

Statement of Investment Principles

Heal's Pension & Life Assurance Plan

January 2022

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1. Introduction

1.1. What is the purpose of this Statement of Investment Principles (“SIP”)?

This SIP sets out the policy of the Heal’s Pension Fund Trustees Limited (the “Trustee”) on matters governing decisions about the investments of the Heal’s Pension & Life Assurance Plan (the “Plan”).

The Plan is a Registered Pension Scheme for the purpose of the Finance Act 2004. The Plan is a Defined Benefit (“DB”) Plan which is closed to future accrual and new members.

1.2. What is the legal and statutory background to the SIP?

The SIP is designed to meet the requirements of Section 35 of the Pensions Act 1995 (the “Act”) and all subsequent legislation, regulations and guidance from the Pensions Regulator applying to UK pension schemes.

The Plan’s assets are held in trust by the Trustee. The investment powers of the Trustee are set out in the Plan’s Trust Deed.

1.3. Who has had input to the SIP?

This SIP has been formulated after obtaining and considering written professional advice from Quantum Actuarial LLP trading as Quantum Advisory (“Quantum”), the Trustee’s investment adviser, and consulting Heal & Son Limited (the “Sponsoring Employer”) as required by the Act and subsequently by the regulations. Quantum has the knowledge and experience required under the Regulations to provide professional advice on the management of the Plan’s investments.

2. Investment objectives and strategy

2.1. Investment policy

The Plan's assets are held in trust by the Trustee. The investment powers of the Trustee are set out in the Plan's Trust Deed.

The Trustee is aware of the need to invest assets in the best and sole interest of the members and that the powers of investment must be exercised in a manner which supports the security, quality, liquidity and profitability of the Plan as a whole.

The Trustee recognises that the assets of the Plan must consist predominantly of investments admitted to trading on regulated markets and investment in assets which are not admitted to trading on such markets must, in any event, be kept to a prudent level.

2.2. Investment objective

The Trustee, with the help of its advisers and in consultation with the Sponsoring Employer, considered its investment objectives in 2020.

The Trustee noted the need to invest in a manner which helps ensure that the benefits promised to members are provided. Over the long term, this requires that a rate of return is achieved which supports the long-term funding plan which has been discussed with the Sponsoring Employer. In the short term, it means managing the volatility of assets relative to the value of liabilities, which has bond-like characteristics.

A further review was undertaken in October 2021, following the annual funding update from the Scheme Actuary, and the current strategic asset allocation agreed.

2.3. The areas the Trustee considered in setting the Plan's investment strategy.

In setting the strategy, the Trustee considered:

- the investment objectives;
- the Plan's characteristics;
- the annual management charges and other charges;
- the fact that, for the foreseeable future, contributions receivable by the Plan are expected to be lower than the benefits payable;
- the risks and rewards of different asset classes and investment strategies;
- the expectation that, over the long-term, equities and property are likely to produce higher returns than bonds, but at the risk of short-term volatility or liquidity constraints;
- the need for appropriate diversification between different asset classes;
- the Environmental, Social and Governance ("ESG") and Stewardship policies employed by the investment managers;
- the financial strength and reputation of each investment manager;
- the financial strength of the investment managers' custodian; and
- the strength of the Sponsoring Employer's covenant to support the Plan.

2.4. What risks were considered and how are they managed?

In order to achieve its objectives, the Trustee recognised the need to invest in both “liability driven/matching” and “return seeking” assets (see 2.6). The Trustee identified the following investment risks:

- the risk that investment returns in general will not achieve expectations;
- the risk that an investment manager will not meet its targets;
- the risk that the value of liabilities may increase due to changes in actual and expected inflation and interest rates;
- the risk of mis-match between the value and timing of the Plan’s income and outgo;
- the risk of a shortfall in the liquid assets held by the Plan relative to its immediate liabilities;
- the risk that the performance of any single investment within the Plan’s assets may disproportionately affect the ability of the Plan to meet its overall investment objectives;
- the risk of misappropriation, unauthorised use or mis-delivery of Plan assets; and
- the risk that ESG factors, including climate change, adversely impact the value of the Plan’s assets if this is not given due consideration and/or misunderstood.

The Trustee recognises these different types of risk and seeks to appropriately manage them by the use of regular monitoring of investment performance; by a deliberate policy of diversification; by utilising matching assets; by taking into account the timing of future payments; and by regularly reviewing the appropriateness of the prevailing strategy against the Plan’s objectives.

2.5. Financially material considerations, non-financial matters and stewardship policies

2.5.1. Financially material considerations

The Trustee acknowledges the potential impact upon the Plan’s investments (both in terms of risk and return) arising from financially material matters. The Trustee defines these as including, but not limited to, ESG factors (including climate change).

With specific regard to ESG factors, the Trustee considers how these are integrated into the investment processes when: (i) appointing new investment managers; and (ii) monitoring existing investment managers. The Trustee has provided the appointed investment managers with full discretion concerning the evaluation of ESG factors. The Trustee also periodically considers publicly available ESG related publications pertaining to the incumbent investment managers.

The Trustee, with the help of its investment advisers, has determined that ESG is built into the core of its active investment manager’s processes. Where the Plan’s investments are implemented on a passive basis, or within Liability Driven Investments (“LDI”), the Trustee acknowledges that this restricts the ability of the manager to take active decisions on whether to hold securities based on the investment managers consideration of ESG factors. The Trustee does however expect the incumbent managers, where relevant, to utilise their position to engage with companies on these matters.

The Trustee also considers ESG factors when determining future investment strategy decisions. To date, the Trustee has not established any restrictions on the appointed investment managers but may consider this in future.

2.5.2. Stewardship

The Trustee acknowledges the constraints that it faces in terms of influencing change due to the size and nature of the Plan's investments. It does, however, acknowledge the need to be responsible stewards and exercise the rights associated with its investments in a responsible manner.

The Trustee considers how stewardship factors are integrated into the investment processes when: (i) appointing new investment managers; and (ii) reviewing existing investment managers. The Trustee has provided the appointed investment managers with full discretion concerning the stewardship of their investments.

2.5.3. Non-financial matters

The Trustee considers non-financial factors (where members have been forthcoming with their views) however the Trustee does not employ a formal policy in relation to this when selecting, retaining and realising investments.

2.6. What is the investment strategy?

The investment strategy uses two key types of assets:

- “geared liability driven investment”: which is designed to hedge 100% of Plan assets against changes in inflation and interest rates while still allowing exposure to return seeking assets.) The Liability Driven Investment (“LDI”) arrangement is managed by Insight Investment Management Limited (“Insight”). Cash collateral is also held in the LGIM Cash Fund as part of the LDI strategy. Collateral is automatically moved between the LGIM Cash Fund and Insight, in order to maintain the LDI hedge. This is overseen by the Trustee and advised by Quantum.
- “return seeking assets”: which target a rate of return in excess of the minimum risk return. Typically, these are equities or a diversified pool of other non-matching assets which, over the long term, might be expected to deliver 3% to 4% pa above the minimum risk return.

The strategic asset allocation was agreed in October 2021. The strategy aims to deliver an appropriate mix of investments, which support the Plan's investment objectives. Details of this are set out in Appendix 1.

The Trustee monitors the performance of the Plan's investments on a quarterly basis. Written advice is received from its investment advisers, as required.

2.7. Fund managers, style and target returns

The funds in which the Plan invests are pooled funds, which the Trustee believes are appropriate given the size and nature of the Plan. These pooled funds are accessed through a platform provider, Mobius Life Limited (“Mobius”). Details of the platform can be found in Section 3; and details of the funds, managers, styles, benchmarks and target returns used by the Plan can be found in Appendix 1.

The relationship with each investment manager is open ended and is reviewed on a periodic basis. The date of their appointment is noted in Appendix 1.

2.8. Currency hedging

Where reasonably practicable, currency exposure on overseas passive investments is normally hedged back to sterling by the managers concerned and the benchmark comparisons are expressed in local currency terms. Currency risk is managed actively for other funds.

2.9. Cash flow management

The Trustee retains a cash float in the Plan's bank account of £50,000. The float is reviewed on a quarterly basis, and if it exceeds/is below this amount by at least £20,000, assets are transferred to/from Mobius Life for investment/disinvestment. Scottish Widows informs the Trustee of any pending payments that require assets to be disinvested for these to be met.

Investments and disinvestments are made in a manner that seeks to maintain the strategic benchmark allocation of the Mobius Life assets. Within the LDI/matching assets, only the LGIM Cash Fund is traded to maintain the strategic benchmark allocation.

2.10. Re-balancing

The Plan's asset allocation is reviewed on a quarterly basis, and re-balancing is undertaken if any of the tolerance bands set have been breached (see Appendix 1). The allocation to LDI/matching assets is re-balanced by trading the LGIM Cash Fund only.

The construction of the LDI hedge is reviewed periodically and will be reviewed immediately (or as soon as reasonably possible) following any material change in the liability structure.

3. Investment platform

3.1. Investment platforms in general

An investment platform is a facility that enables pension schemes to buy, sell and hold its investments all in one place. This allows greater flexibility and efficiency when switching investments as the scheme strategy changes or fund managers have to be replaced. The administrative burden in undertaking the transitions and the associated costs are thus removed, allowing for a more efficient implementation of the strategy at lower cost.

The centralisation of funds also allows consolidated reporting to be obtained more easily and more regularly, ensuring an investment strategy and associated flight path can be effectively tracked and monitored. All of these features allow pension schemes greater administrative efficiency, enhanced ease of strategy implementation and potential fee reductions.

3.2. Accessing the investment platform

The Plan has entered into a unit linked life policy through a Trustee Investment Policy (TIP). The policy's value is linked to the underlying investments, which the Investment Platform provider, in this case Mobius, has been directed to purchase. Mobius is responsible for investing into the underlying funds and takes responsibility for the relationship with the underlying fund managers. This includes transactions, reporting and governance. This differs from a traditional relationship that pension schemes would have had with fund managers where the Plan would have invested directly with these managers and maintained a number of these individual relationships.

3.3. Safeguarding and protection of Mobius assets

There are a number of regulatory layers of protection in relation to the Plan's assets with Mobius. The key points to note are set out below.

- The Plan's assets are held in a Pooled Life Fund, which is held separately to Mobius's shareholder and other Company assets.
- Submissions are made to the Prudential Regulation Authority and Financial Conduct Authority on a regular basis, which require the Mobius Board and an independent qualified actuary, the Actuarial Function Holder, to monitor the solvency of the Mobius business in relation to regulatory capital requirements. Mobius have appointed an independent qualified actuary to carry out this function, and any regulatory capital calculations are audited by the independent auditors.
- Mobius undertakes an annual Own Risk and Solvency Assessment (ORSA) together with the Actuarial Function Holder, as part of regulatory requirements of running an insurance company.

In Mobius's Security of Assets document, they state that Mobius is a regulated life insurance company, the Plan has access to the Financial Services Compensation Scheme ("FSCS") in the event of Mobius becoming either insolvent or liquidated. The level of cover provided by the FSCS is currently 100% of the policy value when investing in insurance policies, with no upper limit, if Mobius defaults.

4. Appointment of investment managers

4.1. How many investment managers are there?

The Plan currently holds assets with three investment managers through the Mobius platform and Mercer (previously JLT/Scottish Widows). Details of the appointed investment managers are outlined in Appendix 1, including their appointment dates.

Mobius were appointed in March 2014.

4.2. What formal agreements are there with the investment managers and platform provider?

The Trustee selects investment managers and funds which are appropriate to implement the investment strategy.

The Trustee has signed policy documents, agreements and application forms as appropriate with Mobius (the platform provider).

The Trustee keeps the appointment of all investment managers and providers under review and will seek to replace any managers, or funds, which no longer remain appropriate to implement the Plan's investment strategy.

4.3. What are the investment managers' responsibilities?

The investment manager is responsible for the day-to-day management of the investments and is responsible for appointing custodians, if required.

The managers are authorised under the Financial Services and Markets Act 2000 to carry out such activities.

Any performance requirements for the managers are detailed in Appendix 1.

4.4. Custodians and administrators

The Plan's investments are through pooled investment vehicles. Therefore, there is no need for the Trustee to formally appoint a custodian as the investment comprises units held in listed investment vehicles rather than the underlying stocks and shares.

However, the managers have appointed custodians for the safe custody of assets and these are detailed in Appendix 1. As units are held with Mobius, custody of assets it held with managers under the Life company's name.

4.5. What is the Trustee's policy on investment in the Sponsoring Employer?

The Plan does not directly hold any shares in the Sponsoring Employer. The Trustee's policy is to keep any holding below 5% of the Plan's overall assets, in line with the Regulations.

5. Other matters

5.1. What is the Trustee's policy on the realisation of investments?

The Plan's assets are held in pooled funds, most of which can be realised easily if the Trustee so requires.

5.2. How are various parties who are involved in the investment of the Plan's assets remunerated?

Quantum is remunerated on a fixed fee or time-cost fee basis, with budgets agreed for projects where possible.

The Plan invests in pooled funds. The Trustee notes that the investment strategy and decisions of the fund managers cannot be tailored to the Trustee's policies and the managers are not remunerated directly on this basis. However, the Trustee, with the help of Quantum, sets the investment strategy for the Plan and selects appropriate managers and funds to implement the strategy.

The Trustee does not directly incentivise the investment managers to engage with the issuers of debt or equity to improve their performance. The Trustee does, however, expect the investment managers to participate in such activities as appropriate and necessary to meet the investment objectives of the respective fund. The funds utilised typically include an objective that is expected to result in a positive return over the medium-to-longer term and, as such, the investment managers engagement with the issuers of debt or equity is expected to be undertaken so as to target medium-to-long term value creation.

The Trustee considers the fees and charges associated with each investment before investing.

The investment managers and Mobius are remunerated on an ad valorem fee basis, which is calculated as a fixed percentage of the total value of the Plan's funds they hold under management. The charges for the LDI strategy are based on the value of the assets invested and the geared exposure.

In addition, the fund managers pay commissions to third parties on many trades they undertake in the management of the assets. The Trustee obtains an annual statement from the investment managers setting out all the costs of the investments of the Plan.

5.3. Direct investments

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager with a written contract (e.g. units in pooled vehicle) and those where a product is purchased directly (e.g. the purchase of an insurance policy). The latter are known as direct investments.

The Trustee's policy is to review its direct investments and to obtain written advice about them at regular intervals. When deciding whether to make any new direct investments or terminate any direct investments, the Trustee will obtain written advice from the Plan's investment adviser. If the Trustee believes that an investment is no longer suitable for the Plan, it will

withdraw the assets from the arrangement deemed to be unsuitable and select a suitable alternative.

The written advice will consider suitability of the investments, the need for diversification and the principles contained in this SIP. The adviser will have the knowledge and experience required under Section 36(6) of the Pensions Act to provide this advice.

5.4. Does the Trustee take any investment decisions itself?

The Trustee is responsible for the investment of the Plan's assets. The Trustee takes some decisions itself and delegates others.

When deciding which decisions to take, and which to delegate, the Trustee considers whether it has the appropriate training and expertise in order to make an informed decision.

The Trustee has established the following decision-making structure:

Trustee

- Set structures and processes for carrying out its role.
- Agree structure for implementing investment strategy.
- Select and monitor planned asset allocation.
- Select and monitor investment advisers and fund managers.
- Select and monitor direct investments.
- Prepare and maintain the Statement of Investment Principles.

Investment adviser

- Advise on all aspects of the investment of the Plan's assets, including implementation.
- Advise on this Statement.
- Provide required training.

Investment (or fund) managers

- Operate within the terms of the written contracts and agreements.
- Select individual investments with regard to their suitability and diversification for the individual pooled vehicles.
- Ensure the suitability of the chosen benchmark for the respective investment vehicle.

Platform provider

- Operate within the terms of the written contracts and agreements.

5.5. Conflicts of interest

The Trustee considers any potential and actual conflicts of interest (subject to reasonable levels of immateriality) at the start of each Trustee meeting and document these in the minutes.

5.6. Capital structure of investee companies

The responsibility for monitoring the capital structure of investee companies (including any relevant developments) is delegated to the investment managers. Investment managers are expected to partake in a sufficient level of monitoring and action that is appropriate to the nature of the mandate.

6. Review

6.1. How often are investments reviewed?

Strategy reviews are undertaken periodically. Typically, these occur in conjunction with triennial valuations of the Plan; but more frequent reviews can occur in light of a material change of circumstances. Any change in investment strategy may necessitate a change in investment managers, regardless of the underlying performance of the funds.

Investment return experience, and the performance of individual funds, is reviewed with assistance from Quantum each quarter. Managers are reviewed against their agreed performance benchmarks and targets over both short-term and long-term time periods, to ensure they remain appropriate to implement the investment strategy for the Plan.

6.2. How does the Trustee monitor portfolio turnover and costs?

The Trustee has delegated the selection of holdings to the appointed investment managers. The Trustee receives an annual report from the investment managers setting out portfolio turnover and the associated costs.

The Trustee has not set a specific portfolio turnover target for each investment manager and recognises that portfolio turnover and costs may vary with market conditions. Each manager has ultimate responsibility for the underlying holdings within their funds and they are expected to change these underlying holdings to the extent required to achieve their investment objectives.

The Trustee will compare the annual turnover and associated costs for each fund with previous years to ensure each investment manager’s process and philosophy remain consistent.

6.3. How often is this SIP reviewed?

The Trustee will review this SIP at least every three years and without delay after any significant change in investment policy. Any change to this SIP will only be made after: (i) having obtained and considered the written advice of someone who the Trustee reasonably believes 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; and (ii) consulting the Sponsoring Employer.

Susan Anyan

Susan Anyan (Jan 12, 2022 16:35 GMT)

Signature

Susan Anyan

Name

For and on behalf of Capital Cranfield
Pension Trustees Limited, as Trustee Chairman

Position

For and on behalf of Heal’s Pension Fund Trustees Limited

Appendix 1 – Managers, asset allocation & fund details

Managers and asset allocation

The following table shows the strategic asset allocation for the Plan. All of the following investments are accessed through the Mobius Life investment platform. If the allocation to any asset class moves outside the tolerance ranges detailed below, the Trustee will, with the help of its investment adviser and platform provider, undertake the necessary switches to bring the relevant funds back to the central benchmark. Performance is reviewed periodically, with assistance from the Plan’s investment adviser as required.

Asset class	Manager	Fund	Asset allocation (%)	Tolerance range (+/-) (%)
Return seeking assets				
Equity	Legal & General Investment Management (“LGIM”)	World Equity Index – GBP Hedged	11.1	1.0
DTR	Newton	Real Return	11.1	1.0
Strategic bonds	Newton	Global Dynamic Bond	22.2	2.0
Matching assets				
LDI & Cash	Insight	Partially Funded LDI range	55.6*	2.5
	LGIM	Cash		
Total			100.0	--

*The Plan is targeting a 100% of assets hedge based on the analysis undertaken prior to implementation. The Plan’s LDI strategy is comprised of the Insight Partially Funded Gilts and Index-Linked Gilts Funds, and the LGIM Cash Fund.

In addition to the above funds, the Plan also holds Scottish Widows Cash which is used for administrative purposes. The target level for this float is £50,000. This is reviewed quarterly and assets switched into/out of the Mobius assets if the pre-agreed tolerance range of +/-£20,000 is breached (when allowing for short-term cash flow requirements).

Managers and fund details

The table below shows the benchmarks, outperformance targets and custodians for each fund the Plan is invested in.

Asset class	Fund	Benchmark	Objective / Outperformance target (%)	Custodian	Date of appointment
Return seeking assets					
Equity	LGIM World Equity Index – GBP Hedged	FTSE AW World Index (less withholding tax if applicable) - GBP Hedged (with the exception of advanced emerging markets)	To track the benchmark within +/- 0.5% p.a. for two years out of three.	HSBC & Citibank	March 2014
DTR	BNY Mellon Real Return	SONIA (Sterling Overnight Index Average)	Outperform benchmark by 4% p.a. over 5 years (before fees).	Bank of New York Mellon	March 2014
Strategic bonds	BNY Mellon Global Dynamic Bond	SONIA	Outperform benchmark by 2% p.a. over 5 years (before fees).	Bank of New York Mellon	March 2014
Matching assets					
LDI & Cash	Insight Partially Funded LDI Range	N/A	Provide nominal and real interest rate exposure by investing primarily in UK government gilts and index-linked gilts, on a partially funded basis.	Northern Trust Fiduciary Service (Ireland) Limited	October 2018
	LGIM Cash	SONIA	The fund aims to perform in line with the benchmark, without incurring excessive risk.	HSBC	November 2017






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