

Alderley Wealth Management Pension Scheme

Statement of Investment Principles

Barnett Waddingham LLP

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Introduction

- 1.1. This is the Statement of Investment Principles prepared by the Trustee and relates to the defined contribution (DC) benefits provided through the Alderley Wealth Management Pension Scheme (“the Scheme”). This statement sets down the principles which govern the decisions about investments that enable the Scheme to meet the requirements of:
 - the Pensions Act 1995, as amended by the Pensions Act 2004; and
 - 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.
 - the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019, 2020, 2021, 2022 and 2023.
- 1.2. In preparing this statement the Trustee has obtained advice from Barnett Waddingham LLP, the Trustee’s investment consultant. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.
- 1.3. Independent Governance Group was appointed by the Pensions Regulator on 30 August 2017 to act as Trustee to the Scheme with exclusive powers, meaning no employer consultation was conducted in the preparation of this statement.
- 1.4. IGG submitted an application for compensation to the Fraud Compensation Fund (“FCF”) in January 2022. In March 2023, FCF confirmed their view that there are reasonable grounds for believing that a dishonesty offence has taken place and as a result there has been Scheme asset reductions attributable to that dishonesty offence. The FCF has since paid compensation to the Scheme.
- 1.5. The Trustee is considering consolidating the Scheme into a Master Trust arrangement following receipt of the FCF compensation. They intend to complete this exercise within the next year. This document has intentionally been prepared at a high-level, reflecting the short investment time horizon for the Scheme. The Trustee will review their investment policies should this position change substantially.
- 1.6. The Trustee will review this statement at least every three years or if there is a significant change in any of the areas covered by the statement.
- 1.7. The investment powers of the Trustee are set out in the Scheme’s Trust Deed & Rules. This statement is consistent with those powers.

2. Choosing investments

- 2.1. The Trustee carefully considers its Investment Objectives, shown in the section below, when designing the range of investment options to offer to its members.
- 2.2. The day-to-day management of a proportion of the Scheme’s assets is delegated to one or more investment managers who are appropriately authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights.

- 2.3. The Trustee reviews the appropriateness of the Scheme's investment strategy at least once every three years. This review includes consideration of the continued competence of the investment managers with respect to performance within any guidelines set.

3. Investment objectives

- 3.1. The Trustee has discussed and agreed key investment objectives in light of an analysis of the Scheme's membership profile as well as the constraints the Trustee faces in achieving these objectives. These are:
- To seek to provide good value for members, reflecting the Scheme's historic circumstances.
 - To maximise protection for members, reducing the risk of any further losses.
 - To consolidate into a Master Trust arrangement at the earliest convenience.

4. Kinds of investments to be held

- 4.1. The Scheme is permitted to invest in a wide range of assets including equities, bonds, cash, property and alternatives.
- 4.2. A proportion of members' funds were invested by previous trustees in illiquid assets that the Trustee believes have little or no value. The Trustee believes these investments are concentrated, long term, illiquid, high risk and challenging to value. Therefore, based on the history of the Scheme and plans to consolidate noted above, the Trustee believes these are not suitable for the Scheme and do not form part of their long-term plans for the Scheme. These illiquid investments are:
- a shareholding in Haimachek UK Limited
 - a shareholding in GI Logics Limited,
 - a bond investment with CGrowth Capital Bond Limited

5. The balance between different kinds of investments

- 5.1. The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and the asset allocation may change as the membership profile evolves.
- 5.2. Members are currently provided no investment choice and are unable to transfer their benefits out of the Scheme until the final Fraud Compensation Fund compensation process is complete. There are no other contributions are expected to be made within the Scheme.

6. Risks

- 6.1. Risk in a defined contribution scheme lies with the members themselves. The Trustee has considered a number of risks when designing and providing suitable investment choices to members. These risks include:
- Loss of investment – by investment manager or custodian, including losses beyond those caused by market movements (e.g. default risk, operational errors or fraud)
 - Inflation erosion risk – thus eroding the purchasing power of the retirement savings

- Conversion risk – at retirement fluctuations leading to uncertainty over the benefit amount likely to be received
- Retirement income risk – income falls short of the amount expected
- Investment manager risk – written agreements with each investment manager, which contain a number of restrictions on how the investment manager may operate to manage this risk
- Concentration and market risk – managed by well diversified investments
- Currency risk – overseas investments denominated in a foreign currency
- Liquidity risk – ability to meet cashflow requirements as and when they fall due.

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 their 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 investment 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.

8. Realisation of investments

- 8.1. The Trustee has delegated a proportion of the responsibility for buying and selling investments to the investment managers.
- 8.2. A proportion of the Scheme's assets are illiquid (see 4.2), and the Trustee has no expectation of achieving a return of funds from these investments. The Trustee is therefore considering its options for these illiquid assets as part of the preparations for any potential consolidation of the Scheme.

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

Financially material considerations

- 9.1. The Trustee believes financially material factors should be taken into account in the selection, retention and realisation of investments. Given the time horizon of the Scheme, environmental, social, governance ("ESG") actors have not driven investment strategy decisions to date. However, these will be considered as part of any consolidation exercise.
- 9.2. The Trustee has limited influence over managers' investment practices where assets are held in pooled funds but expects its investment managers to take account of financially material considerations (including climate change and other ESG considerations) as the managers consider appropriate where relevant to financial performance. The Trustee seeks to appoint fund managers that have appropriate skills and processes to do this.

Non-financial considerations

- 9.3. The Trustee does not take into account any non-financial matters (i.e. matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

Exercising of voting rights and engagement activities

- 9.4. The Trustee recognises its responsibilities as owners of capital, and believes that good stewardship practices (including monitoring and engaging with investee companies and exercising voting rights attaching to investments) protect and enhance the long-term value of investments. The Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations.
- 9.5. Where possible, the Trustee does not monitor or engage directly with issuers or other holders of debt or equity. It expects the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustee from time to time, taking into account the long-term financial interests of the beneficiaries. The Trustee has limited influence over managers' stewardship practices where assets are held in pooled funds but can ultimately decide to select another manager or fund if they have material concerns.
- 9.6. A proportion of the Scheme's assets are invested in direct illiquid assets. In these instances, the Trustee is required to engage on the Scheme's behalf.

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 Scheme'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 they assess the continuing relevance of the strategy in the context of the Scheme's membership and their aims, beliefs and constraints.
- 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 will be terminated.

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

- 10.5. 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 rolling periods commensurate with the scheme's objectives.
- 10.6. The Trustee expects investment managers to be voting and engaging on behalf of the Scheme's holdings and the Scheme monitors this activity.

Method and time horizon for assessing performance

- 10.7. 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.
- 10.8. The Scheme invests a portion of assets in pooled funds. The investment manager for these assets 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.
- 10.9. 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.

Portfolio turnover costs

- 10.10. The Trustee acknowledges that portfolio turnover costs can impact on the performance of their investments.
- 10.11. 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.

Duration of arrangement with asset manager

- 10.12. For the open-ended pooled funds in which the Scheme invests, there are no predetermined terms of agreement with the investment managers.
- 10.13. The suitability of the Scheme'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. Monitoring

- 11.1. For a proportion of the Scheme's assets, the Trustee receives regular reporting from their investment manager in order to monitor performance. The Trustee reviews the suitability of the investment strategy at least every three years and also when there is any significant change in the investment policy, underlying economic conditions or the profile of the members.

12. Agreement

12.1. 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 investment manager upon request.

Signed: Helen Frisby

Date: October 2024

On behalf of Independent Governance Group Limited in its capacity as Trustee of the Alderley Wealth Management Pension Scheme

Appendix 1 Note on investment policy of the Scheme in relation to the current Statement of Investment Principles

1. Default option

The Trustee acknowledges that members will have different attitudes to risk and different aims for accessing their retirement savings, and so it is not possible to offer a single investment option that will be suitable for each individual member. However, given the Scheme's historic circumstances and the short time horizon before the planned consolidation into a Master Trust, the Trustee decided to invest the FCF compensation funds into the LGIM Sterling Liquidity Fund alongside a legacy allocation within the LGIM Dynamic Diversified Fund. The aims, objectives and policies relating to the default option are intended to ensure that assets are invested in line with the Scheme's objectives and to manage the risks identified (both in the main body of this Statement) in the best interests of relevant members and their beneficiaries (after deduction of any charges and transaction costs). The statements made in the main body of this Statement of Investment Principles also apply to the default arrangement.

Policy on investing in illiquid assets within the default arrangement

The default arrangement for the Scheme does not currently invest directly in illiquid assets such as private equity, infrastructure and real estate. The Trustee believes that the reduced liquidity of these investments, makes them unsuitable for the default arrangement at this time in the context of the aims set out in the main body of this Statement.

The Trustee has no immediate plans to introduce illiquid assets to the default. The Trustee will review this policy periodically and may consider introducing some allocation to illiquid assets in future if changes in the Scheme's circumstances, member demographics, and/or developments in the investment landscape make this appropriate.

As highlighted elsewhere in this Statement, the Scheme has a number of investments in illiquid assets that the Trustee believes have little or no value and are not suitable for the Scheme.

2. Alternative investment options

There are no alternative investment options available for members at this time.

One member of the Scheme also transferred in shares for 'eZono AG' (a non-listed company located in Jena/Germany). This reflects the Scheme's historic circumstances. This holding is illiquid and will be considered alongside the other Scheme assets during any move to a Master Trust.