

Babcock Wanson UK Pension Scheme

Statement of Investment Principles 2023

This statement sets out the principles to be followed by the Trustees of the Babcock Wanson UK Pension Scheme (the Scheme) in determining the Scheme's investment policy, as required under section 35 of the Pensions Act 1995, as amended by The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 and any subsequent additional requirements.

This statement takes effect from 1 June 2023 and supersedes all earlier statements.

Advice and Consultation

In preparing this statement, the Trustees have:

- obtained written advice from their investment advisers, Verulam Gemmells, who are properly appointed and authorised to give investment advice; and
- consulted Babcock Wanson UK Ltd (the Employer) and the Scheme Actuary.

However, all investment decisions remain the responsibility of the Trustees.

Objectives

The Trustees' primary objective is to ensure that the Scheme has sufficient assets to pay all members' benefits as they arise.

Investment Principles

The Scheme is relatively mature, with over half of the liability being pensions in payment and pension payments exceed contributions received significantly. The Trustees have followed a relatively aggressive investment policy historically, although, since 2014, the Trustees have targeted increasing the percentage of the assets held in long-dated bonds to reflect the proportion of the liabilities consisting of pensions in payment. This change was intended to be made by investing any new money received in bonds, split equally between the corporate bond and index-linked gilt funds (see below), and taking all withdrawals from the global equity fund, until the desired split was achieved. However, the targeted splits have not been achieved due to way in which investment markets evolved.

In large part due to this remaining mismatch between the assets and liabilities, the funding position of the Scheme over the last 12 to 18 months has improved significantly. The strength of the Employer Covenant is considered to be 'tending to strong', especially taking account of the £1.4 million charge over the Employer's premises that the Scheme holds as additional security. Given this, and expected contributions agreed as part of the 2021 triennial actuarial valuation, the Trustees have determined that the highest risk for the Scheme (and the members) is now a deterioration of the funding position having attained a strong funding level, and so a reduction in funding volatility is the highest priority.

In April 2023, in order to address this objective, the Trustees disinvested from the global equity fund and realigned their assets to be invested in only the corporate bond and index-linked gilt funds, in proportions to match the split of the Scheme's liabilities having fixed and inflation-linked increases respectively.

The Trustees review the Scheme's funding level on a regular basis (at least annually), in order to consider whether the strategy remains appropriate.

Types of Investments to be Held

The Trustees will restrict the investments to be held to:

- securities quoted on recognised stock exchanges;
- managed funds, unit trusts and insurance policies offered by UK authorised investment managers and insurance companies;
- commodities and property (held directly or indirectly); and
- cash deposits with appropriately authorised institutions.

The Trustees will not make any employer-related investments except to the extent that a selected pooled investment vehicle has such underlying investments.

These restrictions are intended to avoid excessive risk and to ensure that the Scheme's assets can be realised, if required.

Implementation

In order to put the investment principles into effect, the Trustees have appointed Legal & General Investment Management (LGIM) as their fund manager. LGIM invest the Scheme's investments in the following funds:

- AAA-AA-A Bonds-All Stocks Index
- All Stocks Index-Linked Gilts

New money is invested and withdrawals are made from the funds, as instructed by the Trustees. In addition, the Trustees hold a bank account with Barclays Bank.

LGIM are remunerated on the basis of a fee charged as a percentage of the assets they manage in line with the Trustees' policies (including medium and long-term financial and non-financial performance).

All the funds are index funds i.e. these are managed to track an appropriate investment index closely. The Trustees receive quarterly reports on the performance of the funds. Performance is measured against these indices and unsatisfactory performance may lead to LGIM being replaced. The agreement with LGIM has an indefinite term but can be terminated by the Trustees on any dealing date available for the funds held.

Social, Environmental and Ethical Considerations

In endeavouring to invest for the best financial interests of the beneficiaries, the Trustees have elected to invest primarily in pooled investment vehicles, as this provides the Scheme with appropriate diversification, both by asset type and by individual security, which it is not believed could be obtained by holding assets directly.

The Trustees are aware of the financially material risks that might affect the Scheme but have not adopted a formal and specific policy on how these should be managed. However, the Trustees have assessed the investment manager's policies in respect of these and social, environmental and ethical factors with respect to their selection of investments. The Trustees are satisfied that the manager is taking an approach which is consistent with Trustees' beliefs and the long-term financial interests of the Scheme and its members.

The Trustees review the investment manager policies and their implementation on at least an annual basis and have therefore decided not to impose any additional social, environmental or ethical guidelines on the manager, at the current time.

Governance Considerations and Voting Policy

The Trustees have concluded that the decision on how to exercise voting rights should be left with their investment managers, who will exercise these rights in accordance with their respective published corporate governance policies. These policies are reviewed by the Trustees at least annually to ensure these continue to follow the Trustees' beliefs.

Stewardship policy is implemented by the Trustees through adhering to the Myners principles. This includes the Trustees engaging with stakeholders on conflicts of interest, risks, strategy, investment performance, capital structure and environmental and social impact.

The Trustees also receive and review, on an annual basis, reports on the voting actions taken by the manager and believe that actions taken are in the financial interests of the shareholders, which should ultimately be to the Scheme's advantage.

Where the Trustees are specifically invited to vote on a matter relating to a policy or contract held with any of the Scheme's investment managers, the Trustees will exercise their rights in the best interests of the majority of the Scheme's membership.

Monitoring portfolio and turnover and costs

The Trustees recognise that portfolio turnover (being the frequency with which the assets are expected to be bought/sold) and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance of their investment managers.

The Trustees review the portfolio turnover and resulting transaction costs annually with their investment adviser based on the regular reports received from the investment managers. When the Trustees agree a particular strategy and investment mandate, this will then set an expected level of turnover and transaction costs. The Trustees review and monitor the actual level of the costs and turnover against this expected level.

Review

The Trustees will review their investment strategy regularly and at least every three years as part of the triennial valuation. Before any significant changes are made, the Trustees will obtain written advice from their advisers and consult with both the Scheme Actuary and the Employer. Any changes will be documented in an updated version of this Statement.