Wiggins Teape Pension Scheme

Statement of Investment Principles – July 2020

1. **Introduction**

1.1 This Statement has been prepared by the Trustees of the Wiggins Teape Pension Scheme (the "Scheme") in order to record the investment arrangements, and the rationale behind them, adopted by the Trustees of the Scheme.

1.2 This Statement is designed to comply with the requirements of the Pensions Act 1995 as amended by the Pensions Act 2004 (the "Act"), the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015 (the "Investment Regulations"), and subsequent legislation. It is also intended to fulfil the spirit of the Code of Best Practice (the "Myners Code") published in 2001 and revised in 2008 (DB).

1.3 The employers of the Scheme went into administration or liquidation in early 2019 and, as a result, the Scheme entered into PPF assessment on 31 May 2019. The Trustees expect that actual benefits that will be paid to members from the Scheme will be greater than PPF benefits but less than the benefits set out in the Trust Deed & Rules.

1.4 As required under the Act, the Trustees have obtained and considered appropriate written advice from the Scheme's investment consultant, Mercer Limited. The Trustees have also consulted with the Principal Employer through its Administrator.

2. **Process for Choosing Investments**

2.1 The stewardship of the Scheme's investment arrangements may be divided into three main areas of responsibility. The first, the strategic management of the assets, is fundamentally the responsibility of the Trustees and is driven by the investment objectives, as set out in section 3 of this Statement. The second area is the day-to-day management of the assets, which the Trustees have delegated to BlackRock Advisors (UK) Limited ("BlackRock") whose role is described in Appendix 1. The third area is the ongoing measurement and monitoring of the performance of the investment strategy and the investment manager against predetermined benchmarks.

3. **Investment Objectives**

3.1 The Trustees' principal objective is to invest the Scheme's assets in the best interests of the members and beneficiaries. The Trustees consider that their broad objective is to invest the Scheme's assets in such a manner that a buy-out can be achieved in due course.

3.2 As a key step towards achieving this, the Trustees, following consultation with the Principal Employer, entered into a bulk annuity contract covering a proportion of the Scheme's pensioners at the time of entering into the contract. This was completed in November 2015. The Trustees now aim to secure a buy-out of the Scheme's liabilities within the next few years. In the meantime, they intend to invest in a way which will take limited risk against the Scheme's liabilities but which will achieve a modest improvement in the solvency funding level through a partial investment in corporate bonds.

4. Risk Management and Measurement

4.1 There are various risks to which the Scheme is exposed. The Trustees' policy on risk management is as follows:

- The primary risk upon which the Trustees focus is that arising through a mismatch between the Scheme's assets and its liabilities.

- The Trustees recognise that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's liabilities as well as producing more short-term volatility in the Scheme's funding position. The Trustees have taken advice on the matter and (in light of the objectives noted previously) considered carefully the implications of adopting different levels of risk.

- The Trustees also recognise the risks that may arise from a lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustees aim to ensure the asset allocation policy in place results in an adequately diversified portfolio.

- The Trustees recognise that the use of active investment managers involves the risk that the day-to-day management of the assets will not achieve the rate of investment return within each asset class expected by the Trustees. While there is active management required in the initial selection of corporate bonds, this is kept at a low level and the bonds are not actively traded.

- At the total Scheme level investments should be broadly diversified to ensure that there is no concentration of investment with any one issuer. This restriction does not apply to investment in UK Government debt.

- The documents governing the appointment of BlackRock include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme. BlackRock is prevented from investing in asset classes outside their mandate without the Trustees' prior consent.

- The Trustees recognise the Scheme's exposure to counterparty risk in the form of the insurer and their ongoing ability to meet the liabilities covered by the bulk annuity contract.

- The safe custody of the Scheme's assets is delegated to professional custodians.

4.2 Should there be a material change in the Scheme's circumstances, the Trustees will review whether and to what extent the investment arrangements should be altered; in particular, whether the current risk profile remains appropriate.

5. Development of the investment strategy

5.1 The timeline below sets out the recent history of the Scheme's investment strategy, starting in 2014:

- The Trustees' objective had been to obtain a 105% funding position on a self-sufficiency basis (equivalent to being fully invested in gilts). To this end, the assets were invested 25% in growth (including equities and diversified growth funds), and 25% in credit assets with the remainder in gilts. The interest rate and inflation hedge ratio was set at 95% of self-sufficiency liabilities. Overseas equity exposure was 85% currency hedged to reduce the risk to the Scheme of these falling in value due to Sterling appreciation.

- In 2015, a bulk annuity policy was purchased to cover the pensioner liabilities at that time. At the same time, with the agreement of the sponsor the investment strategy was de-risked. This was possible due to funding level improvements. The revised strategy maintained 25% of assets excluding the annuity policy in equities, and the hedge ratio was revised to 100% of insured liabilities (through the bulk annuity), and 83% of non-insured liabilities. All credit exposure was sold.

- In 2017, after review of the hedge against revised liability cashflows from the Actuary, with investment input from Mercer, the hedge was rebalanced to 80% from an interest hedge ratio (against the revised cashflows) of 76% and inflation hedge ratio of 64%. In the same year the Trustees decided with the advice of the Mercer to remove some substantial legacy asset-swap positions within the liability hedging portfolio that were contributing to investment risk for limited additional return.

- In 2018, it was found that due to funding level improvements the equity allocation of the non-insured liabilities could be reduced from 25% to 12.5%. This was implemented in July 2018. The Trustees subsequently established that their target level of investment return could be achieved through an investment in corporate bonds rather than through equities.

- A switch from equities to corporate bonds was undertaken in the first half of 2019. On completion, no equities were held, but there was a 50% allocation to corporate bonds. As the Trustees were conscious that buy out would probably become necessary within a few years, the corporate bonds purchased were of short duration. This meant that the portfolio could be allowed to run off if necessary, within a relatively short time frame. Transfers and collateral adequacy for supporting the hedge were also considered when reviewing these portfolio changes.

- On 31 May 2019 the Scheme entered the PPF assessment period, after the last of the employers became insolvent. The Scheme Actuary advised that, as the Scheme was 140% funded on the PPF basis, it would not fall into the PPF. He advised the Trustees to restructure the benefits to meet the PPF liabilities with the surplus being used to top up the benefits. Mercer advised the Trustees to restructure the hedge to match the expected profile of liabilities following the restructuring of benefits, also taking into account the contribution to the hedge from the existing bulk annuity. This mainly required a significant reduction in the amount of inflation hedging, and this was completed in early July 2019 based on aggregate sensitivities of the new liabilities to interest rates and inflation.

- The Trustees adopted a more refined liability benchmark portfolio in November 2019, and implemented a completion portfolio in December 2019, such that the combination of the Scheme's annuities and the assets managed by BlackRock would provide a close hedge for all the Scheme's liabilities.

- In May 2020, the Trustees instructed BlackRock to transfer approximately £100m cash raised from the Scheme's LDI holdings to the Buy & Maintain Credit Portfolio as the Scheme begins to prepare for buyout by matching more closely the typical portfolio held by an insurer to back its book of annuities. The new Buy & Maintain bonds will be longer dated and have the effect of lengthening the portfolio's credit spread linkage, thereby improving the portfolio's alignment with insurer pricing. The target interest rate and inflation hedge ratio was kept at 100% of liabilities on a gilts flat basis.

6. Investment Strategy

6.1 The Scheme's current strategy is to invest in a Buy & Maintain credit portfolio, with the balance of the assets (ex-annuities) seeking to obtain a 100% overall hedge of the expected post-insolvency liabilities. The small amount of interest rate hedging provided by the Buy & Maintain portfolio is taken into account in the overall hedge.

6.2 The target Buy & Maintain portfolio initiated in May 2020 represented about 60% of the Scheme's assets (ex annuities), based on pricing as at 31 March 2020. The asset allocation is not automatically rebalanced and has the potential to vary significantly with gilt yields and credit spreads. The Trustees will monitor the proportion of assets in Buy & Maintain credit on a quarterly basis, and may change the allocation, for example to give a closer match to the structure of an insurer's annuity portfolio.

6.3 Details of how this strategy is implemented are provided in Appendix 1.

7. Day-To-Day Management of the Assets

7.1 The Trustees currently delegate all of the day to day management of the assets, excluding the bulk annuity contract, to BlackRock. The Trustees have taken steps to satisfy themselves that BlackRock have the appropriate knowledge and experience to manage the Scheme's investments and that they are carrying out their work competently.

7.2 The Trustees have determined, based on expert advice and consultation with the Principal Employer, a benchmark mix of asset types and ranges within which BlackRock may operate. BlackRock are responsible for monitoring the Scheme assets for collateral adequacy.

7.3 BlackRock has discretion over the investment of the Scheme's assets, subject to the restrictions set out in their Terms of Business and Investment Brief, which together comprise the Investment Management Agreement. The Trustees are satisfied that the spread of assets by type and BlackRock's policies on investing in individual securities provide adequate diversification of investments.

7.4 Where permitted under their investment guidelines, the investment managers may invest in derivatives including futures, swaps, and repos.

7.5 The Trustees believe that their investment arrangements conform to the requirements of the Occupational Pension Schemes (Investment) Regulations 2005. The Trustees have received written confirmation from the Pensions Regulator that repos entered into under standard terms do not constitute borrowing for the purpose of Regulation 5 of the Investment Regulations.

7.6 The Trustees regularly review the continuing suitability of the Scheme's investments, including the appointment of BlackRock. Any changes to the investment arrangements would be made with the aim of ensuring that the overall investment strategy is consistent with the investment objectives as set out in section 3 above.

7.7 Details of BlackRock's mandate, including fees, can be found in Appendix 1 and 2.

8. Additional Assets

8.1 The Scheme has available Additional Voluntary Contribution ("AVC") fund options for members who contributed to enhance their retirement benefits. The AVC fund options are available to members who contributed AVCs prior to 1 January 2007. The Trustees believe these to be appropriate options for this purpose, but note that the levels and choice of investment funds rest entirely with the members. Further details of the AVC fund options can be found in Appendix 3.

8.2 The Trustees are responsible for monitoring the AVC providers, and take advice from a specialist adviser. They monitor the performance of the AVC assets at least on a triennial basis.

9. Realisation of Investments

9.1 The Trustees' policy is to ensure that the assets invested are sufficiently realisable to enable the Trustees to meet their obligations to provide benefits as they fall due. The Trustees are satisfied that the arrangements in place conform to this policy.

10. ESG, Stewardship, and Climate Change

10.1 The Trustees believe that environmental, social, and corporate governance ("ESG") factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

10.2 While the Trustees have no formal process for seeking the views of members on ethical considerations or on issues such as social and environmental impact, they will consider views expressed by members provided that they are consistent with the Scheme's investment objectives as set out in Section 3 above. In practice, such issues do not have a high degree of relevance to the current Scheme investments, which are composed of gilts and corporate bonds only.

10.3 The Trustees have given their appointed investment manager full discretion in evaluating ESG factors, including climate change considerations, in accordance with its own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code. Exercising voting rights and stewardship obligations are, in practice, unlikely to be relevant to the current bond based mandate. The Trustees monitor these issues on a regular basis and document the position at least annually, partly through consideration of Mercer's ESG ratings for BlackRock.

10.4 The Trustees intend to keep the topic of responsible investment under periodic review, to the extent relevant to the Scheme's assets, and will engage regularly with its investment manager to understand its approach to ESG matters.

11. Alignment of Asset Manager and Trustees' Policies

11.1 In line with section 7.1 of the SIP, investment manager has been appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the mandate.

11.2 The Trustees look to Mercer for their forward-looking assessment of whether BlackRock will fulfil their objectives. This view will be based on Mercer's assessment of BlackRock's idea generation, portfolio construction, implementation and business management, in relation to the LDI and Buy & Maintain portfolios. Mercer's manager research ratings assist with due diligence and questioning of the manager during presentations to the Trustees and are used in decisions around selection, retention and realisation of the manager appointment.

11.3 If the investment objectives for its manager changes, the Trustees will review the manager's appointment to ensure it remains appropriate and consistent with the Trustees' wider investment objectives.

11.4 The Trustees have specified criteria in the investment manager agreement for the asset manager to meet in order to fulfil the Trustees' specific investment requirements. Further information regarding the investment guidelines and restrictions set for BlackRock are detailed in Appendix 1.

11.5 The liability matching portfolio is held in a bespoke Qualifying Investment Fund ("QIF"). The Trustees have specified a set of rebalancing ranges for the asset hedging profile against the liability cashflow profile, for each five year maturity bucket and on an aggregate basis.

12. Portfolio Turnover costs

12.1 Targeted portfolio turnover refers to the frequency within which the assets of the Scheme are expected to be bought or sold. Portfolio turnover means the costs incurred as a result of the buying, selling, lending or borrowing of investments and turnover range means the minimum and maximum frequency within which the assets of the scheme are expected to be bought or sold.

12.2 BlackRock reports on the cost of trades for the liability matching portfolio on a quarterly basis and when any rebalancing occurs. Turnover for the Scheme's assets is expected to be very low, and the Trustees will engage with BlackRock if turnover is higher than expected.

12.3 To provide context in assessing costs, Mercer provides the Trustees with a quarterly report summarising gilt repo transactions carried out for a range of Mercer clients with various LDI managers.

13. Compliance with this Statement

13.1 The Trustees monitor compliance with this Statement annually and will obtain written confirmation from BlackRock that they have given effect to the investment principles in this Statement so far as reasonably practicable and that in exercising any discretion they have done so in accordance with Section 4 of The Occupational Pension Schemes (Investment) Regulations 2005.

14. Review of this Statement

14.1 The Trustees will review this Statement at least once every three years and without delay when there is a significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone whom the Trustees reasonably believe to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

Signed on behalf of the Trustees of the Wiggins Teape Pension Scheme

Signed: ______________________________ Date: ____________________________

Name: ______________________________

Appendix 1 - Details of the BlackRock mandate

The investments of the Scheme can be broken down into two components – Buy & Maintain corporate bonds and a liability matching portfolio, consisting of liability hedging assets and bulk annuity contracts. The corporate bonds have some modest liability matching characteristics which are taken into account.

Buy & Maintain Corporate bonds

The objective of the Buy & Maintain Portfolio is to invest in a diversified portfolio of primarily investment grade fixed income securities to deliver an attractive yield and spread whilst minimizing losses from defaults.

The base currency of the Buy & Maintain Portfolio is sterling.

From June 2020, new purchases are limited to bonds with a maturity of 6+ years only and no high yield, subordinated or 15+ year bonds rated below BBB+ are permitted. The bonds purchased and held within the Buy & Maintain Portfolio before June 2020 (the ‘legacy bonds’) are GBP only, have a maturity of 5 years or less and have broadly similar characteristics to the new bonds in terms of credit rating and sector split.

Further restrictions which applied when the portfolio was initiated are included below.

Permitted Assets

The Buy & Maintain Portfolio may invest in:

- Bonds (including but not limited to those with floating and fixed rate coupons) denominated in sterling, euros and US dollars.
- Money market instruments, fixed time deposits and overnight cash.
- Spot and forward foreign exchange contracts.
- Bond futures
- Single currency interest rate swaps
- Credit default swaps

Any cash balances awaiting investment may be invested in the sub-funds of the Institutional Cash Series plc that are considered appropriate by BlackRock for liquidity management purposes.

Investment Guidelines

BlackRock will manage the Buy & Maintain Portfolio in accordance with the following investment restrictions at the time of purchase:

- The Buy & Maintain Portfolio will invest in at least 70 issuers.
- The average target rating of the Buy & Maintain Portfolio is A-.
- A maximum of 10% of the value of the portfolio may be invested in bonds rated below investment grade. Investment grade is defined as a minimum rating of BBB-, Baa3, or BBB- based the ratings of Standard & Poor’s, Moody’s and Fitch respectively. Where these ratings differ, the higher rating will apply.
- The Buy & Maintain Portfolio may invest up to 20% in subordinated financial debt.

- The maximum proportion of the Buy & Maintain Portfolio that may be invested in any sector shall be 25% based on BofA Merrill Lynch Level 3 sector definitions.
- The Buy & Maintain Portfolio may invest in US dollar and euro denominated bonds, but they must not exceed 50% of the total value of the Portfolio. All non-Sterling denominated assets must be currency and interest rate hedged. Overall exposure to GBP will therefore be 100 % although a small deviation (up to 0.3% of net asset value) will be accepted to avoid daily rebalancing of hedged positions. Exposure to non-base currency will range between +- 0.3% of net asset value. Non-UK interest rate exposure will be 0, managed in a range of +/- 0.15 years. Any deviations will be corrected on a t+1 basis.
- The maximum proportion of the Buy & Maintain Portfolio, at the time of purchase, which shall be invested in the obligations of any one issuer that is rated AAA shall be 3.0%.
- The maximum proportion of the Buy & Maintain Portfolio, at the time of purchase, which shall be invested in the obligations of any one issuer that is rated between AA+ to AA- shall be 2.5%.
- The maximum proportion of the Buy & Maintain Portfolio, at the time of purchase, which shall be invested in the obligations of any one issuer that is rated between A+ and A- shall be 2.0%.
- The maximum proportion of the Buy & Maintain Portfolio, at the time of purchase, which shall be invested in the obligations of any one issuer that is rated between BBB+ and BBB- shall be 1.5%.
- The maximum proportion of the Buy & Maintain Portfolio, at the time of purchase, which shall be invested in the obligations of any one issuer that is rated at or below BB+ shall be 1.0%.
- Holdings in UK government bonds and futures will be exempt from the above issuer limits.
- In determining the credit quality of the Buy & Maintain Portfolio's investments applicable under these guidelines, BlackRock will use the ratings of Standard & Poor's, Moody's and Fitch. Where these ratings differ, the higher rating will apply. In the absence of S&P, Moody's and Fitch ratings, issues may be purchased if they are of equivalent standing in the opinion of BlackRock.

Liability Matching Portfolio

The liability matching portfolio consists of an LDI portfolio and bulk annuity contracts. The LDI portfolio is managed by BlackRock and consists of UK government bonds, cash and interest rate/inflation derivatives. The bulk annuity contract has been entered into with Scottish Widows.

A key function of the liability matching portfolio is to remove the majority of interest rate and inflation sensitivity mismatch between the assets and the liabilities.

Bonds, cash, and derivatives will be used in combination with the bulk annuity contract with Scottish Widows to provide a target hedge of 100% of the interest rate and inflation exposure of the Scheme's expected liability cash flows estimated on a gilts-flat basis.

BlackRock will monitor the level of the assets that may be used as collateral and margin for derivative transactions, subject to the eligibility provisions of the relevant collateral agreements with each derivatives counterparty ("Eligible Collateral") to assess whether it is sufficient to meet the collateral and margining requirements of the LDI Portfolio and equity portfolio.

All derivatives, bonds and the majority of cash holdings will be held in a pooled bespoke Dublin based Qualifying Investment Fund (“QIF”). However, at some periods, cash may be held outside the QIF to support rebalancing.

Cash

Although there is no target allocation for cash, BlackRock may use its Institutional Cash Series Sterling Liquidity Fund from time to time. This fund seeks to maximise current income consistent with the preservation of principal and liquidity through the maintenance of a portfolio of high quality short-term money market instruments.

There may also be direct cash holdings.

Custodian

The Trustees appointed Bank of New York Mellon as the custodian in 2014. In practice, the QIF is currently the only asset held by this custodian. Custody for the QIF’s underlying assets is arranged by BlackRock, and this custodian for the QIF is JP Morgan.

Investment Restrictions

BlackRock has discretion over the investment of the Scheme’s assets, subject to the restrictions set out in their Terms of Business and Investment Brief, which together comprise the Investment Management Agreement. The Trustees are satisfied that the spread of assets by type and BlackRock’s policies on investing in individual securities provide adequate diversification of investments.

Where permitted under their investment guidelines, the investment managers may invest in derivatives including futures, swaps, and repos.

The Trustees believe that their investment arrangements conform to the requirements of the Occupational Pension Schemes (Investment) Regulations 2005.

Manager monitoring

Investment performance of BlackRock is reported on a quarterly basis. To supplement this, Mercer also produces a quarterly performance report, which presents performance information over 3 months, 1 year and since inception. The Trustees review the absolute performance and the relative performance of the LDI portfolio to its liability benchmark.

The Trustees meet with BlackRock periodically to review their actions together with the reasons for, and background behind, the investment performance. Mercer advises and assists the Trustees in this process.

If BlackRock does not meet their investment objectives, the Trustees may ask BlackRock to review their fees.

Duration of mandate

The trustees are long term investors and are not looking to change the investment arrangements on a frequent basis.

There is no set duration for the appointment of BlackRock. The Trustees will retain BlackRock unless:

- There is a strategic change to the overall strategy that no longer requires exposure to these asset classes or BlackRock;

- BlackRock's appointment has been reviewed and the trustees have decided to terminate.

Appendix 2 – Investment manager and investment adviser fee structures

BlackRock:

LDI Portfolio	0.05% p.a. of liabilities hedged value
Buy & Maintain Portfolio	0.14% p.a.

The combined fee for the LDI Portfolio and the Synthetic Beta Portfolio is subject to a quarterly minimum fee of £62,500.

Institutional Sterling Liquidity Fund	0.125% p.a. (included in the unit price)

Investment Consultant Fees

Mercer is remunerated through a retainer fee for regular work and through additional fees for particular projects. Additional work may be charged on a time cost basis.

Appendix 3 – Additional Voluntary Contributions

The Scheme has the following Additional Voluntary Contribution ("AVC") fund options for members who had wished to contribute to enhance their retirement benefits. However, new contributions ceased following the transfer of active members to the Antalis Pension Scheme in the fourth quarter of 2010. The AVC fund options are summarised below:

Provider	Fund
Aviva	With Profits Fund
Fidelity Pension Management	UK Corporate Bond Fund
	UK Fund
	Cash Fund
	South East Asia Fund
	Emerging Markets Fund
	Europe Fund
	Japan Fund
	America Fund
	UK Gilt Fund
	Long Bond Fund
	Multi Asset Growth Fund
Phoenix Life	With Profits Fund

The Trustees believe these options to be appropriate for the members' purposes but note that the choice of investment fund(s) rests entirely with the members.