XPS Investment

Aynsley China Limited Retirement and Death Benefit Pension Scheme

Statement of Investment Principles

March 2020

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03 **Investment Objectives**

The Trustees' primary investment objective for the Scheme is to achieve an overall rate of return that is sufficient to ensure that assets are available to meet all liabilities as and when they fall due. In doing so, the Trustees also aim to maximise returns at an acceptable level of risk.

The Trustees believe that their investment objectives and the resultant investment strategy are consistent with the actuarial valuation methodology and assumptions used by the Scheme Actuary.

04 **Asset Allocation Strategy**

The Trustees have taken the view that the investment objective is best achieved by determining, and investing in accordance with, an appropriate split between "growth" assets (e.g. equities, property, high-yield corporate bonds and 'rotational' funds) and "matching" assets (e.g. fixed and index-linked gilts and high quality corporate bonds).

The allocation between the asset classes making up the growth and matching assets will vary over time to reflect, amongst other factors, the profile of the liabilities, the perceived relative value of the different asset classes and the perceived risk to the primary investment objective arising from any shortfall in the funding of the Scheme. The current benchmark and target allocation is set out in Appendix B and any changes in such allocations will only be made after receiving written advice from the Investment Advisers that such allocation remains consistent with the investment objectives.

Due to the size of the fund, the Trustees have decided to use pooled funds to invest the Scheme's assets.

04.01 Rebalancing Policy

The proportions invested in each asset class will be managed by the Investment Manager in line with the allocation set by the Trustees. The Investment Manager will be instructed to manage the allocation of the assets on a weekly basis in line with specific control ranges, as detailed in the table above. The Trustees, in conjunction with the Advisers, will also monitor the actual asset allocation of the Scheme at the end of each calendar quarter and at Trustee meetings.

04.02 Rates of Return

The target rates of return for each asset class are detailed in Appendix B.

04.03 Diversification

The choice of asset classes is designed to ensure that the Scheme's investments are adequately diversified given the Scheme's circumstances. The Trustees will monitor the strategy after each triennial valuation, and more regularly if deemed appropriate by the Trustees and the Advisers, to ensure that they are comfortable with the level of diversification.

Asset Allocation Strategy
continued

04.04 Suitability

The Trustees have taken advice from the relevant 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.

04.05 Liquidity

The Trustee will maximise liquidity by ensuring that all non-cash assets are held in pooled funds with frequent dealing dates.

05 **Monitoring**

05.01 Pooled Funds

The Trustees will monitor the performance of the fund against their stated performance objectives.

The Trustees, or the Advisers on behalf of the Trustees, will regularly review the performance of the fund to satisfy themselves that the fund remain suitable.

If the Trustees are not satisfied with the performance of the fund they will ask the manager of the fund what steps they intend to take to rectify the situation. If the fund still does not meet the Trustees' requirements, they will look to purchase other funds - potentially with a different manager - after consultation with the Investment Adviser.

05.02 Advisers

The Trustees will monitor the advice given by the Advisers on a regular basis.

05.03 Other

The Trustees are required to review this SIP on a triennial basis, or, without undue delay, following any changes to the investment strategy.

06 Fees

06.01 Funds

The Trustees will ensure that the fees charged by the fund and their expense ratios are consistent with levels typically available in the industry for active funds. The current fee basis for each of the funds is set out in Appendix B.

The Trustees are aware of the investment manager policy regarding soft commission arrangements. Information about the investment managers' fees, commissions and other transaction costs is available in the annual report of the pooled funds in accordance with the Financial Conduct Authority ('FCA') Disclosure Code.

06.02 Advisers

Fees paid to the Advisers are based either on actual time spent and hourly rates for relevant individuals, or on fixed fees agreed in advance for specifically defined projects.

06.03 Custodian

There is no custodian appointed directly by the Trustees.

06.04 Trustees

The Trustees expenses are met and they are given time off from their other employment duties to attend the periodic Trustee meetings.

07 Risks

The Trustees recognise a number of risks involved in the investment of assets of the Scheme:

i. Interest rate risk – the risk that liabilities will increase as a result of a fall in interest rates is measured by reference to the percentage of liabilities that are interest rate hedged and addressed by holding a significant proportion of the Scheme in assets that are matching assets that will increase in value as interest rates fall.

ii. Inflation risk – the risk that liabilities will increase as a result of an increase in the expected rate of inflation is measured by reference to the percentage of liabilities that are inflation hedged and managed by holding assets such as equities that are expected to increase in value in the long term as a result of inflation and by holding index-linked-gilts whose value increases as inflation expectations increase.

iii. Diversification risk – the risk that the Scheme is exposed to a significant loss from esoteric factors relating to a single investment are measured by reference to the maximum exposure limits in each pooled fund and addressed by investing in pooled funds that have minimum diversification requirements.

iv. Liquidity risk – the risk that liabilities cannot be met when due is considered too insignificant to measure and is addressed through the use of pooled funds, the majority of which have frequent redemption dates, and by ensuring the Scheme's investment is not disproportionate relative to the overall size of the pooled fund(s).

v. Underperformance risk – the risk of pooled funds failing to achieve their target returns is measured by reference to how much discretion the manager of each pooled fund has relative to the benchmark and by regularly reviewing the asset allocation against the target. Underperformance risk is managed by investing in passive funds except where there is a reasonable expectation that a manager can add value and through the rebalancing policy.

vi. Market risk – the risk of the Scheme failing to meet its investment objectives due to a general decline in markets is measured by reference to the expected volatility of return seeking assets relative to equity markets and is managed by investing across a diverse selection of return seeking assets which are expected to have uncorrelated returns.

vii. Organisational risk – the risk of losses arising through operational mistakes or errors is measured by reference to the number of past such operational losses and is managed by seeking to minimise the number of changes to the pooled funds.

viii. Sponsor risk – the risk that the Employer ceases to exist or otherwise is unable to fully support the Scheme is measured by reference to the strength of the Employer covenant and is managed by ensuring the asset allocation strategy takes into account the level of sponsor risk.

ix. Currency risk – the risk of losses through depreciation of non-sterling currencies is measured by reference to the exposure of the Scheme to pooled funds with unhedged currency risk and is managed by investing predominantly in sterling assets and only taking currency risk where it increases the level of diversification.

Risks
continued

x. Credit risk – the risk that a bond issuer will default on its obligations is measured by reference to the exposure of pooled funds to corporate or emerging market debt and is managed by investing in pooled funds with a diversified list of credits.

xi. Counterparty risk – the risk that a counterparty fails whilst owing money on a derivative contract is measured by reference to the exposure to such counterparties and is managed by ensuring the Investment Manager chooses counterparties with a strong credit rating.

xii. Environmental, Social and Governance risk – the risk that environmental, social and governance factors are not given significant consideration. This is addressed by having a policy whereby such factors should be given appropriate consideration in relation to current and future investment decisions made.

The Trustees will keep these risks under regular review.

08 **Other Issues**

08.01 Statutory Funding Requirement

The Trustees 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 every three years.

The Trustees will consider with their appointed 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 requirement.

08.02 Environmental, Social and Governance

The Trustees have determined their approach to financially material considerations over the Scheme’s long term funding horizon – including environmental, social and corporate governance (“ESG”) factors – by acknowledging that there can be risks relating to them. The Trustees have delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Scheme’s investment managers. The Trustees require the Scheme’s investment managers to take ESG and climate change risks into consideration within their decision-making, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest.

The Trustees will seek advice from the Investment Adviser on the extent to which their views on ESG and climate change risks may be taken into account in any future investment manager selection exercises. Furthermore, the Trustees will monitor the processes and operational behaviour of the investment managers from time to time, to ensure they remain appropriate and in line with the Trustees’ requirements as set out in this Statement.

The Trustees have delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme’s investments to the investment managers and encourages them to vote whenever it is practical to do so on financially material matters including those deemed to include a material ESG and/or climate change risk in relation to those investments.

Further, the Trustees’ policy is that non-financial matters should not be taken into account in the selection, retention and realisation of investments.

Appendix A Responsibilities

Trustees

The Trustees of the Scheme are responsible for, amongst other things:

i. Determining the investment objectives of the Scheme and reviewing these from time to time.

ii. Agreeing an investment strategy designed to meet the investment objectives of the Scheme.

iii. Reviewing triennially the content of this SIP and modifying it if deemed appropriate, in consultation with the Advisers.

iv. Reviewing the suitability of the investment policy following the results of each actuarial or investment review, in consultation with the Advisers.

v. Assessing the quality of the performance and process of the pooled funds by means of regular reviews of the investment results and other information, by way of meetings and written reports, in consultation with the Advisers.

vi. Selecting pooled funds which are consistent with the investment strategy after consultation with the Advisers.

vii. Assessing the ongoing effectiveness of the Advisers.

viii. Consulting with the Employer when reviewing investment policy issues.

ix. Monitoring compliance of the investment arrangements with this SIP on an ongoing basis.

x. Informing the Advisers of any changes to Scheme benefits, significant changes in membership.

xi. Assessing the risks assumed by the Scheme at a total Scheme level as well as on a fund by fund basis.

Investment Manager

The Investment Manager will be responsible for, amongst other things:

i. Ensuring the asset classes remain within the controlled ranges or otherwise advising the Trustees if for any reason this is not achievable.

ii. Providing the Trustees with sufficient information each quarter to facilitate the review of the pooled funds, including:

    a. A report of the strategy followed during the quarter.
    b. The rationale behind past and future strategy.
    c. A full valuation of the assets and a performance summary.
    d. Transaction report and cash reconciliation.
    e. Corporate actions taken by the Investment Manager.
    f. Any changes to the process applied to the portfolio.
    g. Future intentions in the investment management of the Scheme's assets.

ii. Informing the Trustees immediately of:

   a. Any breach of the asset class controlled ranges that have come to their attention.

   b. Any serious breach of internal operating procedures.

   c. Any material change in the knowledge and experience of those involved in managing the Scheme's investments.

Investment Adviser

The Investment Adviser will be responsible for, amongst other things:

i. Participating with the Trustees in reviews of this SIP.

ii. Advising the Trustees how any changes within the Scheme's benefits, membership and funding position may affect the manner in which the assets should be invested.

iii. Advising the Trustees of any changes in the funds that could affect the interests of the Scheme.

iv. Advising the Trustees of any changes in the investment environment that could either present opportunities or problems for the Scheme.

v. Undertaking reviews of the Scheme's investment arrangements including reviews of the asset allocation policy and current pooled funds and advising on the selection of new funds.

The Trustees may seek advice from the Investment Advisor with regard to both strategic and tactical investment decisions; however, they recognise that they retain responsibility for all such decisions, including those that concern investments and disinvestments relating to cash flows.

Scheme Actuary

The Scheme Actuary will be responsible for, amongst other things:

i. Performing the triennial (or more frequently as required) valuations and advising on the appropriate contribution levels.

ii. Commenting on the appropriateness of the investment strategy relative to the liabilities of the Scheme at the triennial valuations.

iii. Advising the Trustees of any changes to contributions levels and funding level.

Appendix B
Pooled Fund and Asset Allocation

The Trustees have appointed one Investment Manager: Royal London Pensions ('RLP'), to manage the assets of the Scheme.

Having considered advice from the Advisers, and also having due regard for the objectives, the current liabilities of the Scheme together with their expected timing, the risks of and to the Scheme and the covenant of the Employer, the Trustees have decided upon the following benchmark allocation as being the basis for measuring investment performance:

Asset	Strategic asset allocation %	Actual Asset allocation as at 1 May 2019 %
Equity	62	55
Property	14	15
Commodities	5	5
High Yield	1	2
Corporate Bonds	3	5 (across all terms)
Gilts	3	5 (across all terms)
I-L Gilts	3	5 (across all terms)
Abs Return	4	-
Deposit	5	8

Fees

The investment management fees paid to the Investment Manager are as follows:

Fund	AMC %	Investment Expenses %	Total Expense Ratio %
Royal London Pensions Managed Fund	1.00	0.00	1.00

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