XPS Investment

Statement of Investment Principles

For the Trustee of the Harvest Pension Scheme

September 2020

Contents

01 **Introduction**

Purpose

This document constitutes the Statement of Investment Principles ('the SIP') required under Section 35 of the Pensions Act 1995 for the Harvest 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 Occupational Pension Schemes (Investment) Regulations 2005.

Scheme details

The exclusive purpose of the Scheme is to provide retirement and death benefits to eligible participants and beneficiaries. It qualifies as a registered pension scheme, registered under Chapter 2 of Part 4 of the Finance Act 2004.

Advice and consultation

Before preparing this Statement, the Trustee has sought advice from the Scheme's Investment Consultant, XPS Investment Limited. The Trustee has also consulted the Principal Employer. The Trustee will consult the Principal Employer on any future changes in investment policy as set out in this Statement.

Investment powers

The Scheme's Trust Deed and Rules set out the investment powers of the Trustee. This Statement is consistent with those powers. Neither this Statement nor the Trust Deed and Rules restricts the Trustee's investment powers by requiring the consent of the Principal Employer.

In accordance with the Financial Services and Markets Act 2000, the Trustee sets general investment policy but delegates responsibility for the selection of the specific securities and any financial instruments in which the Scheme invests to the Investment Managers.

Review of the Statement

The Trustee will review this Statement and their investment policy at least every three years in conjunction with each triennial valuation or immediately following any significant changes in investment policy.

The Trustee will also review this Statement in response to any material changes to any aspect of the Scheme, its liabilities, finances and attitude to risk of either the Trustee or Principal Employer which it judges to have a bearing on the stated investment policy.

The Trustee will receive confirmation of the continued appropriateness of this Statement annually, or more frequently, if appropriate.

Definitions

Capitalised terms in this document mean the following:

Act - The Pensions Act 1995 (as amended by section 244 of the Pensions Act 2004);

AVCs - Additional Voluntary Contributions;

Investment Manager – An organisation appointed by the Trustee to manage investments on behalf of the Scheme;

Principal Employer – Tithebarn Limited;

Recovery Plan - The agreement between the Trustee and the Principal Employer to address the funding deficit;

Scheme – The Harvest Pension Scheme (Defined Benefit section);

Statement - This document, including any appendices, which is the Trustee's Statement of Investment Principles;

Technical Provisions - The amount required, on an actuarial calculation, to make provision for the Scheme's liabilities;

Trust Deed and Rules - the Scheme's Trust Deed and Rules dated 22 October 1955, as subsequently amended;

Trustee – the collective entity responsible for the investment of the Scheme's assets and managing the administration of the Scheme, currently Keldore Limited;

Value at Risk - a technique which uses historical correlations of asset class returns and volatilities to estimate the likely worst-case scenario loss for a given portfolio of assets.

02 Strategic investment policy and objectives

Choosing investments

The Trustee relies on professional Investment Managers for the day-to-day management of the Scheme's assets. However, the Trustee retains control over some investments. In particular, the Trustee makes decisions about pooled investment vehicles in which the Scheme invests and any AVC investment vehicles.

The Trustee's policy is to regularly review the investments over which it retains control and to obtain written advice about them when necessary. When deciding whether or not to make any new investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the Investment Managers. The written advice will consider suitability of the investments, the need for diversification and the principles within this Statement. The adviser will have the knowledge and experience required under Section 36(6) of the Act.

Long-term objectives

The primary investment objective of the Trustee is to secure insurance policies to meet the benefit payments of the Scheme as they fall.

Expected returns

By undertaking the investment policy described in this Statement, the Trustee expects future investment returns will be sufficient to meet the benefits secured by the Scheme.

Investment Policy

The investment policy the Trustee has adopted is detailed in Appendix I.

Range of assets

The Trustee considers that the deferred annuity policy with Aviva UK Life detailed in Appendix II will ensure that the assets of the Scheme include suitable investments that are appropriately diversified and provide a reasonable expectation of meeting the objectives.

Alignment of Interests

Based on the structure set out in Appendix I, the Trustee considers the arrangements with the Investment Managers to be aligned with the Scheme's overall strategic objectives. Details of the deferred annuity insurance policy is set out in the 'Harvest Pension Scheme Report and Financial Statements for the Year Ended 5 April 2019', agreements and pooled fund documentation with each Investment Manager.

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, including the selection/deselection criteria set out in Section 6.

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. 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 Section 3, 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.

03 Responsible investment

The Trustee has considered its approach to environmental, social and corporate governance ("ESG") factors for the long-term time horizon of the Scheme and believe there can be financially material 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, in relation to the selection, retention or realisation of investments, 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 Consultant on the extent to which their 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 Consultant, 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' requirements as set out in this Statement.

The Trustee has also delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the Investment Managers.

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.

04 Risk measurement and management

The Trustee recognises a number of risks involved in the investment of the assets of the Scheme. The Trustee measure and manage these risks as follows:

Solvency risk and mismatching risk - The risk that the assets do not respond to market changes in the same way as the liabilities, resulting in volatility in the funding position, is addressed through the purchase of an insurance policy designed to match the benefits being provided to members.

Liquidity risk - The risk that assets cannot be sold quickly enough to enable benefits to be paid or that the Trustee cannot exit a particular investment is addressed through the process by which the administrator estimates the benefit outgo and ensures that sufficient cash balances are available, and through the Trustee's policy on realisation of assets (see below).

Counterparty risk - The risk that a third party fails to deliver cash or other assets owed to the Scheme is addressed through the Investment Managers' guidelines with respect to cash and counterparty management.

Custodian risk - The risk that the custodian fails to provide the services expected is addressed through the agreement with the third party custodian and ongoing monitoring of the custodial arrangements. In insurance arrangements this is invariably delegated to the Investment Managers.

Fraud/Dishonesty - The risk that the Scheme assets are reduced by illegal actions is addressed through restrictions applied as to who can authorise transfer of cash and the account to which transfers can be made.

05 Realisation of assets and investment restrictions

Realisation of investments

In recognition of the fact that funds may need to be realised for a number of unanticipated reasons at any time, and the desirability of retaining as high a degree of flexibility as possible to cater for unexpected changes in circumstances, the Trustee will monitor closely the extent to which any assets not readily realisable are held by the Investment Managers and will limit such assets to a level where they are not expected to prejudice the proper operation of the Scheme.

The Trustee has considered how easily investments can be realised for the types of assets in which the Scheme is currently invested. As such, the Trustee believes that the Scheme currently holds an acceptable level of readily realisable assets. The Trustee will also take into account how easily investments can be realised for any new investment classes it considers investing in, to ensure that this position is maintained in the future.

The Trustee will hold cash to the extent that it considers necessary to meet impending anticipated liability outflows. A bank account is used to facilitate the holding of cash awaiting investment or payment.

Investment restrictions

The Trustee has established the following investment restrictions:

> The Trustee or the investment managers may not hold in excess of 5% of the Scheme's assets in investments related to the Principal Employer;

> Whilst the Trustee recognise that borrowing on a temporary basis is permitted, this option will only be utilised where it is deemed absolutely necessary or where the Trustee has received advice from the Investment Consultant that the Scheme's overall exposure to risk can be reduced through temporary borrowing, e.g. during an asset transfer;

> Investment in derivative instruments may be made only insofar as they contribute to the reduction in risk or facilitate efficient portfolio management.

The Investment Managers impose internal restrictions that are consistent with their house style. In some instances, the Trustee may impose additional restrictions and any such restrictions are specified in Appendix II.

06 **Investment Manager Arrangements and fee structure**

Delegation to Investment Manager(s)

In accordance with the Act, the Trustee may appoint one or more Investment Managers and delegate to them the responsibility for investing the Scheme's assets in a manner consistent with this Statement.

The Investment Managers are authorised and regulated to provide investment management services to the Scheme. Within the UK, the authorisation and regulation of the Investment Managers falls under the Financial Conduct Authority (FCA). Specific products in which the Scheme invests may also be regulated by the Prudential Regulatory Authority (PRA). For non-UK Investment Managers, authorisation and regulation is undertaken by the home state regulator.

Where Investment Managers are delegated discretion under section 34 of the Pensions Act 1995, the Investment Managers will exercise their investment powers with a view to giving effect to the principles contained in this Statement so far as reasonably practicable. In particular, the Investment Managers must have regard to the suitability and diversification of the investments made on behalf of the Scheme.

The Investment Managers will ensure that suitable internal operating procedures are in place to control individuals making investments for the Scheme.

Performance objectives

The individual benchmarks and objectives against which each investment mandate will be recorded and noted in the Statement as appropriate.

Review process

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. Such reviews will include analysis of each Investment Manager's performance and processes and an assessment of the diversification of the assets held by the Investment Manager. The review will include consideration of the continued appropriateness of the mandate given to the Investment Manager within the framework of the Trustee's investment policies.

The Trustee will receive regular performance monitoring reports from any investment managers appointed which consider performance over the quarter, one and three year periods. In addition, any significant changes relating to the criteria below that the Investment Consultant is aware of will be highlighted, which may lead to a change in the Investment Consultant's rating for a particular mandate. These ratings help 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.

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

Selection / Deselection Criteria

The criteria by which the Trustee will select (or deselect) the Investment Managers include:

> Parent - Ownership of the business;
> People - Leadership/team managing the strategy and client service;
> Product - Key features of the investment and the role it performs in a portfolio;
> Process - Philosophy and approach to selecting underlying investments including operational risk management and systems;
> Positioning - Current and historical asset allocation of the fund;
> Performance - Past performance and track record;
> Pricing - The underlying cost structure of the strategy;
> ESG – Consistency and extent to which ESG analysis is incorporated into the process of selecting underlying investments.

An Investment Manager may be replaced, for example (but not exclusively), for one or more of the following:

> The Investment Manager fails to meet the performance objectives set out in Appendix II;
> The Trustee believe that the Investment Manager is not capable of achieving the performance objectives in the future;
> The Investment Manager fails to comply with this Statement.

Investment Manager Arrangements and fee structure continued

Investment Managers' fee structure

The Investment Managers are remunerated by receiving a percentage of the Scheme's assets under management and, in some cases, through the application of a flat fee. In addition, a performance related fee may be payable. Details of the fee arrangements are set out in Appendix II. It is felt that this method of remuneration provides appropriate incentives for the Investment Managers to target the agreed level of outperformance whilst adhering to the level of risk specified by the Trustee.

Portfolio turnover

The Trustee require 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.

Investment Consultant's fee structure

The Investment Consultant is remunerated for work completed on a fixed fee basis, a time-cost basis or via a project fee. It is felt that this method of remuneration is appropriate because it enables the Investment Consultant to provide the necessary advice and information to facilitate the Trustee in undertaking their responsibilities.

07 Additional Voluntary Contribution arrangements

Provision of AVCs

The Scheme provided a facility for members to pay additional voluntary contributions (AVCs) to enhance their benefits at retirement. The Trustee' objective was to provide vehicles that enabled members to generate suitable long-term returns, consistent with their reasonable expectations.

The AVC's made by employees are invested in accounts with Santander Bank.

The Trustee selected these vehicles as they were believed to meet the Trustee' objective of providing investment options that enabled AVC members to generate suitable long-term returns, consistent with their reasonable expectations.

Review process

The appointment of the AVC providers and the choice of AVC funds offered to members will be reviewed by the Trustee in accordance with their responsibilities, based on the result of the monitoring of performance and process. The Trustee will review the appointment of the AVC providers periodically in the light of their performance.

Where possible, performance of the AVC providers will be measured relative to the individual benchmarks and objectives for the funds offered and/or to other providers offering similar fund options as measured in industry AVC surveys.

08 Compliance Statement

Confirmation of advice

Before a Statement of Investment Principles, as required by the Pensions Act 1995, is prepared or revised by the Trustee of a pension scheme, the Trustee must have consulted with the principal employer and obtained and considered the written advice of a person who is reasonably believed by it 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.

The Investment Consultant hereby confirms to the Trustee that they have the appropriate knowledge and experience to give the advice required by the Act.

Signatures

On behalf of XPS Investment Limited:

AGKGill

Alasdair Gill

Partner – Investment

Date: 25/9/20

Trustee declaration

The Trustee confirms that this Statement of Investment Principles reflects the Investment Strategy they have 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.

On behalf of the Trustee:

John Melling

Date: 25 September 2020