Park Air Pension Plan

Statement of Investment Principles – August 2020

1. Introduction

The Trustees of the Park Air Pension Plan ("the Plan") have drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Pensions Act 1995 ("the Act") and subsequent legislation. The Statement is intended to affirm the investment principles that govern decisions about the Plan's investments.

In preparing this Statement the Trustees have consulted the Sponsoring Company, Park Air Systems Limited, to ascertain whether there are any material issues of which the Trustees should be aware in agreeing the Plan's investment arrangements.

The Trustees' investment responsibilities are governed by the Plan's Board Resolution and Rules; a copy of the relevant clause, of which this Statement takes full regard, is available for inspection.

2. Process For Choosing Investments

The Trustees are responsible for setting the Plan's investment objectives, high level asset allocation, and appointing investment managers. The Trustees feel they have the skills to perform this role given they attend training sessions, receive presentations from their investment managers, and also receive expert advice from their advisors before making decisions.

The Trustees have delegated the day-to-day investment of the Plan's assets to the Fiduciary Management service of River and Mercantile Investments Limited ('R&M Solutions'), hereafter referred to as the 'Investment Manager'.

3. Investment Objectives

The Trustees' objective is to invest the Plan's assets in the best interest of the members and beneficiaries, and in the case of a potential conflict of interest in the sole interest of the members and beneficiaries. Within this framework the Trustees have agreed a number of objectives to help guide them in their strategic management of the assets and control of the various risks to which the Plan is exposed. The Trustees' primary objectives are as follows:

- *The primary objective is to ensure the assets within the Plan are sufficient to cover the accrued benefit promises on the Statutory Funding Objective ('SFO') basis.*

- *If there is a shortfall of assets on this basis, to put in place a Recovery Plan to restore full funding.*

- *Within the former objectives, to pay due regard to the Principal Employer and the participating employers' interests in the size and incidence of employers' contribution payments.*

- *The ultimate objective is for the Plan to achieve 'buy-out', where the Trustees secure members' benefits with an insurance company, within 10-15 years (2028 to 2033).*

In quantitative terms, the Trustees' long-term objective for the Plan is to target an investment return objective of approximately 1.0% per annum (net of fees) above gilts. The liability benchmark provides an estimate of the change in value of the liabilities through time, including the impact of changes in interest rates and inflation. This benchmark is estimated by the Investment Manager and based on the Technical Provisions liability cashflows provided by the Plan Actuary, Mercer.

The Investment Manager is authorised under the FSMA and provides the expertise necessary to manage the investments of the Plan.

4. Risk Management and Measurement

The Trustees recognise a number of risks involved in the investment of the assets of the Plan. These risks, and how they are measured and managed, include:

- **Funding and asset/liability mismatch risk** – the risk that the funding level is adversely affected due to a mismatch between the assets and liabilities. This risk is managed in the following ways:
  - A liability benchmark 'LB' is used as a proxy for the liabilities and enables the Trustees to monitor the change in liabilities relative to the change in assets on a quarterly basis. The LB is reviewed following each actuarial review, or when significant market or Plan events (e.g. a significant change in inflation expectations) imply that an amendment may be appropriate.
  - The Trustees also recognise the risk of a negative impact on the funding level due to non-investment factors, such as changes in the actuarial assumptions used to calculate the liabilities and variation in experience relative to those assumptions. This is managed by aiming for a higher overall investment return than implied by the liability discount rate.
  - When setting and reviewing investment strategy, the Trustees examine how the investment strategy impacts on risk. Risk of the investment strategy is also measured by reference to the LB and can therefore also be assessed as part of the quarterly review process.
  - This risk is also monitored through regular actuarial and investment reviews including monthly portfolio updates.
- **Underperformance risk** – the risk of underperforming the benchmarks and objectives set by the Trustees. This risk is minimised using the following techniques:
  - Appropriate diversification across asset classes, within sectors and between individual stocks to minimise the effect of a particular stock or sector performing badly.
  - The use of instruments and strategies designed to control the extent of losses.

- The selective use of active management taking into account market conditions, the asset class considered and where the benefits (risk and/or return) are expected to outweigh the additional costs/fees.

- Regular monitoring of the managers' performance, processes and capabilities with respect to their mandate and by the diversification across multiple Underlying Managers by the Investment Manager.

- **Cash flow risk –** the risk that the Plan is unable to meet cash flow requirements as they fall due, for example due to a larger than expected number of transfers out. This is addressed through the monitoring of the cash flow requirement of the Plan to control the timing of any investment/disinvestment of assets.

  - The Trustees have also put in place a dedicated cashflow matching portfolio that is intended to mitigate the risk caused by significantly high levels of benefit payments.

- **Concentration risk** – the risk of an adverse influence on investment values from the concentration of holdings is reduced by the diversification of the assets.

- **Counterparty risk** – the risk of a counterparty to an agreement defaulting on its contractual obligation.

  - The Trustees may enter into contracts with counterparties, including investment banks, in order to execute derivative transactions. The Trustees have taken advice on the suitability of the contracts and have delegated responsibility to the Investment Manager to implement these instruments on its behalf. Derivative instruments are typically used for risk management purposes in the portfolio.

  - The use of derivatives exposes the Scheme to counterparty risk – this risk is reduced through the use of collateral or margin payments (i.e. cash or securities are passed from one counterparty to another in order to make good on their obligations should a counterparty default). It is also considered in the selection of counterparties or in the event of a downgrade in credit quality of an existing counterparty.

- **Country risk** – the risk of an adverse impact on asset values from political intervention is reduced by diversification of the assets across many countries.

- **Currency risk** – the risk that fluctuations in the value of overseas currencies affect the total return of the Plan's investments when compared to a Sterling benchmark. The Trustees mitigate this risk by electing to allow the Investment Manager to use currency hedging.

- **Default risk** – the risk of income from assets not being paid when promised. This is addressed through restrictions for the Investment Manager and Underlying Managers, e.g. a minimum credit rating of the bonds they are allowed to buy. Additionally, a high proportion of the bonds held are UK government bonds which have little default risk.

- **Environmental, Social and Governance (ESG) risk –** the risk of adverse performance due to ESG related factors including climate change. This is addressed by the Investment Manager's ESG assessment at the point of investment with Underlying Managers. A summary of the overall ESG characteristics in the portfolio is in the quarterly governance report.

- **Mismanagement risk –** the risk of unsuitable investment activity by the Investment Manager.

    - This is addressed in the agreement with the Investment Manager, and in turn by the Investment Manager with the Underlying Managers, which contain restrictions on the proportion and type of asset classes that the Investment Manager or Underlying Managers may invest in. Additionally, the Investment Manager has been provided with a copy of this SIP and is required to exercise their powers with a view to giving effect to the principles contained herein and in accordance with subsection (2) of Section 36 of the Pensions Act 1995.

    - The Trustees, or any other suitably qualified Adviser on behalf of the Trustees, will regularly review the activities of the Investment Manager to satisfy themselves that the Investment Manager continues to carry out their work competently and have the appropriate knowledge and experience to manage the assets of the Plan.

- **Organisational risk –** the risk of inadequate internal processes leading to problems for the Plan. This is addressed through regular monitoring of the Investment Manager and Advisers by the Trustees, and of the Underlying Managers by the Investment Manager.

- **Sponsor risk –** the risk of the Sponsoring Employer ceasing to exist which, for reasons of prudence, has been taken into account when setting the asset allocation strategy. The Trustees regularly review the covenant of the Sponsoring Employer.

The Trustees will keep these risks and how they are measured and managed under regular review.

5. Investment Strategy

The Trustees' approach to setting the Plan's investment strategy is to allocate the assets between three pools – 'Matching' assets, 'Cashflow Matching Credit' assets and 'Growth' assets.

- 'Matching' assets: the focus is risk management, protection and insurance. Invested in, but not limited to, fixed interest gilts, index-linked gilts and cash.

- 'Cashflow Matching Credit Assets': the focus is on efficient distribution of income and capital to match a proportion of expected benefit payments as well as mitigate some of the interest rate risk inherent in the liabilities.

- 'Growth' assets: the focus is on return generation and taking risk in a controlled manner – such assets could include equities, high yield bonds, property, commodities and hedge funds, etc.

The Trustees have agreed, following advice from their Investment Adviser, to allocate 20% of the assets to Growth Assets, 30% of assets to Cashflow Matching Credit Assets and 50% of assets to Matching Assets. In addition, the Trustees have agreed to hedge 100% of the Plan's interest rate and inflation risk of the Technical Provisions liabilities.

Asset class	**Strategic Benchmark (%)**	***Objective***
Growth Assets	20.0	SONIA + 4.125% p.a.
Cashflow Matching Credit Assets	30.0	To invest in assets which distribute income and capital. To mitigate some of the interest rate risk inherent in the Liabilities.
Matching Assets	50.0	To complement the liability hedge
Total Assets	**100.0**	**Liability benchmark + 1.0% p.a.**

Appropriate written advice will always be taken before any change is agreed to the investment strategy or the parameters set for the Investment Manager.

6. Review and Control

The Trustees regularly review the activity of the Investment Manager by:

- Receiving quarterly written reports from their Investment Manager
- Meeting periodically with the Investment Manager

The safekeeping of the Plan's assets is performed on behalf of the Investment Manager by a custodian bank, KAS Bank, specifically selected by the Investment Manager to undertake this function.

7. Additional Assets

Under the terms of the trust deed the Trustees are responsible for the investment of AVCs paid by members. The current providers, Norwich Union and Scottish Life are reviewed on a regular basis and advice is taken as to the providers' continued suitability.

8. Corporate Governance and Stewardship

The Trustees and Investment Manager have agreed, and will maintain, formal agreements setting out the scope of the Investment Manager's activities, charging basis and other relevant matters. The Investment Manager has been provided with a copy of this SIP and is required to exercise its powers with a view to giving effect to the principles contained herein and in accordance with subsection (2) of Section 36 of the Pensions Act 1995.

The Trustees have appointed the Investment Manager to implement the Plan's investment strategy. The Investment Manager manages assets directly on behalf of the

Trustees as well as having delegated authority to appoint, monitor and change the Underlying Managers.

The Investment Manager is appointed to carry out its role on an ongoing basis. The Trustees periodically review the overall value-for-money of using R&M Solutions, and information in relation to costs associated with investing is included in the quarterly monitoring report. The Trustees are satisfied that these arrangements incentivise the Investment Manager:

- to align its investment strategy and decisions with the Trustees' investment policies, such as their return target and the restrictions detailed in the Investment Management Agreement, and

- to assess and make decisions based on the medium- to long-term financial and non-financial performance of issuers of debt or equity, and to engage with such issuers to improve this medium- to long-term performance. The success of such engagement will contribute to the Plan's performance, which is measured relative to the Trustees' long-term performance objectives.

The Plan's investments are generally made via pooled investment funds. As such, direct control of the process of engaging with the companies that issue these securities, whether for corporate governance purposes (such as capital structure) or other financially material considerations, is delegated to the Underlying Managers.

The Trustees have delegated responsibility for monitoring and voting on decisions relating to their Underlying Manager holdings to the Investment Manager. The Investment Manager has in place a voting policy which sets out how it will aim to vote at a general meeting of a pooled fund. For any special resolutions or extraordinary general meetings, the proposed votes of the Investment Manager are subject to additional sign-off by the appropriate representative from the Investment Manager.

The Investment Manager undertakes regular reviews of all Underlying Managers. These reviews incorporate benchmarking of performance and fees, with some managers on performance-related fees as well as performance reviews (including understanding key drivers of performance), investment due diligence meetings and operational due diligence reviews. The Investment Manager reviews the governance structures of Underlying Managers, as well as assessing whether their fees, expenses (and any other charges) are in line with industry peers at inception and from time to time whilst invested.

Where it can be determined, the Investment Manager assesses whether Underlying Manager remuneration arrangements are aligned with the Trustees' objectives The method and time horizon for evaluating and remunerating Underlying Managers is determined by criteria set by the Investment Manager, as detailed above.

The Trustees acknowledges the inherent potential for conflicts of interest which exist as part of ongoing Investment management business activities. As an FCA regulated firm, the Investment Manager is required to prevent or manage conflicts of interest. Where Underlying Managers are also regulated, they are likely to be subject to such requirements to manage conflicts of interest as are applicable in their jurisdiction of incorporation or operations. The Investment Manager directly monitors these as part of their regulatory filings (where available), the Investment Manager also monitors this as part of ongoing review. The Investment Manager's Conflict of Interest policy is available publicly here:

https://riverandmercantile.com/Asp/uploadedFiles/file/Corporate_Governance/RMG_Conflicts_of_Interest_Policy.pdf

The Investment Manager oversees the turnover costs incurred by Underlying Managers as part of its ongoing monitoring process and evaluates such costs to determine if they are in line with peer groups and the Investment Manager's expectations. Where there are material deviations the Investment Manager engages with Underlying Managers to understand the rationale for such deviations and take appropriate action.

9. Realisation of Investments

The Trustees may realise investments from the Plan's assets in order to make payments of benefits and costs under the Plan. The majority of assets are held in underlying pooled funds or UK government bonds, most of which can be realised easily if the Trustees so require. The selection of investments to be so realised is at the discretion of our Investment Manager. The Investment Manager also has discretion to realise investments within the portfolio for the purpose of making new investments.

10. Financially material investment considerations

These considerations which include the "Risks" set out in Section 4 can affect the long-term financial performance of investments and can (but do not have to) include environmental, social and governance factors (otherwise known as "ESG") where relevant. The Trustees delegate consideration of financially material factors to the Investment Manager who considers these when constructing the portfolio, including looking at Underlying Managers. All references to ESG relate to financial factors only. All references to ESG also include climate change.

ESG factors and stewardship are considered, in the context of long term performance, by the Investment Manager as part of the manager selection criteria. This review occurs before they are approved for investment in the portfolio. Once an Underlying Manager is appointed, the Investment Manager monitors the ESG implementation and ongoing compliance with other factors, such as stewardship, as a part of overall engagement.

11. Non-financial matters

The Trustees do not at present take into account non-financial matters (such as members' ethical considerations, social and environmental impact matters or future quality of life considerations for members and beneficiaries) when making investment decisions as there is no likely common view on any ethical matters which members are likely to hold. At this time the Trustees have no plans to seek the views of the membership on ethical considerations.

12. Compliance with this Statement

The Trustees monitor compliance with this Statement annually and obtain written confirmation from the Investment Manager that they have given effect to the investment principles in this Statement so far as reasonably practicable and that in exercising any discretion the Investment Manager has done so in accordance with Section 4 of The Occupational Pension Schemes (Investment) Regulations 2005.

13. Review of this Statement

The Trustees will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believe to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

The Trustees of the Park Air Pension Plan

Steve Bright______________________	23 September 2020__________________
Signed	Date