**CELSIUS FIRST RETIREMENT BENEFITS SCHEME**

**TRUSTEES' REPORT**

**30 SEPTEMBER 2020**

**INVESTMENT REPORT**

**Implementation Statement**

The overall investment policy of the Scheme is determined in consultation with the Scheme’s investment advisor and the Scheme’s investment managers. The Trustees formulate an investment strategy and delegate the responsibility of executing all investment transactions to their investment managers. The Trustees set out their investment policy in a Statement of Investment Principles.

The Statement of Investment Principles is produced in accordance with Section 35 of the Pensions Act 1995 and subsequent legislation. A copy of the latest Statement of Investment Principles dated XXXXXXX and detailing the Trustees’ considerations in respect of Social, Environmental and Ethically Responsible Investment is available to members on request from the Trustees at the address shown below. The Statement sets out the Trustees’ policy concerning:

1. their investment objectives;
2. the nature of investments which are suitable for the Scheme to hold, having regard to investment risk and their investment objectives;
3. the selection of investments and suitable investment managers;
4. procedures for regular review of the investment strategy, having regard to the Scheme’s benefit liabilities;
5. procedures for day to day management of the Scheme’s assets by the investment managers;
6. objectives for investment manager performance;
7. periodic monitoring of the investment managers’ performance.

The Trustees will review the Statement of Investment Principles at least every three years (or more frequently, if required) to ensure the principles continue to be appropriate to the Scheme.

The Trustees meet periodically to review investment strategy and to monitor the performance of the funds in which they invest. The Trustees have maintained investment in corporate bond funds taking into account the risk profile of the Scheme’s defined benefit liabilities.

During the reporting period, the Defined Benefit Section of the Scheme invested primarily in the Aberdeen Standard Investments Sterling Opportunistic Corporate Bond Fund which aimed to provide income and some growth over the long term (5 years or more) by investing predominately in bonds. The Fund had a Performance Target to achieve the return of the iBoxx Sterling Collateralized & Corporates (1-10 year) Index plus 1.25% per annum (before charges). Additionally, for working capital and liquidity purposes the Trustees maintained a small holding in the Scottish Widows Limited Cash Fund. Additional Voluntary Contributions attributable to members of the Defined Benefits Section were invested in pooled fund insurance policies issued by Prudential Assurance Company Limited, predominantly on a with profit basis.

Certain members have benefits in the Money Purchase Section which comprise less than 0.2% of overall Scheme assets. These benefits are invested in pooled fund insurance policies issued by Prudential Assurance Company Limited and M&G Financial Services Limited, predominantly on a with profit basis.

The deployment of assets of the Defined Benefit Section of the Scheme (excluding annuity policies) over the period is shown in the table below:-

|  |  |  |
| --- | --- | --- |
|  | **30 September 2020****%** | **1 October2019****%** |
| UK and overseas corporate bonds | 99.57 | 99.63 |
| Cash  |    0.43 |    0.37 |
|  | 100.00 | 100.00 |

**CELSIUS FIRST RETIREMENT BENEFITS SCHEME**

**TRUSTEES' REPORT (continued)**

**30 SEPTEMBER 2020**

**INVESTMENT REPORT - continued**

The Aberdeen Sterling Opportunistic Corporate Bond Fund invested at least 80% in bonds issued anywhere in the world by governments, sub-sovereigns and corporations. The Fund could invest in investment grade, emerging market, high yield, inflation-linked, convertible, asset-backed and mortgage-backed bonds. At least 80% of the Fund's investments were in Sterling or were hedged in relation to the currency. The Fund had some flexibility to seek returns from currencies. The Fund could also invest in other funds (including those managed by Aberdeen Standard Investments) and money-market instruments and cash.

The Fund was actively managed to identify bonds and derivatives after analysing company's prospects and creditworthiness alongside global economic and market conditions. In seeking to achieve the Performance Target, the iBoxx Sterling Collateralized & Corporates (1-10 year) Index was used as a reference point for portfolio construction and as a basis for setting risk constraints. The Fund seeked to reduce the risk of significant changes in the value of the fund compared to the index. The potential change in value of the Fund (as measured by expected volatility) was not ordinarily expected to exceed 150% of the potential change in value of the index. The Fund made routine use of derivatives to reduce risk, reduce cost and/ or generate extra income or growth consistent with the risk profile of the fund, i.e. efficient portfolio management. Derivatives can be used to generate growth, consistent with the Fund's risk profile, to create ‘long’ or ‘short’

positions. Derivatives include instruments used to manage expected changes in interest rates, inflation, currencies or creditworthiness of corporations or governments.

During the reporting period the investment strategy followed by the Aberdeen Sterling Opportunistic Corporate Bond Fund was consistent with the Trustees’ investment objectives and the Environmental, Social and Corporate Governance (‘ESG’) considerations as now set out in the Statement of Investment Principles dated XXXXX. As the Trustees invest in pooled fund arrangements they have given their investment managers full discretion in evaluating ESG factors and in the exercise of stewardship obligations. In particular, Aberdeen Standard Investments have stated that ESG is a strategic priority for them and that ESG considerations are a standard part of their investment process. Their mission is ‘To be an industry leader in ESG, helping to protect and enhance the value of their clients’ investments while contributing to a sustainable world’. We understand that Aberdeen Standard Investments have an active ESG investment team who engage with investee companies on environmental, social and governance topics and in exercising stewardship they routinely engage with companies on matters subject to a shareholder vote.

The Trustees reviewed their investment strategy following a report from their investment adviser dated 2 October 2020. Subsequently and consequent to the discontinuance of the Aberdeen Sterling Opportunistic Corporate Bond Fund, the units invested in this Fund were liquidated on 6 October 2020 and the proceeds invested 70% in the Aberdeen Sterling Investments Strategic Bond Fund and 30% in the Aberdeen Sterling Investments Corporate Bond Fund. The Trustees considered a further report from their investment adviser dated 16 March 2021 and consequentially on 18 March 2021 the investment in the Aberdeen Sterling Investments Corporate Bond Fund was liquidated and switched into the Aberdeen Sterling Investments Sterling Short Dated Corporate Bond Fund.

**Market review**

During late 2019, political and economic concerns relating to Brexit, the US-China trade dispute and global growth dominated investor sentiment. Central bank actions also played a role, helping markets end 2019 on an upbeat note. Optimism continued into January 2020 as global economic data picked up modestly and a ‘phase-one’ trade deal between the US and China was agreed. Global central banks maintained their accommodative stances providing further confidence.

However, the mood changed after the coronavirus that started in China evolved into a global pandemic. Drastic lockdown measures introduced by governments to contain the spread of the virus all but crippled the global economy and a Russia-Saudi Arabia oil price war sent oil prices plummeting. Panicked investors dumped riskier asset classes like equities and corporate bonds for the relative safety of government bonds, pushing yields even lower.

Governments and central banks were swift to respond to the economic crisis, introducing aggressive stimulus and support packages for businesses and consumers. Many central banks, including the US Federal Reserve, slashed interest rates. These actions boosted investor confidence. As a result, from April onwards, equities and corporate bonds clawed back much of the ground lost, albeit in July, a resurfacing of US-China trade tensions tempered gains. Huge government stimulus plans lifted investor confidence as did generous support from the Fed, and its decision to cut interest rates to near-zero. Robust corporate earnings, especially from technology companies, also buoyed sentiment. Investors are expecting a ‘V’-shaped economic recovery. A typical pattern seen during recovery phases is unfolding with strong gains for equities. Largely improving economic data and expectations for a viable coronavirus vaccine continues to support investor sentiment.

**CELSIUS FIRST RETIREMENT BENEFITS SCHEME**

**TRUSTEES' REPORT (continued)**

**30 SEPTEMBER 2020**

**INVESTMENT REPORT - continued**

**Investment manager performance review**

For the year to 30 September 2020, the value of the Aberdeen Sterling Opportunistic Corporate Bond Fund increased by 3.79% compared to an increase of 3.05% in the benchmark, the iBoxx Sterling Collateralized & Corporates 1-10 year Index. Over 3 years to 30 September 2020, the Aberdeen Sterling Opportunistic Corporate Bond Fund achieved a return of 3.32% p.a. compared to a benchmark return of 3.39% p.a. and over 5 years, 4.25% p.a. compared to a benchmark return of 4.21% p.a.

As an overview, government bonds rose over the last 12 months, with yields falling in most major economies due to investors’ caution, given the fragile state of the global economy and as uncertainty developed over the Covid crisis. Corporate bonds delivered positive returns fueled by falling government bond yields. Central bank bond-buying also benefited the asset class.

In the early part of the review period, collapsing government bond yields and fairly stable credit spreads in most higher-quality bond markets led to fixed-income markets overall generating some strong returns, while showing little volatility. Although yields were already lower than many investors thought possible, deteriorating economic data and the threat of policy action caused a further collapse towards lows. Markets entered 2020 positively reflecting modestly improving global economic data and a ‘phase-one’ trade deal between the US and China. Investment grade spreads tightened materially and high yield and emerging markets were also strong.

In late January 2020, the coronavirus outbreak started affecting markets, which began to consider the implications for global growth. Central banks and governments in both developed and emerging economies responded quickly, announcing rate cuts, bond-buying programmes and stimulus packages. These actions soothed financial markets, which also helped gradually reverse the dramatic spread widening seen in February and March over the subsequent months. Despite outstanding risks in significant areas of the economy, buyers continued to demand fixed-income assets, forcing yields lower and spreads tighter.

Over the reporting period the portfolio performed strongly because of strong sector allocation and stock selection. The fund’s exposure to credit markets was focused on the lower-quality areas of the market and the financial sectors relative to non-financials. Both factors were material drivers of performance over the period, with positioning in financials being especially beneficial. Overweight positions in sectors such as banks and utilities, which performed well, were particularly helpful. Meanwhile, underweight positions in the transportation and autos sectors also boosted performance, especially during the height of the COVID-19 crisis.