Phoenix Medical Supplies Pension Scheme

Statement of Investment Principles

September 2020

1 Introduction

1.1 This is the Statement of Investment Principles prepared by the Trustees of the Phoenix Medical Supplies Pension Scheme (the Scheme). This statement sets down the principles governing decisions about investments for the Scheme to meet the requirements of the Pensions Act 1995, as amended by the Pensions Act 2004, and of the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010; the Occupational Pension Schemes (Charges and Governance) Regulations 2015; and the Occupational Pension Schemes (Investment) (Amendment) Regulations 2018.

1.2 In preparing this statement the Trustees have consulted Phoenix Medical Supplies Ltd, the Principal Employer, and obtained advice from Barnett Waddingham Actuaries and Consultants Limited, the Trustees' investment consultants. Barnett Waddingham is regulated by the Institute and Faculty of Actuaries in respect of a range of investment business activities.

1.3 This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.

1.4 The Trustees will review this statement at least every three years or if there is a significant change in the policy on any of the areas covered by the statement.

1.5 The investment powers of the Trustees are set out in Clause 16 of the Definitive Trust Deed and Rules, dated 23 January 2017. This statement is consistent with those powers.

2 Choosing Investments

2.1 The Trustees' policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustees consider the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.

2.2 The day-to-day management of the Scheme's assets is delegated to one or more fund managers. The Scheme's fund managers are detailed in the Appendix to this Statement. The fund managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights.

2.3 The Trustees review the appropriateness of the Scheme's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the fund managers with respect to performance within any guidelines set. The Trustees will also consult the employer before amending the investment strategy.

3 Investment Objectives

3.1 The Trustees have discussed key investment objectives in light of an analysis of the Scheme's liability profile.

3.2 The Trustees' main investment objectives are:

- to ensure that they can meet the members' entitlements under the Trust Deed and Rules as they fall due;
- to achieve a long term positive real return;

- to manage the expected volatility of the returns achieved in order to control the level of volatility in the Scheme's required contribution levels;
- to invest in assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from members and the participating employers, the cost of current and future benefits which the Scheme provides;
- to reduce the risk of the assets failing to meet the liabilities over the long term; and
- to minimise the long-term costs of the Scheme by maximising the return on the assets whilst having regard to the above objectives.

3.3 The Trustees are aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Scheme's liabilities at any time. The Trustees have obtained exposure to investments that they expect will meet the Scheme's objectives as best as possible.

4 Kinds of investments to be held

4.1 The Scheme can invest in a wide range of asset classes including:

- Equities;
- Bonds;
- Cash;
- Property;
- Alternatives, including private equity, commodities, hedge funds, infrastructure, currency, high yield debt and derivatives; and
- Annuity policies.

4.2 Any investment in derivative instruments is only made to contribute to a reduction in the overall level of risks in the portfolio or for the purposes of efficient portfolio management.

4.3 The Trustees monitor from time-to-time the employer-related investment content of their portfolio as a whole and will take appropriate action should any employer-related investments be discovered. Typically this check is carried out annually by the Scheme's auditors.

5 The balance between different kinds of investments

5.1 The Scheme invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained within the Appendix to this Statement.

5.2 The Trustees consider the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Appendix to this Statement.

5.3 From time to time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate for any short term cashflow requirements or any other unexpected items.

5.4 The Trustees are aware that the appropriate balance between different kinds of investments will vary over time and therefore the Scheme's asset allocation will be expected to change as the Scheme's liability profile matures.

6 Risks

6.1 The Trustees have considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities, and considered ways of managing/monitoring these risks:

6.2 **Risk versus the liabilities** The Trustees will monitor and review the investment strategy with respect to the liabilities in conjunction with each actuarial valuation. The investment strategy will be set with consideration of the appropriate level of risk required for the funding strategy as set out in the Scheme's Statement of Funding Principles.

6.3 **Asset Allocation risk** The asset allocation is detailed in the Appendix to this Statement and is monitored on a regular basis by the Trustees.

6.4 **Fund manager risk** The Trustees monitor each of the Scheme's fund manager's performance on a regular basis in addition to having meetings with each manager from time to time as necessary. The Trustees have a written agreement with each fund manager, which contains a number of restrictions on how each fund manager may operate.

6.5 **Concentration risk** Each fund manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.

6.6 **Loss of investment** The risk of loss of investment by each fund manager and custodian is assessed by the Trustees. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud).

6.7 **Liquidity risk** The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Scheme's cash flow requirements. The Scheme's administrators assess the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.

6.8 **Covenant risk** The creditworthiness of the employer and the size of the pension liability relative to the employer's earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the employer covenant.

6.9 **Solvency and mismatching** This risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustees are aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Scheme's funding basis.

6.10 **Currency risk** The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management.

7 Expected return on investments

7.1 The Trustees have regard to the relative investment return and risk that each asset class is expected to provide. The Trustees are advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the fund managers.

7.2 The Trustees recognise the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

7.3 In considering the expected return from investments, the Trustees recognise that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.

7.4 Having established the investment strategy, the Trustees monitor the performance of each fund manager against an agreed benchmark as frequently as appropriate according to market conditions and the Scheme's funding position. The Trustees meet the Scheme's fund managers as frequently as is appropriate in order to review performance.

8 Realisation of investments

8.1 The Trustees have delegated the responsibility for buying and selling investments to the fund managers. The Trustees have considered the risk of liquidity as referred to above.

8.2 Ultimately, the investments will all have to be sold when the Scheme's life comes to an end. In this situation, the Trustees are aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Scheme accounts.

9 Financially Material Considerations

Policy on Environmental, Social and Governance ("ESG") considerations

9.1 The Trustees have considered long-term financial risks to the Scheme and believes that environmental, social and governance ("ESG") factors as well as climate risks are potentially financially material and therefore has a policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments in order to avoid unexpected losses.

9.2 Given the maturity profile of the Scheme and the objective to fund future member benefits from the Scheme's assets as they fall due, the Trustees have a long-term time horizon over which it takes into account the financial materiality of ESG factors (including, but not limited to, climate change).

9.3 From time to time, the Trustees may ask the Scheme's fund managers to attend meetings and provide updates on the funds, which the Trustees may request to include an update on ESG considerations.

9.4 The Trustees will be reliant on the information presented by the fund managers regarding the extent to which a fund manager allows for ESG factors in making their investment decisions. When selecting new investments, a fund manager's excellence in relation to ESG considerations will be considered but will not take precedence over other financially material factors, including (but not limited to) historical performance or fees.

9.5 As the investments are held in pooled funds, social, environmental and governance considerations are set by each of the fund managers. The Scheme's fund manager will ultimately act in the best interests of the Scheme's assets to maximise returns for a given level of risk. The Trustees will assess how this aligns with their own policies as set out in Appendix 1.

9.6 The Trustees have not imposed any restrictions relating to ESG issues on their fund managers beyond those already built into the pooled funds (for example for Newton) and have not imposed any exclusions on their investment arrangements based on ESG factors.

10 Non-Financial Matters

10.1 When constructing the investment strategy and selecting investment managers the Trustees do not take non-financial matters into account.

11 Exercise of Rights and Engagement Activities

11.1 The Trustees believe that good stewardship and positive engagement can lead to improved governance and potentially better risk-adjusted investor returns.

11.2 As an investor in pooled funds, the Trustees currently adopt the policy of delegating the exercise of the rights (including voting rights) attaching to the Scheme's investments to the fund managers, who are signatories to the UK Stewardship code and the UN Principles of Responsible Investment. The Trustees expect the fund managers to take account of ESG factors and climate risk when exercising these rights and will monitor this through the annual Implementation Statement.

11.3 The Trustees also delegate undertaking engagement activities, which include entering into discussions with company management in an attempt to influence behaviour, to the fund managers. As part of this, the Trustees expect their active fund managers to assess and monitor developments in the capital structure for each of the companies in which the manager invests. This should include monitoring developments in ESG related issues, and in particular climate risk, across the relevant parts of the capital structure. This expectation has been communicated to the Scheme's fund managers.

11.4 In selecting and reviewing their fund manager, where appropriate and applicable, the Trustees will consider the fund manager's policies on engagement and ESG and how those policies have been implemented. If the Trustees find that any fund manager is not engaging with the companies in which the manager invests in a suitable manner, or is not taking sufficient account of ESG matters in its exercising of voting rights, it will engage with that fund manager with the help of the Scheme's investment consultants.

11.5 The Scheme's investment consultant, Barnett Waddingham, is independent and no arm of its business provides investment management services. This, and its Regulated status, makes the Trustees confident that the fund manager recommendations Barnett Waddingham makes are free from conflicts of interest.

11.6 The Trustees expect all fund managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so, the Trustees believe they have appropriately managed the potential for conflicts of interest in the appointment of the fund manager and conflicts of interest between the Trustees/fund manager and the companies in which the manager invests.

12 Agreement

12.1 This statement was agreed by the Trustees, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the employer, the fund managers, the actuary and the Scheme auditor upon request.

Appendix 1 Note on investment manager arrangements as at September 2020 in relation to the current Statement of Investment Principles

The Trustees have appointed the following fund managers to carry out the day-to-day investment of the fund:

- Legal & General Investment Management Limited;
- Threadneedle Asset Management Holdings Limited;
- Newton Investment Management

The investment managers are authorised and regulated by the Financial Conduct Authority.

The investment benchmarks and objectives for each fund manager are given below:

Fund manager	Benchmark	Objective
Legal & General Investment Management		
LDI portfolio	N/A	To provide protection against changes in inflation and interest rates
Absolute Return Bond Fund	3-month LIBOR	Outperform benchmark by 1.5% p.a. (gross of fees) over rolling 3 year periods
All World Equity Index Fund	FTSE All-World Index	To track the performance of the FTSE All-World Index to within +/- 0.5% per annum for 2 out of 3 years
All World Equity Index Fund (GBP hedged)	FTSE All-World Index (GBP Hedged)	To track the performance of the FTSE All-World Index - GBP Hedged (with the exception of emerging markets) to within +/-0.5% per annum for 2 out of 3 years
Columbia Threadneedle Investments		
Dynamic Real Return Fund	UK Consumer Prices Index	Outperform benchmark by 4% p.a. (gross of fees) over 3 to 5 years
Newton Investment Management		
BNY Mellon Sustainable Real Return Fund	1-month GBP LIBOR	Outperform benchmark by 4% p.a. (gross of fees) over rolling 5 year periods

Aligning the investment strategy and decisions of the fund manager with the Trustees' investment policies

When choosing a fund manager, the Trustees select the manager that most closely aligns with their own investment strategy and policies, including their policy on ESG and climate risk.

The Trustees recognise that when investing in pooled funds there is limited scope to influence the fund managers' strategy and decisions but has resolved to:

- Monitor the performance of the Funds relative to the stated investment objectives and philosophy, on which basis the manager has been appointed, to ensure the investment strategy and decisions continue to be in line with the Trustees' expectations.
- In the event that the fund manager ceases to invest in line with the Trustees' policies and expectations, including the management of ESG and climate related risks, their appointment will be reviewed.

Incentivising fund managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term

In making investment decisions, the Trustees expect the Scheme's active fund managers to assess the long-term financial and non-financial prospects of any investment. The Trustees believe that factors such as ESG risk, climate risk and the engagement of fund managers with the companies in which they invest may have a long-term impact on returns and therefore fund managers should take these into consideration when making decisions.

In order to encourage this, the Trustees have notified the managers of the following:

- The Trustees believe the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the fund manager makes decisions based on an appropriate time horizon and will therefore focus on the performance of the fund managers over this timeframe. In particular, in the case of assets that are actively managed, the Trustees expect this to be sufficient to ensure an appropriate alignment of interests.
- The Trustees do not expect ESG considerations to be disregarded by the fund manager in an effort to achieve any short term targets.
- The Trustees expect fund managers to be voting and engaging on behalf of the Scheme's holdings and the Trustees monitor this activity within the Implementation Statement in the Scheme's Annual Report and Accounts.

How the method (and time horizon) of the evaluation of the fund manager's performance and remuneration for fund management services are in line with the Trustees' policies

Evaluation of fund managers' performance

From time to time the Trustees review the fund managers' performance on a net of fees basis. This is considered over 3-5 year periods, which is consistent with the Trustees' wider investment policies. This review reflects not only fund returns, but also whether the fund managers continue to invest in line with the Trustees' expectations in terms of their investment approach, philosophy and process. This includes the fund managers' approaches to ESG and climate risk.

Remuneration of fund managers

Details of the fee structures for the Scheme's fund managers are contained in the Scheme's "Investment Manager Arrangement Summary" document.

The Scheme invests exclusively in pooled funds. In all cases, the fund manager's remuneration is linked to the value of the assets they manage on behalf of the Scheme. Therefore, as the assets grow in value, due to successful investment by the fund manager, the manager receives more in fees and as values fall they receive less. The

Trustees believe that this fee structure incentivises the manager to invest in a way that benefits the Scheme; in particular, it enables the fund manager to focus on long-term performance.

The Trustees ask the Scheme's Investment Consultant to assess whether the fund management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered from time to time.

How the Trustees monitor portfolio turnover costs incurred by the fund manager, and how the define and monitor targeted portfolio turnover or turnover range

The Trustees acknowledge that portfolio turnover costs can impact on the performance of their investments. However, equally the Trustees believe that active managers can add value through turnover of investments.

When underperformance is identified, the level of turnover may be investigated with the fund manager concerned if it is felt this may have been a significant contributor to the underperformance. In these cases, the Trustees define the target turnover with respect to the market conditions and peer group practices.

The duration of the arrangement with the fund manager

All of the Scheme's investment are in open-ended pooled funds and as such there are no pre-agreed timeframes for investment. However, the Trustees' approach to investing means that investments are expected to be held over a period of 3 years or more.

The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustees' investment aims, beliefs and constraints is assessed periodically as appropriate. As part of this review the ongoing appropriateness of the fund managers, and the specific funds used, is assessed.