

# **Statement of Investment Principles**

## **Coats UK Pension Scheme**

**September 2020**

### **Introduction**

This document contains the Statement of Investment Principles ('the SIP') required under Section 35 of the Pensions Act 1995, as amended by the Pensions Act 2004 (the "Act"), for the Coats UK Pension Scheme ('the Scheme'). It describes the investment policy being pursued by the Trustee of the Scheme and is in compliance 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.

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

### **Declaration**

The Trustee confirms that this SIP reflects the principles governing how decisions about investments are made for the Scheme. The Trustee acknowledges that it is responsible, with guidance from the advisers, for ensuring the assets of the Scheme are invested in accordance with these principles.

*Chris Martin*

**For and on behalf of the Trustee of the Coats UK Pension Scheme**

30<sup>th</sup> September 2020

## **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 Asset Managers as appropriate.

The Trustee has also established an Investment and Funding Committee ("IFC"), and has delegated the following authorities to it:

- Review of investment strategy.
- Recommendations of long-term strategic asset allocations, including consideration of alternative asset classes.
- Monitor cash management procedures.
- Recommendations of suitable investment management styles, including consideration of their respective costs.
- Advise on the choice of appropriate benchmarks.
- Recommendations of long-term funding targets and overall funding strategy.
- Monitor Scheme funding position and report issues to Trustee Board.
- Monitor Scheme performance against any agreed flight plan and make recommendations to act in accordance with any agreed de-risking protocol.
- Negotiate deficit recovery plan and triennial valuation with the Company.
- Monitor the appropriateness of risk controls.
- Make decisions on the appointment and removal of Asset Managers and custodians and the associated terms. For the avoidance of doubt these like for like changes should be within the same asset class, with similar approaches (e.g. active or passive) and should not meaningfully change the broad risk exposures that come from the mandate.
- Review and monitor Investment Consultant and managers.
- Understand and monitor the level of transaction costs incurred by the managers.
- Draft an updated Statement of Investment Principles when appropriate.
- Recommendations regarding corporate governance, responsible investment, stewardship and other such investment issues.
- Monitor the investment aspects of AVC arrangements.
- Recommendations on appropriate investment training.
- Where appropriate, make short-term decisions due to rapidly changing market conditions or similar urgent circumstances.

- Monitor the Trustee Risk Register in relation to investment and funding matters to ensure this is kept up-to-date.

## **Investment Objectives**

- The principal objective of the Trustee is to invest the assets of the Scheme to meet its liabilities when they fall due.
- The investment strategy of the Scheme is managed and monitored using a Pensions Risk Management Framework (PRMF), which outlines the funding objectives and risk constraints set by the Trustee. The PRMF is reviewed and monitored by the Trustee on at least a quarterly basis including the expected return on assets as provided by the Investment Consultant.
- The Trustee has agreed a primary funding objective for the Scheme to reach full funding by 2028 using a liability discount rate of Gilts + 0.40%. This prudent liability discount rate will help to reduce the Scheme's dependence on the Sponsor.
- The Trustee has set a risk budget of 8% for the Funding Ratio-at-Risk (FRaR), therefore the investment strategy should not risk the funding level decreasing more than 8% with 95% confidence on a Gilts + 0.40% basis. Within this risk budget, the Trustee seeks to diversify risks across a range of exposures, and to focus on risks that they view as well-positioned to outperform the liabilities.
- The Trustee will look to reduce overall risk by hedging the impact of interest rate and inflation movements on the underlying liabilities. By reducing the impact of interest rate and inflation movements on the funding ratio, the Scheme is able to spend its risk budget on return-seeking assets.
- In setting the investment strategy, the Trustee aims to:
  - Target an expected return that includes a buffer above the required return to meet the funding objective.
  - Manage the investment risk, including that arising due to mismatch between assets and liabilities, and maintain the total risk on the Scheme below the risk budget set in the PRMF.
  - Maintain suitable liquidity of assets such that the Scheme is not forced to buy and sell investments at certain times to pay member benefits or meet potential collateral calls.
- The Scheme holds investments as permitted by its Trust Deed and Rules.

## **Investment Strategy**

Having considered advice from its advisers, and having due regard for the objectives, the liabilities of the Scheme, the risks of and to the Scheme and the covenant of Coats Group Plc., the Trustee has adopted an appropriate investment strategy. The investment strategy is driven by the objectives and constraints from the PRMF, which helps balance the risks and returns required to reach the Scheme's funding objectives.

This investment strategy is designed to ensure two criteria are met:

- **Diversification**

The choice of investments is designed to ensure that the Scheme's investments are adequately diversified given the Scheme's circumstances. The Trustee will monitor the strategy regularly to ensure that they are comfortable with the level of diversification.

- **Suitability**

The Trustee has taken advice from the advisers to ensure that the asset allocation strategy is suitable for the Scheme, given its liability profile, any legal requirements, regulatory guidance and specifications in the Trust Deed.

## **Monitoring**

### **Asset Manager Policy**

The Trustee delegates the day-to-day management of the assets to multiple Asset Managers.

Asset Managers are carefully selected by the Trustee to manage each of the underlying mandates, following guidance and written advice from its Investment Consultant. Details of the investment objectives and mandates for each Asset Manager are set out in the Investment Implementation Policy document.

Due to the cost benefits and ease of implementation, the Trustee predominantly invests in pooled investment vehicles. The Trustee recognises that due to the collective nature of these investments, there is less scope to directly influence how the asset manager invests. However, the Scheme's Investment Consultants ensure the investment objectives and guidelines of the manager are consistent with that of the Trustee. Where the Trustee does invest via segregated investment vehicles, the terms of the long-term relationship between the Trustee and the manager are set out in a separate Investment Management Agreement (IMA). These document the Trustee's expectations of their managers; alongside the investment guidelines they are required to operate under.

Where relevant, the Trustee requires its Asset Managers to invest with a medium to long-term time horizon, and to use any rights associated with the investment to drive better long-term outcomes. For some asset classes, the Trustee does not expect the respective Asset Managers to make decisions based on long-term performance. These may include investments that provide risk reduction through hedging, consistent with the Trustee's strategic asset allocation.

The Trustee appoints its Asset Managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. When assessing a manager's performance, the focus is on longer-term outcomes, and the manager is assessed over a medium to longer-term timeframe, subject to a minimum of three years.

The Trustee would not expect to terminate a manager's appointment based purely on short-term performance. However, a manager's appointment could be terminated within a shorter timeframe than three years due to other factors, such as a significant change in business structure, the investment team, or changes in the strategic needs of the Scheme.

Managers are paid a fee for a defined set of services based on the size of assets managed on behalf of the Scheme (as well as additional performance fees, where these have been previously agreed with a

manager in repayment for performance above a specified benchmark). The Trustee reviews the fees periodically to confirm they are in line with market practices.

The Asset Managers should provide a written performance report each quarter to the Trustee through the Investment Consultant. The Investment Consultant will produce a manager report for the Trustee based on this information. The Trustee will meet the managers on an ad hoc basis to review the managers' actions and investment performance. The Investment Consultant will assist the Trustee in fulfilling their responsibility for monitoring the Asset Managers. The Trustee's policy towards monitoring non-financial performance is set out in the Social, Environmental and Ethical Issues Policy.

The Trustee reviews the portfolio transaction costs and portfolio turnover range of managers periodically where the data is disclosed and available. The Trustee will then determine whether the costs incurred were within reasonable expectations, with assistance from the Investment Consultant.

## **SIP**

The Trustee aims to review this SIP annually, or, without delay, following any changes to the investment strategy, and modify it with consultation from their advisers and the Sponsor. There will be no obligation to change this SIP, any Asset Manager or its Investment Consultant as part of such a review.

## **Risks**

The Trustee recognises there are numerous risks involved in investing the assets of the Scheme. These include (but are not limited to) deficit risk, manager risk, liquidity risk, currency risk, interest rate and inflation risk, political risk, sponsor risk and counterparty risk. The Trustee monitors and manages these risks through measures specific to each risk.

The Trustee will keep these risks and how they are measured and managed under regular review.

## **Other Issues**

### **Statutory Funding Objective**

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 at least every three years.

The Trustee will consider, with their advisers, whether the results of these actuarial Valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the statutory funding objective.

### **Corporate Governance**

The Trustee policy on the exercise of rights attaching to investments, including voting rights, is that these rights should be exercised by the Asset Managers on behalf of the Trustee having regard to the best financial interests of the beneficiaries. The Trustee has been made aware of each Asset Manager's corporate governance policy where appropriate and has delegated the exercise of such rights to the Asset Managers.

### **Social, Environmental and Ethical Issues**

The Trustee incorporates all financially material considerations into decisions on the selection, retention and realisation of investments through strategic asset allocation decisions and the appointment of Asset Managers, so far as possible. The Trustee believes the investment time horizon to fund all future benefits is a long-term one. We believe we must therefore invest responsibly, targeting sustainable outcomes to ensure we are able to pay our members on time, and in full.

The Trustee believes that environmental, social and governance ("ESG") factors (including but not limited to climate risk) will be financially material over the time horizon of the Scheme, but will have varying levels of importance for different types of assets invested by the Scheme. The Trustee requires their Asset Managers to factor ESG considerations into investment decision making where it has the discretion to do so, and to invest in a responsible and sustainable manner.

The Trustee requires its investment adviser to review and rate new Asset Managers' credentials in managing risks arising from ESG and report this to the Trustee.

The Trustee believes ESG considerations are one of a number of important inputs into decision making when setting the strategic asset allocation of the fund. It considers how the exposure to risk is managed when selecting asset classes, sub-sectors, and specific Asset Managers or strategies.

Non-financial matters are not ordinarily taken into account in the selection, retention and realisation of investments.

The Trustee requires its investment advisor and Asset Managers to communicate new and emerging risks arising from ESG considerations. This will continually inform the Trustee's policy which the Trustee believes is important to be reviewed periodically and kept up to date with industry practice.

## **Stewardship and Engagement Policy**

The majority of the Scheme's assets are either held across gilts and swaps, whereby stewardship and engagement is less applicable, or within pooled funds, whereby the Trustee has less direct influence over the managers' policies due to the collective nature of these investments.

While direct engagement with underlying companies (as well as other relevant persons) of which the Trustee owns shares and debt is carried out by the Scheme's Asset Managers, the Trustee believes good stewardship to be a key characteristic of a responsible investor.

The Trustee chooses Asset Managers that align with its beliefs on stewardship and expects them to practice good stewardship, including engagement and voting activities. This includes monitoring, engaging with issuers of debt or equity on financially material environmental, social or governance issues, and, where relevant, using voting rights to affect the best possible sustainable long-term outcomes. When appointing a new Asset Manager, the Trustee's Investment Consultant assess the ability of each Asset Manager in engaging with underlying companies in order to promote the long-term success of the investments. When selecting, monitoring and de-selecting Asset Managers, engagement is factored into the decision-making process to the appropriate level for the specific asset class in question.

The Trustee requires its Investment Consultant to monitor and report on the voting behaviour carried out on its behalf. The Trustee requires its Investment Consultant to report periodically on how its Asset Managers have acted with respect to the Trustee's policy on stewardship and engagement. The Trustee will disclose any highlights as part of this review annually in its Implementation Statement.

## **Additional Voluntary Contributions (AVCs)**

Under the Scheme's Trust Deed and Rules, members are unable to invest Additional Voluntary Contributions ('AVCs'), however, they are able to move existing AVCs.

The Trustee has selected a range of investment funds for the AVCs to be invested in, which are reviewed regularly having regard to their performance, the objectives and the views of the advisers.