# Chair’s Annual Statement

## SJ Dixon & Son (Holdings) Limited Pension and Life Assurance Scheme (‘the Scheme’)

## Year ended 31 December 2020

### Introduction

As Chair of the Trustees of the Scheme, I am required to provide members with an annual statement which explains the steps the Trustees (with guidance from our professional advisers) have taken to meet the governance standards for Defined Contribution (DC) schemes.

In March 2015, the Department of Work and Pensions (DWP) set out new rules for the governance of Defined Contribution (DC) pension schemes. From 6 April 2015, trustees of DC schemes have had to produce an annual statement, signed by their Chair, setting out a number of prescribed matters. This is the Scheme’s annual statement for 2020.

The Scheme operates under a Trust Deed and Rules dated 1 July 1998 and provides both Defined Contribution (DC) and Final Salary (FS) benefits. This Statement is in respect of the DC section only.

### What do you need to do next?

This report is for noting. You do not need to take any action.

If you have any questions or require any further information you should contact the Scheme Secretary: Mr AJ Cotterill at SJ Dixon & Son Limited at Dixon House, Cleveland Road, Wolverhampton, WV2 1BX.

###  The default investment strategy

A default investment arrangement was set up by the Trustees for members who do not choose their own investment option for their contributions. The Trustees are responsible for investment governance. This includes setting and monitoring the investment strategy for the default arrangement. Approximately 95% of members’ funds are invested in the default investment strategy. The default strategy was last reviewed in December 2020.

The default strategy is a ‘Lifestyle Strategy’ and is explained in the member’s booklet and the Statement of Investment Principles. A lifestyle strategy automatically performs a gradual switch of a member’s investment holdings, from higher risk to lower risk funds, over a set time period prior to their Target Retirement Age. Members in the Scheme’s lifestyle strategy are invested 100% in a multi asset fund when they are more than ten years from retirement. Investments then begin switching to a pre-retirement and cash fund. This strategy targets members taking an annuity at retirement.

A copy of the latest SIP is available on the SJ Dixon and Son Limited website, and is also attached to this Statement: <https://www.sjdixon.co.uk/uploads/9lgiFcgF/SIPSJDpensionscheme1.docx>

The Statement of Investment Principles was last updated in October 2020 to take into account new regulatory requirements about the Trustees’ relationship with their investment managers.

 October 2020

Scheme funds are invested with Newton Investment Management (a subsidiary of BNY Mellon) and Legal & General Investment Management. Performance of those funds is reported to and monitored by the Trustees on a quarterly basis.

The Trustees take advice from their pension and investment consultant. The Trustees consider the extent to which the return on investments relating to the default arrangement (after deduction of charges relating to those investment) is consistent with the aims and objectives for the default arrangement.

The Trustees have continued to look at the up to date membership profile of the Scheme, the risk profile and number of investment funds offered to members, long-term investment market conditions and the investment products and techniques available in the market.

### Core financial transactions

The Trustees are required to make sure that core Scheme financial transactions are processed promptly and accurately. The Trustees monitor this through:

* having an agreement with each service provider committing them to a defined service level agreement (SLA)
* having the Scheme auditor independently test a sample of financial transactions for accuracy and timeliness as part of the annual audit process.

The core financial transactions include:

* the investment of contributions to the Scheme
* the transfer of assets relating to members into and out of the Scheme
* the transfer of assets relating to members between different investments within the Scheme
* payments from the Scheme to, or in respect of, members and other beneficiaries.

Over the year, contributions were not invested within the statutory timescales for some months. However, all contributions for 2020 have now been invested and the Trustees will consider how best to ensure there are no further delays. The Trustees are satisfied that all other core financial transactions have been processed promptly and accurately.

### Charges and transaction costs

The Trustees are required to monitor the costs associated with the Scheme, which are paid by members. These costs comprise the charges and transaction costs on the investment funds.

The Company currently meets all the administration, member communication and advisory costs associated with operating the Scheme.

The Scheme publishes details of the costs borne by members in two forms:

* the annual management charge (AMC) which is the fee applied by the investment manager for managing the funds
* the total expense ratio (TER) which is made up of the AMC and additional fund expenses, such as custody costs, where applicable.

Charges are generally higher for actively managed funds than for index (passive) funds.

The Scheme complies with the regulations on charge controls that were introduced from April 2015. Specifically, the annual charges for funds in the Scheme’s default investment arrangement over 2020 are well within the ‘charge cap’ of 0.75% of the value of those funds.

Charges over 2020 were as follows:

|  |  |  |
| --- | --- | --- |
| Fund | AMC | TER |
| LGIM Global Equity Fixed Weights 60:40 Index | 0.16% | 0.19% |
| LGIM Pre-Retirement | 0.15% | 0.15% |
| LGIM Cash | 0.13% | 0.13% |
| Newton UK Income | 0.50% | 0.54% |
| Newton Multi Asset Global Balanced | 0.45% | 0.50% |
| Newton Long Gilt | 0.20% | 0.28% |
| Newton Long Corporate Bond | 0.20% | 0.30% |
| Newton Continental Europe | 0.50% | 0.58% |
| Newton UK Equity | 0.50% | 0.54% |
| Newton Oriental | 0.50% | 0.65% |

Source: Legal & General Investment Management (LGIM) and Newton Investment Management (Newton)

In addition to the investment managers’ expenses included in the TER, investment funds are subject to other costs, such as those associated with trading a fund’s underlying securities, commissions and stamp duty. These expenses are not explicitly deducted from each fund but are captured by a reduction in the investment return.

In reporting these transaction costs, the Trustees confirm that, to the best of their knowledge, the investment managers have followed guidance from the Financial Conduct Authority on calculating and disclosing transaction costs. The Trustees received transaction costs from LGIM and Newton for 2020, as follows:

|  |  |
| --- | --- |
| Fund | Transaction charge in 2020 |
| LGIM Global Equity Fixed Weights 60:40 Index | 0.00% |
| LGIM Pre-Retirement | 0.02% |
| LGIM Cash | 0.00% |
| Newton UK Income | 0.30% |
| Newton Multi Asset Global Balanced | 0.10% |
| Newton Long Gilt | 0.00% |
| Newton Long Corporate Bond | 0.00% |
| Newton Continental Europe | 0.09% |
| Newton UK Equity | 0.09% |
| Newton Oriental | 0.26% |

 Source: LGIM and Newton

Transaction costs are incurred as a result of buying, selling, lending or borrowing investments. The costs mainly arise as a result of delivering a fund’s target investment return where a passive or active investment approach is used. As an example, a fund may need to buy or sell assets when members pay money into or take money out of a fund and the buying or selling of assets will incur costs.

Transaction costs can be negative, due to the method that must be used to calculate them.

Transaction costs arise as a result of participating in a financial market and are separate from any annual management charges. The transaction cost for buying or selling an investment includes all costs incurred by a buyer or seller from the point an order to transact is received to the point at which the transaction completes. These costs include all charges, commissions, taxes and other associated payments incurred directly or indirectly. These costs are ultimately borne by assets of the arrangement or of any investment in which the arrangement is directly or indirectly invested. Of these costs, some are easily identifiable as specific costs incurred, but some are less identifiable and may rely on the investment manager’s judgement.

Costs for actively managed funds may be higher, as shown above. The manager will allow for this cost when taking positions, such that the additional cost compared to an index fund is expected to be offset through future performance.

### Illustration of costs and charges

#### *Active member*

The figures in the table below show the effect of the fund managers’ charges on a active member’s fund value over incremental periods for the next 40 years. The following table shows the effect based on the assumptions set out in the notes below the table.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Projected pension fund in today’s money  |  |  |  |  |
|  | **Fund choice** |
|  | **Default investment strategy** | **Newton Global Balanced****(fund with most investment)** | **LGIM Global Equity****(fund with highest assumed return)** | **LGIM Cash****(fund with lowest assumed return)** |
| **Years** | **Before charges** | **After all charges & costs deducted** | **Before charges** | **After all charges & costs deducted** | **Before charges** | **After all charges & costs deducted** | **Before charges** | **After all charges & costs deducted** |
| **1** | £61,600 | £61,500 | £63,900 | £63,600 | £64,300 | £64,200 | £60,800 | £60,700 |
| **3** | £65,500 | £65,200 | £72,100 | £71,200 | £73,600 | £73,200 | £62,300 | £62,200 |
| **5** | £70,400 | £69,800 | £80,900 | £79,100 | £83,600 | £82,900 | £63,800 | £63,500 |
| **10** | £88,400 | £86,200 | £105,000 | £101,000 | £112,000 | £110,000 | £67,400 | £66,800 |
| **15** | £112,000 | £107,000 | £134,000 | £126,000 | £147,000 | £143,000 | £70,500 | £69,700 |
| **20** | £140,000 | £132,000 | £167,000 | £154,000 | £189,000 | £183,000 | £73,400 | £72,300 |
| **25** | £173,000 | £160,000 | £206,000 | £187,000 | £240,000 | £230,000 | £76,100 | £74,700 |
| **30** | £212,000 | £192,000 | £252,000 | £224,000 | £301,000 | £287,000 | £78,400 | £76,900 |
| **35** | £257,000 | £228,000 | £306,000 | £266,000 | £376,000 | £356,000 | £80,600 | £78,800 |
| **40** | £309,000 | £270,000 | £368,000 | £315,000 | £467,000 | £438,000 | £82,500 | £80,500 |

 **Notes**

1.    Projected pension fund values are shown in today’s terms and do not need to be reduced further for the effect of future inflation.

2.          The starting pension fund value is assumed to be £60,000.

3.          Inflation is assumed to be 2.50% each year.

4.          Contributions are assumed to continue to retirement age (65) at the total rate of 8% and increase in line with assumed earnings inflation of 2.50% each year. Contributions are based on a current annual salary of £25,000.

5.          Values shown are estimates and are not guaranteed.

6.          The projected growth rates before charges for the fund choices are as follows:

 a.         Default strategy: 1.83% to 5.19% pa. depending on how close the member is to retirement age.

 b Newton Global Balanced: 5.75% pa.

 c.         LGIM Global Equity: 6.50% pa.

 d.         LGIM Cash: 0.50% pa.

#### *Deferred member*

The figures in the table below show the effect of the fund managers’ charges on a deferred member’s fund value over incremental periods for the next 40 years. The table shows the effect based on the assumptions set out in the notes below the table.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Projected pension fund in today’s money  |  |  |  |  |
|  | **Fund choice** |
|  | **Default investment strategy** | **Newton Global Balanced****(fund with most investment)** | **LGIM Global Equity****(fund with highest assumed return)** | **LGIM Cash****(fund with lowest assumed return)** |
| **Years** | **Before charges** | **After all charges & costs deducted** | **Before charges** | **After all charges & costs deducted** | **Before charges** | **After all charges & costs deducted** | **Before charges** | **After all charges & costs deducted** |
| **1** | £34,700 | £34,700 | £36,100 | £35,900 | £36,300 | £36,200 | £34,300 | £34,200 |
| **3** | £34,700 | £34,500 | £38,400 | £37,800 | £39,200 | £39,000 | £32,900 | £32,800 |
| **5** | £35,200 | £34,900 | £40,900 | £39,900 | £42,300 | £41,900 | £31,700 | £31,500 |
| **10** | £39,200 | £38,100 | £47,800 | £45,600 | £51,300 | £50,300 | £28,700 | £28,400 |
| **15** | £45,500 | £43,200 | £55,900 | £52,000 | £62,100 | £60,400 | £26,000 | £25,600 |
| **20** | £53,100 | £49,200 | £65,300 | £59,400 | £75,200 | £72,400 | £23,600 | £23,100 |
| **25** | £61,900 | £56,100 | £76,300 | £67,800 | £91,100 | £86,900 | £21,300 | £20,800 |
| **30** | £72,300 | £64,000 | £89,200 | £77,400 | £110,000 | £104,000 | £19,300 | £18,800 |
| **35** | £84,400 | £73,000 | £104,000 | £88,400 | £133,000 | £125,000 | £17,500 | £16,900 |
| **40** | £98,600 | £83,200 | £122,000 | £100,000 | £161,000 | £150,000 | £15,900 | £15,200 |

**Notes**

1.    Projected pension fund values are shown in today’s terms and do not need to be reduced further for the effect of future inflation.

2.          The starting pension fund value is assumed to be £35,000.

3.          Inflation is assumed to be 2.50% each year.

4.          No further contributions are assumed.

5.          Values shown are estimates and are not guaranteed.

6.          The projected growth rates before charges for the fund choices are as follows:

 a.         Default strategy: 1.83% to 5.19% pa. depending on how close the member is to retirement age.

 b Newton Global Balanced: 5.75% pa.

 c.         LGIM Global Equity: 6.50% pa.

 d.         LGIM Cash: 0.50% pa.

### Value for members assessment

The Trustees are required to undertake a ‘value for members’ assessment for the Scheme.

For the Scheme to offer good value for members, the Trustees expect to see certain qualities that are in line with the costs being charged. In particular, the Trustees consider these costs against the level and quality of:

* benefits that members receive
* communications sent to members
* investment design, options and implementation
* administration
* risk management.

The Trustees’ assessment of this measure included a review of the performance of the funds (after all charges) in the context of their investment objectives. The Trustees are of the opinion that the returns on the funds during the period covered by this statement have been consistent with stated investment objectives.

In carrying out the assessment, the Trustees also considered the other benefits members receive from the Scheme, which include:

* the oversight and governance of the Trustees, including ensuring the Fund complies with relevant legislation, holding regular meetings to monitor the Fund and addressing any material issues that may impact members the range of investment options and strategies.
* the quality of communications delivered to members.
* the efficiency of administration processes and the extent to which the administrator met or exceeded its service level standards.

The Trustees have concluded that the costs and charges provide value for members. Whilst the Trustees concluded that the quality and efficiency of the Scheme’s administration processes have been satisfactory during the year, the Trustees decided to undertake a review of the appropriateness of its current administrator. It has concluded that a move to Quantum Advisory would further enhance and improve the quality and robustness of the administration processes. This move will take place during 2021.

The Trustees also note that the broader administrative costs of the Scheme are met via the Final Salary section, thereby keeping the costs for the DC section at a minimum.

### Knowledge and understanding of the Trustees

The Pensions Act 2004 requires individual trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts and the investment of assets. The degree of knowledge and understanding required needs to be appropriate for the purposes of enabling the Trustees to exercise the functions in question.

The Trustees must:

* be conversant with the trust deed and rules of the Scheme, the Scheme’s Statement of Investment Principles and any other document recording policy for the time being adopted by the Trustees relating to the administration of the Scheme generally.
* have, to the degree that is appropriate for the purposes of enabling each individual properly to exercise his or her functions as a trustee, knowledge and understanding of the law relating to pensions and trusts and the principles relating to investment the assets of occupational pension schemes.

The Trustees have measures in place to comply with the legal and regulatory requirements regarding conversance and knowledge and understanding. Details of how the conversance and knowledge and understanding requirements have been met during the period covered by this statement are set out below.

The Trustees’ relevant knowledge and understanding has been assessed during the year. Training is provided on relevant issues at meetings and areas for further training are identified. No additional training was requested by the Trustees during the year.

The Trustees have a working knowledge of the Scheme’s trust deed and rules, SIP and documents setting out current policies. These items are all included on the Trustees’ compliance checklist which is reviewed and updated at every Trustees’ meeting, along with a briefing on legislative and regulatory developments.

As a result of the training activities completed by the Trustees and taking into account the professional advice available to them, the Trustees are confident that their knowledge and understanding enables them to undertake their duties competently and in the best interests of the Scheme membership. Furthermore, the Trustees assess that their degree of knowledge and understanding is appropriate for the purposes of enabling the proper exercise of functions as Trustees of the Scheme.

The Trustees’ advisers can provide training to the Trustees, direct the Trustees to the Pensions Regulator’s trustee toolkit and provide the Trustees with copies of the Scheme’s documentation.

This statement has been prepared in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996.

**Tim Dixon**

**Chair of the Trustees**

**30 July 2021**

**SJ Dixon and Son (Holdings) Limited Pension and Life Assurance Scheme (the “Scheme”)**

**Statement of Investment Principles (SIP) – October 2020**

1. **Introduction**

1.1 The Trustees of the Scheme have drawn up this SIP in order to comply with the

requirements of section 35 of the Pensions Act 1995 as amended by the Pensions Act

2004, the Occupational Pension Schemes (Investment) Regulations 2005 and

subsequent legislation.

1.2 The Scheme comprises of two sections: a final salary or defined benefit (“DB”) section,

which was closed to new entrants with effect from 31 December 2006 and a money

purchase or defined contribution (“DC”) section, which comprises of current

employees benefitting from ongoing employer/employee contributions and/or

additional voluntary contributions (“AVCs”) paid by current or former members of the

Scheme.

1.3 In preparing this SIP, the trustees have consulted with the currently appointed

investment managers who are Legal & General Investment Management (“LGIM”) and

BNY Mellon Newton (“Newton”) for guidance and input on strategic investment

matters (as necessary).

1.3.1 LGIM manages most of the assets held by the DB section of the Scheme;

1.3.2 Newton manages the balance of the assets held in the DB section and 100% of

the assets held in the DC section of the Scheme.

1.4 The trustees of the Scheme have also consulted with SJ Dixon & Son (Holdings)

Limited as the Principal Employer when preparing this SIP. The trustees of the Scheme

did not receive any input or feedback from members of the Scheme in relation to

investment matters but any such feedback or comment received in future will be

considered.

2 **Selection of investments for the Scheme**

2.1 The DB section of the Scheme is solely funded by the Principal Employer and the

member benefits arising are guaranteed and long-term in nature. As such the members

are not directly exposed to any investment risk. The investments held by the trustees in

relation to the DB section of the Scheme are carefully considered in the light of the

Scheme’s investment objectives (as outlined in the next section of this document).

2.2 The DC section of the Scheme receives ongoing monthly contributions from the

Principal Employer and its employees who are active members of the Scheme;

2.2.1 Each member is building-up their own separate savings pot within the DC

section of the Scheme although the monies are pooled and invested across a

range of investment funds managed by Newton. The DC fund accumulated can

then be applied to provide tax-free cash and/or pension income benefits for the

member on retirement;

2.2.2 This means each member is directly exposed to investment risk within the DC

section of the Scheme as their individual funds can fall or rise in value on a daily

basis and future value is not guaranteed;

2.2.3 Whilst the trustees remain responsible for the DC investments held by the

Scheme, we remain keenly aware the retirement aspirations of members vary as

does their ability and willingness to be exposed to investment risk. For this

reason there are a range of investment funds available from Newton and the

trustees remain willing to take members’ representations into account when

considering how monies are invested in the DC section of the Scheme. Members

of the DC section should contact the trustees if more information is required.

3 **Investment objectives**

3.1 In relation to the DB section of the Scheme our core objective is simple and clear: to be

in a position at all times to meet the payment of benefits to the members as they fall

due;

3.1.1 As the commitments and obligations of the Scheme are very long-term in nature,

we as trustees are obliged to obtain a detailed Actuarial Valuation Report (AVR)

in relation to the DB section at least once every three years, with interim updates

in between;

3.1.1.1 The AVR enables us to assess how near or far the DB section is from being

able to cover 100% of its obligations in the future using a reasonable set of

assumptions for the future based on the actuarial guidance we have received;

3.1.1.2 Where a potential shortfall is identified, we will need to look to the Principal

Employer to remove this over time by committing to pay future

contributions at an agreed level to the DB section of the Scheme;

3.1.2 Thus, in setting an investment strategy for the assets held in relation to the

DB section of the Scheme we need to balance:

3.1.2.1 The need for safe and reliable cash flows into the DB section of the Scheme,

which are used to fund the numerous monthly pensions already in payment;

3.1.2.2 The inevitability that as time passes this will grow further as members retire

and bring their DB benefits into payment from the Scheme;

3.1.2.3 This growing maturity to the DB section of the Scheme will mean we as

trustees are ever less able to take a high degree of investment risk (in the

hope of securing higher investment returns);

3.1.3 The ability and willingness of the Principal Employer to make contributions.

3.1.3.1 Whilst we want to strive to achieve self-sufficiency over time (so we do not

need to rely on employer contributions to the DB section of the Scheme), if

we try to move too far and/or too fast we could compromise the Principal

Employer’s ability to trade, which would be counter-productive;

3.1.3.2 Likewise we are mindful of the need to ensure the DB section does not take

too much investment risk. If we did and markets moved against us, this

could compromise the security of members’ benefits in the DB Scheme and

mean undue funding pressure would be applied to the Principal Employer

to reduce a large shortfall quickly;

3.1.4 In summary we will balance cash flow needs, maturity, potential investment

risk and reward and the financial strength/stability of the Principal Employer

when determining the most suitable investment strategy;

3.1.4.1 As the balance between these can shift at any time, we will continue to

monitor them all regularly and consider whether or not the existing SIP

remains suitable (and update/replace as necessary) at least once a year;

3.1.4.2 The liability to pay pension benefits from the DB section of the Scheme is

best met from a combination of cash and government-issued debt

instruments (known as gilts or index-linked gilts) and equivalent high

quality corporate debt instruments (known as corporate bonds);

3.1.4.3 In order to meet our long-term growth assumptions for the DB section we

would expect to invest in risk-seeking assets such as equities (shares via

collective investment funds), commercial property (via collective

investment funds), commodities (via collective investment funds), precious

metals (via collective investment funds);

3.2 In relation to the DC section of the Scheme, we wish to achieve good member outcomes

by using a range of collective investment funds which give us:

3.2.1 The ability to diversify between one or more collective investment funds to

assist in managing investment risk;

3.2.2 Access to collective investment funds where the charges levied are competitive

against the wider retail pension investment market, as it is the return (net of

costs), which is important to members;

3.2.3 Competitive net investment returns thereby offering overall value for money to

DC members;

3.2.4 We are not however able to run bespoke investment strategies for each member

of the Scheme to reflect their own needs and aspirations. We will however be

reviewing our options in this regard in the near future.

4 **Investment management**

4.1 We as trustees are not expected to be investment experts. We are however required by

law to act prudently and in accordance with investment advice received (from suitably

qualified and experienced professionals) when developing or reviewing our investment

strategies for the DB and DC sections of the Scheme.

4.2 For this reason we continue to delegate the day-to-day management of the DB and DC

monies to two leading UK investment management houses – LGIM and Newton.

4.3 Our powers to invest the Scheme’s monies are determined by the Scheme’s Trust Deed

and Rules. Whilst we can invest in a wide range of asset classes, for the most part we

choose to use professionally managed collective investment funds managed by LGIM

and/or Newton. There are several reasons why we do this:

4.3.1 By pooling monies with other investors, economies of scale can be achieved,

which lowers the cost of investment;

4.3.2 Such funds will generally hold a larger number of underlying investments

enabling greater diversification of investment risk;

4.3.3 We can concentrate on the allocation of the DB and DC monies to suitable asset

classes at a macro-level and leave the professionals to determine the most

suitable investments to hold;

4.4 As trustees we recognise that actively managed collective investment funds often have

higher charges as there is a team of people involved in researching and analysing what

they believe are the best investments to hold. However relatively few active managers

consistently outperform in the major markets (such as US or UK equities) and their

higher costs can often negate the benefit of any value added through their skill;

4.4.1 We will therefore make use of passively managed collective investment funds

(where deemed appropriate). Passive funds simply aim to track the performance

of a given market index (such as the FTSE100) and can do so with much lower

cost than the typical actively managed investment fund;

4.4.2 That said there are certain markets which are either very diverse, small or under

researched where an active manager can really add value. As such we will make

use of actively managed investment funds (despite the higher potential cost)

where we believe this gives a better net outcome for members;

4.4.3 For tactical reasons, LGIM can hold individual index-linked gilts for the DB

section of the Scheme;

4.4.4 Likewise in meeting monthly payments of pensions to DB members, as well as

death claims, requests to transfer out, requests for tax-free lump sum payments

at retirement and so on, the trustees will at times hold large sums on deposit

with the Scheme’s banker (HSBC).

**5 Expected return on investments**

5.1 The future does not come with any guarantees. Despite the best endeavours of the

trustees and their actuarial and investment advisors, actual outcomes will vary from

those assumed at any point in time;

5.2 We attempt to mitigate the risk of a large departure from assumptions made by regularly

monitoring and reviewing our strategy in conjunction with our professional advisers;

5.3 We consider the nominal (and real inflation-adjusted) returns that might be achieved

from various asset classes and use these (alongside best estimates for costs) to

determine potential future returns;

5.4 We have received appropriate actuarial and/or investment advice over the years to assist

us in determining our strategy and its potential risks and rewards. We will continue to

do so in the future as necessary;

5.5 We will also continue to monitor the net of costs investment returns achieved by LGIM

and Newton to assess how they are performing against our needs, their rivals and

suitable independent benchmarks. We reserve the right to replace the investment

managers should we feel their net returns are not acceptable;

5.6 We are also aware the future impact of inflation on returns is an important consideration

for our DB and DC membership (whether directly or indirectly).

6 **Investment Objectives and performance aims:**

A summary of investment objectives and performance aims of Newton and LGIM funds in which the Scheme is invested:

6.1 **BNY Mellon UK Income Fund**

INVESTMENT OBJECTIVE

The Fund aims to achieve income over an annual period together with capital growth over the long term (5 years or more). The Fund is actively managed and invests at least 70% of the portfolio in UK equities (company shares), including ordinary shares, preference shares and other equity-related securities. UK companies are defined as those that are either domiciled, incorporated or which have significant business in the UK.

PERFORMANCE AIM

To outperform the FTSE All-Share Index by over 2% p.a. over rolling five year periods.

**6.2 BNY Mellon Multi Asset Global Balanced**

INVESTMENT OBJECTIVE

The Fund aims to achieve a balance between income and capital growth over the long term (5 years or more). The Fund is actively managed and invests at least 75% of the portfolio across a range of global asset classes including, without limitation, equities (company shares), fixed income (bonds), infrastructure, renewable energy, property, commodities and near cash. The Fund does not have any restrictions on the portion of the portfolio allocated to any of these asset classes.

PERFORMANCE AIM

To outperform the comparative index by 1% to 2% per annum over rolling five year periods.

**6.3 BNY Mellon Long Gilt Fund**

INVESTMENT OBJECTIVE

The Fund aims to achieve income together with the potential for capital growth over the medium term (3-5 years). The Fund is actively managed and invests in fixed income securities (bonds) issued or guaranteed by the UK Government or the Governments of foreign countries or corporate bodies.

PERFORMANCE AIM

To marginally outperform the FTSE Actuaries Government Securities (over 15 Years) Index over rolling five year periods.

**6.4 BNY Mellon Long Corporate Bond Fund**

INVESTMENT OBJECTIVE

The Fund aims to achieve income together with the potential for capital growth over the medium term (3-5 years). The Fund is actively managed and invests at least 75% in sterling-denominated fixed income securities (bonds) with long maturities issued by entities other than the UK government (gilts).

PERFORMANCE AIM

To outperform the Bank Of America Merrill Lynch Over 10 Years Investment Grade Index by up to 1% p.a. over rolling five year periods.

**6.5 BNY Mellon Continental European Fund**

INVESTMENT OBJECTIVE

The Fund aims to achieve capital growth over the long term (5 years or more). The Fund is actively managed and invests at least 75% of the portfolio in equities (company shares) of issuers domiciled, incorporated or with significant business in Continental Europe (excluding the UK), including ordinary shares, preference shares and other equity-related securities.

PERFORMANCE AIM

To outperform the FTSE World Europe (ex UK) Index by over 2% p.a. over rolling five year periods.

**6.6 BNY Mellon UK Equity Fund**

INVESTMENT OBJECTIVE

The Fund aims to achieve capital growth and income over the long term (5 years or more). The Fund is actively managed and invests at least 70% of the portfolio in UK equities (company shares), including ordinary shares, preference shares and other equity-related securities. UK companies are defined as those that are either domiciled, incorporated or which have significant business in the UK.

PERFORMANCE AIM

To outperform the FTSE All-Share Index by over 2% p.a. over rolling five year periods.

**6.7 BNY Mellon Oriental Fund**

INVESTMENT OBJECTIVE

The Fund aims to achieve capital growth over the long term (5 years or more). The Fund is actively managed and invests at least 75% of the portfolio in equities (company shares) of issuers domiciled, incorporated or with significant business in Asian and Pacific markets (including Australia and New Zealand but excluding Japan), including ordinary shares, preference shares and other equity-related securities.

PERFORMANCE AIM

To outperform the FTSE-AW Asia Pacific (ex Japan) Index by over 2% p.a. over rolling five year periods.

**6.8 LGIM Japan Equity Index Fund**

INVESTMENT OBJECTIVE

The fund employs an index tracking strategy, aiming to replicate the performance of its benchmark. A pragmatic approach is taken to managing index funds, investing directly in the securities of that index, or indirectly through other LGIM funds. The fund may also hold index and single stock futures for efficient portfolio management.

PERFORMANCE AIM

The investment object of the fund is to track the performance of the FTSE Japan Index (les withholding tax where applicable) to within +/-0.5% p.a. for two years out of three.

6.9 LGIM North America Equity Index Fund

INVESTMENT OBJECTIVE

The fund employs an index tracking strategy, aiming to replicate the performance of its benchmark. A pragmatic approach is taken to managing index funds, either investing directly in the securities of that index, or indirectly through other LGIM funds. The fund may also hold index and single stock futures for efficient portfolio management.

PERFORMANCE AIM

The investment objective of the fund is to track the performance of the FTSE North America Index (less withholding tax where applicable) to within +/-0.5% p.a. for two years out of three.

6.10 LGIM Europe (ex UK) Equity Index

INVESTMENT OBJECTIVE

Invests primarily in shares that make up the index, issued by medium to large companies from developed European countries, excluding the UK. The Fund may also use derivatives. Passively managed, aiming to replicate the performance of the index.

PERFORMANCE AIM

The Fund aims to track the performance of the European equity market, excluding the UK, as represented by the MSCI Europe Ex. UK Index (the “Index”).

6.11 LGIM Over 5y Index-Linked Gilts

INVESTMENT OBJECTIVE

The fund employs an index tracking strategy, aiming to replicate the performance of its benchmark. Investments are made directly in the securities of that index, or indirectly through other LGIM funds.

PERFORMANCE AIM

The investment objective of the fund is to track the performance of the FTSE Actuaries UK Index-Linked Gilts Over 5 Years Index to within +/-0.25% pa for two years out of three.

6.12 LGIM Active Corporate Bond – Over 10 Year Fund

INVESTMENT OBJECTIVE

The fund actively manages interest rate risk, and also seeks to out-perform the benchmark (Markit iBoxx £ Non-Gilts Over 10 Years Index) through active management of credit risk. The fund has a duration of up to +/- 1 year relative to its benchmark and a tracking error range of up to 1.5% pa. The fund primarily invests in corporate fixed interest securities denominated in sterling with credit ratings of BBB- (or equivalent) and above. The fund can also hold an exposure to UK government bonds and cash. In order to access greater investment opportunities, the fund is permitted to allocate a maximum of 20% of the portfolio to EUR and USD credit hedged back to sterling. The fund has the ability to use derivatives for more efficient portfolio management (Available from 1 December 2008).

PERFORMANCE AIM

The fund aims to exceed the Markit iBoxx £ Non-Gilts Over 10 Years Index by 0.75% pa (before fees) over a three year rolling period.

6.13 LGIM Asia Pacific (ex Japan) Developed Equity Index

INVESTMENT OBJECTIVE

The fund employs an index tracking strategy, aiming to replicate the performance of its benchmark. A pragmatic approach is taken to managing index funds, investing directly in the securities of that index, or indirectly through other LGIM funds. The fund may also hold index and single stock futures for efficient portfolio management.

PERFORMANCE AIM

The investment object of the fund is to track the performance of the FTSE Developed Asia Pacific ex Japan Index (less withholding tax where applicable) to within +/-0.75% p.a. for two years out of three.

6.14 LGIM Index-Linked Gilts

FUND AIM

To maximise returns by investing mainly in index-linked securities issued predominantly by the UK Government.

**7 Environmental Social & Governance (ESG) policies and stewardship of assets**

7.1 We believe ESG factors can be material to the assessment of investment value and

mitigation of investment risk (to varying degrees across companies, sectors, regions

and asset classes and through time).

7.2 We ensure ESG factors are being considered by the investment managers (where

relevant) and have considered the extent to which the fund managers analyse and

integrate ESG risks and opportunities into their investment process.

7.3 We will monitor on an ongoing basis the investment managers’ approach to considering

and integrating ESG into their investment processes. At this time we do not impose

constraints solely on the basis of ESG factors when selecting investments or managers

and we have received no member representation in relation to ESG, ethical, green or

other specific investment criteria. We would give consideration to such requests but

remain mindful we are ultimately responsible for all of the Scheme’s investments and

need to act in the best interests of all members taking due account of professional

advice received.

7.4 We do expect the investment managers to use their rights (including voting rights)

wholly in the best economic interests of their investors (including our Scheme

members).

8 **Risk factors**

8.1 In developing and reviewing this SIP, we as trustees have given due consideration to

the following risk factors in determining a suitable investment strategy for the DB

section of the Scheme:

8.1.1 **Risk and liability** – We will monitor and review the investment strategy in line

with movements in the value of the Scheme’s assets and liabilities following

each AVR. The investment strategy will be set and/or reviewed giving due

consideration to the various factors mentioned in section 3 above;

8.1.2 **Covenant risk** – As part of this we will monitor on an ongoing basis (and with

external help where necessary) the creditworthiness of the Principal Employer.

This will take account of the size of the Scheme’s liabilities and the employer’s

ability in the light of its current and expected earnings to make good on any

funding commitments to the Scheme;

8.1.3 **Solvency risk** - This risk is addressed through the asset allocation strategy and

ongoing three-yearly AVRs. We are aware the asset allocation required to

minimise the volatility of the solvency position will likely be very different to

that which minimises the volatility on the Scheme’s funding basis.

8.1.4 **Asset allocation risk** - The asset allocation is monitored on a regular basis by

the Trustees.

8.1.5 **Investment manager risk** - The trustees monitor the performance of each of

the Scheme’s investment managers on a regular basis in addition to having

meetings with each manager as necessary. The Trustees have

a written agreement with each investment manager, which contains a number of

restrictions on how each investment manager may operate.

8.1.6 **Concentration/Market risk** - Each investment manager is expected to manage

broadly diversified portfolios and to spread assets across a number of individual

shares and securities.

8.1.7 **Liquidity risk** - The Scheme invests in assets such that there is a sufficient

allocation to liquid investments that can be converted into cash at short notice

given the Scheme’s cash flow requirements. The Scheme's administrators assess

the level of cash held in order to limit the impact of the cash flow requirements

on the investment policy.

8.1.8 **Currency risk** - The Scheme’s liabilities are denominated in sterling. The

Scheme may gain exposure to overseas currencies by investing in assets that are

denominated in a foreign currency or via currency management.

8.1.9 **Loss of investment** - The risk of loss of investment by each investment manager

and custodian is assessed by the Trustees. This includes losses beyond those

caused by market movements (e.g. default risk, operational errors or fraud).

8.2 Whilst most of the risk factors identified in 5.1 above are relevant to the DC section of

the Scheme too, there are other risk factors to consider in addition given it is each

member that is bearing the investment risk personally on their DC fund:

8.2.1 **Inflation risk –** This is the risk that the investments do not provide a return (net of costs) at least in line with inflation, thus eroding the purchasing power of the DC

retirement savings. The trustees make available investment options that are

expected to provide a long-term real rate of return.

8.2.2 **Conversion risk –** The risk that fluctuations in the assets held, particularly in

the period before retirement, lead to uncertainty over the amount likely to be

received. The trustees have a range of Newton investment funds available to

them some of which are low risk and thus most suitable for use as retirement

approaches;

8.2.3 **Retirement income risk –** The risk that a member’s retirement income falls

short of the amount expected, whether this is due to lower investment returns

than expected, insufficient contributions paid or the high cost of securing a

pension at retirement.

9 **Availability of and updates to the SIP**

9.1 This SIP and any future updates to it had to be published on a publicly available and

free to access website.

9.2 As trustees we did not judge the cost-benefit of creating our own website as being

favourable. We therefore agreed with the Principal Employer that it would make the

SIP available via its own website.

9.3 This can be found at www.sjdixon.co.uk and from these please follow the link to

“Pensions”.

9.4 We will review the content of this SIP at least once a year and publish any update(s) to

the website mentioned in 8.3 above.

9.5 We are due to publish the results of the latest 3-yearly AVR during the next few months.

It is quite possible this will result in the need to update the SIP again.