Franke Sissons Limited Pension Scheme

Statement of Investment Principles – September 2020 (Replaces September 2019)

1. Introduction

The Directors of Franke Sissons Pension Trustees Limited, the Trustee of the Franke Sissons Limited Pension Scheme ("the Scheme") have drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Pensions Act 1995 ("the Act"), the Occupational Pension Scheme (Investment) Regulations 2005, subsequent legislation and associated requirements. The Statement is intended to affirm the investment principles that govern decisions about the Scheme's investments. This Statement supersedes the previous version, dated September 2019.

The Trustee in preparing this Statement has consulted the Sponsoring Company, Franke Sissons Ltd, ("the Company") to ascertain whether there are any material issues of which the Trustee should be aware in agreeing the Scheme's investment arrangements. The Trustee has also obtained and considered written professional advice from its Investment Consultant, Mercer Limited ("Mercer") which is authorised and regulated by the Financial Conduct Authority ("FCA"). The Trustee believes the Investment Consultant meets the requirements of Section 35(5) of the Pensions Act 1995 (as amended).

The Trustee will, as a minimum, review this Statement every three years to ensure that it remains accurate. The Statement will be amended more frequently should any material changes be made to the Scheme's funding, investment or covenant arrangements.

Overall investment policy falls into two parts. The strategic management of the assets is fundamentally the responsibility of the Trustee acting on advice from its Investment Consultant and is driven by its investment objectives as set out in Section 3 below. The remaining elements of policy are part of the day to day management of the assets which is delegated to professional investment management and described in Section 6.

2. Process for Choosing Investments

The process for choosing investments is as follows:

a) Identify appropriate investment objectives and tolerance to risk.

b) Understand the return expectations, and risk characteristics of different investments.

c) Construct a portfolio of investments given the above.

The Trustee takes into account what it believes to be financially material considerations over an appropriate time horizon, which can include risk and return expectations as well as Environmental, Social and Governance ("ESG") issues where these are considered to have a material impact on income, value or volatility of an investment held or the overall portfolio of investments held by the Scheme. Specific considerations are detailed throughout this Statement.

In considering the appropriate investments for the Scheme, the Trustee has obtained and considered the written advice of Mercer, whom the Trustee believes to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3. Investment Objectives

The Trustee's primary objective is to invest the Scheme's assets in the best interest of the members and beneficiaries, and in the case of a potential conflict of interest, between the members and beneficiaries and the Company, in the sole interest of the members and beneficiaries. Within this framework, the Trustee has agreed a number of secondary objectives to help guide it in its strategic management of the assets and control of the various risks to which the Scheme is exposed. The Trustee's secondary objectives are as follows:

- To ensure that the Trustee can meet the obligations which have been promised to the beneficiaries of the Scheme by the Company;

- To operate funding and investment strategies in a coordinated approach. Variation in the funding position (in particular improvements) may be reflected in the level of risk in the investment strategy.

- To achieve a return that matches or exceeds the specified benchmark return within the invested asset classes (see section 6.1.1) and is compatible with the level of risk considered appropriate.

- To pay due regard to the Company's interest in the size and incidence of contribution payments and to avoid significant volatility in the deficit reduction contributions.

- To avoid significant volatility in the pension expense reported in the Company's accounts.

Given the nature of the Scheme's liabilities, the investment time horizon of the Scheme is potentially long-term (i.e. several decades), although opportunities for risk transfer (e.g. by purchase of bulk annuities) could reduce the time horizon materially.

4. Risk Management and Measurement

There are various risks to which any pension scheme is exposed, which the Trustee believes may be financially material to the Scheme over its anticipated lifetime.

The Trustee's policy on risk management is as follows:

- The primary risk upon which the Trustee focuses is that arising through a mismatch between the Scheme's assets and its liabilities. This mismatch arises mainly from investing in assets other than bonds (or bond like investments) with comparable sensitivity to changes in interest rates and/or inflation as the liabilities.

- The Trustee recognises 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 and possibly the contribution rate.

- The Trustee's willingness to take investment risk is dependent on the continuing financial strength and support of the Company.

- The Trustee recognises the risks that may arise from the lack of diversification of investments. The Trustee aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. Due to the size of the Scheme's assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles.

- The Trustee recognises the risk that, on average, members live longer than was assumed when the Scheme's liabilities were valued, and keep this under review at each Actuarial Valuation.

- The Trustee recognises that the use of active management involves a risk that assets do not achieve the rate of investment return expected i.e. active risk. Therefore, to partially mitigate this risk the majority of the Scheme's assets are managed passively.

- The Trustee recognises the currency risk inherent in investment in overseas equity markets. In order to reduce currency risk, a proportion of the Scheme's developed overseas equity exposure is hedged back to Sterling.

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

- Arrangements are in place to monitor the Scheme's investments to help the Trustee check that nothing has occurred that would bring into question the continuing suitability of the current investment manager arrangements. To facilitate this, the Trustee receives regular reports from the investment manager.

- The safe custody of the Scheme's assets is delegated to professional custodians (via the use of pooled vehicles) by the investment manager.

- Across all of the Scheme's investments, the Trustee is aware of the potential for regulatory and political risks. Regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those environments subject to unstable regimes.

Considerations specific to Environmental, Social and Governance issues are addressed in Section 11.

Should there be a material change in the Scheme's circumstances, the Trustee will review whether and to what extent the investment arrangements should be altered; in particular whether the current risk profile remains appropriate. Investment risks are managed through the Scheme's investment strategy (details are outlined in section 6. The Trustee considers these risks in the context of the proportion of assets invested.

5. Investment Strategy

Given the investment objectives, the Trustee has determined, based on expert advice from Mercer, a benchmark mix of asset types and ranges within which the investment manager will be able to operate with discretion. These guidelines are set out in Section 6.

6. Day to Day Management of the Assets

6.1 Main Assets

Day to day management of the assets, including selection, retention and realisation, is delegated to a professional investment manager who is regulated by the FCA. The investment manager has full discretion to buy and sell investments on behalf of the Scheme subject to agreed constraints and applicable legislation. The Trustee has taken steps to satisfy itself that the investment manager has the appropriate knowledge and experience for managing the Scheme's investments and is carrying out its work competently.

The Scheme holds units in pooled funds operated by Legal & General Assurance (Pensions Management) Limited. This is an insurance company carrying out long term business as defined by the Insurance Companies Act 1982. They delegate the management of the assets to Legal & General Investment Management Limited ("L&G") who are authorised and regulated by the Financial Conduct Authority ("FCA"). Policy documentation has been put in place to establish the relationship between L&G and the Trustee.

6.1.1 Asset Allocation and Investment Performance Benchmark

The benchmark strategy is summarised in the following table.

Asset Class	Benchmark Allocation (%)	Control Ranges (+/-%)
Growth Portfolio	**60.0**	**3.00**
UK Equity	3.0	0.50
North America Equity*	3.0	0.50
Europe (ex UK) Equity*	3.0	0.50
Japan Equity*	1.5	0.50
Asia Pacific (ex Japan) Developed Equity*	1.5	0.50
Emerging Markets Equity	6.0	0.75
Global Equity	12.0	1.00
Diversified Growth	30.0	3.00
Defensive Portfolio	**40.0**	**3.00**
UK Fixed-Interest Gilts	4.0	0.50
UK Index-Linked Gilts	4.0	0.50
UK Index-Linked Gilts (over 5 year)	20.0	1.50
Corporate Bonds	12.0	1.00
Total	**100.0**	**-**

** 50% currency hedged to Sterling.*

The objectives for each of the underlying investment funds are summarised in the following table. For passively managed funds, the tracking error indicates the maximum expected deviation from the benchmark index return in two years out of every three.

Fund	Benchmark Index	Performance Objective
UK Equity Index (5% capped)	FTSE All Share (5% capped)	Match the benchmark to within a tracking error of 0.25% p.a.
North America Equity Index	FTSE World North America	Match the benchmark to within a tracking error of 0.5% p.a.

Fund	Benchmark Index	Performance Objective
North America Equity (Hedged) Index	FTSE World North America – GBP Hedged	Match the benchmark to within a tracking error of 0.5% p.a.
Europe (ex UK) Equity Index	FTSE Developed Europe (ex UK)	Match the benchmark to within a tracking error of 0.5% p.a.
Europe (ex UK) Equity (Hedged) Index	FTSE Developed Europe (ex UK) – GBP Hedged	Match the benchmark to within a tracking error of 0.5% p.a.
Japan Equity Index	FTSE Japan	Match the benchmark to within a tracking error of 0.5% p.a.
Japan Equity Index (Hedged)	FTSE Japan – GBP Hedged	Match the benchmark to within a tracking error of 0.5% p.a.
Asia Pacific (ex Japan) Equity Index	FTSE Developed Asia Pacific (ex Japan)	Match the benchmark to within a tracking error of 0.75% p.a.
Asia Pacific (ex Japan) Equity Index (Hedged)	FTSE Developed Asia Pacific (ex Japan) – GBP Hedged	Match the benchmark to within a tracking error of 0.75% p.a.
World Emerging Markets Equity Index	FTSE AW All Emerging	Match the benchmark to within a tracking error of 1.5% p.a.
FTSE RAFI Developed 1000 Equity Index	FTSE RAFI Developed 1000	Match the benchmark to within a tracking error of 0.5% p.a.
Dynamic Diversified Fund	Bank of England Base Rate	Outperform the benchmark by 4.5% p.a. (gross of fees) over a full market cycle
2068 Gilt	Single Stock Treasury 3.50% 2068 Gilt	Match the benchmark
2068 Index-Linked Gilt	Single Stock Treasury 0.125% 2068 Index Linked Gilt	Match the benchmark
Over 5 Year Index-Linked Gilts Index	FTSE-A Over 5 Year Index Linked Gilts	Match the benchmark to within a tracking error of 0.25% p.a.
Active Corporate Bond – All Stocks	Markit iBoxx Sterling Non Gilts	Outperform the benchmark by 0.75% p.a. (gross of fees) over a rolling three year period

6.1.2 Investment Restrictions

L&G may only invest in the funds outlined in section 6.1.1.

7. Investment Consultant

The Trustee has appointed Mercer to provide advice upon request on all aspects of investment facing the Scheme, ranging from strategic advice to the selection and monitoring of investment managers. Mercer are typically remunerated on a time cost basis, i.e. reflecting the time spent on a particular issue. However, where it is possible to pre-determine the scale of a particular project, they will work to an agreed fixed fee.

8. Additional Assets

Assets in respect of member's additional voluntary contributions (“AVCs”) are either invested within the main funds of the Scheme (an option which is now closed to new AVC payees) or are invested in the Stakeholder arrangement. Historical arrangements exist with Utmost Life and Pensions (formerly Equitable Life).

9. Selection, Retention and Realisation of Investments

In general, the Scheme’s investment manager has discretion in the timing of selection, retention and realisation of investments and in considerations relating to the liquidity of those investments. Investments and withdrawals of monies are undertaken by the manager with a view to moving the allocation closer to the central benchmark outlined in section 6.1.1.

10. ESG, Stewardship (including Engagement Activities) and Climate Change

The Trustee believes that good stewardship and environmental, social and governance (“ESG”) issues may have a financially 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 Trustee also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration. The Trustee has taken into account the expected time horizon of the Scheme when considering how to integrate these issues into the investment decision making process.

The Trustee has given the appointed investment manager full discretion in evaluating ESG issues, including climate change considerations, and exercising voting rights and stewardship obligations attached to the Scheme’s investments.

The Scheme’s voting rights are exercised by its investment manager in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code. This applies to both equity and debt investments, as appropriate, and covers a range of matters including the issuers’ performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance.

The Trustee will monitor investment manager engagement activity (such as voting) at least annually.

The Trustee has not set any investment restrictions on the appointed investment manager in relation to particular products or activities, but may consider this in the future.

The Trustee will not consider the ESG policies of Additional Voluntary Contributions provider(s) and associated investment funds as these are a small proportion of total assets.

11. Non-Financial Matters and Risks

Non-financial matters (where “non-financial matters” includes members’ ethical views) are not explicitly taken into account in the selection, retention and realisation of investments. The Trustee would review this policy in response to significant member demand. The Trustee regularly update members via newsletters and by making a copy of the Statement of Investment Principles available on request.

12. Investment Manager Arrangements

Alignment of Investment Manager Objectives and Incentivisation

Investment managers are appointed based on their perceived capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics for the asset class or specific investment strategy they are selected to manage over a suitably long time horizon. This includes, in relation to active management, appropriate levels of outperformance, and in relation to passive management suitable levels of “tracking error” against a relevant benchmark.

The Trustee seeks expert advice in relation to these appointments. This advice may consider factors such as the manager’s idea generation, portfolio construction, implementation, business management, timeliness and quality of reporting, as well as the investment manager’s approach to ESG and engagement activity, as they apply to the specific investment strategy being considered.

In relation to pooled investment vehicles, the Trustee accepts that they have no ability to specify the risk profile and return targets of the manager other than through the choice of specific vehicles. They will therefore select vehicles that best align with the Trustee’s own policy in terms of investment objectives and guidelines (as set out in relevant governing documents) and, once appointed, will review the appointment should there be any material changes in these terms.

The Trustee makes appointments with the view to them being long term (to the extent this is consistent with the Trustees’ overall investment time horizon) and there is typically no set duration for the manager appointments. However, appointments can typically be terminated at relatively short notice (up to three months).

For each appointment retention is dependent upon the Trustee having ongoing confidence that the investment manager will achieve the mandated investment objective. The Trustee makes this assessment taking into account various factors, which includes performance to date as well as an assessment of future prospects.

Investment managers are therefore incentivised both to achieve the mandated objectives, consistent with the Trustee’s policies and objectives, and to ensure that they remain capable of doing so on a rolling basis. This encourages investment managers to take a suitably long term view when assessing the performance prospects of, and engaging with, the equity and debt issuers in which they invest or seek to invest.

Performance Assessment and Fees

The Trustee receives reporting on asset class and investment manager performance on a regular basis, via a combination of regular investment manager reports and presentations.

Investment returns are measured on both an absolute basis and relative to one or more suitable benchmarks and targets. Returns are considered net of fees and ongoing transaction costs.

As well as assessing investment returns the Trustee will consider a range of other factors, with the assistance of the investment advisor, when assessing investment managers, which may include:

- Personnel and business change;
- Portfolio characteristics (including risk and compatibility with objectives) and turnover;
- Voting and engagement activity;
- Service standards;
- Operational controls; and
- The advisor’s assessment of ongoing prospects based on their research ratings.

The majority of investment managers are remunerated by way of a fee calculated as a percentage of assets under management. In each case, the principal incentive is for the investment manager to retain their appointment (in full), by achieving their objectives, in order to continue to receive their fee in full. On some mandates, performance related fees may also be in operation. Performance related fees incentivise the manager to outperform their target as they take a share of the outperformance. The Trustee will consider introduction of performance related fees on a case by case basis where not in operation and would also consider requesting fee reductions. Investment managers are not remunerated based on portfolio turnover.

Portfolio Turnover Costs

Turnover costs arise from a) “ongoing” transactions within an investment manager’s portfolio and b) “cashflow” costs incurred when investing in or realising assets from a mandate.

The Trustee has not historically monitored investment managers’ ongoing transaction costs explicitly but measure these implicitly through ongoing performance assessments which are net of these costs. The Trustee will now seek explicit reporting on ongoing costs for all appointed managers.

The Trustee does not monitor regular cashflow costs (but seek to minimise them through ongoing cashflow policy). The Trustees monitor the costs of implementing strategic change via the investment consultant.

13. Compliance with this Statement

The Trustee will monitor compliance with this Statement annually.

14. Review of this Statement

The Trustee will review this Statement in response to any material changes to any aspects of the Scheme, its liabilities, finances and the attitude to risk of the Trustee and the Company which it judges to have a bearing on the stated Investment Policy.

This review will occur no less frequently than every three years to coincide with the Actuarial Valuation. Any such review will again be based on written, expert investment advice and will be in consultation with the Company.

Franke Sissons Pension Trustees Limited, Trustee of the Franke Sissons Limited Pension Scheme

September 2020