

# *Statement of Investment Principles*

**For the Trustee of the Peel Ports Final Salary Pension Scheme**

**Effective from: December 2022**



## 1. Introduction

This Statement of Investment Principles (“SIP”) has been produced by the Trustee of the Peel Ports Final Salary Pension Scheme].

It sets out our policies on various matters governing investment decisions for the Peel Ports Final Salary Pension Scheme (“the Scheme”), which is a Defined Benefit (“DB”) Scheme. This SIP also covers the Additional Voluntary Contribution arrangements (“AVCs”).

This SIP replaces the previous SIP dated 30 September 2020.

This SIP has been prepared after obtaining and considering written advice from LCP, our investment adviser, whom we believe to be suitably qualified and experienced to provide such advice. The advice considered the suitability of investments including the need for diversification given the circumstances of the Scheme and the principles contained in this SIP.

We have consulted with the relevant employer in producing this SIP.

We will review this SIP from time to time and will amend it as appropriate. Reviews will take place without delay after any significant change in investment policy and at least once every three years.

This SIP contains the information required by legislation, and also considers the Pension Regulator’s guidance on investments.

## 2. Investment objectives for the DB Sections

The primary objective of the Scheme is to ensure that the benefit payments are met as they fall due. In addition to this primary objective, we have the following objectives:

- “funding objective” - to ensure that the Scheme is fully funded using assumptions that contain a margin for prudence. Where an actuarial valuation reveals a deficit, a recovery plan will be put in place which will take into account the financial covenant of the employer;
- “stability objective” – to have due regard to the likely level and volatility of required contributions when setting the Scheme’s investment strategy;
- “security objective” – to ensure that the solvency position of the Scheme (as assessed on a gilt basis) is expected to improve. The Trustee will take into account the strength of employer’s covenant when determining the expected improvement in the solvency position of the Scheme; and
- “risk management” – to manage the risks of matching assets against the method used by the Scheme Actuary in funding calculations.

Our investment objective for the AVCs is to make available a suitable range of investment options to meet members’ risk / return objectives.

### 3. Investment strategy

With input from our advisers and in consultation with the employer, we reviewed the investment strategy for the DB Section in June 2022, considering the objectives described in Section 2.

The investment strategy for the **DB Section** is shown in the following table.

Asset class	Strategic allocation
<b>Total growth</b>	<b>31%</b>
<b>Total matching</b>	<b>69%</b>
<b>Total</b>	<b>100%</b>

*The strategic allocation by individual section can be found in section 10.*

*Growth assets include: Global equities, private credit*

*Matching assets include: Multi-asset credit, short dated credit, LDI and money market funds.*

Our policy is to target the maximum expected return level subject to ensuring the level of investment risk is appropriate to reflect the Scheme's circumstances. We believe that the strategy above meets this objective.

There is no formal rebalancing policy. We monitor the asset allocation from time to time. If material deviations from the strategic allocation occur, we will consider with our advisers whether it is appropriate to rebalance the assets.

When setting the Investment Strategy, we considered the mix between the pre-retirement members and pensioners and reflect this within the growth and matching asset mix respectively. As the Scheme matures over time, we will adjust the investment strategy to reflect the change in the liability profile (ie the balance between growth to matching assets).

### 4. Considerations in setting the investment arrangements

When deciding how to invest the Scheme's assets, it is our policy to consider a range of asset classes, taking account of the expected returns and risks associated with those asset classes, as well as our beliefs about investment markets and

which factors are most likely to impact investment outcomes. The primary ways that we manage investment risk is via diversification, ensuring we receive professional written advice prior to making any material investment decision, and our ongoing monitoring and oversight of the investments. Further details of specific risks (for example equity risk, credit risk and currency risk) and how we measure and manage those risks is set out in Part 2 of the SIP addendum.

In setting the strategy for the **DB Section** it is our policy to consider:

- our investment objectives, including the target return required to meet these
- the circumstances of the Scheme, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the strength of the employer covenant
- the need for appropriate diversification between different asset classes to manage investment risk, and ensure that both the overall level of investment risk and the balance of individual asset risks are appropriate.

In determining the investment arrangements for the AVCs it is our policy to consider:

- the overall best interests of members and beneficiaries
- the profile of the membership and what this is likely to mean for the choices members might make upon reaching retirement
- the need for appropriate diversification to manage investment risk within the **default option** made available to DC members, and ensure that both the overall level of investment risk and the balance of individual asset risks are appropriate
- the need for appropriate diversification between and, where appropriate, within the investment options offered to members.

We also consider any other factors which we believe to be financially material over the applicable time horizons to the funding of the DB, and AVC benefits, including environmental, social and governance ("ESG") factors and the risks and opportunities relating to climate change].

Our key investment beliefs, which influenced the setting of the investment arrangements, are as follows:

- asset allocation is the primary driver of long-term returns

- costs may have a significant impact on long-term performance and therefore obtaining value for money from the investments is important
- investment managers who can consistently spot and profitably exploit market opportunities are difficult to find, and therefore passive management is usually better value
- risk-taking is necessary to achieve return, but not all risks are rewarded. Equity, credit, and illiquidity are the primary rewarded risks. Risks that do not have an expected reward should generally be avoided, hedged, or diversified
- ESG factors should be considered when making investment decisions, and managers may be able to improve risk-adjusted returns by doing this
- climate change is a financially material systemic issue that presents risks and opportunities for the Scheme over the short, medium and long term.

## 5. Implementation of the investment arrangements

Before investing in any manner, we obtain and consider proper written advice from our investment adviser as to whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

We have signed agreements with the investment managers, setting out the terms on which the portfolios are to be managed.

Details of the investment managers are set out in the separate SIP addendum.

We have limited influence over managers' investment practices because all the Scheme's assets are held in pooled funds, but we encourage our managers to improve their practices within the parameters of the fund they are managing.

Our view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines, and restrictions of their fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement, and portfolio turnover.

It is our responsibility to ensure that the managers' investment approaches are consistent with our policies before any new appointment, and to monitor and to consider terminating any arrangements that appear to be investing contrary to

those policies. We expect investment managers to make decisions based on assessments of the longer-term performance of debt/equity issuers, and to engage with issuers to improve their performance (or where this is not appropriate to explain why). We assess this when selecting and monitoring managers.

We evaluate investment manager performance over both shorter and longer-term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. If a manager is not meeting its performance objectives, we will consider alternative arrangements.

Our policy is to evaluate each of our investment managers by considering performance, the role it plays in helping to meet our overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

We recognise that portfolio turnover and associated transaction costs are a necessary part of investment management. Since the impact of these costs is reflected in performance figures used in our assessment of the investment managers, we do not explicitly monitor portfolio turnover. We expect our investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates.

## 6. Realisation of investments

For the DB Section, we instruct disinvestments as required for benefit payments and other outgoings. Our preference is for investments that are readily realisable, but recognise that achieving a well-diversified portfolio may mean holding some investments that are less liquid. In general, our policy is to use cash flows to rebalance the assets towards the strategic asset allocation, and also receive income from some of the portfolios where appropriate.

## 7. Financially material considerations and non-financial matters

We consider how environmental, social, governance ("ESG") considerations (including but not limited to climate change) should be addressed in the selection,

retention, and realisation of investments, given the time horizon of the Scheme and its members.

We influence the Scheme's approach to ESG and other financially material factors through our investment strategy and manager selection decisions. We expect all of our investment managers to take account of financially material factors (including climate change and other ESG factors) within the parameters of the mandates they are set. We seek to appoint managers that have the skills and processes to do this, and periodically review how the managers are taking account of these issues in practice.

All the Scheme's assets are invested in pooled funds. We have limited influence over managers' investment practices where assets are held in pooled funds, but we encourage our managers to improve their ESG practices within the parameters of their funds.

We do not consider any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention, and realisation of investments.

## **8. Voting and engagement**

We recognise our responsibilities as owners of capital, and believe 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.

We have delegated to the investment managers the exercise of rights attaching to investments, including voting rights, and engagement with relevant persons such as issuers of debt and equity, stakeholders and other investors about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG factors.

We do not monitor or engage directly with issuers or other holders of debt or equity, but we do engage with current and prospective investment managers on matters including ESG and stewardship. We expect the investment managers to exercise ownership rights and undertake monitoring and engagement in line with their policies on stewardship, considering the long-term financial interests of the beneficiaries. We expect the managers to communicate their policies on stewardship to us from time to time, and provide us with reporting on the results of their engagement and voting activities regularly and at least once a year.

We seek to appoint managers that have strong stewardship policies and processes, reflecting the principles of the UK Stewardship Code 2020 issued by

the Financial Reporting Council, and from time to time we review how these are implemented in practice.

## 9. Investment strategy by Section

Asset class	MDHC Salaried Officers	MDHC Weekly Staff	Medway	MSC	Clydeport	Total Scheme
Total growth	25%	35%	40%	20%	40%	31%
Total matching	75%	65%	60%	80%	60%	69%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

The allocations above assume that the private credit capital has been fully called and funded from short-dated credit

*Growth assets include: Global equities, private credit*

*Matching assets include: Multi-asset credit, short dated credit, LDI and money market funds.*

