XPS Investment

CRU International Limited Pension and Assurance Scheme

Statement of Investment Principles

September 2020

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01 **Introduction**

This document constitutes the Statement of Investment Principles ('the SIP') required under Section 35 of the Pensions Act 1995 for the CRU International Limited Pension and Assurance Scheme ('the Scheme'). It describes the investment policy being pursued by the Trustees of the Scheme and is in accordance with the Government's voluntary code of conduct for Institutional Investment in the UK ("the Myners Principles"). This SIP also reflects the requirements of Occupational Pension Schemes (Investment) Regulations 2005.

The Scheme Actuary is Mark Poyner of XPS Pensions and the Investment Adviser is XPS Investment (collectively termed 'the Advisers').

The Trustees confirm that, before preparing this SIP, they have consulted with the employer, CRU International Limited ('the Company') and the Advisers and have obtained and considered written advice. The Trustees believe the Advisers to be qualified by their ability and practical experience of financial matters and to have appropriate knowledge of the investment arrangements that the Scheme requires.

The Trustees are responsible for the investment of the Scheme's assets and the administration of the Scheme. Where they are required to make an investment decision, the Trustees always receive advice from the Advisers first and they believe that this ensures that they are appropriately familiar with the issues concerned.

Given the size of the Scheme, the Trustees have decided the most cost effective way of investing the Scheme assets is to invest in pooled funds managed by an organisation, rather than directly appointing an individual investment manger. Decisions about which pooled funds to invest in are made after receiving investment advice from an FCA regulated firm.

01.01 Declaration

The Trustees confirm that this Statement of Investment Principles reflects the investment strategy they have decided to implement. The Trustees acknowledge that it is their responsibility, with guidance from the Advisers, to ensure the assets of the Scheme are invested in accordance with these Principles.

02 **Scheme governance**

The Trustees are responsible for the governance and investment of the Scheme's assets. The Trustees consider that the governance structure set out in this SIP is appropriate for the Scheme as it allows the Trustees to make the important decisions on investment policy, leaving day-to-day investment decisions to managers of pooled funds while seeking advice on the key matters that influence investment decisions from the relevant Advisers.

03 **Investment objectives**

The investment objectives of the Scheme are:

- To hold assets in a wide range of different asset classes to minimise the risk of failing to meet the Scheme’s liabilities in the long term.
- To hold sufficiently liquid assets to avoid the risk of being unable to disinvest funds at a predictable price as and when required to meet immediate benefit outgoings.
- To have a significant holding of government and high quality corporate bonds and similar assets in order to provide a match against a proportion of the Scheme’s liabilities, with more sophisticated investment techniques also considered, in order to provide a leveraged match. The remaining assets will be invested in equities and other return seeking assets with a view to achieving longer-term growth to help return the Scheme to a fully funded status on a technical provisions basis.
- To ensure consistency between the long term return expectations used within the actuarial valuation and the level of risk taken and return expectations of the strategy.

It is accepted that at different times within the economic cycle, acceptable levels of risk may change according to market conditions.

In developing a strategy to achieve these objectives, the Trustees will review the Scheme’s investments from a volatility and risk perspective at regular intervals.

04 **Asset allocation Strategy**

The Trustees have taken the view that the investment objective is best achieved by determining, and investing in accordance with, an appropriate split between "on-risk" assets (e.g. equities and diversified growth funds) and "off-risk" assets (e.g. government bonds and high quality corporate bonds).

The allocation between the asset classes making up the on-risk and off-risk assets will vary over time to reflect, amongst other factors, the profile of the liabilities, the perceived relative value of the different asset classes and the perceived risk to the investment objectives arising from any material change in the shortfall in the funding of the Scheme. The current benchmark and target allocation is set out in Appendix B and any changes in such allocations will only be made after receiving written advice from the Investment Advisers that such allocation remains consistent with the investment objectives.

Due to the size of the fund, the Trustees have decided to use pooled funds to invest the Scheme's assets whilst minimising costs by investing in passive funds except to the extent there is a high expectation that a manager can add value.

The Trustees have taken the view that active investment management within most asset classes is unlikely to deliver sufficient excess returns to justify the additional cost and risks.

04.01 Alignment of incentives

Based on the structure set out in Appendices A and B, the Trustees consider the arrangements with the Investment Managers to be aligned with the Scheme's overall strategic objectives. Details of each specific mandate are set out in agreements and pooled fund documentation with each Investment Manager.

The amounts allocated to any individual category or security will be influenced by the overall benchmark and objectives, varied through the Investment Managers' tactical asset allocation preferences at any time, within any scope given to them through any asset allocation parameters set by the Trustees or governing the pooled funds in which the Scheme is invested.

The Trustees will ensure that the Scheme's assets are predominantly invested in regulated markets to maximise their security.

Investment Managers are incentivised to perform in line with expectations for their specific mandate as their continued involvement as Investment Managers as part of the Scheme's investment strategy – and hence the fees they receive – are dependent upon them doing so. They are therefore subject to performance monitoring and reviews based on a number of factors linked to the Trustees' expectations.

The Trustees encourage Investment Managers to make decisions in the long-term interests of the Scheme. The Trustees expect engagement with management of the underlying issuers of debt or equity and the exercising of voting rights on the basis that such engagement can be expected to help Investment Managers to mitigate risk and improve long term returns.

As covered in more detail in this document, the Trustees also require the Investment Managers to take ESG factors and climate change risks into consideration within their decision-making as the Trustees believe these factors could have a material financial impact in the long-term. The Trustees therefore make decisions about the retention of Investment Managers, accordingly.

04.02 Rebalancing Policy

All of the pooled funds are managed by Legal & General Investment Management ("LGIM") or Invesco Perpetual ("Invesco") (the "Investment Managers"). The Trustees have chosen to apply an automatic rebalancing policy to the investments with LGIM. If the actual allocation between LGIM funds moves further than the permitted range set out in Appendix B, LGIM will automatically switch assets back to the benchmark allocation as far as possible via the application of cashflows or switches between asset classes.

Cash flows into the Scheme and cash outflows from the Scheme will be invested or disinvested respectively in those funds chosen by the Investment Manager so as to minimise the need to rebalance.

In addition, the Investment Adviser, along with the Trustees, will monitor the allocation to the Invesco fund and a decision to rebalance this fund will be made if deemed appropriate following advice from the Investment Advisor.

04.03 Rates of Return

The performance targets and the expected returns for each of the funds making up the investment strategy are detailed in Appendix A. In the case of the passively managed funds the benchmark indices are shown.

04.04 Diversification

The choice of asset classes is designed to ensure that the Scheme's investments are adequately diversified given the Scheme's circumstances.

The Trustees have also sought to achieve diversification by investing in pooled funds which have investment restrictions i.e. funds which impose concentration limits on individual positions and limits on the exposure to individual issuers.

The Trustees will monitor the strategy regularly to ensure that they are comfortable with the level of diversification.

04.05 Suitability

The Trustees have taken advice from the relevant Advisers to ensure that the asset allocation strategy is suitable for the Scheme, given its investment objectives, its liability profile, any legal requirements, regulatory guidance and specifications in the Trust Deed.

04.06 Liquidity

The majority of the assets are held in asset classes that are sufficiently liquid to be realised easily if the Trustees require (i.e. the underlying investments are traded regularly on a public exchange or invested via units in a pooled fund with frequent dealing dates).

05 **Strategy Implementation**

The Trustees have decided to invest in passively managed funds unless the Advisers recommend that an active approach is preferable for investment in certain asset classes.

05.01 Mandate and Performance Objectives

The Trustees receive advice on the appropriateness of each pooled fund that the Scheme is invested in from the Advisers and believe the overall mix of funds to be suitable to meet the Scheme's investment objectives. The benchmark for each fund currently held and its objectives are set out in Appendix A.

05.02 Manager Agreement

Although the Scheme is invested in pooled funds and as such there is no formal agreement between the Trustees and an individual fund manager relating to investments in each asset class, there is an investment management agreement covering the rebalancing arrangements between asset classes including the approach to investment and disinvestment.

05.03 Diversification

The assets are invested in a diversified range of suitable investments of different types in order to reduce investment risk given the circumstances of the Scheme. The Trustees will monitor the strategy regularly to ensure that they are comfortable with the level of diversification being achieved.

The range of, and any limitation to the proportion of, the Scheme's assets held in any asset class will be agreed between the Investment Manager(s) and the Trustees. This range and set of limitations will be specified in writing and may be revised from time to time according to appropriate investment strategy advice provided to the Trustees and having regard to the investment powers of the Trustees as defined in the Trust Deed.

05.04 Custody

Custody of the underlying assets is at the discretion of the pooled funds, whilst shares and/or units in the funds are held in book form only. Cash is held securely in separate accounts with approved counterparties.

06 **Monitoring**

06.01 Pooled Funds

The Trustees will monitor the performance of the funds against their stated performance objectives.

The Trustees, or the Advisers on behalf of the Trustees, will regularly review the performance of the funds to satisfy themselves that the funds remain suitable.

06.02 Advisers

The Trustees will monitor the advice given by the Advisers on a regular basis.

06.03 Trustees

The Trustees are required to review this SIP on a triennial basis, or, without undue delay, following any changes to the investment strategy.

06.04 Portfolio turnover costs

The Trustees require the Investment Managers to report on actual portfolio turnover at least annually, including details of the costs associated with turnover, how turnover compares with the range that the Investment Manager expects and the reasons for any divergence.

06.05 Investment manager duration

Appointments of Investment Managers are expected to be long-term, but the Trustees will review the appointment of the Investment Managers in accordance with their responsibilities.

06.06 Performance and remuneration reporting

The Trustees receive regular investment performance reports from the Investment Managers to help inform their understanding of the long term performance of the portfolio and will discuss these with the Investment Adviser when it is deemed appropriate. In addition, any significant changes relating to the Trustees' selection and deselection criteria that the Investment Adviser is aware of may be taken into account by the Investment Adviser in recommending that a particular fund is/continues to be used as part of the overall portfolio.

If there are concerns about an Investment Manager's ongoing role in implementing the investment strategy, the Trustees may carry out a more in-depth review of a particular Investment Manager and/or ask the Investment Manager what steps they intend to take to rectify the situation. Investment Managers will also attend Trustees' meetings as requested. If the funds still do not meet the Trustees' requirements, they will look to purchase other funds - potentially with a different organisation - after consultation with the Investment Adviser.

Fund manager remuneration is considered as part of the manager selection process. It is also monitored regularly with the help of the Investment Adviser to ensure it is in line with the Trustees' policies and with fee levels deemed by the Investment Adviser to be appropriate for the particular asset class and fund type.

07 **Fees**

07.01 Funds

The Trustees will ensure that the fees charged by funds and their expense ratios are consistent with levels typically available in the industry and the nature of services provided. The current fee basis for each of the funds is set out in Appendix A.

The Trustees are aware of the investment manager's policy regarding soft commission arrangements. Information about the investment manager's fees, commissions and other transaction costs is available in the annual report of the pooled funds in accordance with the Financial Conduct Authority ('FCA') Disclosure Code.

07.02 Advisers

Fees paid to the Advisers are based either on actual time spent and hourly rates for relevant individuals, or on fixed fees agreed in advance for specifically defined projects.

07.03 Custodian

There is no custodian appointed directly by the Trustees.

07.04 Trustees

None of the Trustees are paid directly for their duties. Their expenses are met and they are given time off from their other employment duties to attend appropriate training, meetings with their Advisers and the periodic Trustees' meetings.

08 **Risks**

The Trustees recognise a number of risks involved in the investment of assets of the Scheme and have adopted the following strategies to manage such risks:

i. The risk of failing to meet the objectives as set out in Section 3 – the Trustees will regularly monitor the investments to mitigate this risk.
ii. The risk of adverse consequences arising through a mismatch between the Scheme's assets and its liabilities. This is addressed (at least in part) through the asset allocation strategy and through regular actuarial and investment reviews and the funding target
iii. Risk of lack of diversification of investments – addressed through investing in pooled funds with diversification requirements and through the asset allocation policy.
iv. Risk of holding assets that cannot be easily sold should the need arise – addressed through the use of pooled funds with frequent dealing dates.
v. Underperformance risk – addressed through investing mainly in passive funds, monitoring closely the performance of each fund and taking necessary action when this is not satisfactory.
vi. Organisational risk – addressed through regular monitoring of the Investment Manager and the Advisers.
vii. Sponsor risk – the risk of the Company ceasing to exist, which for reasons of prudence, the Trustees have taken into account when setting the asset allocation strategy.
viii. Liquidity risk – investing in assets that are generally realisable at short notice.
ix. The risk that environmental, social and governance factors are not given significant consideration. This is addressed by having a policy whereby such factors should be given appropriate consideration in relation to current and future investment decisions made.

The Trustees will keep these risks under regular review.

09 **Other issues**

09.01 Statutory Funding Requirement

The Trustees will obtain and consider proper advice on the question of whether the investments are satisfactory having regard to the investment objectives and in conjunction with discussions around statutory funding requirements. The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation every three years.

The Trustees will consider with the Advisers whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the statutory funding requirement.

09.02 Environmental, social and corporate governance

The Trustees have determined their approach to financially material considerations over the Scheme's long term funding horizon – including environmental, social and corporate governance ("ESG") factors – by acknowledging that there can be risks relating to them. The Trustees has delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Scheme's investment managers. The Trustees require the Scheme's investment managers to take ESG and climate change risks into consideration within their decision-making, recognising that how, and the extent to which, they do this will be dependent on factors including the characteristics of the asset classes in which they invest. In pooled funds the Trustees have limited influence over the managers' investment practices, particularly in relation to those pooled funds which are designed to track an index, where the choice of the index dictates the assets held by the manager.

The Trustees will seek advice from the Investment Adviser on the extent to which its views on ESG and climate change risks may be taken into account in any future investment manager selection exercises. Furthermore, the Trustees, with the assistance of the Investment Adviser, will monitor the processes and operational behaviour of the investment managers from time to time, to ensure they remain appropriate and in line with the Trustees' requirements as set out in this Statement.The Trustees' policy is that non-financial matters should not be taken into account in the selection, retention and realisation of investments at this time.

09.03 Voting rights

As the Scheme invests in pooled funds, the Trustees acknowledge that they cannot directly influence the policies and practices of the companies in which the pooled funds invest. They have therefore delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the Investment Managers.

The Trustees encourage them to engage with investee companies and vote whenever it is practical to do so on financially material matters such as strategy, capital structure, conflicts of interest policies, risks, social and environmental impact and corporate governance as part of their decision-making processes. The Trustees require the Investment Managers to report on significant votes made on behalf of the Trustees.

If the Trustees become aware of an Investment Manager engaging with the underlying issuers of debt or equity in ways that they deem inadequate or that the results of such engagement are mis-aligned with the Trustees' expectation, then the Trustees may consider terminating the relationship with that Investment Manager.

Appendix A
Pooled Funds

The Trustees have appointed two Investment Managers: Legal & General Investment Management ('LGIM') and Invesco Perpetual ('Invesco') to manage the assets of the Scheme.

The mandate for the Investment Managers is as follows:

Asset Classes	Manager	Fund	%	Investment Style	Target	Expected Return (gross of fees) p.a.
UK equities	LGIM	UK Equity Index Fund	17.60	Passive	FTSE All-Share Index- gross of fees	Gilts + 4.1%
North American equities	LGIM	North America Equity Index Fund	2.90	Passive	FTSE World North America Index	Gilts + 4.2%
		North America Equity Index Fund – GBP Currency Hedged	2.90	Passive	FTSE World North America Index – GBP Hedged	Gilts + 4.23%
European (ex UK) equities	LGIM	Europe (ex UK) Equity Index Fund	2.90	Passive	FTSE Developed Europe ex UK Index	Gilts + 4.25%
		Europe (ex UK) Equity Index Fund – GBP Currency Hedged	2.90	Passive	FTSE Developed Europe ex UK Index – GBP hedged	Gilts + 4.28%
Japanese equities	LGIM	Japan Equity Index Fund	0.70	Passive	FTSE Japan Index	Gilts + 4.23%
		Japan Equity Index Fund – GBP Currency Hedged	0.70	Passive	FTSE Japan Index – GBP Hedged	Gilts + 4.25%
Asian Pacific (ex Japan) equities	LGIM	Asia Pacific (ex Japan) Developed Equity Index Fund	2.20	Passive	FTSE Developed Asia Pacific ex Japan Index	Gilts + 4.28%
		Asia Pacific (ex Japan) Developed Equity Index Fund – GBP Currency Hedged	2.20	Passive	FTSE Developed Asia Pacific ex Japan Index – GBP Hedged	Gilts + 4.3%
Diversified growth fund	LGIM	Dynamic Diversified Fund	17.50	Active	Bank of England base rate + 4.5% p.a. over full market cycle	Gilts + 3.56%
	Invesco	Global Targeted Returns Fund	17.50	Active	3 Month Sterling LIBOR + 5.0% p.a. over rolling 3 year periods	Gilts + 3.9%
Long term index linked gilts	LGIM	Over 15 year Index Linked Gilt Fund	12.00	Passive	FTSE A Index-Linked (Over 15 Year) Index	Gilts + 0.0%

Corporate Bonds	LGIM	AAA-AA-A Bonds All Stocks Index Fund	18.00	Passive	Markit iBoxx £ non-Gilts (ex-BBB) Index	Gilts + 1.35%

Note: Expected returns are based upon XPS Investment's asset class assumptions as at 30th June 2019.

The targets for the passive funds are net of withholding tax, if applicable, and allow for certain tolerances as follows:

> Within +/- 0.25% p.a. for 2 years out of 3: UK Equity Index Fund, Over 15 year Index Linked Gilt Fund

> Within +/- 0.5% p.a. for 2 years out of 3: North America Equity Index Fund, North America Equity Index Fund – GBP Currency Hedged, Europe (ex UK) Equity Index Fund, Europe (ex UK) Equity Index Fund – GBP Currency Hedged, Japan Equity Index Fund, Japan Equity Index Fund – GBP Currency Hedged, AAA-AA-A Bonds All Stocks Index Fund

> Within +/- 0.75% p.a. for 2 years out of 3: Asia Pacific (ex Japan) Developed Equity Index Fund, Asia Pacific (ex Japan) Developed Equity Index Fund – GBP Currency Hedged

Custody

Custody of the LGIM assets is sub-contracted to two banks, HSBC and Citibank. HSBC deal with the following funds: Over 15 year Index Linked Gilt Fund, AAA-AA-A Bonds All Stocks Index Fund and UK Equity Index Fund. Citibank deal with the following funds: North America Equity Index Fund, North America Equity Index Fund – GBP Currency Hedged, Europe (ex UK) Equity Index Fund, Europe (ex UK) Equity Index Fund – GBP Currency Hedged, Japan Equity Index Fund, Japan Equity Index Fund – GBP Currency Hedged, Asia Pacific (ex Japan) Developed Equity Index Fund, Asia Pacific (ex Japan) Developed Equity Index Fund – GBP Currency Hedged. HSBC and Citibank both act as Custodians to the Dynamic Diversified Fund.

The depository for the Invesco Fund is Citibank, who have sub-delegated the safe keeping functions to BNY Mellon, who therefore acts as the custodian.

Appendix B – Current Asset Allocation

Having considered advice from the Advisers, and also having due regard for the objectives, the current liabilities of the Scheme together with their expected timing, the risks of and to the Scheme and the covenant of the Company, the Trustees have decided upon the following benchmark allocation as being the basis for measuring investment performance:

Asset allocation of LGIM funds

Asset Class	Benchmark Allocation (%)	Permitted range (%)
On-risk assets	63.6	
UK equities	21.2	19.1 – 23.3
North American equities	3.5	3.2 – 3.9
North American equities - hedged	3.5	3.2 – 3.9
Europe (ex UK) equities	3.5	3.2 – 3.9
Europe (ex UK) equities - hedged	3.5	3.2 – 3.9
Japanese equities	0.9	0.8 – 1.0
Japanese equities - hedged	0.9	0.8 – 1.0
Asia Pacific (ex Japan) equities	2.7	2.4 – 3.0
Asia Pacific (ex Japan) equities - hedged	2.7	2.4 – 3.0
Diversified growth funds	21.2	19.1 – 23.3
Off-risk assets	36.4	
Long term index linked gilts	14.6	13.1 – 16.1
UK corporate bonds	21.8	19.6 – 24.0
Total	100.0	

This allocation was last reviewed and agreed in November 2016.

The Trustees have chosen to hold a significant portion of the Scheme's assets in pooled funds invested in gilts and bonds (the 'off-risk' assets) to provide some degree of matching with the Scheme's liabilities. A corporate bond fund has been selected in order to benefit from the higher expected long-term returns over fixed interest gilts and the Trustees consider the additional credit risk to be consistent with the investment objectives. An index linked gilts fund is used to provide a high degree of price inflation matching with the liabilities.

The aim of the 'on-risk' assets (e.g. equity funds) is to provide additional expected return above that achieved by the off-risk assets, consistent with the investment objectives.

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