

## Statement of Investment Principles

This is the Statement of Investment Principles made by the Trustees of the HPC Pension Plan ("the Plan") in accordance with the Pensions Act 1995, as amended. It is subject to review by the Trustees at least every three years and without delay after any significant change in investment policy.

In preparing this Statement, the Trustees have consulted with the principal employer to the Plan (HPC plc).

### Plan Objective

The primary objective of the Plan is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis.

The Trustees' over-riding funding principles for the Plan are to set the employer contribution at a level which is sufficient to:

- Build up assets to provide for new benefits of active members as they are earned;
- Recover any shortfall in assets relative to the value placed on accrued liabilities over the longer term; and
- Ensure that there are always sufficient assets of the Plan (at their realisable value) to meet 100% of benefits as they fall due for payment to members.

The value of liabilities is calculated on the basis agreed by the Trustees and the Scheme Actuary. The funding position is monitored regularly by the Trustees and formally reviewed at each triennial actuarial valuation, or more frequently as required by the Pensions Act 2004.

### Investment Strategy

The Trustees have translated their objectives into a suitable strategic asset allocation for the Plan, split between managed funds, index tracker funds and interest-bearing funds. All day to day investment decisions have been delegated to a number of authorised investment managers. The strategic asset allocation is reflected in the choice and mix of funds in which the Plan invests. The current investment strategy and manager structure can be found in the Appendix. It:

- takes due account of the maturity profile of the Plan (in terms of the relative proportions of liabilities in respect of pensioners and non-pensioners), together with the level of disclosed surplus or deficit (relative to the funding bases used) and the Trustees' assessment of the covenant of the sponsoring employer; and
- is consistent with the Trustees' views on the appropriate balance between seeking an enhanced long-term return on investments and accepting greater short-term volatility and risk.

It is intended that the investment strategy will be reviewed at least every three years following actuarial valuations of the Plan, and will normally be reviewed annually. In reviewing strategy, the Trustees will seek written advice as required.

To achieve their objectives the Trustees have agreed the following:

### Choosing Investments

The Trustees will appoint one or more investment managers who are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The Trustees, after seeking appropriate investment advice, have given the managers specific directions as to asset allocation but investment choice has been delegated to these managers subject to their respective benchmarks and asset guidelines. The Trustees ensure that all managers selected have appropriate policies in relation to how they take into account non-financial matters.

Given the size and nature of the Plan, the Trustees have decided to invest on a pooled fund basis. Any such investment is effected through a direct agreement with an investment manager and/or through an insurance contract. In either event, the investment manager of each underlying pooled fund has full discretion over the choice of individual stocks and is expected to maintain a diversified portfolio. The Trustees are satisfied that the pooled funds selected are consistent with the objectives of the Plan, particularly in relation to diversification, risk, expected return and liquidity.

**Kinds of investments to be held**

The Plan may invest in quoted and unquoted securities of UK and overseas markets including equities, fixed interest and index linked bonds, cash and property, either directly or through pooled funds. The Plan may also make use of derivatives and contracts for difference (either directly or in pooled funds investing in these products) for the purpose of efficient portfolio management or to hedge specific risks. The Trustees consider all of these classes of investment to be suitable in the circumstances of the Plan.

**Balance between different kinds of investments**

The Plan's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market each manager will maintain a diversified portfolio of stocks through direct investment or pooled vehicles.

**Risk**

The Plan is exposed to a number of risks which pose a threat to meeting its objectives. The principal risks affecting the Plan are:

**Funding risks:**

- Financial mismatch –The risk that Plan assets fail to grow in line with the developing cost of meeting Plan liabilities.
- Inflation risk – The risk that unexpected inflation increases the pension and benefit payments and Plan assets do not grow fast enough to meet the increased cost.
- Changing demographics –The risk that longevity improves and other demographic factors change increasing the cost of Plan benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting Plan liabilities.

The Trustees measure and manage financial mismatch in two ways. As indicated above, they have set a strategic asset allocation for the Plan. They assess risk by monitoring the Plan's asset allocation and investment returns relative to a benchmark. They also assess risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Trustees keep under review mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions are considered formally at the triennial valuation.

The Trustees seek to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

**Asset risks**

- Concentration - The risk that significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.

- Illiquidity - The risk that the Plan cannot meet its immediate liabilities because it has insufficient liquid assets.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The Trustees measure and manage asset risks as follows. They provide a practical constraint on Plan investments deviating greatly from the intended approach by setting diversification guidelines and by investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within the Trustees' expected parameters. By investing across a range of assets, including quoted equities and bonds, the Trustees have recognised the need for some access to liquidity in the short term. In appointing several investment managers, the Trustees have considered the risk of underperformance by any single investment manager. To help mitigate liquidity risk, the Plan should not need to realise any assets for as long as the sponsoring employer to the Plan can afford to match pension payments with additional recovery contributions.

#### **Other provider risk**

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Trustees take professional advice and consider the appointment of specialist transition managers.
- Custody risk - The risk of losing economic rights to Plan assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

The Trustees monitor and manage risks in these areas through a process of regular scrutiny of its providers and audit of the operations they conduct for the Plan.

#### **Expected return on investments**

Over the long term, the overall level of investment returns is expected to exceed the rate of return assumed by the Actuary in funding the Plan.

#### **Realisation of investments**

The majority of the Plan's investments may be realised quickly if required.

#### **Additional Voluntary Contributions ("AVCs")**

The Trustees give members the opportunity to invest in a range of vehicles at the members' discretion.

## **Responsible Investment and Corporate Governance**

The Trustees understand the importance to act as responsible and observant asset owners and market participants, whilst fulfilling its commitment to protect and enhance the value of the Plan's investments.

The Trustees recognise that environmental, social and governance (ESG) considerations are among the many factors that can have an impact on the performance of its investments. The Trustees recognise the importance of the ethical management of ESG risks, particularly for a portfolio-wide issue like climate change, can add value to its portfolio.

The Trustees define ESG factors as:

- the physical environment (environmental);
- communities, workers, human rights and capital practices, wider society and economies (social);

- the governance structures of the organisations and markets we invest in, as well as of our investment fund managers (governance, including corporate governance).

The Trustees accept that the assets are subject to the investment manager's own corporate governance policies. However, the Trustees expects the managers to discharge their responsibilities by taking account of current best practice which includes the UK Corporate Governance Code and the UK Stewardship Code. The investment managers' policies are monitored on a regular basis.

**Stewardship**

The Trustees have delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value, whilst taking into consideration their organisations ESG guidelines and policies across all asset classes and markets in which it invests. The managers are encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.

**Compliance with this SIP**

The Trustees will monitor compliance with this SIP. In particular, it will obtain written confirmation from the investment managers that they have complied with this SIP as supplied to them and the Trustees undertake to advise the managers of any material change to the SIP. The Trustees accept that the detailed benchmarks overleaf will change over time in line with the strategy.

**Trustees of the HPC Pension Plan**

**1 October 2019**

## Appendix – Investment strategy

The current investment strategy and manager structure is shown below:

Asset class	Value as at 5 April 2019 £,000's	Allocation %
<b>Managed Funds</b>	<b>9,691</b>	<b>37.2%</b>
Scottish Widows Managed Fund	2,880	11.1%
Aviva (AXA) Managed Fund	3,185	12.2%
Clerical Medical Managed Fund	3,626	13.9%
<b>Tracker Funds</b>	<b>5,643</b>	<b>21.7%</b>
Scottish Widows UK Fixed Interest Tracker Fund	5,642	21.7%
<b>LDI Funds</b>	<b>3,858</b>	<b>14.8%</b>
Legal & General Investment Managers	3,858	14.8%
<b>Interest-bearing Funds</b>	<b>6,860</b>	<b>26.3%</b>
M&G Long-dated Corporate Bond Fund	486	1.9%
M&G All Stocks Corporate Bond Fund	6,374	24.5%
<b>Cash</b>	<b>5</b>	<b>0.0%</b>
<b>Total</b>	<b>26,057</b>	<b>100.0%</b>