Forester Group Employee Pension Scheme

Statement of Investment Principles

1. Introduction

1.1 This Statement sets out the principles governing decisions about the investment of the assets of the Forester Group Employee Pension Scheme ("the Scheme"). The Scheme comprises a Staff Plan and an Employee Pension Plan, the latter incorporating the Fieldworkers Plan. The Statement is issued by the Trustee to comply with Section 35 of the Pensions Act 1995 as amended by the Pensions Act 2004 and the Occupational Pensions Schemes (Investment) Regulations 2005.

1.2 The former Trustees consulted Mr M Cox, Forester Life's Investment Portfolio & Liquidity Manager, and a former Trustee, a person they believe to have the appropriate knowledge and experience of financial matters, to give the advice required by the Pensions Act 2004.

1.3 The former Trustees consulted the Principal Employer – Forester Holdings (Europe) Limited – about the content of this Statement.

1.4 The investment powers of the Trustee are set out in Clause 8 of the Trust Deed and Rules. This Statement is consistent with those powers. Neither the Statement nor the Trust Deed and Rules restrict the Trustee's investment powers by requiring the consent of the Principal Employer.

2. Description of the Scheme

2.1 The Staff Plan benefits are final salary defined benefits, where the benefits are related to pensionable salary and pensionable service to 31 March 1996 or earlier withdrawal. The resultant preserved pension is revalued to retirement date. Some pensioner benefits are paid from the Plan, while other pensioners have their benefits secured by annuities purchased by the Trustee in the pensioner's name. Pensions increase, both in deferment and payment, in line with the Retail Prices Index (RPI), subject to a maximum increase of 5% in any year.

2.2 The Employee Pension Plan benefits are defined contribution benefits, where the benefits are dependent on the accumulated contributions of the member and the employer to retirement. Except for members of the Fieldworkers Plan, investments are selected by members from a menu of investment sub-funds (pooled pensions products) that is selected by the Trustee. Each post-31 March 1996 member is allowed to indicate how he or she wishes his or her member's account and future payments into such account to be invested as between the available investment sub-funds. Some pensioner benefits are paid from the Plan; other pensioners have their benefits secured by annuities purchased by the Trustee in the pensioner's name. The type of pension will depend upon choices made by the member at retirement.

2.3 The Scheme provides death-in-service benefits on a fully insured basis.

2.4 In order to meet the Scheme's objectives, a full valuation of the Scheme is performed no less frequently than every three years, using asset return assumptions developed by the Scheme Actuary. The Trustee will consider the asset allocation of the Scheme in the light of this valuation and can revise the asset allocation and/or investment strategy, if necessary, with a view to achieving the Scheme's objectives. The Principal Employer is also providing additional funding into the scheme.

3. Choosing investments

3.1 The Trustee's policy in relation to defined contribution liabilities (excluding the Fieldworkers Plan) is to offer a default investment arrangement that complies with the requirements of a Qualifying Workplace Pension Default Fund under automatic enrolment rules plus a core range of investment funds suitable for the Scheme's membership profile. With respect to the defined benefit liabilities, the Trustee's policy is to set the investment guidance and objectives, as below, for the outsourced investment managers to adhere to.

3.2 The Trustee carefully considers the Scheme's Investment Objectives, shown in section 4, when designing the range of investment options to offer its members of the Employee Pension Plan. The Trustee acknowledges that members will have different attitudes to risk and different aims for accessing their retirement savings. Therefore, while seeking good member outcomes net of fees, they also consider the level of risk that is appropriate based on the anticipated needs of the membership profile of the Scheme.

Statement of Investment Principles (continued)

3.3 The day-to-day management of the Scheme's assets are delegated to the Scheme's investment managers, Standard Life Investments for the Employee Pension Plan and Legal & General Investment Management Limited for the Staff Plan assets. The investment managers are authorised and regulated by the Financial Conduct Authority and are responsible for stock selection and the exercise of voting rights.

3.4 The Trustee is prepared to consider active strategies based around Liability-Driven Investment (LDI), provided they are first satisfied that there is good evidence that the information ratio of such a strategy merits diverging from a basic LDI position.

3.5 The Trustee reviews the appropriateness of the Scheme's investment strategy on a continual basis. The review includes consideration of the competence of the investment managers with respect to their performance within any guidelines set.

4. Investment Objectives

4.1 To be able to meet benefit payments as they fall due.

4.2 To provide a default investment option that is suitable for active and deferred members of the Employee Pension Plan who do not make a fund choice.

4.3 To offer an appropriate range of investment options within the Employee Pension Plan so that members who wish to make their own investment choices have the ability to do so, recognising that members may have different needs and objectives.

4.4 To achieve good member outcomes net of fees and subject to acceptable levels of risk.

4.5 The Trustee aspires to a position whereby the defined benefit liabilities are matched as accurately as reasonably possible, having regard to the latest actuarial information, by a combination of cash, conventional and index-linked bonds (i.e. Liability-Driven Investment).

4.6 The expected volatility of returns achieved is managed through appropriate diversification between asset types in order to control the level of volatility and risk in the value of members' pension pots.

4.7 The Trustee expects cash and fixed-interest investments to give gross returns (before investment fees) equivalent to the current market redemption yields. The Trustee's central expectation for equity returns is the return on long-dated gilts plus 3% per annum, though with considerable variation from year to year.

5. Kinds of investments to be held

5.1 The Trustee is permitted to invest directly or indirectly in a wide range of assets including equities, bonds, cash, property, derivatives and alternatives, subject to complying with relevant legislation.

6. The balance between different kinds of investments

6.1 For the Employee Pension Plan (excluding the Fieldworkers Plan), members can choose from an appropriate range of investment options. Where members do not choose where their contributions, and those made on their behalf by the employer, are invested, the Trustee will invest these contributions in the default investment option.

6.2 The Trustee considers the merits of both active and passive management strategies for the various elements of the Scheme's portfolio and may select different approaches for different asset classes.

6.3 The Trustee is aware that for the defined benefit liabilities the appropriate balance between different kinds of investments will vary over time and the asset allocation may change as the membership profile evolves.

6.4 The investment managers will maintain a diversified portfolio of stocks or bonds within each of the funds offered under the Scheme.

Statement of Investment Principles (continued)

7. Risks

7.1 The Trustee has considered the following risks for the defined benefit parts of the Scheme with regard to its investment policy and the liabilities.

Risk versus the liabilities – The Trustee will monitor and review the investment strategy with respect to liabilities following each actuarial valuation. The investment strategy will be set with consideration of the appropriate level of risk required for the funding strategy as set out in the Scheme's Statement of Funding Principles.

Covenant risk – The creditworthiness of the employer and the size of the pension liability relative to the employer's earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the employer covenant.

Solvency and mismatching – This risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustee is aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Scheme's funding basis.

Asset allocation risk - The asset allocation is monitored on a regular basis by the Trustee.

Investment Manager risk - The Trustee monitors the performance of each of the Scheme's investment managers on a regular basis in addition to having meetings with each manager from time to time as necessary. The Trustee has a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate.

Concentration/Market risk - Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.

Liquidity risk - The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Scheme's cashflow requirements. The Scheme's administrators assess the level of cash held 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).

7.2 In the defined contribution part of the Scheme, the investment risk lies with the members themselves. However, the Trustee has considered the risks set out above in 7.1 where relevant. The Trustee has also considered a number of risks when designing and providing suitable investment choices to members. The main investment risks affecting all members in the defined contribution part are:

Inflation risk – The risk that the investments do not provide a return at least in line with inflation, thus eroding the purchasing power of the retirement savings. The Trustee makes available investment options that are expected to provide a long-term real rate of return.

Conversion risk – The risk that fluctuations in the assets held, particularly in the period before retirement savings are accessed, lead to uncertainty over the amount likely to be received. For those members in the default investment fund there are lifestyle arrangements in place so that in the run up to retirement the investments gradually start to more closely match how the trustee expects members to access their retirement savings.

Retirement income risk – The risk that a member's retirement income falls short of the amount expected, whether this is due to lower investment returns than expected or insufficient contributions being paid. The Trustee periodically reviews the appropriateness of the investment options offered to ensure member outcomes can be maximised. Annual communications to members encourage them to regularly review the level of their contributions, but ultimately this is a risk that lies with each member.

Statement of Investment Principles (continued)

Illiquid policy

The Trustee is required to state its policy on investing in illiquid assets for the Scheme's default investment arrangement. As defined by the Pensions Regulator, illiquid assets are those that cannot easily or quickly be sold or exchanged for cash and include any such assets held in a collective investment scheme.

The Trustee recognises the potential benefits from illiquid investments (assets of a type which cannot easily or quickly be sold or exchanged for cash), including improved diversification and enhanced risk adjusted returns.

Illiquid assets could be held within the Scheme's default arrangement through the Multi Asset Fund via an allocation in listed and unlisted property.

The current investment in illiquid assets is the result of the default arrangement's strategic asset allocation. Allocations to illiquids are held during all phases of the default lifestyle profile, with the global real estate exposure starting to reduce slightly once members are 10 years from their retirement age.

While the Trustee's policy on investing in illiquids is currently limited to investments in property, the Trustee will keep this policy under review, considering whether to, and if so, how to expand the type and range of illiquid assets in which it invests in the future. This decision will be taken in conjunction with the DC provider given the Scheme uses an “off-the-shelf” approach for its default arrangement.

8. Expected Return on investments

8.1 The Trustee has regard to the relative investment return, net of fees, and risk that each asset class is expected to provide. The former Trustees had been advised on these matters by Mark Cox (Forester Life's Investment Portfolio & Liquidity Manager), who is deemed to be appropriately qualified. However, the day-to-day selection of investments is delegated to the investment managers.

8.2 The Trustee recognises the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

9. Realisation of investments

9.1 The investment managers have responsibility for buying and selling investments. This role includes considering the liquidity of the investments in the context of the likely needs of members and the payment obligations of the Scheme.

10. Environmental, Social and Governance (ESG) and Stewardship Policy

10.1 The Trustee believes that environmental, social, and corporate governance (ESG) factors can be material to the assessment of investment value and mitigation of investment risk (to varying degrees across companies, sectors, regions and asset classes and through time). The Trustee believes that ESG factors should be considered by the investment managers – where relevant and material to the specific investment mandate under consideration. The former Trustees had reviewed the extent to which the fund managers analyse and integrate ESG risks and opportunities into their investment process and monitored their approach to the integration of ESG risks and opportunities on an on-going basis. However, the Trustee does not impose constraints solely on the basis of ESG factors when selecting investments.

10.2 The Trustee expects fund managers to use rights (including voting rights) wholly in the economic interests of the members.

Stuart Evans
Director
For and on behalf of Entrust Pension Limited
31 October 2024