

**Precision Valve UK Limited
Retirement Benefits Scheme:
Defined Contribution (DC)**

Statement of Investment Principles

04 November 2019

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1. INTRODUCTION

- 1.1 This document outlines the investment principles adopted by the Trustee in relation to the Precision Valve UK Limited Retirement Benefits Scheme (“the Scheme”). The sponsoring employer is Precision Valve UK Ltd.
- 1.2 The Scheme is a Defined Contribution (DC) arrangement with a GMP underpin.
- 1.3 This document has been prepared in order to comply with the requirements of the Legislation, in particular:
 - Section 35 of the Pensions Act 1995
 - The Occupational Pension Schemes (Investment) Regulations 2005.
 - The Occupational Pension Schemes (Investment) (Amendment) Regulations 2010.
 - The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018
- 1.4 The Trustee has also considered:
 - The 2001 Myners review of institutional investment (and subsequent updates)
 - Guidance issued by the Pensions Regulator
 - The UK Stewardship Code
- 1.5 The advice and consultation process considered the suitability of the Trustee’s investment policy for the Scheme, which the Trustee monitors regularly.
- 1.6 The Trustee will review this document at least every three years.
- 1.7 A copy of this Statement is available for inspection by Scheme members.

2. GOVERNANCE STRUCTURE

2.1 The Trustee sets the general investment policy, based on professional advice, but delegates responsibility for day to day investment decisions to the appointed Insurers/Investment Manager (Royal London and AEGON). The Trustee ensures that any person to whom such responsibility is delegated is authorised under the Financial Services and Markets Act 2000. A copy of this Statement will be provided to the Insurers.

2.2 The Trustee's responsibilities include, but are not limited to the following tasks:

- communication of investment options to members
- ensuring that life-styling occurs in line with the option selected by the member
- ensuring that members' selected investment options are implemented
- ensuring that contributions are invested properly and promptly
- ensuring that switches are actioned promptly
- reviewing the content of this document and amending if necessary, in consultation with the employer and based on written advice
- monitoring the investment returns achieved by the Insurers
- ensuring compliance of the investment arrangements with the principles outlined in this document

2.3 The Insurers/Investment Managers responsibilities include:

- using their discretion to invest the assets of the Scheme as they deem appropriate, within the guidelines contained in this document
- having regard to the need for diversification
- providing the Trustee with regular statements describing the investment performance of funds under their management, as well as comparable figures from benchmark indices
- advising on an appropriate investment strategy to meet the Trustee's investment objectives within an appropriate level of risk
- alerting the Trustee to any significant changes with the investments or the investment managers

2.4 The Scheme's lawyer may be consulted to advise on:

- How the Trustee's investment strategy achieves and maintains compliance with Legislation
- The contractual aspects of agreements with the Insurers

3. BELIEFS

The Trustee's investment beliefs, which underpin their decision making, are as follows:

- 3.1 Risk is necessary to achieve return, but not all risks are rewarded.
- 3.2 Risks that are not sufficiently rewarded should generally be avoided, hedged or diversified.
- 3.3 Finding an Insurer/Investment Manager who can consistently spot and exploit market opportunities is generally difficult; passive management is usually better value.
- 3.4 Well governed companies that manage their businesses in a responsible way will produce higher returns over the long term.
- 3.5 Climate change could be a long-term risk for the Scheme and has the potential to impact the Scheme's investment strategy.
- 3.6 Investing responsibly and engaging as long-term owners reduces risk over time and may positively impact Scheme returns.

4. OBJECTIVES

4.1 The Trustee's objectives are as follows:

- to provide a range of funds which broadly satisfies the likely range of differing risk profiles of all members
- to provide a suitable default investment option for members who do not select their own funds, designed to be appropriate for what the Trustees believe to be a typical Scheme member
- to operate a life-styling option that caters for members' likely needs and timescales

5. INVESTMENT ARRANGEMENTS

5.1 The members' pension accounts are invested with Royal London (formerly Scottish Life) and AEGON. In addition, a handful of members have AVC funds which are invested with Royal London ("RL").

5.2 The majority of Royal London policy-holders are invested in a 16 year lifestyle program. However members do have the option to invest in alternative arrangements and a small number have chosen this path. The majority of the AEGON members are invested in their Universal Lifestyle Collection, which is a two stage process investment process called lifestyling. A few AEGON members have selected alternative AEGON funds. For those members in the Crest Secure fund, due to the GMP underpin, which is guaranteed by Royal London, the trustees are unable to alter this particular investment arrangement.

Option A - 16 year lifestyle program

Royal London

The member will select a pre-lifestyle investment fund - the default being the Balanced Retirement Investment Strategy fund¹. Starting 15 years from normal retirement age, the investment is gradually switched so that with 11 years remaining, 100% is invested in the Managed Fund. Starting five years from normal retirement age, funds are gradually transferred to the RLP Deposit (Cash) Fund (25%) and the RLP Fixed Interest Fund (75%).

AEGON – 2 stage lifestyle program

With 6 or more years to normal retirement age the pension account is automatically invested in their Universal Balanced Collection (UBC), which invests in a mix of different funds, offering a mix of active and passive management. Then starting 6 years prior to normal retirement age, funds are start switching into the Long Gilt fund and in the final year the Cash Fund.

Option B

A member can to choose to invest their assets in (Royal London or AEGON as applicable) various different funds offered under each insurer, unless the member is in the RL Crest Secure Fund, which is unable to be altered due to the GMP underpin.

Managers' Objectives

5.3 The funds available under the above options are as follows:

Royal Products

RLP UK Equity Fund
The fund aims to achieve Capital Growth by mainly investing in shares of UK companies from all economic sectors. The main emphasis will be on shares in companies quoted on the London Stock Exchange. The core of this fund is invested in a FTSE 350 Tracker fund with the remainder being invested in other actively managed UK equity funds.
RLP Managed Fund
The fund aims to provide exposure to a mixed asset fund which invests in other Royal London Asset Management (RLAM) funds. The manager ensures the maximum potential for capital growth exists for the given level of risk. The underlying investments include the Global Managed, Property, Medium (10yr) Index Linked and Medium (10yr) Corporate Bond funds.
RLP Fixed Interest FP
The fund aims to produce a total return over the longer term by investing in a

spread of fixed interest investments including government and corporate bonds. A bond is a loan made to a company or government agency for a defined period of time at a specific interest rate. The fund is able to invest in longer and shorter-term bonds as appropriate.
Cash FP Fund
The fund aims to produce an attractive level of income mainly by investing in cash, deposits, money market instruments and short dated government securities. The performance objective is to achieve +0.75% p.a. gross of fees above the benchmark.

AEGON

Universal Balanced Collection
This fund aims to achieve long-term capital growth by investing in an internationally diversified portfolio, largely made up of equities (shares in companies). It currently invests in a mix of different funds, from different fund managers, offering a mix of active and passive fund management, which means it doesn't rely on the performance of one manager or management style alone.
The Long Gilt Fund
This fund aims to perform broadly in line with the FTSE UK Gilts Over 15 Years Index, net of fees, by investing primarily in UK government bonds (gilts) with maturity dates of 15 years and longer.
The Cash Fund
The fund aims to outperform the LIBID (London Interbank Bid Rate) 7 days, before charges, by investing in short-term, sterling denominated money market instruments such as bank deposits, certificates of deposit and short-term bonds. Instruments held in the portfolio will have a weighted average maturity of no more than 60 days.

Manager Monitoring

5.4 The Trustee will assess the performance of the investment managers regularly. The Trustee will consider the managers' compliance with the requirements of the Pensions Act concerning diversification and suitability, where relevant.

5.5 The Trustee will review the choice of investment manager at least every three years.

6. SUITABILITY

Risk capacity

6.1 Risk capacity is the maximum level of risk that the Trustee believes it is appropriate to take in the investment strategy. In the context of a DC fund or funds this relates to the Trustee's perception of the appropriate range of levels of risk which members may be able to access through the different funds.

Risk appetite

6.2 Risk appetite is a measure of how much risk the Trustee is willing to take within the investment strategy, having considered the employer's views and the maximum risk capacity. The Trustee and the Company have agreed that the Scheme's existing asset allocation is suitable for the long-term and consistent with their perception of the members' risk appetite.

6.3 The Trustee has taken their own view in relation to the suitability and range of the DC investment choices for Scheme members.

7. TRUSTEE INVESTMENT POLICIES

Liquidity and cashflow management

7.1 The Trustee's policy is to ensure that the invested assets are sufficiently realisable to enable the Trustee to meet their obligations to provide benefits and management expenses as they fall due.

7.2 The use of lifestyle funds means that liquidity is not expected to cause any problems as members approach their retirement age.

Custody Risk

7.3 The insurer/investment manager is responsible for the appointment and monitoring of the custodians of the fund's assets.

Financially material considerations (including ESG)

7.4 The Trustee believes that good stewardship and environmental, social and governance ("ESG") issues may have a material financial impact on investment returns.

7.5 The Trustee has given each individual fund manager their full discretion when evaluating ESG issues and in exercising rights, engagement activities, and stewardship obligations attached to the Scheme's investments. However, the extent to which these factors are taken into account by the fund managers in the selection, retention and realisation of investments is considered by the Trustee as part of the process of selecting organisations with which to invest. The Trustee reserves the right to request from the manager information regarding their actions.

7.6 The Trustee has taken into consideration the Financial Reporting Council's UK Stewardship Code, and the investment managers all have stated corporate governance policies which comply with these principles.

7.7 The Trustee does not take any non-financial matters into account in the selection, retention and realisation of investments.

Delegation of Voting Rights

7.8 The Scheme's voting rights are exercised by each fund manager in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code.

8. INVESTMENT RESTRICTIONS

8.1 No direct investment shall be made in any of the following:

- securities issued by the sponsoring employer.
- property owned by or leased to the sponsoring employer.
- securities issued by associate companies of the investment manager.

8.2 The Trustee recognises that where investments are held in insurance company pooled funds they may not be able to apply investment restrictions. However, for any direct investment or where feasible the following additional restrictions shall be observed by the insurer/investment manager:

- It is expected that no more than 10% of the Scheme assets will be invested in futures, options, currency forwards, hedge funds, or derivatives as part of efficient portfolio management.
- No more than 5% of the Scheme assets can be held in the securities of any one company unless this is an investment company where the underlying assets are highly diversified.
- No more than 5% of the Scheme assets can be invested in assets that are not readily realisable.
- There should be no gearing of the portfolio.
- The manager may not use the portfolio to underwrite new issues.

9. RISK MANAGEMENT

9.1 The Trustee recognises that there are a number of risks involved with investment of the assets of the Scheme.

- *Volatility / capital loss*: the investments are subject to market fluctuations and other risks inherent in investing in securities. The value of investments and the income derived from them may fall as well as rise and investors may not recoup the original amount they invest. There is no certainty that the investment objective of a fund will actually be achieved. The Trustee mitigates against this risk by diversifying assets across a range of investments
- *Manager risk*: addressed by the performance objectives set out in Section 4; and by regular monitoring of each manager's performance.
- *Liquidity risk*: the Trustee will monitor cash flow requirements regularly.
- *Political risk*: the risk of political intervention having an adverse effect on asset performance is reduced by diversification of the assets across companies, geographical regions and restrictions on the amounts invested in foreign countries.

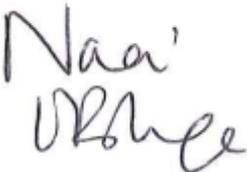
- *Currency risk*: the risk of mismatching the currency of the assets to that of the liabilities is reduced by the choice of fund or restricting the amount of overseas investment.

9.2 The Trustee will regularly monitor these risks.

This statement has been agreed by the Trustee

On 5 November 2019

Signed on behalf of the Trustee by

Signature: 

Name: Naomi L'Estrange