Fellowes Limited Retirement Benefits Scheme

Addendum to the Statement of Investment Principles

Original Statement dated: September 2019

Date of Addendum: August 2020

Purpose of the Addendum

This Addendum updates Appendices 1 and 2 to reflect changes to the Scheme's investment strategy that were implemented in 2019.

This Addendum also adds an Appendix 3 which is made in accordance with the requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 (it includes additional wording to cover this) and it updates the Statement of Investment Principles to record how the Scheme complies with the EU Shareholder Rights Directive (SRD II) which comes into effect on 1 October 2020.

Glossary Update

ESG – Environmental, Social and Governance (including, but not limited to, climate change)

In the relevant regulations "**non-financial matters**" refers to the views of the members. This includes, but is not limited to, ethical views, views on ESG factors and views on the present and future quality of life for the members.

"**Financially material considerations**" includes (but is not limited to) ESG considerations (including but not limited to climate change), which the trustees of the trust scheme consider financially material.

"**Appropriate time horizon**" means the length of time that the trustees of a trust scheme consider is needed for the funding of future benefits by the investments of the scheme.

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.

In addition, the Trustees may hold cash. Cash will normally be held in the Trustees' bank account if it is to be used to make payments due in the short-term whereas cash that is to be held for more than a few weeks will normally be held in a cash fund.

At the time of preparing this statement, the split of the Scheme's assets between Growth and Liability Matching Assets was 74% Growth and 26% Liability Matching. This split is not regularly rebalanced and will vary over time as market conditions change.

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 funds managed by LGIM and BNY Mellon to implement the Scheme's investment strategy. Investments in these funds are made via the LGIM investment platform. Further details of the investment strategy and the funds used are provided below.

Appendix 1: The Trustees' Investment Strategy (continued)

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 and to achieve this by combining investment managers with different asset management styles.

In October 2020, the Trustees agreed on a temporary investment strategy to reduce the risk of the portfolio for a temporary period before moving onto a more suitable long-term strategy once market volatility falls. The long-term strategy is expected to be implemented in late 2020 or early 2021 depending on market conditions.

The Scheme’s Assets are currently invested in the following underlying pooled funds, reflecting the allocations shown in the left-hand column.

Pooled Fund	Temporary Strategy Allocation as at 24 August 2020 (as a % of total Scheme assets)	Long-Term Strategy (as a % of total Scheme assets)
LGIM Diversified Fund	23%	-
BNY Mellon Real Return Fund	51%	100%
Total Growth Assets	**74%**	**100%**

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

Design of the Liability Matching Portfolio

The Scheme’s Liability Matching Assets are invested in leveraged Liability Driven Investment (LDI) funds managed by LGIM. The LGIM funds used are:

- LGIM Matching Core Fixed Short Fund
- LGIM Matching Core Real Long Fund
- LGIM Matching Core Real Short Fund

The targeted level of matching will approximately match the movement of the Scheme’s liabilities to changes in long term interest and inflation rates.

Appendix 1: The Trustees' Investment Strategy (continued)

LDI Leverage Management Policy

In an environment of rising yields and if the leverage of an LGIM LDI fund breaches the upper threshold, a recapitalisation payment may need to be paid into one or more of the LGIM LDI funds to lower the leverage of the relevant fund. This will ensure that leverage within the LDI funds remains within a permissible range. The Trustees have provided LGIM with authority to use the BNY Mellon Real Return Fund to recapitalise any LDI funds.

In an environment of falling yields and if the leverage of an LGIM LDI fund falls below a minimum threshold, LGIM will make a cash payment from the relevant fund to raise the leverage of the relevant fund. This will ensure that leverage within the LDI funds remains within a permissible range. The Trustees have provided LGIM with authority to invest any such cash proceeds in the BNY Mellon Real Return Fund.

Cashflow Management Policy

Any investments or disinvestments will be made at the discretion of the Trustees, but the Trustees will maintain a *Cashflow Management Policy* which will record how such payments should be structured. The *Cashflow Management Policy* will be designed to ensure the allocation of the Scheme's assets remains closely aligned with the strategy described in this statement.

To ensure the Scheme operates efficiently, the Trustees may share the *Cashflow Management Policy* with the individual(s) responsible for processing payments from the Scheme.

The *Cashflow Management Policy* will be reviewed from time-to-time by the Trustees and, as a minimum, at least every three years in line with a review of this statement. Given that the *Cashflow Management Policy* is designed to keep the Scheme's asset allocation aligned with the investment strategy and investment principles described in this statement, the sponsoring employer is satisfied that the *Cashflow Management Policy* can be amended by the Trustees without consulting the sponsoring employer.

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 August 2020.

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.
- T = Trade date.

LGIM Diversified Fund		
Objective	To provide long-term investment growth through exposure to a diversified range of asset classes. Long term expected rate of return is broadly similar to developed market equities, as represented by the FTSE Developed World Index (50% hedged to GBP). The long-term expected annualised rate of return for this Fund is the Bank of England Base Rate +3.5% pa, over a full market cycle.	
Legal Structure	Unit-linked insurance policy	
Trading Frequency	Weekly	
Notice Period	T-2	
Settlement Period	T+2	
Fee	AMC:	0.30% p.a.
	Additional Expenses (approx.):	0.01% p.a.

Appendix 2: Fund Details (continued)

BNY Mellon 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	Investment Company with Variable Capital	
Trading Frequency	Daily	
Notice Period	T-3	
Settlement Period	T+3	
Fee (Via LGIM)	AMC:	0.77% p.a.
	Additional Expenses (approx.):	0.05% p.a.

LGIM Matching Core Funds		
Objective	To provide liability hedging based on the liability cashflows of a typical UK pension scheme.	
Legal Structure	Unit-linked insurance policy	
Trading Frequency	Weekly	
Notice Period	T-2	
Settlement Period	T+2	
Fee	AMC:	0.24% p.a.
	Additional Expenses (approx.):	0.05% p.a.

Appendix 3: Investment Manager Arrangements

The Trustees believe that financially material considerations, including ESG factors and the risks related to such factors, can contribute to the identification of both investment opportunities and financially material risks. Consequently, financially material considerations can have a material impact on investment risk and return outcomes.

As the Scheme's assets are held in pooled funds, the Trustees have limited influence over the investment managers' investment decisions. In practice, investment managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/ equity issuers, engagement and portfolio turnover.

It is therefore the Trustees' responsibility to ensure that the approaches adopted by investment managers are consistent with the Trustees' policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies.

The Trustees expect investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/ equity issuers, and to engage with issuers to improve their performance. The Trustees assess this when selecting and monitoring managers.

When selecting investment managers, the Trustees may also take into account non-financially material considerations such as the investment manager's administrative capabilities and the liquidity of the investments.

The Trustees' policy on selecting, monitoring, evaluating and (where necessary) terminating these arrangements is set out in further detail on the next page.

Investment Manager Arrangements (continued)

Compatibility of Pooled Funds with the Trustees' Investment Strategy

When selecting a pooled fund, the Trustees consider various factors, including:

- the assets that will be held within that fund and whether the asset allocation of the fund is expected to change over time;
- the risks associated with the fund along with the return that is expected;
- the fund's objective (as stated by the fund's investment manager) and whether the objective is consistent with the performance that the Trustees expect from that fund;
- the fund's fee structure to ensure that this is reasonable and that it does not provide an incentive for the investment manager to manage the fund in a way that differs from the expectations of the Trustees.
- how frequently underlying investments within the fund are expected to be traded by the investment manager;
- how financially material considerations (including ESG factors) over the appropriate time horizon are taken into account by the investment manager;
- the investment manager's policy in relation to the exercise of the rights (including voting rights) attaching to the investments held within the pooled fund; and
- the investment manager's policy in relation to undertaking engagement activities in respect of the investments held within the pooled fund*.

**This includes engaging with an issuer of debt or equity regarding matters including (but not limited to) performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, and ESG matters. It also includes engaging on these matters with other investment managers, other holders of debt or equity and persons or groups of persons who have an interest in the issuer of debt or equity.*

After analysing the above characteristics for a fund, the Trustees identify how that fund would fit within their overall investment strategy for the Scheme and how the fund is expected to help the Trustees meet their investment objectives.

Investment Manager Arrangements (continued)

Duration of Investment Manager Arrangements

The Trustees normally expect that pooled funds will be held for several years.

However, as part of the periodic strategic asset allocation reviews (which take place at least every three years), the Trustees will review whether the ongoing use of each fund remains consistent with their investment strategy.

The Trustees regularly monitor the financial and non-financial performance of the pooled funds held and details of this monitoring process is set out below. If the Trustees become concerned about the ongoing suitability of a pooled fund, they may reduce exposure to it or disinvest entirely. Such action is expected to be infrequent.

Monitoring Pooled Funds

The Trustees regularly assess the performance of each fund held and this monitoring includes an assessment of whether the investment manager continues to operate the fund in a manner that is consistent with the factors used by the Trustees to select the fund (as listed above).

When assessing the performance of a fund, the Trustees do not usually place too much emphasis on short-term performance although they will seek to ensure that reasons for short-term performance (whether favourable or unfavourable) are understood.

The Trustees expect the investment managers of pooled funds to invest for the medium to long term and they expect investment managers to engage with issuers of debt or equity with a view to improving performance over this time frame.

If it is identified that a fund is not being operated in a manner consistent with the factors used by the Trustees to select the fund, or that the investment manager is not engaging with issuers of debt or equity, the Trustees may look to replace that fund. However, in the first instance, the Trustees would normally expect their investment adviser to raise the Trustees' concerns with the investment manager. Thereafter, the Trustees, in conjunction with their investment adviser, would monitor the performance of the fund to assess whether the situation improves.

Investment Manager Arrangements (continued)

Portfolio Turnover

The Trustees are aware of the requirement to monitor portfolio turnover costs (the costs incurred as a result of the buying, selling, lending or borrowing of investments).

When selecting a pooled fund, the Trustees will consider how the investment manager defines and measures:

- the targeted portfolio turnover (the frequency within which the assets of the fund are expected to be bought or sold); and

- turnover range (the minimum and maximum frequency within which the assets of the fund are expected to be bought or sold).

At least annually, the Trustees, in conjunction with their investment adviser, will consider the transaction costs incurred on each pooled fund. As part of this analysis, the Trustees will consider whether the incurred turnover costs have been in line with expectations.

The Trustees will take the above information on portfolio turnover into account when assessing the ongoing suitability of each pooled fund.

Stewardship

The Trustees' policy in relation to the exercise of rights attaching to investments, and undertaking engagement activities in respect of investments, is that they wish to encourage best practice in terms of stewardship.

However, the Trustees invest in pooled investment vehicles and therefore accept that ongoing engagement with the underlying companies (including the exercise of voting rights) will be determined by the investment managers' own policies on such matters. For that reason, the Trustees recognise that their ability to directly influence the action of companies is limited.

Nevertheless, the Trustee expect that each investment manager will discharge its responsibilities in respect of investee companies in accordance with that investment manager's own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustees also expect that each investment manager will take ESG factors into account when exercising the rights attaching to investments and in taking decisions relating to the selection, retention and realisation of investments.

When considering the suitability of an investment manager, the Trustees (in conjunction with their investment adviser) will take account of any particular characteristics of that manager's engagement policy that are deemed to be financially material.

Investment Manager Arrangements (continued)

Investment Beliefs (additional wording)

Appropriate Time Horizon

In determining investment objectives and a suitable investment strategy for the Scheme, the Trustees take into account an appropriate time horizon.

ESG and Other Financially Material Considerations

The Trustees believe that financially material considerations, including ESG factors and the risks related to such factors, can contribute to the identification of both investment opportunities and financially material risks. Consequently, financially material considerations can have a material impact on investment risk and return outcomes.

The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

Assessment of how ESG risks are mitigated will be one of the factors considered by the Trustees when selecting and monitoring investment managers.

Stewardship

The Trustee believe that good stewardship can help create, and preserve, value for companies and markets as a whole.

Investment Strategy (additional wording)

The Trustees have taken advice from their investment adviser to construct a portfolio of investments consistent with their objectives. In doing so, consideration is given to all matters which are believed to be financially material over the appropriate time horizon.

The Trustees do not take account of non-financial matters when determining the Scheme’s investment strategy.