

# **The Pension and Life Assurance Plan of Cross Manufacturing Company (1938) Limited (“the Plan”) Statement of Investment Principles**

## **Investment Objective**

The Trustees aim to invest the assets of the Plan prudently to ensure that the benefits promised to members are provided. The Trustees have purchased an annuity policy to insure these benefits and minimise the risk that the Plan is unable to meet this objective.

## **STRATEGY**

The Plan invests in a Bulk Purchase Annuity Agreement (“Annuity Policy”) with Aviva. The Annuity Policy is intended to provide a return which matches the liabilities insured for the membership of the Plan, and remove unrewarded risks such as interest rates, inflation and longevity, that are associated with those liabilities insured.

In addition to the Annuity Policy, The Plan also has a residual investment in the Blackrock UK Property Fund, expected to remain less than 10% of assets. The Trustees have instructed a full redemption from this fund, however this fund is currently deferring redemptions until potentially Q4 2024. In light of this the company have provided a loan to the Plan in order to fund the purchase of the Annuity Policy.

The Plan's assets do not have an explicit return objective, rather the assets aim to deliver the benefits promised to members. The strategy was determined with regard to the actuarial characteristics of the Plan, in particular the strength of the funding position, liability profile of the Plan, its cashflow requirements and the Trustees' objectives.

When choosing the Plan's asset allocation strategy, the Trustees considered written advice from their investment advisers and, in doing so, addressed the following:

- The need to consider a full range of asset classes.
- The risks and rewards of a range of alternative asset allocation strategies.
- The suitability of each asset class.
- The need for appropriate diversification.

In addition, the Trustees also consulted with the sponsoring employer when setting this strategy.

## **RISK**

The Trustees recognise that the key risk to the Plan is that it has insufficient assets to make provisions for 100% of its liabilities ("funding risk"). The Trustees have identified a number of risks which have the potential to cause a deterioration in the Plan's funding level and therefore contribute to funding risk. These are as follows:

- The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors ("mismatching risk"). The Trustees and their advisers considered this mismatching risk when setting the investment strategy, however this risk has reduced significantly with the Annuity Policy now in place.
- The possibility of failure of the Plan's sponsoring employer ("covenant risk"). The Trustees and their advisers considered this risk when setting investment strategy and consulted with the sponsoring employer as to the suitability of the proposed strategy. The impact on the Plan of this risk has reduced significantly with the Annuity Policy now in place.
- The risk of fraud, poor advice or acts of negligence ("operational risk"). The Trustees have sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.
- The risk of a shortfall of liquid assets relative to the Plan's immediate liabilities ("cash flow risk"). The Trustees and their advisers will manage the Plan's cash flows taking into account the timing of future payments in order to minimise the probability that this occurs. Aviva is responsible for providing the cash for benefit payments covered by the Annuity Policy. The risk that it defaults on this obligation is covered under 'Annuity Policy default risk' below.
- The risk that Aviva fail to make the pension payments covered by the Annuity Policy as they fall due ('Annuity Policy default risk'). Having considered the credit strength of the insurer as part of their due diligence process, in addition to other factors such as the regulatory environment and other protections available (e.g., the Financial Services Compensation Scheme), the Trustees considered this to be an appropriate investment for the Scheme. The Trustees also took investment advice from LCP regarding the suitability of the Aviva Annuity Policy as an investment. The Trustees appointed LCP to help them select an Annuity provider, ultimately selecting Aviva.

Due to the complex and interrelated nature of these risks, the Trustees consider the majority of these risks in a qualitative rather than quantitative manner. The Trustees' policy is to monitor these risks periodically.

## **IMPLEMENTATION**

Aon has been selected as investment adviser to the Trustees. LCP advised on the Annuity Policy.

The majority of the Plan's assets are invested in an Annuity Policy with Aviva. The day-to-day management of these assets is delegated to Aviva. The Annuity Policy is intended to cover all Plan beneficiaries and their prescribed benefit entitlements, and to eliminate interest rate, inflation and longevity risk associated with those liabilities. The insurer pays the Plan an amount each month equal to the pension payment due in respect of the membership underlying the policy. The contract is an asset of the Plan and the pension liability remains within the Plan until such a time as a buyout is completed.

The residual assets are invested with BlackRock, and a full redemption order has been placed.

## **RESPONSIBLE INVESTMENT**

In setting the Plan's investment strategy the Trustees' primary concern is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. These include the risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly. The Trustees consider this risk by taking advice from their investment adviser when setting the Scheme's asset allocation, when selecting managers and when monitoring performance.

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustees have elected to invest the majority of the Scheme's assets in an Annuity Policy and therefore cannot directly influence the environmental, social, and governance ESG policies and practices of the companies in which the Annuity Policy invests.

### **Stewardship – Voting and Engagement**

Following the purchase of the Annuity Policy, responsibility for voting and engagement for the majority of the Scheme's assets has been delegated to the Annuity Provider, Aviva. Residual assets are invested in a UK commercial property fund with BlackRock. Given the relatively small proportion of Scheme assets invested with BlackRock and fact that the Trustees have instructed a full redemption from this fund, the Trustees do not have a formal stewardship policy in place for these assets.

### **Members' Views and Non-Financial Factors**

In setting and implementing the Plan's investment strategy the Trustees do not take into account the views of Plan's members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors").

## **COST MONITORING**

Following the purchase of the Annuity Policy, responsibility for monitoring costs of the majority of the Plan's assets has been delegated to Aviva. The Trustees therefore do not monitor costs relating to the Policy. The Trustees paid a premium to Aviva when the Annuity Policy was initiated, and as a result there are no ongoing fees in respect of the Policy.

Residual assets are invested in a UK Property Fund with BlackRock. Given the relatively small proportion of assets invested with BlackRock, the Trustees do not have a formal Cost Monitoring policy in place for these assets.

Targeted portfolio turnover is defined as the expected frequency with which an investment manager's fund holdings change over a year. Given the majority of the Plan's assets are invested in the Annuity Policy, the Trustees do not monitor portfolio turnover.

## THE ARRANGEMENTS WITH INVESTMENT MANAGERS

Before entering into the Annuity Policy with Aviva the Trustees reviewed the Policy and considered the extent to which it aligned with the Plan's requirements. Following the purchase of the Annuity Policy, and with the exception of the residual assets, the responsibility for managing arrangements with any underlying asset managers lies with Aviva.

Given the relatively small proportion of residual assets invested outside of the Annuity Policy, and the nature of the investments held, the Trustees do not maintain a policy for the arrangements with BlackRock.

No performance monitoring is carried out in relation to the Annuity Policy however checks are carried out to ensure the payments received from the policy are in line with expectations.

There is no set duration for arrangements with the Annuity Provider. The Trustees have instructed a full redemption from the BlackRock Property fund, and this fund currently deferring redemptions until potentially Q4 2024.

## GOVERNANCE

The Trustees are responsible for the investment of the Plan's assets. The Trustees take some decisions themselves and delegate others. When deciding which decisions to take themselves and which to delegate, the Trustees have taken into account whether they have the appropriate training and expert advice in order to take an informed decision. The Trustees have established the following decision making structure:

<b>Trustees</b> <ul style="list-style-type: none"><li>• Determine investment objective, select and monitor planned asset allocation strategy, and evaluate success of the overall investment strategy</li><li>• Select / Monitor / retain / terminate investment advisors, fund managers, trustee and other service providers</li><li>• Select direct investments</li><li>• Consult with the sponsoring employer</li></ul>
<b>Investment Adviser</b> <ul style="list-style-type: none"><li>• Advise on all aspects of the investment of the Scheme's assets including implementation</li><li>• Advise on this statement</li><li>• Advise on required training</li></ul>
<b>Investment Managers</b> <ul style="list-style-type: none"><li>• Operate within the terms of this statement and their written contracts</li><li>• Buy and sell individual investments with regard to their suitability and diversification</li></ul>
<b>Annuity Provider</b> <ul style="list-style-type: none"><li>• Manage annuity policy to pay the agreed liabilities of the Scheme</li></ul>

The Trustees will review this SIP at least every three years and immediately following any significant change in investment policy. The Trustees will take investment advice and consult with the Sponsoring Employer over any changes to the SIP.

Signed on behalf of the Trustees

Name: [REDACTED] ..... Name: [REDACTED] .....

Signature: [REDACTED] ..... Signature: [REDACTED] .....

Date: 06 June 2023 ..... Date: 05 June 2023 .....

**Names and signatures redacted for public document**