Cullum
Retirement Benefits Scheme

Statement Of Investment Principles

CULLUM DETUNERS LIMITED RETIREMENT BENEFITS SCHEME SEPTEMBER 2020

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1. Introduction

1.1 The purpose of this Statement of Investment Principles

This Statement of Investment Principles (the "SIP") sets out the policy of the Trustee of the Cullum Detuners Limited Retirement Benefits Scheme (the "Scheme") on various matters governing decisions about the investments of the Scheme. This SIP replaces the previous SIP dated September 2019

1.2 The legal and statutory background to the SIP

This SIP has been drawn up by the Trustee to meet the requirements of Section 35 of the Pensions Act 1995, (as amended by the Pensions Act 2004) (the "Act") and the Occupational Pension Schemes (Investment) Regulations 2005 and the Occupational Pension Schemes (Investment and Disclosure)(Amendment) Regulations 2019 ("the Regulations") and subsequent legislation.

The SIP is intended to affirm the investment principles that govern decisions about the Scheme's investments setting out details of the investment strategy being followed, the Trustee's investment objectives and risk management.

In preparing this SIP the Trustee has consulted Cullum Detuners Limited (the "Employer") to ascertain whether there are any material issues which the Trustee should consider in determining the Scheme's investment arrangements. The Trustee seeks to maintain a good working relationship with the Employer and will discuss any proposed changes to the SIP with the Employer.

2. The Trustee's overall investment objectives

The overall objective of the Trustee is to invest the Scheme's assets in the best interest of the members and beneficiaries and optimise the return on investments. The Trustee has set a number of objectives to help guide the strategic management of the assets and control of the various risks to which the Scheme is exposed. The Trustee's primary objectives - are as follows:

- To provide appropriate security for all beneficiaries,
- To achieve long-term growth sufficient to provide the benefits from the Scheme, and
- To achieve an appropriate balance between risk and return with regards to the cost of the Scheme and the security of the benefits

The Trustee has also received confirmation from the Scheme Actuary during the process of revising the investment strategy that their investment objectives and the resultant investment strategy are consistent with the actuarial valuation methodology and assumptions used in the Statutory Funding Objective

3. Summary of the Scheme's investment strategy

The strategic management of the Scheme assets is the responsibility of the Trustee, acting on expert advice. In 2019, the Trustee reviewed the provision of investment management and concluded a fiduciary management approach would be most appropriate for the Scheme. A fiduciary manager is responsible for all aspects of advising on and implementing the investment strategy. They select and liaise with operational investment managers and other service providers on behalf of the Trustee, and provide investment advice and monitoring reports. The Trustee believes that using a fiduciary manager can achieve a better balance of return, risk and cost and following a competitive tendering process, Kempen Capital Management ("Kempen") was appointed as the Scheme's fiduciary manager more fully specified in the fiduciary management agreement (FMA) with effect from 7th September 2020 . Kempen is regulated by the Financial Conduct Authority.

3.1 How the investment strategy was determined

The trustee, with the help of their advisers and in consultation with the employer and as part of the move to a fiduciary management approach, undertook a review of investment strategy in March 2020 and again in September 2020, taking into account the objectives in Section 2 above. A new investment strategy, recovery period and employer contributions were agreed.

3.2 The investment strategy

The Trustee agreed that the investment strategy of the Scheme should have the following objective:

The agreed investment objective is to target returns of gilts +3.0% p.a. net of fees initially with the intention to lower risk if and when possible over the agreed recovery period.

The Trustee has delegated to Kempen to determine the asset allocation and select appropriate benchmarks, from time to time, subject to the constraints agreed in advance with the Trustee. It has been agreed that the assets will be split between three portfolios. A matching portfolio that will consist of assets that can be used for liability hedging purposes and Return and Alternatives Portfolios that will have liquid and illiquid return seeking assets respectively.

	MINIMUM WEIGHT (%)	MAXIMUM WEIGHT (%)
Matching Portfolio	20.0	60.0
Return Portfolio	20.0	60.0
Alternatives Portfolio	5.0	40.0

The Trustee has further agreed that the Scheme should also aim to minimize the volatility of the funding level with respect to the liabilities. Given the value of the Liabilities is sensitive to both Inflation and Interest rate risk, the trustee has agreed with Kempen to target an interest rate hedge ratio of not less than 40% and not more than 90% with respect to interest rates and inflation risks.

3.3 How the investment strategy is implemented

The day-to-day management of the assets of the Scheme are delegated to Kempen who execute the investment strategy. The Trustee delegates responsibility for the appointment, termination and ongoing monitoring of the Scheme's investment managers to Kempen. Kempen provides the Trustee with regular reports regarding the appointed investment managers.

It has been agreed that the Scheme's assets may be invested only in instruments that primarily provide exposure to the following asset classes:

DEVELOPED MARKETS	EMERGING MARKETS	OTHER
Cash	Government bonds	Derivatives and repo for liability hedging purposes
Government bonds	Investment grade credit	Derivatives for currency hedging purposes
Investment grade credit	High yield credit	Derivatives for synthetic credit
High yield credit	Private debt	Derivatives for structured equity
Private debt	Listed equity	Hedge funds
Listed equity	Infrastructure equity	
Property	Infrastructure debt	
Infrastructure equity	Land	
Infrastructure debt		
Mortgages		
Land		

Arrangements are in place to monitor the continuing suitability of the Scheme's investments to meet their objectives and in order to facilitate this, the Trustee aims to meet periodically, but at least annually. Kempen will carry out an Annual Investment Review with the Trustee and provide quarterly Investment Management Reports.

3.4 Portfolio turnover costs

This is the costs incurred as a result of the buying, selling, lending or borrowing of investments and the Trustee monitors these costs through quarterly transaction reports and an annual transaction costs report provided by Kempen.

The portfolios are re-balanced to their target weights quarterly, and the turnover and transaction costs associated with this rebalancing activity is expected to be small. A greater degree of portfolio turnover (and therefore cost) is only expected as a result of changes to the asset allocation, for example as the investment strategy is de-risked as the funding level improves or if Kempen believed that a different combination of approved instruments could achieve the return targets after taking all transaction costs into consideration

4. Risk Management and Measurement

The Trustee considers that there are a number of different types of investment risk that are important for the Scheme. These include, but are not limited to:

4.1 Strategic risk

This is the risk that the performance of the Scheme's assets and liabilities diverges negatively depending on financial and economic conditions. This risk has been taken into account in the Trustee's investment strategy review, and will be monitored by the Trustee on a regular basis.

The Trustee will review the investment strategy at least annually in light of the various risks faced by the Scheme.

4.2 Investment manager risk

This is the risk that the investment managers fail to meet their investment objectives. Prior to appointing the investment managers, Kempen on behalf of the Trustee, undertakes comprehensive investment manager selection exercises. Kempen monitor the investment managers on a frequent basis

4.2.1 Active manager risk

The Trustee understands that the use of active, rather than passive management introduces additional risk. Where active management is adopted, Kempen on behalf of the Trustee deems the risk to be acceptable in the context of the Scheme's overall investment risk profile.

4.2.2 Fiduciary manager risk

There are risks associated with actions of the Fiduciary Manager and its selection of investment managers. The Trustee will monitor the continuing suitability of the Fiduciary Manager.

4.3 Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Trustee's ability to meet the investment objectives.

The Trustee believes that the need for the Scheme's assets to be adequately diversified between different asset classes and within each asset class has been met by the strategy outlined in Section 3.2 and by the guidelines agreed with Kempen where Kempen aims to ensure that the Scheme's investments are placed in an adequately diversified portfolio. To help diversify manager specific risk, the Trustee understands that Kempen may make multiple manager appointments within some asset classes.

4.4 Currency risk

Whilst the majority of the currency exposure of the Scheme's assets is to Sterling, the Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets. Kempen on behalf of the Trustee considers the overseas currency exposure in the context of the overall investment strategy, and believes that the currency exposure that exists diversifies the strategy and is appropriate

4.5 Interest rate and inflation risk

The Scheme's assets are subject to interest rate and inflation risk because a portion of the Scheme's assets are held in interest rate or inflation swaps via pooled funds. However, the interest rate and inflation exposure of the Scheme's assets hedges part of the corresponding risks associated with the Scheme's liabilities. The net effect will be to reduce the volatility of the funding level, and so the

Trustee believes that it is appropriate to have exposures to these risks in this manner because ultimately they act as a hedge and counterbalance each other. .

4.6 Liquidity risk

This is the risk that the Scheme is unable to realise assets to meet benefit cash flows as they fall due. The Trustee is aware of the Scheme's cash flow requirements and believe that this risk is managed appropriately via the measures described below

The Fiduciary Manager, Trustee and Scheme's administrators will seek to ensure that the Scheme holds sufficient cash to meet the likely benefit outflow from time to time. Kempen will ensure that there are sufficient investments in liquid or readily realisable assets to meet unexpected cash flow requirements so that realisation of assets will not disrupt the Scheme's overall investment policy where possible.

4.7 Counterparty risk

Responsibility for the safe custody of the Scheme's assets is delegated to Kempen who have appointed Northern Trust Corporation ("Northern Trust") as custodian of the assets. Kempen is responsible for ensuring the suitability of Northern Trust under ongoing review.

4.8 Environmental, social and governance risks

Environmental, social and corporate governance (ESG) factors are sources of risk to the Scheme's investments which could be financially material, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. These risks are further considered in section 5.

4.9 Non-investment risks

The Trustee recognises that there are other, non-investment, risks faced by the Scheme. Examples include:

- longevity risk (the risk that members live, on average, longer than expected); and
- sponsor covenant risk (the risk that, for whatever reason, the sponsoring employer is unable to support the Scheme as anticipated).

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Scheme's funding position falls below what is considered an appropriate level. By understanding and considering each of the risks that contribute to funding risk, the Trustee and their advisors believe that they have addressed and are positioned to manage this general risk.

5. The Trustee's policy on financially material considerations and non-financial matters:

The Trustee has considered how Environmental Social and Governance ("ESG")and other ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Scheme and its members. The Trustee believes that if these factors, are considered and managed within the investments the Scheme's holds, it is expected to produce better financial (and therefore member) outcomes.

The Trustee believes that ESG and climate change factors within an investment context can be financially material, and that by taking these financial factors into account within the investment plan can yield different returns and/or risks. The Trustee also recognises that ESG factors, and particularly climate change factors, are more likely to influence risk adjusted returns over the long term.

Without prejudice to the Trustee's legal obligations, the Trustee delegates full discretion to the Fiduciary Manger around the evaluation of ESG factors within the investment process as well as direct engagement and exercise of shareholder rights.

Kempen, who are responsible for the appointment and removal of the underlying managers, exercise discretion when evaluating ESG issues giving consideration to investments in a responsible way taking account of ESG related risks.

Kempen has limited influence over investment managers' investment practices where assets are held in pooled funds, but they encourage their chosen managers to improve their practices where appropriate and ESG factors and associated risks are managed as a consequence of the following

- ESG criteria is assessed based on international conventions and initiatives, such as UN Global Compact and the Principles for Responsible Investment (PRI)
- All asset managers are screened against ESG criteria before inclusion in the Kempen's approved manager list. For example:
  - does the fund manager have a responsible investment policy
  - is the manager open for a dialogue on ESG criteria, and
  - does the manager have exposure to companies that are on the fiduciary managers exclusion list?
- All asset managers are reviewed against ESG criteria on an ongoing basis. For example:
  - are responsible investing considerations continue to be integrated into their investment process
  - is the fund manager making progress
  - is the fund manager well informed and up-to-speed of ESG criteria and initiatives
  - screening of all underlying equity and debt securities during quarterly monitoring cycle to check for exclusion candidates
- Kempen encourages their chosen managers to improve their practices where appropriate
- Kempen uses a "Sector Avoidance Framework", which ensures exclusion of companies involved in the production, trade and maintenance of controversial weapons.

As a result, the Trustee is satisfied that Kempen is providing advice and implementation services that are aligned with the Trustee's investment beliefs and that a responsible approach is being taken which is consistent with the long term financial interests of the Scheme.

The Trustee includes a standing item on the agenda for the Trustee meetings to annually review the Scheme's policies and progress concerning ESG factors.

6. Stewardship

The Trustee recognises its responsibility as the owner of the capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments. The Trustee has delegated to their fiduciary and investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. They expect Kempen to exercise ownership rights and undertake monitoring and engagement in line with its' own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code 2018 and the UK Stewardship Code 2020.

Kempen supports and expects the underlying managers, who are regulated in the UK, to comply with the UK Stewardship Code 2020, including public disclosure of compliance via an external website. For an underlying manger to be appointed they must also abide by the Kempen Responsible Investment and Exclusions policy.

The Trustee will review annual reports on the voting undertaken by the underlying manager during the period to get assurance that it remains broadly consistent with the Trustee's view of good stewardship standards. However, the Trustee is conscious that the underlying manager may not be able to provide voting records for all investment held within certain pooled structures.

7. Investment Governance

Effective governance of the assets of the Scheme and management of risk is achieved by the following division of responsibilities.

7.1 The Trustee

The Trustee's principal responsibilities in relation to investments include but are not limited to:

- Determining an appropriate division of responsibilities.
- Appointing, monitoring and removing third party service providers, for example an investment advisor or fiduciary manager
- Setting an investment policy consistent with relevant legislation, which consists of:
    - A strategic investment objective.
    - A list of permissible asset classes or target asset allocations
    - The magnitude of flexibility afforded to the fiduciary manager or any other advisor
- Reviewing the investment policy at least annually in conjunction with Kempen
- Maintaining an investment plan that is consistent with the SIP and sets out in more detail the investment strategy and how it is implemented.
- When updating the investment policy and investment plan, consulting with the Employer, the fiduciary manager and the Scheme's actuary.
- Including in the investment plan a policy for how investments will be made in each asset class. This may include the use of segregated accounts or pooled investment vehicles, which provide

exposure to the asset class in question but with the benefit of the economies of scale and appropriate diversification.
- Appointing and terminating operational investment managers who select individual stocks and securities on behalf of the Trustee. (Though, in practice, in the majority of asset classes the appointment and selection of operational investment managers is delegated to the fiduciary manager. In some cases the operational asset manager may be the fiduciary manager or a company from the fiduciary manager's group.)
- Monitoring the performance of the investments and their compliance with the investment plan and the SIP.
- Monitoring the performance of the fiduciary manager.

7.2 Fiduciary manager

The fiduciary manager is required to exercise its powers having regard to the criteria for investment as set out in the Occupational Pension Schemes (Investment) Regulations 2005.

The fiduciary manager's principal responsibilities in an investment advisory capacity include, but are not limited to:

- Advising the Trustee on the SIP and the investment policy, taking into account the liabilities of the Scheme and the view that the Trustee has formed regarding the covenant of the Employer.
- Advising the Trustee on all other matters for which it is responsible (other than on the monitoring of the fiduciary manager).
- Liaising with the Scheme's actuary to determine suitable methods and assumptions to model the Scheme's liabilities for the purposes of the investment plan.
- Attending Trustee meetings.
- Ensuring the exclusion of companies in accordance with its Sector Avoidance Framework as set out in its responsible investment policy, i.e. those companies involved in the production, trade and maintenance of controversial weapons;and
- Reviewing the investment policy at least annually and making recommendations to the Trustee

The fiduciary manager's principal responsibilities in an investment implementation capacity, include but are not limited to:

- Appointing and monitoring of a custodian for the Scheme. Where pooled vehicles are used, the custodian for the pooled vehicles is generally selected by the manager of the pooled vehicle. The custodian is responsible for their own compliance with prevailing legislation.
- Implementing, monitoring and managing the Scheme's investments in accordance with the investment plan. In particular:
    - Rebalancing and tactical asset allocation, within specified bandwidths.
    - Appointing, monitoring and dismissing operational investment managers (except in cases where the Trustee retains responsibility for this either because the fiduciary manager is itself acting as operational asset manager, or because the Trustee decides to retain this responsibility for other reasons).
    - Entering into legal agreements on behalf of the Scheme, including for derivative transactions and for investment management, obtaining legal advice where appropriate.
- Making provision for the Scheme's cash flow requirements, based on projections provided by the Scheme's administrator and as agreed with the Trustee.

- Record keeping and reporting on the performance and risk of the investments, including providing sufficient information in an agreed format and to an agreed timescale for the Scheme's administrator to prepare the Scheme's annual report and accounts for audit.

7.3 Legal advisor

When they consider it necessary, the Trustee will seek legal advice in relation to investments including, but not limited to:

- Advice on the FMA.
- Advice on the SIP and on other legal aspects of investment governance.
- Advice on investment management agreements for managers appointed by the Trustee directly (though in most cases appointments are made by the fiduciary manager who obtain their own legal advice).

7.4 Scheme Actuary

The Scheme's actuary's responsibilities in relation to investments include, but are not limited to:

- Providing liability data to the fiduciary manager on request.
- Confirming any market-derived assumptions used to value the Scheme's liabilities – to assist the fiduciary manager with interpreting its own estimates of the Scheme's funding position.
- Liaising with the fiduciary manager on the suitability of the Scheme's investment strategy given the characteristics of the liabilities.
- Performing the triennial (or more frequently as required) actuarial valuations and advising on the appropriate contribution levels and any recovery plan.

7.5 Administrator

The administrator's principal responsibilities in relation to investments are:

- Together with the Scheme secretary, ensuring payment of benefits of the Scheme, and receipt of contributions where applicable.
- Providing advance cash projections based on estimated requirements where this is possible.
- Preparing the annual accounts for the Scheme with input from the fiduciary manager.

- Operating and keeping records in relation to the Trustee's bank account.
- Together with the Employer, ensuring payment of expenses of the Scheme.
- Together with the administrator, ensuring payment of benefits of the Scheme, and receipt of contributions where applicable.
- Requesting cash from the fiduciary manager as required.
- Transferring any surplus cash beyond a reasonable buffer level to the Scheme's custodian for investment by the fiduciary manager.

8. Fee structures

The Trustee recognises that the provision of investment management, dealing and advisory services to the Scheme results in a range of charges to be met, directly or indirectly, by deduction from the Scheme's assets.

The Trustee has agreed Terms of Business with the Scheme's advisers, under which charges are calculated on a fixed fee or "time-cost" basis as appropriate.

The fiduciary manager levies a fee based on the value of the Scheme's assets managed by Kempen which covers the design, implementation, monitoring and annual review. In addition, the underlying investment managers within the Kempen funds also levy fees based on a percentage of the value of the assets under management.

The fee rates are believed to be consistent with the managers' general terms for institutional clients and are considered by the Trustee to be reasonable when compared with those of other similar providers.

The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustee's view as to the most appropriate arrangements for the Scheme. However, the Trustee will consider revising any given structure if and when it is considered appropriate to do so.

9. Compliance with the SIP

The Trustee will monitor compliance with this SIP annually. In particular they will obtain confirmation from the investment managers that they have complied with this SIP insofar as is reasonably practicable and that in exercising any discretion the investment managers have done so in accordance with Section 4 of the Occupational Pension Scheme (Investment) Regulations 2005. The Trustee undertake to advise the investment managers promptly and in writing of any change to this SIP.

10. Review of the SIP

The Trustee will review this SIP after consultation with their professional advisers once every three years, and immediately after any significant change in investment policy. Any change to this SIP will only be made after having obtained and considered the written advice of professional advisers who the Trustee reasonably believe 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.

Trustee

For and on behalf of Shoosmiths LLP as the Trustee of the Cullum Detuners Limited Retirement Benefits Scheme

Date: 30 September 2020