Tomkins 2008 Pension Scheme (“the Scheme”)

STATEMENT OF INVESTMENT PRINCIPLES IN RESPECT OF THE DEFAULT INVESTMENT OPTIONS FOR THE DC SECTION

1. Introduction

1.1 The Trustee of the Scheme has drawn up this Statement of Investment Principles (“the Statement”) in respect of the default investment options to comply with the requirements of the Pensions Act 1995, as amended by the Pensions Act 2004, the Occupational Pension Schemes (Investment) Regulations 2005, as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015; and subsequent legislation (as at the date of publication), relating to provision of information specific to default investments, referred to as the “Default Arrangement”. This should be read in conjunction with the main Statement.

1.2 In considering 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).

1.3 The Default Arrangements covered by this Statement are:

- Lifestyle - DC Members with DB Benefits
- Lifestyle - DC Only Members

2. Principles

2.1 The Trustee recognises that many members do not consider themselves competent to take investment decisions. The Trustee has made available default arrangements that cover the two different types of members with defined contribution benefits that are covered by the Scheme.

2.2 Unless members make a specific request for their contributions to be invested in a different manner, they are invested in the relevant Default Arrangement.

3. Both strategies have two phases: the accumulation phase and the consolidation phase. When a member is younger, their account is invested in funds that aim for long-term growth (accumulation phase) in excess of inflation. As the member approaches retirement, their account is switched automatically into lower risk, lower growth funds (consolidation phase) that aim to provide greater stability by targeting the purchase of an annuity and the withdrawal of cash. Risk is considered relative to expected short-term changes in annuity prices in the consolidation phase.

3.1 There are two default arrangements.

- *For members who have not accrued DB benefits in the Main Section,* the Default Arrangement is a lifestyle strategy which automatically moves members’ assets from growth seeking assets to index linked gilts and cash.
- *For members who have accrued DB benefits in the Main Section*, the default is a lifestyle strategy, which automatically moves their assets from growth seeking assets to cash.

4. Default Arrangement

Objectives

4.1 The aims of the Default Arrangements and the ways in which the Trustee seeks to achieve these aims are detailed below:

- To generate returns in excess of inflation during the accumulation phase of the strategy whilst managing downside risk.

  At the time of writing, the Default Arrangement's accumulation phase invests 100% of members' assets in a fund comprised wholly of global equities, and this exposure is expected to provide long-term growth in excess of inflation.

- To provide a strategy that reduces investment risk for members as they approach retirement, relative to the targeted retirement destination.

  The Trustee believes that a strategy that seeks to reduce investment risk as the member approaches retirement is appropriate to protect the level of savings built up as a fall in markets will have a greater impact on member outcomes at this stage. Moreover, as members approach retirement, the Trustee believes the primary aim should be to provide protection against a mismatch between asset values and the changes in values of the assets that the different types of members are expected to take at retirement.

  The two Default Arrangements therefore aim to reduce volatility near retirement via automated switches over a 10 year period to a member's selected retirement date.

  Investments are gradually switched from a growth oriented fund (the BlackRock Aquila Global Equity (50:50) Fund), into a lower risk / return exposure:

  - *provided by the Royal London Index Linked Gilt and the Royal London Deposit Fund for the option for DC only members.*
  - *provided by the Royal London Deposit Fund for the option for DC members with DB benefits.*

- To provide exposure at retirement to assets that are broadly appropriate for an individual planning to use their savings in the Scheme to:

  - buy an (index-linked) annuity and to take a 25% tax-free cash lump sum at retirement if they are a DC only members
  - take cash only at retirement, if they are a DC member with DB benefits.

  If a member is a DC only member, at the member's selected retirement date, 75% of the member's assets will be invested in index-linked gilts and 25% in cash and money market instruments.

  If a member is a DC member with DB benefits, at the member's selected retirement date, 100% of the member's assets will be invested in cash and money market instruments

Policies in relation to the Default Arrangements

4.2 The Trustee's policies in relation to the Default Arrangements are:

- The Default Arrangements manages investment risks through a diversified allocation within equity markets, spread geographically across the main developed markets. Section 4 provides further information on the Trustee's risk policies in relation to the Default Arrangements.

- In designing the Default Arrangements, the Trustee has considered the trade-off between expected risk and return. This policy is reviewed regularly to ensure that the design remains appropriate for members and reflects developments in the market.

- The Trustee has also taken into account the needs of members with regards to security, quality, liquidity and profitability of a member's portfolio as a whole. The Trustee has designed the Default Arrangements taking account of the underlying assets.

- If members wish to, they can opt to choose their own investment options at any time from a range that has been agreed by the Trustee. The Trustee monitors performance of the components of the Default Arrangements, relative to objectives, albeit the Trustee will not provide advice to members on their individual choice of investment options.

- Assets in the Default Arrangements are invested in daily traded pooled funds which hold highly liquid assets. The pooled funds are commingled investment vehicles, which are managed by BlackRock and Royal London which are accessed via an investment platform provided by Royal London.

- The selection, retention and realisation of assets within the pooled funds are delegated to these managers in line with the mandates of the funds. They also have full discretion (within the constraints of their mandates) on the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments. Further details are set out in section 7.

- The structure of the Default Arrangements are shown in the table below:

For DC only members

Time to Retirement (years)	BlackRock Aquila Global Equity (50:50) Fund	Royal London Index Linked Gilts Fund	Royal London Deposit Fund
>10	100.0	0	0
9	90.0	7.5	2.5
8	80.0	15.0	5.0
7	70.0	22.5	7.5
6	60.0	30.0	10.0
5	50.0	37.5	12.5
4	40.0	45.0	15.0
3	30.0	52.5	17.5
2	20.0	60.0	20.0
1	10.0	67.5	22.5
0	0.0	75.0	25.0

For DC members with DB benefits

Time to Retirement (years)	BlackRock Aquila Global Equity (50:50) Fund	Royal London Deposit Fund
>10	100.0	0
9	90.0	10.0
8	80.0	20.0
7	70.0	30.0
6	60.0	40.0
5	50.0	50.0
4	40.0	60.0
3	30.0	70.0
2	20.0	80.0
1	10.0	90.0
0	0.0	100.0

5. Policies with Regards to Risk

5.1 In determining the Default Arrangements, the Trustee has considered financially material risks from a number of perspectives. These include:

- *Investment return risk* – the risk that investment returns over members' working lives will not keep pace with inflation and the member's account does not, therefore, secure an adequate pension.

  The Trustee has sought to reduce this risk by investing in a growth-oriented fund during the accumulation phase.

- *Capital risk* – the risk of a fall in value of the members' funds.

  The Default Arrangements include an element of de-risking in the approach to retirement.

- *Inflation risk* - the risk of investment returns not keeping pace with inflation.

  Within the Default Arrangements the growth phase is invested in a global equity fund, which is expected to achieve a real rate of return over both price inflation and earnings growth in the long term. Towards retirement the DC Only Default Arrangement switches into an index-linked gilt fund, in which income received from underlying bonds is explicitly linked to inflation.

- *Manager risk* – the risk that the decisions taken by an investment manager may have a detrimental impact on the returns of a fund.

  The Trustee has sought to reduce this risk by investing in a passively managed equity fund which attempts to replicate rather than outperform market returns.

- *Annuity conversion risk* – the risk that, as the cost of an annuity rises, the value of the investment fund that will be used to purchase the annuity does not change by an equal amount. The cost of purchasing a pension is closely linked to the value of long term bonds.

  The Trustee has sought to reduce this risk by switching member funds gradually into an index-linked gilts fund in the run up to retirement.

- *Environmental, social and governance ("ESG") risk*, including climate change, may significantly affect the investment returns and risk of certain asset classes.

  The Trustee's policy on ESG risks are set out in Section 7.

6. Suitability of Default Arrangements

6.1 Based on their understanding of the Scheme's membership, the Trustee believes that the above objectives and policies reflect members' best interests. The rationale underpinning this belief is as follows:

- The Trustee believes that most members save into a pension plan either:

  - to achieve a stable income in retirement that will provide real long term growth and enable them to access a secure income in retirement. The targeting of an annuity purchase at retirement during the consolidation phase is aligned with that objective.

    or

  - to take cash to supplement other benefits, particularly where they have built up DB benefits. The targeting of a cash holding at retirement during the consolidation phase is aligned with that objective.

Almost all members withdraw some cash at retirement. Inclusion of the Royal London Deposit Fund within the Default Arrangements addresses this requirement.

6.2 The policy of the Trustee is to monitor members' decisions and other inputs from time to time to ensure that the Default Arrangements remain suited to their needs. They will also review the investment choices available to members to ensure that those who regard the Default Arrangements as unsuited to their needs have suitable alternative investment funds to select from.

7. Environmental, Social and Governance considerations

7.1 The Trustee believes that good stewardship and ESG issues, including climate change, may have a 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 recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

7.2 As all of the DC assets within the Default Arrangements are managed in pooled funds, the Trustee accepts that the assets are subject to the investment managers' own policies when evaluating ESG issues, including climate change, and in exercising rights and stewardship obligations attached to the funds within the Default Arrangements.

7.3 Similarly, the Trustee accepts that any voting rights attached to the funds are exercised by the investment managers in accordance with their own corporate governance policies and taking account of current best practice including the UK Corporate Governance Code and UK Stewardship Code.

7.4 Following the DWP's consultation response and outcome regarding Implementation Statements on 17 June 2022 updated guidance was produced which is effective for all scheme year-ends on or after 1 October 2022. It requires trustees to include a description of what they believe to be a significant vote within the Implementation Statement. The Trustee agreed to the proposed areas below of focus for the Scheme:

- **Environmental:** Climate change and Pollution & natural resource degradation
- **Social:** Human rights
- **Governance:** Diversity, Equity and Inclusion (DEI)

7.5 Equity managers who are authorised in the UK are expected to report to their adherence to the UK Stewardship Code on an annual basis.

7.6 The DC Only Default Arrangement makes use of an index-linked gilt and cash deposit fund, where ESG issues have little relevance to risk control.

7.7 The Trustee considers how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring existing investment managers within the Default Arrangements. The Trustee will consider the ESG ratings provided by Mercer and how each investment manager embeds ESG factors into its investment process. A change in ESG rating (or lack of ESG rating) does not mean that the fund will be removed or replaced automatically.

7.8 The Trustee does not take into account members' or beneficiary views on "non-financial matters" (such as their ethical views) in the selection, retention or realisation of investments within the Default Arrangements.

8. Policies in relation to Illiquid Assets

8.1 The Trustee consider illiquid assets as assets of a type which cannot easily or quickly be sold or exchanged for cash; including where such assets are invested as a component of a daily-dealing multi-asset fund. The Scheme's Default Arrangements includes no direct allocation to illiquid investments or to investments via a collective investment scheme.

8.2 The Trustee understand the potential for higher returns and benefits of diversification benefits relative to more traditional asset classes (such as bonds or equities) that illiquid assets can offer. While these potential benefits are recognised by the Trustee, they are also aware of the risks of illiquid assets to members. Given the potential for valuations of illiquid assets to not reflect their true value at a given time, as well as concerns over liquidity management and platform compatibility; the Trustee consider direct investment into an illiquid asset fund as not currently suitable for members of the Plan. Moreover, the overall strategy of the Plan continues to be reviewed by the Company and Trustee and as such a direct investment in illiquid asset funds with initial 'lock-in' periods is not feasible at this time. The Trustee remain comfortable with the funds used in the default, and annually assess whether the funds used provide value for members.

8.3 In selecting investments for the Default Arrangements, the Trustee use both qualitative and quantitative analysis to consider the expected impact of different strategic allocation mixes. For any future investment, the Trustee carefully consider whether the investment provides value for members, taking account of the return potential and associated risks. It is the Trustee's policy to review the allocation of the default investment strategy on at least a triennial basis. Such reviews will include whether the incorporation of illiquid asset investments is appropriate.

9. Manager Arrangements

9.1 Please refer to section 9 of the main Statement of Investment Principles for the Tomkins 2008 Pension Scheme for the Trustee's policies on manager arrangements.

10. Policies in relation to the Additional Voluntary Contributions ("AVC") Default Arrangements

- In April 2018 the Department for Work and Pensions ("DWP") amended the Occupational Pension Schemes (Charges and Governance) Regulations 2015, effective from 6 April 2018. In particular, the DWP's guidance in association with new regulations clarified the government's policy in relation to default investment arrangements in the receiving scheme when a member with self-select funds is mapped into new funds which most closely reflect their original choice. This applies when mapping member savings between arrangements but also to in-scheme changes.

- For the purposes of consolidation of assets, unit linked AVC assets held with Aviva and Standard Life were mapped across to Royal London (the incumbent manager of the assets in respect of the Pegler Defined Contribution section of the Scheme). Namely, the assets were mapped across to the Royal London Managed Pension Fund and RLP/BlackRock Aquila Global Equity Index (50:50) Fund. As this transfer mapped member's assets across to new funds without members' consent, these funds have become additional default options.

- Following the changes to Equitable Life, members' AVC Assets held with Equitable Life are now invested with Royal London, namely the Royal London Managed Pension Fund and the RLP Deposit Fund. As this transfer mapped member's assets across to new funds without members' consent, these funds have become additional default options.

- Fund details and the fund objectives for the additional defaults created are listed in the table below. The Total Expense Ratios provided are as at 31 March 2023 and are equal to the Annual Management Charge of the funds. All funds comprise of an annual charge of 1%, rebated by bonus units of 0.48%, resulting in a TER of 0.52% p.a.

Fund	Investment Style	Benchmark	Fund Objective	Total Expense Ratio (p.a.)
RLP Managed	Active	27.5% FTSE All Share Index	To maximise 'real returns' over a ten-year period	0.52%
		27.5% FTSE All World (ex UK) Index		
		15% ABI UK - UK Direct Property Sector Average		
		5% Bloomberg Commodity Index		
		2.5% BofA Merrill Lynch Global Non-Financial High Yield Constrained Index		
		5% various Markit iBoxx Sterling Non Gilts Indices		

Fund	Investment Style	Benchmark	Fund Objective	Total Expense Ratio (p.a.)
		5% various FTSE A (Index Linked) British Government Gilts indices		
		5% various FTSE A British Government Gilt indices		
		7.5% LIBID GBP 7 Days Index		
RLP Deposit	Active	LIBID 7 Days Index	To outperform its benchmark	0.52%
RLP/BlackRock Aquila Global Equity Index (50:50)	Passive	50% FTSE All Share Index	To track its benchmark	0.52%
		16.5% FTSE AW Europe ex UK Index		
		16.5% FTSE USA Index		
		8.5% FTSE AW Developed Asia Pacific ex Japan Index		
		8.5% FTSE Japan index		

The following applies to the default options as specified:

Overall Trustee's Aims and Objectives

To provide members with a fund that is a suitable replacement, having considered expected risk and return, for one that has been removed previously either on a permanent or temporary basis.

The realisation of investments

The Trustee has considered these manager and mandate appointments noting that the selection, retention and realisation of assets within the pooled funds are delegated to the respective investment manager in line with the mandates of the funds.

Risk in relation to the Additional Default Options

The Trustee has explicitly considered the trade-off between risk and expected returns for the funds offered to members. Risk is not considered in isolation, but in conjunction with expected investment returns and retirement outcomes for members.

With regards to the funds that are classified as additional defaults, the Trustee considers the liquidity of the investments in the context of the likely needs of members. The Trustee has considered risks from a number of perspectives. The principal risks that members face are listed in Section 5 of this Statement.

The risks and financially material considerations identified by the Trustee in Section 7 of this Statement and the Trustee's policy in relation to the managers used by Scheme as outlined in Section 8 of this Statement are also applicable to the Additional Default Options.

11. Review of this Statement

11.1 The Trustee will review this Statement at least once every three years and without delay after any significant change in investment policy or Scheme demographics. Any change to this Statement will only be made after 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.

Signed by: Christopher Clayron

Date: 23rd September 2024