Blyth Harbour Commission Retirement Benefits Scheme

Statement of Investment Principles

September 2019

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1. Introduction

1.1 Purpose of the Statement

This statement sets out the principles and policies that govern investments made by the Trustees of the Blyth Harbour Commission Retirement Benefits Scheme.

1.2 Statutory Requirements

This statement is made in accordance with the requirements of the Pensions Act 1995 and the Occupational Pensions (Investment) Regulations 2005 made under the Pensions Act 2004 and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.

The Trustees are aware of the Pension Regulator's Investment Guidance for defined benefit pension schemes dated March 2017 and of the Myners Principles which were updated in 2008. The Trustees consider their investment policy to be consistent with this guidance.

1.3 Investment Advice

As required by legislation, in the preparation and maintenance of this statement and when considering the suitability of any investments, the Trustees have obtained and considered written advice from their investment adviser.

The Trustees are advised on investment matters by First Actuarial LLP. First Actuarial LLP is regulated by the Institute and Faculty of Actuaries and is qualified to provide the required advice through knowledge and practical experience of financial matters relating to pension schemes.

1.4 Employer Consultation

Under legislation, the ultimate responsibility for determining the investment strategy rests with the Trustees. However, the Trustees must consult with the sponsoring employer and consultation must comprise a sharing of views, not simply notification of intent.

The Trustees have consulted with the sponsoring employer as part of the work preparing this statement.

1.5 Reviewing this Statement

This statement will be reviewed at least every three years and without delay after any significant change in circumstances or investment policy.

A copy of this statement and any amendments made to it are available to the Scheme Actuary and to the managers of the pooled investment vehicles used by the Trustees.

2. Objectives and Strategic Allocation

2.1 Investment Objectives

The Trustees have set an investment strategy that reflects the following primary investment objectives:

- **Generating an appropriate level of investment returns** – to improve the funding position of the Scheme thereby improving security for the members.
- **Managing cash flow requirements** – to ensure that sufficient assets and cash flows are available to pay members' benefits as and when they arise.
- **Protecting the funding position** – to limit the scope for adverse investment experience reducing security for members.

It is recognised that targeting higher levels of investment return introduces investment risk which increases the volatility of the funding position.

2.2 Setting the Strategic Asset Allocation

The Trustees' strategic asset allocation is determined after considering written advice from the investment adviser and is designed to strike a balance between the above objectives. The strategic asset allocation takes into account:

- the nature and timing of liability payments;
- expected levels of investment return on the different asset classes;
- expected levels of investment return variability and, specifically, the expected level of short-term volatility of the Scheme's funding position;
- the sponsoring employer's ability to withstand the additional contribution requirements that may arise from such volatility in the funding position; and
- the full range of available investments (within the bounds of practicality).

In determining the strategic asset allocation, the Trustees view the investments as falling into two broad categories:

1. **Growth Assets** – Assets that are expected to deliver long-term returns in excess of liability growth. The use of Growth Assets is expected to deliver a level of investment returns deemed appropriate by the Trustees given the risk involved.
2. **Defensive Assets** – Assets that are expected to react to changes in market conditions in a similar way to the liabilities. The use of Liability Matching Assets is expected to protect the funding position of the Scheme.

The Trustees' strategic asset allocation is detailed in the Appendix.

3. Implementation

3.1 Implementation of the Investment Strategy

Day-to-day management of the assets is delegated to one or more investment managers. The mandates set for the investment managers are intended to implement the Trustees' investment objectives within an acceptable level of risk.

Details of the mandates set for the investment managers are provided in the Appendix.

The Trustees are satisfied that the investment managers have the appropriate knowledge and experience for managing the investments.

The Trustees consider each investment manager's mandate carefully to ensure it is appropriate. Where pooled investment vehicles are used, it is recognised that the mandate cannot be tailored to the Trustees' particular requirements. However, the Trustees ensure that any pooled investment vehicles used are appropriate to the circumstances of the Scheme.

The Trustees, in conjunction with their investment adviser, regularly review each of the investment managers to ensure that the manager remains competent and that the assets continue to be managed in accordance with the manager's mandate.

3.2 Safekeeping of Assets

To ensure safekeeping of the assets, ownership and day to day control of the assets is undertaken by custodian organisations which are independent of the sponsoring employer and the investment managers. Where pooled investment vehicles are used, the custodians will typically be appointed by the investment manager.

3.3 Regulated Markets and Derivatives

Assets are invested predominantly on regulated markets, as so defined in legislation. Any investments that do not trade on regulated markets are kept to a prudent level.

The investment managers are permitted to use derivative instruments to reduce risk (for example to mitigate the impact of a potential fall in markets) or for efficient portfolio management. Efficient portfolio management would include using derivatives as a cost-effective way of gaining access to a market or as a method for generating capital and/or income with an acceptable level of risk.

4. Risks and Other Matters

4.1 Investment Risks

Identification, measurement and management of risk form an integral part of the process adopted by the Trustees to determine an appropriate investment strategy. The principal investment risks are listed in a separate Investment Risks Policy document along with an explanation of how those risks are managed.

4.2 Employer-Related Investment

The proportion of the Scheme investments which can be related to the sponsoring employer (as defined within legislation) is limited to 5% of the value of total assets.

The Trustees do not hold any direct employer-related assets and any indirect exposure is expected to be less than 5% of total assets.

4.3 Sustainable Investing and Corporate Governance

Investment Beliefs

The investment beliefs stated below have been developed by the Trustees and are reflected in the Scheme's investment strategy.

Appropriate Time Horizon

In determining investment objectives and a suitable investment strategy for the Scheme, the Trustees take into account an appropriate time horizon. The appropriate time horizon will be reviewed periodically noting the inherent uncertainties in the length of time that benefits are expected to be paid from the Scheme.

Risk versus Reward

Targeting higher levels of investment return increases investment risk which increases the volatility of the funding position.

Asset Allocation

Long-term performance of the Scheme's assets is attributable primarily to the strategic asset allocation rather than the choice of investment managers.

Diversification

Asset diversification helps to reduce risk.

Use of Pooled Funds

Taking into account the size of the Scheme's assets, it is expected that pooled funds will typically be a more practical way of implementing the Scheme's investment strategy than establishing segregated mandates with investment managers.

Use of Active Management

Active management has the potential to add value either through offering the prospect of enhanced returns or through the control of volatility. In addition, it is recognised that active management may help to mitigate the financial impact of Environmental, Social and Governance (ESG) risks.

For each asset class, the Trustees will consider whether the higher fees associated with active management are justified.

ESG

The Trustees believes that ESG factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that may apply over the appropriate time horizon.

Assessment of how ESG risks are mitigated will be one of the factors considered by the Trustee when selecting and monitoring investment managers.

Defined Benefit Assets – Investment strategy

The Trustees has taken advice from its investment advisor to construct a portfolio of investments consistent with these objectives. In doing so, consideration is given to all matters which are believed to be financially material over the appropriate time horizon.

The Trustees does not take account of non-financial matters when determining the Scheme's investment strategy.

Investment Manager Selection

The Trustees delegate the day to day management of the assets, including selection, retention and realisation, to professional investment managers.

When considering the suitability of an investment manager, the Trustees (in conjunction with its investment adviser), will take account of all matters which are deemed to be financially material. When selecting an investment manager, the Trustees will:

- ensure that the investment manager has the appropriate knowledge and experience;
- ensure that the investment manager's mandate is appropriate; and
- consider the investment manager's approach to ESG matters.

When selecting investment managers, the Trustees may also take into account matters which are not financially material such as the investment manager's administrative capabilities and the liquidity of the investments.

Members' Views

The Trustees recognise that it is likely that members and beneficiaries will hold a broad range of views on ESG and other non-financial matters. Whilst the Trustees will seek to avoid investing in a way that is likely to be strongly opposed by those individuals, the Trustees does not directly take such views into account when determining the Scheme's investment strategy.

The Trustees believes that its duty to members and beneficiaries will be best served by ensuring that all benefits can be paid as they fall due and the Trustees' Investment Objectives are designed to ensure this duty is achieved.

ESG Risks & Corporate Engagement

Where the Trustees invest in pooled investment vehicles, it is accepted that the extent to which corporate governance, socially responsible practices and ethical behaviour are used in the selection of suitable investments will be determined by the investment managers' own policies on these matters.

Similarly, it is accepted that ongoing engagement with companies in which investments are made (including the exercise of voting rights) will also be determined by the investment managers' own policies. When considering the suitability of investment managers, the Trustees (in conjunction with its investment adviser) will take account of any particular characteristics of that manager's engagement policy that are deemed to be financially material.

The Trustees recognise that the membership might wish the Trustees to engage with the companies in which the Scheme invests with the objective of improving corporate behaviour to benefit the environment and society.

However, the Scheme's assets are invested in pooled funds and, as noted above, the Trustees therefore relies on the investment managers to carry out such engagement. The Trustees recognise that the investment managers' engagement policies are likely to be focussed on maximising financial returns and minimising financial risks rather than targeting an environmental or societal benefit.

The Trustees (in conjunction with its investment adviser) are in the process of considering the likely impact of the financially material ESG risks associated with all of the Scheme's investments and has assessed the mitigation of such risks implemented by each of the investment managers. In making this assessment, the Trustees will recognise that, where pooled investment vehicles are held, the extent to which ESG factors will be used in the selection of suitable underlying investments will be determined by the investment managers' own policies on such matters.

In the event that ESG policies and practices are considered to be unsuitable, the Trustees will replace the fund in question.

Monitoring

The Trustee regularly reviews the Scheme's investments for all matters considered to be financially material over the future period for which benefits are expected to be paid from the Scheme. This includes reviewing that the assets continue to be managed in accordance with each manager's mandate and that the choice of managers remains appropriate.

Furthermore, the Trustees regularly monitor the position of the investment managers with regards to ESG matters.

The investment adviser regularly meets with the managers of pooled funds on its approved list.

4.4 Additional Voluntary Contributions

Additional Voluntary Contributions (AVCs) are held separately from the main assets and the Trustees aim to make a variety of funds available with the member choosing which funds to use. From time to time the Trustees review the range of available funds to ensure the choice remains appropriate for members' needs.

Details of the current AVC arrangements are provided in the Appendix.

5. Future Amendments

From time to time, and following receipt of advice from its investment adviser, the Trustees may agree to make changes to the investment strategy set out in this statement. Any such changes will be summarised in an addendum to this statement

Before any changes are made to the investment strategy, the Trustees will consult with the sponsoring employer.

The principles set out in this statement have been agreed by the Trustees:

....................S. C. MILLS....................

For and on behalf of the Trustees of the Blyth Harbour Commission Retirement Benefits Scheme

Date: ....30/9/2019....

Appendix: Current Investment Strategy

The Trustees have appointed Legal & General Investment Management (LGIM) and Rathbone Investment Management Limited (Rathbones) (the managers) to manage the assets of the Scheme. The mandates the Trustees have given to the managers reflect the principles and policies as set out in the main body of this Statement and further details of the specific arrangements in place with the managers are contained in this Appendix.

Asset Allocation

The Scheme assets are invested in the following underlying pooled funds (shown after the transition to the new strategy):

Pooled Investment Vehicle	Allocation as at 25 September 2018 (% of Scheme Assets)
Defensive Assets	
M&G Total Return Credit Investment Fund*	20.3%
LGIM Over 5 Year Index-Linked Gilts Index Fund	19.8%
Total Defensive Assets	**40.0%**
Growth Assets	
LGIM UK Equity Index Fund	3.8%
LGIM World (ex UK) Equity Index Fund	3.1%
Rathbones portfolio – UK Equity	27.8%
Rathbones portfolio – Overseas Equity	23.2%
Rathbones portfolio – Cash	2.1%
Total Growth Assets	**60.0%**

* Access via the LGIM platform.
Totals may not sum due to rounding.

The allocation shown above is not automatically rebalanced but is monitored and rebalanced at the discretion of the Trustees. The benchmark, rebalancing and investment / disinvestment policies applicable to the individual fund managers are set out as follows.

Benchmark / Rebalancing Policy – Rathbones

As an active manager, Rathbones are not expected to rebalance assets to a specific benchmark.

However, they will endeavour to maintain a portfolio according to the allocation and control ranges shown below. Rathbones reserve the right to move outside these ranges if they have good reason to do so, but will inform the Trustees of any such instance.

Performance of the portfolio will be assessed against the indices and allocation shown below.

Fund	Allocation	Control Range	Performance Comparison
UK Equity	55%	+/- 10.0%	FTSE All Share Total Return Index
Overseas Equity	45%	+/- 10.0%	FTSE World (ex UK) Total Return Index

Rathbones will hold no more than 5% of the total Rathbones portfolio in cash or cash funds.

Benchmark / Rebalancing Policy – LGIM

The LGIM assets will be held in three separate portfolios:

1. LGIM equity assets (UK Equity Index Fund and World (ex UK) Equity Index Fund).
2. LGIM Over 5 Year Index-Linked Gilts Index Fund.
3. M&G Total Return Credit Investment Fund (accessed via the LGIM platform).

The LGIM equity assets portfolio will be rebalanced on a monthly basis, based on the benchmark allocation shown below.

Fund	Benchmark Allocation	Control Range
LGIM UK Equity Index Fund	55%	+/- 1.0%
LGIM World (ex UK) Equity Index Fund	45%	+/- 1.0%

Restrictions on Investments

For the segregated equity portfolio managed by Rathbones, the following restrictions apply:

- no direct property holdings;
- no direct overseas equity holdings;
- no self-investing or stock lending;
- maximum of 10% of the portfolio in companies outside the FTSE 350;
- maximum of 5% of the portfolio in any one security;
- the use of structured products to be limited to a maximum of 7.5% of the portfolio.

The Trustees have not applied any restrictions relating to sustainable investing or corporate governance and accept that securities will be selected according to Rathbone's standard considerations on these matters.

Investment / Disinvestment Policy

Ad-hoc investments and disinvestments

Any ad-hoc investments or disinvestments are made at the discretion of the Trustees, but are likely to be used to move the allocation towards the target shown on page 6.

Regular disinvestments

The Trustees currently disinvest a total of £8,250 per month form their assets to meet pension cashflows requirements.

- LGIM disinvest £2,750 per month from the equity assets portfolio, where assets are disinvested to bring the allocation closer to the benchmark allocation specified on page 7.
- Rathbones disinvest £5,500 per month, but will be provided with discretion to disinvest from the assets they feel are most appropriate.

Additional Voluntary Contributions

The Trustees have appointed Northern Rock Asset Management to manage the Additional Voluntary Contributions.

Fund Details

The LGIM Over 5 Year Index-Linked Gilts Index Fund has been selected by the Trustees having regard for the nature of the Scheme's liability profile. As market conditions change, the value of this fund is expected to move broadly in line with the proportion of the Scheme's liabilities being matched.

The Trustees' expectation is that the Growth Assets will provide returns in line with each fund's stated objective.

Details of the funds used are summarised below. The fee information includes:

- AMC – the Annual Management Charge applicable to each fund which covers the underlying fund manager fee and the charge levied by LGIM for accessing the fund via the LGIM platform.
- Additional expenses – these are third party costs associated with the operation of a fund such as fees paid to the administrator, the custodian and the auditor and the costs associated with the use of third-party funds where these are used. The level of the additional expenses may vary over time.

The funds selected by the Trustee are:

M&G Total Return Credit Investment Fund (accessed via the LGIM platform)		
Objective	The fund aims to provide investors with attractive returns from capital and income from a diversified pool of debt and debt like assets, including but not limited to, debt instruments with a fixed, variable or floating rate coupon. The fund targets a return of cash (LIBOR) plus 3% to 5% p.a. gross of fees.	
Fee	AMC:	0.33% p.a.
	Additional Expenses:	0.15% p.a.

LGIM Over 5 Year Index-Linked Gilts Index Fund		
Objective	To replicate the performance of the FTSE Actuaries UK Index-Linked Gilts Over 5 Years Index to within +/- 0.25% p.a. for two years out of three.	
Fee	AMC:	Up to 0.10% p.a.

LGIM UK Equity Index Fund		
Objective	To replicate the performance of the FTSE All-Share Index to within +/-0.25% p.a. for two years out of three.	
Fee	AMC:	Up to 0.10% p.a.

LGIM World (ex UK) Equity Index Fund		
Objective	To replicate the performance of the FTSE World (ex UK) Index (less withholding tax if applicable) to within +/-0.5% p.a. for two years out of three.	
Fee	AMC:	Up to 0.22% p.a.

Rathbones Portfolio		
Objective	The Scheme is invested in what Rathbones' describe as a 'higher risk portfolio'. This type of portfolio will aim to achieve returns well in excess of inflation over a 5-year period and is expected to have a high allocation to equities. The portfolio is positioned to take a balanced approach between achieving capital growth and generating income.	
Fee	AMC:	0.50% p.a.

Blyth Harbour Commission Retirement Benefits Scheme

Addendum to the Statement of Investment Principles

Original Statement dated: September 2019

Date of Addendum: August 2020

Purpose of the Addendum

This Addendum is made in accordance with the requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 and it updates the Statement of Investment Principles to record how the Scheme complies with the EU Shareholder Rights Directive (SRD II) which comes into effect on 1 October 2020.

Definitions relating to this Addendum and the Statement of Investment Principles

ESG – Environmental, Social and Governance (including, but not limited to, climate change)

In the relevant regulations "**non-financial matters**" refers to the views of the members. This includes, but is not limited to, ethical views, views on ESG factors and views on the present and future quality of life for the members.

Investment Manager Arrangements

The Trustees believe that financially material considerations, including ESG factors and the risks related to such factors, can contribute to the identification of both investment opportunities and financially material risks. Consequently, financially material considerations can have a material impact on investment risk and return outcomes.

Compatibility of Pooled Funds with the Trustees' Investment Strategy

When selecting a pooled fund, the Trustees considers various factors, including:

- the assets that will be held within that fund and whether the asset allocation of the fund is expected to change over time;
- the risks associated with the fund along with the return that is expected;
- the fund's objective (as stated by the fund's investment manager) and whether the objective is consistent with the performance that the Trustees expect from that fund;
- the fund's fee structure to ensure that this is reasonable and that it does not provide an incentive for the investment manager to manage the fund in a way that differs from the expectations of the Trustee.
- how frequently underlying investments within the fund are expected to be traded by the investment manager;
- how financially material consideration[1] (including ESG factors) over the appropriate time horizon[2] are taken into account by the investment manager;
- the investment manager's policy in relation to the exercise of the rights (including voting rights) attaching to the investments held within the pooled fund; and
- the investment manager's policy in relation to undertaking engagement activities in respect of the investments held within the pooled fund*.

**This includes engaging with an issuer of debt or equity regarding matters including (but not limited to) performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, and ESG matters. It also includes engaging on these matters with other investment managers, other holders of debt or equity and persons or groups of persons who have an interest in the issuer of debt or equity.*

After analysing the above characteristics for a fund, the Trustees identify how that fund would fit within its overall investment strategy for the Scheme and how the fund is expected to help the Trustees meet their investment objectives.

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[1] "financially material considerations" includes (but is not limited to) environmental, social and governance considerations (including but not limited to climate change), which the trustee of the trust scheme considers financially material

[2] "appropriate time horizon" means the length of time that the trustee of a trust scheme considers is needed for the funding of future benefits by the investments of the scheme

Duration of Investment Manager Arrangements

The Trustees normally expect that pooled funds will be held for several years. However, as part of the periodic strategic asset allocation reviews (which take place at least every three years), the Trustees will review whether the ongoing use of each fund remains consistent with their investment strategy.

The Trustees regularly monitor the financial and non-financial performance of the pooled funds held and details of this monitoring process are set out below. If the Trustees become concerned about the ongoing suitability of a pooled fund, they may reduce exposure to it or disinvest entirely. Such action is expected to be infrequent.

Monitoring Pooled Funds

The Trustees regularly assess the performance of each fund held and this monitoring includes an assessment of whether the investment manager continues to operate the fund in a manner that is consistent with the factors used by the Trustees to select the fund (as listed above).

When assessing the performance of a fund, the Trustees do not usually place too much emphasis on short-term performance although they will seek to ensure that reasons for short-term performance (whether favourable or unfavourable) are understood.

The Trustees expect the investment managers of pooled funds to invest for the medium to long term and they expect investment managers to engage with issuers of debt or equity with a view to improving performance over this time frame.

If it is identified that a fund is not being operated in a manner consistent with the factors used by the Trustees to select the fund, or that the investment manager is not engaging with issuers of debt or equity, the Trustees may look to replace that fund. However, in the first instance, the Trustees would normally expect their investment adviser to raise the Trustees' concerns with the investment manager. Thereafter, the Trustees, in conjunction with their investment adviser, would monitor the performance of the fund to assess whether the situation improves.

Portfolio Turnover

The Trustees are aware of the requirement to monitor portfolio turnover costs (the costs incurred as a result of the buying, selling, lending or borrowing of investments).

When selecting a pooled fund, the Trustees will consider how the investment manager defines and measures:

- the targeted portfolio turnover (the frequency within which the assets of the fund are expected to be bought or sold); and

- turnover range (the minimum and maximum frequency within which the assets of the fund are expected to be bought or sold).

At least annually, the Trustees, in conjunction with their investment adviser, will consider the transaction costs incurred on each pooled fund. As part of this analysis, the Trustees will consider whether the incurred turnover costs have been in line with expectations.

The Trustees will take the above information on portfolio turnover into account when assessing the ongoing suitability of each pooled fund.