

# Dawn Somerset Retirement and Death Benefit Scheme

Statement of Investment Principles

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## 1 Background

<b>Purpose of Statement</b>	This Statement sets out the principles governing decisions about the investment of the assets of the Dawn Somerset Retirement and Death Benefit Scheme (the Scheme).
<b>Nature of Scheme</b>	The Scheme is a defined benefit arrangement set up under trust and registered with HM Revenue and Customs (HMRC).
<b>Compliance with Legislation</b>	The Statement has been prepared to comply with Section 35 of the Pensions Act 1995, Section 244 of the Pensions Act 2004, the Occupational Pension Scheme (Investment) Regulations 2005, the Pension Protection Fund (Pensionable Service) and Occupational Pension Scheme (Investment and Disclosure) (Amendment and Modification) Regulations 2018, and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.
<b>Availability to Members</b>	A copy of this Statement will be made available to Scheme members on request to the Trustees.
<b>Investment Advice</b>	<p>The Trustees have obtained and considered professional advice on the content of this Statement from Broadstone, their appointed investment adviser. Broadstone have confirmed to the Trustees that it has the appropriate knowledge and experience to give the advice required under legislation.</p> <p>The Trustees will obtain such advice as they consider appropriate and necessary whenever they intend to review or revise this Statement.</p>
<b>Consultation with the Principal Employer</b>	<p>The Trustees have consulted the Principal Employer, Dunbia (UK), in setting their investment objectives and strategy, and in the preparation of this Statement.</p> <p>Responsibility for maintaining the Statement and determining the Scheme's investment strategy rests solely with the Trustees.</p>
<b>Investment Powers</b>	The Trustees' investment powers are set out in Rule 51 of the Scheme's Trust Deed and Rules dated 20 March 2002, as amended. The powers granted by the Rule are wide and this Statement is consistent with those powers.

## 2 Investment Objectives

<b>Strength of Employer Covenant</b>	<p>In determining their investment objectives and strategy, the Trustees have considered the strength of the Principal Employer's willingness and ability to support the Scheme. They have determined that it is reasonable to take a long-term view in determining their investment objectives and strategy.</p>
<b>Key Funding Measure</b>	<p>The Scheme is subject to the Statutory Funding Objective (SFO) introduced by the Pensions Act 2004, i.e. that it should have sufficient and appropriate assets to cover its Technical Provisions, as calculated in accordance with the Trustees' Statement of Funding Principles.</p> <p>In determining their investment objectives and strategy, the Trustees have agreed that the funding position measured under the SFO is the assessment of scheme funding that is of most importance to the Trustees and Principal Employer, as it determines the Scheme's funding requirements and members' long-term benefit security.</p>
<b>Investment Objectives</b>	<p>The Trustees' investment objectives are as follows:</p> <ul style="list-style-type: none"><li>• To ensure that the assets are of a nature to enable the Trustees to meet the Scheme's liabilities as they fall due;</li><li>• To invest in assets of appropriate liquidity and diversity, which will generate income and capital growth to meet, together with contributions from the sponsoring employer, the benefits which the Scheme provides;</li><li>• To invest in a way that is consistent with the Scheme's funding objectives, i.e. so that the investment return assumptions used in the determination of the Trustees' funding plan have a reasonable chance of being met in practice;</li><li>• Where future opportunities arise to improve protection against the interest rate risk and inflation risk associated with the valuation of the Scheme's Technical Provisions without adversely affecting their funding plan, the Trustees will consider steps to further reduce the volatility of the Scheme's funding position; and</li><li>• Over the longer term to bring the Scheme into a position where it has a strong funding position and a relatively low-risk investment strategy.</li></ul>
<b>Paying Regard to the Principal Employer's Views</b>	<p>The Trustees will have regard to the Principal Employer's views on the potential costs and risks associated with the investment objectives set and their implementation through the practical strategy.</p>

### 3 Principles for Setting the Investment Strategy

#### **Selection of Investments**

The Trustees may select investments from a wide range of asset classes from time to time, including, but not restricted to, UK equities, overseas equities, government bonds, corporate bonds, commercial property and alternative asset classes, such as hedge funds, private equity and infrastructure.

The investments selected will generally be traded on regulated markets and, where this is not the case, any such investments will be kept to a prudent level.

The Trustees may invest in products that use derivatives where this is for the purpose of risk management or to improve the efficiency of the management of the Scheme's investments.

The Trustees may hold insurance policies such as deferred or immediate annuities which provide income to the Scheme, matching part or all of the future liabilities due from it.

The Trustees may hold a working cash balance for the purpose of meeting benefit payments due to members and the expenses of running the Scheme.

#### **Balance of Investments**

The Trustees will set a Target Asset Allocation from time to time, determined with the intention of meeting their investment objectives.

The Target Asset Allocation will be set taking account of the characteristics of different asset classes available and will be reviewed in light of any changes to the Trustees' view of the Principal Employer's covenant, the nature of the Scheme's liabilities or relevant regulations governing pension scheme investment.

#### **Delegation to Investment Managers**

The Trustees will delegate the day-to-day management of the Scheme's assets to professional investment managers and will not be involved in the buying or selling of investments.

#### **Realising Investments**

The Trustees make disinvestments from the Investment Managers with the assistance of Broadstone, as necessary, to meet the Scheme's cashflow requirements.

## 4 Setting the Strategy

### Target Asset Allocation

The Target Asset Allocation for the Scheme is as follows:

Asset Class	Target Asset Allocation
Multi-asset funds	61%
Long-dated gilts	39%
<b>TOTAL</b>	<b>100%</b>

### Investment Managers

The Trustees entered into contracts with Legal & General Investment Management (LGIM) in September 1995 and Threadneedle Investment Services Limited (Threadneedle) in June 2021. These companies undertake day-to-day investment management of the Scheme's assets.

The Investment Managers are authorised and regulated by the Financial Conduct Authority (FCA) under the Financial Services and Markets Act 2000.

### Strategies Used

The Trustees use the following funds and strategies operated by the Investment Managers, which are given together with their target allocation within the overall strategy.

Fund	Target Asset Allocation
<b>Multi-asset funds</b>	
Threadneedle Dynamic Real Return Fund	30.5%
LGIM Dynamic Diversified Fund	30.5%
<b>Long-dated gilts</b>	
LGIM Single Stock Gilt and Index-Linked Gilt Funds	39.0%
<b>TOTAL</b>	<b>100.0%</b>

### Target Hedging Ratios

The target hedging ratios against the interest rate risk and inflation risk associated with the Scheme's Technical Provisions, assuming the Scheme to be fully funded on a Technical Provisions basis, are summarised below:

	Target Hedging Ratio
Long-term interest rates	90%
Long-term inflation expectations	100%

### Maintaining the Target Asset Allocation and Target Hedging Ratios

The Trustees have responsibility for maintaining the overall balance of the asset allocation relative to the Target Asset Allocation, and the hedging levels relative to the Target Hedging Ratios. The Trustees monitor the asset allocation and hedging ratios on a periodic basis with the assistance of their investment adviser, and will consider switching assets as appropriate.

**Performance Benchmarks and Objectives**

The multi-asset funds used by the Trustees are actively managed, with specific risk and return objectives. Their objectives are summarised below:

Fund name	Return benchmark	Return target	Risk target
Threadneedle Dynamic Real Return Fund	UK Consumer Price Index (CPI)	To outperform the return benchmark by 4.0% per annum (gross of fees) over a three to five year period.	Approximately two thirds of the risk associated with developed equity markets
LGIM Dynamic Diversified Fund	Bank of England Base Rate	To outperform the benchmark by 4.5% p.a. (gross of fees) over rolling three-year periods	Approximately two thirds of the risk associated with developed equity markets

The single-stock government bond funds invest in gilts and index-linked gilts issued by the UK Government. The funds are expected to provide a gross of fees return in line with the total return on these specific securities.

**Investment Management Charges**

The annual management charges for each of the funds used are given below:

Fund	Annual Management Charge
Threadneedle Dynamic Real Return Fund	0.40% p.a.*
LGIM Dynamic Diversified Fund	0.50% p.a.**
LGIM Single Stock Gilt Funds	0.10% p.a.
LGIM Single Stock Index-Linked Gilt Funds	0.10% p.a.

\*Ongoing charges are capped at 0.50% p.a.

\*\*Discounted to 0.40% p.a. until further notice.

In addition, LGIM make a flat administration charge of £1,000 p.a.

**Employer Related Investment**

Neither the Trustees nor the Investment Managers directly hold any employer related investments.

**Additional Voluntary Contributions (AVCs)**

The Scheme holds AVCs separately from the assets, using a policy provided by Prudential plc.

## 5 Expected Returns and Risks

**Overall Return Target** The Trustees' objective is for the Scheme's assets to produce a return in excess of the investment return assumptions used to determine the value of the Scheme's liabilities as measured under the SFO, as well as any recovery plan.

Accordingly, the Trustees expect the assets to produce a return in excess of the growth in the value of the liabilities calculated under the SFO over an economic cycle of five to seven years of between 0.7% per annum and 2.4% per annum, depending on the level of prudence adopted in assessing future expected returns.

**Expected Returns** Over the long-term, the Trustees' expectations are to achieve the following rates of return from the asset classes they make use of:

Asset Class	Expected return
Multi-asset funds	In excess of UK price inflation, net of fees, as measured by the Retail Prices Index, over an economic cycle of five to seven years, with significantly reduced volatility relative to equity market returns.
Fixed interest and index-linked gilts	In line with the market yields available on the relevant underlying securities, assuming that those investments are held to redemption.

**Consideration of Risks** The Trustees have considered the various risks that the Scheme faces, including market risk, interest rate risk, inflation risk, default risk, concentration risk, manager risk and currency risk, and consider that the Target Asset Allocation strikes a reasonable balance between risk mitigation and seeking an appropriate level of return, taking account of the employer covenant and the long-term nature of the Scheme.

**Risk Relative to the Value of the Scheme's Key Funding Measure** The Target Asset Allocation has been determined with due regard to the characteristics of the Scheme's Technical Provisions.

The calculation of the Scheme's Technical Provisions uses assumptions for future investment returns and price inflation expectations that are based upon market values of financial securities such as fixed interest and index-linked government bonds. This means that the Technical Provisions are sensitive to changes in the price of these assets as market conditions vary, and can have a volatile value.

The Trustees accept that their investment strategy may result in volatility in the Scheme's funding position. Furthermore, the Trustees also accept that there is a risk that the assets will not achieve the rates of investment return assumed in the calculation of the Scheme's Technical Provisions.

**Concentration of Risk and Diversification**

To reduce the risk of concentration within the portfolio, the Trustees will monitor the overall mix of asset classes and stocks in the investment strategy with their investment adviser, Broadstone.

The Trustees invest in a wide range of asset classes through the funds and strategies they use and consider the Scheme's strategy to be well diversified.

**Manager Controls and Custodianship**

The day-to-day activities that the Investment Managers carry out for the Trustees are subject to regular internal reviews and external audits by independent auditors to ensure that operating procedures and risk controls remain appropriate.

Safe-keeping of the Scheme's assets held with the Investment Managers is performed by custodians appointed by them.

**Manager Security**

The Trustees have considered the financial security of the Scheme's holdings with the Investment Managers, together with their status as regulated firms, and consider the associated protection offered as an investor to be reasonable and appropriate.

**Monitoring and Management of Risks**

The Trustees will monitor the investment and funding risks faced by the Scheme with the assistance of their investment adviser and the Scheme Actuary at least every three years. The Trustees will consider the appropriateness of implementing additional risk mitigation strategies as part of such reviews.

In addition, the Trustees will review wider operational risks as part of maintaining their risk register.

## 6 Responsible Investing, Governance and Engagement

### Financially Material Considerations Related to Environmental, Social and Governance Considerations

The Trustees recognise that Environmental, Social and Governance (ESG) issues can and will have a material impact on the companies, governments and other organisations that issue or otherwise support the assets in which the Scheme invests. In turn, ESG issues can be expected to have a material financial impact on the returns provided by those assets.

The Trustees delegate responsibility for day-to-day decisions on the selection of investments to the Investment Managers. The Trustees have an expectation that the Investment Managers will consider ESG issues in selecting investments, or will otherwise engage with the issuers of the Scheme's underlying holdings on such matters in a way that is expected to improve the long-term return on the associated assets. The Trustees' views on how ESG issues are taken account of in each asset class used is set out below:

Asset Class	Active/Passive	Trustees' views
Risk-controlled multi-asset funds	Active	The Trustees expect the investment managers to take financially material ESG factors into account, given the active management style of the funds and the ability of each manager to use its discretion to generate higher risk adjusted returns. The Trustees also expect their investment managers to engage with the underlying investee companies, where possible, although they appreciate that fixed income assets within the portfolio do not typically attract voting rights.
Government bonds	Passive	The Trustees believe there is less scope for the consideration of ESG issues to improve risk-adjusted returns in this asset class because of the nature of the securities.

The Trustees do not currently impose any specific restrictions on the Investment Managers with regard to ESG issues, but will review this position from time to time. The Trustees receive information on request from the Investment Managers on their approach to selecting investments and engaging with issuers with reference to ESG issues.

With regard to the specific risk to the performance of the Scheme's investments associated with the impact of climate change, the Trustees take the view that this falls within their general approach to ESG issues. The Trustees regard the potential impact of climate change on the Scheme's assets as a longer term risk and likely to be less material in the context of the short to medium term development of the Scheme's funding position than other risks. The Trustees will continue to monitor market developments in this area with their investment adviser.

<b>Views of Members and Beneficiaries</b>	<p>The Scheme is comprised of a diverse membership, expected to hold a broad range of views on ethical, political, social, environmental, and quality of life issues. The Trustees therefore do not explicitly seek to reflect any specific views through the implementation of the investment strategy.</p>
<b>Engagement and Voting Rights</b>	<p>Responsibility for engagement with the issuers of the Scheme's underlying investment holdings and the use of voting rights is delegated to the Investment Managers. The Trustees can therefore only influence engagement and voting policy indirectly.</p> <p>The Investment Managers provide information to the Trustees on their actions in relation to engagement and use of voting rights. The Trustees are therefore able to be aware of the policies adopted by the Investment Managers.</p>
<b>Capital Structure of Investee Companies</b>	<p>Responsibility for monitoring the make up and development of the capital structure of investee companies is delegated to the Investment Managers. The Trustees expect the extent to which the Investment Managers monitor these capital structures to be appropriate to the nature of the mandate.</p>
<b>Conflicts of Interest</b>	<p>The Trustees maintain a separate conflicts of interest policy and a conflicts register. Subject to reasonable levels of materiality, these documents can record any actual or potential conflicts of interest in relation to investee companies or the Investment Managers, while also setting out a process for their management.</p>
<b>Incentivisation of Investment Managers</b>	<p>The investment managers are primarily remunerated based on an agreed fixed annual percentage of the asset value for each underlying fund.</p> <p>The Trustees do not directly incentivise the Investment Managers to align the approach they adopt for a particular fund with the Trustees' policies and objectives. Instead, the Investment Managers are selected so that, in aggregate, the returns produced are expected to meet the Trustees' objectives.</p> <p>Neither do the Trustees directly incentivise the Investment Managers to make decisions about the medium to long-term performance of an issuer of debt or equity, or to engage with those issues to improve their performance. The Trustees expect such assessment of performance and engagement to be undertaken as appropriate and necessary to meet the investment objectives of the funds used by the Scheme.</p>

## 7 Review and Monitoring

**Frequency of Review** The Trustees will review this Statement at least every three years or if there is a significant change in the Scheme's circumstances or the regulations that govern pension scheme investment.

**Monitoring the Investment Strategy and Managers** The Trustees employ Broadstone to assist them in monitoring the performance of the Scheme's investment strategy and Investment Managers.

The Trustees receive quarterly reports from the Investment Managers and meet with their representatives periodically to review their investment performance and processes.

The Trustees and Broadstone will monitor the Investment Managers' performance against their performance objectives.

The appropriateness of the Investment Managers' remuneration will be assessed relative to market costs for similar strategies, the skill and resources required to manage the strategy, and the success or otherwise a manager has had in meetings its objectives, both financial and non-financial.

**Portfolio Turnover Costs** The Trustees expect the Investment Managers to change underlying holdings only to an extent required to meet their investment objectives. The reasonableness of such turnover will vary by fund and change according to market conditions.

The Trustees therefore do not set a specific portfolio turnover target for their strategy or the underlying funds.

The Investment Managers can provide information on portfolio turnover and associated costs to the Trustees so that this can be monitored, as appropriate.

**Review of Investment Managers and AVC provider** The Trustees will consider on a regular basis whether or not the Investment Managers and AVC provider remain appropriate to continue to manage the Scheme's investments and AVCs.

**Information from Investment Managers** The Investment Managers will supply the Trustees with sufficient information each quarter to enable them to monitor financial and non-financial performance.

**Signed**

J L Sharrocks

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**Name**

Mr John L Sharrocks (Trustee)

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**Date**

23rd September 2023

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**On behalf of the Trustees of the Dawn Somerset Retirement and Death Benefit Scheme**