BCA Automotive Pension Scheme
Defined Benefit and GMP Underpin Sections

Statement of Investment Principles

September 2020

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1. Introduction

This document constitutes the Statement of Investment Principles (‘the SIP’) required under Section 35 of the Pensions Act 1995 for the BCA Automotive Pension Scheme (‘the Scheme’). It describes the investment policy being pursued by the Trustees of the Scheme and is in accordance with the Government’s voluntary code of conduct for Institutional Investment in the UK (“the Myners Principles”). This SIP also reflects the requirements of Occupational Pension Schemes (Investment) Regulations 2005.

The Scheme has a Defined Benefit (“DB”) Section, GMP Underpin Section and Defined Contribution (“DC”) Section. This SIP covers the DB and GMP Underpin Sections.

The Scheme Actuary is Jonathan Black of Mercer Limited. The Investment Adviser for the Defined Benefit (“DB”) and GMP Underpin sections is XPS Investment Limited (collectively termed ‘the Advisers’).

The Trustees confirm that, before preparing this SIP, they have consulted with the Principal Employer, Walon Limited ('the Company') and the Scheme Actuary and have obtained and considered advice from the Investment Advisers. The Trustees believe the Advisers to be qualified by their ability and practical experience of financial matters and to have appropriate knowledge of the investment arrangements that the Scheme requires.

The Trustees are responsible for the investment of the Scheme’s assets and arrange administration of the Scheme. Where they are required to make an investment decision, the Trustees always receive advice from the relevant Advisers first and they believe that this ensures that they are appropriately familiar with the issues concerned.

Given the size of the Scheme, the Trustees have decided the most cost effective way of investing the Scheme’s assets is to invest in pooled funds via the Platform Provider, Aviva, rather than directly appointing an individual Investment Manager. Decisions about which pooled funds to invest in are made after receiving investment advice from an FCA regulated firm.

1.1 Declaration

The Trustees confirm that this Statement of Investment Principles reflects the Investment Strategy they have implemented for the Scheme. The Trustees acknowledge that it is their responsibility, with guidance from the relevant Advisers, to ensure the assets of the Scheme are invested in accordance with these Principles.

2. Scheme Governance

The Trustees are responsible for the governance and investment of the Scheme's assets. The Trustees consider that the governance structure set out in this SIP is appropriate for the Scheme as it allows the Trustees to make the important decisions on investment policy, while delegating the day-to-day aspects to the relevant Advisers. The responsibilities of each of the parties involved in the Scheme's governance are detailed in Appendix A.

The Trustees have decided not to appoint an Investment Sub-Committee to deal with investment matters.

3. Investment Objectives and key considerations

3.1 Investment Objectives

The investment objectives of the Scheme vary according to the relevant section as follows:

3.1.1 DB Section

The primary investment objective is to achieve an overall rate of return that:

- provides a high probability that sufficient resources will be available to meet all liabilities as they fall due.

Subject to the primary investment objective, there is an additional objective to maximise the long term investment performance of the Scheme having due regard to the nature of the liabilities whilst retaining a degree of short term stability in terms of the value of the Scheme's assets compared to that of the Scheme's liabilities.

The Trustees wish to broadly match the liability profile changes over time in terms of holding on risk assets in respect of non-pensioner liabilities and off-risk assets in respect of pensioner liabilities.

In developing a strategy to achieve these objectives, the following circumstances have been taken into account:

- the decision to close the Scheme to new entrants and future accrual; and
- the participating employers are contributing additional monthly amounts recommended by the Scheme Actuary in order to remove a shortfall in funding for past-service liabilities.

In outline the investment strategy is:

- to invest in government bonds in respect of pensions in payment ; and,
- to invest the remainder in equities and other appropriate assets with a view to achieving longer-term growth at an acceptable level of risk.

The allocation between the asset classes making up the on-risk and off-risk assets will vary over time to reflect, amongst other factors, the profile of the liabilities, the perceived relative value of the different asset classes and the perceived risk to the primary investment objective arising from any shortfall in the funding of the Scheme.

3.1.2 GMP Underpin Section

The objectives are to:

- minimise the likelihood of the value of members' GMP underpin benefits exceeding the value of their defined contribution benefits.
- achieve an overall rate of return that is sufficient to meet the reasonable pension expectations of the members;
- reduce investment return volatility over the short-term period to retirement where this is possible;
- invest in assets that are liquid, enabling funds to be realised when required to switch asset strategy or to redeem them when members retire;

- invest the Scheme's funds in a wide range of different assets to diversify a member's specific asset risks; and

To achieve these objectives, the strategy is to invest in a mixture of on-risk assets (including equities) and off-risk assets (including gilts, bonds and cash), with the allocation to the latter increasing at the expense of the former as members approach their normal retirement date.

The Trustees believe the investment objectives for both Sections and the resultant investment strategy are consistent with the actuarial valuation methodology and assumptions used by the Scheme Actuary. The current benchmarks and target allocations are set out in Appendix C and any changes in such allocations will only be made after receiving written advice from the Investment Advisers that such allocation remains consistent with the investment objectives.

3.2 Rebalancing Policy

The Trustees, in conjunction with the Advisers, will monitor the actual asset allocation of the DB and GMP Underpin Sections on an annual basis via the governance report. If the actual allocation moves further than -/+10% from the allocation set out in Appendix C, the Trustees will make a decision as to whether to switch assets back to the strategy following consideration of advice.

3.3 Expected Returns

The benchmarks for each of the current pooled funds are detailed in Appendix B.

3.4 Diversification

Investment in pooled funds is one way of helping to ensure that the Scheme's investments are adequately diversified given the Scheme's circumstances. The Trustees will monitor the strategy regularly to ensure that they are comfortable with the level of diversification.

3.5 Suitability

The Trustees have taken advice from the relevant Advisers to ensure that the asset allocation strategy is suitable for the Scheme, given its investment objectives.

The Trustees have chosen to hold a portion of the Scheme's assets in pooled funds invested in gilts and bonds (the 'off-risk' assets) to provide some degree of matching with the Scheme's liabilities. For the GMP Underpin Section, a corporate bond fund has been selected in order to benefit from the higher expected long-term returns over fixed interest gilts and the Trustees consider the additional credit risk to be consistent with the investment objectives.

The aim of the return-seeking assets (made up of equity and diversified growth funds) is to provide additional expected returns above those achieved by the off-risk assets, in line with the investment objectives.

3.6 Liquidity

All of the non-cash assets are held in pooled funds with frequent dealing dates.

4. Implementation

The Trustees have decided to invest in pooled funds via the Platform Provider, managed by Schroders, Blackrock Asset Management, Legal and General Investment Management ("LGIM") and Aviva.

The Scheme Asset Allocation is set out in Appendix B and the Trustees consider the arrangements with the Investment Managers to be aligned with the Scheme's overall strategic objectives. The Investment Managers make tactical asset allocation decisions in accordance with the benchmarks, objectives and parameters that are set out by the Trustees and in the pooled fund agreements.

The Trustees will ensure that the Scheme's assets are predominantly invested in regulated markets to maximise their security.

Investment Managers are incentivised to perform in line with expectations for their specific mandate as their continued involvement as Investment Managers as part of the Scheme's investment strategy – and hence the fees they receive – are dependent upon them doing so. They are therefore subject to performance monitoring and reviews based on a number of factors linked to the Trustees' expectations.

The Trustees encourage Investment Managers to make decisions in the long-term interests of the Scheme. The Trustees expect engagement with management of the underlying issuers of debt or equity and the exercising of voting rights, on the basis that such engagement can be expected to help Investment Managers to mitigate risk and improve long term returns. As covered in more detail in Section 8.2, the Trustees also require the Investment Managers to take ESG factors and climate change risks into consideration within their decision-making as the Trustees believe these factors could have a material financial impact in the long-term. The Trustees therefore make decisions about the retention of Investment Managers accordingly.

4.1 Mandate and Performance Objectives

The Trustees have received advice on the appropriateness of each pooled fund that the Scheme is invested in from the Advisers and believe them to be suitable to meet the Scheme's investment objectives. The benchmark for each fund currently held and its objectives are set out in Appendix B.

4.2 Manager Agreement

The Trustees are invested in pooled funds and as such there is no formal Manager Agreement setting out the scope of each Manager's activities, its charging basis and other relevant matters.

4.3 Diversification

The assets are invested in pooled funds with diversification requirements. Further diversification is achieved by investing in funds offered by two or more Investment Managers in order to reduce investment risk given the circumstances of the Scheme. The Trustees will monitor the strategy regularly to ensure that they are comfortable with the level of diversification being achieved.

5. Monitoring

5.1 Pooled Funds

Appointments of Investment Managers are expected to be long-term, but the Trustees will review the appointment of the Investment Managers in accordance with their responsibilities.

The Trustees will monitor the performance of the funds against the agreed performance objectives.

The Advisers on behalf of the Trustees, will review the performance of the funds to satisfy themselves that the funds remain suitable. The Trustees receive yearly performance monitoring reports from the Investment Adviser which considers performance over the 6 months, one and three year periods. In addition, any significant changes that the Investment Adviser is aware of will be highlighted, which may lead to a change in the Investment Adviser's rating for a particular mandate. These ratings help to determine an Investment Manager's ongoing role in implementing the investment strategy. If there are concerns, the Trustees may carry out a more in-depth review of a particular Investment Manager.

Fund manager remuneration is considered part of the manager selection process. It is also monitored regularly with the help of the Investment Advisor to ensure it is in line with the Trustees' policies and with fee levels deemed by the Investment Advisor to be appropriate for the particular asset class and fund type.

If the Trustees are not satisfied with the performance of the funds they will ask the manager of those funds what steps they intend to take to rectify the situation. If the funds still do not meet the Trustees' requirements, they will look to use alternative funds after consultation with the Investment Adviser.

5.2 Advisers

The Trustees will monitor the advice given by the Advisers on a regular basis.

5.3 Platform Provider

The Platform Provider will ensure that each member's funds are invested in accordance with the investment selected by the member or the Trustees where the default investment option is being used. Monitoring of the Platform Provider itself falls outside the scope of this SIP.

5.4 Other

The Trustees are required to review this SIP on a triennial basis, or, without undue delay, following any changes to the investment strategy. The triennial review will include a review of the holding of 'off' and 'on' risk assets in respect of the DB and GMP Underpin sections.

6. Fees

6.1 Funds

The Trustees will ensure that the fees charged for the funds they use and their expense ratios are consistent with levels typically available in the industry for active and passive funds.

The Investment Managers are remunerated by receiving a percentage of the Scheme's assets under management. In addition, a performance related fee may be payable. It is felt that this method of remuneration provides appropriate incentives for the Investment Managers to target the agreed level of outperformance whilst adhering to the level of risk specified by the Trustees.

Fees are charged as a proportion of the size of the assets invested with each investment fund. The charges have been negotiated and will continue to be reviewed regularly.

There are no deductions made when contributions are invested in the Scheme.

6.2 Portfolio Turnover

The Trustees also require the Investment Managers to report on actual portfolio turnover at least annually, including details of the costs associated with turnover, how turnover compares with the range that the Investment Manager expects and the reasons for any divergence.

6.3 Platform Provider

Fees are charged as a proportion of the size of the assets invested. The Platform Provider's fees are included with the overall charge levied by the Platform Provider for a particular fund.

The charges shown in the Appendices are the Total Expense Ratios (TER) for each of the investment fund managers, as well as Aviva's fees for administration and communication support to the Scheme. The TER includes the investment fund's additional expenses such as legal and custodian fees that may be payable from time to time.

6.4 Advisers

Fees paid to the Advisers are based either on actual time spent and hourly rates for relevant individuals, or on fees agreed in advance for specifically defined services or advice. Some of the fees are met from commissions paid by the Platform Provider which are charged as a proportion of the size of the assets invested.

6.5 Custodian

There is no custodian appointed directly by the Trustees.

6.6 Trustees

Trustees may be paid by the Company for any trustee-related duties that they carry out as agreed from time to time. Those who are not paid by the Company will have their expenses met and they are given time off from their other employment duties to attend appropriate training, meetings with their advisers and the periodic Trustees' meetings.

7. Risks

The Trustees recognise a number of risks involved in the investment of assets of the Scheme:

i. The risk of failing to meet the objectives as set out in Section 3 – the Trustees will regularly monitor the investments to mitigate this risk.

ii. The risk of adverse consequences arising through a mismatch between the Scheme's assets and its liabilities. This is addressed through the asset allocation strategy and through regular actuarial and investment reviews and the funding target.

iii. Risk of lack of diversification of investments – addressed through investment in pooled funds with diversification requirements and through the asset allocation policy.

iv. Risk of holding assets that cannot be easily sold should the need arise – addressed through the use of pooled funds with frequent dealing dates.

v. Underperformance risk – addressed through monitoring closely the performance of each fund and taking necessary action when this is not satisfactory.

vi. Country/political risk – the risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across many countries.

vii. Organisational risk – addressed through regular monitoring of each pooled fund and the Advisers.

viii. Sponsor risk – the risk of the Company ceasing to exist, which for reasons of prudence, the Trustees have taken into account when setting the asset allocation strategy.

The Trustees will keep these risks under regular review.

8. Other Issues

8.1 Statutory Funding Requirement

The Trustees will obtain and consider proper advice on the question of whether the investments are satisfactory having regard to both the investment objectives and the requirement to meet statutory funding requirements. The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation every three years.

The Trustees will consider with the Advisers whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the statutory funding requirement.

8.2 Environmental, social and governance matters

The Trustees have considered their approach to environmental, social and corporate governance ("ESG") factors and believe there can be financially material risks relating to them. The Trustees have delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Scheme's Investment Managers. The Trustees require the Scheme's Investment Managers to take ESG and climate change risks into consideration within their decision-making, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest.

The Trustees will seek advice from the Investment Adviser on the extent to which their views on ESG and climate change risks may be taken into account in any future Investment Manager selection exercises. Furthermore, the Trustees, with the assistance of the Investment Adviser, will monitor the processes and operational behaviour of the Investment Managers from time to time, to ensure they remain appropriate and in line with the Trustees' requirements as set out in this Statement.

As the Scheme invests in pooled funds, the Trustees acknowledge that they cannot directly influence the policies and practices of the companies in which the pooled funds invest. They have therefore delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the Investment Managers. The Trustees encourage them to engage with investee companies and vote whenever it is practical to do so on financially material matters such as strategy, capital structure, conflicts of interest policies, risks, social and environmental impact and corporate governance as part of their decision-making processes. The Trustees require the Investment Managers to report on significant votes made on behalf of the Trustees. If the Trustees become aware of an Investment Manager engaging with the underlying issuers of debt or equity in ways that they deem inadequate or that the results of such engagement are mis-aligned with the Trustees' expectation, then the Trustees may consider terminating the relationship with that manager.

When considering the selection, retention or realisation of investments, the Trustees have a fiduciary responsibility to act in the best interests of the beneficiaries of the Scheme, although they have neither sought nor taken into account the beneficiaries' views on risks including (but not limited to) ethical, social and environmental issues. The Trustees will review this policy if any beneficiary views are raised in future.

Appendix A – Responsibilities

Trustees

The Trustees of the Scheme are responsible for, amongst other things:

i. Conducting an annual review of the SIP and making changes when needed.
ii. Reviewing the investments policy for the Scheme in terms of providing a range of investment funds that ensures compliance with the investment strategy.
iii. Reviewing the investment policy for the Scheme so that it is designed to meet the objectives applicable to the DB and GMP Underpin Sections.
iv. Assessing the quality of the performance and process of the investment funds by means of regular reviews of the investment results and other information, through meetings and written reports.
v. Monitoring compliance of the investment arrangements with the SIP on an ongoing basis.
vi. Choosing and removing investment funds or changing the Platform Provider.
vii. Assessing the performance of the Advisers.
viii. Consulting with the Principal Employer when reviewing investment policy issues.
ix. Providing any appointed organisations / individuals with a copy of the SIP, where appropriate.

Investment Adviser

The Investment Adviser will be responsible for, amongst other things:

i. Participating with the Trustees in reviews of this SIP.
ii. Advising the Trustees how any changes within the Scheme's benefits, membership and funding position may affect the manner in which the assets should be invested.
iii. Advising the Trustees of any changes in the investment environment that could either present opportunities or problems for the Scheme.
iv. Undertaking reviews of the Scheme's investment arrangements including reviews of the asset allocation policy and current pooled funds, and advising on the selection of new funds.

Scheme Actuary

The Scheme Actuary will be responsible for, amongst other things, performing the triennial (or more frequently as required) valuations and advising on the appropriate contribution levels.

Platform Provider

The Platform provider will be responsible for, amongst other things:

i. Providing administration for the Scheme on behalf of the Trustees, including investment of contributions into each section of the Scheme and re-balancing members' funds where they are invested in the Lifestyle profile for the GMP Underpin Section.
ii. Providing information to the members and Trustees in the agreed format.
iii. Providing the Trustees with sufficient information periodically as required to facilitate the review of activities, including the following:
    a) Performance and rationale behind past and future strategy for fund options offered to members

b) A full valuation of the assets

c) A transaction report

d) Membership details

iv. Informing the Trustees immediately of any serious breach of internal operating procedures.

Appendix B – Pooled Funds

The Scheme invests in a combination of pooled funds as follows:

DB Section

Fund Name	Benchmark	Target/ Objective
Blackrock (50:50) Global Equity Index	50% FTSE All-Share Index 50% Overseas Equities	As benchmark
Schroder Life Intermediated Diversified Growth	RPI	RPI +5% per annum over a 5-7 year period.
LGIM Diversified Fund	50% FTSE World Total Return Index 50% FTSE World Total Return Index Sterling Hedged	As benchmark
Blackrock Over 15 Year Gilt Index	FTSE UK Gilts Over 15 Year Index	As benchmark

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Fund Name	Benchmark	Target/ Objective
Blackrock (50:50) Global Equity Index	50% FTSE All-Share Index 50% Overseas Equities	As benchmark
Schroder Life Intermediated Diversified Growth	RPI	RPI +5% per annum over a 5-7 year period.
Blackrock Over 15 Year Gilt Index	FTSE UK Gilts Over 15 Year Index	As benchmark
Blackrock Over 15 Year Corporate Bond Index	iBoxx Over 15 Years £ Non-Gilts Index	As benchmark
Aviva Cash	Short term market cash rates	As benchmark

Appendix C – Current Asset Allocation

Having considered advice from the Advisers, and also having due regard for the objectives, the liabilities of the Scheme at the time of signing the SIP together with their expected timing, the risks of and to the Scheme and the covenant of the Employer, the Trustees have decided upon the following benchmark allocation as being the basis for measuring investment performance:

DB Section

Asset Class	% of Total Assets	Fund on Aviva Platform	Active / Passive
Equities	33%	Blackrock (50:50) Global Equity Index	Passive
Diversified Growth	16%	Schroder Life Intermediated Diversified Growth	Active
Diversified Growth	16%	LGIM Diversified Fund	Active
Fixed Interest Gilts	35%	Blackrock Over 15 Year Gilt Index	Passive
Total	**100%**		

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Number of years to normal retirement date	Blackrock (50:50) Global Equity Index (%)	Schroder Life Intermediated Diversified Growth (%)	Blackrock Over 15 Year Gilt Index (%)	Blackrock Over 15 Year Corporate Bond Index (%)	Aviva Cash (%)
8+	60	20	10	10	0
7	52.5	17.5	15	10	5
6	45	15	20	10	10
5	37.5	12.5	25	12.5	12.5
4	30	10	30	15	15
3	22.5	7.5	35	17.5	17.5
2	15	5	40	20	20
1	7.5	2.5	45	22.5	22.5
0	0	0	50	25	25