# Morgan Pension Scheme

*Statement of Investment Principles*
*June 2020*

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# Morgan Pension Scheme

## *Statement of Investment Principles – June 2020*

### 1. INTRODUCTION

This Statement of Investment Principles ("the Statement") has been prepared by the Board of Morgan Group Pension Scheme Trustees Limited ("the Trustee") on behalf of the Morgan Pension Scheme ("the Scheme”) in accordance with Section 35 of the Pensions Act 1995, as amended and the Occupational Pension Schemes (Investment) Regulations 2005 and subsequent legislation.

This document outlines the principles governing the investment policy of the Scheme and the activities undertaken by the Trustee to ensure the effective implementation of these principles.

In preparing this Statement, the Trustee has obtained and considered written advice from its investment adviser and consulted with the Sponsoring Employer, Morgan Advanced Materials plc. The advice and consultation process considered the suitability of the Trustee's investment policy for the Scheme.

### 2. TRUSTEE

#### 2.1 Joint Funding and Investment Committee

The Trustee has appointed a Joint Funding and Investment Committee (“JFIC”). The objective of the JFIC is to review, report and to make recommendations to the Trustee on the following tasks:

a) Liaising with and reviewing the performance of the:

- Investment managers and the AVC providers;
- Investment advisers;
- Actuarial advisers;
- Independent covenant assessor; and
- Custodian

b) Subject to respective Board approval, selecting and replacing the investment managers, custodian and other service providers.

c) Establishing (subject to respective Board approval) appropriate investment objectives, guidelines and restrictions for the investment managers following receipt of formal written advice from the appropriate advisers and establishing objectives for investment advisers;

d) Reviewing from time to time the funding and investment strategy to ensure that the strategy remains consistent with the Trustee’s journey plan.

e) Reviewing the Scheme’s Statement of Investment Principles at least every three years and without delay following any significant change in investment strategy.

f) To review from time to time whether the arrangements in respect of the investment managers, including the investment guidelines and the fee basis, remain appropriate.

g) To consult with the Sponsor on funding and investment matters when requested to so do by the respective Board or whenever such consultation is required by law.

The Trustee will consult the Sponsor before revising this document. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustees.

### 2.2 The Trustee Board

The Trustee decides on any investment recommendations put to it by the JFIC, subject to consultation with the employer where appropriate. The Trustee evaluates the effectiveness of its decision-making, and that of the JFIC, on a periodic basis.

## 3. INVESTMENT ADVISER

The Trustee has selected an investment consultancy firm, Redington Ltd, as adviser to the Trustee and JFIC. The appointment will be reviewed by the Trustee formally on at least a triennial basis. The investment adviser advises the Trustee on the appropriate objectives and guidelines for the investment managers and in monitoring the investment managers against the agreed objectives, as well as providing advice as and when required.

The Trustee's investment advisers are authorised and regulated by the Financial Conduct Authority ("FCA").

## 4. OVERALL POLICY, INVESTMENT OBJECTIVES, RISK AND INVESTMENT STRATEGY

Overall investment policy falls into two parts. The strategic management of the assets is fundamentally the responsibility of the Trustee and is driven by its investment objectives as set out below. The day-to-day management of the assets is delegated to professional investment managers under separate Investment Management Agreements (IMAs).

### 4.1 Investment Objectives

The Trustee's overall objective is to ensure sufficient assets are available to pay members' and dependants' benefits as and when they fall due in accordance with the Scheme's Rules. The Trustee's investment objective is to achieve full funding by 2028 with liabilities valued on a 'gilts +0.5% basis' taking into account the current Contributions Schedule. The Trustee sets an investment strategy that aims to meet these agreed objectives, within a level of investment risk appropriate to the Scheme's circumstances. The Trustee reserves the right to invest in a wide range of asset classes, including investment in derivatives for the purposes of hedging and efficient portfolio management, in order to target the investment returns required to meet the investment objective.

To meet the long-term funding objective within a level of contributions that the Sponsor has indicated it is willing to make, the Trustee has agreed to take some investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide whilst maintaining a prudent approach to meeting the Scheme's liabilities.

The Trustee recognises that it is possible to select "matching" investments whose cashflows are similar to the estimated liability cash flows, especially in its sensitivity to inflation and interest rates. The appropriate use of these instruments to hedge inflation and interest rates, all other things being equal, lowers the volatility of the funding position of the Scheme and the funding deficit risk.

The Trustee's willingness to take investment risk is dependent on the continuing financial strength of the Sponsor and its willingness to contribute appropriately to the Scheme.

### 4.2 Diversification of risks

In addition to targeting an appropriate overall level of investment risk, the Trustee seeks to diversify risks across a range of sources to limit the impact of any single risk. The Trustee aims to take risks for which it expects to be rewarded over time, in the form of excess returns.

The Trustee takes into account the following risks:

- *Interest rate risk* exists if the interest rate sensitivity of the assets held differs from that of the projected liabilities.
- *Inflation risk* exists if the projected cashflows from the assets have different inflation linkages from the projected liabilities.
- *Credit risk* reflects the possibility that the payments due under a bond might not be made by the issuer.
- *Currency risk* arises through investment in non-Sterling assets, as changes in exchange rates will affect the relative value of the assets and the sterling-denominated liabilities.
- *Volatility risk* concerns the stability of the market value of assets, where the price achievable may be particularly affected by short-term sentiment and is not certain until the point of sale.
- *Regulatory risk* arises from investing in a market environment where the regulatory regime may change. Similarly, *political risk* arises in environments where the political situation may be unstable.
- *Liquidity risk* arises from holding assets that are not readily marketable and realisable.
- *Concentration risk* arises when a high proportion of the Scheme's assets are invested in securities of the same or related issuers.
- *Security selection risk* arises where a manager underperforms the relevant benchmark or objective by a material amount.

The Scheme has chosen investment managers that hold a diversified portfolio of assets to reduce the stock-specific and market-specific risks faced by the Scheme.

## 5. INVESTMENT MANAGERS

The Trustee has chosen to employ a number of investment managers to invest in a diversified portfolio of assets, in respect of the members' liabilities not covered by the Bulk Purchase Annuity Policy, in order to target the objectives outlined in Section 4.1 (Investment Objectives).

One of these investment managers acts in the role of "Implementation Manager". The Implementation Manager has been issued with guidelines by the Trustee which instruct it to take certain actions, such as ensuring the interest rate and inflation hedge ratios remain within tolerance of target, ensuring the Scheme maintains sufficient collateral, and rebalancing the asset allocations to within tolerance of target for assets on its platform.

The Implementation Manager cannot make investment strategy decisions. Investment strategy decisions are made by the Trustee, and the Trustee will either update the Implementation Manager guidelines or make a separate instruction to the Implementation Manager to implement any decisions as appropriate.

The Implementation Manager is also the Scheme's LDI manager and as such, has been provided with the scheme's liability cashflows and may be provided with updates of these cashflows from time to time, which it uses to guide the construction of the liability hedge.

The Trustee, advised by the investment adviser, has invested in a diversified portfolio of assets and in doing so seeks to achieve an efficient risk-reward trade-off having due regard to the liquidity and collateral requirements of the Scheme.

## 6. TRUSTEE ARRANGEMENTS WITH ASSET MANAGERS

Due to the benefits of cost and ease of implementation, the Trustee mainly invests in pooled investment vehicles. The Trustee recognises that due to the collective nature of these investments, there is less scope to directly influence how the asset manager invests. However, the Trustee's investment advisers ensure the investment objectives and guidelines of the manager are consistent with that of the Trustee.

When relevant, the Trustee requires its investment managers to invest with a medium- to long-term time horizon, and use any rights associated with the investment to drive better long-term outcomes. For some asset classes, the Trustee does not expect the respective asset managers to make decisions based on long-term performance: these may include investments that provide risk reduction through diversification or through hedging, consistent with the Trustee's strategic asset allocation.

The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Fund's assets. When assessing a manager's performance, the focus is on longer term outcomes and is assessed over a medium- to longer-term timeframe, subject to a minimum of three years.

The Trustee would not expect to terminate a manager's appointment based purely on short-term performance. However, a manager's appointment could be terminated within a shorter timeframe than three years due to other factors such as a significant change in business structure or the investment team.

Managers are paid an ad valorem fee for a defined set of services (subject to the Implementation Manager's minimum fee set out in section 10.2). The Trustee reviews the fees annually to confirm they are in line with market practices, notably when the Trustee expects the manager to take an active ownership approach and consider long-term ESG factors.

The Trustee's policy towards monitoring non-financial performance is set out in Section 9 (Responsible Investment).

The Trustee reviews the portfolio transaction costs and portfolio turnover range of managers annually, where the data is disclosed and available. The Trustee will then determine whether the costs incurred were within reasonable expectations.

## 7. REALISATION OF INVESTMENTS

The Trustee will instruct the realisation of assets to keep the investment strategy on target. This may be an instruction directly to a manager or via the Implementation Manager. The majority of the Scheme's assets are invested in funds that invest in securities that are traded on quoted markets and are readily realisable.

The Trustee has due regard to the liquidity requirements of the Scheme to meet benefit outgoings and other requirements.

The benefits of those members' liabilities that are backed by an annuity policy will be met by the insurer from whom the Trustee has purchased the annuity.

## 8. ANNUITY PROVIDERS

The Trustee ensures that any providers of bulk annuities are appropriately regulated, and are only selected after the receipt of advice from a suitably qualified person. The Trustee may also purchase annuities and deferred annuities from a reputable Life insurer, to meet specific pensioner and deferred member benefits.

In 2008 the Trustee purchased a Bulk Purchase Annuity Policy with Lucida plc. Under the terms of the policy, Lucida agreed to make monthly payments which covered the monthly pension payments made by the Scheme. Following the purchase of Lucida by Legal & General Assurance Society (LGAS) the policy was transferred to LGAS. The policy terms remained unchanged.

In the event of favourable market conditions and subject to liquidity considerations, the Trustee may seek to reduce risk further by either extending the existing policy, or purchasing a new policy to cover pensioner liabilities arising since 2008.

## 9. RESPONSIBLE INVESTMENT

### 9.1 Environmental, social and governance considerations

The Trustee incorporates all financially material considerations into decisions on the selection, retention and realisation of investments through strategic asset allocation decisions and the appointment of investment managers, so far as possible.

The Trustee believes that environmental, social and governance factors (including but not limited to climate risk) will be financially material over the time horizon of the Scheme but will have varying levels of importance for different types of assets invested by the Scheme.

The Trustee's investment advisors will provide regular updates on the performance of investment managers against the above.

The Trustee does not factor non-financial decisions (such as ethical or moral beliefs) into their investment decision-making, nor do they appoint asset managers that consider these factors.

### 9.2 Stewardship

The Trustee recognises that good stewardship practices, including engagement and voting activities, are important as they help preserve and enhance asset owner value over the long term.

Direct engagement with underlying companies (as well as other relevant persons) of which the Trustee owns shares and debt is carried out by the Scheme's investment managers.

The Trustee expects their investment managers to practice good stewardship. This includes monitoring, engaging with issuers of debt or equity on relevant matters such as performance, strategy, risks, capital structure, conflicts of interest and environmental, social or governance considerations, and using voting rights to effect the best possible long-term outcomes.

The Trustee's investment advisers assess the ability of each investment manager in engaging with underlying companies in order to promote the long-term success of the investments, and reports to the Trustee on an annual basis covering how the investment managers have acted in line with this policy.

When selecting, monitoring and de-selecting asset managers, stewardship is factored into the decision-making process to the appropriate level for the specific asset class in question.

Engagement with relevant persons includes the exercise of rights (including voting rights) attaching to the Scheme's equity investments which are exercised by the asset managers of the Scheme. The Trustee monitors and discloses the voting records of its managers on an annual basis.

## 10. MONITORING OF INVESTMENT ADVISER AND MANAGER

### 10.1 Investment adviser

The Trustee formally measures the performance of its adviser against investment adviser objectives, set by the Trustee, on an annual basis. The Investment adviser fees are charged primarily on a fixed fee basis, with additional project fees agreed as and when such instances arise.

The investment adviser provides quarterly performance reporting to the Trustee, covering the Scheme’s overall performance against its investment objectives and individual manager performance.

### 10.2 Investment managers

The investment managers provide performance reporting to the Trustee (excluding the Bulk Purchase Annuity Policy), via the investment adviser.

The investment managers charge asset-related fees. The Implementation Manager charges a minimum fee in respect of its Implementation Manager services. Where the asset-related fees paid to the Implementation Manager in respect of the Scheme exceed this minimum fee, no further fee will be due in respect of the Implementation Manager services.

## 11. COMPLIANCE

The Scheme's Statement of Investment Principles and annual report and accounts are available to members on request.

A copy of the current Statement is supplied to the Sponsoring Employer, the Scheme's Investment Managers, the Scheme's Auditors, the Scheme Actuary and the Scheme’s Investment Adviser.

This Statement of Investment Principles supersedes all others and was approved by the Trustee on *18 June 2020*.

## APPENDIX 1

**Annex 1: Requirements in respect of the Statement of Investment Principles, under Section 35 of the 1995 Pensions Act**

The trustees of a trust scheme must secure that a statement of investment principles is prepared for the scheme under section 35 of the 1995 Act and is reviewed at least every three years; and without delay after any significant change in investment policy.

Before preparing or revising a statement of investment principles, the trustees of a trust scheme must–

(a) obtain and consider the written advice of a person who is reasonably believed by the trustees to be qualified by his ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of the investments of such schemes; and

(b) consult the employer.

A statement of investment principles must be in writing and must cover at least the following matters–

(a) the trustees' policy for securing compliance with the requirements of section 36 of the 1995 Act (choosing investments);

(b) their policies in relation to–

- (i) the kinds of investments to be held;
- (ii) the balance between different kinds of investments;
- (iii) risks, including the ways in which risks are to be measured and managed;
- (iv) the expected return on investments;
- (v) the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments; and

(c) their policy (if any) in relation to the exercise of the rights (including voting rights) attaching to the investments.