Goodwood Pension Scheme

Statement of Investment Principles

September 2020

Contents

01 **Introduction**

This document constitutes the Statement of Investment Principles ("the SIP") required under Section 35 of the Pensions Act 1995 for the Goodwood Pension Scheme ("the Scheme"). It describes the investment policy being pursued by the Trustee Directors 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 Trustee Directors confirm that, before preparing this SIP, they have consulted with the Employers (as detailed in Appendix C) and have obtained and considered advice from the Investment Adviser. The Trustee Directors believe the Scheme Actuary and the Investment Adviser 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 current Scheme Actuary and the Investment Adviser are detailed in Appendix C and are collectively termed "the Advisers".

The Trustee Directors 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 Trustee Directors 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 Trustee Directors have decided the most cost effective way of investing the Scheme's assets is to invest through a regulated life insurance company ("the platform provider"), rather than directly appointing individual investment managers. The Scheme holds a single life policy with the platform provider, where the value of the Scheme's assets is linked to the value of specific pools of assets ("funds") selected by the Trustee Directors from time to time. Decisions about which funds to invest in are made after receiving investment advice from an FCA regulated firm.

The Trustee Directors have also decided to appoint a separate manager to manage structured equity + LDI. This investment portfolio is not offered through the regulated insurance company which the rest of the Scheme's assets are invested through ("the platform") but instead the Trustee Directors have delegated their investment powers within a controlled mandate in accordance with Section 34 of the Pensions Act 1995.

01.01 Declaration

The Trustee Directors confirm that this Statement of Investment Principles reflects the Investment Strategy they have implemented for the Scheme. The Trustee Directors 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.

Signed	**For and on behalf of the Trustee Directors of the Scheme**
Date	

02 **Scheme governance**

The Trustee Directors are responsible for the governance and investment of the Scheme's assets. The Trustee Directors consider that the governance structure set out in this SIP is appropriate for the Scheme as it allows the Trustee Directors to make the important decisions on investment policy, while delegating the day-to-day aspects to the managers.

03 Investment objectives and key considerations

The investment objectives of the Scheme are:

- To seek to ensure that sufficient assets are available to meet liabilities of the pension scheme as they fall due.

- To seek to minimise periods when the Scheme is in deficit and to seek to achieve and maintain a position of being at least 100% funded on a Scheme Specific Funding Objective (Technical Provisions basis). Where the Scheme is in deficit due to an amendment to actuarial assumption and/or market fluctuations, the objective will be to balance the immediate need for improved returns against the risks of investing in assets which might achieve those returns;

- To minimise the volatility of the funding level of the Scheme;

- To aim for a solvent position in the event of winding-up the Scheme.

It is accepted that at different times within the economic cycle, acceptable levels of risk may change according to market conditions.

In developing a strategy to achieve these objectives, the Trustee Directors will review the Scheme's investments from a volatility and risk perspective at regular intervals.

04 **Asset allocation strategy**

The allocation between the asset classes making up the 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 objectives arising from any shortfall in the funding of the Scheme. The current benchmark and target allocation is set out in Appendix A 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.

The Trustee Directors have sought to reduce the level of risk through investing in structured equity, diversified growth funds and LDI.

04.01 Rebalancing policy

The Trustee Directors, in conjunction with the Advisers, will monitor the actual asset allocation of the Scheme on a regular basis via regular investment updates received from the Advisers. If the actual allocation moves further than the permitted ranges set out in Appendix A, the Trustee Directors will make a decision as to whether to switch assets back to the strategy following consideration of advice. The manager of the structured equity + LDI mandate has discretion to rebalance the LDI element of the structured equity + LDI to ensure it continues to achieve the desired level of hedging.

04.02 Alignment of incentives

Based on the structure set out in the Appendix, the Trustee considers the arrangements with the Investment Managers to be aligned with the Scheme’s overall strategic objectives. Details of each specific mandate are set out in guidelines, 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 any asset allocation parameters or guidelines set by the Trustee or governing the pooled funds in which the Scheme is invested.

The Trustee 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 Trustee’s expectations, including its selection / deselection criteria.

The Trustee encourages Investment Managers to make decisions in the long-term interests of the Scheme. The Trustee expects engagement with management of the underlying issuers of debt or equity and the exercising of voting rights in line with the investment mandate guidelines provided.

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.

As covered in more detail in this document, the Trustee also requires the Investment Managers to take ESG factors and climate change risks into consideration within their decision- making as the Trustee believes these factors could have a material financial impact in the long-term. The Trustee therefore makes decisions about the retention of Investment Managers, accordingly.

04.03 Expected returns

The passively managed funds are expected to perform in line with their respective benchmarks over the longer term. The actively managed funds are expected to outperform their respective benchmarks over the longer term. The targets for each of the asset classes and specific funds are detailed in Appendix A and B.

04.04 Diversification

The Trustee Directors achieve diversification by investing in a range of asset classes, including funds which invest across multiple asset classes (e.g. diversified growth funds). The Trustee Directors have sought to achieve further diversification by investing, through the platform provider, in funds which have investment restrictions (i.e. funds which impose concentration limits on individual positions and limits on the exposure to individual issuers). Generally speaking even funds investing in the same asset class would be expected to have different investment strategies and therefore add to the diversification of the Scheme. The structured equity element of the Scheme's investment in structured equity + LDI offers further mechanical diversification to the Scheme's physical equities.

The Trustee Directors maintain one policy with the platform provider instead of holding shares or units in pooled funds. The Scheme is therefore subject to the risk of insolvency of the platform provider. Whilst the Trustee Directors have not diversified against this risk, the likelihood of the platform provider becoming insolvent has been minimised as far as practical. For example, the platform provider is a regulated Life Insurance Company governed by UK Law and is therefore subject to regular scrutiny by the financial services regulators (Prudential Regulation Authority/Financial Conduct Authority) and is not exposed to any general insurance claims risk. Furthermore, the platform provider holds professional indemnity insurance to cover the risk of operational risks and fraud. In addition the structured equity + LDI allocation is not on the platform so offers diversification from the platform provider.

The Trustee Directors will monitor the strategy regularly to ensure that they are comfortable with the level of diversification.

04.05 Liquidity

All of the non-cash assets are held with the platform provider in funds with frequent dealing dates apart from the structured equity + LDI which only constitutes 35% of the total assets.

04.06 Mandate and performance objectives

The Trustee Directors have received advice on the appropriateness of each 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.

04.07 Manager agreement

The managers of the pooled funds are appointed by the platform provider. The fees with each manager are detailed in Appendix C.

In respect of the structured equity, the Trustee Directors have a separate investment manager agreement in place.

04.08 Additional voluntary contributions

Some members of the Scheme have paid Additional Voluntary Contributions (AVCs) into the Scheme, which are invested and will be used to increase benefits at retirement, or in the event of death. These facilities are now closed to future contributions. The Trustee Directors selected a range of investment funds to which members were able to pay AVCs. The Trustee Directors monitor the performance of these funds from time to time to ensure that the investment profile of the funds remains consistent with the objectives of the Trustee Directors and the needs of the members.

05 Monitoring

05.01 Funds

The Trustee Directors will monitor the performance of the pooled funds and the structured equity + LDI mandate against the agreed performance objectives.

For the funds invested through the platform, the platform provider links the value of the policy to specific funds chosen by the Trustee Directors from time to time, following receipt of advice from the Investment Adviser. The Trustee Directors, or the Advisers on behalf of the Trustee Directors, will regularly review the performance of the funds to satisfy themselves that the funds remain suitable. As part of this review, the Trustee Directors will consider whether or not:

- the investment managers are carrying out their function competently.
- the funds have been managed in accordance with their investment objectives.

If the Trustee Directors are not satisfied with the performance of the pooled funds or the structured equity + LDI mandate they will ask the investment managers what steps they intend to take to rectify the situation. If the investments still do not meet the Trustee Directors' requirements, they will look to switch to other funds or an alternative mandate - potentially with a different manager - after consultation with the Investment Adviser.

05.02 Advisers

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

05.03 Portfolio turnover costs

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.

05.04 Investment manager duration

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.

05.05 Performance and remuneration reporting

The Trustee will receive regular performance monitoring reports from the Investment Consultant which consider performance over the quarter, one and three year periods.

This monitoring helps to determine an 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.

The Investment Consultant has also carried out a review of how well the Trustee's guidelines in relation to ESG factors are incorporated into each Investment Manager's processes and the Trustee will re-assess progress on ESG issues periodically.

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.

05.06 Other

The Trustee Directors are required to review this SIP on a triennial basis, or, without undue delay, following any changes to the investment strategy.

06 **Fees**

06.01 Funds

The Trustee Directors 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 such funds. The current fee basis for each of the funds is set out in Appendix B. Information about the investment managers' fees, commissions and other transaction costs is available in the annual report of the pooled funds in accordance with the Financial Conduct Authority (FCA) Disclosure Code.

06.02 Advisers

Fees paid to the Advisers are based either on actual time spent and hourly rates for relevant individuals, or on fixed fees agreed in advance for specifically defined projects.

06.03 Structured equity + LDI manager

Fees paid to the manager of the structured equity + LDI mandate are based on assets under management in the different strategies with a minimum annual fee. The current fee basis is set out in Appendix B.

06.04 Custodian

There is no custodian appointed directly by the Trustee Directors and they have delegated responsibility for margining requirements in respect of the structured equity + LDI mandate to the manager.

06.05 Trustee Directors

The expenses of the Trustee Directors are met by the Employers and where relevant they are given time off from their other employment duties to attend appropriate training, meetings with their advisers and the periodic Trustee Directors' meetings.

07 **Risks**

The Trustee Directors 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 Trustee Directors 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, for example LDI, and through regular actuarial and investment reviews and the funding target.

iii. Risk of lack of diversification of investments – addressed through investment in funds with diversification requirements and structured equity 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 liquid funds with frequent dealing dates and the use of the platform provider.

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 – the risk of losses arising through operational mistakes or errors is measured by reference to the number of past such operational losses and is managed by holding a large proportion of assets with a single insurance policy with the platform provider.

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

ix. Insurance risk - the Trustee Directors have considered the risk of the platform provider becoming insolvent and note that it has been mitigated as far as practical.

x. Recapitalisation risk – Leveraging in an LDI solution gives typically 2-4 times the sensitivity to interest and inflation rates compared to normal bonds, this can also lead to the effective value of the LDI investments falling to zero relatively quickly or even going negative. Should interest rates rise significantly the Trustee Directors may need to sell some of the Scheme's return-seeking assets to recapitalise the LDI investments. The Trustee Directors will keep these risks under regular review.

08 **Other issues**

08.01 Statutory Funding Requirement

The Trustee Directors 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 Trustee Directors 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.

08.02 Corporate governance

The Trustee Directors have considered corporate governance issues and have agreed that they will rely on the policy of the platform provider. The platform provider carries out ongoing due diligence on all fund links as part of its overall governance responsibilities. The Trustee Directors have chosen to utilise the platform provider, in part, due to the reduction in corporate governance requirements. The Trustee Director will keep this position under review.

08.03 Social, environmental and ethical issues

The Trustee Directors have considered their approach to environmental, social and corporate governance ("ESG") risks and they believe there can be financially material risks relating to ESG. The Trustee Directors have delegated the ongoing monitoring and management of ESG risks to the Scheme's investment managers. The Trustee Directors expect the Scheme's investment managers to take into consideration ESG risks, as with other material factors, within their decision-making, recognising that how they do this will be dependent on the characteristics of the asset classes in which they invest.

The investment consultant will assist the Trustee Directors with monitoring the processes and operational behaviour of the investment managers to ensure they remain appropriate and in line with the Trustee Directors' requirements.

08.04 Voting rights

As the Scheme invests in pooled funds, the Trustee acknowledges that it cannot directly influence the policies and practices of the companies in which the pooled funds invest. It 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.

Appendix A
Strategic asset allocation

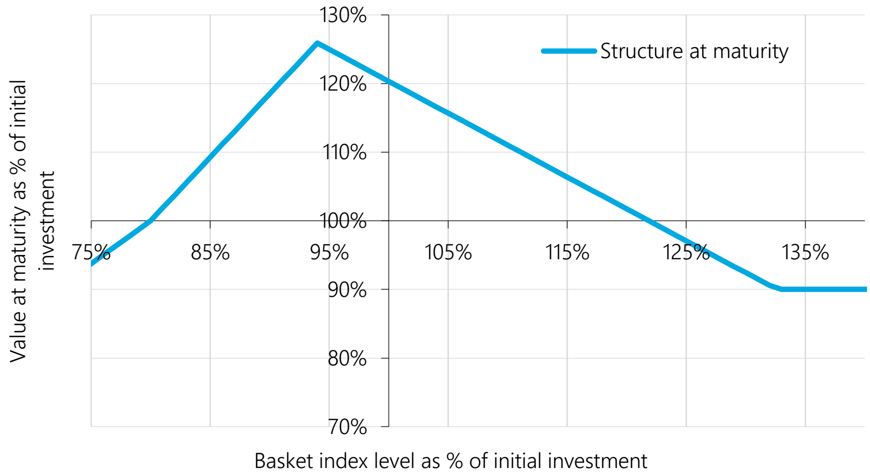
Having considered advice from the Advisers, and also having due regard for the objectives, the current liabilities of the Scheme together with their expected timing, the risks of and to the Scheme and the covenant of the Employers, the Trustee Directors have decided upon the following benchmark allocation as being the basis for measuring investment performance:

Asset class	Benchmark asset allocation (%)	Expected return above cash (% pa)	Hedging or matching contribution
UK equities	10.8	+5.50	-
US equities	10.8	+5.50	-
Other developed market overseas equities	10.8	+5.50	-
Diversified growth funds	20.0	+4.25	-
Structured equity + LDI	35.0	+1.90	✓
Cash or equivalent assets	12.5	-	✓
Total	**100**	+3.30	Expected to hedge 90% of interest rate and inflation risk plus match 3 years of expected benefit cash flows

- The LDI element of the structured equity + LDI is designed to hedge broadly 90% of interest rate and inflation rate risk in the Scheme's liabilities. This being in line with the Scheme's funding level on a Technical Provisions basis. This will be reviewed regularly, at least once every three years following each actuarial valuation, when updated expected future benefit cashflows can be provided to the manager of the structured equity + LDI mandate.

- The investment into cash is designed to cover three years' worth of expected benefit payments. This will reduce the risk that the Trustee Directors are forced into disinvestments over the next three years, which could otherwise jeopardise the Scheme's long term funding position. In addition it will reduce the extent to which the Scheme is exposed to any potential market losses. The Trustee Directors will review when it is appropriate to 'top-up' the cash fund.

- The Trustee Directors have agreed to implement structured equity + LDI. The payoff profile of the structured equity element is a "shark fin" structure such that the Trustee Directors receive their target level of return on their growth assets in as many market scenarios as possible, and maximise the downside protection. The split of the equity exposure is 1/3rd UK, 1/3 US and 1/3 "Other" in line with the Scheme's physical equity holdings. The diagram below illustrates the return on the structured equity + LDI mandate at the end of the three year maturity period.



- The Trustee Directors are aware that the actual allocations will fluctuate in line with market movements and fund performance.

- The diversified growth funds are used as the default funds to receive money paid out of the LDI element of the structured equity + LDI following any internal rebalancing of the LDI (due to large changes in expectations of future inflation or interest rates), or alternatively from which to transfer any money required to be made to the LDI (unless the Trustee Directors have surplus funds to invest). The diversified growth funds have been selected for this purpose as its returns are expected to be less volatile than equity funds.

Appendix B
Implementation details

Investments

The Trustee Directors have purchased a life policy from the platform provider. The platform provider creates pools of assets with the life policy which are managed by the managers set out below. In addition they invest in structured equity + LDI with R&M outside of the platform.

Asset class	Fund Name	Benchmark asset allocation (%)	Active / Passive	Target / Objective	Ongoing Charges Figure
UK equities	Blackrock Aquila Connect UK Equity	10.8	Passive	To invest in the shares of UK companies and aims to achieve a return that is consistent with the return of the FTSE All-Share Index	Annual Management Charge: 0.060% pa Platform charge: 0.035% pa Additional charges: 0.010% pa Ongoing Charges Figure: 0.105% pa
Overseas equities	Blackrock Aquila Connect US Equity Fund	10.8	Passive	To invest in the shares of US companies and aims to achieve a return that is consistent with the return of the FTSE All-World USA Index	Annual Management Charge: 0.060% pa Platform charge: 0.035% pa Additional charges: 0.010% pa Ongoing Charges Figure: 0.105% pa
	Blackrock Aquila Connect Europe Equity	3.6	Passive	To invest in shares of companies in Europe and aims to achieve a return that is consistent with the return of the FTSE All-World Developed Europe ex UK Index	Annual Management Charge: 0.060% pa Platform charge: 0.035% pa Additional charges: 0.020% pa Ongoing Charges Figure: 0.115% pa
	Blackrock Aquila Connect Japanese Equity	3.6	Passive	Aims to achieve index returns in line with the FTSE All-World Japan Index.	Annual Management Charge: 0.060% pa Platform charge: 0.035% pa Additional charges: 0.020% pa Ongoing Charges Figure: 0.115% pa
	Blackrock Aquila Connect Pacific Rim Equity	3.6	Passive	To invest in the shares of companies in the Pacific Rim and aims to achieve a return that is consistent with the return of the FTSE All-World Developed Asia Pacific ex Japan Index	Annual Management Charge: 0.060% pa Platform charge: 0.035% pa Additional charges: 0.020% pa Ongoing Charges Figure: 0.115% pa
Diversified growth funds	Baillie Gifford Multi Asset Growth Fund	10.0	Active	To outperform the Bank of England base rate by 3.5% p.a. net of fees, over rolling 5 year periods.	Annual Management Charge: 0.400% pa Platform charge: 0.035% Additional charges: 0.110% pa Ongoing Charges Figure: 0.545% pa
	Columbia Threadneedle Dynamic Real return fund	10.0	Active	To outperform the UK CPI by 4% gross of fees, over a 3 to 5 year investment horizon.	Annual Management Charge: 0.500% pa Platform charge: 0.035% pa Additional charges: 0.100% pa Ongoing Charges Figure: 0.635% pa

Structured equity + Liability Driven Investment ("LDI")	River and Mercantile Structured Equity + LDI Solution	35.0	Passive	To target investment returns in a wide range of conditions whilst providing diversification to the existing equity portfolio. The LDI aims to move in line with the Scheme's liabilities.	See separate table
Cash	LGIM Cash Fund	12.5	Passive	Aims to perform in line with 7 Day GBP LIBID, without incurring excessive risk.	Annual Management Charge: 0.050% pa Platform charge: 0.035% pa Additional charges: 0.000% pa Ongoing Charges Figure: 0.085% pa

The table below sets out the expected fees for the structured equity + LDI mandate managed by R&M.

Description	Estimated charges based on £12.25m allocation	Comments
River & Mercantile (R&M) annual management charges		
(a) LDI element	0.08% pa	Calculated based on 0.08% of the notional value of the underlying hedging instruments
(b) Structured equity element	0.12% pa	Calculated based on 0.12% of the notional value
(c) Total (subject to minimum fee)	£45k pa (0.37% pa)	A minimum fee bites for this allocation, which is £45k pa
Other annual charges		
(d) Management of the gilt collateral (paid to R&M)	n/a	Covered in (a)
(e) Movement of collateral (paid to KAS Bank)	£5,500 pa (0.04% pa)	c.£15 per collateral move. This assumes 365 postings per year across 2 banks
(f) Custodian fee (paid to KAS bank)	£1,250 pa (0.01% pa)	This is a fee charged by KAS Bank for acting as the custodian of the daily collateral.
Estimated total annual charges for (a) to (f)	£51,750 (0.42% pa)	

Current Employers, Advisers and Managers

i. Employers: The Participating Employers of the Scheme are The Goodwood Estate Company Limited, The Goodwood Club Limited, Goodwood Racecourse Limited, Goodwood Road Racing Company Limited, Dexam International Limited and Dexam International (Holdings) Limited.

ii. Advisers: The Scheme Actuary is Adam Gillespie of XPS Pensions Group and the Investment Adviser is Punter Southall Investment Consulting Limited, part of the XPS Pensions Group.

iii. Managers: The Scheme is currently invested in a combination of funds managed by BlackRock Investment Management (UK) Limited ("BlackRock"), Columbia Thread needle, Baillie Gifford and Legal and General Investment Management ("LGIM") through the platform provider. In addition they invest in R&M outside of the platform.

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