

Home-Grown Cereals Authority Pension Plan

Statement of Investment Principles

September 2020

1 Introduction

- 1.1 This is the Statement of Investment Principles prepared by HGCA Pension Plan Trustees Limited, the Trustee of the Home-Grown Cereals Authority Pension Plan (the Plan). This statement sets down the principles governing decisions about investments for the Plan to meet the requirements of:
- the Pensions Act 1995, as amended by the Pensions Act 2004,
 - the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010,
 - the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018, and
 - the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.
- 1.2 In preparing this statement the Trustee has consulted the Agriculture and Horticulture Development Board, the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustee's investment consultants. Barnett Waddingham LLP is authorised and regulated by the Financial Conduct Authority.
- 1.3 This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.
- 1.4 The Trustee will review this statement at least every three years or if there is a significant change in the policy on any of the areas covered by the statement.
- 1.5 The investment powers of the Trustee are set out in Clause 5 of the Definitive Trust Deed & Rules, dated 5 March 2012. This statement is consistent with those powers.

2 Choosing Investments

- 2.1 The Trustee's policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustee considers the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.
- 2.2 The day-to-day management of the Plan's assets is delegated to one or more fund managers. The Plan's fund managers are detailed in the Appendix to this Statement. The fund managers are regulated by the Financial Conduct Authority and authorised by the Financial Conduct Authority or the Prudential Regulation Authority. The fund managers are responsible for stock selection and the exercise of voting rights.
- 2.3 The Trustee reviews the appropriateness of the Plan's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the fund managers with respect to performance within any guidelines set. The Trustee will also consult the employer before amending the investment strategy.

3 Investment Objectives

3.1 The Trustee has discussed key investment objectives in light of an analysis of the Plan's liability profile as well as the constraints the Trustee faces in achieving these objectives. As a result, the Trustee's main investment objectives are:

- to ensure that they can meet the members' entitlements under the Trust Deed and Rules as they fall due;
- to achieve a long-term positive real return;
- to manage the expected volatility of the returns achieved in order to control the level of volatility in the Plan's required contribution levels;
- to invest in assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from members and the participating employer, the cost of current and future benefits which the Plan provides;
- to reduce the risk of the assets failing to meet the liabilities over the long term;
- to minimise the long-term costs of the Plan by maximising the return on the assets whilst having regard to the above objectives.

3.2 The Trustee is aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Plan's liabilities at any time. The Trustee has obtained exposure to investments that they expect will meet the Plan's objectives as best as possible.

4 Kinds of investments to be held

4.1 The Plan can invest in a wide range of asset classes including:

- Equities;
- Bonds;
- Cash;
- Property;
- Alternatives, including private equity, commodities, hedge funds, infrastructure, currency, high yield debt and derivatives;
- Annuity policies.

4.2 The Trustee monitors from time-to-time the employer-related investment content of their portfolio as a whole and will take steps to alter this should they discover this to be more than 5% of the portfolio.

5 The balance between different kinds of investments

5.1 The Plan invests in assets that are expected to achieve the Plan's objectives. The allocation between different asset classes is contained within the Appendix to this Statement.

5.2 The Trustee considers the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Appendix to this Statement.

- 5.3 From time to time the Plan may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate for any short term cashflows requirements or any other unexpected items.
- 5.4 The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and therefore the Plan's asset allocation will be expected to change as the Plan's liability profile matures.

6 Risks

- 6.1 The Trustee has considered the following risks for the Plan with regard to its investment policy and the Plan's liabilities:

Risk versus the liabilities	The Trustee will monitor and review the investment strategy with respect to the liabilities following each actuarial valuation. The investment strategy will be set with consideration of the appropriate level of risk required for the funding strategy as set out in the Plan's Statement of Funding Principles.
Covenant risk	The creditworthiness of the employer and the size of the pension liability relative to the employer's earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the employer covenant.
Solvency and mismatching	This risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustee is aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Plan's funding basis.
Asset allocation risk	The asset allocation is detailed in the Appendix to this Statement and is monitored on a regular basis by the Trustee.
Fund manager risk	The Trustee monitors each of the Plan's fund managers on a regular basis. This takes the form of monitoring their past performance as well as considering events that might affect future performance. Meetings are held with each manager from time to time as necessary, usually on an annual basis. The Trustee has a written agreement with each fund manager, which contains a number of restrictions on how each fund manager may operate.
Governance risk	Each asset manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustee monitors these and will report on the managers' practices in their annual Implementation Statement.
ESG/Climate risk	The Trustee has considered long-term financial risks to the Plan and ESG factors as well as climate risk are potentially financially material and will continue to develop its policy to consider these, alongside other factors, when selecting or reviewing the Plan's investments in order to avoid unexpected losses.
Concentration risk	Each fund manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.
Liquidity risk	The Plan invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Plan's cash flow requirements. The Plan's administrators assess the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.

Currency risk	The Plan's liabilities are denominated in sterling. The Plan may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management. The fund's overseas assets may alter over time and the managers have responsibility for managing any currency risk within the funds. The funds are denominated in sterling and all returns and the target are sterling based.
Loss of investment	The risk of loss of investment by each fund manager and custodian is assessed by the Trustee. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud). Within the funds the managers will consider the risk and expected reward when determining which investments to invest in.

7 Expected return on investments

- 7.1 The Trustee has regard to the relative investment return and risk that each asset class is expected to provide. The Trustee is advised by its professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the fund managers.
- 7.2 The Trustee recognises the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.
- 7.3 In considering the expected return from investments, the Trustee recognises that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.
- 7.4 Having established the investment strategy, the Trustee monitors the performance of each fund manager against an agreed benchmark as frequently as appropriate according to market conditions and the Plan's funding position. The Trustee meets the Plan's fund managers as frequently as is appropriate, normally on an annual basis, in order to review performance.

8 Realisation of investments

- 8.1 The Trustee has delegated the responsibility for buying and selling investments to the fund managers. The Trustee has considered the risk of liquidity as referred to above.
- 8.2 Ultimately, the investments will all have to be sold when the Plan's life comes to an end. In this situation, the Trustee is aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Plan accounts.

9 Financially material considerations, non-financially material considerations, the exercise of voting rights and engagement activities

- 9.1 The Trustee has set policies in relation to these matters. These policies are set out in Appendix 2.

10 Policy on arrangements with asset managers

Incentivising alignment with the Trustee's investment policies

- 10.1. Prior to appointing an investment manager, the Trustee discusses the investment manager's approach to the management of ESG and climate related risks with the Plan's investment consultant, and how their policies are aligned with the Trustee's own investment beliefs.
- 10.2. When appointing an investment manager, in addition to considering the investment manager's investment philosophy, process and policies to establish how the manager intends to make the required investment returns, the Trustee also considers how ESG and climate risk are integrated into these. If the Trustee deems any aspect of these policies to be out of line with their own investment objectives for the part of the portfolio being considered, they will consider using another manager for the mandate.
- 10.3. The Trustee carries out a strategy review at least every three years where it assesses the continuing relevance of the strategy in the context of the Plan's membership and its aims, beliefs and constraints. The Trustee monitors the investment managers' approach to ESG and climate related risks on an annual basis.
- 10.4. In the event that an investment manager ceases to meet the Trustee's desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment may be terminated. The investment managers have been informed of this by the Trustee.
- 10.5. Investment manager ESG policies are reviewed in the context of best industry practice and feedback will be provided to the investment manager.

Incentivising assessments based on medium to long term, financial and non-financial considerations

- 10.6. The Trustee is mindful that the impact of ESG and climate change has a long-term nature. However, the Trustee recognises that the potential for change in value as a result of ESG and climate risk may occur over a much shorter term than climate change itself. The Trustee acknowledges this in its investment management arrangements.
- 10.7. When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustee assesses these over a rolling timeframe. The Trustee believes the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon. Where a fund may have an absolute return or shorter term target, this is generally supplementary to a longer term performance target. In the case of assets that are actively managed, the Trustee expects this longer term performance target to be sufficient to ensure an appropriate alignment of interests.
- 10.8. The Trustee expects investment managers to be voting and engaging on behalf of the Plan's holdings and the Plan monitors this activity within the Implementation Statement in the Plan's Annual Report and Accounts. The Trustee does not expect ESG considerations to be disregarded by the investment managers in an effort to achieve any short term targets.

Method and time horizon for assessing performance

- 10.9. The Trustee monitors the performance of their investment managers over medium to long term periods that are consistent with the Trustee's investment aims, beliefs and constraints.

- 10.10. The Plan invests exclusively in pooled funds. The investment manager is remunerated by the Trustee based on the assets they manage on behalf of the Trustee. As the funds grow, due to successful investment by the investment manager, they receive more and as values fall they receive less.
- 10.11. The Trustee believes that this fee structure, including the balance between any fixed and performance related element, enables the investment manager to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.
- 10.12. The Trustee asks the Plan's investment consultant to assess if the asset management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered regularly as part of the review of the Statement of Investment Principles.

Portfolio turnover costs

- 10.13. The Trustee acknowledges that portfolio turnover costs can impact on the performance of their investments. Overall performance is assessed as part of the quarterly investment monitoring process.
- 10.14. During the investment manager appointment process, the Trustee may consider both past and anticipated portfolio turnover levels. When underperformance is identified, deviations from the expected level of turnover may be investigated with the investment manager concerned if it is felt they may have been a significant contributor to the underperformance. Assessments reflect the market conditions and peer group practices. The Trustee acknowledges that for some asset classes, such as LDI, a higher turnover of contracts such as repurchase agreements, can be beneficial to the fund from both a risk and cost perspective.

Duration of arrangement with asset manager

- 10.15. For the open-ended pooled funds in which the Plan invests, there are no predetermined terms of agreement with the investment managers.
- 10.16. The suitability of the Plan's asset allocation and its ongoing alignment with the Trustee's investment beliefs is assessed every three years, or when changes deem it appropriate to do so more frequently. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.

11 Agreement

- 11.1 This statement was agreed by the Trustee, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the employer, the fund managers, the actuary and the Plan auditor upon request.

Signed: MS. JANET SWADLING **Date:** 18 SEPTEMBER 2020

On behalf of HGCA Pension Plan Trustees Limited, Trustee of the Home-Grown Cereals Authority Pension Plan

Signed: MR. GORDON BENNETT **Date:** 18 SEPTEMBER 2020

On behalf of HGCA Pension Plan Trustees Limited, Trustee of the Home-Grown Cereals Authority Pension Plan

Appendix 1: Note on investment policy of the Plan as at September 2020 in relation to the current Statement of Investment Principles

The balance between different kinds of investment and rebalancing

The asset allocation has been agreed after considering the Plan's liability profile, funding position, expected return of the various asset classes and the need for diversification. The current strategic asset allocation is set out below.

Asset class	Allocation (%)
Diversified Growth Fund	40
Multi Asset Credit	10
Liability Driven Investment (LDI) and Cash funds	50

The Trustee will review the asset allocation of the investments from time to time, when appropriate. There is no automatic rebalancing between the fund managers.

Choosing investments

The Trustee has appointed the following fund managers to carry out the day-to-day investment of the fund:

- Columbia Threadneedle – Diversified Growth Fund
- BMO Global Asset Management – LDI and cash
- CQS (UK) LLP – Multi Asset Credit

The fund managers are authorised and regulated by the Financial Conduct Authority or another appropriate body under EU equivalence rules.

The investment benchmarks and objectives for each fund manager are given below:

Fund manager	Benchmark	Objective
Columbia Threadneedle		
Dynamic Real Return Fund	CPI	To generate an average annual return of 4% above the benchmark over a period of 3 to 5 years, gross of fees
BMO		
Dynamic LDI Pooled Funds	Gilts and swaps based benchmarks based on the liability profile of a 'typical' UK defined benefit pension scheme	To hedge the interest and inflation risk of the liabilities
Sterling Liquidity Fund	7 day LIBID	To generate a return in line with the benchmark whilst maintaining high levels of liquidity
CQS		
Credit Multi Asset Fund	1 month LIBOR	To outperform the benchmark by 4%-5% net of fees

Having analysed the sensitivity of the Plan's liabilities to changes in inflation and interest rates, BMO have constructed a portfolio of holdings in their Dynamic LDI pooled funds that will hedge the inflation and interest risk of the Plan's liabilities.

The performance of fund managers will be monitored as frequently as the Trustee considers appropriate in light of the prevailing circumstances. The monitoring takes into account both short term and long term performance.

Investment of New Money / Realisation of Investments

Under the Schedule of Contributions dated 13 March 2017, the amount of contributions scheduled to be received by the Plan is significantly less than the total pensions in payment. Therefore, investment of new money is unlikely. In the case where this does occur, the Trustee will agree the appropriate destination for these funds.

In order to pay for the pensioner payroll, money will be disinvested from the Plan. The decision regarding which funds to disinvest from will be made by the Trustee at the time.

Appendix 2: Financially material considerations, non-financially material considerations, the exercise of voting rights and engagement activities.

Policy on financially material considerations

The Trustee believes that Environmental, Social and Governance (“ESG”) factors are financially material – that is, they have the potential to impact the value of the members’ investments from time-to-time and therefore has a policy to consider these, alongside other factors, when selecting or reviewing the Plan’s investments. The Trustee believes that environmental, social and governance (“ESG”) factors (including, but not limited to, climate change) will potentially be financially material for the Plan over the length of time until the benefits can be bought out with an insurer. This is likely to be not less than ten years from the date of this Statement of Investment Principles. The Trustee appreciates that the method of incorporating ESG in the investment strategy and process will differ between asset classes.

The Trustee is comfortable that the funds currently invested in by the Plan are managed in accordance with its view on financially material factors, as set out in this policy. This position is monitored periodically, at least annually. As part of the monitoring process the Trustee is provided with governance reports and engagement reporting from the managers and input from the investment advisors on ESG matters. The Trustee has the opportunity to meet the managers and question them on policies, typically annually. In the future, the views set out below will be taken into account when appointing and reviewing managers.

A summary of the Trustee’s views for each asset class in which the Plan invests is outlined below.

Multi-asset funds

The Trustee believes that ESG issues will be financially material to the risk-adjusted returns achieved by the Plan’s multi-asset fund managers. The investment process for any multi-asset fund manager should take ESG into account when selecting holdings. The Trustee also supports engagement activities and, where relevant, the exercise of rights attaching the investments by the Plan’s multi-asset fund manager. However, the process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

Credit

The Trustee believes that ESG issues will be financially material to the risk-adjusted returns achieved by the Plan’s credit holdings. The investment process for the manager should take ESG into account when selecting holdings. The Trustee also supports engagement activities, although it appreciates that fixed income assets do not typically provide voting rights. The process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

LDI and money market

The Trustee believes there is less scope for the consideration of ESG issues to improve risk-adjusted returns in these asset classes because of the nature of the instruments used within the LDI funds and the fact that money market investments are short term.

It is worth noting that when transacting in LDI and money market funds, the Trustee requires due diligence is undertaken to assess the credit worthiness of the counterparty both at the start of and throughout any investment, whilst at the same time looking to achieve best execution. The Trustee believes this is more relevant

for longer term trades compared to shorter term trades and should incorporate ESG factors where these assist with the credit worthiness assessment.

Policy on non-financially material considerations

The Trustee does not take into account the views of Plan members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life of the members and beneficiaries of the Plan (referred to as "non-financial matters" in the relevant Regulations) in the selection, retention and realisation of investments.

The exercise of voting rights

The Trustee's policy on the exercise of rights attaching to investments, including voting rights, and in undertaking engagement activities in respect of the investments is that these rights should be exercised by the investment managers on the Trustee's behalf. In doing so, the Trustee expects that the investment managers will use their influence as major institutional investors to exercise the Trustee's rights and duties as shareholders, including where appropriate engaging with underlying investee companies to promote good corporate governance, accountability and to understand how those companies take account of ESG issues in their businesses.

The Trustee will monitor and engage with the investment managers about relevant matters (including matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance), through the Plan's investment consultant where needed.

Investment managers will be asked to provide details of their stewardship policy and engagement activities on at least an annual basis. The Trustee will, with input from their investment consultant as necessary, monitor and review the information provided by the investment managers. Where possible and appropriate, the Trustee will engage with their investment managers for more information and ask them to confirm that their policies comply with the principles set out in the Financial Reporting Council's UK Stewardship Code.

Engagement activities

The Trustee acknowledges the importance of ESG and climate risk within their investment framework. When delegating investment decision making to their investment managers they provide their investment managers with a benchmark they expect the investment managers to either follow or outperform. The investment manager has discretion over where in an investee company's capital structure it invests (subject to the restrictions of the mandate), whether directly or as an asset within a pooled fund.

The Trustee is of the belief that ESG and climate risk considerations extend over the entirety of a company's corporate structure and activities, i.e. that they apply to equity, credit and property instruments or holdings. The Trustee also recognises that ESG and climate related issues are constantly evolving and along with them so too are the products available within the investment management industry to help manage these risks.

The Trustee considers it to be a part of their investment managers' roles to assess and monitor developments in the capital structure for each of the companies in which the managers invest on behalf of the Plan or as part of the pooled fund in which the Plan holds units.

The Trustee also consider it to be part of their investment managers' roles to assess and monitor how the companies in which they are investing are managing developments in ESG related issues, and in particular climate

risk, across the relevant parts of the capital structure for each of the companies in which the managers invest on behalf of the Plan.

Should an investment manager be failing in these respects, this should be captured in the Plan's regular performance monitoring.

Through their consultation with the Principal Employer when setting this Statement of Investment Principles, the Trustee has made the Principal Employer aware of their policy on ESG and climate related risks, how they intend to manage them and the importance that the pensions industry as a whole, and its regulators, place on them.

The Plan's investment consultant, Barnett Waddingham, is independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes the Trustee confident that the investment manager recommendations they make are free from conflict of interest.

The Trustee expects all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so the Trustee believes they have managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustee investment manager and the investee companies.

In selecting and reviewing their investment managers, where appropriate, the Trustee will consider investment managers' policies on engagement and how these policies have been implemented.