

# Statement of Investment Principles

## for the Ricardo Group Pension Fund

July 2023

### 1. Introduction

#### 1.1. What is the purpose of this Statement of Investment Principles?

This Statement of Investment Principles (“SIP”) sets out the policy of The Trustees of the Ricardo Group Pension Fund (“the Trustee”) on various matters governing decisions about the investments of Ricardo Group Pension Fund (“the Fund”).

Further details of the investment arrangements for the Fund are set out in an *Investment Implementation Document* (“IID”).

#### 1.2. Who has had input to the SIP?

This SIP has been formulated after obtaining and considering written professional advice from Columbia Threadneedle Investments (CT), the Fund’s investment adviser and Fiduciary Manager, who the Trustee believes to be suitably qualified and experienced to provide such advice. The advice takes into account the suitability of investments and the need for diversification, given the circumstances of the Fund and the principles contained in this SIP.

The employer has been consulted on the SIP.

The Fiduciary Manager was given the opportunity to comment on a draft of the SIP and IID, and their comments have been incorporated into the final versions. The Fiduciary Manager is required to carry out its investment responsibilities in a manner consistent with this SIP.

#### 1.3. What is the legal and statutory background to the SIP?

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 (“the Act”) and the Occupational Pension Schemes (Investment) Regulations 2005 (“the Regulations”).

The Fund’s assets are held in trust by the Trustee. The investment powers of the Trustee are set out in the Fund’s Trust Deed and Rules.

The SIP also reflects the Trustee’s response to the Myners’ Voluntary Code of Investment Principles.

### 2. What are the Trustee’s overall investment objectives?

The Trustee’s objectives are that the Fund should:

- be able to meet benefit payments as they fall due by maintaining an adequate level of funding;
- adopt an appropriate level of risk relative to the liabilities, taking into account factors such as the employer’s attitude to funding the Fund, and the employer’s financial strength relative to the Fund; and
- aim to achieve a return on the assets in the longer term that is high enough to keep the underlying longer-term contribution rate at a level acceptable to both the Trustee and the employer.

## 3. Summary of the Fund's investment strategy

### 3.1. How was the investment strategy determined?

The Trustee, with the help of its advisers and in consultation with the employer, has set an investment strategy taking into account the objectives described in the section above.

The Trustee recognises the need to take some risk in order to generate sufficient investment return over the long term to make the Fund affordable, as measured by the contributions payable. However, the Trustee does not wish to take so much risk that the volatility of the investment returns relative to the liabilities becomes unacceptable. In judging what level of volatility is acceptable, the Trustee considers the effect that poor short-term investment performance will have on the short-term contribution rates arising from successive funding reviews.

The Trustee seeks to invest the Fund's assets in a wide range of asset classes of appropriate liquidity and security which will generate cash income and capital growth to meet, together with contributions from the employer, the benefit payments.

### 3.2. What did the Trustee consider in setting the Fund's investment strategy?

Strategy reviews typically include modelling the Fund's assets and liabilities over a range of possible scenarios for future economic conditions. In setting the strategy, the Trustee considers:

- the term and nature of the Fund's liabilities;
- the funding position of the Fund;
- a wide range of asset classes;
- the risks and rewards of a number of possible asset allocation options;
- the suitability of each asset class for the Fund;
- the need for appropriate diversification between different asset classes;
- the views of the employer; and
- an assessment of the strength of the covenant of the employer.

## 4. What risks does the Trustee consider and how are these measured and managed?

When deciding how to invest the Fund's assets, the Trustee considers a wide range of risks, including, but not limited to, those set out in Appendix A. Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each risk.

## 5. The Fund's investment managers

The Trustee has appointed CT as the Fund's Fiduciary Manager. CT's role will be to undertake day-to-day investment management of the Fund's overall investments, including the appointment of other investment managers. CT are authorised under the Financial Services and Markets Act 2000 to carry out such activities. The Trustee may appoint another Fiduciary Manager at their discretion and may also appoint underlying investment managers, although this is expected to be ordinarily delegated to the Fiduciary Manager.

## 6. The Fund's custodians

The Trustee can from time to time, appoint custodians, whose primary role is the safekeeping of the Fund's assets (or a portion of the Fund's assets). The custodians are authorised under the Financial Services and Markets Act 2000 to carry out such activities.

The Trustee is not responsible for the appointment of the custodian for assets underlying any pooled fund investments.

## 7. Other matters

### 7.1. What are the responsibilities of the various parties in connection with the Fund's investments?

Appendix B contains brief details of the respective responsibilities of the Trustee and its investment advisor and Fiduciary Manager.

The IID contains a description of the basis of remuneration of the investment adviser and Fiduciary Manager.

### 7.2. Does the Trustee make any investment selection decisions of its own?

The Trustee decides on the investment strategy and the choice of Fiduciary Manager. The Fiduciary Manager decides on investment selection within the strategic asset allocation set by the Trustee. This does not prohibit the Trustee from taking underlying investment selection decisions from time to time. It is the Trustee's policy to obtain written advice before making any investment strategy or selection decisions. The written advice considers the suitability of the strategy change or investment, the need for diversification and the principles contained in this SIP. It is also the Trustee's policy to review its own investment selection decisions on a regular basis, based on written advice.

### 7.3. What are the Trustee's policies on the implementation of investment arrangements with their appointed investment managers?

The Trustee has delegated the selection of managers to the Fiduciary Manager and has limited influence over underlying managers' investment practices because all the Fund's assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate and monitors the Fiduciary Manager

The Trustee's view is that the fees paid to the Fiduciary Manager and underlying investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high-quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice, underlying managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

It is the Fiduciary Managers responsibility to ensure that the managers' investment approaches are consistent with the Fund's policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustee expects investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. It assesses this when selecting and monitoring managers.

The Trustee evaluates the Fiduciary Manager and underlying investment manager performance by considering performance over both shorter and longer-term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. Generally, the Trustee would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustee's policy is to evaluate its Fiduciary manager by reference to the overall performance of the Fund's

assets versus stated objectives and to maintain oversight of each of its underlying investment managers by reference to the manager's individual performance as well as the role it plays in helping the Fund meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity.

The Trustee recognises that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers and Fiduciary Manager. The Trustee expects its investment advisor to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Fund's investment mandates.

#### 7.4. What is the Trustee's policy on the realisation of investments?

The Trustee cannot usually directly influence the managers' policies where the Trustee holds assets in pooled funds. The investment managers have discretion over the timing of the realisation of investments of the Fund and in considerations relating to the liquidity of investments. When appropriate, the Trustee, on the administrators' recommendation, decides on the amount of cash required for benefit payments and other outgoings, and informs the Fiduciary Manager of any liquidity requirements.

#### 7.5. What is the Trustee's policy on considering financially material and non-financial matters?

The Trustee has considered how environmental, social, governance ("ESG") and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Fund and its members.

The Trustee expects its investment managers to take account of financially material considerations (including climate change and other ESG considerations). The Trustee via delegation to the Fiduciary Manager seeks to appoint managers that have appropriate skills and processes to do this, and from time to time review how its managers are taking account of these issues in practice.

The Trustee has limited influence over managers' investment practices where assets are held in pooled funds, but it encourages its managers and Fiduciary Manager to improve their practices where appropriate.

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.

#### 7.6. What is the Trustee's policy on stewardship?

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, risks and ESG considerations.

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 seeks to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code

issued by the Financial Reporting Council, and from time to time the Trustee reviews how these are implemented in practice.

The Trustee also expects its Fiduciary Manager to review the stewardship policies and practices of the Fund's underlying managers and to engage with managers to improve those policies and practices where necessary.

7.7. What is the Trustee's policy on employer-related investments?

The Trustee's policy is not to invest directly in employer-related assets.

The Trustee will, from time to time, review the appropriateness of this SIP with the help of its advisers, and will amend the SIP as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy, and at least once every three years.

Print Name:

Signed:

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Date:

For and on behalf of  
**The Trustees of the Ricardo Group Pension Fund**

# The Trustee's policy towards risk, risk measurement and risk management

## 1. Risk appetite and risk capacity

Risk appetite is a measure of how much risk the Trustee is willing to bear within the Fund in order to meet its investment objectives. Taking more risk is expected to mean that those objectives can be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action. Risk capacity is a measure of the extent to which the Trustee can tolerate deviation from its long-term objectives before attainment of those objectives is seriously impaired. The Trustee aims to strike the right balance between risk appetite and risk capacity.

When assessing the risk appetite and risk capacity, the Trustee considered a range of qualitative and quantitative factors, including:

- the strength of the employer's covenant and how this may change in the near/medium future;
- the agreed journey plan and employer contributions;
- the Fund's long-term and shorter-term funding targets;
- the Fund's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged;
- the Fund's cash flow and target return requirements; and
- the level of expected return and expected level of risk, as measured by Value at Risk ("VaR"), now and as the strategy evolves.

## 2. Approach to managing and monitoring investment risks

The Trustee considers that there are a number of different types of investment risk that are important for the Fund. These include, but are not limited to:

### 1.1. Strategic risk

This is the risk that the performance of the Fund's assets and liabilities diverges in certain financial and economic conditions. This risk has been taken into account in the Trustee's investment strategy reviews and is monitored by the Trustee on a regular basis.

The Trustee reviews the Fund's investment strategy at least every three years in light of the various risks faced by the Fund.

### 1.2. Inadequate long-term returns

A key objective of the Trustee is that, over the long-term, the Fund should have adequate resources to meet its liabilities as they fall due. The Trustee therefore invests the assets of the Fund to produce an adequate long-term return.

### 1.3. Investment manager risk

This is the risk that the investment managers or overall Fiduciary Manager fail to meet their investment objectives. Prior to appointing investment managers, the Trustee undertakes investment manager selection exercises based on

advice from the investment adviser. Prior to appointing a Fiduciary Manager, the Trustee undertakes a selection exercise based on advice from an independent investment adviser (not related to the Fiduciary Manager). The Trustee monitors the investment managers and Fiduciary manager on a regular basis.

#### 1.4. Risk from lack of diversification

This is the risk that the failure of a particular investment, or the general poor performance of a given investment type, could have a material adverse effect on the Trustee's ability to meet its investment objectives. The Trustee ensures that the Fund's assets are adequately diversified between different asset classes and within each asset class through the choice of an appropriate investment strategy and through the guidelines agreed with the Fiduciary Manager.

#### 1.5. Liquidity / marketability risk

This is the risk that the Fund is unable to realise assets to meet benefit cash flows as they fall due. The Trustee is aware of the Fund's cash flow requirements and believes that this risk is managed appropriately as described in the main body of the SIP.

#### 1.6. Environmental, social and governance (ESG) risks

Environmental, social and corporate governance (ESG) factors are sources of risk to the Fund's investments, some of which could be financially significant, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Fiduciary Manager seeks to appoint investment managers who will manage these risks appropriately on the Trustee's behalf and from time-to-time reviews how these risks are being managed in practice.

#### 1.7. Collateral adequacy risk

The Fund is invested in leveraged Liability Driven Investment ("LDI") arrangements to provide protection ("hedging") against adverse changes in interest rates and inflation expectations. The LDI manager may from time to time call for additional cash to be paid to the LDI portfolio in order to support a given level of leverage. Collateral adequacy risk is the risk that the Fund when requested to do so will not be able to post additional cash to the LDI fund within the required timeframe. A potential consequence of this risk is that the Fund's interest rate and inflation hedging could be reduced, and that the Fund's funding level could suffer subsequently as a result. In order to manage this risk, the Fiduciary Manager ensures that the Fund has a sufficient allocation to cash or other highly liquid assets which can be readily realised, so that cash can be posted to the LDI manager at short notice.

#### 1.8. Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Fund invests in pooled funds and is therefore directly exposed to credit risk in relation to the solvency of the investment manager and custodian of those funds. Direct credit risk arising from pooled funds is mitigated by the underlying assets of the pooled funds being ring-fenced from the investment managers, the regulatory environments in which the pooled fund managers operate and diversification of the Fund's investments across a number of pooled funds. The Fiduciary Manager carries out due diligence checks prior to the appointment of any new investment manager or fund, and monitors for changes to the operating environment of the existing pooled funds.

The Fund is indirectly exposed to credit risks arising from the underlying investments held by the pooled funds, for example where they invest in bonds. The Fiduciary Manager manages this risk by investing in pooled funds that have a diversified exposure to bond issuers.

## 1.9. Currency risk

The Trustee has delegated the hedging of currency risk associated with the Fund's investment into overseas equity, fixed income and alternative asset markets to the Fiduciary Manager.

## 1.10. Interest rate and inflation risk

The Fund's assets are subject to interest rate and inflation risk because some of the Fund's assets are held in bonds and swaps, via pooled funds. However, the interest rate and inflation exposure of the Fund's assets hedges part of the corresponding risks associated with the Fund's liabilities.

The Trustee considers interest rate and inflation risks to be generally unrewarded investment risks. As a result, the Trustee aims to hedge a large portion of the Fund's exposure to interest rate risk and inflation risk, by setting the strategy of the Fiduciary Manager to invest in a mixture of bonds as well as leveraged LDI arrangements managed by Columbia Threadneedle Investments.

The net effect of the Trustee's approach to interest and inflation risk will be to reduce the volatility of the funding level, and so the Trustee believes that it is appropriate to manage exposures to these risks in this manner and to review them on a regular basis.

## 1.11. Other risks

The Trustee recognises that there are other, non-investment, risks faced by the Fund. Examples include:

- mortality risk (the risk that members live, on average, longer than expected); and
- sponsor risk (the risk that, for whatever reason, the employer is unable to support the Fund as anticipated).

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Fund's funding position falls below what is considered an appropriate level. By understanding and considering each of the risks that contribute to funding risk, the Trustee believes that it has addressed and is positioned to manage this general risk.

# Responsibilities and fees

## 1. Responsibilities and investment decision-making structure

The Trustee has decided on the following division of responsibilities and decision-making for the Fund. This division is based upon the Trustee's understanding of the various legal requirements placed upon it, and its view that this division allows for efficient operation of the Fund overall, with access to an appropriate level of expert advice and service.

### 1.1 Trustee

In broad terms, the Trustee is responsible in respect of investment matters for:

- establishing appropriate governance arrangements;
- determining the Fund's objectives;
- reviewing the investment policy following the results of each valuation, and / or after any review of investment strategy, including decisions concerning the long-term strategic asset allocation and strategic benchmark;
- setting the policy for rebalancing between asset classes;
- appointing (and, when necessary, dismissing), the actuary, fiduciary manager and investment advisor;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- formulating a policy on taking account of non-financial matters in the selection, retention and realisation of investments;
- monitoring the exercise of the investment powers that they have delegated to the Fiduciary Manager and investment managers and monitoring compliance with Section 36 of the Act;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employer when reviewing the SIP.

### 1.2 Fiduciary Manager

In broad terms, the Fiduciary Manager is responsible for:

- managing the overall investment portfolio within the strategic asset allocation guidelines agreed with the Trustee;
- selecting underlying investment managers and where necessary dismissing;
- implementing the rebalancing policy between asset classes;
- providing the Trustee with regular information concerning overall portfolio performance and underlying manager/strategy performance;
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

### 1.3 Investment managers

In broad terms, underlying investment managers are responsible for:

- managing their respective portfolios, within the guidelines agreed with the Fiduciary Manager;

- providing the Fiduciary Manager with regular information concerning the management and performance of their respective portfolios; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

#### 1.4 Investment adviser

In broad terms, the investment adviser is responsible for:

- participating with the Trustee in reviews of this SIP in consultation with the Scheme Actuary;
- undertaking project work as required including reviews of investment strategy;
- advising the Trustee on any aspects of the Fund's investment arrangements as may be required from time to time.

#### 1.5 Scheme Actuary

In broad terms, the Scheme Actuary is responsible, in respect of investment matters, for:

- liaising with the investment adviser as appropriate to assist the Trustee with reviews of investment strategy; and
- performing triennial (or more frequently as required) valuations and advising on the appropriate contribution levels.

#### 1.6 Mandates given to advisers and investment managers

The Trustee has in place a signed agreement with the Fund's Fiduciary Manager and each of the Fund's advisers. These provide details of the specific arrangements agreed by the Trustee with each party.

These are discussed in more detail in the IID.

## 2. Fee structures

The Trustee recognises that the provision of investment management, dealing and advisory services to the Fund results in a range of charges.

These are discussed in more detail in the IID.