

Industry-Wide Coal Staff Superannuation Scheme ('the Scheme')

Statement of Investment Principles ('the Statement')

1. Scope of Statement

This Statement has been prepared in accordance with Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005).

The effective date of this Statement is March 2017. The Trustee will review this Statement and the Scheme's investment strategy no later than three years after the effective date of this Statement and without delay after any significant change in investment policy.

2. Consultations Made

In preparing this Statement, the Trustee has consulted with the employers who sponsor the various sections of the Scheme and has taken and considered written advice from the Investment Practice of Aon Hewitt and from the Scheme Actuary.

3. Scheme Objective

The Trustee aim to invest the assets of the Scheme prudently to ensure that the benefits promised to members are provided.

The Trustee's statutory funding objective is that the Scheme should have sufficient and appropriate assets to cover its technical provisions. Further details are provided in the Statement of Funding Principles.

The funding position is monitored regularly by the Trustee and formally reviewed at each triennial Actuarial Valuation or more frequently, as required by the Pensions Act 2004.

4. Investment Strategy

There are multiple employer sections within the Scheme. The overall approach seeks to provide consistency in the investment strategy across sections, while also providing flexibility for the circumstances of the individual section (such as covenant strength or employer views).

Each of the employer sections is categorised, based on the outcome of their Actuarial Valuation and covenant discussions, and this category dictates the section's strategic asset allocation. Further details are enclosed in the Appendix.

To facilitate these strategic asset allocations the Trustee has implemented a common growth fund benchmark consisting of investments in a diversified range of asset classes in underlying pooled funds. The growth allocation targets a return of 4% p.a. above cash and is consistent with the Actuarial Valuation assumptions.

The Matching Allocation consists of three asset classes including a cash fund, index-linked gilts fund and a Liability Driven Investment ('LDI') fund. A section's underlying Matching Allocation asset split is designed to hedge an agreed proportion of each individual Section's liabilities.

For more information on the specifics of the Investment Strategy please see Appendix I.

The Trustee monitors strategy relative to the agreed asset allocation benchmarks. It is intended that the investment strategy for each employer section will be reviewed at least every three years following actuarial valuations of the sections. In reviewing strategy, the Trustee will seek written advice as required.

5. The Balance Between Different Kinds of Investments

The Trustee recognises that the key source of financial risk (in relation to meeting their objectives) arises from asset allocation.

They therefore retain responsibility for setting asset allocation, and take expert advice as required from their professional advisers.

The Trustee believes that asset modelling should be used when determining the appropriate asset allocation. Asset modelling is usually carried out following each formal Actuarial Valuation of the Scheme (or more frequently should the circumstances of the Scheme change in a material way). Therefore as a minimum the asset allocation is reviewed once every three years.

A broad range of available asset classes have been considered. This includes consideration of so-called “alternative” asset classes.

6. Choosing Investments

The Trustee exercises its powers of investment in a manner calculated to ensure the security, quality, liquidity and profitability of the portfolio as a whole. In order to avoid an undue concentration of risk a spread of assets is held. The diversification is both within and across the major asset classes. Day to day selection of assets is delegated to investment managers appointed by the Trustee.

Assets held to cover the Scheme’s technical provisions (the liabilities of the Scheme) are invested in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the Scheme.

The assets of the Scheme are invested predominantly in regulated markets (with investments not on regulated markets being kept to a prudent level) and properly diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings so as to avoid accumulations of risk in the portfolio as a whole.

The Trustee do not hold any direct investments in derivatives although the Scheme’s investment managers may do so long as it contributes to the reduction of investment risk or facilitates efficient portfolio management.

An individual section may also hold a bespoke asset due to special circumstances surrounding the sub-fund’s employer.

7. Investment Risk Measurement and Management

The Trustee recognises that the key risk to the Scheme is that it has insufficient assets to make provisions for 100% of its liabilities (“funding risk”). The Trustee has identified a number of risks which have the potential to cause a deterioration in the Scheme’s funding level and therefore contribute to funding risk. These are as follows:

- The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors (“mismatching risk”). The Trustee and their advisers considered this mismatching risk when setting the investment strategy and have specifically structured the Scheme’s assets so as to minimise this risk as far as is practical.
- The risk of a shortfall of liquid assets relative to the Scheme’s immediate liabilities (“cash flow risk”). The Trustee and their advisers will manage the Scheme’s cash flows taking into account the timing of future payments in order to minimise the probability that this occurs.
- The failure by the fund managers to achieve the rate of investment return assumed by the Trustee (“manager risk”). This risk is considered by the Trustee and their advisers both upon the initial appointment of the fund managers and on an ongoing basis thereafter.
- The failure to spread investment risk (“risk of lack of diversification”). The Trustee and their advisers considered this risk when setting the Scheme’s investment strategy.

- The possibility of failure of the Scheme's sponsoring employers ("covenant risk"). The Trustee and their advisers considered this risk when setting investment strategy and consulted with the sponsoring employers as to the suitability of the proposed strategy.
- The risk of fraud, poor advice or acts of negligence ("operational risk"). The Trustee has sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.

Due to the complex and interrelated nature of these risks, the Trustee considers the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review (normally triennially). Some of these risks may also be modelled explicitly during the course of such reviews.

Having set an investment objective which relates directly to the Scheme's liabilities and implemented it using a range of fund managers, the Trustee's policy is to monitor, where possible, these risks quarterly/periodically. The Trustee receives quarterly/periodic reports showing:

- Performance versus the Scheme investment objective
- Performance of individual fund managers versus their respective targets
- Any significant issues with the fund managers that may impact their ability to meet the performance targets set by the Trustee.

8. Expected Return on Investments

The investment strategy aims to achieve a return on Scheme assets which taken in conjunction with contributions is sufficient over time to match growth in the Scheme's pension liabilities.

9. Realisation of Investments/Liquidity

The Trustee recognises that there is a risk in holding assets that cannot be easily realised should the need arise.

The majority of the assets held are realisable at short notice (either through the sale of direct holdings of stocks, bonds etc. or the sale of units in pooled funds).

10. Arrangements with Asset Managers

The Trustee regularly monitors the Scheme's investments to consider the extent to which the investment strategy and decisions of the asset managers are aligned with the Trustee's policies. This includes monitoring the extent to which asset managers:

- make decisions based on assessments about medium- to long-term financial performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

The Trustee is supported in this monitoring activity by their investment consultant.

The Trustee shares the policies, as set out in this SIP, with the Scheme's asset managers, and request that the asset managers review and confirm whether their approach is in alignment with the Trustee's policies.

Before appointment of a new asset manager, the Trustee reviews the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee's policies. Where possible, the Trustee will seek to amend that documentation so that there is more alignment. Where it is not possible to make changes to the governing documentation, for example if the Scheme invests in a collective vehicle, then the Trustee will express its expectations to the asset managers by other means (such as through a side letter, in writing, or verbally at Trustee meetings).

The Trustee believes that having appropriate governing documentation, setting clear expectations to the asset managers by other means (where necessary), and regular monitoring of asset managers' performance and investment strategy, is in most cases sufficient to incentivise the asset managers to make decisions that align with the Trustee's policies and are based on assessments of medium- and long-term financial and non-financial performance.

Where asset managers are considered to make decisions that are not in line with the Trustee's policies, expectations, or the other considerations set out above, the Trustee will typically first engage with the manager but could ultimately replace the asset manager where this is deemed necessary.

There is typically no set duration for arrangements with asset managers, although the continued appointment all for asset managers will be reviewed periodically, and at least every three years.

11. Policy on Assessing Performance and Monitoring Costs

The Trustee is aware of the importance of monitoring their asset managers' total costs and the impact these costs can have on the overall value of the Scheme's assets. The Trustee recognises that in addition to annual management charges, there are a number of other costs incurred by their asset managers including turnover costs (i.e. the costs incurred when the assets managers buy and sell underlying investments).

The Trustee asks all of the asset managers annually to provide full details of the costs incurred in managing the Scheme's assets. Where these costs are out of line with expectations, the asset managers will be asked to explain the rationale, including why it is consistent with their strategy and the extent they expect it to continue in the future.

The Trustee accepts that transaction costs will be incurred to drive investment returns and that the level of these costs varies across asset classes and by manager style within an asset class. In both cases, a high level of transaction costs is acceptable as long as it is consistent with the asset class characteristics and manager's style and historic trends. Where the Trustee's monitoring identifies a lack of consistency, the mandate will be reviewed.

The Trustee uses ClearGlass to collate cost data to facilitate monitoring portfolio turnover costs and engaging with asset managers as required.

12. Environmental, Social, and Governance considerations

In setting the Scheme's investment strategy, the Trustee's primary concern is to act in the best financial interests of the Plan and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. These include:

- The risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly. The Trustee considers this risk by taking advice from their investment adviser when setting the Scheme/Plan's asset allocation, when selecting managers and when monitoring their performance.

13. Stewardship Policy

The Trustee recognises the importance of their role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Scheme invests, as this ultimately creates long-term financial value for the Scheme and its beneficiaries.

As part of their delegated responsibilities, the Trustee expects the Scheme's investment managers to:

- Where appropriate, engage with investee companies with the aim to protect and enhance the value of assets; and
- exercise the Trustee's voting rights in relation to the Scheme's assets.

The Trustee regularly reviews the continuing suitability of the appointed managers and takes advice from the investment adviser with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. If an incumbent manager is found to be falling short of the standards the Trustee has set out in their policy, the Trustee undertakes to engage with the manager and seeks a more sustainable position but may look to replace the manager.

The Trustee reviews the stewardship activities of their asset managers on an annual basis, covering both engagement and voting actions. The Trustee will review the alignment of the Trustee's policies to those of the Scheme's asset managers and ensure their managers, or other third parties, use their influence as major institutional investors to carry out the Trustee's rights and duties as a responsible shareholder and asset owner.

The Trustee will engage with their investment managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned. This will take the form of annual reporting which will be made available to Scheme members on the website.

The transparency for voting should include voting actions and rationale with relevance to the Scheme, in particular, where: votes were cast against management; votes against management generally were significant, votes were abstained; voting differed from the voting policy of either the trustees or the asset manager.

Where voting is concerned, the Trustee expects their asset managers to recall stock lending as necessary in order to carry out voting actions.

From time to time, the Trustee will consider the methods by which, and the circumstances under which, they would monitor and engage with an issuer of debt or equity, an asset manager or another holder of debt or equity, and other stakeholders. The Trustee may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.

14. Members' Views and Non-Financial Factors

In setting and implementing the Scheme's investment strategy the Trustee does not explicitly take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors"¹).

15. Additional Voluntary Contributions

The Trustee gives members the opportunity to invest in a range of vehicles at each member's discretion. The Additional Voluntary Contributions arrangements are reviewed regularly by the Trustee.

Signed for and on behalf of the Trustee of the Industry-Wide Coal Staff Superannuation Scheme

J M Storer
Secretary to the Trustee

Date

¹ The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.