The Fellowes Ltd Retirement Benefits Scheme

Statement of Investment Principles

September 2019

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1. Introduction

This statement is made in accordance with the requirements of legislation[1] and, in determining a suitable investment strategy for the Scheme, the Trustees have considered The Pension Regulator's Investment Guidance for defined benefit pension schemes.

The main body of this statement sets out the principles and policies that govern investments made by the Trustees of the Scheme. Details of the specific investment arrangements in place are set out in the Appendices.

Upon request, a copy of this statement will be made available to members, the Scheme Actuary and any investment managers used by the Trustees.

[1] In particular, the Pensions Act 1995, the Occupational Pensions (Investment) Regulations 2005 and the Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.

2. Investment Governance Structure

Investment Advice

As required by legislation, in the preparation and maintenance of this statement and when considering the suitability of any investments, the Trustees will obtain and consider written advice from their investment adviser.

The Trustees are advised on investment matters by First Actuarial LLP. First Actuarial LLP is regulated by the Institute and Faculty of Actuaries and is qualified to provide the required advice through knowledge and practical experience of financial matters relating to pension schemes.

Legal Advice

Whenever deemed necessary, the Trustees will seek advice from their legal adviser on investment matters.

Employer Consultation

Under legislation, the ultimate responsibility for determining the investment strategy rests with the Trustees. However, the Trustees must consult with the sponsoring employer and consultation must comprise a sharing of views, not simply notification of intent.

Investment Managers

Day-to-day management of the Scheme's assets is delegated to one or more investment managers.

To ensure safekeeping of the assets, ownership and day to day control of the assets is undertaken by custodian organisations which are independent of the sponsoring employer and the investment managers. Where pooled investment vehicles are used, the custodians will typically be appointed by the investment manager.

Members' Views

The Trustees recognise that it is likely that members and beneficiaries will hold a broad range of views on ESG and other non-financial matters.

Whilst the Trustees will seek to avoid investing in a way that is likely to be strongly opposed by those individuals, the Trustees do not directly take such views into account when determining the Scheme's investment strategy.

The Trustees believe that their duty to members and beneficiaries will be best served by ensuring that all benefits can be paid as they fall due and the Trustees' Investment Objectives are designed to ensure this duty is achieved.

3. Investment Beliefs

The investment beliefs stated below have been developed by the Trustees and are reflected in the Scheme's investment strategy.

Risk versus Reward

Targeting higher levels of investment return increases investment risk which increases the volatility of the funding position.

Asset Allocation

Long-term performance of the Scheme's assets is attributable primarily to the strategic asset allocation rather than the choice of investment managers.

Diversification

Asset diversification helps to reduce risk.

Use of Pooled Funds

Taking into account the size of the Scheme's assets, it is expected that pooled funds will typically be a more practical way of implementing the Scheme's investment strategy than establishing segregated mandates with investment managers.

Use of Active Management

Active management has the potential to add value either through offering the prospect of enhanced returns or through the control of volatility. In addition, it is recognised that active management may help to mitigate the financial impact of ESG risks.

For each asset class, the Trustees will consider whether the higher fees associated with active management are justified.

4. Investment Objectives

Defined Benefit Assets

The Trustees' primary investment objectives are:

- to ensure that the assets are sufficient and available to pay members' benefits as and when they fall due,
- to generate an appropriate level of investment returns – to improve the funding position and thereby improve security for members, and
- to protect the funding position – limiting the scope for adverse investment experience reducing security for members.

The Trustees' investment approach is designed to strike a balance between the above primary objectives but also considers:

- the nature and timing of benefit payments,
- expected levels of investment return on different asset classes,
- expected levels of investment return variability and, specifically, the expected level of short-term volatility of the funding position,
- the sponsoring employer's ability to withstand additional contribution requirements that may arise from volatility in the funding position; and
- the full range of available investments (within the bounds of practicality).

AVCs

AVCs are held separately from the Scheme's other investments and the AVCs are used to secure benefits on a money purchase basis for members at retirement. From time to time the Trustees review the ongoing suitability of the AVC arrangement.

Details of the current AVC arrangements are provided in Appendix 1.

5. Use of Investment Managers

Investment Manager Selection

When selecting an investment manager, the Trustees will:

- ensure that the investment manager has the appropriate knowledge and experience,
- ensure that the investment manager's mandate is appropriate,
- consider the investment manager's approach to ESG matters.

Where pooled investment vehicles are used, it is recognised that the mandate cannot be tailored to the Trustees' particular requirements. However, the Trustees ensure that any pooled investment vehicles used are appropriate to the circumstances of the Scheme.

The Trustees will normally select investment managers who are signatories to the UNPRI and who publish the results of their annual UNPRI assessment. This principle may be waived if a fund offered by a non-signatory manager is deemed to have investment characteristics which are particularly important for meeting the Trustees' investment objectives.

Manager Implementation

Assets are invested predominantly on regulated markets, as so defined in legislation. Any investments that do not trade on regulated markets are kept to a prudent level.

Use of Derivatives

The investment managers are permitted to use derivative instruments to reduce risk (for example to mitigate the impact of a potential fall in markets) or for efficient portfolio management. Risk reduction would include the implementation of currency hedging whilst efficient portfolio management would include using derivatives as a cost-effective way of gaining access to a market or as a method for generating capital and/or income with an acceptable level of risk.

Leverage

The instruments used by the investment managers of the Liability Matching Assets may result in the Liability Matching Assets being leveraged. Since these assets are closely aligned to the liabilities, the allocation to Liability Matching Assets (and any associated leverage) reduces the volatility of the Scheme's funding position and therefore reduces risk.

Stewardship

The Trustees recognise that the membership might wish the Trustees to engage with the underlying companies in which the Scheme invests with the objective of improving corporate behaviour to benefit the environment and society. However, the Trustees invest in pooled investment vehicles and accept that ongoing engagement with the underlying companies (including the exercise of voting rights) will be determined by the investment managers' own policies.

The Trustees recognise that the investment managers' engagement policies are likely to be focussed on maximising financial returns and minimising financial risks rather than targeting an environmental or societal benefit.

6. Risk Mitigation

Identification, measurement and management of risk form an integral part of the process adopted by the Trustees to determine the strategic asset allocation. The principal investment risks are listed in the Trustees' *Investment Risk Policy*. That Policy also provides an explanation of how the investment risks are managed.

Risk Capacity and Risk Appetite

In determining a suitable investment strategy, the Trustees consider how the volatility of the funding position is likely to be affected by changes to the asset allocation. An important consideration for the Trustees is whether a potential investment strategy is consistent with ability of the sponsoring employer to address any future increase in deficit that may arise due to market movements.

Self-Investment Risk

Legislation imposes a restriction that no more than 5% of a pension scheme's assets may be related to the sponsoring employer. The Trustees do not hold any direct employer-related assets and any indirect exposure is expected to be less than 5% of total assets.

ESG Risks

Since the Trustees invest in pooled investment vehicles, it is accepted that the extent to which ESG factors will be used in the selection of suitable underlying investments will be determined by the investment managers' own policies on such matters.

Liquidity Risk

The majority of the Scheme's investments will be liquid and will be realisable for cash at relatively short notice without incurring high costs. However, the Trustees recognise that the liabilities are long-term in nature and that a modest allocation to less-liquid investments may be appropriate.

Details of the liquidity characteristics of the funds held are provided in Appendix 2.

7. Corporate Engagement

Where the Trustees invest in pooled investment vehicles, it is accepted that the extent to which corporate governance, socially responsible practices and ethical behaviour are used in the selection of suitable investments will be determined by the investment managers' own policies on these matters.

Similarly, it is accepted that ongoing engagement with companies in which investments are made (including the exercise of voting rights) will also be determined by the investment managers' own policies.

It is acknowledged that the extent to which the voting policies and practices of individual fund managers are motivated to improving corporate behaviour or to benefit the environment and society will vary from investment to investment. The Trustees will consider individual fund manager practices in the context of the overall portfolio as described above.

8. Monitoring

The Trustees regularly review the Scheme's investments to ensure that the assets continue to be managed in accordance with each manager's mandate and that the choice of managers remains appropriate.

The investment adviser regularly meets with the managers of pooled funds on its approved list.

9. Future Amendments

This statement will be reviewed at least every three years and without delay after any significant change in circumstances or investment strategy.

The Trustees have consulted with the sponsoring employer as part of the work preparing this statement.

Appendix 1: The Trustees' Investment Strategy

Strategic Asset Allocation

In determining the strategic asset allocation, the Trustees view the investments as falling into two broad categories:

1. **Growth Assets –** Assets that are expected to deliver long-term returns in excess of liability growth. The use of Growth Assets is expected to deliver a level of investment returns deemed appropriate by the Trustees given the risk involved.

2. **Liability Matching Assets** – Assets that are expected to react to changes in market conditions in a similar way to the liabilities. The use of Liability Matching Assets is expected to protect the funding position of the Scheme.

The Trustees will review the strategic asset allocation periodically, and at least every three years, to ensure that the investment strategy remains consistent with the Trustees' funding objectives. As part of such a review, the Trustees will consider the risks associated with the investment strategy.

Investment Strategy Implementation

The Trustees have selected the fund manager Newton to implement the Scheme's investment strategy. Further details of the investment strategy and the funds used are provided below.

Design of the Growth Asset Portfolio

The structure of the Scheme's Growth Assets has been designed to offer diversification across a range of underlying asset classes.

The strategic allocation for the Scheme's Growth Assets is as follows:

Pooled Fund	Strategic Allocation of the Growth Assets
Newton Real Return Fund	100%
Total Growth Assets	**100%**

The allocation shown above is not automatically rebalanced but will be monitored and rebalanced at the discretion of the Trustees.

Appendix 1: The Trustees' Investment Strategy (continued)

Insured Pensioners

The Trustees insure a proportion of the Scheme’s pensioner liabilities with Prudential, Canada Life and AVIVA. These insurance policies will provide a stream of income in respect of named individuals for as long as those individuals remain alive. The income received offsets pension payments made from the Scheme.

Additional Voluntary Contributions

The Scheme’s AVC arrangements are held with Prudential. Assets are invested separately from the main defined benefit investments in order to secure additional benefits on a money purchase basis for those members electing to pay Additional Voluntary Contributions. Members participating in this arrangement each receive an annual statement confirming the amounts held in their accounts and the movements in the year.

Appendix 2: Fund Details

This Appendix provides a summary of the funds selected by the Trustees' to implement the Scheme's investment strategy. The details provided below were correct as at July 2019.

The following points should be noted:

- AMC – the Annual Management Charge applicable to each fund represents the fee payable to the fund manager.
- Additional expenses – these are third party costs associated with the operation of a fund such as fees paid to the administrator, the custodian and the auditor and the costs associated with the use of third-party funds where these are used. The level of the additional expenses may vary over time.
- Legal Structure – an explanation of the different types of fund legal structures is provided in the Trustees' *Investment Risk Policy* document.

Newton Real Return Fund		
Objective	To seek a minimum return of cash (1-month LIBOR) plus 4% per annum over 5 years before fees.	
Legal Structure	Open-Ended Investment Company	
Fee	AMC:	0.75% per annum
	Additional Expenses (approx.):	0.81% per annum