

# ICI Pension Fund

## Statement of Investment Principles

(September 2020)

### Introduction

- 1 This document is the Statement of Investment Principles ('SIP') made by the Trustee Board ("the Trustee") of the ICI Pension Fund (the 'Fund') in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004) ("the Act") and regulations made under the Act.
- 2 The Trustee will review and if necessary revise this SIP at least every three years and without delay after any significant change in investment policy. Before finalising this SIP, the Trustee has taken written advice from the Fund's Investment Consultant and has consulted Imperial Chemical Industries Limited which is the Principal Employer under the governing provisions of the Fund and has been nominated by all other employers which participate in the Fund to act on their behalf for this purpose (in this SIP the "Employer" refers to the Principal Employer and all other employers, as appropriate). The ultimate power and responsibility for deciding investment policy, however, lies solely with the Trustee.

### Governance

- 3 While the Trustee retains direct control over the investment strategy of the Fund, it delegates a number of investment related functions to an Investment Committee and to Pensions Secretariat Services Limited ("Pensecserv"), a wholly owned subsidiary of the Fund which has responsibility for the day-to-day operational management of the Fund (but not for day-to-day investment decisions, which are delegated to investment managers). All such delegated authorities are defined within formal Terms of Reference which are controlled by the Trustee.
- 4 The activities of the Investment Committee and Pensecserv are monitored by the Trustee and the Terms of Reference are maintained under ongoing review by the Trustee.
- 5 All decisions of the Investment Committee are recorded in committee minutes and made available to all directors of the Trustee.

### Fund objectives

- 6 The objectives and risks described here, in the "Risk" section and in the "Investment Strategy" section below, constitute the factors the Trustee believes to be financially material to the Fund over its anticipated lifetime. The Trustee's strategy is to maintain, over time, full funding on a low risk funding basis, with any additional assets held as a reserve against uninsured risks, with minimal reliance on the Employer and the Fund's principal investment objectives are therefore to ensure that:
  - a the Fund is able to provide the benefits set out in the Trust Deed and Rules through investing in a portfolio of assets that provide cash flows that closely match pension payments that are due from the Fund or are sufficiently liquid, having taken account of the Fund's liabilities and the Trustee's risk tolerance in the context of the Trustee's evaluation of the Employer's covenant; and
  - b the investment return targeted from time to time is appropriate, having regard to the funding objectives agreed with the Employer and set out in the most recent Statement of Funding Principles from time to time, the funding position from time to time, the Trustee's low risk funding target with minimal reliance on the Employer and the Trustee's assessment of the Employer's covenant.

- 7 Member views are not taken into account in the selection, retention and realisation of investments.

## Risk

- 8 The Trustee recognises a wide range of risks involved in pursuing its objectives and believes that there are four primary, overarching risks, together with a number of substantial operational and market related risks.
- 9 The primary risks faced by the Fund, which relate to the principal investment objectives, are that:
- a there is, at any time, insufficient cash readily available with which to pay benefits,
  - b the Employer's covenant becomes insufficient to pay agreed contributions and/or support the level of investment risk associated with the investment return targeted;
  - c the bulk annuity providers' covenants are insufficient to pay their obligations under the bulk annuity policies held by the Fund; and
  - d the mismatch between the Plan's uninsured assets and liabilities is not managed appropriately.
- 10 The investment risk of 9(a) is principally an illiquidity risk that is addressed by delegating the following activities to the Fund's Liability Driven Investment (LDI) Manager:
- a monitoring (with assistance from Pensecserv) the cashflows into and out of the Fund
  - b providing regular reporting of the liquidity position to the Investment Committee; and
  - c using the flexibility and tools within their mandate to raise cash as necessary and ensure that there are readily realisable assets to meet the cashflow requirements of the Fund.
- 11 Assessment of the Employer covenant risk, as in 9(b) above, is managed by receiving regular financial updates from the Employer and by receiving independent assessments of the covenant from specialist advisers. The Trustee's objective of full funding on a low risk funding target, aims to reduce, over time, the dependency on the Employer's covenant.
- 12 The bulk annuity providers' covenant risk, as in 9(c) above, is managed by a thorough process for selecting bulk annuity providers, which includes receiving independent assessments of the covenant of each potential provider from specialist advisers and termination triggers that are based on the solvency position of each provider, that would allow the Trustee to take a collateralised termination amount. The termination triggers, termination amounts and collateral arrangements are all monitored by specialist providers and advisers appointed by the Trustee.
- 13 The asset-liability mismatch risk, as in 9(d) above, is managed by receiving advice from the Trustee's advisers which quantifies the mismatch risks and expected future returns of a range of potential investment policies. These risk assessments cover asset class, active management, currency, interest rate and inflation and longevity risks and incorporate the contribution to these risks arising from environmental (including climate change), social and corporate governance (ESG) factors. The investment policy reflects the Trustee's decisions on the asset classes to which the Fund takes exposure, the extent of investment in bulk annuities and the hedging of interest rate and inflation risks attaching to liabilities not covered by bulk annuities.
- 14 In addition to the above primary risks, the Trustee monitors and, in conjunction with advice from the Investment Consultant, manages, a wide range of operational and market related

risks, including, but not restricted to: counterparty, custodian, derivative, collateral and legal risks.

## Investment strategy

- 15 Recognising the above objectives and risks, the Trustee has received advice to determine an appropriate investment strategy for the Fund.
- 16 The investment strategy of the Fund is a low risk one, almost wholly invested in low risk assets, constructed with regard to the incidence of expected future cash flows of the Fund.
- 17 The Trustee will review formally its low risk funding target in conjunction with each triennial actuarial valuation and will take such action as it considers necessary to adjust the investment and / or funding strategies in order to maintain realistic expectations of achieving this objective.
- 18 In pursuit of its objectives, the Trustee will principally use a range of assets and investment instruments intended by the Trustee to be low risk, structured to reflect the anticipated cashflow of the Fund. Such assets and investment instruments include (but are not limited to) direct or indirect investment in or exposure via pooled vehicles to insurance policies covering certain of the Fund's liabilities, fixed interest and index linked gilts, cash, swaps, repurchase agreements, total return swaps, and other derivative based investments.
- 19 The investment portfolios may be managed on either an active or a passive basis. However the Trustee's preference is to avoid the higher costs of active management where it is practical to do so, unless it can be convinced of the potential for added value, on a net of fees basis, that might result from active management.
- 20 Investments in derivative instruments will only be made in so far as they:
  - a Contribute to a reduction of risks; or
  - b Facilitate efficient portfolio management

and any such investment will be made and managed so as to avoid excessive exposure to a single counterparty and to other derivative operations and having regard to the overall leverage of the Fund.
- 21 The Trustee will monitor the liability profile of the Fund and will regularly review, in conjunction with the Investment Consultant, the appropriateness of its investment strategy.
- 22 The Trustee has a policy of largely or fully hedging the interest rates and inflation risks inherent in the liabilities and, over time, will aim to reduce further the Fund's exposure to longevity risk.

## Selection of investments, ESG, stewardship and climate change

The Trustee has adopted a simple and low risk investment strategy consisting of gilts, cash and bulk annuities, which limits the scope of policies on ESG, stewardship and climate change, as described in paragraphs 25-27.

- 23 In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policy, but will delegate the responsibility for selection, retention and realisation of specific investments to an appointed investment manager or managers. The investment managers shall provide the skill and expertise necessary to manage the investments of the Fund competently.

- 24 The Trustee is not involved in the investment managers' day-to-day method of operation and does not seek to influence directly attainment of their performance targets. The Trustee will maintain processes to ensure that performance is assessed on a regular basis against a measurable objective for each manager, consistent with the achievement of the Fund's long term objectives, and an acceptable level of risk. As part of this process, the Trustee has, through the Terms of Reference mentioned in 3 above, delegated the detailed monitoring of the Fund's investment managers to the Investment Committee and to Pensecserv, either or both of which will take advice, as appropriate, from the Investment Consultant.
- 25 The Trustee recognises that long-term sustainability issues, including climate change, present risks and opportunities that increasingly require explicit consideration. As described in the Investment Strategy section, the Trustee's policy is to adopt a low-risk investment strategy which seeks to avoid material exposure to a range of risks, including ESG and, within that, climate change risks. The Trustee's policy is that the extent to which ESG factors are taken into account in investment decisions is delegated to the discretion of its investment managers. However, the Trustee expects that the extent to which such issues may have an impact on the portfolios managed by the investment managers will be taken into account by them in the exercise of their delegated duties.
- 26 The Fund's investments are very largely in bulk annuities and in a single Fund-specific liability-hedging mandate consisting of gilts, cash and various interest rate and inflation derivatives, which means that there is limited opportunity to exercise voting rights and other stewardship obligations.
- 27 The investment managers will be requested from time to time to provide a report on the overall impact of ESG factors on investment management.

### Investment manager arrangements

- 28 Investment managers manage investments for the Fund to a specific mandate. Each specified mandate is chosen by the Trustee to implement a part of its strategic asset allocation and, in combination, to implement the Trustee's strategic policy as a whole. The Trustee sets guidelines for the liability hedging mandate to ensure it is consistent with the Trustee's strategic policy.
- 29 The Trustee is a long term investor and is not looking to change the investment arrangements on a frequent basis. There is no set duration for the liability-hedging manager appointment, given the nature of this mandate. The Fund retains small allocations to a number of residual fund holdings, which the Trustee is seeking to liquidate as soon as feasible and cost effective.
- 30 The managers are incentivised through remuneration and performance targets. Investment managers are aware that their continued appointment is based on their success in delivering the mandate which they have been appointed to manage. If the Trustee is dissatisfied with any manager's performance then it will look to address any issues with the manager. If the issues persist then the Trustee will look to replace the manager.
- 31 Given the largely buy-and-hold nature of the LDI mandate the Trustee does not currently actively monitor turnover costs within this mandate.

### Choosing investments

- 32 The Act distinguishes between investments where the management is delegated to a fund manager with a written contract and those where a product is purchased directly, eg the purchase of an insurance policy or units in a pooled vehicle. The latter are known as pooled funds or direct investments.
- 33 The Trustee's policy is to review its direct investments and to obtain written advice about them at regular intervals (normally annually) from the Investment Consultant. When deciding

whether or not to make any new direct investments the Trustee will obtain written advice from the Investment Consultant and the Trustee's legal advisers.

- 34 The written advice from the Investment Consultant will consider whether the investment is satisfactory having regard to the requirements of the regulations, so far as relating to the suitability of investments, and to the principles contained in this statement.

### Other matters

- 35 The Fund is a Registered Pension Scheme for the purposes of the Finance Act 2004. The Fund's AVC arrangements provide for benefits to be accrued on a money purchase basis, with the value of members' funds being determined by the value of accumulated contributions adjusted for investment returns net of charges. In selecting appropriate investments, the Trustee is aware of the need to provide a range of investment options, which broadly satisfy the risk profiles of all members concerned, given that their benefits will be directly determined by the value of the underlying investments.

Signed:

Name:

Date:

Authorised for and on behalf of the Trustee of the Fund