

# Statement of Investment Principles

## For the Clarks Flexible Pension Scheme

### Introduction

#### Background

This Statement of Investment Principles (the "Statement") has been prepared by the Directors ("Trustee Directors") of Clarks Pension Trustee (2005) Limited, as Trustee of the Clarks Flexible Pension Scheme (the "Scheme"). It sets out the principles governing investment decisions for the Scheme.

The Scheme comprises both the Defined Benefit and Defined Contribution sections.

#### Statutory Information

This Statement has been prepared in accordance with the requirements of sections 35, 36 and 56 of the Pensions Acts 1995 and 2004. The Trustee Directors of the Scheme have taken and considered written advice from their investment consultant, the Investment Practice of Hymans Robertson LLP, and have consulted with the Principal Employer to the Scheme (C&J Clark Limited) in producing this Statement.

The Trustee Directors will review this Statement, in consultation with the Investment Consultant and the Principal Employer, at least every three years and without delay after any significant change in investment policy or demographic profile of the Scheme's membership.

## 1 Defined Benefit Section

For the avoidance of doubt, references to 'Scheme' under this heading refer only to the Defined Benefit section.

#### Scheme objective

The Trustee Directors seek to invest the Scheme's assets so as to maximise the likelihood:

- that benefits will be paid to members as they fall due; and
- of continued long term financial support from the sponsoring employer.

The Scheme closed to future accrual of benefits with effect from 31 July 2018.

The Trustee Directors believe that this objective will ensure that the assets are invested in the best interests of the members and beneficiaries of the Scheme. The Trustee Directors do not foresee this objective giving rise to any conflict with the interests of the members and beneficiaries, but if a potential conflict arose, the Trustee Directors would take steps to ensure that the assets are invested in the sole interest of members and other beneficiaries.

The Trustee Directors aim to maintain a funding level of 100%, measured on an ongoing valuation basis. The value of liabilities is calculated on the basis agreed by the Trustee Directors and the Scheme Actuary. The funding position is monitored regularly by the Trustee Directors and formally reviewed at each triennial actuarial

valuation, or more frequently as required by the Pensions Act 2004. The Trustee Directors wish to pursue an investment strategy that will, together with the funding strategy, offer a strong probability of achieving this.

### **Investment strategy**

The Trustee has translated its objectives into a suitable strategic (asset allocation) benchmark for the Scheme. The strategic benchmark is reflected in the choice and mix of funds in which the Scheme invests.

Following closure, the Trustee Directors reviewed the investment strategy and restructured the assets. A liability driven investment ("LDI") portfolio was implemented to better support the objectives outlined above. The investment strategy seeks to match as closely as possible the liability profile of the Scheme by investing in a portfolio of bonds, gilts and leveraged instruments whose characteristics reflect the behaviour of the liabilities. This minimises, but does not necessarily eliminate, any differential between the value of liabilities and assets.

The investment strategy:

- takes due account of the maturity profile of the Scheme (in terms of the relative proportions of liabilities in respect of pensioner and non-pensioner members), together with the level of disclosed surplus or deficit (relative to the funding bases used) and the Trustee's view of the covenant of the sponsoring employer; and
- is consistent with the Trustee Directors' views on the appropriate balance between seeking an enhanced long term return on investments and accepting greater short-term volatility and risk.

It is intended that investment strategy will be reviewed at least every three years following actuarial valuations of the Scheme, and will normally be reviewed annually. In reviewing investment strategy, the Trustee Directors will seek written advice as required.

The Trustee Directors monitor the performance of Scheme investments relative to agreed criteria on a regular basis and have delegated day to day investment decisions to authorised investment managers.

### **Choosing investments**

The Trustee Directors have appointed a single investment manager, Legal & General Investment Management ("LGIM") to manage the Scheme's investments. The investment manager is authorised under the Financial Services and Markets Act 2000 to undertake investment business. The Trustee Directors, after taking appropriate advice, have given the investment manager specific guidelines including, but not limited to, asset allocation and geographic spread. However, investment choice has been delegated to the manager subject to benchmarks and other guidelines with the expectation that the manager will maintain diversified portfolios.

Given the size and nature of the Scheme, the Trustee Directors have decided to invest on a pooled fund basis through an insurance contract. The pooled funds in which investment is made are managed on a passive, or index tracking, basis, the objective of which is to match, as closely as possible, the performance of the relevant benchmark index. For each fund, the investment manager invests in individual bonds in such a way as to replicate, as closely as possible, the composition of that fund's benchmark index. In adopting this approach, the manager ensures a suitably diversified portfolio. The Trustee Directors are satisfied that the assets held in each fund are suitable in relation to the needs of the membership.

The Trustee reviews the nature of Scheme investments on a regular basis, with particular reference to suitability and diversification. The Trustee seeks and considers written advice from a suitably qualified person in

undertaking such a review. If, at any time, investment in a security or product not previously known to the Trustee Directors is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

#### **Kinds of investment to be held**

Given the investment strategy, as described above, the Trustee Directors invest solely in bonds. The Trustee Directors considers the different bond classes in which investment is made to be suitable in the circumstances of the Scheme.

#### **Balance between different kinds of investments**

The Scheme's investment manager will hold a mix of bonds reflecting that of the respective benchmark indices.

#### **Risk**

The Scheme is exposed to a number of risks which pose a threat to the Scheme meeting its objectives. The principal risks affecting the Scheme are:

##### **Funding risks**

- Financial mismatch – The risk that Scheme assets fail to grow in line with the developing cost of meeting the (past service) liabilities. It includes the risk that unexpected inflation increases the pension and benefit payments and Scheme assets do not grow fast enough to meet the increased cost.
- Changing demographics – The risk that longevity improves and other demographic factors change, increasing the cost of the Scheme benefits.
- Systemic risk – The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Scheme's liabilities. Climate change is a particular systemic risk that has the potential to cause economic, financial and demographic impacts.

The Trustee Directors measure and manage financial mismatch in two ways. As indicated above, the Trustee Directors have set a strategic asset allocation benchmark for the Scheme. The Trustee Directors assess risk relative to that benchmark by monitoring the Scheme's asset allocation and investment returns relative to the benchmark. The Trustee Directors also monitor the Scheme's funding level on an annual basis.

The Trustee Directors keeps mortality and other demographic assumptions, which could influence the cost of benefits, under review. These assumptions are considered formally at triennial valuations.

The Trustee Directors seeks to mitigate systemic risks through holding a diversified portfolio of corporate and government bonds although it is not possible to make specific provision for all eventualities that may arise under this heading.

##### **Asset risks**

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Scheme cannot meet its immediate liabilities because it has insufficient liquid assets.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

- Environmental, Social and Governance ("ESG") risks - the extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations.
- Climate risk - The extent to which climate change causes a material deterioration in asset values as a consequence of factors including but not limited to policy change, physical impacts and the expected transition to a low-carbon economy.

The Trustee Directors manage asset risks as follows. The Trustee Directors provide a practical constraint on Scheme investments deviating greatly from the intended approach by investing in investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within their expected parameters. In particular, the Scheme's investment manager invests on a passive basis, seeking to perform in line with the market index and does not take active investment decisions.

The decision to appoint only one investment manager does involve some degree of risk (from potential underperformance of that manager) which the Trustee Directors accept as a reasonable compromise given the size of the portfolio.

The Trustee's approach to the consideration of ESG risks and climate risk is set out in further detail below.

#### **Other provider risk**

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Trustee Directors seek professional advice.
- Custody risk - The risk of losing economic rights to Scheme assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

The Trustee Directors monitor and manage risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Scheme, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds).

#### **Expected return on investments**

The investment strategy aims to achieve a return on Scheme assets in excess of the assumptions used in the funding plan.

#### **Realisation of investments**

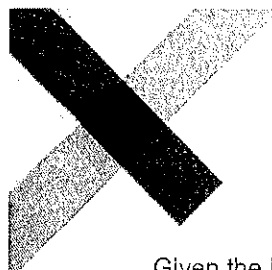
The majority of the Scheme's investments may be realised quickly if required.

#### **Consideration of financially material factors in investment arrangements**

The Trustee Directors recognise that the consideration of financially material factors, including ESG factors, is relevant at different stages of the investment process.

#### *Strategic considerations*

The strategic benchmark has been determined using appropriate long-term economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors.



Given the inherent uncertainty, the Trustee Directors have not made explicit allowance for the risks of climate change in setting their strategic benchmark. *Selecting investment managers*

The Trustee Directors recognise that ESG factors are less directly applicable given the nature of the Scheme's investments (given the Scheme mainly holds gilts).

Further, in respect of corporate bonds, the Trustee Directors recognise that the choice of benchmark dictates the assets held by the investment manager (in aiming to deliver returns in line with the benchmark) and that the passive manager has minimal freedom to take account of factors that may be deemed to be financially material. The Trustee Directors therefore understand that ESG factors will not be given priority by the manager although they would expect the manager to continue to engage with the companies in which they invest.

In selecting new investment managers for the Scheme, where relevant to the investment mandate, the Trustee Directors will consider potential managers' approach to responsible investment and the extent to which managers integrate ESG issues in the investment process as a factor in their decision making.

#### **Consideration of non-financially material factors in investment arrangements**

Given the objectives of the Scheme, the Trustee Directors have not considered any non-financially material factors in the development and implementation of their investment strategy.

The Trustee Directors have not imposed any restrictions or exclusions to the investment arrangements based on non-financially material factors.

#### **Stewardship**

The Trustee Directors recognise that stewardship encompasses the exercise of voting rights, engagement by and with investment managers and the monitoring of compliance with agreed policies.

##### *Voting and engagement*

In principle, the Trustee Directors have delegated the exercise of voting rights to the investment manager on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. However, it should be noted that the passive manager invests 100% in bonds which tend to have no voting rights.

##### *Monitoring*

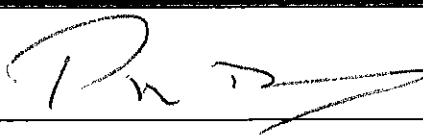
Where required, the Trustee Directors will meet with the investment manager and may seek further information on any areas of concern in the portfolio. This may include ESG issues and the impact on return prospects.


## 2 Defined Contribution Section

The Trustee Directors carried out a bulk transfer of DC Section assets to the Aviva Master Trust in February 2019. Some members opted to transfer individually to other arrangements after this date and these individual transfers were completed by the end of August 2019. As at the time of this document, there are no assets remaining in the DC Section.

This Statement of Investment Principles was completed in September 2019. It will be next reviewed no later than September 2022.

Signed on behalf of the Trustee Directors of Clarks Pension Trustee (2005) Limited as Trustee of the Clarks Flexible Pension Scheme:

Name	Signature	Date
PETER DREW		25/9/19

Name	Signature	Date
Jacqui Ames		25/09/19



# Appendix 1 – Responsibilities

## **Trustee Directors**

The Trustee Directors' primary investment responsibilities in relation to the Section include:

Operating the Section in accordance with its Trust Deed and Rules.

Ensuring that the investment options are suitable for the Section's membership profile.

Preparation of the Statement of Investment Principles and reviewing the content of the Statement and modifying it if deemed appropriate, in consultation with the Principal Employer and the Investment Consultant.

Appointing the Investment Consultant and other advisors as necessary for the good stewardship of the Section.

Appointing the investment managers who invest the Section's assets.

Assessing the performance, charges and processes of the investment managers by means of regular, but not less than annual, reviews of investment performance and other information, with the Investment Consultant.

Monitoring compliance of the investment arrangements with this Statement on a regular basis.

Preparing an annual Chair's statement for inclusion in the Annual Report and Accounts.

## **Investment Consultant**

The Investment Consultant's main responsibilities include:

Assisting the Trustee Directors in the preparation and annual review of this Statement in consultation with the Principal Employer.

Providing the Trustee Directors with quarterly reports including commentary on any changes to funds' investment approach and a review of the investment performance.

Undertaking project work including reviews of investment strategy, investment performance and manager structure as required by the Trustee Directors.

Advising the Trustee Directors on the selection and review of performance of the Section's investment managers.

Providing training or education on any investment related matter as and when the Trustee Directors see fit.

## **Investment Managers**

All day-to-day investment management decisions have been delegated to the Investment Managers authorised under the Financial Services & Markets Act 2000.

The investment managers' main responsibilities include:

Ensuring that investment of the Section's assets is in compliance with prevailing legislation and within the constraints detailed in this Statement.

Investing in the funds selected by the Trustee Directors.

Attending meetings with the Trustee Directors as and when required.

Informing the Trustee Directors of any changes in the internal performance objective and guidelines of any pooled fund used by the Section as and when they occur.

Exercising voting rights on share holdings (if applicable) in accordance with their general policy.

Following its general policy on responsible investment.

**Custodian**

The custody arrangements are those operated by the investment managers for all clients investing in their funds. The custodians are responsible for ensuring the security of the Funds' underlying assets and recording sales and purchases of the Funds' underlying assets.

**Administration**

Following the bulk transfer of DC assets, the administrator's investment related responsibilities are focussed on the DB Section and include disinvesting assets as needed to pay benefits and maintaining the pensioner payroll.





## Appendix 2 – Service Providers

The Trustee Directors have appointed the following service providers:

### **Investment Consultant**

The investment consultant is Hymans Robertson LLP.

### **Investment Managers**

The investment managers (accessed through a direct Investment Management Agreement) are:

Legal & General Investment Management Limited ("LGIM")

### **Custodians**

The Funds' custodians are appointed by the investment manager(s).

### **Administration**

The Scheme is currently administered by the in-house pensions team at C&J Clark Limited, with administration expected to be taken on by Hymans Robertson LLP from November 2019.

## Appendix 3 – Fees and Charges

### Investment Consultant

The Scheme's Investment Consultant is predominately paid either on the basis of pre-agreed fees or in line with the advisers' standard charge-out rates. Where more significant or project-based work is required, the expectation is that a fee would be agreed in advance of commencement. The Trustee Directors believe that this approach ensures that all advice is independent, proportionate and continues to deliver value for money.

### Investment Management

The investment manager applies the following charges for the funds managed within the DB Section:

LGIM Funds	Annual management charge (% per annum)
AAA-AA-A Corporate Bond Over 15 Year Index Fund	0.15% for first £5m 0.125% for next £5m 0.10% for next £20m 0.08% for balance over £30m
LDI (single stock gilt and single stock index-linked gilt funds)	0.10% for first £5m 0.075% for next £5m 0.05% for next £20m 0.03% for balance over £30m
LDI (leveraged gilt, leveraged index-linked gilt and swap funds)	0.24% for first £25m 0.17% for balance over £25m
Sterling Liquidity Fund	0.10% for first £5m 0.075% for next £5m 0.05% for next £20m 0.03% for balance over £30m

Source: LGIM