Statement of Investment Principles

Introduction

This Statement of Investment Principles (SIP) has been prepared by the Directors of the Plumbing & Mechanical Services (UK) Industry Pension Scheme (“the Scheme”) to comply with the requirements of the Pensions Act 1995, as amended, and the Occupational Pension Schemes (Investment) Regulations 2005.

Effective Date

This SIP is effective from September 2017.

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1. Strategy

Investment objectives

The Directors' strategic objectives are:

- To target, over the long term, a return on the investments which is greater than the rate assumed by the Scheme Actuary.
- To invest the assets of the Scheme prudently to ensure that the benefits promised to members are provided.

In seeking to achieve the first objective above, the Directors are looking to reduce the chance that contributions will have to be increased.

Allocation of Assets

The Directors have split the assets of the Scheme into two portfolios.

The **Return Seeking Portfolio** is a portfolio compromising growth assets. The portfolio is invested primarily in equities, as well as an allocation to commercial property and infrastructure.

The **Matching Portfolio** is designed to invest in assets where the return of the assets is in a similar direction or magnitude to the Scheme's liabilities. The Matching portfolio currently comprises of:

- A bulk annuity ("buy-in") policy between the Scheme and Legal & General Assurance Society Limited ("LGAS"). As such, the assets are invested in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the Scheme. Under the terms of the buy-in policy, the insurer will pay the Scheme the retirement benefits due to all pensioner members and their dependents, included in the terms of the policy at the time the policy was purchased. The Scheme may then use this income to pay the retired members their benefits.
- Index-linked gilts held in a pooled fund. It is expected that index-linked gilts will form part of the Scheme's long term investment strategy, aiming to provide long term inflation protection for the Scheme.

The table on the following page shows the target weighting in the Return Seeking Portfolio. The Matching Portfolio has no target weighting given its aim is to provide matching for a proportion of the Scheme's liabilities.

Return Seeking Portfolio

Asset Class	Target weighting (%)
Equities	77.0
Property	15.0
Infrastructure	8.0
Total	**100.0**

Matching Portfolio

This currently comprises of index-linked gilts and a bulk annuity policy, which provides the Scheme a payment that matches the Scheme's entire pensioner population (at the time the policy was purchased), subject to the benefit specification documentation agreed with LGAS.

Risks

The Scheme is exposed to a number of different investment risks. These include risks relating to:

- Funding – insufficient assets to cover 100% of the accrued liabilities
- Mismatching – a difference in the sensitivity of asset and liability values to financial and demographic factors
- Cash flows – a shortfall of liquid assets to pay benefits
- Investment managers – a failure to meet target returns
- Diversification – inadequate spread of investments
- Covenant – the Scheme is a multi-employer scheme with over 400 participating employers, and so is exposed (to varying degrees) to the covenant of each employer
- Operational risk – fraud, poor advice or negligence
- Insurer insolvency – risk that the insurer, LGAS, becomes insolvent or is unable to honour its obligation to the Scheme.

The Directors reduce these risks by careful structuring of its funding and investment management arrangements and by contracts with the fund managers. The Directors' policy is to monitor, where possible, the majority of these risks quarterly. The Directors receive quarterly reports showing information on funding, cashflows and investment managers (including performance at the manager and Scheme level).

The Directors received appropriate advice associated with this risk at the time of the purchase of the buy-in policy, including training on the topic and the risk of insurer insolvency.

Mismatching is reviewed as part of the triennial actuarial valuation process and is being considered by the Scheme Actuary and Investment Adviser as part of the 5 April 2017 Actuarial Valuation.

Operational risk is reduced as far as possible by due diligence on the appointment and review of managers and advisers, and by contracts of engagement.

2. Implementation

Return Seeking Portfolio

This Portfolio comprises growth assets designed to provide a return above the Scheme's liabilities over the long term. The Return Seeking Portfolio has most of its assets in equities and within equities there are three distinct styles of management (active, passive [based on a market capitalisation index approach] and alternative passive indexation).

The Scheme has employed Schroder Investment Management, Baillie Gifford & Co and Veritas Asset Management to manage active global equity mandates and BlackRock Investment Management (UK) to manage an active UK equity mandate.

Legal & General Assurance (Pensions Management) manages the remainder of the equities on passive bases as follows:

- a selection of funds aiming to provide the returns from market capitalisation weighted indices in a number of regional equity markets (North America, Europe ex UK, Japan, Asia Pacific ex Japan and World Emerging Markets); and
- two funds using alternative passive indexation strategies, more specifically:
  - a global minimum volatility fund; and
  - a fund aiming to provide the return from an index of global equities weighted using a range of measurers of each company's size.

In addition to equities, there is :

- an infrastructure allocation managed by Macquarie Infrastructure and Real Assets (Europe); and
- commercial property, with DTZ Investment Management appointed to establish and manage a portfolio of directly invested and, where appropriate indirect, property assets.

Matching Portfolio

In addition to the Return Seeking Portfolio, the Scheme has set up a Matching Portfolio currently comprising of index-linked gilts and a bulk annuity policy.

The index-linked gilts are held in a pooled fund managed by Legal & General Assurance (Pensions Management) whilst the bulk annuity policy is held with LGAS.

Choosing investments

In general individual investment managers have discretion in the timing of the purchase and sale of investments and in considerations relating to the liquidity of those investments. Additional realisations may be required to ensure that the Scheme's benefit outgo and other expenditure can be made.

Investment managers will use the criteria set out in the Occupational Pension Schemes (Investment) Regulations 2005, when selecting investments on behalf of the Scheme.

3. General

Direct investments

Assets directly held by the Directors, e.g. policies of assurance, will be regularly reviewed to ensure that they continue to be appropriate, and written advice will be obtained from the Investment Adviser. This includes the investment vehicles provided for Additional Voluntary Contributions (AVCs).

The Directors will use the factors set out in the Occupational Pension Schemes (Investment) Regulations 2005 when selecting direct investments.

Socially Responsible Investment and Corporate Governance

When choosing investments, the Directors and the fund managers (to the extent delegated) are required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 (regulation 4). The managers' duties also include:

- Taking into account social, environmental or ethical considerations in the selection, retention and realisation of investments.
- Voting and exercising governance in relation to the Scheme's assets. The fund managers will provide the Directors with quarterly statements of corporate governance including details of voting activity.

Governance

The Directors are responsible for the investment of the Scheme's assets. The Directors take some decisions themselves and delegate others. When deciding which decisions to take themselves and which to delegate, the Directors have taken into account whether they have the appropriate training and expert advice in order to take an informed decision.

The Directors have delegated all day-to-day decisions about the investments that fall within each mandate to the relevant fund manager through a written contract. The exceptions to this are the policy for passive pooled investments with Legal & General Assurance (Pensions Management) and the Macquarie infrastructure fund which are classified as direct investments, but where investment managers select the individual assets.

Custody & Accounting

The Directors have appointed JP Morgan as the Scheme's custodian and independent performance measurer. The custodian provides safekeeping for all the Scheme's assets except directly held commercial property and the buy-in policy. It performs the administrative duties attached, such as the collection of interest and dividends and dealing with corporate actions. Title to UK commercial property is by means of the electronic register at the Land Registry, and other documents relating to property will be held by the Scheme's legal advisers. The custodial duties for pooled investments, such as the Scheme's policy with Legal & General Assurance (Pensions Management) are performed by a separate entity independent to the Scheme's custodian JP Morgan.

The Scheme's custodian also operates a stock lending programme on behalf of the Scheme and receives a proportion of the stock lending revenue generated.

Investment Adviser

Aon Hewitt Limited has been appointed as Investment Adviser. It has the knowledge and experience required under the Pensions Act 1995. Aon Hewitt is paid an agreed annual fee (linked to the value of the Scheme's assets) which includes all services needed on a regular basis. Aon Hewitt is paid on a variable fee basis for all the work they undertake for the Scheme outside of the annual fee, although fixed fees may be negotiated by the Directors for certain projects.

Review of SIP

The Directors will monitor compliance with this SIP on a regular basis. The fund managers will notify the Directors promptly of any breach of their investment management responsibilities as set out in their Investment Management Agreement and in this SIP.

This SIP will be reviewed at least every three years or immediately following a change of investment policy. The Directors will take investment advice and consult with sponsoring companies over any changes to the SIP.