Radstock Co-operative Society Limited Employees' Superannuation Fund

Statement of Investment Principles

1 Background

Purpose of Statement	This Statement sets out the principles governing decisions relating to the investment of the assets of the Radstock Co-operative Society Limited Employees' Superannuation Fund (the Scheme).
Nature of Scheme	The Scheme is a defined benefit arrangement set up under trust and registered with HM Revenue and Customs (HMRC).
Compliance with Legislation	The Statement has been prepared to comply with Section 35 of the Pensions Act 1995, Section 244 of the Pensions Act 2004 and the Occupational Pension Scheme (Investment) Regulations 2005.
Availability to Members	A copy of this Statement will be made available to Scheme members on request to the Trustees of the Scheme.
Investment Advice	The Trustees have obtained and considered professional advice on the content of this Statement from BBS Consultants & Actuaries Ltd ("BBS"). BBS has confirmed to the Trustees that it has the appropriate knowledge and experience to give the advice required under legislation. The section on Environmental, Social and Corporate Governance Matters has been drafted with the support of Hughes Price Walker Ltd. The Trustees will obtain such advice as they consider appropriate and necessary whenever they intend to review or revise this Statement.
Consultation with the Principal Employer	The Trustees have consulted the Principal Employer, Radstock Co-operative Society Limited, when setting their investment objectives and strategy, and in the preparation of this Statement. Responsibility for maintaining the Statement and determining the Scheme's investment strategy rests solely with the Trustees.
Investment Powers	The Trustees' investment powers are set out in Rule 31 of the Scheme's Rules dated 20 September 2004, as amended. The powers granted to the Trustees under this Rule are wide and this Statement is consistent with those powers.

2 Investment Objectives

Strength of Employer Covenant

In determining their investment objectives and strategy, the Trustees have considered the strength of the Principal Employer's willingness and ability to support the Scheme. They have determined that it is reasonable to take a long-term view in determining their investment objectives and strategy.

Key Funding Measure

The Scheme is subject to the Statutory Funding Objective (SFO) introduced by the Pensions Act 2004, i.e. that it should have sufficient and appropriate assets to cover its Technical Provisions, as calculated in accordance with the Trustees' Statement of Funding Principles.

In determining their investment objectives and strategy, the Trustees have agreed that the funding position measured under the SFO is the assessment of scheme funding that is of most importance to the Trustees, the Principal Employer and members, as it determines the Scheme's funding requirements and members' long-term benefit security.

Investment Objectives

The Trustees' investment objectives are as follows:

- To ensure that the assets are of a nature to enable the Trustees to meet the Scheme's benefits as they fall due;
- To invest the Scheme's assets in an appropriately diverse and liquid range of investments;
- To invest in a way that is consistent with the Scheme's funding objectives, i.e. to invest so that the investment return assumptions used to determine the Trustees' funding plan have a reasonable chance of being achieved in practice;
- To target a level of hedging of around 35% of the risk to funding associated with the impact of changes in long-term interest rates, and of around 55% of the risk to funding associated with the impact of changes in future inflation expectations on the Scheme's Technical Provisions;
- To target a level of exposure to downside equity-like risk of around 65% of the Scheme's assets;
- Where future opportunities arise to increase protection against liability-related risks in such a way that does not invalidate the Trustees' funding plan, the Trustees will consider steps to reduce the volatility of the Scheme's funding position relative to its liabilities calculated under the SFO.

Paying Regard to the Principal Employer's Views

The Trustees will have regard to the Principal Employer's views on the potential costs and risks associated with the investment objectives set and their implementation through the practical strategy.

3 Principles for Setting the Investment Strategy

Selection of Investments

The Trustees may select investments from a wide range of asset classes from time to time, including, but not restricted to UK equities, overseas equities, government bonds, corporate bonds, commercial property and alternative asset classes, such as hedge funds, private equity and infrastructure.

The investments selected will generally be traded on regulated markets and, where this is not the case, any such investments will be kept to a prudent level.

The Trustees may invest in products that use derivatives where this is for the purpose of risk management or to improve the efficiency of the management of the Scheme' s investments.

The Trustees may hold insurance policies such as deferred or immediate annuities which provide income to the Scheme, matching part or all of the future liabilities due from it.

The Trustees may hold a working cash balance for the purpose of meeting benefit payments due to members and the expenses of running the Scheme.

Balance of Investments

The Trustees will set a Target Asset Allocation from time to time, determined with the intention of meeting their investment objectives.

The Target Asset Allocation will be set taking account of the characteristics of different asset classes available and will be reviewed in light of any changes to the Trustees' view of the Principal Employer's covenant, the nature of the Scheme's liabilities or relevant regulations governing pension scheme investment.

Delegation to Investment Managers

The Trustees will delegate the day-to-day management of the Scheme's assets to professional investment managers and will not be involved in the buying or selling of investments.

Realising Investments

The Trustees make disinvestments from the Investment Managers with the assistance of their administrators, as necessary, to meet the Scheme's cashflow requirements.

4 Setting the Strategy

Target Asset Allocation

The Target Asset Allocation for the Scheme's assets is as follows:

Asset Class	Target Asset Allocation
UK equities	27%
Overseas equities	18%
Multi-asset funds	40%
Index-linked government bonds	15%
Total	**100%**

Investment Managers

The Trustees have entered into a contract with BlackRock Investment Management (UK) Limited (BlackRock). BlackRock undertakes day-to-day investment management of the Scheme's assets.

The Investment Managers are authorised and regulated by the Financial Conduct Authority (FCA) under the Financial Services and Markets Act 2000.

Strategies Used

The Trustees use the following funds operated by BlackRock, which are given together with their target allocation within the overall strategy.

Asset Class	Target Asset Allocation
UK equities	
Aquila Life UK Equity Index Fund	27%
Overseas equities	
Aquila Life Currency Hedged Overseas Equity	18%
Multi-asset funds	
BlackRock Dynamic Diversified Growth Fund	40%
Index-linked government bonds	
Aquila Life 2062 Index-Linked Gilt Fund	15%
Total	**100%**

Maintaining the Target Asset Allocation

The Trustees have responsibility for maintaining the overall balance of the asset allocation relative to the Target Asset Allocation. The Trustees monitor the asset allocation on a regular basis with the assistance of their adviser and will consider switching assets between funds should the allocation move significantly away from the Target Asset Allocation.

Performance Benchmarks and Objectives

The equity funds are index-tracking funds, meaning that their objectives are to track the total return on a specified market index within an agreed margin over a specified timescale. The benchmark and tracking criterion for these funds are given below:

Strategy	Benchmark	Tracking Criterion
Aquila Life UK Equity Index Fund	FTSE All-Share Index	Annualised volatility of monthly returns against the benchmark of 0.40% p.a., measured over a three year period.
Aquila Life Currency Hedged Overseas Equity	Sterling hedged overseas developed equities composite index	Annualised volatility of monthly returns against the benchmark of 0.60% p.a., measured over a three year period.

The multi-asset fund is actively managed, with an objective to outperform a specified market:

Fund name	Benchmark	Performance Objective
BlackRock Dynamic Diversified Growth Fund	3 month Sterling LIBOR	To exceed the benchmark by 3.0% p.a. (net of fees) over rolling three year periods with a low tolerance for capital loss

The index-linked government bond fund invests in a single gilt issued by the UK Government. The fund is expected to provide a gross of fees return in line with the total return on this specific security, assuming it is held to redemption.

Investment Management Charges

The annual management charges for each of the funds used, based on the assets under management at the date of this Statement, are given below:

Fund	Annual Management Charge
Aquila Life UK Equity Index Fund	0.10% p.a.
Aquila Life Currency Hedged Overseas Equity Index Fund	0.23% p.a.
BlackRock Dynamic Diversified Growth Fund	0.65% p.a.
Aquila Life 2062 Index-Linked Gilt Fund	0.05% p.a.

Employer Related Investment

Neither the Trustees nor BlackRock directly hold any employer related investments.

Environmental, Social and Corporate Governance Matters

The Scheme's overarching responsibility is to deliver financially sustainable returns for an acceptable level of risk to meet the future pension benefits of the members as they fall due and in a way that employer contributions paid into the Scheme are as stable and affordable as possible.

The Trustees have a duty to act in the best financial interests of the Scheme's beneficiaries and the Scheme is a long-term investor. This includes considering Environmental, Social and Corporate Governance ("ESG") risks and opportunities that may be financially material to the Scheme. The Trustees' investments include pooled funds, which are subject to BlackRock's own policies on ESG considerations, including climate change. The Trustees undertake due diligence when appointing investment managers and review each of those managers' policies on ESG considerations. The Trustees appreciate that those investment managers which integrate ESG considerations can help mitigate risks and have the potential to lead to better, long-term financial outcomes.

The Trustees will expect fund managers to have signed to the United Nations-supported Principles for Responsible Investment ("PRI"), a set of six voluntary and aspirational principles supported by the United Nations, which offer an assortment of possible actions for incorporating ESG issues into investment practice. The principles were developed by investors, for investors, and aim to assist signatories in developing a more sustainable global financial system.

As the Trustees invest in pooled funds, the fund managers make decisions related to the exercise of any rights, including voting rights, attaching to the investments and engagement activities in respect of the investments.

Fund managers are asked to produce individual statements on their compliance with the UK Stewardship Code, as published by the Financial Reporting Council. This code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders and includes details on matters such as voting rights.

At this time the Trustees do not take into account members' ESG considerations and have no plans to seek their views.

Arrangements with the Investment Managers

The Trustees only invest in pooled funds. Therefore, the Trustees are not able to specify the risk profile and return targets of those funds. However, after considering appropriate investment advice, pooled funds with appropriate expected return and risk characteristics are chosen for each asset class to align with the investment objectives of the Scheme.

The underlying fund managers are responsible for all decisions to select and remove individual investments within each fund. In the case of multi-asset funds, the underlying managers are responsible for the allocation to separate asset classes.

The Trustees are long-term investors and do not look to change the investment arrangements on a frequent basis.

The Trustees do not have any fixed term agreements with the investment managers. They are appointed based on their investment capabilities including their perceived likelihood of achieving the expected risk/return characteristics required for each fund. The Trustees receive quarterly investment reports showing performance information over 3 months, 1 year and 3 years where data is available. The Trustees' main focus is on long-term performance.

The investment managers are remunerated by charges based on the value of the assets they manage on behalf of the Scheme. This is the primary means of incentivising the investment managers as, if the funds are not performing as required, they may be replaced.

The Trustees therefore consider that the method of remunerating their investment managers provides their underlying investment managers with the incentive to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity. This encourages the underlying investment managers to engage with issuers of debt or equity in order to improve performance in the medium to long term.

The Trustees do not have targets for portfolio costs and neither do they monitor portfolio turnover costs in the funds. However, the performance reports reviewed by the Trustees include returns net of all charges, including portfolio costs. Portfolio turnover costs relate to the costs incurred by the buying, selling, lending or borrowing of investments.

Additional Voluntary Contributions (AVCs)

The Scheme holds AVCs separately from the assets backing defined benefits via investments held with Co-operative Insurance Society Limited.

5 Expected Returns and Risks

Overall Return Target

The Trustees' objective is for the Scheme's assets to produce a return in excess of the growth in the value of its liabilities calculated under the SFO.

The Trustees expect the assets to produce a return in excess of the growth in the value of the liabilities calculated under the SFO over an economic cycle of five to seven years of between 0.9% per annum and 2.1% per annum.

Expected Returns

Over the long-term, the Trustees' expectations are to achieve the following rates of return from the asset classes they make use of:

Asset Class	Expected return
Equities	In excess of UK price inflation, as measured by the Retail Prices Index, and in excess of the yield currently available on long-dated gilts.
Multi-asset funds	In line with the return from global equities over an economic cycle of five to seven years, with significantly reduced volatility.
Index-linked gilts	In line with the market yields available on the relevant underlying securities, assuming that those investments are held to redemption.

Consideration of Risks

The Trustees have considered various risks the Scheme faces, including market risk, interest rate risk, inflation risk, default risk, concentration risk, manager risk and currency risk, and consider that the Target Asset Allocation strikes a reasonable balance between risk mitigation and seeking an appropriate level of return, taking account of the strength of the Principal Employer's covenant and the long-term nature of the Scheme.

Risk Relative to the Value of the Scheme's Key Funding Measure

The Target Asset Allocation has been determined with due regard to the characteristics of the Scheme's Technical Provisions.

The calculation of the Scheme's Technical Provisions uses assumptions for future investment returns and price inflation expectations that are based upon market values of financial securities such as fixed interest and index-linked government bonds. This means that the Technical Provisions are sensitive to changes in the price of these assets as market conditions vary, and can have a volatile value.

The Trustees accept that their investment strategy may result in volatility in the Scheme's funding position. Furthermore, the Trustees also accept that there is a risk that the assets will not achieve the rates of investment return assumed in the calculation of the Scheme's Technical Provisions.

Concentration of Risk and Diversification	To reduce the risk of concentration within the portfolio, the Trustees will monitor the overall mix of asset classes and stocks in the investment strategy with their investment adviser. The Trustees invest in a wide range of asset classes through the funds and strategies they use and consider the Scheme's strategy to be well diversified.
Manager Controls and Custodianship	The day-to-day activities that BlackRock carry out for the Trustees are subject to regular internal reviews and external audits by independent auditors to ensure that operating procedures and risk controls remain appropriate. The Trustees have appointed The Bank of New York Mellon (International) Limited to act as custodian for the safe-keeping of the Scheme's assets managed by BlackRock. The custodian will be reviewed by the Trustees from time to time.
Manager Security	The Trustees have considered the security of the Scheme's holdings with BlackRock, allowing for their status as a reputable regulated firm, and consider the associated protection offered to be reasonable and appropriate.
Monitoring and Management of Risks	The Trustees will monitor the investment and funding risks faced by the Scheme with the assistance of their investment advisers and the Scheme Actuary at least every three years. The Trustees will consider the appropriateness of implementing additional risk mitigation strategies as part of such reviews. In addition, the Trustees will review wider operational risks as part of maintaining their risk register.

6 Compliance and Monitoring

Frequency of Review	The Trustees will review this Statement at least every three years or if there is a significant change in the Scheme's circumstances or the regulations that govern pension scheme investment.
Monitoring the Investment Strategy and Managers	The Trustees employ advisers to assist them in monitoring the performance of the Scheme's investment strategy and Investment Manager. The Trustees receive quarterly reports from the Investment Manager and meet with their representatives periodically to review their investment performance and processes. The Trustees and advisers will monitor the Investment Manager's performance against their performance objectives.
Review of Investment Managers and AVC provider	The Trustees will consider on a regular basis whether or not the Investment Manager and AVC provider remain appropriate to continue to manage the Scheme's investments and AVCs.
Information from Investment Managers	The Investment Manager will supply the Trustees with sufficient information each quarter to enable them to monitor performance.

Signed

Name DONALD MORRIS

Date 25th SEPTEMBER 2020

On behalf of the Radstock Co-operative Society Limited Employees' Superannuation Fund