Britvic Northern Ireland Pension Plan

Statement of Investment Principles

August 2020

Table of Contents

1. Introduction

1.1 Plan background

- This Statement of Investment Principles (the “Statement”) details the principles governing investment decisions for the Trustee of the Britvic Northern Ireland Pension Plan (the “Plan”).
- The Plan:
  - operates for the exclusive purpose of providing retirement and death benefits to eligible participants and beneficiaries.
  - provides benefits calculated on a defined benefit basis (with additional voluntary contributions (“AVCs”) payable where applicable).
  - is closed to new entrants.
- Buck is the investment consultant to the Plan’s Trustee.

1.2 Statement structure

This Statement is divided into two main sections as follows:

- **Statutory Section:** This section covers the requirements of and the Plan’s compliance with the provisions of the Pensions (Northern Ireland) Order 1995 and 2004 as amended by the Occupational Pension Schemes (Investment) Regulations 2005.
- **Myners Section:** This section includes additional non-statutory information that was recommended by the Myners Principles and are now included in a strengthened Statement.

2. Statutory Information

2.1 Introduction

- This section of the Statement covers the requirements of the Pensions (Northern Ireland) Order 1995 and 2004 as amended by the Occupational Pension Schemes (Investment) Regulations 2005. In accordance with section 35 of the Pensions (Northern Ireland) Order 1995, the Trustee has reviewed and considered written advice from the investment consultant prior to the preparation of this Statement and has consulted the Sponsoring Employer.

- The Trustee has full regard to its investment powers under the Trust Deed and Rules and the suitability of the various types of investments, the need to diversify, the custodianship of assets and any self-investment. The Trustee has set a long-term target asset allocation policy such that the UK's legislative maximum self-investment level of 5% of the Plan's assets has not been breached.

- The investment manager will prepare detailed quarterly reports on its activities and the Trustee will meet with them as and when required.

- This Statement will be reviewed periodically or whenever changes to the investment strategy or investment manager arrangement are necessary. Any changes to this Statement will be undertaken following advice from the investment consultant, as will any removal/appointment of the investment manager.

- All of the Plan's investment decisions are under the control of the Trustee, with no constraint by the Sponsoring Employer.

- The Trustee will examine regularly whether additional investment training is desirable for any individual Trustee.

2.2 Statutory requirements

- This part of the Statement details the Trustees' policy to secure compliance with the requirements of sections 35 and 36 of the Pensions (Northern Ireland) Order 1995.

2.2.1 Investment objectives and suitability of investments

- The Trustees' agreed investment strategy is based on an understanding of the Plan's liability profile, the required investment return and the returns expected from the various asset classes over the long-term. Long-term returns from the growth assets (diversified growth etc.) are expected to exceed the returns from bonds and cash, although returns are expected to demonstrate higher volatility.

- The Trustee is prepared to accept this higher volatility in order to aim to achieve the overall investment objectives.

- The Trustee's primary objectives are to:
  - target a funding level of 100% on an ongoing basis; and
  - achieve this target by taking an acceptable level of risk.
- Secondary objectives are to:
  - achieve a return on the Plan's total assets which is compatible with the level of risk considered appropriate; and
  - pay due regard to the Sponsoring Employer's interest in the size and incidence of contribution payments.
- The Trustee has translated its objectives into a suitable strategic asset allocation benchmark and control ranges.
- In accordance with the Financial Services & Markets Act 2000, the Trustee is responsible for setting the general investment policy, but the responsibility for all day-to-day investment management decisions has been delegated to the investment manager authorised under the Act.
- The Trustee considers its current strategic asset allocation to be consistent with the current financial position of the Plan. This judgement will be updated with reference to the Technical Provisions set out in the Plan's Statement of Funding Principles.

2.2.2 Diversification

- The Trustee, after seeking appropriate investment advice, has selected a strategic asset allocation benchmark.
- Subject to its respective benchmarks and guidelines the investment manager has been given full discretion over the choice of stocks and is expected to maintain a diversified portfolio.
- The Trustee is satisfied that the investments selected are consistent with its investment objectives, particularly in relation to diversification, risk, expected return and liquidity.
- Given the size and nature of the Plan, the Trustee has decided to invest on a pooled fund basis.
- The Trustee is satisfied that the range of pooled vehicles in which the Plan's assets are invested provides adequate diversification.

2.2.3 Balance between different kinds of investments

- The appointed investment manager will hold a diversified mix of investments within each major market invested, i.e., the manager will maintain a diversified portfolio of stocks, bonds and other investments within pooled vehicles.

2.2.4 Risk

- The Trustee considers the main risk to be that of the assets being insufficient to meet the Plan's liabilities as they fall due. The Trustee has assessed the likelihood of future undesirable financial outcomes arising in the future.

- The investment strategy has been determined in light of achieving an excess of the value of the assets over the value placed on the Plan's liabilities and of the need to avoid undue volatility of contribution rates.

- Although the Trustee acknowledges that the main risk is that the Plan will have insufficient assets to meet its liabilities, the Trustee recognises other contributory risks, including the following. The risk:

  – associated with the differences in the sensitivity of asset and liability values to changes in financial and demographic factors;

  – of the Plan having insufficient liquid assets to meet its immediate liabilities;

  – of the investment manager failing to achieve the required rate of return;

  – due to the lack of diversification of investments; and

  – of failure of the Plan's Sponsoring Employer.

- The Trustee manages and measures these risks on a regular basis via actuarial and investment reviews, and in the setting of investment objectives and strategy.

- Monitoring of the investment managers' performance against its targets and objectives on a regular basis is undertaken by the Trustee.

- The Trustee provides a practical constraint on Plan investments deviating greatly from the Trustee's intended approach by adopting a specific asset allocation benchmark.

- The Trustee has a legal agreement with its investment manager, which details the specific performance targets. Within each asset class, the investment managers are expected to maintain a portfolio of securities, which ensures that the risk being accepted in each market is broadly diversified.

- Some divergence of the actual distribution of the investments from the benchmark weighting is to be expected and the extent of this divergence will be monitored from time to time.

2.2.5 Expected return on investments

- The investment strategy is believed to be capable of exceeding, in the long-run, the overall required rate of return as set out in the Scheme Actuary's published actuarial valuation report.

2.2.6 Kind of investments to be held

- The Plan may invest in quoted and unquoted securities of UK and overseas markets including, for example, equities, property, corporate bonds and fixed and index-linked gilts, via pooled investment vehicles that are considered to be appropriate for tax-exempt registered occupational pension schemes. The Trustee has considered the attributes of the various asset classes. These attributes being:

  – security (or quality of the investment)

  – yield (expected long-term return)

  – spread (or volatility) of returns

  – term (or duration) of the investment

  – exchange rate risk

  – marketability/liquidity (i.e., the tradability on regulated markets)

  – asset class correlations

  – leverage

  – taxation

2.2.7 Realisation of investments

- In the event of an unexpected need to realise all or part of the assets within the portfolio, the Trustee requires the investment managers to be able to realise the Plan's investments within a reasonable timescale by reference to the market conditions existing at the time the disposal is required and subject to the best interests of the Plan. The majority of the assets are not expected to take an undue time to liquidate.

2.2.8 Financially material considerations

- The Trustee expects its investment manager, where appropriate, to have taken account of financially material considerations, including environmental, social and governance (ESG) factors as part of its investment analysis and decision-making process.

- The Trustee reviews the investment manager's policies in respect of financially material considerations annually and is satisfied they are consistent with the above approach.

2.2.9 Non-financial matters

- The Trustee's objective is that the financial interests of the Plan members is its first priority when choosing investments. The Trustee will take members' preferences into account if they consider it appropriate to do so.

2.2.10 Stewardship in relation to the Plan's assets

- The Trustee has a fiduciary duty to consider its approach to the stewardship of the investments, to maximise financial returns for the benefit of members and beneficiaries over the long term. The Trustee can promote an investment's long-term success through monitoring, engagement and/or voting, either directly or through its investment manager.

2.2.11 Engagement and monitoring

- The Trustee's policy is to delegate responsibility for engaging and monitoring investee companies to the investment manager and expects the investment manager to use its discretion to maximise financial returns for members and others over the long term.

2.2.12 The Trustee's policy in relation to its investment manager

In detailing below the policies on the investment manager arrangements, the over-riding approach of the Trustee is to select investment managers that meet the primary objectives of the Trustee. As part of the selection process and the ongoing review of the investment manager, the Trustee consider how well each investment manager meets the Trustee's policies and provides value for money over a suitable timeframe.

- How the arrangement incentivises the investment manager to align its investment strategy and decisions with the trustee's policies

  The Trustee has delegated the day to day management of the Plan's assets to the investment manager. The Plan's assets are invested in pooled funds which have their own policies and objectives and charge a fee, agreed with the investment manager, for their services. Such fees incentivise the investment manager to adhere to their stated policies and objectives.

- **How the arrangement incentivises the investment manager to engage and take into account financial and non-financial matters over the medium to long-term**

  The Trustee, in conjunction with its investment consultant, appoints its investment manager to meet specific Plan policies. It expects that its investment manager makes decisions based on assessments about the financial and non-financial performance of underlying investments, and that they engage with issuers of debt or equity to improve their performance (and thereby the Plan's performance) over an appropriate time horizon.

The Trustee also expect its investment manager to take non-financial matters into account as long as the decision does not involve a risk of significant detriment to members' financial interests.

- **How the method (and time horizon) of the evaluation of the investment manager's performance and the remuneration for asset management services are in line with the trustee's investment policies**

  The Trustee expects its investment manager to invest the assets within their portfolio in a manner that is consistent with the guidelines and constraints set out in their appointment documentation. The Trustee reviews the investment manager periodically. These reviews incorporate benchmarking of performance and fees. Reviews of performance focus on longer-term performance (to the extent that is relevant), e.g. looking at five years of performance.

  If the Trustee determines that the investment manager is no longer managing the assets in line with the Trustee policies it will make its concerns known to the investment manager and may ultimately disinvest.

  The Trustee pays its investment manager a management fee which is a fixed percentage of assets under management.

  Prior to agreeing a fee structure, the Trustee, in conjunction with its investment consultant, consider the appropriateness of this structure, both in terms of the fee level compared to that of other similar products and in terms of the degree to which it will incentivise the investment manager.

- **How the trustee monitors portfolio turnover costs incurred by the investment manager, and how they define and monitor targeted portfolio turnover or turnover range**

  The Trustee, in conjunction with its investment consultant, has processes in place to review investment turnover costs incurred by the Plan on an annual basis. The Trustee receive a report which includes the turnover costs incurred by the investment manager used by the Plan.

  The Trustee expects turnover costs of the investment manager to be in line with its peers, taking into account the style adopted by the investment manager, the asset class invested in and prevailing market conditions.

  The Trustee does not explicitly monitor turnover, set target turnover or turnover ranges. The Trustee believes that the investment manager should follow its stated approach with a focus on risk and net return, rather than on turnover. In addition, the individual mandates are unique and bespoke in nature and there is the potential for markets to change significantly over a short period of time.

- **The duration of arrangements with investment managers**

The Trustee does not in general enter into fixed long-term agreements with its investment manager and instead retains the ability to change investment manager should the performance and processes of the investment manager deviate from the Trustee's policies. However, the Trustee expects its manager appointments to have a relatively long duration, subject to the manager adhering to its stated policies, and the continued positive assessment of its ability to meet its performance objective.

2.2.13 Voting rights

- The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment manager and to encourage the manager to exercise those rights. The investment manager is expected to provide regular reports for the Trustee detailing its voting activity.

2.2.14 Additional assets

- The Trustee has the following AVC providers available for its members:

AVC Providers
Clerical Medical
Utmost

- The Trustee will monitor the performance of AVC providers periodically.
- Members are directed to seek independent financial advice when considering their AVC arrangements.

3. Myners Principles

3.1 Introduction

The original Myners review of “Institutional Investing in the UK” was published in March 2001. It included a set of 10 Principles that pension scheme trustees were recommended to use when considering their investment strategy for defined benefit pension schemes and 11 Principles for defined contribution pension schemes. The Government endorsed the report with some minor modifications on 2 October 2001. Pension scheme trustees were asked to comply with the Principles on a voluntary basis. The Myners Principles were subsequently reviewed in October 2008; the explicit requirement to include certain items in a strengthened Statement was removed and replaced with a requirement for trustees to act in a transparent and responsible manner. By making the following statements the Trustee believes it is complying with the spirit of these principles.

3.2 Responsible ownership

Details of the responsibility for the exercising of rights (including voting rights) attaching to the Plan’s investments are included in Section 2.2.12.

3.3 Transparency & reporting

The Trustee has discretion over the form of reporting it wishes to undertake. This Statement provides the following details of the Trustee’s investment approach:

- Who is taking which decisions and why has the structure been selected?

  Details of the Trustee’s decision making structure are included in Section 2.1.

- What is the Trustee’s investment objective?

  Details of the Trustee’s investment objective are included in Section 2.2.1.

- What is the Trustee’s asset allocation strategy, and how the strategy has been selected?

  The strategy was determined after taking advice from the investment consultant at the time and consultation with the Sponsoring Employer.

- What are the mandates given to all advisers and investment manager?

  The responsibilities of the Trustee, the investment consultant and the investment manager are outlined in Section 3.4.

- What is the nature of the fee structures in place for all advisers and managers; and why this set of structures has been selected?

The Trustee has discussed and agreed these fees following consultation with its advisers, where appropriate, and believes they are reasonable for the services they receive.

3.4 Appointments & responsibilities

3.4.1 Trustee

The Trustee's primary responsibilities regarding investments include:

- Preparation of the Statement and reviewing the content of the Statement and modifying it if deemed appropriate, in consultation with the Sponsoring Employer and the investment consultant, at least every three years. The Statement will also be reviewed following a significant change to investment strategy and/or the investment manager arrangements.

- Appointing an investment consultant and investment manager(s) as necessary for the good stewardship of the Plan's assets.

- Reviewing the investment strategy following the results of each triennial actuarial valuation, and/or asset liability modelling exercise, and/or significant changes to the Plan's liabilities, taking advice from the investment consultant and the Scheme Actuary.

- Assessing the processes (and therefore the performance) of the investment manager by means of regular reviews (including investment performance).

- Monitoring compliance of the investment arrangements with this Statement on a regular basis.

- Monitoring risk and the way in which the investment manager has cast votes on behalf of the Trustee in respect of the Plan's equity holdings.

3.4.2 Investment consultant

The main responsibilities of the investment consultant include:

- Assisting the Trustee in the preparation and periodic review of this Statement in consultation with the Sponsoring Employer.

- Undertaking project work including reviews of the investment strategy, investment manager structure and performance as required by the Trustee.

- Advising the Trustee on the selection and review of investment managers.

- Monitoring and advising upon where contributions should be invested/divested on a periodic basis.

3.4.3 Investment manager

The investment manager’s main responsibilities include:

- Investing assets in a manner that is consistent with the objectives set.
- Ensuring that investment of the Plan’s assets is in compliance with prevailing legislation and within the constraints detailed in this Statement.
- Providing the Trustee with quarterly reports including any changes to its investment process and a review of the investment performance.
- Attending meetings with the Trustee as and when required.
- Informing the Trustee of any changes in the fee structure, senior investment professionals, internal performance objectives and guidelines of any pooled fund used by the Plan as and when they occur.
- Exercising voting rights on share holdings in accordance with its general policy.

3.4.4 Custodians

- The custodianship arrangements are those operated by the investment manager for all clients investing in its pooled funds.

3.4.5 Administrators

- The Plan’s administration is carried out by Buck.

3.4.6 Scheme Actuary

The Scheme Actuary’s main responsibilities in respect of investment policy include:

- Commenting on the suitability of the Plan's investment strategy given the financial characteristics of the Plan.
- Performing the triennial (or more frequently as required) actuarial valuation and advising on the Plan’s funding level and therefore the appropriate level of contributions in order to aid the Trustee in balancing short-term and long-term investment objectives.

3.5 Performance monitoring

- Each of the vehicles in which the Plan invests has a stated performance objective by which the performance is measured
- The investment manager is expected to provide written reports to the Trustee on a quarterly basis
- The Trustee will review the performance of the appointed investment manager from time to time

Signed on behalf of Independent Trustee Services Ltd, the Trustee of the Britvic Northern Ireland Pension Plan

Approved by the Trustee on 10 September 2020