made within a pooled fund, they are the responsibility of the investment manager of the fund.

Stock Selection Decisions

All such decisions are the responsibility of the investment managers of the pooled funds in which the Scheme is invested.

4.3 TYPES OF INVESTMENTS TO BE HELD

The Trustees are permitted to invest across a wide range of asset classes, including, but not limited to, the following:

- UK and Overseas Equities
- UK and Overseas Government Bonds – Fixed Interest and Inflation-Linked
- UK and Overseas Corporate and Convertible bonds
- Property
- Commodities
- Hedge Funds, Private Equity and Infrastructure
- High Yield and Emerging Market Debt
- Diversified Growth Funds (DGF)
- Liability Driven Investment

All of the funds in which the Scheme invests are pooled and unitised. The use of derivatives is permitted by the guidelines that apply to the pooled funds. Details relating to the pooled funds can be found in Appendix 3.

4.4 FINANCIAL CONSIDERATIONS

The Trustees understand that they must consider all factors that have the ability to impact the financial performance of the Scheme's investments over the appropriate time horizon. This includes, but is not limited to, environmental, social and governance ("ESG") factors.

The Trustees recognise that ESG factors, such as climate change, can influence the investment performance of the Scheme's portfolio and it is therefore in members' and the Scheme's best interests that these factors are taken into account within the investment process.

The Trustees further recognise that investing with a manager who approaches investments in a responsible way and takes account of ESG related risks will lead to better risk adjusted performance results as omitting these risks in investment analysis could skew the results and underestimate the level of overall risk being taken

The Scheme's assets are invested in pooled funds, and therefore the Trustees accept that they have very limited ability to influence the ESG policies and practices of the companies in which their managers invest. The Trustees will therefore rely on the policies and judgement of their investment managers.

The Trustees have reviewed the ESG policies of their managers and concluded that they are appropriate. The Trustees will therefore rely on the policies and judgement of their fund managers when assessing the impact on the value of the Scheme's investments.

The Trustees have built an ongoing review of ESG considerations into their annual business plan to make sure that their policy evolves in line with emerging trends and developments.

The Trustees are therefore satisfied that ESG factors are appropriately reflected in the overall investment approach.

4.5 NON-FINANCIAL CONSIDERATIONS

The Trustees only consider factors that are expected to have a financial impact on the Scheme's investments. Non-financial considerations are not taken into account in the selection, retention and realisation of investments. For this purpose, non-financial matters mean the views of the members and beneficiaries including (but not limited to) their ethical views and their views in relation to social and environmental impact and present and future quality of life of the members and beneficiaries of the Scheme

4.6 CORPORATE GOVERNANCE AND VOTING POLICY

The Scheme is invested solely in pooled investment funds, and therefore the Trustees' policy is to delegate responsibility for engaging with, monitoring investee companies and exercising voting rights to the pooled fund investment managers and expects the investment managers to use their discretion to act in the long term financial interests of investors

The Trustees note that the investment managers' corporate governance policies are available on request and on their respective websites.

Where the Trustees are specifically invited to vote on a matter relating to corporate policy, the Trustees will exercise their right in accordance with what they believe to be the best interests of the majority of the Scheme's membership.

4.7 STEWARDSHIP

The Trustees, will review the ESG and Stewardship policies of the underlying investment managers on a regular basis. As the Scheme invests in pooled funds, the Trustees recognise that their ability to influence the stewardship policies of the underlying managers is limited. As such, any changes to the Trustees' view on these matters, or a fundamental change in the investment managers' policies, could potentially result in the investment manager being replaced.

If the Trustees have any concerns, they will raise them with their investment managers and their investment advisor, verbally or in writing.

5 RISK

The Trustees are aware, and seek to take account of a number of risks in relation to the Scheme's investments.

Under the Pensions Act 2004, the Trustees are required to state their policy regarding the ways in which risks are to be measured and managed. These are set out below.

Solvency Risk and Mismatching Risk

- Are measured through a qualitative and quantitative assessment of the expected development of the assets relative to the liabilities.
- Are managed by setting a scheme-specific strategic asset allocation with an appropriate level of risk.

Manager Risk

- Is assessed as the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy.
- Is measured by monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment process, and by appointing Mercer to monitor and replace any managers where concerns exist over their continued ability to deliver the investment mandate.

Liquidity Risk

- Is monitored according to the level of cashflows required by the Scheme over a specified period.
- Is managed by holding an appropriate amount of readily realisable investments. The Scheme's assets are invested in pooled funds which are readily realisable.

Political Risk

- Is measured by the level of concentration in any one market leading to the risk of adverse influence on investment values arising from political intervention.
- Is managed by regular reviews of the investments and through assessment of the levels of diversification within the investment policy.

Corporate Governance Risk

- Is assessed by reviewing the Scheme's investment managers' policies regarding corporate governance.
- Is managed by delegating the exercise of voting rights to the managers, who exercise this right in accordance with their published corporate governance policies. These policies are provided to the Trustees from time to time and take into account the financial interests of the shareholders, which should ultimately be to the Scheme's advantage.

Sponsor Risk

- Is assessed as the level of ability and degree of willingness of the sponsor to support the continuation of the Scheme and to make good any current or future deficit.
- Is managed by assessing the interaction between the Scheme and the sponsor's business, as measured by a number of factors, including the creditworthiness of the sponsor and the size of the pension liability relative to the sponsor. Regular updates on employer covenant are provided to the Trustees by senior staff of the sponsor.

Legislative Risk

- Is the risk that legislative changes will require action from the Trustees so as to comply with any such changes in legislation.
- The Trustees acknowledge that this risk is unavoidable but will seek to address any required changes so as to comply with changes in legislation.

Credit Risk

- Is 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 Trustees acknowledge that the assessment of credit risk on individual debt instruments is delegated to the investment manager. The Trustees will however ensure that they are comfortable with the amount of risk that the Scheme's investment manager takes.

Market Risk

- Is the risk the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of the following three types of risk

Currency Risk

- Is the risk that occurs when the price of one currency moves relative to another (reference) currency. In the context of a UK pension scheme, the scheme may be invested in overseas stocks or assets, which are either directly or indirectly linked to a currency other than Sterling. There is a risk that the price of that overseas currency will move in such a way that devalues that currency relative to Sterling, thus negatively impacting the overall investment return.
- The Trustees acknowledge that currency risk is delegated to the underlying investment managers where the manager is responsible for the decision of whether or not to hedge.
- For funds where the currency risk is separately managed by the manager, the Trustees acknowledge that currency risk is delegated to the underlying investment managers where the manager is responsible for the decision of whether or not to hedge.

Interest/Inflation Rate Risk

- Is the risk that an investment's value will change due to a change in the level of interest/expected inflation rates. This affects debt instruments more directly than growth instruments.
- The Trustees acknowledge that the interest/expected inflation rate risk related to individual debt instruments is managed by the underlying investment managers through a combination of strategies, such as diversification, duration and yield curve management.

Other Price Risk

- Is the risk that principally arises in relation to the return seeking portfolio, which invests in equities, equities in pooled funds, equity futures, hedge funds, private equity and property.
- The Trustees acknowledge that a scheme can manage its exposure to price risk by investing in a diverse portfolio across various markets.

ESG Risk

- Is the risk that Environmental, Social or Corporate Governance concerns, including climate change, have a financially material impact on the return of the Scheme's assets.
- The Trustees manage this risk by investing in well-respected investment managers where ESG principles are appropriately included in the investment decision making process.
- The Trustees are aware that Responsible Investing is one of the core beliefs of the Investment Adviser. As a result part of the rating process of the Investment Adviser is based on its financial stewardship and how well the underlying investment manager integrates governance and sustainability into its investment process.

6 MONITORING OF INVESTMENT ADVISER AND MANAGERS

6.1 INVESTMENT ADVISER

The Trustees continually assess and review the performance of their adviser in a qualitative way.

6.2 INVESTMENT MANAGERS

The Trustees receive quarterly monitoring reports on the performance of the underlying investment managers from the fund manager, which present performance information over 3 months, 1 year and 3 years. The reports show the absolute performance and performance against the manager's stated target benchmark on a net of fees basis. They also provide returns on market indices to help inform the assessment of the underlying managers' performance.

The reporting reviews the performance of the Scheme's individual funds against their benchmarks and objectives.

The Trustees in conjunction with advice from their Investment Advisor, have the role of replacing the underlying investment managers where appropriate. They take a long-term view when assessing whether to replace the underlying investment managers, and such decisions would not be made based solely on short-term performance concerns. Instead, changes would be driven by a significant downgrade of the investment manager by Mercer's manager research team. This in turn would be due to a significant reduction in Mercer's confidence that the investment manager will be able to perform in line with their fund's mandate over the long term.

Changes will also be made to the underlying managers if there is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager.

6.1 PORTFOLIO TURNOVER COSTS

The Trustees do not currently monitor portfolio turnover costs for the funds in which the Scheme is invested, although note that the performance monitoring report which they receive is net of all charges, including such costs. Portfolio turnover cost means the cost incurred as a result of the buying, selling, lending or borrowing of investments.

The Trustees are also aware of the requirement to define and monitor targeted portfolio turnover and turnover range.

Given that the Scheme invests in a range of pooled funds, which invest across a range of asset classes, the Trustees do not have an overall portfolio turnover target for the Scheme.

The Trustees are working with Mercer to determine the most appropriate way to obtain and monitor the information required in relation to the pooled funds in which the Scheme is invested and will include further information about this when next updating the SIP.

7 CODE OF BEST PRACTICE

The Trustees note that in March 2017 the Pensions Regulator released ‘Investment Guidance for Defined Benefit Pension Schemes’.

The Trustees are satisfied that the investment approach adopted by the Scheme is consistent with the guidance so far as it is appropriate to the Scheme’s circumstances.

The Trustees will revise the Scheme’s investment approach if considered appropriate.

8 COMPLIANCE

The Scheme's Statement of Investment Principles and annual report and accounts are available to members on request.

This Statement of Investment Principles, taken as a whole with the Appendices, supersedes all others and was approved by the Trustees:

Signed on behalf of the Trustees by: .....

Name: .....

On: .....

APPENDIX 1: ASSET ALLOCATION

The Scheme's strategic asset allocation benchmark is set out below.

Asset Class	Strategic Allocation (%)
Global Equities – GBP Hedged	80.0
Fixed-Interest Gilts – Long Dated	5.0
Index-Linked Gilts – Long Dated	15.0
Total Scheme	**100.0**

The asset allocation will naturally drift as investment market conditions change.

Rebalancing of the portfolio will be considered if divergence from the target allocation exceeds 2.5%.

The policy for rebalancing and investment/disinvestment of cashflows is set out in Appendix 2.

Appendix 3 provides information about the funds in which the assets are invested.

APPENDIX 2: CASHFLOW AND REBALANCING POLICY

Where possible, cash outflows will be met from cash balances held by the Scheme and from income from the Scheme's investments in order to minimise transaction costs.

Investments or disinvestments should be applied in such a way as to bring the actual asset allocation back towards the Scheme's central benchmark asset allocation, as set out in Appendix 1.

The Trustees will review the cashflow policy from time to time to ensure that it remains appropriate taking into account changes in the Scheme's cashflow requirements.

For avoidance of doubt, this Statement will not be revised purely in relation to a change in cashflow policy.

APPENDIX 3: INVESTMENT MANAGER INFORMATION

The Scheme's assets are managed by Legal & General Investment Management (LGIM). Details of the mandates with LGIM are shown in the table below.

Manager / Fund	Benchmark	Objective	Dealing Frequency	SORP/IFRS Class
LGIM All World Equity Index GBP Hedged	FTSE All World Index GBP Hedged	To track the benchmark to within +/- 0.50% p.a. for 2 years out of 3	Daily	Level 2
LGIM Over 15 Year Gilts Index	FTSE A Gilts Over 15 Years Index	To track the benchmark to within +/- 0.25% p.a. for 2 years out of 3	Daily	Level 2
LGIM Over 5 Year Index-Linked Gilts Index	FTSE A Index-Linked Over 5 Year Index	To track the benchmark to within +/- 0.25% p.a. for 2 years out of 3	Daily	Level 2

Note: This SIP will not be updated solely in response to a replacement of one of the underlying funds.