

## **The Shipbuilding Industries Pension Scheme**

### **Statement of Investment Principles (“Statement”)**

This Statement has been drawn up in accordance with the requirements of Section 35 of the Pensions Act 1995 (the Act) and the sections of the Act referred to in Section 35, together with any subsequent relevant regulations. This Statement replaces any previous Statement of Investment Principles drawn up by the Trustee.

The Trustee is the trustee of The Shipbuilding Industries Pension Scheme (the “Scheme”), an industry-wide scheme for companies in the shipbuilding and related industries and their approved participating associated companies. The Scheme comprises a number of Sections providing defined benefits and a Money Purchase Plan (the “Plan”). The assets and liabilities relating to each individual Section and the Plan are accounted for independently on a Section by Section basis, and the Trustee therefore considers it appropriate to look at each Section and the Plan separately when considering investment policy.

This Statement relates to the defined benefit Sections; there is a separate statement of investment principles in place for the Plan.

#### **1. Consultations Made**

The Trustee is ultimately responsible for the investment of the Scheme’s assets. An Investment Committee carries out key investment responsibilities including the review of investment performance, review of investment managers, consideration of investment strategy and consideration of asset allocation. A report from the Investment Committee is presented at each quarterly Trustee Board Meeting.

The Investment Committee obtains written advice on the long term investment strategy appropriate for the Scheme. This advice is provided by Hymans Robertson LLP, as the Trustee’s Strategic Funding Adviser, and by Stamford Associates Limited, as the Trustee’s Investment Adviser. Both advisers are reasonably believed by the Trustee to be qualified for this purpose by their ability in, and practical experience of, financial matters, and to have the appropriate knowledge and experience of the management of occupational pension schemes established under trust. In particular for the purposes of the Act such advice has been obtained in preparing this Statement. Hymans Robertson LLP and Stamford Associates Limited are authorised by the Financial Services Authority to give investment advice. The Trustee has agreed a protocol to set out a clear assignment of responsibilities between Stamford Associates Limited and Hymans Robertson LLP in respect of the investment advice provided.

The day to day management of the Scheme’s assets has been delegated to investment managers authorised under the Financial Services and Markets Act 2000. A copy of the main body of this Statement will be provided to the investment managers appointed by the Trustee.

The Trustee confirms that it has consulted with the relevant Independent Participating Employers (IPEs) prior to writing this Statement as required by the Act and informed the Investment Managers.

#### **2. Investment Objectives**

The Trustee’s primary funding objective is set out in the Statement of Funding Principles which has been prepared in line with Section 223 of the Pensions Act 2004. The investment objectives of the Scheme are in line with the Statement of Funding Principles and are as follows:-

- i) to ensure that the Scheme has sufficient and appropriate assets to cover the expected costs of providing members’ benefits as and when they arise,
- ii) to ensure that should a Section of the Scheme be discontinued at any point in time, benefits for members should be maximised. For this purpose, the Trustee considers the various options available for providing benefits and the cost of securing the benefits.

The Trustee’s investment objective is to maximise the return on the Scheme’s assets within the constraints of meeting these primary objectives whilst controlling the level of risk.

### **3. Asset Structure**

#### **3.1 The Types of Investments**

The Trustee's policy is to invest in a wide range of shares and other securities. The Trustee also considers (and may invest in) alternative investment strategies and asset classes, if it is advised that such investment is consistent with the objectives mentioned above. With the exception of any indirect self-investment inadvertently achieved through any pooled funds exposure, the Trustee prohibits investments in securities of participating companies in the Scheme.

The types of investments held and the balance between them is deemed appropriate given the liability profile of the Scheme, its cash flow requirements, the extent of any surplus assets in the Scheme and the Trustee's primary investment objectives. The Trustee receives advice on the investment implications of the Scheme's circumstances.

The benefits payable by the Scheme are linked to members' salaries close to retirement, death or withdrawal; pensions both in payment and in deferment are revalued annually as required.

In addition to the salary related benefits, members can obtain further benefits by paying additional voluntary contributions (AVCs). The assets in respect of these AVC arrangements are invested separately from the main Scheme assets and are equal to the value of the members' individual funds. The Trustee will regularly review the nature of these funds to ensure they remain appropriate to the members' needs.

#### **3.2 The Balance Between Different Types of Investments**

The Scheme's investment strategy currently comprises the following asset classes:-

- (i) **Equity Unitised Pool**
- (ii) **Fixed Interest Unitised Pool**
- (iii) **Index Linked Gilts Unitised Pool**
- (iv) **Property Unitised Pool**
- (v) **Absolute Return Unitised Pool**
- (vi) **Private Equity Funds**
- (vii) **Global High Yield Fund**
- (viii) **State Street Fixed Interest Fund**
- (ix) **State Street Index Linked Fund**

Further details regarding the composition of the Unitised Pools and the management of the Pooled Funds in which the Scheme invests are provided in section 6 of this document and also in Schedule I.

The Trustee holds periodic discussions with the various IPEs in the Scheme and, as a consequence, the investment strategy for the individual Sections of SIPS is customised accordingly. The Trustee has a policy of rebalancing the assets between the various asset classes and the investment managers as appropriate in order to ensure consistency with the investment strategy.

From 1 April 2009, the Bond Unitised Pool was restructured into two separate Unitised Pools (Fixed Interest and Index Linked Gilts) in order to provide the individual Sections with access to a more bespoke allocation. In addition, from May 2009 a Global High Yield Fund was made available to the individual Sections by the Trustee.

The Trustee plans to introduce Liability Driven Investment options for the individual Sections, subject to advice from its Strategic Funding Adviser.

### **3.3 Realisation of investments**

The Scheme's exposure to actively managed UK equities and investment-grade fixed interest securities is predominately achieved through segregated portfolios managed by specialist investment managers on the basis of investment management agreements. These managers are required to ensure that all investments should be realisable at reasonable notice without significant market impact. The Scheme also uses funds that are managed by various third parties on a unitised basis. The passive, fixed interest and index-linked funds have daily dealing dates. The active UK and overseas equity funds and the global high yield fund deal on a monthly basis. The absolute return fund deals monthly for subscriptions and quarterly for redemptions, but there is a longer term commitment for the private equity and property components.

### **3.4 Expected Return on Investments**

Given the investment strategy outlined above the Trustee expects to achieve a rate of return on the unitised equity pool significantly in excess of the increase in the Retail Prices Index over the very long term. This is also the case for the global high yield, private equity and property funds. On the fixed interest unitised pool, the index linked gilts unitised pool, the State Street fixed interest fund and the State Street index-linked fund the Trustee expects to achieve a rate of return moderately ahead of the increase in the Retail Prices Index over the very long term. The alternative investments are expected to provide significant positive investment returns over the long term.

Any allocations of the various Sections to liability driven strategy funds are intended to move broadly in line with particular liabilities of that Section.

Over the long term, the overall level of investment returns is expected to exceed the rate of return assumed by the Actuary in funding the Scheme, as set out in the Statement of Funding Principles.

## **4. Risk**

In terms of their investment strategy the Trustee views risk as the probability that the chosen strategy would result in the objectives not being met. Factors that may result in a failure to meet the objectives will be regularly monitored. Such factors include the following:

- Mismatch between assets and liabilities (strategic asset allocation risk).
- Actions by the investment manager (manager risk),
- The need to pay benefits in the short-term (cash flow risk),
- The failure of some of the investments (concentration risk),
- Actions by the custodian (custody risk),

### **4.1 Strategic Asset Allocation Risk**

This area of risk relates to the effect on the ability to fund benefits in an individual Section of the Scheme if there is a mis-match between the underlying benefit liability profile and the chosen asset allocation. As a safeguard the Trustee commissions asset liability studies for a representative sample of Sections from the Strategic Funding Adviser on a regular basis; these studies focus on the individual requirements of specific Sections in order to ensure that the asset allocation approach is suitable on a Section by Section basis.

### **4.2 Manager Risk**

In aiming to control manager risk the focus of the Trustee's attention is on the following aspects:

- the risk of the manager underperforming the objectives set; and
- the risks inherent in a particular manager's philosophy.

These issues were considered on the initial appointment of the managers and thereafter as part of the investment review procedures the Trustee has in place. The Trustee will ensure that each manager explicitly confirms that it understands and accepts the investment mandate for which it has been appointed.

The Trustee, in conjunction with its Investment Adviser, will regularly review the continuing suitability of their appointed managers. The Trustee will take advice and receive regular written reports from its Investment Adviser in this regard.

#### **4.3 Cash Flow Risk**

Cash flow risk relates to the realisation of investments in order to meet the benefit outgo. If such realisations are made at depressed prices this may in turn reduce the probability of meeting the primary objectives. Cash flow projections by the Scheme Administrator facilitate cash flow management, and cash flow risk is also mitigated to an extent by the diversified nature of the Scheme's investments.

#### **4.4 Concentration Risk**

The failure of any of the investments could jeopardise the Trustee's ability to meet the objectives if it constituted a significant proportion of the assets. In order to reduce this risk, a fully specialist investment management approach is in place for the unitised pools, whereby specialist investment managers have been appointed for UK equities, overseas equities and fixed interest securities in order to ensure that all areas of the Scheme's investments are managed by high quality investment management resources. Furthermore, a multi-manager approach has been adopted within the equity unitised pool in particular, to ensure that the Scheme is not unduly exposed to manager specific risk, i.e. to reduce the risk of its investment results being dominated by the particular investment style of a single investment management resource. Therefore, consideration is given to the diversification of the Scheme's assets by both type of investment and investment manager.

The management of cash holdings is assessed regularly to monitor the concentration of cash holdings with any one institution. The Trustee and its Investment Adviser monitor the investment managers' activity to ensure that it remains appropriate to these requirements.

#### **4.5 Custody Risk**

Custody risk involves any of the following:

- Misappropriation of assets,
- Delivery that is not in accordance with instructions,
- Unauthorised use of assets for the benefit of other customers or the custodians,
- Inadequate segregation of customer assets,
- Failure to collect income, recover tax or respond to corporate events,
- Custodian default (insolvency).

Day to day control of custody arrangements has been delegated to a single global custodian resource appointed by the Trustee, namely The Northern Trust Company, which is independent of the investment managers. The Trustee has a service level agreement in place with the custodian and will regularly monitor its performance.

Apart from transactions entered into as part of the normal management of the Scheme, the fund managers may only transfer assets to another party on the written instruction of the Trustee. The Trustee's auditors produce an annual statement detailing any issues requiring further consideration.

## **5. Monitoring of Strategic risk**

The Strategic Funding Adviser provides the Trustee with quarterly reports monitoring movements in the assets and liabilities. The reports chart progress made by comparison with the agreed funding plan for each Section of the Scheme to ensure that the Trustee is aware of developments in funding levels on an ongoing basis. This approach ensures that funding and investment strategy decisions are linked and that changes in investment strategy are made by reference to the funding plan. The Strategic Funding Adviser provides regular advice to the Trustee to ensure that the investment strategy for each Section remains appropriate with a view to achieving the Trustee's objectives.

The Trustee has in place de-risking strategies for several of the IPEs; these are monitored on a regular basis and action taken as appropriate.

## **6. Managers Appointed**

The managers appointed by the Trustee to invest the unitised pools are set out in a Schedule to this Statement. This Schedule will be updated whenever a material change takes place.

In addition to the managers of the unitised pools, the Trustee currently has an investment in real estate interests in the USA managed by Abercromby Property International.

Investments in the private equity fund are made outside of the unitised pools framework and on the advice of Capital Dynamics Limited and Parallel Private Equity LP. It is expected that the private equity exposure will take a number of years to establish and the Trustee has established a process to manage this drawdown period.

The Trustee has also established, outside the unitised pools, a long dated fixed interest gilt fund and a long dated index-linked gilt fund managed by State Street Global Advisors (SSgA). The objectives of these funds are to match the return on the FTSE Actuaries Over 15 Years Gilts Index and the FTSE Actuaries Over 5 Years Index Linked Gilts Index respectively. The funds are life policies for exempt pension schemes. The units can be redeemed on written notice being given to SSgA.

The facility to invest in global high yield bonds was established by the Trustee in May 2009 by investing in the Global High Yield Fund managed by Multi-Manager Investment Programmes PCC Limited ("MMIP").

From 1 April 2008 Prudential has been appointed to manage assets relating to Additional Voluntary Contributions and their appointment is reviewed on a regular basis. Some members of the Scheme have retained funds with Clerical Medical and Equitable Life.

After taking the appropriate professional advice, the Trustee views the appointed investment managers and the assets held as being suitable for the Scheme. Where appropriate, the fee structures in place with the investment managers and the Investment Adviser include performance related fees.

## **7. Monitoring of Investment Managers**

The global custodian provides monthly portfolio valuations to the Trustee, and the Investment Adviser provides monthly, quarterly and annual investment reports. These reports compare the manager returns against their relevant market index (the performance benchmark) and the total unitised pool return with a composite of the benchmark indices (based on the weighting of each asset class). The Trustee also has the performance of the Scheme measured by an external performance measurer each month.

In addition the Investment Adviser meets the Investment Committee of the Trustee regularly to discuss the Scheme's investment management arrangements and arranges for the specialist investment managers to meet the Investment Committee of the Trustee periodically.

## 8. The Occupational Pension Schemes Amendment Regulations 1999

### 8.1 Social, Environmental or Ethical Considerations

The primary objective of the investment management approach adopted by the Trustee is to produce superior financial returns over the long term. As a general principle, the Trustee's investment criteria will not be constrained by social, environmental or ethical criteria, as there is no proof that this leads to enhanced performance. Thus no restriction will be placed on the investment managers as to the nature of the business in which their selected investments participate.

However, there are risks to shareholders from companies which fail to conduct business in a socially responsible manner. The Trustee therefore expects its investment managers to familiarise themselves with the Codes of Conduct issued by the companies in which they invest and where appropriate to engage those companies on the basis of those codes in order to emphasise (via the use of voting rights and other means) the need to adopt socially responsible attitudes – including acceptable standards of corporate governance – in their business activities.

### 8.2 Exercise of the Rights Attaching to Investments

The Trustee's approved policy permits the segregated investment managers to exercise their discretion relative to voting rights, with the exception of contested take-over situations where in such cases the investment managers must always consult with the Trustee before taking a voting decision (in such cases the Managing Director has been authorised to act on behalf of the Trustee, consulting with the Chairman and Deputy Chairman as required, and subsequently reporting details to the Investment Committee).

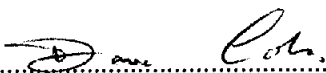
Reports summarising the exercise of votes by individual investment managers are reviewed at the quarterly Investment Committee Meetings.

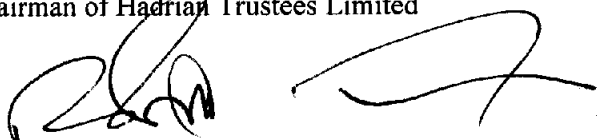
## 9. Class Actions

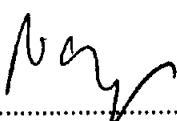
In conjunction with the global custodian and the investment managers, the Investment Committee monitors relevant Class Action activity in order to ensure that the entitlements of the Scheme are pursued.

## 10. Timing of Periodic Reviews

In view of the circumstances of the Scheme, the Trustee's opinion is that an annual review of the continuing suitability of this Statement is appropriate. Such a review will be carried out based on written advice from its advisers and after appropriate consultation with the relevant employers. This Statement will be updated whenever circumstances so dictate.

  
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Chairman of Hadrian Trustees Limited

  
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Managing Director of Hadrian Trustees Limited

  
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Chairman of the Hadrian Trustees Limited Investment Committee

(Date).....18<sup>th</sup> August 2009.....

**Investment Management Arrangements for the Scheme's Unitised Pools**

The assets of the SIPS unitised pools are currently managed by/invested in the following investment managers/investment vehicles:

**(A) Equity Unitised Pool**

<b>Asset Class</b>	<b>Manager</b>	<b>Performance Benchmark</b>	<b>% Model Weighting of Equity Unitised Pool</b>
UK Equities	INVESCO Asset Management	FTSE All Share Index	12.00
	SW Mitchell Capital	FTSE All Share Index	12.00
	Global Asset Management	FTSE All Share Index	12.00
	Liberty Square Asset Management	FTSE All Share Index	12.00
	MMIP* UK Equity Fund	FTSE All Share Index	12.00
		<b>Sub Total</b>	60.00
US Equities	MMIP* US Equity Fund	S&P 500 Index	14.00
Europe ex-UK Equities	MMIP* European Equity Fund	FTSE Europe ex-UK Index	14.00
Japan Equities	MMIP* Japanese Equity Fund	Topix Index	6.00
Pacific Basin ex-Japan Equities	MMIP* Pacific Basin Equity Fund	MSCI AC Far East Free ex-Japan Index	6.00
		<b>Sub Total</b>	40.00
		<b>TOTAL</b>	100.00

**(B) Fixed Interest Unitised Pool**

<b>Asset Class</b>	<b>Manager</b>	<b>Performance Benchmark</b>	<b>% Model Weighting of Fixed Interest Unitised Pool</b>
Fixed Interest Securities	STW Fixed Interest Management	50% FTSE British Government Over 15-Year Fixed Interest Gilts 50% Merrill Lynch Sterling Non-Gilts AAA-A Over 15-Years	100.00
		<b>TOTAL</b>	100.00

**(C) Index Linked Gilts Unitised Pool**

<b>Asset Class</b>	<b>Manager</b>	<b>Performance Benchmark</b>	<b>% Model Weighting of Index Linked Gilts Unitised Pool</b>
Index Linked Gilts	State Street Global Advisors	FTSE British Government Over 5-Year Index Linked Gilts	100.00
		<b>TOTAL</b>	<b>100.00</b>

**(D) Absolute Return Unitised Pool**

<b>Asset Class</b>	<b>Manager</b>	<b>Performance Benchmark</b>	<b>% Model Weighting of Absolute Return Unitised Pool</b>
Absolute Return	MMIP* DARF	N/A	100.00
		<b>TOTAL</b>	<b>100.00</b>

**(E) Property Unitised Pool**

<b>Asset Class</b>	<b>Manager</b>	<b>Performance Benchmark</b>	<b>% Model Weighting of Property Unitised Pool</b>
Property	CB Richard Ellis Investors	RPI + 6%	100.00
		<b>TOTAL</b>	<b>100.00</b>

Notes:

\* Multi-Manager Investment Programmes PCC Limited

This Schedule will be updated whenever a material change is made to the information herein.



.....  
Chairman of the Hadrian Trustees Limited Investment Committee

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*18<sup>th</sup> August 2009*

(Date)