

A man with a beard and a white t-shirt is painting on a canvas. He is holding a paintbrush and looking down at his work. The background shows a studio with various art supplies and a window looking out onto a garden.

JM

# **Johnson Matthey Employees Pension Scheme**

## **Defined Contribution Sections**

### **Statement of Investment Principles**

July 2019

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## Section 1: Introduction

### **Scheme details**

1.1 This document describes the investment policy pursued by the Johnson Matthey Employees Pension Scheme (JMEPS, the “Scheme”) Trustee.

1.2 The Scheme operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries. The Scheme operates several Defined Contribution (DC) sections (listed below). This SIP is only applicable to the DC sections of the Scheme.

- (i) JMEPS DC
- (ii) JMEPS Elements (Investment Account)
- (iii) JMEPS Extra

1.3 The Scheme is a registered pension scheme under the Finance Act 2004.

### **Pensions Acts**

1.4 Under the Pensions Act 1995 (as amended by the Pensions Act 2004), the Trustee is required to prepare a statement of the principles governing investment decisions. This document contains that statement and describes the investment principles adopted by the Trustee of the Scheme.

1.5 Before preparing this document, the Trustee has consulted Johnson Matthey (‘the Sponsor’) and the Trustee will consult the Sponsor before revising this document. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

1.6 In drawing up this document, the Trustee has sought advice from the Scheme's DC Investment Consultant, Willis Towers Watson Limited. Before preparing this document, the Trustee has had regard to the requirements of Section 36 of the Pensions Act 1995 concerning diversification of investments and suitability of investments. The Trustee will consider those requirements on any review of this document, or any change in their investment policy. The Trustee will refer to this document where necessary to ensure that it exercises its powers of investment to give effect to the principles set out in it as far as is reasonable.

### **Financial Services and Markets Act 2000**

1.7 In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policy, but will delegate the responsibility for selection of specific investments to appointed investment managers, which may include an insurance company or companies.

### **Regulatory guidance**

1.8 The Pensions Regulator has several regulatory tools, including issuing Codes of Practice to enable it to meet its statutory objectives. Codes of Practice provide practical guidelines on the requirements of pensions legislation. This document has been drafted in the light of the Code of Practice and specifically its recommendations relating to the content of Statements of Investment Principles generally.

## Section 2: Division of Responsibilities

2.1 The Trustee has ultimate responsibility for decision-making on DC investment matters. In order to ensure that investment decisions are taken only by persons or organisations with the skills, information and resources necessary to take them effectively, the Trustee delegates some of these responsibilities.

### **Trustee**

2.2 The Scheme Trustee's responsibilities include:

- (i) Reviewing the content of this Statement of Investment Principles and modifying it if deemed appropriate, in consultation with the Investment Consultant and the Sponsor.
- (ii) Developing a work plan for the Scheme.
- (iii) Setting terms of reference for the Trustee, appointing the members of the Trustee Board and holding the Trustee Board to account.
- (iv) Assessing its own performance and that of its advisors and delegates in fulfilling the requirements of the work plan.
- (v) Reporting to Scheme members as appropriate on the content of and compliance with this statement.
- (vi) Monitoring investment arrangements on an ongoing basis.
- (vii) Appointing and discharging the underlying investment manager(s).
- (viii) Assessing the quality of the performance and processes of the investment managers by means of regular reviews of the investment results and other information, in consultation with the Investment Consultant.
- (ix) Monitoring and considering the appropriateness of the investment strategy, having regard to the need for diversification of investment so far as is appropriate and to the suitability of investments.
- (x) To monitor investment choices made by members.

### **Underlying investment managers**

2.3 The underlying DC investment managers' responsibilities include:

- (i) At its discretion, but within the guidelines for each individual fund, implementing changes in the asset mix and selecting securities within each asset class.
- (ii) The independent safekeeping of the assets and appropriate administration (including income collection and corporate actions) within any pooled funds used by the Trustee.

### **Investment Consultant**

2.4 The Investment Consultant's responsibilities include:

- (i) Participating with the Trustee in reviews of this Statement of Investment Principles.

- (ii) Undertaking project work as required including transitions and implementations, strategy reviews and reviews of the investment managers.
- (iii) Advising the Trustee on:
  - how any changes within the Scheme’s membership profile may affect the way the assets should be invested (as requested)
  - how any changes in the investment managers’ organisations could affect the interests of the Scheme
  - how any changes in the investment environment could either present opportunities or problems for the Scheme
- (iv) Undertaking trustee education on DC investment matters.
- (v) Providing commentary on investment performance.
- (vi) Providing general advice in respect of the Scheme’s investment activities.
- (vii) Providing view of the investment managers employed by the Scheme.

## Section 3: Objective and Investment Strategy

3.1 Within the defined contribution sections members' benefits are dependent on the amount of money paid into their individual accounts, performance of investments and annuity rates at retirement.

### **Investment Objective**

The Trustee's objective is to make available to members a programme of investment via pooled funds which seek to generate income and capital growth which, together with new contributions from members and the Sponsor, will provide a fund at retirement with which to provide retirement benefits.

### **Investment Strategy**

3.2 The Trustee recognises that investment is essentially about decision making in an uncertain and complex environment. To help bring clarity to the decision-making process, the Trustee has established an investment beliefs framework which is in line with achieving the investment objective for the Scheme. This was last agreed in January 2019 and will be considered periodically and as part of any future investment review.

3.3 The Trustee believes that following an effective set of investment beliefs allows a coherent and consistent approach to investment that leads to a better suite of options which are tailored to members' needs.

3.4 The Scheme's investment fund options are sourced through various investment managers.

3.5 A full list of the range of funds offered is shown in Appendix A.

3.6 The Scheme also offers two pre-determined glidepath strategies for members. The aim of the glidepath strategies is for members to achieve a reasonable level of long-term growth on the investments over the majority of their working life, with an element of risk protection as retirement approaches. Both strategies have been designed to comply with the charge cap of 0.75%.

3.7 The Default Glidepath strategy for JMEPS DC, JMEPS Elements and JMEPS Extra members is called the "Annuity Glidepath strategy". It is a 'white-labelled' strategy that currently invests in the BlackRock 30:70 Currency Hedged Global Equity Fund, before switching to the JMEPS Diversified Growth Fund 25 years from retirement. Members start switching into the BlackRock Over 15 Years Gilt Index Fund 10 years from retirement and BlackRock Cash Fund five years from retirement. At the member's target retirement age, the asset split is 25% JMEPS Diversified Growth Fund 50% Over 15 Years Gilt Index Fund and 25% Cash.

3.8 There is an additional glidepath strategy called the "Cash Glidepath strategy". It is a 'white-labelled' strategy that currently invests in the BlackRock 30:70 Currency Hedged Global Equity Fund, before switching to the JMEPS Diversified Growth Fund 25 years from retirement to achieve 80% of assets invested in the Diversified Growth Fund 10 years from retirement. The allocation 80% JMEPS Diversified Growth Fund and 20% BlackRock 30:70 Currency Hedged Global Equity Fund stays constant for five years from 10 years to retirement. Members then start switching into the BlackRock Cash Fund five years from retirement. At the member's target retirement age, members are invested in 60% Cash and 40% JMEPS Diversified Growth Fund.

## **Default Options**

3.9 The Trustee offers members the option to invest in the range of funds described in Appendix A entirely at their discretion. If members opt to join the Scheme and do not make a choice, they will be automatically enrolled into the Default Glidepath (noted above) with a default target retirement age of 65.

3.10 The Trustee designed the Default Glidepath strategy in conjunction with their investment advisers having given in-depth consideration to the Scheme's demographic profile and the retirement outcome needs and risk tolerance of the membership. Due consideration was also given to charge cap compliance.

3.11 In addition to the above, the Trustee has historically selected the Cash Glidepath strategy and several of the individual funds listed in Appendix A for the purposes of fund mapping exercises (where the existing fund was felt to be inappropriate). In order to consider these members' interests, in such cases, the Trustee's policy is to select suitable 'like for like' investments to most closely match the investment the individual had previously selected (or been defaulted to previously). The Trustee's aims and objectives, risks and expected returns of these 'default' funds are consistent with their overarching investment and review policy as set out in this document.

## **Expected Risk and Return**

3.12 The investment options invest in the following assets and have the following risk and expected return characteristics:

- (i) Equities – expected to produce returns in excess of rates of salary and price inflation in the medium to long term. Capital values may be highly volatile in the short term.
- (ii) Diversified assets – expected to produce returns in excess of rates of salary and price inflation in the medium to long term. Capital values may be volatile in the short term although this is expected to be less than for equities.
- (iii) Bonds – capital values are likely to be less volatile than equities but tend to produce lower returns in the medium to long term. The value of bonds are expected to move broadly in line with the price of annuities, providing some protection to the 'purchasing power' of a member's account near retirement (for those members electing to purchase an annuity).
- (iv) Cash – low risk to capital and asset values are easily realisable with limited investment returns associated with the low risk nature of the assets.

## **Additional Voluntary Contributions ('AVCs')**

3.13 The Scheme provides a facility for members to pay AVCs into the Scheme (through JMEPS Extra) to enhance their benefits at retirement. The Company offers a matched contribution up to certain levels. Members have the choice of investing their AVC in any combination of self-select or glidepath investment options. The Trustee's objective is to provide funds which will offer a suitable long-term return for members, consistent with members' investment needs as they approach retirement age.

## Section 4: Other investment policies

The Trustee also faces other requirements relating to investment, be they legislative or considered best practice.

### **Sustainable investing**

4.1 The Trustee takes account of financially material risks and opportunities in consultation with its advisers. All risks and opportunities are considered for materiality and impact within a risk management framework, which takes account of members' investment time horizons and objectives. The Trustee considers sustainable investment factors, such as (but not limited to) those arising from Environmental, Social and Governance (ESG) considerations, including climate change, in the context of this broader risk management framework.

4.2 The Trustee's policy is that day-to-day decisions relating to the investment of the Plan's assets is left to the discretion of the investment managers. This includes consideration of all financially material factors, including ESG-related issues where relevant. The Trustee explores these issues with its advisers to understand how the investment managers exercise these duties in practice.

4.3 When considering the appointment of new managers, and reviewing existing managers, the Trustee, together with their adviser, look to take account of the approach taken by investment managers with respect to sustainable investing including engagement and voting policies where relevant.

4.4 Member views on non-financial matters are not currently taken into account but the Trustee has provided members with one fund that is managed with reference to social, environmental or ethical considerations within the self-select fund range, namely the JMEPS Sustainability Fund, which is a 'white-labelled' fund where the underlying fund is currently the Jupiter Ecology Fund.

### **Rights attached to investments**

4.5 The Trustee's policy is to delegate responsibility for the exercising of ownership rights (including voting rights) attaching to investments to the investment managers. The Trustee recognises the UK Stewardship Code as best practice and encourages their investment managers, via their adviser, to comply with the UK Stewardship Code or explain where they do not adhere to this policy.

### **Liquidity and realisation of investments**

4.6 The members' accounts are held in funds which can be realised to provide pension benefits on retirement, or earlier on transfer to another pension arrangement.

### **Diversification**

4.8 The Trustee believes that the provision of the investment funds and the two glidepath strategies meet the Scheme's investment needs and that these funds provide adequate diversification of investments.



**Suitability**

4.9 The Trustee has taken advice from the Investment Consultant to ensure that the investment options are suitable for the Scheme. The Scheme continues to monitor, and take advice on, the various options on an ongoing basis.

**Fee basis**

4.10 Members bear the investment management charges on their investment. These fees are charged by adjustment to the unit prices within the funds, calculated daily on the value that day.

4.11 The Trustee is aware of the importance of fees for members over long periods and therefore take into account the level of fees when selecting funds and seek to negotiate improved terms where possible. The Trustee will keep this under periodic review.

## Section 5: Investment Manager Arrangements

### **Investment Manager Structure**

5.1 Currently, the Scheme offers members a range of self-select and glidepath investment options as listed in Appendix A.

5.2 All the Scheme's active funds (except the Cash Fund) are white-labelled. White-labelling refers to the process of using a generic name for each investment option offered to members. White-labelling allows for underlying components to be changed more easily. In addition, the use of white labelled investment options that are not specifically branded by reference to the manager makes it potentially easier (at a high level) for members to understand where they are investing their assets. The assets of the Scheme are invested with investment managers appointed by the Trustee.

5.3 The Trustee's policy is to obtain ongoing advice on whether these funds continue to be satisfactory as required by the Pensions Act and that the various investment managers continue to be appropriate DC investment managers.

5.4 The Trustee has delegated day-to-day management of the assets to the investment managers.

### **Performance Objectives**

5.5 Whilst the Trustee is not involved in each investment managers' day to day method of operation and therefore cannot directly influence attainment of the performance target, it will regularly assess performance and review appointments.

5.6 The investment managers set performance objectives and risk tolerances for each of the Scheme's funds. The Trustee considers these investment performance objectives to be appropriate to assess each fund's performance against.

5.7 The investment objectives will be treated as a target only and will not be considered as an assurance or guarantee of the performance or risk of the Scheme or any part of it.

### **Fees**

5.8 The Trustee has accepted the fees of the Scheme's investment manager in line with the manager's stated fee scale.

5.9 The Trustee will pay fees to Willis Towers Watson based on time cost (or as agreed in advance for specific projects).

## Section 6: Risk Management

6.1 The Scheme recognises specific investment risks which can be managed by the range of investment options provided to the members. These are:

- (i) 'Inflation risk' - the risk that the investment return over members' working lives does not keep pace with inflation and does not therefore secure an adequate pension.
- (ii) 'Conversion risk' - the risk that relative market movements in the years just prior to retirement lead to a substantial reduction in the benefits secured.
- (iii) 'Shortfall' or 'opportunity cost' risk - the risk that members end up with insufficient funds at retirement with which to secure a reasonable income.
- (iv) 'Manager risk' - the risk that the chosen investment manager underperforms the benchmark against which the investment manager is assessed.
- (v) 'Capital risk' - the risk of a fall in the value of the members' fund.

6.2 The funds offered through the Scheme have been chosen, in part, to help members mitigate these risks.

The Trustee recognises a number of risks involved in the investment of the assets of the Scheme:

1. Manager risk:

- (i) is measured by the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy.
- (ii) is managed by monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment processes.

2. Liquidity risk:

- (i) is measured by the amount of a pooled fund investment that can be redeemed by members over a specified period.
- (ii) is managed by typically offering members pooled funds that are readily redeemable in normal circumstances at reasonable prices.

3. Political risk:

- (i) is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention.
- (ii) is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.

4. Diversification risk:

- (i) is measured by observing the relative and absolute volatility of the investment options.
- (ii) is managed through the selection of broad-based funds that show internal diversification, as well as by offering the membership a fund range which provides for reasonable diversification.

5. Currency risk:
  - (i) is measured by observing the difference between hedged and unhedged returns.
  - (ii) is managed by providing the membership with a number of GBP based investment options and communicating those funds which invest overseas.

## Section 7: Compliance with and Review of this Statement

### **Compliance with this Statement**

7.1 The Trustee will monitor compliance with this Statement annually.

### **Review of this Statement**

7.2 The Trustee will review this Statement in response to any material changes to any aspects of the Scheme, its membership profile and the attitude to risk of the Trustee, which it judges to have a bearing on the stated investment policy.

7.3 This review will occur no less frequently than every three years or at the time of any changes to the fund range. Any such review will be based on written expert investment advice and the Sponsor will be consulted.

## Appendix A: Fund range

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### Passive Fund Range

<b>UK Equity</b>	BlackRock UK Equity Index Fund
<b>JMEPS Diversified Growth</b>	LGIM Diversified Fund
<b>Overseas Equity</b>	BlackRock 30:70 Currency Hedged Global Equity Fund BlackRock World (ex-UK) Index Fund
<b>Corporate Bonds</b>	BlackRock Corporate Bond All Stocks Index Fund
<b>Government Bonds</b>	BlackRock Over 15 Years UK Gilt Index Fund BlackRock Over 5 Years UK Index-Linked Gilt Index Fund

### Active Fund Range

<b>JMEPS Global Equity</b>	MFS Global Equity Fund
<b>JMEPS Emerging Market Equity</b>	Trilogy Emerging Markets Fund
<b>JMEPS Sustainability</b>	Jupiter Ecology Fund
<b>JMEPS Global Bonds</b>	PIMCO Global Investment Grade Credit
<b>Cash</b>	BlackRock Cash Fund

### Funds in the Glidepath Strategies

<b>Annuity Glidepath Strategy (Default)</b>	BlackRock 30:70 Currency Hedged Global Equity Fund JMEPS Diversified Growth Fund Blackrock Over 15 Years UK Gilt Index Fund Blackrock Cash Fund
<b>Cash Glidepath Strategy</b>	BlackRock 30:70 Currency Hedged Global Equity Fund JMEPS Diversified Growth Fund Blackrock Cash Fund

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