Statement of Investment Principles

This is the Statement of Investment Principles (the "Statement") made by the Trustee of the Citrus Pension Plan ("the Plan") in accordance with the Pensions Act 1995 (as amended). The Statement, which was approved by the Trustee on 18 June 2020, is subject to periodic review at least every three years and without delay after any significant change in investment policy.

In preparing this Statement, the Trustee has consulted with the participating employers in the Plan and has taken and considered written advice from the Investment Practice of Hymans Robertson LLP.

The Trustee is supportive of the UK Stewardship Code which seeks to improve the quality of engagement between institutional investors and investee companies. Where appropriate, the Trustee expects investment managers to comply with the code and to produce a statement of their commitment to the code.

Plan objective

The primary objective of the Plan is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. The Trustee's over-riding funding principles for the Plan are to set the employer contribution at a level which is sufficient:

- to build up assets to provide for new benefits of active members as they are earned;
- to recover any shortfall in assets relative to the value placed on accrued liabilities over the longer term; and
- to ensure that there are always sufficient assets of the Plan (at their realisable value) to meet 100% of benefits as they fall due for payment to members.

The value of liabilities is calculated on the basis agreed by the Trustee and the Scheme Actuary; the Trustee also considers the Plan's funding positions on a more stringent minimum risk basis. The funding positions are monitored regularly by the Trustee and formally reviewed at each triennial actuarial valuation, or more frequently as required by the Pensions Act 2004.

There are multiple employer sections within the Plan, which operates on a sectionalised basis. All participating employer sections have their own Statements of Funding Principles which set out how the Trustee and the respective employer aim to fund each section of the Plan.

Investment strategy

Each employer section within the Plan each has its own objective.

The Trustee has translated each section's objectives into a suitable strategic asset allocation benchmark allocating assets between a return-seeking portfolio which invests in a diversified range of assets and a liability matching portfolio which invests in leveraged gilts and index-linked gilts.

The Trustee has implemented an Integrated Risk Management framework which can be applied consistently across the various sections, but which is also flexible and sophisticated enough to accommodate a range of different circumstances and employer preferences. This will help keep the Plan efficient and cost effective for members and employers.

The Trustee considers the development of liabilities in conjunction with the assets of each of the employer sections of the Plan on at least a triennial basis in order to confirm the appropriateness of the chosen strategic asset allocation benchmark. The Trustee has the power to change the allocation of the sections between the return-seeking and liability matching portfolios, to change the asset allocation of the return-seeking portfolio and introduce new liability matching funds as required. In the event of a likely wind-up of a particular employer section, the Trustee will review the investment strategy for that specific section and make appropriate decisions.

All day to day investment decisions are delegated to a number of authorised investment managers. The objectives for the return-seeking and liability matching portfolios have been translated into different benchmarks for the individual managers and/or a different allocation of assets across the different managers, consistent with the overall objective of each portfolio. Each employer section's strategic asset allocation is consistent with the Trustee's view on finding an appropriate balance between seeking an enhanced long-term return on investments and accepting greater short-term volatility and risk.

The strategic asset allocation adopted for each employer section takes due account of the maturity profile of each section within the Plan (in terms of the relative proportions of liabilities in respect of pensioners, deferred members and active members within each section), together with the level of disclosed surplus or deficit (relative to the funding basis used). The Trustee monitors strategies relative to the agreed asset allocation benchmarks. It is intended that the investment strategy for each employer section will be reviewed on a high level basis annually with a full review at least every three years following actuarial valuations of the Plan.

The Trustee monitors the performance of Plan investments relative to agreed criteria on a regular basis.

Choosing investments

The Trustee has appointed several investment managers to manage Plan investments. All investment managers are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Trustee has appointed each of its investment managers to deliver a specific performance benchmark, which overall will align to deliver the broader investment strategy for each section of the Plan. The Trustee ensures that all manager engagements have clearly defined benchmarks, objectives and management parameters.

Investment is made on a pooled basis, which the Trustee believes is appropriate given the size and nature of the Plan. The objectives of the fund and the policies of the investment manager will be evaluated by the Trustee to ensure that they are appropriate for the needs of the Plan. The Trustee is satisfied that the pooled funds selected are consistent with the objectives of the Plan, particularly in relation to diversification, risk, expected return and liquidity.

Remuneration for each mandate is determined at the inception of each mandate based on commercial considerations and typically set as a proportion of assets under management. Where appropriate to the nature of the mandate, the term of the mandate and the role the mandate plays within the investment strategy, the Trustee may agree to a fee structure where the manager is incentivised to deliver outperformance relative to an agreed benchmark, typically in conjunction with a lower ad valorem fee. The Trustee periodically reviews the fees paid to all of its managers against industry standards.

The Trustee reviews the nature of Plan investments on a regular basis, with particular reference to suitability and diversification. The Trustee seeks and considers written advice from a suitably qualified person when determining the appropriateness of each manager and mandate for the Plan, particularly in relation to diversification, risk, expected return and liquidity. If, at any time, investment in a security or product not previously known to the Trustee is proposed, appropriate advice is sought and considered to ensure its suitability. The Trustee recognises the long term nature of its liability profile and appoints its managers to invest in such a way that generates long term sustainable returns. The Trustee will carry out necessary due diligence on the underlying investment decision making process, to ensure the manager makes investment decisions over an appropriate time horizon aligned with the Plan objective.

The duration of each mandate is determined by the Trustee at the inception of each mandate. For open-ended investments, the Trustee generally engages managers on an ongoing basis with no pre-determined term of appointment. For such mandates, the Trustee expects the minimum duration of the appointment will be three years, this being the period over which performance of the mandate can be appropriately evaluated although all mandates are subject to ongoing review against various financial and non-financial metrics in addition to their continued appropriateness within the investment strategy. For close-ended investments, the Trustee expects the term of the appointment to be the lifetime of the investment.

The Trustee reviews the performance of each of its managers and mandates on a regular basis against a series of metrics, including financial performance against the performance benchmark and objectives of the mandate, the exercise of stewardship responsibilities (including engagement with issuers) as set out in greater detail below, and the management of risks.

The Trustee monitors its managers performance against their respective performance benchmarks on a quarterly basis over a long term time horizon of 3 years. The Trustee will measure a fund's relative tracking error where appropriate. Managers are expected to provide explanation for any significant deviations away from benchmarks.

A summary of the Plan's investment mandates and the respective benchmarks is included in the appendix.

Kinds of investment to be held

The Plan may invest in quoted and unquoted securities of UK and overseas markets including equities, fixed interest and index linked bonds, cash and property.

The Plan also makes use of alternative asset classes including asset backed securities, infrastructure, private debt and insurance-linked securities which help to offer diversification to the Plan's portfolio and reduce overall risk for the Plan.

The Plan may also make use of contracts of insurance, derivatives and contracts for difference (or in pooled funds investing in these products) for the purpose of efficient portfolio management or to hedge specific risks. The Trustee considers all of these classes of investment to be suitable in the circumstances of the Plan.

Balance between different kinds of investments

The Plan's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks or return targets. Within each major market each manager will maintain a diversified portfolio of securities.

The manager of the passive funds in which the Plan invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

Risk

The Plan is exposed to a number of risks which pose a threat to the underlying sections of the Plan when meeting their objectives. The principal risks affecting the Plan are:

Funding risks

- Financial mismatch –

  1) The risk that the Plan's assets fail to grow in line with the developing cost of meeting Plan liabilities.

  2) The risk that unexpected inflation increases the pension and benefit payments and the Plan's 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 Plan 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 Plan's liabilities. Climate change is a particular systemic risk that has the potential to cause economic, financial and demographic impacts.

The Trustee measures and manages financial mismatch in two ways. As indicated above, the Trustee has set a strategic asset allocation benchmark for each employer section of the Plan. The Trustee assesses risk relative to that benchmark by monitoring each section's asset allocation and investment returns relative to the benchmark. The Trustee also assesses risk relative to liabilities by monitoring the delivery of returns for each section relative to liabilities.

The Trustee 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 seeks to mitigate systemic risks through a diversified portfolio but it is not possible to make specific provision for all possible 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 Plan cannot meet its immediate liabilities because it has insufficient liquid assets.

- Currency risk – The risk that the currency of the Plan's assets underperforms relative to Sterling (i.e. the currency of the liabilities).

- 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 manages asset risks as follows. The Trustee provides a practical constraint on Plan investments deviating greatly from the intended approach by investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within expected parameters.

By investing across a range of assets, the Trustee recognises the need to access funds in the short term to pay benefits. In appointing several investment managers, the Trustee has considered the risk of underperformance by any single investment manager.

The Trustee does not expect managers to take excess short term risk and will regularly monitor the managers' performance against the benchmarks and objectives set on a short, medium and long terms basis.

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.
- Custody risk - The risk of loss of Plan assets when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

The Trustee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Plan, 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). When carrying out significant transitions, the Trustee seeks professional advice.

Expected return on investments

The investment strategy aims to achieve a return on Plan assets, which taken in conjunction with contributions, is sufficient over time to match growth in the Plan's pension liabilities.

Realisation of investments

The majority of the Plan's investments may be realised quickly if required and are held within pooled funds. Some sections within the Plan invest a portion of the return-seeking portfolio in less liquid assets as part of their overall portfolio which helps to increase expected return, provide diversification and reduce financial risk.

Portfolio turnover

The Trustee has expectations of the level of turnover within each mandate which is determined at the inception of the mandate, based on the Trustee's knowledge of the manager, investment process and the nature of the portfolio. Whilst the Trustee expects performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustee expects managers to report on at least an annual basis on the underlying assets held within the portfolio and details of any transactions over the period. The Trustee will challenge its managers if there is a sudden change in portfolio turnover or if the level of turnover seems excessive.

The Trustee will request turnover costs incurred by the asset manager over the Plan reporting year.

Consideration of financially material factors in investment arrangements

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

The strategic benchmark has been determined using appropriate 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.

The Trustee has not made an explicit allowance for the risks of climate change in setting the strategic benchmark. However, as the Plan's assets are managed and advised by third parties, the Trustee expects its managers to integrate climate risk and opportunities in their investment strategies. The Trustee also expects the managers to make progress towards understanding and taking action on climate risks in the Plan's chosen portfolios and provide evidence of this through specific examples in manager review meetings and annual reports. The Trustee requires greater level of ESG information from managers as standard e.g. reporting on carbon exposures.

Within passive mandates, the Trustee recognises that the choice of benchmark dictates the assets held by the investment manager and that the manager has minimal freedom to take account of factors that may be deemed to be financially material. The Trustee accepts that the role of the passive manager is to deliver returns in line with the benchmark.

In selecting new investment managers for the Plan, where relevant to the investment mandate, the Trustee explicitly considers 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. Minimum manager standards for responsible investment are expected (e.g. being a signatory to the Principles for Responsible Investment unless there is good justification for the manager adopting a different approach). Managers demonstrating weaker practices will not be considered for appointment.

The Trustee expects its investment consultants to provide input and analysis to assist the Trustee in assessing their managers' performance. Where necessary, the Trustee will highlight any areas of concern identified during such reviews to the manager as part of its engagement process and request that the manager takes appropriate action. This may include concerns over performance, risk management, stewardship practices, investment process and operational issues and, where such concerns are raised, the Trustee will require the manager to demonstrate levels of improvement. Failure to achieve the desired improvements will result in the mandate being reduced or terminated.

Consideration of non-financially material factors in investment arrangements

Given the objectives of the Plan, the Trustee has not considered any non-financially material factors in the development and implementation of the investment strategy.

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

Stewardship

The Trustee recognises 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

The Trustee has adopted a policy of delegating voting decisions on stocks to their Investment Managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. The Investment Managers are expected to exercise the voting rights attached to individual investments in accordance with their own house policy. The Trustee receives regular reporting on voting and engagement and uses this to actively challenge managers.

The Trustee does not engage directly but believes it is appropriate for its investment managers to engage with key stakeholders which may including corporate management, regulators and governance bodies, relating to their investments in order to consider the management of conflicts of interest and improve corporate behaviours, improve performance and mitigate financial risks. The Trustee will review engagement activity undertaken by their investment managers as part of its broader monitoring activity.

The Trustee separately considers any conflicts of interest arising in the management of the Plan and its investments and has ensured that each manager has an appropriate conflicts of interest policy in place.

Additional Voluntary Contributions (AVCs)

The Trustee gives members the opportunity to invest in a range of vehicles at the members' discretion.

Signed For and on Behalf of Citrus Pension Plan Trustee Limited in its capacity as Trustee of the Citrus Pension Plan

Trustee Director	Trustee Director
Date	Date

Appendix – Manager Arrangements

Manager benchmarks and performance targets

Manager / Mandate	Benchmark Description	Performance Target
LGIM - Synthetic Equity	Composite (Currency Hedged)	Match Index
BlackRock – Dynamic Diversified Growth Fund	3 Month LIBOR	3 month LIBOR + 3% p.a.
Invesco - Global Targeted Returns Fund	3 Month LIBOR	3 month LIBOR + 4% p.a.
M&G - Alpha Opportunities Fund	1 Month LIBOR	1 month LIBOR + 3% p.a.
BlackRock - Absolute Return Bond Fund	3 Month LIBOR	3 month LIBOR + 3% p.a.
LGIM - Corporate Bonds Fund	Markit iBoxx GBP Non-Gilts (ex BBB) All Stocks Index	Match Index
Insight - High Grade ABS Fund	1 Month SONIA	Outperform benchmark
Insight - Global ABS Fund	1 Month SONIA	Outperform benchmark
Insight Liquid ABS Fund	1 Month SONIA	Outperform benchmark
Alcentra - European Direct Lending Fund III	-	Net Internal Rate of Return of 8% p.a.
Coriolis - Catpricorn IV Fund	3 Month LIBOR (US)	3 Month LIBOR (US) + 4% p.a.
JP Morgan Infrastructure	-	Net Internal Rate of Return of 8-12% p.a.
LGIM - Gilts Fund	FTSE A UK Gilts All Stocks Index	Match Index
LGIM - Index-Linked Gilt Fund	FTSE A Index-Linked All Stocks Index	Match Index
LGIM - LDI	Composite	Composite
LGIM - Sterling Liquidity Fund	7 Day LIBID	Outperform benchmark