

Roxboro UK Pension Fund

Statement of Investment Principles

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Finalised and accepted by the Trustee on 4 July

Contents

1. Introduction	3
2. Choosing investments	3
3. Investment objectives	3
4. Kinds of investments to be held	4
5. The balance between different kinds of investments	4
6. Risks	4
7. Expected return on investments	6
8. Realisation of investments	6
9. Financially material considerations, non-financially material considerations, the exercise of voting rights and engagement activities, and policy on arrangements with investment managers	6
10. Agreement	6
Appendix 1: Note on investment policy of the Fund as at 4 July 2024 in relation to the current Statement of Investment Principles	7
Appendix 2: Financially material considerations, non-financial material considerations, the exercise of voting rights and engagement activities, and policy on arrangements with investment managers	8
Appendix 3: Benchmarks and Objectives	11

1. Introduction

- 1.1. This is the Statement of Investment Principles prepared by the Trustee of the Roxboro UK Pension Fund ('the Fund'). This statement sets down the principles which govern the decisions about investments.
- 1.2. In preparing this statement the Trustee has consulted Dialight Europe Limited, the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustee's investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.
- 1.3. The Trustee will review this statement at least every three years or if there is a significant change in any of the areas covered by the statement.
- 1.4. The Trustee completed a bulk annuity insurance transaction with Legal & General Assurance Society Ltd. ("LGAS", or the "insurer") in the contract dated 4 July 2024 to secure the benefits under the Fund.

2. Choosing investments

- 2.1. The Trustee's policy is to set the overall investment target and then monitor the performance of the Fund against that target. In doing so, the Trustee considers the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.
- 2.2. Effective from 4 July 2024, the Trustee entered into a bulk annuity insurance contract with the Insurer, which is expected to match all defined benefits due to members of the Fund.
- 2.3. The Insurer is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.
- 2.4. The Trustee holds some investments in the LGIM Buy-Out Aware Funds and the LGIM Sterling Liquidity Fund, as set out in the Investment Manager Arrangement Summary, as well as some cash in the Fund's bank account. The day-to-day management of the residual assets held is delegated to Legal & General Investment Management. The investment manager is authorised and regulated by the Financial Conduct Authority, and is responsible for stock selection.
- 2.5. The Trustee continues to review the appropriateness of the Fund's investment strategy on an ongoing basis but would consider it unlikely that any material future changes will be made prior to the LGAS insurance policy potentially being assigned to individual members and the Fund then being wound up.
- 2.6. The Trustee will consult the employer before amending the investment strategy.

3. Investment objectives

- 3.1. The Trustee has discussed key investment objectives in light of an analysis of the Fund's liability profile as well as the constraints the Trustee faces in achieving these objectives. As a result, the Trustee's main investment objectives are:
 - to hold assets that provide a high likelihood that members' entitlements under the Trust Deed and Rules will be met in full as they fall due;
 - to invest in assets of appropriate liquidity to meet potential remaining liabilities that are not covered by the bulk annuity policy; and

- to reduce the risk of the assets failing to meet the liabilities over the long term.

3.2. The Trustee is aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Fund's liabilities. The Trustee has obtained exposure to investments that they expect will meet the Fund's objectives as best as possible.

4. Kinds of investments to be held

4.1. The Fund is permitted to invest in a wide range of assets including equities, bonds, cash, property, alternatives and annuity policies. The Fund's current investment strategy involves holding the majority of the Fund's assets in a bulk annuity insurance contract, with a small holding in the LGIM Buy-Out Aware Funds and Sterling Liquidity Fund to meet cashflow requirements prior to buy-out.

4.2. Given the Fund's investment strategy, it is not expected that the Fund will hold any employer-related investments. However, this is typically checked annually by the Fund's auditors.

5. The balance between different kinds of investments

5.1. The Fund invests in assets that are expected to achieve the Fund's objectives.

5.2. The Fund holds a bulk annuity policy expected to produce cashflows that exactly match the benefit entitlements of each of the Fund's members. The remainder of the Fund's assets are held in the Fund's bank account and LGIM funds as set out within the Investment Manager Arrangement Summary.

6. Risks

6.1. The various types of investment risk which may affect the Fund's liabilities are covered under the bulk annuity purchase with the Insurer. Therefore, the vast majority of the risks set out below are covered by the insurance policy and are therefore judged to have minimal impact on the Fund's ability to meet the liabilities of the Fund as they fall due. However, the Trustee has considered the following risks for the Fund with regard to its investment policy and the Fund's liabilities:

Risk versus the liabilities	The Trustee notes that by securing the Fund's benefits with an insurer, the risk of benefits not being met is now very low.
Covenant risk	The Fund is less reliant on the strength of the Employer's covenant as the Fund's benefits have been secured with an insurer. When converting the buy-in policy into a buy-out policy with the Insurer, the Fund will be reliant on the Employer to make good any shortfall in excess of the small amount of assets held outside of the insurance contract.
Insurer counterparty risk	The risk of the insurer defaulting has been managed through the selection of a reputable UK regulated insurer and potentially supported by the insurance compensation regime in place should an insurer fail.
Investment manager risk	The Trustee monitors the performance of the residual assets (i.e. those held in cash and other funds outside the bulk annuity policy) as necessary. The Trustee has a written agreement with the investment manager, which contains a number of restrictions on how each investment manager may operate.
Governance risk	The investment manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustee monitors these and will report on the managers' practices in their annual Implementation Statement where possible.
ESG/Climate risk	The Trustee has considered long-term financial risks to the Fund and ESG factors, as well as climate risk. While the Trustee considers these factors to be potentially financially material, management of these risks over the lifetime of the contract is primarily an issue for the Insurer to manage.
Concentration risk	The investment manager and the Insurer are expected to manage broadly diversified portfolios and to spread assets across several individual shares and securities.
Liquidity risk	The Fund invests in assets, including cash, such that there is a sufficient allocation to liquid investments to meet the Fund's remaining cashflow requirements that are not covered by the bulk annuity insurance contract. The Fund's administrators monitor the level of cash available in the Fund's bank account.
Currency risk	The Fund's liabilities and the income produced by the bulk annuity contract are both denominated in sterling.
Loss of investment	In the event of the Insurer becoming insolvent, the Fund could suffer losses on the contract, but would still retain the liability to pay members' benefits. This risk is mitigated by the regulatory regime and capital requirements in place for UK insurers. The risk of loss of investment by the investment manager is assessed by the Trustee. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud).

7. Expected return on investments

- 7.1. The Trustee has chosen to invest the vast majority of assets in a bulk annuity policy to match the Fund's projected benefit payments with income from the policy. The remaining assets are held bearing in mind the nature of the potential additional liabilities that may fall due on the Fund that are not covered by the policy, and ongoing expenses.
- 7.2. The Trustee has not set an expected return on the bulk annuity policy, given that its primary purpose is as an insurance contract rather than a return-seeking investment.

8. Realisation of investments

- 8.1. The annuity policy with the Insurer is not readily realisable and the Trustee does not expect to need to surrender or realise the contract given its nature and purpose. The income from the bulk annuity policy will be used to pay benefits covered by the policy. .
- 8.2. The remaining assets of the Fund are held in assets that can be realised at short notice.

9. Financially material considerations, non-financially material considerations, the exercise of voting rights and engagement activities, and policy on arrangements with investment managers

- 9.1. Since the majority of the Fund's assets are held in an insurance policy, these matters are primarily an issue for the Insurer to manage. This is reflected in the Trustee's own policies, as summarised in the Appendix.

10. Agreement

- 10.1. This statement was agreed by the Trustee, following consultation with the Employer, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the Employer, the investment manager, the actuary and the Fund auditor upon request.

Signed:.....

Date:.....

On behalf of the Roxboro UK Pension Fund

Appendix 1: Note on investment policy of the Fund as at 4 July 2024 in relation to the current Statement of Investment Principles

1. Choosing Investments

The Trustee has secured an insurance contract in respect of the Fund's liabilities with the insurer, LGAS.

The Trustee has also appointed the following fund manager to carry out the day-to-day investment of the Fund's residual assets:

- Legal and General Investment Management Limited (LGIM)

The funds used are all accessed through LGIM's Investment-only Platform ('IoP').

The Trustee has an AVC contract with Phoenix Life for members' Additional Voluntary Contributions. The arrangement is reviewed from time to time.

The performance of the investment managers will be monitored as frequently as the Trustee considers appropriate in light of the prevailing circumstances. The monitoring takes into account both short-term and long-term performance.

2. The balance between different kinds of investment

The Trustee has secured an insurance contract in respect of the Fund's liabilities with Legal and General Assurance Society ("LGAS"). The insurer is supervised by the Prudential Regulatory Authority ("PRA") in co-ordination with the Financial Conduct Authority ("FCA") within the current regulatory context.

Most of the Fund's assets are held in a bulk annuity policy. The remaining assets are held in Buy-out Aware Funds and a Sterling Liquidity Fund with LGIM. These investments can be realised quickly, bearing in mind the nature of the potential additional liabilities that may fall due on the Fund that are not covered by the policy or ongoing expenses.

3. Investments and disinvestments

The Fund's cashflow requirements are expected to be met by the Fund's remaining holdings in the LGIM Buy-Out Aware Funds and Sterling Liquidity Fund, as well as the annuity policy. Disinvestments are expected to be made from the Sterling Liquidity Fund to cover the Fund's ongoing expenses.

Appendix 2: Financially material considerations, non-financial material considerations, the exercise of voting rights and engagement activities, and policy on arrangements with investment managers

1. Financially Material Considerations

The Trustee considers that environmental, social and governance (“ESG”) factors, including but not limited to climate change, have the potential to be financially material over the long-term. However, as the Trustee has completed a purchase of a bulk annuity policy intended to match the majority of the Fund’s liabilities, the Trustee is not directly exposed to these risks. The remaining assets are held bearing in mind the nature of the potential additional liabilities that may fall due on the Fund and are not covered by the policy. The management of ESG and climate change by insurers was considered as part of the decision to purchase the buy-in policy.

The Trustee has an expectation that the Insurer will consider ESG-related issues in selecting securities and other investments, or will otherwise engage with the issuers of their underlying holdings on such matters in a way that is appropriate for the nature of the assets under consideration.

2. Approach to monitoring ESG policy

The Fund’s assets are held as a bulk annuity policy, LGIM Buy-Out Aware Funds, Sterling Liquidity Fund and cash. Given the nature of the current holdings in the Fund, the Trustee will review and monitor the ESG policy as they deem appropriate, considering the risks that present themselves.

3. Policy on the exercise of voting rights and engagement activities

The Trustee notes that by securing the Fund’s benefits with an insurer, they have limited ability to influence the voting and engagement activities undertaken on behalf of the Insurer. Responsibility for engagement with the issuers of investments underlying the bulk annuity policy, including voting policy (where applicable), is the responsibility of the Insurer.

The Fund retains some holdings in the Buy-Out Aware Funds and cash/cash-like funds, but the Trustee notes, due to a number of controls at both the asset manager and counterparties, the impact of engagement on the risk/return of these holdings is limited.

4. Conflicts of Interest

The Fund’s investment adviser is independent and no arm of their business provides asset management services. This, and their FCA-regulated status, makes the Trustee confident that the investment manager recommendations they make are free from conflicts of interest.

The Trustee expects all investment managers and insurers to have conflicts of interest policies in relation to their engagement and ongoing operations. The Trustee therefore believes it has managed the potential for conflicts of interest in the appointment of the investment managers, insurers, and investment adviser, and conflicts of interest between the Trustee, investment adviser, the investment managers, the insurers, and any underlying investee companies.

5. Non-financially material considerations

When constructing the investment strategy and selecting investment managers, the Trustee does not prioritise non-financial matters. Given the bulk annuity purchase, the Trustee has limited ability to address non-financial matters.

The Fund's residual assets are solely invested through pooled investment vehicles where the Fund's assets only represent a small proportion of the capital invested in the funds. Therefore, the Trustee only considered the stewardship priorities of the fund manager – Legal & General, and selected the following stewardship themes as the stewardship priorities of the Fund:

- Climate change
- Diversity, equity and inclusion
- Fair pay

The Trustee will review its policy on whether or not to take account of non-financial matters periodically

6. Policy on arrangements with investment managers

Incentivising alignment with the Trustees'/Trustee's investment policies

Arrangements for incentivising the investment managers of the assets underlying the bulk annuity policy are an issue for the Insurer.

Method and time horizon for assessing performance

The Trustee does not undertake regular formal monitoring of the investment managers due to the limited benefit of this activity given the bulk annuity policy held with the insurer for the majority of liabilities. However, the Trustee would undertake such monitoring if it was deemed necessary.

The Fund invests exclusively in the LGIM Buy-Out Aware Funds, Sterling Liquidity Fund and a bulk annuity policy. The investment manager is remunerated by the Trustee based on the assets they manage on behalf of the Trustee. As the fund grows, due to successful investment by the investment manager, they receive more and as the value falls they receive less.

The Trustee asks the Fund's investment consultant to assess if the asset management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered as frequently as the Trustee considers appropriate in light of the prevailing circumstances.

Portfolio turnover costs and duration of arrangement

The Trustee acknowledges that portfolio turnover costs can impact on the performance of their investments. However, given the bulk annuity policy and other holdings of the Fund, the Trustee notes that the impact of portfolio turnover costs and the duration of arrangement with the investment manager are expected to have zero impact.

For the open-ended pooled fund in which the Fund invests, there are no predetermined terms of agreement with the investment manager.

The suitability of the Fund's asset allocation and its ongoing alignment with the Trustee's investment beliefs is assessed every three years, or when changes deem it appropriate to do so more frequently. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.

Appendix 3: Benchmarks and Objectives

Benchmarks and objectives for each of the fund managers are summarised below:

Fund manager	Benchmark	Objective
LGIM		
Buy-out Aware Fund Range	No Benchmark	The fund aims to provide diversified exposure to assets that reflect the investments underlying a typical bulk annuity insurance policy (otherwise known as a buy-in or a buy-out). The fund invests in a range of underlying LGIM funds each with their own objective and benchmark.
Sterling Liquidity Fund	SONIA (Sterling Overnight Index Average)	The fund aims to offer access to liquidity whilst providing capital stability. The investment objective of the fund is to provide diversified exposure and a competitive return in relation to its benchmark.
LGAS		
Bulk annuity policy	n/a	n/a