KeyMed Pensions & Assurance Scheme

Statement of Investment Principles – September 2020

1. **Introduction**

This Statement of Investment Principles (the “Statement”) has been prepared by the Trustees of the KeyMed Pension & Assurance Scheme (“the Scheme”). It sets out the principles that govern the Trustees’ decisions about the investment of the Scheme’s assets. The Trustees will refer to this Statement when making investment decisions, to ensure that they are consistent with these principles.

This Statement is designed to meet the requirements of the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005.

The Scheme’s investment arrangements, based on the principles set out in this Statement, are detailed in the Investment Policy Implementation Document (“IPID”) which is available to Scheme members on request.

In preparing this Statement, the Trustees have obtained written advice from the Scheme’s Investment Consultant. Where matters described in this Statement may affect the Scheme’s funding policy, input has also been obtained from the Scheme Actuary. The Trustees will obtain similar advice whenever the Statement is reviewed.

The Trustees’ investment powers are set out within the Scheme’s governing documentation and relevant legislation. If necessary, the Trustees will take legal advice regarding the interpretation of these. The Trustees note that, according to the law, the Trustees have ultimate power and responsibility for the Scheme’s investment arrangements.

The Trustees, in preparing this Statement, have also consulted KeyMed (Medical & Industrial Equipment) Limited (“the Company”), as Sponsor of the Scheme. The Trustees seek to maintain a good working relationship with the Company, and will discuss any proposed changes to this Statement with the Company. However, the Trustees’ fiduciary obligations to Scheme members will take precedence over the Company’s wishes, should these ever conflict.

The Trustees believe that our investment policies and their implementation are in keeping with best practice, including the Principles for Investment Governance as published by the Regulator’s Investment Governance Group.

The Trustees do not expect to revise this Statement frequently because it covers broad principles. More detailed information on the investment arrangements is set out in the IPID. We will review the Statement at least once every three years, and without delay if there are relevant, material changes to the Scheme and/or the Company. These include changes in the Scheme’s liabilities and finances and in the attitude to risk of the Trustees or the Company.

The Scheme has both a defined benefit ("DB") and a defined contribution ("DC") section. Sections 2 of this Statement address the DB element. Section 4 addresses the DC element. Sections 4 onwards are relevant to both the DB and DC sections.

DEFINED BENEFIT SECTION

2. Overall Policy

The strategic management of the assets is fundamentally the responsibility of the Trustees and is driven by their investment objectives as set out below. Day-to-day management of the assets is delegated to a professional annuity provider and an investment manager. This assignment of responsibilities is consistent with advice from Mercer Limited ("Mercer".)

2.1 Investment Objectives

The Trustees' primary investment objective is to invest the Scheme's assets in such a manner that members' benefit entitlements can be paid as and when they fall due, and in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries.

To this end, the Trustees have set a longer term objective to buy out all of the Scheme's liabilities. As an interim step, an annuity policy for the remaining members has been purchased in the form of a buy-in with an annuity provider (i.e. an insurance company). The insurance company selected is Aviva Life & Pensions UK Limited ("Aviva").

The Trustees also seek to preserve the capital of the residual assets held by the Scheme, whilst producing an appropriate level of return, via low-risk investments in UK government bonds and a cash fund.

The majority of the residual assets are held in cash with a small holding in gilt funds to broadly replicate the liability profile and act as an interim source of assets to meet additional transfer value payments out of the Scheme not covered by Aviva. For the avoidance of doubt, there is no rebalancing between the funds held.

Asset Type	**Actual Allocation (%)**
UK index-linked gilts	4.1
UK fixed interest gilts	5.6
Sterling Liquidity Fund	90.3
Total	**100.0**

Assets shown as at 22/09/2020. Figures provided by LGIM and may not sum due to rounding.

2.2 Risk Management and Measurement

The annuity policy held by the Scheme provides a match for the key investment and non-investment risks for the members of the Scheme (i.e. interest rate, inflation and longevity risks). Whilst the key investment and non-investment risks are removed by the annuity policy, the Trustees are exposed to the counterparty risk of the insurance company (i.e. risk of default), albeit with regulatory protections in the form of supervision and intervention by the Prudential Regulatory Authority. The Trustees have considered and are adequately comfortable with the financial strength of the selected insurance company. The Trustees are also aware that annuity policies typically have no surrender value, and therefore, will become an illiquid asset of the Scheme (i.e. the asset cannot be sold or exchanged for cash without a potentially substantial loss in value).

As the primary risks of the Scheme have been removed by the annuity policy, the Trustees have chosen to adopt a policy of taking a very low level of investment risk with the residual assets of the Scheme. These assets are invested in UK government bonds and a cash fund. Whilst all investments are considered low-risk, the holdings in government bonds are still subject to interest rate risk and credit risk, whilst the cash fund is exposed to credit and liquidity risk. The Trustees are aware of this and are comfortable with the level of risk employed by the Scheme.

It is expected that the annuity policy will provide sufficient cash flow to meet the obligations of the remaining members and the residual assets will produce a small positive return over time

2.3 Investment Management

The majority of the assets of the Scheme are held as an annuity policy with Aviva, which provides cash flows to meet the obligations of the remaining members. The remaining assets are held with Legal and General Investment Management (“LGIM”).

The Trustees have taken steps to satisfy themselves that LGIM has the appropriate knowledge and experience for managing the Scheme’s residual investments and that they are carrying out their work competently. The Trustees will periodically assess the continuing suitability of LGIM. The Investment Consultant provides help in monitoring the investment manager.

As the Trustees invest in pooled investment vehicles they accept that they have no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy.

The Trustees receive investment manager performance reports on a bi-annual basis, which present performance information over 6 months, 1 year, 3 years and since inception. The Trustees review the absolute performance, relative performance against a suitable index used as the benchmark.

Since the Scheme is fully insured and intends to remain so it doesn't have an explicit policy on agreement duration (whilst the Trustees are long term investors it is envisaged that the residual assets will be liquidated and the proceeds returned to the company once a buy-out has been agreed). Nor does it have a policy on portfolio turnover costs.

2.4 Socially Responsible Investment and Corporate Governance

The Trustees believe that Environmental, Social and Corporate Governance ("ESG") factors may have a material financial impact on investment risk and return outcomes. However, it is acknowledged that the nature of the Scheme's investments mean ESG factors are unlikely to be material.

Similarly, the Trustees recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration by pension sSchemes. However, again the Trustees note that these risks are somewhat limited, given the nature of the Scheme's investments.

The annuity provider is empowered to manage ESG risk, assess ESG factors as a potential source of risk and return (where appropriate), and exercise stewardship obligations attached to the Trustee's investments in accordance with current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

Member views in respect of non-financial matters are not taken into account in the selection, retention and realisation of investments, but members can make their views known to the Trustees.

DEFINED CONTRIBUTION SECTION

3. Overall Policy

3.1 Investment Objectives

The Trustees recognise that members have differing investment needs and that these may change during the course of members' working lives. The Trustees also recognise that members have different attitudes to risk. The Trustees believe that members should make their own investment decisions based on their individual circumstances. The Trustees regard their duty as making available a range of investment options sufficient to enable members to have more choices to assist in their own investment strategy.

The Trustees also recognise that members may not believe themselves qualified or confident to make investment decisions. As such the Trustees make available a default option. The default option places the emphasis on aiming to deliver a positive level of real return over members' working lifetimes (whilst mitigating risk through diversification) and also encompasses a switch into asset classes designed to protect the member from a sudden fall in the retirement benefit purchasing power of their pension savings, in the years approaching the member's selected target retirement age.

These objectives translate to the following principles:

i. Offering members a pre-defined 'Lifestyle' approach to better cater for members changing needs and risk tolerances over the course of their retirement saving journey and ensuring that the investment strategy options allow members to plan for retirement;

ii. Making available a range of pooled investment funds which serve to allow some flexibility to meet the varying investment approaches and risk tolerances of members;

iii. Adopting a framework which provides flexibility to change investment managers proactively and which allows efficient fund switching (e.g. without out-of-market risk) as required;

iv. Encouraging members to seek impartial financial advice from an appropriate party in determining the most suitable option for their individual circumstances;

v. In determining an appropriate balance between providing flexibility and choice, as well as simplicity and cost control, the Trustees aim to make available a range of options which satisfy the needs of the majority of members.

The Trustees regularly review the suitability of the investment choices provided, in conjunction with the Scheme's investment advisors, and from time to time will change or introduce additional investment funds as appropriate.

3.2 Investment Risks

In arriving at this objective the Trustees have considered the following risks:

i. That inadequate investment returns lead to a low level of pension

ii. That relative market movements, particularly in the years close to retirement, lead to a reduction in members' anticipated pension and cash lump sum

iii. That active investment managers might underperform expectations

iv. The risk that investment in overseas markets will be affected by changes in exchange rates leading to lower returns in pound sterling terms (e.g. due to appreciation of pound sterling relative to overseas currencies)

The Trustees undertake to review the Scheme's fund choices offered to members and the investment manager arrangements on a regular basis.

3.3 Default option

The vast majority of members do not make an active investment decision and are invested in the default option. However, a proportion of members may have actively chosen the default option because they feel it is most appropriate for them.

The default option aims to generate investment returns, in a risk-controlled manner, which are sufficient to provide a reasonable level of retirement benefits for members, given the level of contributions paid over their lifetime in the Scheme. The default options investment strategy allocation is outlined in section 4.5.

The objectives of the default option, and the ways in which the Trustees seek to achieve these objectives, are detailed below:

i. To generate returns in excess of inflation during the growth phase of the strategy whilst managing downside risk.

   The default option's growth phase (Moderate Growth Fund) invests in equities and other growth-seeking assets. These investments are expected to provide above inflationary return, in line with equities, over the long term with some downside protection and some protection against inflation erosion. The downside risk from an equity market downturn is mitigated through diversification away from equities.

ii. To provide a strategy that reduces investment risk for members as they approach retirement. The Trustees' full policy with regards to risk is detailed in Section 4.2 of this Statement.

   As a member's pot grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustees believe that a strategy that seeks to reduce investment risk as the member approaches retirement is appropriate. Moreover, as members approach retirement, the Trustees believe the primary aim should be to provide protection against a mismatch between asset values and the expected costs of retirement benefits.

   In view of the above, the Trustees consider the level of risk within the default option in the context of limiting investment volatility but retaining an above inflation growth target to support members' purchasing power, subject to the performance of the investments which could be above or below, due to market conditions.

   These risks are managed via automated lifestyle switches over the five-year period to a member's selected retirement date.

The Trustees' policies in relation to the default option are detailed below (these have been developed from the appropriate advice given by the Scheme's investment advisors):

i. The default option manages investment risks through a diversified strategic asset allocation consisting of traditional and alternative assets. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. In designing the default option, the Trustees have explicitly considered the trade-off between risk and expected returns.

ii. Assets in the default option are invested in the best interests of members and beneficiaries, taking into account the profile of members. In particular, the Trustees considered high level profiling analysis of the Scheme's membership in order to inform decisions regarding the default option. Based on this understanding of the membership, a default option that does not target a specific benefit choice is considered appropriate.

iii. Members are supported by clear communications regarding the aims of the default option and the access to alternative investment approaches. If members wish to, they can opt to choose their own investment strategy on joining but also at any other future date.

iv. Assets in the default option are invested in a long-term insurance contract. The assets underlying the insurance contract is invested in daily traded pooled funds which hold highly liquid assets. The pooled funds are commingled investment vehicles which are managed by various underlying fund managers. The selection, retention and realisation of assets within the pooled funds are delegated to the respective underlying fund managers in line with the mandates of the funds. Likewise, the underlying fund managers have full discretion (within the constraints of their mandates) on the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments. The Trustees' full policies on social, environmental or ethical considerations are detailed in Section 8 of the SIP.

v. The default option utilises the Moderate Growth and the Defensive Funds from the fund range, according to a pre-defined allocation based on the time to a member's target retirement age. The matrix is provided in the IPID.

Taking into account the demographics of the Scheme's membership and the Trustees' views of how the membership is likely to behave at retirement, the Trustees believe that the current default option is appropriate and will continue to review this over time, at least triennially, or after significant changes to the Scheme's demographic, if sooner.

3.4 Day to Day Management of the Scheme's Assets

The Trustees have contracted with Zurich Assurance Limited ("Zurich") to deliver investment management services through their investment platform. The Scheme's investment platform is provided under contract with Zurich and Mercer Workplace Savings, both of whom are regulated by the Financial Conduct Authority (the "FCA").

The Trustee has selected Mercer Global Investments on the Zurich platform to provide funds for the members' contributions to be invested in. The manager may be changed at the Trustees' discretion.

3.5 Investment Funds

The Trustees believe that the investment strategy outlined in this section is appropriate for meeting the investment objectives outlined above. In particular, for members who do not wish to take an active role in the investment decisions, the Trustee offers a default fund with lifestyling to members designed to help them manage all the investment objectives.

To cater for the different risk appetites of members, the Trustees offer the following four Risk-Rated Funds

- High Growth Fund (35% DGF, 50% Equity, 15% Emerging Market Equity)
- Growth Fund (50% DGF, 50% Equity)
- Moderate Growth Fund – Default Fund (50% DGF, 30% Equity, 20% Bonds)
- Defensive Fund (30% DGF, 45% Bonds, 25% Cash)

Note: DGF stands for 'Diversified Growth Fund'

In addition to these funds, the Trustees have adopted three "Lifestyling" options. These involve investing in either the High Growth Fund, the Growth Fund or the Moderate Growth Fund (also the Default option) until 5 years to retirement (this is known as the "Growth Phase"), aiming to maximise their benefits in the earlier years. At 5 years to retirement, assets are progressively switched out of the chosen "Growth Phase" fund and into the defensive Fund so that at the Target Retirement Age, the member is 100% invested in the Defensive Fund, which has a 75% Bond and 25% Cash split. The aim of the switching process is to protect members' assets against significant volatility in the years leading up to the targeted retirement age.

Finally, there are two funds made available to members due to historic reasons, managed by BlackRock, as follows:

- Aquila 60:40 Global Equity Index Fund
- BlackRock Sterling Liquidity Fund

BOTH SECTIONS

Monitoring the Investment Managers

Whilst the Trustees are not involved in each investment managers' day-to-day method of operating and therefore cannot directly influence attainment of performance targets, they regularly assess performance and review appointments using quantitative and qualitative factors.

The Trustees receive quarterly written reports from Mercer and the investment managers. The Trustees review absolute and relative performance against a suitable benchmark index and against the manager's stated performance target. The Trustees focus is on long-term performance but may review a manager's appointment if:

- There are sustained periods of underperformance;
- There is a change in the portfolio manager;
- There is a change in the underlying objectives of the investment manager;

- There is a significant change to the Investment Consultant’s rating of the manager

The investment managers set performance objectives and risk tolerances for each of the Scheme’s funds. The Trustees consider these investment performance objectives to be appropriate to assess each fund’s performance against. The investment objectives will be treated as a target only and will not be considered as an assurance or guarantee of the performance or risk of the Scheme or any part of it.

The Trustees recognise that the active managers’ performance relative to their benchmarks may be volatile and that they will not always achieve their target. Nonetheless, the managers should demonstrate that the skill exercised in managing the portfolios is consistent with the target given the levels of risks adopted.

The Trustees may meet with the investment managers if they are dissatisfied with their performance or engagement activity, and may choose to terminate the relationship with the manager if they see fit. The investment adviser to the Trustees also provides help in monitoring the investment managers, both in the form of written reports or attendance at meetings as required by the Trustees.

Manager fees are calculated as a percentage of assets under management. As part of the annual Value for Members assessment, the Trustees review the investment manager fees and may request fee discounts if deemed appropriate.

Investment Manager Selection and Monitoring Criteria

Investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class in which they invest.

The Trustees consider their Investment Consultant’s forward-looking assessment of a manager’s ability to meet their objectives when appointing new investment managers and monitoring existing investment managers. This view will be based on an assessment of the manager’s idea generation, portfolio construction, implementation and business management in relation to the particular investment fund that the Scheme invests in.

The Trustees will consider how Environmental, Social, and Corporate Governance (“ESG”) and stewardship are integrated into the investment process as well as ensuring fees are competitive within the asset class. The Trustees consider the Investment Consultant’s manager research ratings when taking decisions on selection and retention of manager appointments.

If the investment objective for a particular manager’s fund changes, the Trustees will review the fund appointment to ensure it remains appropriate and consistent with the Trustees wider investment objectives.

As the Trustees invests in pooled investment vehicles, they accept that they have no ability to specify the risk profile and return targets of the manager, but appropriate mandates have been selected to align with the overall investment strategy.

4. Other Investments

The Trustees have, in the past, secured pensions through the purchase of annuities and currently hold annuity policies with a number of different insurance companies.

5. Additional Voluntary Contributions (“AVCs”)

Assets in respect of members’ AVCs are invested in a range of investment options. With the assistance of the Scheme’s consultants, the AVC arrangements will be reviewed periodically to ensure that the investment profile of the funds available remains consistent with the objectives of the Trustees and the needs of the members. More information on the AVC providers is detailed in the IPID.

6. Policy on Socially Responsible Investment & Corporate Governance including Climate Change

The Trustee believes that environmental, social, and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole.

The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustee has given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the Scheme’s investments.

The Trustees wish to encourage best practice in terms of active engagement with entities in which they invest. The Trustees, while giving the investment managers full discretion when undertaking engagement activities, encourage the Scheme’s investment managers to discharge their responsibilities in respect of investee companies in accordance with the principles underlying the UK Corporate Governance Code and the UK Stewardship Code, in respect of all resolutions at annual and extraordinary meetings. The Trustees will review the investment managers’ policies and engagement activities (where applicable) on an annual basis.

7. Role of Investment Consultant

Mercer is employed as Investment Consultants to the Scheme. Mercer provides advice to the Trustees but does not have responsibility for decision making in any area. The role encompasses, but is not limited to, the following areas:

- Assistance in helping the Trustees to formulate investment objectives.
- Advice on investment strategy.
- Advice on devising an appropriate investment manager structure.
- Assistance in selecting, implementing and monitoring of investments managers.

Mercer is also appointed through Mercer Workplace Savings

- Provides advice in selecting the investment platform provider;
- Provides on-going governance monitoring services (i.e. on the investment platform provider);
- Provides investment governance of the investment platform provider's fund range.

7.1 **Investment Consultant Fee**

Mercer's fees are either based on fixed cost for particular projects, or more normally, are on a time cost basis.

8. Portfolio Turnover Costs

The Trustees ask investment managers to include portfolio turnover and turnover costs in their presentations and reports to the Trustees. The Trustees consider portfolio turnover costs as part of the annual Value for Members assessment.

9. Investment Manager Turnover

The Trustees are a long-term investor and are not looking to change investment arrangements on a frequent basis. All the funds are open-ended with no set end date for the arrangement. The self-select fund range and default option are reviewed on at least a triennial basis. A manager's appointment may be terminated if it is no longer considered to be optimal nor have a place in the default strategy or self-select fund range.

10. Compliance with & Review of this Statement

The Trustees will monitor compliance with this Statement on a regular basis. The Trustees will review this Statement in response to any material changes to any aspects of the Scheme, its liabilities, finances and the attitude to risk of the Trustees and the Company which the Trustees judge to have a bearing on the stated investment policy. Any such review will again be based on written expert investment advice and will be in consultation with the Company.

Signed on behalf of the Trustees of the KeyMed Pension and Assurance Scheme.

Signed: John Rowe Date: 29.09.2020

Name: John Rowe – Chairman of the Trustees

Signed: Sally McBrearty Date: 29.09.2020

Name: Sally McBrearty – Member Nominated Trustee