Poole Harbour Commissioners Retirement Benefits Scheme (the "Scheme")
Statement of Investment Principles ("SIP")

Background

This Statement of investment Principles has been prepared to meet the requirements of Section 35 of the Pensions Act 1995 and SI 2005/3378 The Occupational Pension Schemes (Investment) Regulations.

It has been prepared after obtaining and considering the written advice of a person who is reasonably believed by the Trustee to be qualified by his ability in and practical experience of financial matters and has the appropriate knowledge and experience of the management of investments of pension schemes.

The Statement has been prepared after consultation with the sponsoring employer.

The Statement is based on the SIP with an effective date of 22 November 2017 that was prepared based on investment advice provided by AON. This has been updated to reflect the additional governance requirements, a change in one of the investment managers and a change in the platform used to manage the assets based on advice provided by Atkin & Co.

The Statement will be reviewed at least every three years or, without delay, after any significant change in investment policy.

Purpose

This statement sets out the principles governing the Trustee's decisions to invest the assets of the Scheme.

The Trustee has taken the Myners' Principles into consideration when making decisions about the Scheme's investment arrangements.

Objectives

The Trustee invests the assets of the Scheme with the aim of ensuring that all members' benefits can be paid.

The Trustee's primary objectives are:

- "funding objective" - to ensure that the Scheme is fully funded using assumptions that contain a margin for prudence. Where an actuarial valuation reveals a deficit, a recovery plan will be put in place which will take into account the financial covenant of the employer;
- "stability objective" – to have due regard to the likely level and volatility of required contributions when setting the Scheme's investment strategy; and
- "security objective" – to ensure that the solvency position of the Scheme (as assessed on a gilt basis) is expected to improve. The Trustee will take into account the strength of the employer's covenant when determining the expected improvement in the solvency position of the Scheme.

Implementation

The Trustee sets the broad investment strategy having regard to the objectives and following careful consideration of:

- the nature and duration of the Scheme's liabilities,
- the risks of investing in the various asset classes,
- the implications of the strategy (under various scenarios) for the level of contributions required to fund the Scheme,
- the strength of the sponsoring company's covenant.

The Trustee recognises that the investment strategy is subject to risk, in particular the risk of a mismatch between the performance of the assets and the calculated value of the liabilities. They therefore retain responsibility for setting asset allocation and take expert advice as required from their professional advisers.

The Trustee has delegated day to day investment decisions by investing in pooled funds.

The Trustee exercises their powers of investment (or delegation where these powers have been delegated to an investment manager) in a manner calculated to ensure the security, quality, liquidity and profitability of the portfolio as a whole. In order to avoid an undue concentration of risk a spread of assets is held. The diversification is both within and across the major asset classes.

The assets of the Scheme are invested predominantly on regulated markets (with investments not on regulated markets being kept to a prudent level) and properly diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings so as to avoid accumulations of risk in the portfolio as a whole.

Investment in derivatives is made in so far as they contribute to the reduction of investment risks or facilitate efficient portfolio management and are managed such as to avoid excessive risk exposure to a single counterparty or other derivative operations.

The Trustee reviews their investment strategy following each formal actuarial valuation of the Scheme or more frequently should the circumstances of the Scheme change in a material way. The Trustee takes written advice from their professional advisers regarding an appropriate investment strategy for the Scheme.

The asset allocation set out in the Appendix was implemented after considering the written advice from the Scheme's advisers following the investment strategy review in 2016 and through discussions at subsequent meetings. A broad range of available asset classes has been considered.

The Trustee will maintain a list of the pooled funds in which they invest in the Appendix and will amend this as necessary.

The proportion of the assets held within each fund is approximate and will vary from time to time as a result of changes in the value of each fund.

There will be no automatic rebalancing of the overall portfolio.

Disinvestment

Where cash is required to meet benefit payments or for general purposes of the Scheme, the Trustee will disinvest in accordance with the provision set out in the Appendix, unless the Trustee decide otherwise.

Policies

Use of Pooled Funds

The Trustee does not make decisions regarding the investments held within each pooled fund.

When choosing a pooled fund, the Trustee will have regard to the investments held, the risks associated with investing in that fund and any constraints on the type of assets that may be held within the fund.

The balance between investment classes will be determined by the manager of the pooled fund.

The Trustee reviews performance of the fund managers at regular intervals and also consider the performance of the overall strategy against their objectives.

Investment in pooled funds gives the Trustee a right to the cash value of the units rather than to the underlying assets. The manager of the pooled funds is responsible for the appointment and monitoring of the custodian of the fund's assets.

The custodians are independent of the employer.

Expected returns on assets

Over the long-term the Trustee’s expectations are:

- For the “growth” assets (Diversified Growth Funds), to achieve a return which at least keeps pace with the increase in national average earnings over the same period. The Trustee is willing to incur short-term volatility in asset price behaviour with the expectation that over the long term these assets will outperform asset classes which may be regarded as matching the liabilities;
- For the “matching” assets to achieve a rate of return which is at least in line with changes in the cost of providing annuities;
- Returns achieved by the investment managers are assessed against performance benchmarks set by the Trustee in consultation with their advisers and investment managers.

Environment, Social and Governance Issues

The Trustee believes that good stewardship and environmental, social and governance (“ESG”) issues may have a financially 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 potential opportunities that increasingly may require explicit consideration.

The Trustee has given the pooled fund managers full discretion when evaluating ESG issues, including climate change considerations, exercising voting rights and stewardship obligations attached to the Scheme’s investments. The Trustee expects managers to have integrated ESG into their risk analysis and investment process. Similarly, the Scheme’s voting rights are exercised by its investment managers in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code. The Scheme’s investment advisors will keep the Trustee informed on ESG issues. The Trustee considers how ESG, climate change and stewardship is integrated within investment processes when appointing new managers and the Trustee monitors their existing managers’ ESG approach on a periodic basis, and discuss ESG considerations as part of ongoing reviews.

Non-Financial Matters

Non-financial matters are not taken into account when determining the Scheme’s investment policy. Member views are not actively sought but the Trustee makes a copy of the Statement of Investment Principles available to members on request and publish a copy of the Statement on a publicly accessible website.

Direct Investment

The Trustee will not hold investments directly and hence cannot exercise voting rights nor undertake investment engagement activities.

Incentivising investment Managers

As investments are made in pooled funds with defined charges and expenses, it is not possible directly to incentivise fund managers to align investments with the Trustee’s policies, improve engagement or monitor transaction costs. Ultimately, the Trustee’s only remedy is likely to be to move to an alternative pooled fund.

Monitoring Turnover

The nature of the Scheme’s investments makes it impractical for the Trustee to monitor turnover or turnover costs directly. The performance figures that the Trustee and their investment consultant analyse are net of transactions costs, so this is taken into account indirectly.

Term of Manager Appointments

The investment in any particular pooled fund managers does not have a fixed term but can be terminated in the event of consistent underperformance or misalignment with the Trustee’s objectives.

Employer-Related Investments

The policy of the Trustee is not to hold any employer-related investments as defined in the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005 except where the Scheme invests in collective investment schemes that may hold employer-related investments. In this case, the total exposure to employer-related investments will not exceed 5% of the Scheme’s total value. The Trustee will monitor this on an ongoing basis to ensure compliance.

Additional voluntary contributions (“AVCs”) arrangements

Some members have obtained further benefits by paying Additional Voluntary Contributions (AVCs) to the Scheme. The liabilities in respect of these AVCs are equal to the value of the investments bought by the contributions.

Details of the AVC providers and fund options are included in the Appendix to this Statement. From time to time the Trustee reviews the choice of investments available to members to ensure that they remain appropriate to the members' needs.

Appendix to Statement of Investment Principles

This Appendix sets out the Trustee's current investment strategy and is supplementary to the Trustee's Statement of Investment Principles (the "Statement").

The Trustee's investment strategy has been established in order to maximise the likelihood of achieving the primary objectives set out in the attached Statement. The details are laid out below.

1. Asset allocation strategy

The table below reflects the benchmark allocation of the Scheme.

Asset Class	Benchmark Allocation (%)
Diversified Growth Funds	55
Long Dated Investment Grade Corporate Bonds	25
Liability Driven Investments (LDI)	20
Cash	0
Total	**100**

2. Investment management arrangements

The Scheme's assets are currently invested with Legal and General Investment Management (LGIM) and Ninety One Asset Management. The following describes the mandates given to the investment manager within each asset class.

2.1 Diversified Growth Funds

Fund	Benchmark	Target
LGIM Dynamic Diversified Growth Fund	6-month LIBOR	Outperform benchmark by 4.5% p.a. gross over a full market cycle
Ninety One Diversified Growth Fund	UK CPI	Outperform benchmark by 5% pa (gross of fees) over rolling five year periods

2.2 Long Dated Investment Grade Corporate Bonds

Fund	Benchmark	Target
LGIM Active Corporate Bond Fund	iBoxx £ Non-Gilts 10+ Years Total Return Index	Outperform benchmark by 0.75% pa (gross of fees) over rolling three year periods

2.3 Liability Driven Investments (LDI)

Fund	Benchmark	Target
LGIM LDI - Matching Core Funds	-	-

2.4 Sterling Liquidity Fund

Fund	Benchmark	Target
LGIM Sterling Liquidity Fund	7 day LIBID	Outperform benchmark by 0.1% pa (gross of fees)

2.5 Cash balances

A working balance of cash is held for the imminent payment of benefits, expenses, etc. Under normal circumstances it is not the Trustee's intention to hold a significant cash balance.

2.6 Re-balancing arrangements

The Trustee will consider the asset allocation of the Scheme from time to time and decide whether to move closer to the benchmark allocations.

2.7 (Dis)/Investments

The Trustee will consider the target asset allocation of the Scheme when arranging dis/investments.

3. Fee structure for advisers and managers

3.1 Advisers

Where investment advice is required, the Trustee will agree appropriate objectives and fees for the work being carried out.

These arrangements recognise the bespoke nature of the advice given and that no investment decisions have been delegated to the adviser.

3.2 Investment managers

The investment managers are remunerated as a set percentage of the assets under management. This is in keeping with market practice.

3.3 Summary of investment management fee arrangements

Fund	Fee Scale
LGIM Dynamic Diversified Fund	0.35%
Ninety One Diversified Growth Fund	0.55%
Long Corporate Bond Fund	0.20%
Matching Core Funds	0.18%
Sterling Liquidity Fund	0.15%

The investments are held on the Mobius platform where the Scheme holds a policy with Mobuis (an insurance company) that is equal in value to the underlying funds. Mobius then holds the underlying funds.

4. Additional Voluntary Contributions

The Trustee has made available a range of unitised funds with Standard Life.