

# Harwich International Port Pension Scheme

## Statement of Investment Principles

21 August 2023

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# 1 Introduction

## Scheme background

- This Statement of Investment Principles (the “Statement”) details the principles governing investment decisions for the Harwich International Port Pension Scheme (the “Scheme”).
- The Scheme:
  - operates for the exclusive purpose of providing retirement and death benefits to eligible participants and beneficiaries,
  - provides benefits calculated on a defined benefit (DB) basis,
  - is closed to new entrants.
- Quantum Advisory are investment consultants to the Trustee.

## Regulatory requirements and considerations

- This Statement covers the requirements of, and the Scheme’s compliance with, the provisions of the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005 as well as additional non-statutory information, including publications by the Pensions Regulator.
- This Statement also takes into account the Pension Protection Fund (Pensionable Service) and Occupational Pension Scheme (Investment and Disclosure) (Amendment and Modification) Regulations 2018 for policy on financially material considerations, including Environmental, Social and Corporate Governance (“ESG”) factors (including climate change), stewardship policy (voting and engagement) and the approach to member views (if any).
- In respect of the additional voluntary contributions provided on a money-purchase basis within the Scheme, the Trustee Directors have taken into account the requirements and recommendations within the Pension Regulator’s DC code and regulatory guidance.

# 2 Statement of Investment Principles

## Introduction

- This section of the Statement covers the requirements of the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005.
- In accordance with section 35 of the Pensions Act 1995, the Trustee Directors have reviewed and considered written advice from the investment consultant prior to the preparation of this Statement and have consulted the Sponsoring Employer.
- The Trustee Directors will review this Statement, in consultation with the investment consultant and the Sponsoring Employer, at least once every three years, or more frequently if there are any significant changes in the Scheme's circumstances. However, ultimate power and responsibility for deciding investment policy lies solely with the Trustee Directors.

## Key investment principles

### Kind of investments to be held

- The Trustee Directors have full regard to their investment powers under the Trust Deed and Rules as set out in Rule 21 and the suitability of the various types of investments, the need to diversify, the custodianship of assets and any self-investment.
- The Scheme may invest in quoted and unquoted securities of UK and overseas markets including equities, fixed interest and index-linked bonds, cash, property, private equity, hedge funds and pooled investment vehicles considered appropriate for tax-exempt registered occupational pension schemes. The Trustee Directors have considered the attributes of the various asset classes, these attributes being:
  - security (or quality) of the investment,
  - yield (expected long-term return),
  - spread (or volatility) of returns,
  - term (or duration) of the investment,
  - exchange rate risk,
  - marketability/liquidity (i.e., the tradability on regulated markets),
  - taxation.

- The Trustee Directors consider all of the stated classes of investment to be suitable to the circumstances of the Scheme.

### Investment Decisions

- All investment decisions are taken by the Trustee Board as a whole. The Trustee Directors believe that collective responsibility is the appropriate structure, given the size of the board. The Trustee Directors will examine regularly whether additional investment training is desirable.
- All investment decisions relating to the Scheme are under the Trustee Directors' control without constraint by the Sponsoring Employer. The Trustee is obliged to consult with the Sponsoring Employer when changing this Statement.
- All day-to-day investment decisions are delegated to properly qualified and authorised investment managers of pension scheme portfolios. The Trustee does not directly seek to influence attainment of their performance targets. Investment management agreements and/or an insurance contract have been exchanged with the investment managers, and are reviewed from time-to-time to ensure that the manner in which they make investments on the Scheme's behalf is suitable for the Scheme, and appropriately diversified.

### Investment Objectives, Governance and Stewardship:

- The Scheme's investment strategy has been agreed by the Trustee Directors having taken advice from the investment consultant and takes due account of the Scheme's liability profile along with the level of disclosed surplus or deficit.
- The Trustee Directors' agreed investment strategy is based on an analysis of the Scheme's liability profile, the required investment return and the returns expected from the various asset classes over the long-term. Long-term returns from equities are expected to exceed the returns from bonds and cash, although returns and capital values may demonstrate higher volatility. The Trustee Directors are prepared to accept this higher volatility in order to aim to achieve the overall investment objectives.
- The Trustee's primary objectives are:
  - to provide appropriate security for all beneficiaries,
  - to achieve long-term growth sufficient to provide the benefits from the Scheme, and
  - to achieve an appropriate balance between risk and return with regards to the cost of the Scheme and the security of the benefits.
- The Trustee Directors have translated their objectives into a suitable strategic asset allocation benchmark for the Scheme, details of which are set out in the Scheme's Statement of Investments.
- In accordance with the Financial Services & Markets Act 2000, the Trustee Directors are responsible for setting the general investment policy, including asset allocation, but the responsibility for all day-to-day investment management decisions, including the selection of specific securities within each asset class, has been delegated to an investment manager authorised under the Act. The investment manager is expected to provide the skill and expertise necessary to manage the investments of the Scheme competently. The Trustee regularly reviews the performance of the Scheme's investments, and monitors asset

values against the selected portfolio allocations, and usually meets with the investment managers at least once each year.

- The Trustee considers that, in addition to the performance of companies being invested in and interest and exchange rates, environmental, social and governance (ESG) factors including climate change could be financially material in impacting the long-term investment returns of the investments held by the Scheme over the Scheme's multi-decade time horizon.
- By investing the Scheme's investments in passive index tracking funds, the extent to which the selection, retention and realisation of investments take these financially material factors into account is left to the discretion of its investment managers. However, the Trustee expects that the extent to which ESG factors may have a fundamental impact on the portfolio will be taken into account by the investment managers in the performance of their delegated duties.
- The investment manager has provided details of how ESG considerations are incorporated in their approach to investment governance. The Trustee Directors have reviewed the investment manager's policies in respect of Socially Responsible Investment and are satisfied that they are consistent with the above approach.
- The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and to encourage the managers to exercise those rights. The investment managers provide details of how they engage with companies issuing the investments held by the pooled funds and how they exercise their voting rights in relation to those companies.. The Trustee Directors will take corporate governance policies into account when appointing and reviewing such investment managers.
- The Trustee has considered the extent to which it can take account of non-financial matters, including members' views relating to ESG investment issues. The Trustee's main objective is to ensure the financial security of members' benefits. Furthermore, in view of the passive index-tracking nature of the majority of the investments, the Trustee is generally not in a position to influence the investments selected by the investment manager. The Trustee has therefore not directly sought the views of members on such non-financial matters. Nevertheless, the Trustee will consider a prospective investment manager's approach to ESG factors as part of its decision whether or not to retain the investment manager.
- The Trustee is aware of the Sponsoring Employer's policy in relation to ESG matters.

## Suitability of Investments

- The Trustee Directors are responsible for reviewing both the Scheme's asset allocation and investment strategy as part of each actuarial valuation in consultation with the Scheme's investment consultant. The Trustee Directors may also reconsider the asset allocation and the investment strategy outside the triennial valuation period where necessary.
- The Trustee Directors consider the Scheme's current strategic asset allocation to be consistent with the current financial position of the Scheme. This assessment will be updated with reference to the Technical Provisions set out in the Scheme's most recent Statement of Funding Principles. "Technical Provisions" is the value of the Scheme's liabilities for funding purposes as at the latest available Scheme-specific actuarial valuation.

## Diversification

- The Trustee Directors, after seeking appropriate investment advice, have selected a strategic asset allocation benchmark for the Scheme including control ranges for each asset class and or geographic region.
- Subject to their respective benchmarks and guidelines the investment managers are given full discretion over the choice of stocks.
- The Trustee Directors are satisfied that the investments selected are consistent with their investment objectives, particularly in relation to diversification, risk, expected return and liquidity.
- Given the size and nature of the Scheme, the Trustee Directors have decided to invest the Scheme's assets on a pooled fund basis. All such investments are effected through direct agreements with the investment managers and/or through insurance contracts.
- The Trustee Directors are satisfied that the range of vehicles in which the Scheme's assets are invested provides adequate diversification.

## Risk

- The Trustee Directors consider the main risk to be that of the assets being insufficient to meet the Scheme's liabilities as they fall due. The Trustee Directors have assessed the likelihood of undesirable financial outcomes arising in the future.
- Investment policies are set with the aim of having sufficient and appropriate assets to cover the Scheme's Technical Provisions, and with the need to avoid undue contribution rate volatility.
- In determining their investment strategy, the Trustee Directors received advice from the investment consultant as to the likely range of funding levels for strategies with differing levels of investment risk relative to the Scheme's liability profile. Taking this into account, along with the expected returns underlying the most recent actuarial valuation, the strategy outlined in the Scheme's Statement of Investments has been adopted.
- Although the Trustee Directors acknowledge that the main risk is that the Scheme will have insufficient assets to meet its liabilities, the Trustee Directors recognise other contributory risks, including the following. Namely the risk:
  - associated with the differences in the sensitivity of asset and liability values to changes in financial and demographic factors,
  - of the Scheme having insufficient liquid assets to meet its immediate liabilities,
  - of the investment managers failing to achieve the required rate of return,
  - due to the lack of diversification of investments,
  - of failure of the Scheme's Sponsoring Employer to meet its obligations.
- The Trustee Directors manage and measure these risks on a regular basis via actuarial and investment reviews, and in the setting of investment objectives and strategy.

- The Trustee Directors undertake monitoring of the investment managers' performance against their targets and measurable objectives on a regular basis consistent with the achievement of the Scheme's long-term objectives, and an acceptable level of risk. As part of this process, the Trustee regularly reviews investment management fees against the agreed charges outlined in the investment manager agreement and records the costs.
- Each fund in which the Scheme invests has a stated performance objective by which investment performance will be measured. These are shown in the Scheme's Statement of Investments. Within each asset class, the investment managers are expected to maintain a portfolio of securities (or funds), which ensures that the risk being accepted in each market is broadly diversified.
- The divergence of the actual distribution of the investments from the benchmark weighting will be monitored by the Scheme's investment consultant. Any deviation from the target asset allocation will be discussed periodically with the investment consultant.
- There is a risk that if ESG issues and climate change are not considered as part of the investment process this may expose the portfolio to unexpected risks. This can lead to losses that may not have been factored into any expectations of future investment returns. The Trustee has considered ESG issues including climate change as part of the investment process.

### Expected return on investments

- The investment strategy is believed to be capable of exceeding, in the long run, the overall required rate of return assumed in the Scheme Actuary's published actuarial valuation report in order to maintain a fully funded status under the agreed assumptions.

### Realisation of investments

- In the event of an unexpected need to realise all or part of the assets of the portfolio, the Trustee Directors require the investment manager(s) to be able to realise the Scheme's investments in a reasonable timescale by reference to the market conditions existing at the time the disposal is required and subject to the best interests of the Scheme. The majority of the assets are not expected to take an undue time to liquidate.

### Investment Manager Monitoring

- The Trustee Directors will assess the performance, processes and cost effectiveness of the investment managers by means of regular, but not less than annual, reviews of the results and other information, in consultation with the investment consultant. This method of monitoring and evaluation is in line with the Trustee Directors investment policies.
- All investment decisions, and the overall performance of the investment managers, are monitored by the Trustee Directors with the assistance of the investment consultant.
- The investment managers will provide the Trustee Directors with quarterly statements of the assets held along with a quarterly report on the results of the past investment policy and the intended future policy, and any changes to the investment processes applied to their portfolios. The investment managers will also report orally on request to the Trustee Directors.



- The investment managers will inform the Trustee Directors of any changes in the internal performance objective and guidelines of any pooled funds used by the Scheme as and when they occur.
- The Trustee Directors will assess the quality of the performance and processes of the investment managers by means of a review at least once every three years in consultation with the investment consultant.
- The Investment Management Agreement (IMA) sets out the charges relevant to each of the pooled funds held by the Trustee. Other than transaction charges which the Trustee Directors monitor and agreed investment management and administration charges there are no other charges incurred by the Trustee in respect of the pooled investments held. The IMA is an open ended agreement and reviewed from time to time and in the event of any changes being required.
- The investment manager is not incentivised to align the investment strategy and any decisions relating to the pooled funds with the Trustee's investment policies. The Trustee Directors expect the investment strategy and decisions to be appropriate for each pooled fund.
- The investment manager makes decisions based on their engagement with the companies issuing the investments held by the pooled funds and will make their assessments of the performance of those companies over the medium and long term in line with their internal policies and practices. The investment manager is also expected to engage with those companies in relation to their capital structure and any potential or actual conflicts of interest, monitoring those companies as they feel appropriate. The Trustee Directors do not incentivise the investment manager in relation to these decisions. The funds utilised typically include an objective that is expected to result in a positive return over the medium-to-longer term and, as such, the investment managers engagement with the issuers of debt or equity is expected to be undertaken so as to target medium-to-long term value creation.
- By investing in passively managed pooled assets the Trustee Directors accept that turnover costs will be incurred by the investment manager to ensure that the investments held are in accordance with the strategy of each of the pooled funds. The Trustee Directors receive an annual report on the funds' turnover costs. They expect these costs to be appropriate to the individual pooled fund. The Trustees consider the fees and charges associated with each investment before investing.
- Appropriate written advice will be taken from the investment consultant before the review, appointment or removal of the investment managers.

## Performance Monitoring

- Each of the funds in which the Scheme invests has a stated performance objective against which the performance is measured.
- The Trustee Directors will review the performance of the investment managers from time to time, based on the results of their performance and investment process;
- The investment managers are expected to provide written reports on a quarterly basis; and
- The Trustee Directors receive an independent investment performance monitoring report from their investment consultant on a periodic basis.

## Balance between different kinds of investments

- The appointed investment manager(s) will hold a diversified mix of investments in line with their agreed benchmark and within their discretion to diverge from the benchmark. Within each major market each manager will maintain a diversified portfolio of securities.

## Additional Voluntary Contributions (AVCs)

- The Trustee Directors have full discretion as to the appropriate investment vehicles made available to members of the Scheme for their voluntary contributions. Only investment vehicles normally considered suitable for voluntary contributions will be considered by the Trustee Directors, having taken appropriate written advice from properly qualified and authorised financial advisers.
- In selecting funds the Trustee Directors have taken advice from their professional advisers on:
  - the risks faced by members in investing on a money purchase basis, and
  - the Trustee Directors' responsibilities in the selection and monitoring of the investment options offered.
- The Trustee Directors will continue to manage the AVC arrangements having taken professional advice on these matters.
- The Trustee Directors will monitor the performance of AVC providers periodically.
- Members are directed to seek independent financial advice when considering their AVC arrangements.

# 3 Appointments & Responsibilities

This section sets out the key appointments and responsibilities with respect to the investment aspects of the Scheme.

## Trustee Directors

The Trustee Directors' primary responsibilities include:

- preparation of this Statement, reviewing its contents and modifying it if deemed appropriate, in consultation with the Sponsoring Employer and the investment consultant, at least every three years. The Statement will also be reviewed following a significant change to investment strategy and/or the investment managers,
- appointing investment consultants and investment managers as necessary for the good stewardship of the Scheme's assets,
- reviewing the investment strategy as part of each triennial actuarial valuation, and/or asset liability modelling exercise, and/or significant changes to the Scheme's liabilities, taking advice from the investment consultant,
- assessing the processes (and therefore the performance) of the investment managers by means of regular, but not less than annual, reviews of information obtained (including investment performance),
- monitoring compliance of the investment arrangements with this Statement on a regular basis, and
- monitoring risk and the way in which the investment managers have cast votes on behalf of the Scheme in respect of the Scheme's equity holdings.
- The Trustee considers any potential and actual conflicts of interest (subject to reasonable levels of materiality) at the start of each Trustees Board meeting and documents these in the minutes.

## Investment Consultant

As and when requested by the Trustee, the investment consultant may:

- assist the Trustee Directors in the preparation and periodic review of this Statement in consultation with the Sponsoring Employer,
- undertake project work including reviews of investment strategy, investment performance and manager structure as required by the Trustee Directors,
- advise the Trustee Directors on the selection and review of the investment manager(s),

- provide training or education on any investment related matter as and when the Trustee Directors see fit, and
- monitor and advise upon where contributions should be invested or disinvested on a periodic basis.
- monitor the Scheme's investment managers.

The investment consultant provides agreed services on a fixed fee basis, with additional projects provided on a time cost basis subject to agreement in advance.

The basis of remuneration is kept under review.

## Investment Managers

The investment managers' main responsibilities include:

- investing assets in a manner that is consistent with the objectives set,
- ensuring that investment of the Scheme's assets is compliant with prevailing legislation and the constraints detailed in this Statement,
- providing the Trustee Directors with quarterly reports including any changes to their investment process and a review of the investment performance,
- attending meetings with the Trustee Directors as and when required,
- informing the Trustee Directors of any changes in the fee structure, internal performance objectives and guidelines of any pooled fund used by the Scheme as and when they occur, and
- exercising voting rights on shareholdings in accordance with their general policy.

## Custodian

The custodians used are responsible for the safe-keeping of the Scheme's assets.

- The custodianship arrangements are those operated by the investment managers for all clients investing in their pooled funds.

## Administrators

- The administrator's primary responsibilities are the day to day administration of the Scheme and the submission of specified statutory documentation, as delegated by the Trustee Directors.
- The Scheme's administrator is Quantum Advisory.

## Scheme Actuary

The Scheme Actuary's main responsibilities in respect of investment policy include:

- commenting on the suitability of the Scheme's investment strategy given the financial characteristics of the Scheme; and
- performing the triennial (or more frequently as required) actuarial valuation and advising on the Scheme's funding level and therefore the appropriate level of contributions in order to aid the Trustee Directors in balancing short-term and long-term investment objectives.

The Scheme Actuary is Rhidian Williams of Quantum Advisory.

**Signed on behalf of the Trustee of the Scheme:**

A handwritten signature in black ink, consisting of a large loop at the top, a vertical stroke, and a horizontal stroke extending to the right.

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Name

Signature

21 August 2023

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Date