



# **Sicame Electrical Developments Limited Pension Scheme**

## **Statement of Investment Principles**

May 2022

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# 01 Introduction

This document constitutes the Statement of Investment Principles (the "SIP") required under Section 35 of the Pensions Act 1995 for the Sicame Electrical Developments Limited Pension Scheme (the "Scheme"). It describes the investment policy being pursued by the Trustee of the Scheme and is in accordance with the Government's voluntary code of conduct for Institutional Investment in the UK (the "Myners Principles"). This SIP also reflects the requirements of the Occupational Pension Schemes (Investment) Regulations 2005.

The Scheme Actuary is Nicholas Vine of XPS Pensions and the Investment Adviser is XPS Investment (collectively termed the "Advisers").

The Trustee confirms that, before preparing this SIP, it has consulted with the employer, Sicame UK Limited (the "Employer") and the Advisers and has obtained and considered written advice. The Trustee believes the Advisers to be qualified by their ability and practical experience of financial matters and to have appropriate knowledge of the investment arrangements that the Scheme requires.

The Trustee is responsible for the investment of the Scheme's assets and the administration of the Scheme. Where it is required to make an investment decision, the Trustee always receives advice from the Advisers first and it believes that this ensures that it is appropriately familiar with the issues concerned.

Given the size of the Scheme, the Trustee has taken the view that, the most cost effective way of investing the Scheme assets is to invest through an insurance platform, rather than directly appointing individual investment managers. The Scheme holds a single life policy with Mobius Life (the "Platform Provider") where the value is linked to the value of specific pools of assets ("funds") selected by the Trustee from time to time. Decisions about which funds to invest in are made after obtaining investment advice from the Investment Adviser who is authorised and regulated by the FCA.

## 01.01 Declaration

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The Trustee confirms that this Statement of Investment Principles reflects the Investment Strategy it has decided to implement. The Trustee acknowledges that it is its responsibility, with guidance from the Advisers, to ensure the assets of the Scheme are invested in accordance with these Principles.

## 02 Scheme governance

The Trustee is responsible for the governance and investment of the Scheme's assets. The Trustee considers that the governance structure set out in this SIP is appropriate for the Scheme as it allows the Trustee to make the important decisions on investment policy, while delegating the day-to-day aspects to the managers of pooled funds and obtaining advice before making decisions about which pooled funds to invest in. The responsibilities of each of the parties involved in the Scheme's governance are detailed in Appendix A.

# 03 Investment objectives

The primary investment objectives of the Scheme are:

- a) The acquisition of suitable assets of appropriate liquidity which are expected to generate income and capital growth to meet, together with new contributions from the Employer, the payment of benefits and expenses as they fall due.
- b) To limit the risk of the assets failing to meet the liabilities over the long term, in particular in relation to any statutory funding requirements.
- c) To minimise the long term costs of the Scheme to the Employer by seeking to maximise the long term return on the assets whilst having regard to the objective shown under b).

These qualitative objectives have been used to formulate the investment strategy and return expectations set out in Appendix B.

The Trustee considers the investment objectives and the resultant investment strategy alongside the actuarial valuation methodology and assumptions used by the Scheme Actuary for each formal actuarial valuation.

# 04 Asset allocation strategy

## 04.01 Range of assets

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The Trustee has taken the view that the investment objectives are best achieved by determining, and investing in accordance with, an appropriate split between "on-risk" assets (e.g. equities, property, high-yield corporate bonds and diversified growth funds) and "off-risk" assets (e.g. fixed and index-linked gilts and high quality corporate bonds).

The allocation between the asset classes making up the on-risk and off-risk assets will vary over time to reflect, amongst other factors, the profile of the liabilities, the perceived relative value of the different asset classes, the strength of the Employer covenant and the perceived risk to the investment objectives arising from any shortfall in the funding of the Scheme. The current benchmark and target allocation is set out in Appendix B and any changes in such allocations will only be made after receiving written advice from the Investment Advisers that such allocation remains consistent with the investment objectives.

Due to the size of the Scheme, the Trustee has decided to invest in the various funds through the Platform Provider as this is considered the most effective way to achieve the desired diversification at an acceptable cost.

The Trustee has decided to invest in actively managed funds where they believe active management provides value.

## 04.02 Alignment of incentives

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Based on the structure set out in the Appendix, the Trustee considers the arrangements with the Investment Managers to be aligned with the Scheme's overall strategic objectives. Details of each specific mandate are set out in guidelines, agreements and pooled fund documentation with each Investment Manager.

The amounts allocated to any individual category or security will be influenced by the overall benchmark and objectives, varied through the Investment Managers' tactical asset allocation preferences at any time, within any scope given to them through any asset allocation parameters or guidelines set by the Trustee or governing the pooled funds in which the Scheme is invested.

The Trustee will ensure that the Scheme's assets are predominantly invested in regulated markets to maximise their security.

Investment Managers are incentivised to perform in line with expectations for their specific mandate as their continued involvement as Investment Managers as part of the Scheme's investment strategy – and hence the fees they receive – are dependent upon them doing so. They are therefore subject to performance monitoring and reviews based on a number of factors linked to the Trustee's expectations.

The Trustee encourages Investment Managers to make decisions in the long-term interests of the Scheme. The Trustee expects engagement with management of the underlying issuers of debt or equity and the exercising of voting rights in line with the investment mandate guidelines provided.

This expectation is based on the belief that such engagement can be expected to help Investment Managers to mitigate risk and improve long term returns.

As covered in more detail in this document, the Trustee also requires the Investment Managers to take ESG factors and climate change risks into consideration within their decision making as the Trustee believes these factors could have a material financial impact in the long-term. The Trustee therefore makes decisions about the retention of Investment Managers, accordingly.

#### **04.03 Rebalancing policy**

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The Trustee will review the allocation of assets between the funds and between asset classes as and when required. If the allocation has moved significantly from that set out in Appendix B, the Trustee will seek advice from the Investment Adviser as to whether it is appropriate to rebalance the funds and how to rebalance.

#### **04.04 Rates of return**

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The target rates of return for each asset class are detailed in Appendix B.

#### **04.05 Diversification**

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The Trustee has sought to achieve diversification by investing in a range of asset classes, including funds which invest across multiple asset classes (e.g. diversified growth funds). The Trustee has sought to achieve further diversification by investing, through the Platform Provider, in funds which have investment restrictions (i.e. funds which impose concentration limits on individual positions and limits on the exposure to individual issuers). Generally speaking, even funds investing in the same asset class would be expected to have different investment strategies and therefore add to the diversification of the Scheme.

The Trustee maintains one policy with the Platform Provider instead of holding shares or units in pooled funds. The Scheme is therefore subject to the risk of insolvency of the Platform Provider. Whilst the Trustee has not diversified against this risk, the likelihood of the Platform Provider becoming insolvent has been minimised as far as practical. For example, the Platform Provider is a regulated Life Insurance Company governed by UK Law and is therefore subject to regular scrutiny by the financial services regulators (Prudential Regulation Authority/Financial Conduct Authority) and is not exposed to any general insurance claims. Furthermore, the Platform Provider holds professional indemnity insurance to cover the risk of operational risks and fraud.

The Trustee will monitor the strategy regularly to ensure that it is comfortable with the level of diversification.

#### **04.06 Suitability**

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The Trustee has taken advice from the Advisers to ensure that the funds managed by the Investment Managers are suitable for the Scheme, given its objectives.

#### **04.07 Liquidity**

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All of the non-cash assets are held in pooled funds with frequent dealing dates.

#### **04.08 Mandate and performance objectives**

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The Trustee has received advice on the appropriateness of each pooled fund that the Scheme is invested in from the Advisers and believes them to be suitable to meet the Scheme's investment objectives. The benchmark and objective for each fund currently held are set out in Appendix B.

#### **04.09 Manager agreements**

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The Scheme is invested with a Platform Provider and as such there is no formal agreement between the Trustee and individual fund managers relating to investments in each asset class. The managers of the pooled funds are appointed by the Platform Provider. The Trustee determines the extent to which the underlying funds or asset classes should be rebalanced at any time after seeking advice.

#### **04.10 Custody**

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Custody of the underlying assets is at the discretion of the pooled funds, whilst shares and/or units in the funds are held in book form only. Cash is held securely in separate accounts with approved counterparties.

#### **04.11 Platform Provider**

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The Trustee has appointed Mobius Life to administer the Scheme's assets. The Platform Provider is authorised by the Prudential Regulatory Authority and regulated by the Financial Conduct Authority. All decisions about the day-to-day management of the assets have been delegated to the Platform Provider via a written agreement.



# 05 Monitoring

## 05.01 Underlying funds held by the Platform Provider

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The Trustee maintains one policy with the Platform Provider. The Platform Provider links the value of the policy to specific funds chosen by the Trustee from time to time, following receipt of advice from the Investment Adviser. The Trustee will monitor the performance of the funds against their stated performance objectives.

## 05.02 Advisers

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The Trustee will monitor the advice given by the Advisers on a regular basis.

## 05.03 Portfolio turnover costs

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The Trustee requires the Investment Managers to report on actual portfolio turnover at least annually, including details of the costs associated with turnover, how turnover compares with the range that the Investment Manager expects and the reasons for any divergence.

## 05.04 Investment manager duration

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Appointments of Investment Managers are expected to be long-term, but the Trustee will review the appointment of the Investment Managers in accordance with their responsibilities.

## 05.05 Performance and remuneration reporting

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The Trustee will receive regular performance monitoring reports from the Investment Adviser which consider performance over the quarter, one and three year periods.

This monitoring helps to determine an Investment Manager's ongoing role in implementing the investment strategy. If there are concerns, the Trustee may carry out a more in depth review of a particular Investment Manager. Investment Managers will also attend Trustee meetings as requested.

The Investment Adviser has also carried out a review of how well the Trustee's guidelines in relation to ESG factors are incorporated into each Investment Manager's processes and the Trustee will re-assess progress on ESG issues periodically.

Fund manager remuneration is considered as part of the manager selection process. It is also monitored regularly with the help of the Investment Adviser to ensure it is in line with the Trustee's policies and with fee levels deemed by the Investment Adviser to be appropriate for the particular asset class and fund type.

## 05.06 Other

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The Trustee is required to review this SIP on a triennial basis, or, without undue delay, following any changes to the investment strategy.

# 06 Fees

## 06.01 Funds

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The Trustee will ensure that the fees charged for the funds it uses and their expense ratios are consistent with levels typically available in the industry for such funds. The current fee basis for each of the funds is set out in Appendix B. Information about the investment managers' fees, commission arrangements and other transaction costs is available in the annual report of the pooled funds in accordance with the Financial Conduct Authority (FCA) Disclosure Code.

## 06.02 Advisers

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Fees paid to the Advisers are based either on actual time spent and hourly rates for relevant individuals, or on fixed fees agreed in advance for specifically defined projects.

## 06.03 Custodian

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There is no custodian appointed directly by the Trustee.

## 06.04 Trustee

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The Trustee is a sole professional trustee. All directors of the Trustee receive remuneration based on time spent on their duties in relation to the Scheme.

# 07 Risks

The Trustee recognises a number of risks involved in the investment of assets of the Scheme, including but not restricted to the following:

- i) The risk of failing to meet the objectives as set out in Section 3 – the Trustee will regularly monitor the investments to mitigate this risk.
- ii) The risk of adverse consequences arising through a mismatch between the Scheme's assets and its liabilities. This is addressed through the asset allocation strategy and through regular actuarial and investment reviews and the funding target.
- iii) Risk of lack of diversification of investments – addressed through investing in a range of funds with minimum diversification requirements and through the asset allocation policy.
- iv) Risk of holding assets that cannot be easily sold should the need arise – addressed through the use of pooled funds with frequent dealing dates.
- v) Underperformance risk – addressed through investing in passively managed funds, monitoring closely the performance of each fund and taking necessary action when this is not satisfactory.
- vi) Organisational risk – addressed through regular monitoring of the Investment Managers and the Advisers and by holding a single insurance policy with the Platform Provider.
- vii) Credit risk - addressed through investing in funds which are limited to investing in issuers with strong credit ratings and spreading the credit risk across many different issuers.
- viii) Counterparty risk – addressed by ensuring that funds utilising derivatives choose a range of counterparties with a strong credit rating.
- ix) Interest rate risk – addressed through the holding of off-risk assets in fixed interest investments of appropriate duration.
- x) Inflation risk – addressed through holding off-risk assets in inflation-linked investments of appropriate duration.
- xi) Currency risk – addressed through investing predominantly in sterling denominated assets and only taking currency risk where it increases the level of diversification.
- xii) Sponsor risk – the risk of the Employer ceasing to exist, which for reasons of prudence, the Trustee has taken into account when setting the asset allocation strategy.

The Trustee will keep these risks under regular review.

# 08 Other issues

## 08.01 Statutory Funding Requirement

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The Trustee will obtain and consider proper advice on the question of whether the investments are satisfactory having regard to both the investment objectives and the requirement to meet statutory funding requirements. The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation every three years.

The Trustee will consider the investment strategy at each actuarial valuation and determine whether it is necessary to make changes to the investment strategy to ensure continued compliance with the statutory funding requirement.

## 08.02 Corporate governance

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The Trustee has considered corporate governance issues and has agreed that it will have no specific policy in place. The Platform Provider carries out ongoing due diligence on all fund links as part of its overall governance responsibilities. The Trustee has chosen to utilise the Platform Provider, in part, due to the reduction in corporate governance requirements.

## 08.03 Social, environmental and ethical issues

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The Trustee has determined its approach to financially material considerations over the Scheme's long-term funding horizon – including environmental, social and corporate governance ("ESG") factors – by acknowledging that there can be risks relating to them. The Trustee has delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Scheme's investment managers. The Trustee requires the Scheme's investment managers to take ESG and climate change risks into consideration within their decision-making, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest.

The Trustee will seek advice from the Investment Adviser on the extent to which its views on ESG and climate change risks may be taken into account in any future investment manager selection exercises. Furthermore, the Trustee, with the assistance of the Investment Adviser, will monitor the processes and operational behaviour of the investment managers from time to time, to ensure they remain appropriate and in line with the Trustee's requirements as set out in this Statement.

## 08.04 Voting rights

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As the Scheme invests in pooled funds, the Trustee acknowledges that it cannot directly influence the policies and practices of the companies in which the pooled funds invest. It has therefore delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the Investment Managers.

The Trustee encourages them to engage with investee companies and vote whenever it is practical to do so on financially material matters such as strategy, capital structure, conflicts of interest policies, risks, social and environmental impact and corporate governance as part of their decision-making processes. The Trustee requires the Investment Managers to report on significant votes made on behalf of the Trustee.

If the Trustee becomes aware of an Investment Manager engaging with the underlying issuers of debt or equity in ways that it deems inadequate or that the results of such engagement are mis-aligned with the Trustee's expectations and the investment mandate guidelines provided, then the Trustee may consider terminating the relationship with that Investment Manager.

When considering the selection, retention or realisation of investments, the Trustee has a fiduciary responsibility to act in the best interests of the beneficiaries of the Scheme, although it has neither sought, nor taken into account, the beneficiaries' views on matters including (but not limited to) ethical issues and social and environmental impact. The Trustee will review this policy if any beneficiary views are raised in future.

# Appendix A

## Responsibilities

### Trustee

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The Trustee of the Scheme is responsible for, amongst other things:

- i) Determining the investment objectives of the Scheme and reviewing these from time to time.
- ii) Agreeing an investment strategy designed to meet the investment objectives of the Scheme.
- iii) Reviewing triennially the content of this SIP and modifying it if deemed appropriate, in consultation with the Advisers.
- iv) Reviewing the suitability of the investment policy alongside each actuarial or investment review, in consultation with the Advisers.
- v) Assessing the performance of the pooled funds and the processes they use by means of regular reviews of the investment results and other information, by way of meetings and written reports, in consultation with the Advisers.
- vi) Selecting pooled funds which are consistent with the investment strategy after consultation with the Advisers.
- vii) Assessing the ongoing effectiveness of the Advisers.
- viii) Consulting with the Employer when reviewing investment policy issues.
- ix) Monitoring compliance of the investment arrangements with this SIP on an ongoing basis.
- x) Informing the Advisers of any changes to Scheme benefits or significant changes in membership.
- xi) Monitoring the risks associated with utilising a platform provider.

### Platform Provider

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The Platform Provider will be responsible for, amongst other things:

- i) Performing due diligence on the funds such that they do not create undue risks to the solvency of the insurer or the integrity of the Platform.
- ii) Maintaining adequate solvency ratios so as to minimise the risk of insolvency.
- iii) Ensuring funds are managed in line with the mandate and investment restrictions are adhered to.

### Investment Adviser

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The Investment Adviser will be responsible for, amongst other things:

- i) Participating with the Trustee in reviews of this SIP.
- ii) Advising the Trustee how any changes within the Scheme's benefits, membership, strength of employer covenant and funding position may affect the manner in which the assets should be invested.
- iii) Advising the Trustee of any changes in the Scheme's funds or the platform provider that could affect the interests of the Scheme.
- iv) Undertaking reviews of the Scheme's investment arrangements including reviews of the asset allocation policy and current pooled funds and advising on the selection of new funds where appropriate.

## Scheme Actuary

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The Scheme Actuary will be responsible for, amongst other things:

- i) Performing the triennial (or more frequently as required) valuations and advising on the appropriate contribution levels.
- ii) Commenting on the appropriateness of the investment strategy relative to the liabilities of the Scheme at the triennial valuations.
- iii) Advising the Trustee of any changes to contribution levels and funding level.

# Appendix B

## Asset allocation and implementation

### Benchmark asset allocation and expected returns

The Trustee has purchased a life policy from the Platform Provider. The Platform Provider creates pools of assets with the life policy which are managed by the managers set out below.

Having considered advice and also having due regard for the investment objectives, the current liabilities of the Scheme together with their expected timing, the risks of and to the Scheme and the covenant of the Employer, the Trustee has decided upon the following benchmark allocation as being the basis for measuring investment performance:

Asset class	Fund name	Investment style	Benchmark allocation (%)	Expected return above gilts (%pa)
Emerging market equities	<i>BlackRock Aquila Connect Emerging Markets Fund</i>	Passive	10.0%	Gilts + 5.0% pa
LDI	<i>BMO Real Dynamic LDI Fund</i>	Mainly passive, but with small active element	45.0%	Gilts + 0.0% pa
	<i>BMO Nominal Dynamic LDI Fund</i>			
Equity-linked LDI	<i>BMO Equity-Linked Real Dynamic LDI Fund</i>			Gilts + 4.0% pa
	<i>BMO Equity-Linked Nominal Dynamic LDI Fund</i>			
Diversified growth	<i>Aberdeen Standard Diversified Growth Fund</i>	Active	22.5%	Gilts + 3.2% pa
Multi-sector credit	<i>Allianz Global Multi-Asset Credit Fund</i>	Active	22.5%	Gilts + 2.1% pa
Cash	<i>Aquila Connect Cash Fund</i>	Passive	0.0%	Gilts + 0.0% pa
<b>Total</b>			<b>100%</b>	<b>Gilts + 3.3% pa</b>

The table above sets out the investment strategy at the date this statement was signed. The ratio between LDI assets (including equity-linked) and non-LDI assets, may deviate from the strategic benchmark over time, and the Trustee, in conjunction with Employer consultation, may review and adapt this strategy, especially in light of unpredictable LDI rebalancing events.



## Performance monitoring

The Trustee has agreed the following performance targets with the investment managers:

Fund name	Benchmark index	Objective
<i>BlackRock Aquila Connect Emerging Markets Fund</i>	MSCI Emerging Markets Index	To track the benchmark index
<i>BMO Dynamic LDI Funds</i>	Leveraged gilt-based and swap-based benchmarks <sup>1</sup>	To perform in line with the benchmarks
<i>BMO Equity-Linked Dynamic LDI Funds</i>	Composite benchmark <sup>2</sup>	To perform in line with the composite benchmark
<i>Aberdeen Standard Diversified Growth Fund</i>	SONIA	To outperform the benchmark by 5% pa, gross of fees, over a 5 year rolling periods
<i>Allianz Global Multi-Asset Credit Fund</i>	SONIA	To outperform the benchmark by 3% pa, gross of fees, over a credit cycle
<i>Aquila Connect Cash Fund</i>	SONIA	To track the benchmark index

1. BMO's LDI funds are measured against both a swap-based benchmark and a gilt-based benchmark, as the funds are permitted to use both swap and gilt derivative instruments to create the hedge.
2. BMO's equity-linked LDI funds assess their performance against a composite benchmark. The LDI component of the funds is measured against both a swap-based benchmark and a gilt-based benchmark, as the funds are permitted to use both swap and gilt derivative instruments to create the hedge. The equity component of the funds is assessed against the respective equity indices that the funds have exposure to (S&P 500, S&P ASX 200, Euro Stoxx 50, FTSE 100, Topix and Hang Seng), weighted by the daily equity exposure.



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**Registration**

XPS Pensions Consulting Limited, Registered No. 2459442. XPS Investment Limited, Registered No. 6242672. XPS Pensions Limited, Registered No. 3842603. XPS Administration Limited, Registered No. 9428346. XPS Pensions (RL) Limited, Registered No. 5817049. Trigon Professional Services Limited, Registered No. 12085392.

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**Authorisation**

XPS Investment Limited is authorised and regulated by the Financial Conduct Authority for investment and general insurance business (FCA Register No. 528774).