Road Haulage Association Retirement Benefits Plan

Statement of Investment Principles

September 2019

Contents

1. Introduction

Under the Pensions Act 1995, trustees are required to prepare and review regularly a Statement of Investment Principles, dealing with certain specific matters.

In this document, “Trustees” refers to the trustees of the Road Haulage Association Retirement Benefits Plan (“the Scheme”).

This statement sets out the principles governing decisions about the investment of the assets of the Scheme. Before preparing it, the Trustees have obtained and considered written professional advice from Barker Tatham Investment Consultants Limited as their investment consultants. Prior to finalising the document, they have also consulted with the sponsoring employer.

The Trustees review this Statement on a regular basis and will also do so in response to any material changes to the investment arrangements of the Scheme. Formal reviews will be undertaken no less frequently than every 3 years to coincide with the Actuarial Valuations. Any such review will again be based on written expert investment advice and will be in consultation with the Scheme’s sponsoring employer, the Road Haulage Association.

Signed for and on behalf of The Trustees of the Road Haulage Association Retirement Benefits Plan.

Signed: …………………………………………… Date: …………………………………

2. Decision Making

The Trustees distinguish between two types of investment decision:

Strategic investment decisions

These decisions are long-term in nature, and driven by an understanding of the objectives, needs and liabilities of the Scheme.

The Trustees take all such decisions themselves. Where appropriate this is after receiving written advice from their investment consultant, and consulting, as appropriate, with the employer.

Examples of such decisions include:

- **setting investment objectives;**
- **setting strategic asset allocation;**
- **setting benchmarks;**
- **drafting the Statement of Investment Principles; and**
- **appointing and removing fund managers.**

Work is charged for either by an agreed fee or on a time cost basis. In particular the investment consultant does not receive commission or any other payments in respect of the Scheme that might affect the impartiality of their advice. The Trustees believe that this is the most appropriate fee structure for the Scheme.

Tactical investment decisions

Tactical investment decisions are based on views of future market movements.

The Trustees employ fund managers to make such judgements, and do not interfere with their decisions. Examples of such decisions include:

- **selecting individual stocks;**
- **temporarily deviating from the strategic asset allocation to take advantage of better market opportunities; and**
- **timing of entry or exit from a market.**

Each investment manager is remunerated by ad valorem charges based on the value of assets managed on behalf of the Scheme. The Trustees believe that this is the most appropriate fee structure for the Scheme.

The fund managers used by the Trustees are authorised and regulated by the FCA. The investment consultant is regulated by the Institute and Faculty of Actuaries.

3. Investment Objectives

The Trustees' overall investment policy is guided by the following objectives:

1. The most serious risk from an investment perspective is a deterioration in the funding level as calculated in the triennial actuarial valuation (as this could impact the deficit recovery plan and necessitate additional contributions from the sponsor).

2. The funding level in percentage terms is more important in this regard than the deficit/ surplus in monetary terms.

3. The Trustees assess their appetite for risk as “5 out of 10” meaning slightly higher than the current risk level. This should be consistent with the overall aim of the Scheme as set by join trustee/company committee. The aim is to get to “self-sustaining” within 10 years.

4. Short term cashflows should be taken into account to avoid unnecessary transaction costs.

5. There is no specific need to take into account flexibility. (As far as the trustees are aware, there are no plans for major changes to the Scheme.)

6. Social, ethical and environmental issues need not be taken into account (over and above normal moral business practice and legislative requirements. This is covered on page 12 under ‘Responsible Investment and Corporate Governance).

4. Myners Investment Principles

The Trustees recognise the relevance to pension schemes of the Myners' Investment Principles that were published by the Government in October 2001 and updated in March 2008. The Scheme's adherence to (or otherwise) the Myners' Investment Principles is set out below.

Principle 1: Effective Decision-Making

"Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.

Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest."

- The Trustees make investment decisions by consulting with professionals that they feel are best equipped to give that advice. Long-term strategic investment decisions are made in consultation with the Scheme's investment consultant, whereas tactical decisions are made by the appropriate fund manager.

Principle 2: Clear Objectives

"Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers."

- The Trustees have formally reviewed their investment objectives with the assistance of their investment consultant.

- The investment objectives are explicitly stated in Section 3 of this document.

- The strength of the sponsor's covenant is reviewed on a regular basis.

- All the assets of the Scheme are invested via pooled funds. In each case, the fund manager has an explicit benchmark and outperformance target, as well as clear constraints within which to operate.

- The Scheme's overall investment objective is supported by the Scheme's Asset Liability Model.

Principle 3: Risk and Liabilities

"In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk."

- In reviewing the investment strategy, the Trustees commissioned an Asset Liability Model (ALM) from their investment consultant. This explicitly took account of the form and structure of the liabilities, as well as longevity risk.

- This ALM was used to find a strategy which best met the investment objectives of the Trustees. Those investment objectives were influenced by the strength of the sponsor covenant and the risk of sponsor default.

Principle 4: Performance Assessment

"Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisors. Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members."

- The Trustees currently receive:
  - quarterly performance reports from the fund managers;
  - annual audited accounts; and
  - quarterly investment monitoring reports from the investment consultants.

- The investment monitoring reports include an assessment of how successful the trustees' investment strategy has been in improving the funding position of the Scheme. The Trustees will report on this in their annual report to members and the annual summary funding statement.

Principle 5: Responsible Ownership

"Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents. A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles. Trustees should report periodically to members on the discharge of such responsibilities."

- The Trustees will request that their fund managers are signatories to the FRC UK Stewardship Code.

- The Trustees' policy on responsible ownership is described in Section 6 of this Statement of Investment Principles.

- The Trustees will report on the Scheme's policy on responsible ownership in their annual report to members and the annual summary funding statement.

Principle 6: Transparency and Reporting

"Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.

Trustees should provide regular communication to members in the form they consider most appropriate."

- Members are provided with annual summary funding statements, and also information on this is provided in the Scheme's annual report to members.

- A copy of this Statement of Investment Principles is available to members on request.

- Other documents such as actuarial valuation reports, the Statement of Funding Principles, the schedule of contributions and the annual report and accounts are also available to members on request.

- A representative from the employer regularly attends Trustees' meetings and this helps to ensure full communication with the employer over investment matters.

5 Implementation

The Trustees reviewed the Scheme's investment strategy in 2017 based on written advice from their investment consultants. Following this advice changes have been made to the investment managers implementing the growth allocation within the portfolio. These switches were made on the recommendation of the investment consultants. As at 30 June 2019 the Scheme assets were invested as follows:

Manager	**Fund**	**Initial Allocation**
Investec	Diversified Growth Fund	21.4%
Schroders	Diversified Growth Fund	21.2%
Pinebridge	Global Dynamic Asset Allocation Fund	21.4%
BMO	Dynamic LDI Fund (Nominal)	15.0%
BMO	Dynamic LDI Fund (Real)	11.4%
BMO	Sterling Liquidity Fund	9.6%
Total		**100%**

Investec – Diversified Growth Fund

- This fund targets equity like returns with half the volatility of equities over a rolling five-year period.
- It does this using a variety of asset classes, changing the mix to suit market conditions.

Schroders - Diversified Growth Fund

- The Schroders Diversified Growth Fund targets equity-like returns with about two thirds of equity volatility over an investment cycle.
- It does this using a variety of asset classes, changing the mix to suit market conditions.
- The objective of this fund is to outperform RPI inflation by 5% per year over investment cycles.

Pinebridge – Global Dynamic Asset Allocation Fund

- This fund targets equity-like returns with about 60% of the volatility over a five-year investment horizon.
- It does this using a variety of asset classes, changing the mix to suit market conditions.

BMO Dynamic LDI Funds

These funds aim to protect the Scheme from movements in either long-term interest rates or expected inflation.

- If long-term interest rates fall, or inflation expectations rise then the value of the Scheme's liabilities will increase. These funds will mitigate the impact on the Scheme's funding level by rising by a similar amount.

- However, the reverse is also true. If the liabilities fall in value, these funds will perform poorly, and no net gain will be made by the Scheme. These funds can be very volatile.
- These funds use a combination of UK government bonds (gilts) and derivatives depending on which the fund manager considers the most cost-effective way of hedging these two risks.

BMO Sterling Liquidity Fund

- The investment objective is to maintain high levels of liquidity and generate a return in line with money market rates.

Rebalancing

- There is no regular rebalancing between the funds listed above. Doing so could lead to under or over hedging of the Scheme’s liabilities.
- The Trustees will take advice regarding the contributions into the Scheme and withdrawals of money for benefits together with other expenses.

6. Prescribed Matters

Introduction

This section covers those matters prescribed in Sections 35 and 36 of The Pensions Act 1995, The Pensions Act 2004 and the 2005 Investment Regulations 2005/3378 (as amended from time to time).

Choosing Investments

The assets of the Scheme are invested in pooled vehicles. Selection of the individual underlying assets has been wholly delegated to the fund managers listed in the Appendix.

Kinds of Investments

The Trustees may invest in the following asset classes (via the fund managers) on behalf of the Scheme:

- **UK equities**
- **Overseas equities**
- **Corporate bonds**
- **Gilts (conventional and index-linked)**
- **Cash**
- **Overseas bonds**
- **Property**
- **Derivatives**

The presence of an asset class on the list does not imply that the Scheme is currently invested in such assets.

Balance between Investments

The Trustees recognise the advantages of diversification between UK and overseas investment in equities from the perspective of:

- **Reducing the risk that results from investment in any one particular market; and**
- **Enhancing return.**

Risk

The Trustees pay close regard to the risks that may arise through a mismatch between the Scheme's assets and its liabilities, and to the risks that may arise from the lack of diversification of investments. They believe that the investment policies to be followed by their investment managers do have adequate regard to the need to diversify within each asset class as well as in terms of stock selection.

Under the Pensions Act 2004 the Trustees must now state their policy on the ways in which risks are to be measured and managed. These are set out below.

- **Solvency / funding risk:**
  - is managed through setting an investment strategy (primarily asset allocation) with an appropriate level of risk.
  - is measured using an Asset Liability Model from the investment consultant.
  - is monitored in quarterly reports from the investment consultant.

- **Manager risk:**
  - is managed through selecting funds with a suitable target levels of risk, and that the investment consultant has deemed the managers' risk controls as acceptable.
  - is measured and monitored from quarterly reports from the fund managers and investment consultant.

- **Liquidity risk:**
  - is managed by holding investments in a cash fund and ensuring that all of the pooled funds used by the Scheme are liquid.

- **Political risk:**
  - is managed by investing globally.

- **Sponsor risk:**
  - is managed via the actuarial valuation process.
  - is measured and monitored by regular assessment of the Sponsor's covenant by the Trustees.
  - is reduced by the contingent asset which the Sponsor has provided for the Scheme.

Expected Return on Investments

Gilts are the easiest asset class for which to predict the long-term returns. Providing that they are held to maturity, and ignoring reinvestment risk, the return on gilts over their lifetime will be the current Gross Redemption Yield (GRY).

The Trustees base their expected investment returns for other asset classes on this GRY as a starting point. Over the long-term, they expect the following returns per year over and above that of gilts:

Developed market equities	+3.0%
Emerging market equities	+4.5%
Diversified Growth Funds	+3.0%
Corporate bonds	+1%

Realisation of Investments

The Scheme's assets are invested in the investment managers' pooled vehicles, which in turn invest in securities traded on recognised exchanges. The Trustees conclude that the majority of the Scheme's investments can be realised if necessary.

Responsible Investment and Corporate Governance

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustees have elected to invest through pooled funds. They acknowledge that they cannot directly influence the environmental, social and governance ("ESG") policies and practices of the companies in which the pooled funds invest.

In principle, the Trustees believe that ESG factors can have an impact on the performance of its investments and that the management of ESG risks and the exploitation of ESG opportunities, especially in relation to climate change, can add value to the portfolio. To that effect, the Trustees expect the fund managers to have integrated ESG factors as part of their investment analysis and decision- making process where appropriate.

Appropriate weight will be given to ESG factors in the appointment of fund managers.

Trustees view that the stewardship responsibilities attached to the ownership of shares is important but recognise that investment in pooled funds limits their ability to be fully involved. The Trustees expect their investment managers to report in detail on how they have exercised voting rights attached to shares. Managers are expected to be signatories to the FRC UK Stewardship Code.

Additional policies required in this document by October 2020

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations which expand the requirements for Statements of Investment Principles such as this. SIPs must be updated before 1 October 2020.

The Trustees' policies are set out below:

- **How they incentivise their appointed investment managers to align investment strategy and decisions with the trustees' policies, including risk, return and ESG.**

  The Scheme invests solely in pooled funds where fees charged are a combination of fixed fees and a proportion of the assets under management. There are no performance-related components of the fees.

  The only incentivisation that the Trustees can exert is through the decision to retain or to liquidate their holdings in each fund.

  The investment strategies of the pooled funds are aligned to the Trustees' investment objectives by selecting funds with suitable characteristics:

- Benchmarks
- Risk budgets
- Constraints
- Approaches (this includes ESG where appropriate)

The Trustees maximise the probability of their investment objectives being met by selecting an appropriate and Scheme-specific combination of such funds with advice from their investment consultant.

- **How the asset manager is incentivised to make decisions on assessments about medium to long term financial and non-financial performance of an issuer of debt or equity. Also, how the managers are incentivised to engage with the issuers in order to improve their performance.**

  Active fund managers are retained subject to, amongst other criteria, achieving adequate medium- to long- term performance. In order to do so, they will need to make assessments about the medium to long term financial performance of debt and equity issuers. They will also need to assess non-financial performance in as much as it may be a source of risk.

  It also incentivises them to engage with issuers where this is in the financial interests of the Scheme (i.e. where it will make a material impact on the performance of the fund).

  Passive fund managers are not expected to make assessments about the financial or non-financial performance of the issuers of securities they invest in.

- **How the method and time horizon of the evaluation of managers' performance and remuneration are in line with the trustees' policies.**

  The Trustees receive quarterly reports from the fund managers and quarterly analysis from their investment consultant. The investment consultant takes into account the performance of the fund managers but does not restrict their analysis to performance alone. However, given these funds are passively managed, the performance is expected to be broadly in line with the benchmarks.

  Performance is compared to the benchmark and tracking error target of each fund, in order to ensure that this is in alignment to the objectives and policies of the Trustees.

  In selecting pooled funds, the Trustees and their investment consultant take into account the fees charged by the fund manager. These are judged in terms of value for money given the nature of the fund, particularly the asset class and outperformance target.

  Fund managers need to give the Trustees notice if they plan to change the level of the fees. If this occurs, the Trustees seek advice from their investment consultant on whether to retain or replace the manager.

- **How the trustees monitor portfolio turnover costs incurred by the manager/s (and how they define and monitor targeted portfolio turnover or turnover range).**

Given the size of the Scheme's investment it would not be cost effective to monitor the turnover or turnover costs directly. The performance figures that the Trustees and their investment consultant analyse are net of transactions costs, so this is taken into account indirectly.

The Trustees do not believe that they should micro-manage the level of turnover provided that the net outcome to the Scheme is acceptable.

- **The duration of their arrangement with the asset manager**.

  In order to maintain an incentive for the fund manager to performance well, the Trustees do not enter any fixed term arrangements with their manager. Investments in each pooled fund are only retained for as long as the aim of the fund is consistent with the overall investment objectives of the Scheme, and the Trustees have confidence that the fund managers can credibly deliver that aim in a cost-effective manner.

Appendix: Third Party Arrangements

Advisors
The following advisors assist the Trustees:

Scheme Actuary
Richard Brennan
Cartwright Group Limited
Mill Pool House
Mill Lane, Godalming, Surrey
GU7 1EY

Pension Consultant
Cartwright Group Limited
Mill Pool House
Mill Lane, Godalming, Surrey
GU7 1EY

Investment Consultant
Barker Tatham Investment Consultants Ltd
AMP House
Dingwall Road
Croydon
CR0 2LX

Auditor
MHA MacIntyre Hudson
New Bridge Street House
30-34 New Bridge Street
London
EC4V 6BJ

Lawyer
CMS Cameron McKenna
Mitre House
160 Aldersgate Street
London
EC1A 4DD

Fund Managers

The Trustees have appointed the following fund managers:

Pinebridge Investments Europe Ltd
Exchequer Court
33 St Mary Axe
London EC3A 8AA

Schroder Investment Management
31 Gresham Street
London
EC2V 7QA

BMO Asset Management Ltd
Exchange House
Primrose Street
London
EC2A 2NY

Investec Fund Managers
Woolgate Exchange
25 Basinghall Street
London EC2V 5HA