Bally Group UK Retirement Benefits Scheme

Statement of Investment Principles

September 2020

Statement of Investment Principles

The Trustee of Bally Group UK Retirement Benefits Scheme ("the Scheme") has prepared this Statement of Investment Principles ("the SIP") in accordance with the Pensions Act 1995[1] ("the Act") as amended and the Occupational Pension Scheme (Investment) Regulations 2005 as well as the principles recommended by the Myners Code. It supersedes the previous SIP and reflects the investment policy agreed by the Trustee in respect of assets covering Defined Benefit liabilities and AVCs, known as the Supplementary Scheme.

This SIP will be reviewed at least every three years or immediately after any significant change in investment policy.

Before preparing this SIP the Trustee has:

- Obtained and considered the written advice from the Scheme's Investment Consultant, XPS Investment, who is suitably qualified through ability and experience and has appropriate knowledge.
- Consulted the Employer, Bally Group (UK) Limited.

Investment objective and strategy

Choosing investments

The Trustee sets the investment strategy and investment policies for the Scheme and, in doing so, has considered the Scheme's liabilities and strength of Employer covenant.

The Trustee relies on Investment Managers for the day-to-day management of the Scheme's assets but retains control over all decisions made about the investments in which the Scheme invests.

Where Investment Managers are delegated discretion under Section 34 of the Act, the Investment Manager will exercise their investment powers in accordance with the Act, relevant and subsequent regulations, and this SIP.

The Trustee relies on the Investment Managers to appoint appropriate Custodians for pooled funds who are responsible for the safekeeping of the assets of the Scheme.

The Trustee relies on the Investment Managers to appoint appropriate Administrators or Registrars for pooled funds who are responsible for keeping records of the Scheme's entitlement within the pooled funds.

Investment objective

The Trustee has set the following objective:

- To achieve a fully funded position against the secondary target on a self-sufficiency basis as set out in the Trustee's Statement of Funding Principles.
- To implement an investment strategy with growth assets targeting a return of 1.5% pa in excess of gilts.
- To acquire suitable assets to achieve the above objective whilst controlling volatility and the long term costs of the Scheme.
- To adhere to the provisions contained within this SIP.

1 *As amended 31st November 2018*

Investment strategy

The Trustee intends to meet the investment objective by investing in a diversified portfolio of return-seeking and liability-matching assets.

The Trustee can utilise a wide range of passively and actively managed investments, including (but not limited to):

- Assets or funds primarily utilised to match liability risk (typically movements in long-term interest rates and inflation) including gilts, swaps and repos and the use of derivatives and leverage.
- Assets or funds primarily used to outperform the liabilities over the long term including equity, bonds, property as well as alternative assets such as infrastructure, hedge funds and commodities. The Scheme is also able to make use of derivatives and leverage.
- Assets or funds primarily used to provide immediate liquidity such as cash or cash instruments.
- Assets or funds that combine liability outperformance, liability hedging or liquidity characteristics.
- Annuity or insurance policies designed to match the specific characteristics of the Scheme's liabilities or membership.

The actual strategy adopted for the Scheme, including the allocation to different assets, and expected returns is set out in the Appendix.

Investment restrictions

The Trustee intends to adhere to the following restrictions:

- No more than 5% of Scheme assets can be held in investments related to the Employer.
- Whilst borrowing on a temporary basis is permitted, this option will only be utilised where absolutely necessary or where it is expected to reduce overall risk (e.g. for very short time periods during an asset transfer).
- Investment in derivative instruments may only be made where they contribute to risk reduction or facilitate efficient portfolio management.
- Stock lending is permitted at the discretion of the Scheme's Investment Managers in line with their overall investment objectives, policies and procedures.

Investment risk

The Trustee has identified a number of risks including (but not limited to):

- Employer covenant risk
- Liability risks: Interest rate risk, Inflation risk, Longevity risk
- Asset risks: Such as equity risk, property risk, currency risk, credit risk, interest rate risk, inflation risk, liquidity risk
- Implementation risks: Investment manager risk, counterparty risk, operational risk

These risks are measured and managed by the Trustee as follows:

- The Trustee has set an investment strategy that adheres to the contents of this SIP.
- The Trustee receives strategic investment advice from the Investment Consultant that may include risk modelling and quantification (e.g. Value at Risk) whenever strategic changes are considered.
- The Trustee undertakes regular monitoring of the Scheme's investments supplemented by information provided by both the Investment Managers and Investment Consultant, as well as advice from the latter.
- The Trustee periodically assess the strength of the Employer covenant and uses external expertise where appropriate.
- The Trustee delegates the day-to-day management of some of these risks to the appointed Investment Managers.
- The Trustee considers the Investment Managers' role and approach to managing risk is considered when selecting appropriate Investment Managers.
- The Trustee utilises custodian relationships to ensure Scheme assets are held securely.
- The Trustee assesses whether appropriate controls are put in place by themselves, the Investment Consultant, Investment Managers and Custodians (where there is a direct relationship).

Realising investments

The Trustee recognises that assets may need to be realised to meet Scheme obligations at any time.

The Trustee will ensure that an appropriate amount of readily realisable assets are held at all times, and this will be part of the assessment for including new investments within the strategy.

Range of assets

The Trustee considers that the combination of the investment policy detailed and the specific manager mandates detailed in the Appendix will ensure that the assets of the Scheme include suitable investments that are appropriately diversified and provide a reasonable expectation of meeting the objectives.

Details of each specific mandate are set out in agreements and pooled fund documentation with each Investment Manager. The amounts allocated to any individual category or security will be influenced by the overall benchmark and objectives, varied through the Investment Managers' tactical asset allocation preferences at any time, within any scope given to them through asset allocation parameters set by the Trustees or governing the pooled funds in which the Scheme is invested.

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

The Trustee regularly evaluates the investment managers' performance against the specific mandate that was agreed. The investment manager is incentivised to perform in line with the agreed objectives as maintaining the mandate and associated fees are contingent on them doing so.

The Trustee encourages Investment Managers to make decisions in the long-term interests for the investors of the funds. The Trustee expects engagement with management of the underlying issuers of debt or equity and the exercising of voting rights. This expectation is based on the belief that such engagement can be expected to help Investment Managers to mitigate risk and improve long term returns.

Investment Manager Arrangements

Review process

Appointments of Investment Managers are expected to be long-term, but the Trustee will review the appointment of the Investment Managers in accordance with their responsibilities. Such reviews will include analysis of each Investment Manager's performance and processes and an assessment of the diversification of the assets held by the Investment Manager. The review will include consideration of the continued appropriateness of the mandate given to the Investment Manager within the framework of the Trustee's investment policies.

The Trustee receives quarterly performance monitoring reports from the Investment Consultant which consider performance over the quarter, one and three year periods. In addition, any significant changes relating to the criteria below that the Investment Consultant is aware of will be highlighted, which may lead to a change in the Investment Consultant's rating for a particular mandate. These ratings help to determine the suitability of the Investment Manager's ongoing role in implementing the investment strategy. If there are concerns, the Trustee may carry out a more in-depth review of a particular Investment Manager. Investment Managers will also attend Trustee meetings as requested.

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

Selection / Deselection Criteria

The criteria by which the Trustees will select (or deselect) the Investment Managers include:

- Ownership of the business;
- Leadership/team managing the strategy and client service;
- Key features of the investment and the role it performs in a portfolio;
- Philosophy and approach to selecting underlying investments including operational risk management and systems;
- Current and historical asset allocation of the fund;
- Past performance and track record;
- The underlying cost structure of the strategy;
- Consistency and extent to which ESG analysis is incorporated into the process of selecting underlying investments.

Portfolio turnover

The Trustee requires 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.

Responsible investment

The Trustee has considered its approach to environmental, social and corporate governance ("ESG") factors and believes there can be financially material risks relating to them. The Trustee has delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Scheme's investment managers. The Trustee requires 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 Trustee will seek advice from the Investment Adviser on the extent to which its views on ESG and climate change risks may be taken into account in any future investment manager selection exercises. Furthermore, the Trustee, 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 Trustee's requirements as set out in this Statement.

As the Scheme invests in pooled funds, the Trustee acknowledges that they cannot directly influence the policies and practices of the companies in which the pooled funds invest. The Trustee has therefore delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the investment managers. The Trustee encourages 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 Trustee requires the Investment Managers to report on significant votes made on behalf of the Trustee.

Should the Trustee monitoring process reveal that a manager's engagement and voting practices are not sufficiently aligned with Trustee expectations, the Trustee will engage with the manager further to encourage alignment. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the Trustee will consider terminating the manager appointment.

When considering the selection, retention or realisation of investments, the Trustee has 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 matters including (but not limited to) ethical issues and social and environmental impact. The Trustee will review this policy if any beneficiary views are raised in future.

Approved by the Trustee of the Bally Group UK Retirement Benefits Scheme 2020 on 29 September 2020

Appendix – Investment strategy

Overall strategy

Buy-in

In order to reduce the risk in the Scheme, with effect from December 2014, the Trustee opted to secure the benefits for the then current pensioner with JustRetirement Limited. A similar policy was previously purchased from Prudential Retirement Income Limited in respect of a different group of pensioners.

This was achieved through a buy-in arrangement whereby the insurer reimburses the Scheme for any payments made to the insured pensioners in return for a premium paid by the Scheme.

This investment completely removes the risks associated with the members insured. Due to this, this Statement primarily focuses on the remaining invested assets which will be used to pay for benefits for the remaining un-insured members.

Remaining invested assets

The investment strategy for the invested assets of the Scheme is summarised in the table below.

Asset class	Allocation	Manager and fund	Objective
Lability Driven Investment	30%	Legal & General Matching Core Funds	Achieve a return that matches an independently calculated liability-based gilt or swap benchmark of appropriate duration
		Legal & General Matching Plus Funds	Maximise returns by investing mainly in fixed interest and index linked securities issued predominately by the UK Government
Buy and Maintain Corporate Bonds	25%	Legal & General Maturing Buy and Maintain Funds	To invest in high quality corporate bonds that will deliver income.
Multi-Asset	15%	Legal & General Dynamic Diversified Fund	Outperform the Bank of England base rate by 4.5% per year (gross of fees) with a maximum of two thirds equity volatility.
Multi-Sector Credit	10%	Brandywine Global Multi-Sector Fixed Income Strategy Fun	3 month LIBOR + 4% gross of fees, over a credit cycle
Secure Income	20%	Legal & General Secure Income Assets Fund	Gilts + 2.5% pa (gross of fees) over 3 years
	100%		

Rebalancing investments

The Scheme does not have any formal rebalancing arrangements in place. The Trustee reviews the allocation regularly to determine if any rebalancing is necessary.

Realising investments

Where assets need to be realised, the Trustee will consult with the Investment Consultant regarding the source and timing of disinvestments.

AVCs

The Trustee has made AVCs with the following provider available to members of the Scheme:

- Utmost Life & Pensions

The Trustee will review the AVC provider, as well as the funds available, in the light of their performance on a periodic basis. Performance of these funds will be measured relative to the individual benchmarks and objectives for the funds offered and/or to other providers offering similar fund options.

The Trustee is aware that members' AVC funds are subject to the same risks faced by the Scheme's investments, such as inflation risk eroding real returns. In addition, AVC members face the risk that their investments will not meet their future expectations (for example, if they are planning to purchase an annuity at retirement), lack of transparency on how their fund is managed and also that their AVC fund may fall in value.