Portmeirion Potteries Limited Retirement Benefits Scheme

Statement of Investment Principles – September 2020

Introduction

The Trustees of the Portmeirion Potteries Limited Retirement Benefits Scheme (the "Scheme") have drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of the Pensions Act 1995, the Pensions Act 2004, the Occupational Pension Schemes (Investment) Regulations 2005, and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2018 and 2019. The Statement is intended to affirm the investment principles that govern decisions about the Scheme's investments. In preparing this Statement the Trustees have consulted Portmeirion Group UK Limited (the "Company") on the Trustees' investment principles.

Governance

The Trustees of the Scheme make all major strategic decisions including, but not limited to, the Scheme's asset allocation and the appointment and termination of investment managers. The process for making investment decisions is as follows:

- Identify appropriate investment objectives
- Agree the level of risk consistent with meeting the objectives
- Implement an investment strategy and investment manager structure in line with the level of risk and objectives agreed

When making such decisions, and when appropriate, the Trustees take proper written advice. The Trustees' Investment Consultants, Capita Employee Solutions ('Capita'), are qualified by their ability in and practical experience of financial matters, and have the appropriate knowledge and experience to provide such advice.

Investment Objectives

The Trustees are required to invest the Scheme's assets in the best interest of the members, and their main objectives with regard to investment policy is to ensure that they hold suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with contributions from the Company, the cost of current and future obligations to the beneficiaries, both in the short and long term.

To achieve these goals the Trustees, with the advice from their Investment Consultant, have chosen to undertake a strategy that has been designed to meet the following objectives:

1. To maintain a reasonable level of investment risk with an aim to reduce interest rate risk and inflation risk as the opportunities arise in the future through the use of matching assets, hedging derivatives or other suitable investments;

2. To maintain a reasonable expected return on the Scheme's assets to recover the funding deficit, when assessed against a liability measure which uses a low discount rate to reflect a low level of investment risk whereby the Scheme assets are expected to move more closely in line with the Scheme's liabilities ('Low Dependency') over the long-term. As an interim objective, the Trustees aim to maintain the expected return requirements under the Scheme's Statement of Funding Principles;

3. To consider the interests of the Company in relation to the size and volatility of the Company's contribution requirements;

4. To ensure that sufficient liquid assets are available to meet benefit payments as they fall due; and

5. An acceptance that with a continued exposure to equity markets, the Scheme will continue to bear significant investment risk.

The Trustees understand, following discussions with the Company, that it is willing to accept some degree of volatility in the required Company contribution requirements in order to reduce the long-term cost of the Scheme's benefits. The Trustees assess the covenant of the Employer from time to time in order to help ensure that the covenant is strong enough to support this approach.

Risk Management and Measurement

The Trustees are aware of and pay close attention to a range of risks inherent in investing the assets of the Scheme. The Trustees believe that the planned investment strategy provides for adequate diversification both within and across different asset classes. The Trustees further believe that the planned investment strategy is appropriate given the Scheme's liability profile. The Trustees' policy on risk management is as follows:

- The primary investment risk faced by the Scheme arises as a result of a mismatch between the Scheme's assets and its liabilities. This is, therefore, the Trustees' principal focus in setting investment strategy, taking into account the nature and duration of the Scheme's liabilities.

- The Trustees recognise that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's liabilities as well as producing more short-term volatility in the Scheme's funding position. The Trustees have taken advice on the matter and (in light of the objectives noted previously) considered the implications of adopting different levels of risk through a detailed asset and liability analysis commissioned from Capita (e.g. equity falls).

- The asset liability modelling used as a starting point for setting the current investment strategy was based on the Scheme's assets and liabilities as at 30 September 2018. The Trustees have reviewed the Scheme's sensitivity to changes in interest rates and inflation, and reviewed stress tests under different scenarios.

- The Trustees recognise the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustees aim to ensure the asset allocation policy in place results in an adequately diversified portfolio. Due to the size of the Scheme's assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles.

- The documents governing the manager's appointment include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme.

- The Trustees recognise that, where appropriate, the use of active management involves a risk that the assets do not achieve the expected return. They believe this risk is outweighed by the potential gains from successful active management in certain regions or asset classes. The Scheme's assets are managed through a mixture of active and passive management which may be adjusted from time to time.

- The safe custody of the Scheme's assets is delegated to professional custodians via the use of pooled vehicles.

Should there be a material change in the Scheme's circumstances, the Trustees will review whether the current risk profile remains appropriate.

Investment Strategy

Around 10-20% of the Scheme's assets are invested in a legacy illiquid annuity policy with Aviva.

In respect of the remaining 80-90% of the Scheme's assets, given the investment objectives the Trustees have planned the investment strategy detailed in the appendix. The Trustees intend that the investment risk arising from the investment strategy is consistent with the overall level of risk being targeted.

The Trustees intend to de-risk the investment strategy over time as the Scheme matures, in order to eventually achieve 'Low Dependency' status. 'Low Dependency' status would be when Scheme is no longer heavily dependent on Employer support in order to pay benefits.

The Trustees' policy is to consider cashflow needs at each Trustee meeting and decide on where cash should be invested/disinvested until the time of the next Trustee meeting.

Expected Return

The Trustees expect the return on assets to be consistent with the investment objectives and investment strategy outlined above.

The Trustees intend maintaining an expected return on assets sufficient to recover the funding deficit, when calculated on a 'Low Dependency' basis, by 31 March 2031. The expected return is a "best estimate" of future returns based on the Scheme's asset allocation and in the light of advice from the Investment Consultant.

The Trustees recognise that over the short term performance may deviate significantly from this long term expectation.

This “best estimate” will also generally be higher than the estimate used for the actuarial valuation of the Scheme’s Technical Provisions. For the Technical Provisions purpose, a more prudent estimate of returns will generally be agreed in the Statement of Funding Principles on the basis of advice from the Scheme Actuary. The Trustees will consider the impact of the target asset allocation (and any changes made) on the discount rates used in the calculation of the Technical Provisions.

Platform Provider

The Trustees have appointed Legal and General Investment Management Limited (the “Platform Provider”) to host all of the non-annuity assets of the Scheme on their platform. The Platform Provider is regulated under the Financial Services and Markets Act 2000. All decisions about the day-to-day management of the assets have been delegated to the Scheme’s administrators and the Platform Provider via a written agreement, including the realisation of investments.

Investment Mandates

The Trustees have selected the following managers (the “Investment Managers”) to manage the Scheme’s assets via a single policy with the Platform Provider:

- Legal & General Investment Management (LGIM) for equity and fixed interest assets;
- Invesco Perpetual for diversified growth assets;
- BNY Mellon Investment Management for diversified growth assets and
- BMO Global Asset Management for liability driven investments.

The Trustees have rolling contracts with their investment managers.

The Trustees monitor the performance of their investment managers at their Trustee meetings, using performance information reported by the Platform Provider.

The Trustees have set performance objectives, including time periods, consistent with the investment strategy set out in this statement.

The Investment Managers are regulated under the Financial Services and Markets Act 2000. The details of the Scheme’s Investment Manager Mandates are set out in the Appendix.

Investment Manager Remuneration

The Trustees monitor the remuneration, including incentives, that is paid to their investment managers and how they reward their key staff who manage client funds, along with how the pay and incentives motivate employees who manage client funds.

As part of the monitoring that the Trustees carry out on a regular basis, they check that this policy is in line with their investment strategy.

Investment Manager Philosophy and Engagement

The Trustees monitor the investment managers' process for assessing the businesses they invest in, and whether business performance over the medium to long-term involves a holistic look beyond purely accountancy measures. The Trustees consider if the investment managers are incentivised to make decisions on a short-term basis or on a medium to long-term basis and whether this coincides with the business assessments. The Trustees are conscious of whether the investment managers are incentivised by the agreement with the Trustees to engage with the investee business and to what extent any engagement focuses on improving medium to long-term performance.

Investment Manager Portfolio Costs

The Trustees will monitor costs of buying, selling, lending and borrowing investments and they will look to monitor the costs breakdown annually, as long as the investment managers provide these costs using the Cost Transparency Initiative template. They will also ensure that, where appropriate, their investment managers monitor the frequency of transactions and portfolio turnover. If there are any targets then they will monitor compliance with these targets.

Financially material considerations over the Scheme's time horizon

The Trustees believe that their main duty, reflected in their investment objectives, is to protect the financial interests of the Scheme's members. The Trustees believe that ESG considerations (including but not limited to climate change) and stewardship in the selection, retention and realisation of their investments is an integral part of this duty and can contribute to the generation of good investment returns. Legislation requires that the Trustees form a view of the length of time that they consider is needed for the funding of future benefits by the investments of the Scheme. The Trustees recognise that this is a defined benefit scheme closed to accrual with an ageing membership. Nevertheless, the Trustees believe that an appropriate time horizon for the Scheme could still be over 15 years, which gives plenty of scope for ESG considerations to be financially material.

The Trustees have elected to invest predominantly in pooled funds and it is difficult to, therefore, directly influence the ESG policies, including the day-to-day application of voting rights, of the funds in which they invest (especially where assets are managed passively). However, the Trustees will consider the manager policies in all future selections and will seek to deepen their understanding of their existing manager policies by reviewing these at least annually. The Trustees will also seek to understand what other options might be available at their managers and in the wider market. In cases where they are dissatisfied with a manager's approach they will take this into account when reviewing them. They are also keen that all their managers are signatories of the UN Principles of Responsible Investment, which is currently the case with their managers.

The Trustees believe that stewardship is important, through the exercising of rights (including voting rights) attaching to investments. The Trustees are keen that their managers can explain when, and by what practical methods, the managers monitor and engage with relevant persons about relevant matters in this area. The Trustees will monitor the voting being carried out by investment managers and custodians on their behalf. They will do this by receiving reports from their investment managers which should include details of any significant votes cast and proxy services that have been used.

The Trustees are also keen that their managers are signatories of the UK Stewardship Code. This is currently the case.

The Trustees are aware that ESG and stewardship considerations involve an ongoing process of education for themselves and engagement with their investment managers. To that end they dedicate time regularly to the discussion of this topic and intend to review and renew their approach periodically with the help of their investment consultant, where required. Consequently, the Trustees expect the Scheme's investment managers to have effective ESG policies (including the application of voting rights) in place, and look to discuss the investment managers' ESG policies with them when the managers attend Trustee meetings.

Non-financial matters, including members' views are not currently taken into account.

Additional Voluntary Contributions ("AVCs")

The Scheme provided a facility for members of the Scheme to pay AVCs held in policies of insurance with Utmost Life.

The AVC arrangements are reviewed from time to time to ensure that the investment performance achieved is acceptable and that the investment profile of the funds remains consistent with the objectives of the Trustees and needs of the members.

Compliance with Myners' Principles

The Trustees believe that they comply with the spirit of the Myners' Principles. There may be some instances of deviation from the published 'Best Practice Guidance' on the Principles where the Trustees believe this to be justified.

Company-Related Investments

The Trustees' policy is not to hold any employer-related investments as defined in the Pensions Act 1995, the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005.

Fee Structures

The Investment Managers, Platform Provider and Investment Consultant are paid a management fee on the basis of assets under management. The Investment Consultant may also be paid on a project basis, which may be a fixed fee or based on time cost for additional services as negotiated by the Trustees in the interests of obtaining best value for the Scheme.

Review of this Statement

The Trustees will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believe to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

Rosemary Kennell
Chair of Trustee

25 September 2020

The Trustees of the Portmeirion Potteries Limited Retirement Benefits Scheme

Appendix – Asset allocation (non-annuity assets)

The Scheme's planned target asset allocation is set out below:

Asset Class	Investment Manager	Fund Name	Active / Passive Management	Target Allocation %
Return-seeking Assets				**60.0**
Global Equities	LGIM	Global Equity Fixed Weights (50:50) Index GBP Hedged Fund	Passive	10.0
UK Equities	LGIM	UK Equity Index Fund	Passive	10.0
Diversified Growth	Invesco Perpetual	Global Targeted Returns Fund	Active	20.0
Diversified Growth	BNY Mellon	Real Return Fund	Active	20.0
Fixed Income Assets				**40.0**
Corporate Bond Fund	LGIM	Active Corporate Bond – Over 10 Year – Fund	Active	10.0
Conventional Gilts	LGIM	Over 15 Year Gilts Index Fund	Passive	10.0
Liability Driven Investment (LDI)	BMO	Nominal Dynamic LDI Fund	Mechanistic	12.0
LDI	BMO	Real Dynamic LDI Fund	Mechanistic	8.0
Total				**100.0**

At the time of writing, the Trustees have not implemented the above planned investment strategy owing to the Coronavirus pandemic (which has caused uncertainty regarding the Employer covenant and market-related implementation challenges). The legacy allocation currently in force is set out below:

Legacy asset allocation as at 17 September 2020:

Asset Class	Investment Manager	Fund Name	Active / Passive Management	Actual Allocation 17 Sept 2020 %
Return-seeking Assets				**36.0**
Global Equities	LGIM	Global Equity Fixed Weights (50:50) Index GBP Hedged Fund	Passive	8.3
UK Equities	LGIM	UK Equity Index Fund	Passive	6.9
Diversified Growth	Invesco Perpetual	Global Targeted Returns Fund	Active	8.0
Diversified Growth	BNY Mellon	Real Return Fund	Active	12.8
Fixed Income Assets				**64.0**
Corporate Bond Fund	LGIM	Active Corporate Bond – Over 10 Year – Fund	Active	29.1
Conventional Gilts	LGIM	Over 15 Year Gilts Index Fund	Passive	9.3
Index-Linked Gilts	LGIM	Over 5 Year Index-Linked Gilts Index Fund	Passive	25.6
Total				**100.0**

The Trustees are considering moving from the legacy allocation to the planned target allocation in phases.