Old British Steel Pension Scheme

Statement of Investment Principles

Barnett Waddingham LLP

March 2021

1. Introduction

1.1. This is the Statement of Investment Principles prepared by Open Trustees Limited acting as the Trustee of the Old British Steel 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 and Disclosure) (Amendment) Regulations 2010; the Occupational Pension Schemes (Investment) (Amendment) Regulations 2018; and, the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

1.2. The sponsoring employer of the Scheme, BSPS SPV Ltd, has been liquidated and the Scheme entered an assessment period for the Pension Protection Fund (PPF) with effect from 29 March 2018. Therefore, in preparing this statement the Trustee has consulted with the PPF and has obtained advice from Barnett Waddingham LLP, the Trustee's investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority. The Trustee has previously consulted with the liquidators of BSPS SPV Limited in the preparation of the Scheme's Statement of Investment Principles but as BSPS SPV Limited was dissolved by Companies House on 25 May 2019 no further consultation is possible, or required, in relation to this statement.

1.3. This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and scheme funding legislation and regulations.

1.4. 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.

1.5. The investment powers of the Trustee are set out in Clause 4 of the Definitive Trust Deed & Rules, dated 31 January 2013 (as amended). This statement is consistent with those powers.

2. Choosing investments

2.1. The Trustee's policy is to set the overall investment target and, in doing so, the Trustee has taken into account the Scheme's outcome of either the PPF assuming responsibility for the Scheme or buying-out the liabilities with an insurer at a level in excess of PPF compensation levels. The Trustee will monitor the performance of its manager and its direct investments against these outcomes. In doing so, the Trustee considers the advice of their professional advisers, who it considers to be suitably qualified and experienced for this role.

2.2. The Trustee has entered into a bulk annuity insurance contract with Pension Insurance Corporation (PIC). This provides 'PPF plus' benefits in respect of all the Scheme's members. This insurance policy is an asset of the Scheme.

2.3. The day-to-day management of the Scheme's other assets is delegated to the Scheme's investment manager, Legal and General Investment Management (LGIM). The Scheme's investment manager information is detailed in the Appendix to this Statement. LGIM is authorised and regulated by the Financial Conduct Authority.

2.4. The Trustee reviews the appropriateness of the Scheme's investment strategy on an ongoing basis. This review includes consideration of the continued competence of LGIM with respect to performance within any guidelines set. The Trustee will also consult the PPF before amending the investment strategy.

2.5. The Trustee will consider any guidance set out by the PPF, including the PPF's own Statement of Investment Principles, when choosing the Scheme's investments during the Assessment Period.

3. Investment objectives

3.1. The Trustee has discussed key investment objectives with the PPF in light of the position it is in. As a result, the Trustee's main investment objectives are:

- to ensure that the Scheme can meet the members' entitlements as they fall due, in accordance with the Trust Deed and Rules and overriding PPF requirements during the assessment period;
- to manage the expected volatility of the funding level;
- to invest in assets of appropriate liquidity.

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 Scheme's liabilities. The Trustee has obtained exposure to investments that they expect will meet the Scheme's objectives as best as possible.

4. Kinds of investments to be held

4.1. The Scheme is permitted to invest in a wide range of assets including equities, bonds, annuity insurance contracts, cash, property and alternatives.

4.2. The Scheme does not hold any employer-related investments.

5. The balance between different kinds of investments

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

5.2. The Trustee will consider 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. The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and therefore the Scheme's asset allocation may change as the Scheme's liability profile matures.

6. Risks

6.1. The Trustee has considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities, and considered ways of managing/monitoring these risks:

Risk versus the liabilities	The Trustee will monitor and review the investment strategy with respect to the liabilities. During the assessment period, the investment strategy will be set with consideration of an appropriate level of risk, having consulted with the PPF.
Asset allocation risk	The asset allocation is detailed in the Appendix to this Statement and is monitored on a regular basis by the Trustee.
Investment manager risk	The Trustee monitors the performance of the Scheme's investment manager on a regular basis in addition to having meetings with LGIM from time to time as necessary. The Trustee has a written agreement with LGIM, which contains a number of restrictions on how they may operate.
Governance risk	LGIM is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustee monitors this and will report on LGIM's practices in their annual Implementation Statement.
ESG/Climate risk	The Trustee has considered long-term financial risks to the Scheme, including ESG factors and climate risk as these are potentially financially material. The Trustee will continue to develop its policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments in order to avoid unexpected losses.
Concentration risk	The investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual securities. The Trustee is aware of the concentration risk arising from the bulk annuity contract and undertook a review of PIC's financial strength at the time of entering into the contract.
Liquidity risk	The Scheme invests in assets that are expected to generate sufficient income to meet the Scheme's cashflow requirements. The Scheme's administrators assess the level of cash held at the bank in order to limit the impact of the cashflow requirements on the investment policy.
Currency risk	The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management.
Loss of investment	The risk of loss of investment by each investment 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). The Trustee is aware of the coverage of the Financial Services Compensation Scheme and how this may provide protection against the possible insolvency of PIC.

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 it deems to be appropriately qualified experts. However, the day-to-day selection of investments (other than the bulk annuity contract) is delegated to an investment manager.

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 the investment manager against an agreed benchmark as frequently as appropriate according to market conditions and the Scheme's funding position. The Trustee meets the Scheme's investment managers as frequently as is appropriate, in order to review performance.

8. Realisation of investments

8.1. The Trustee has delegated the responsibility for buying and selling investments to the investment manager. The Trustee has considered the risk of liquidity as referred to above.

8.2. Ultimately, the investments may have to be sold when the Scheme'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 Scheme accounts.

8.3. It is expected that the bulk annuity contract will never be realised. Instead, it is expected that it will be re-assigned to individual scheme members as part of a future wind-up or, in the event that the Scheme enters the PPF, novated to the PPF.

9. Financially material considerations, non-financial matters, 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 polices

10.1. Prior to appointing an investment manager, the Trustee considers the investment manager's approach to the management of ESG and climate related risks with the assistance of the Scheme's investment consultant.

10.2. When appointing an investment manager, in addition to considering the investment manager's investment philosophy, processes 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 may consider using another manager for the mandate.

10.3. 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. The investment managers are aware of this.

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

10.4. The Trustee is mindful that the impact of ESG and climate change has a long-term nature, which may exceed that of the PPF assessment period. 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 their investment management arrangements.

10.5. When considering 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, which are set to be commensurate with the Scheme's prevailing investment objectives, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon. This is complemented by the Scheme's investment consultant's ongoing monitoring of the investment managers' investment capabilities in relation to the asset classes that they manage on behalf of the Scheme, ensuring that due regard is given to the investment managers' longer-term performance.

10.6. The Trustee expects investment managers to vote (where possible) and engage on behalf of the Scheme's holdings and, where relevant, the Scheme monitors this activity within the Implementation Statement in the Scheme's 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

10.7. The Trustee monitors the performance of their investment managers over medium to long term periods as these are likely to be more meaningful in determining the appropriateness of performance as opposed to considering short time-periods. Given the Scheme's relatively short investment horizon, this includes ongoing monitoring of the investment managers' investment capabilities by the Scheme's investment consultant as set out in Clause 10.2.

10.8. The Scheme invests exclusively in pooled funds (excluding the buy-in). 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.

10.9. The Trustee believes that this fee structure enables the investment manager to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.

10.10. The Trustee asks the Scheme's investment consultant to assess if the asset management fee is in line with the market when the manager is selected.

Portfolio turnover costs

10.11. The Trustee acknowledges that portfolio turnover costs can impact on the performance of their investments. Overall performance is assessed from time to time.

10.12. 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 strategies where hedging of risks is required, such as currency hedging or interest rate hedging, a higher turnover of contracts such as futures, can be beneficial to the fund from both a risk and cost perspective.

Duration of arrangement with asset manager

10.13. The duration of the arrangement is not predetermined under the terms of agreement with the investment manager.

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 investment manager, the actuary and the Scheme auditor upon request.

Appendix 1 Note on investment policy of the Scheme as at February 2021 in relation to the current Statement of Investment Principles

1. The balance between different kinds of investment

The balance between different kinds of investment is as set out in the table below, which has been agreed after considering the Scheme's position. In particular, the Trustee has carried out a partial buy-in, which involved securing insurance contracts in respect of the Scheme's liabilities with Pension Insurance Corporation ("PIC").

While members will not receive full benefits in line with the Trust Deed & Rules, the partial buy-in has secured benefits in excess of PPF levels of compensation for members. The strategy has been agreed after consulting the PPF.

The Scheme's benchmark allocation is given below (excluding cash held in the bank account).

Portfolio	Asset class		Approx. Allocation (as at October 2020)
Protection portfolio	**Annuity policies**		
		A bulk annuity policy with PIC	95%
	Bonds		
		Government bonds	1%
	Cash		
		Sterling Liquidity Fund	4%
Total			**100%**

While the vast majority of the Scheme's assets are held in the annuity policy, the Trustee retains a small allocation to both government bonds and cash. These holdings will be used to meet certain benefit payments along with fees and other expenses until the Scheme's eventual wind-up, or PPF entry.

There is no rebalancing policy in place between the annuity policy and the other assets. The annuity policies have been structured to match changes in the Scheme's liabilities. Therefore, in the normal course of events, the Trustee will not carry out any rebalancing of the annuity assets. However, if surplus funds are identified, these may be applied in future to enhance the level of benefits provided by the annuity policies.

There is also no rebalancing policy in place between the cash and bonds. These allocations will be reviewed and rebalancing will be carried out as considered appropriate from time-to-time.

2. Choosing investments

The annuity policies have been secured with PIC. PIC is supervised by the Prudential Regulatory Authority ("PRA") in co-ordination with the Financial Conduct Authority ("FCA") within the current regulatory context. The PRA is part of the Bank of England.

The Trustee has appointed Legal & General Investment Management ("LGIM") to manage the Scheme's bond and cash investments and these are held in pooled funds. LGIM carry out the day-to-day investment of the Scheme.

The investment manager is regulated by the Financial Conduct Authority.

The investment benchmarks and objectives for the Scheme's investments with LGIM are given below:

Investment manager	Fund	Benchmark	Objective
LGIM	Government bond portfolio	A bespoke benchmark designed to reflect the amounts, term and nature of the Scheme's liabilities	To match the total return of the benchmark
	Sterling Liquidity Fund	LIBID 7-Day	To perform in-line with the benchmark index

The performance of LGIM 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.

3. Fee agreements

The fee arrangements with LGIM are summarised below:

Investment manager	Fund	Annual Management Charge (p.a.)
LGIM	Government bond holdings	0.100% for the first £5m
		0.075% for the next £5m*
	Sterling Liquidity Fund	0.125%

*Lower fees apply for higher assets under management within each single stock fund.

As well as the annual management charges given above, additional fund expenses will apply (covering legal, accounting and auditing fees).

The Trustee has appointed Barnett Waddingham LLP to advise on investment matters. Barnett Waddingham are normally remunerated on a time-cost basis, although fixed fees may be agreed for specific tasks.

There are no fees associated with the annuity policies.

4. Investments and disinvestments

The annuity policy has been designed to meet the majority of the Scheme's anticipated future benefit payments. In the event that the total value of funds held as cash and within the Sterling Liquidity Fund is not sufficient to meet other short-term cashflow requirements then disinvestments will be made from the government bond portfolio.

The proceeds arising from coupon and redemption payments will be re-invested in the Sterling Liquidity Fund.

The Trustee does not expect to receive any significant additional contributions that require investment.

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

Policy on financially material considerations

The Trustee is comfortable that the assets held by the Scheme are managed in accordance with their views on financially material factors, as set out below. This position is monitored from time-to-time. In the future, the views set out below will be taken into account when appointing and reviewing managers.

The Trustee believes that Environmental, Social and Governance ("ESG") factors may be financially material over the long term – that is, they have the potential to impact the value of the investments from time-to-time. This view includes an appreciation for the potential for climate risk to impact on the value of the investments.

However, the scope for ESG factors to be financially material depends on the Scheme's investment horizon, with greater scope over a longer horizon. The Scheme's investment horizon will in turn be subject to the Trustee's prevailing objectives. For example, in the context of the PPF assessment period and the Scheme's objective to buy-out outside the PPF, the Scheme's investment horizon will be shorter than a typical pension scheme, reducing the scope for ESG factors to be financially material to risk-adjusted returns.

The Trustee appreciates that the method of incorporating ESG in the investment strategy and process will differ between asset classes.

The Trustee believes that ESG issues are not financially material to the risk-adjusted returns achieved by the Scheme's gilts, annuity policies, and cash holdings. For instance, this recognizes that gilts are considered "least risk" and the annuity policies match the Scheme's liabilities directly in a very low-risk manner.

The process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

Policy on the exercise of voting rights and engagement activities

The Trustee's policy is to delegate responsibility for the exercising of rights attaching to investments and engagement activities to their fund managers, although they understand that government bonds do not provide voting rights and offer limited scope for engagement activities. The Trustee does not engage in any of these activities themselves.

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 Scheme's investment consultant, as required.

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, 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.

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 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 Scheme or as part of the pooled fund in which the Scheme holds units.

The Trustee also considers 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 Scheme.

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

The Scheme's investment consultant 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, the 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.

The Trustee is comfortable with LGIM's strategies and processes for exercising rights and conducting engagement activities, and specifically that they attempt to maximise shareholder value as a long-term investor. The Trustee will review this position from time-to-time.

Policy for taking into account non-financial matters

The Trustee does not consider any non-financial matters when constructing the investment strategy and/or when selecting or reviewing fund managers. The Trustee does not require LGIM to take non-financial matters into account when selecting, retaining or realizing investments.