The Pension Scheme for the British Home and Hospital for Incurables

Statement of Investment Principles

September 2019

And Addendum September 2020

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1. INTRODUCTION

1.1 PURPOSE OF THE STATEMENT

This statement sets out the principles and policies that govern investments made by the Trustee of the Pension Scheme for the British Home and Hospital for Incurables.

1.2 STATUTORY REQUIREMENTS

This statement is made in accordance with the requirements of the Pensions Act 1995 and the Occupational Pensions (Investment) Regulations 2005 made under the Pensions Act 2004 and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.

1.3 INVESTMENT ADVICE

As required by legislation, in the preparation and maintenance of this statement and when considering the suitability of any investments, the Trustee has obtained and considered written advice from its investment adviser.

The Trustee is advised on investment matters by First Actuarial LLP. First Actuarial LLP is regulated by the Institute and Faculty of Actuaries and is qualified to provide the required advice through knowledge and practical experience of financial matters relating to pension schemes.

1.4 EMPLOYER CONSULTATION

Under legislation, the ultimate responsibility for determining the investment strategy rests with the Trustee. However, the Trustee must consult with the sponsoring employer and consultation must comprise a sharing of views, not simply notification of intent.

The Trustee has consulted with the sponsoring employer as part of the work preparing this statement.

1.5 REVIEWING THIS STATEMENT

This statement will be reviewed at least every three years and without delay after any significant change in circumstances or investment policy.

A copy of this statement and any amendments made to it are available to the Scheme Actuary and to the Scheme’s investment managers.

The Trustees have decided to buy-out the Scheme in insurance markets. This document reflects the most recent investment strategy that was in place immediately following buy-out.

2. OBJECTIVES AND STRATEGIC ALLOCATION

2.1 INVESTMENT OBJECTIVES

The Trustee has set an investment strategy that reflects the following primary investment objective:

- **Protecting the financial position** – to limit the scope for adverse investment experience reducing security for members.

The strategy is formulated around this objective.

2.2 SETTING THE STRATEGIC ASSET ALLOCATION

The Trustee's strategic asset allocation is determined after considering written advice from the investment adviser. The strategic asset allocation takes into account:

- the nature and timing of liability payments;
- expected levels of investment return on the different asset classes;
- expected levels of investment return variability and, specifically, the expected level of short-term volatility of the Plan's funding position;
- the sponsoring employer's ability to withstand the additional contribution requirements that may arise from such volatility in the funding position; and
- the full range of available investments (within the bounds of practicality).

In determining the strategic asset allocation, the Trustee views investments as falling into two broad categories:

1. Growth Assets	Assets that are expected to deliver long-term returns in excess of liability growth. The use of Growth Assets is expected to generate strong investment returns.
2. Liability Matching Assets	Assets that are expected to react to changes in market conditions in a similar way to the liabilities. The use of Liability Matching Assets is expected to protect the financial position.

In this instance, the Trustee considers the sole use of Liability Matching Assets as being appropriate.

The Trustee's strategic asset allocation is detailed in the Appendix.

3. IMPLEMENTATION

3.1 IMPLEMENTATION OF THE INVESTMENT STRATEGY

Day-to-day management of the assets is delegated to one or more investment managers. The mandates set for the investment managers are intended to implement the Trustee's investment objectives within an acceptable level of risk.

Details of the mandates set for the investment managers are provided in the Appendix.

The Trustee is satisfied that the investment managers have the appropriate knowledge and experience required to manage the investments.

The Trustee considers each investment manager's mandate carefully to ensure it is appropriate. Where pooled investment vehicles are used, it is recognised that the mandate cannot be tailored to the Trustee's particular requirements. However, the Trustee ensures that any pooled investment vehicles used are appropriate to the circumstances of the Scheme.

The Trustee, in conjunction with its investment adviser, regularly reviews each of the investment managers to ensure that the manager remains competent and that the assets continue to be managed in accordance with the manager's mandate.

The Trustee is satisfied that the investment strategy described in this Statement meets its responsibility to invest the assets in the best interest of the members and beneficiaries and, in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries.

3.2 SAFEKEEPING OF ASSETS

To ensure safekeeping of the assets, ownership and day to day control of the assets is undertaken by custodian organisations which are independent of the sponsoring employer and the investment managers. Where pooled investment vehicles are used, the custodians will typically be appointed by the investment manager.

3.3 REGULATED MARKETS AND DERIVATIVES

Assets are invested predominantly on regulated markets, as so defined in legislation. Any investments that do not trade on regulated markets are kept to a prudent level.

The investment managers of the Liability Matching Assets may use derivatives on occasion for reasons of efficient portfolio management. The use of derivatives is expected to be very limited.

4. RISKS AND OTHER MATTERS

4.1 INVESTMENT RISKS

Identification, measurement and management of risk form an integral part of the process adopted by the Trustee to determine the strategic asset allocation. The principal investment risks were considered as part of the recent strategy review exercise.

4.2 EMPLOYER-RELATED INVESTMENT

The proportion of the Scheme's investments which can be related to the sponsoring employer (as defined within legislation) is limited to 5% of the value of total assets.

The Trustee does not hold any employer-related assets.

4.3 SUSTAINABLE INVESTING AND CORPORATE GOVERNANCE

Investment Beliefs

The investment beliefs stated below have been developed by the Trustee and are reflected in the Scheme's investment strategy.

Appropriate Time Horizon

In determining investment objectives and a suitable investment strategy for the Scheme, the Trustee takes into account an appropriate time horizon. The appropriate time horizon will be reviewed periodically noting the inherent uncertainties in the length of time that benefits are expected to be paid from the Scheme.

Risk versus Reward

Targeting higher levels of investment return increases investment risk which increases the volatility of the funding position.

Asset Allocation

Long-term performance of the Scheme's assets is attributable primarily to the strategic asset allocation rather than the choice of investment managers.

Diversification

Asset diversification helps to reduce risk.

Use of Pooled Funds

Taking into account the size of the Scheme's assets, it is expected that pooled funds will typically be a more practical way of implementing the Scheme's investment strategy than establishing segregated mandates with investment managers.

Use of Active Management

Active management has the potential to add value either through offering the prospect of enhanced returns or through the control of volatility. In addition, it is recognised that active management may help to mitigate the financial impact of Environmental, Social and Governance (ESG) risks.

For each asset class, the Trustee will consider whether the higher fees associated with active management are justified.

ESG

The Trustee believes that ESG factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that may apply over the appropriate time horizon.

Assessment of how ESG risks are mitigated will be one of the factors considered by the Trustee when selecting and monitoring investment managers.

Defined Benefit Assets – Investment strategy

The Trustee has taken advice from its investment advisor to construct a portfolio of investments consistent with these objectives. In doing so, consideration is given to all matters which are believed to be financially material over the appropriate time horizon.

The Trustee does not take account of non-financial matters when determining the Scheme's investment strategy.

Investment Manager Selection

The Trustee delegates the day to day management of the assets, including selection, retention and realisation, to professional investment managers.

When considering the suitability of an investment manager, the Trustee (in conjunction with its investment adviser), will take account of all matters which are deemed to be financially material. In particular, the Trustee will:

When selecting an investment manager, the Trustee will:

- ensure that the investment manager has the appropriate knowledge and experience;
- ensure that the investment manager's mandate is appropriate; and
- consider the investment manager's approach to ESG matters.

When selecting investment managers, the Trustee may also take into account matters which are not financially material such as the investment manager's administrative capabilities and the liquidity of the investments.

Members' Views

The Trustee recognises that it is likely that members and beneficiaries will hold a broad range of views on ESG and other non-financial matters. Whilst the Trustee will seek to avoid investing in a way that is likely to be strongly opposed by those individuals, the Trustee does not directly take such views into account when determining the Scheme's investment strategy.

The Trustee believes that its duty to members and beneficiaries will be best served by ensuring that all benefits can be paid as they fall due and the Trustee's Investment Objectives are designed to ensure this duty is achieved.

ESG Risks & Corporate Engagement

Where the Trustee invests in pooled investment vehicles, it is accepted that the extent to which corporate governance, socially responsible practices and ethical behaviour are used in the selection of suitable investments will be determined by the investment managers' own policies on these matters.

Similarly, it is accepted that ongoing engagement with companies in which investments are made (including the exercise of voting rights) will also be determined by the investment managers' own policies. When considering the suitability of investment managers, the Trustee (in conjunction with its investment adviser) will take account of any particular characteristics of that manager's engagement policy that are deemed to be financially material.

The Trustee recognises that the membership might wish the Trustee to engage with the companies in which the Scheme invests with the objective of improving corporate behaviour to benefit the environment and society.

However, the Scheme's assets are invested in pooled funds and, as noted above, the Trustee therefore relies on the investment managers to carry out such engagement. The Trustee recognises that the investment managers' engagement policies are likely to be focussed on maximising financial returns and minimising financial risks rather than targeting an environmental or societal benefit.

The Trustee (in conjunction with its investment adviser) has considered the likely impact of the financially material ESG risks associated with all of the Scheme's investments and has assessed the mitigation of such risks implemented by each of the investment managers. In making this assessment, the Trustee recognises that, where pooled investment vehicles are held, the extent to which ESG factors will be used in the selection of suitable underlying investments will be determined by the investment managers' own policies on such matters.

In the event that ESG policies and practices are considered to be unsuitable, the Trustee will replace the fund in question.

Monitoring

The Trustee regularly reviews the Scheme's investments for all matters considered to be financially material over the future period for which benefits are expected to be paid from the Scheme. This includes reviewing that the assets continue to be managed in accordance with each manager's mandate and that the choice of managers remains appropriate.

Furthermore, the Trustee regularly monitors the position of the investment managers with regards to ESG matters.

The analysis assesses whether performance has been in line with expectations given market conditions and whether the level of risk has been as expected.

The investment adviser also provides regular updates on the investment managers' actions regarding ESG factors and shareholder engagement.

The investment adviser regularly meets with the managers of pooled funds on its approved list.

4.4 ADDITIONAL VOLUNTARY CONTRIBUTIONS

Additional Voluntary Contributions (AVCs) are held separately from the Main Scheme assets, and further detail is contained in the Appendix.

Rosemary Kennell
For and on behalf of the Trustee of the Pension Scheme for the British Home and Hospital for Incurables

Date: 30 September 2019

APPENDIX: CURRENT INVESTMENT STRATEGY

Fund Managers – Main Scheme Assets

The Trustee has appointed Aviva Investors & LV Asset Management to manage the other assets of the Scheme. Further details of the specific arrangements in place with the manager are contained in this Appendix. The mandate the Trustee has given to the manager reflects the principles and policies as set out in the main body of this Statement.

The Trustee's assets are invested in a series of immediate and deferred annuities with Aviva and LV. There is also a cash holding.

The above strategy was implemented in February 2018.

CASHFLOW POLICY

Any disinvestments or investments are made at the discretion of the Trustee.

EXPECTED RETURNS

The Liability Matching Assets are expected to change in line with the Scheme's liabilities as market conditions change.

FUND MANAGER – ADDITIONAL VOLUNTARY CONTRIBUTIONS

The AVCs are invested with Clerical Medical in its Cash, With Profits and Balanced Funds.

Addendum to the Statement of Investment Principles

Original Statement dated: September 2019

Date of Addendum: September 2020

Purpose of the Addendum

This Addendum is made in accordance with the requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 and it updates the Statement of Investment Principles to record how the Scheme complies with the EU Shareholder Rights Directive (SRD II) which comes into effect on 1 October 2020.

Glossary

ESG – Environmental, Social and Governance (including, but not limited to, climate change)

In the relevant regulations “**non-financial matters**” refers to the views of the members. This includes, but is not limited to, ethical views, views on ESG factors and views on the present and future quality of life for the members.

“**Financially material considerations**” includes (but is not limited to) ESG considerations (including but not limited to climate change), which the trustees of the trust scheme consider financially material.

“**Appropriate time horizon**” means the length of time that the trustees of a trust scheme consider is needed for the funding of future benefits by the investments of the scheme.

Important note

The Scheme’s investment strategy currently consists of a “buy-in” insurance policy and a cash holding. As such, the requirements outlined in this addendum – which largely relate to governance when holding equity and debt – do not currently apply and are not expected to apply in future. However, for the purpose of ensuring compliance with new regime and recognising that the Trustee could in theory alter the investment strategy in future (although this is not expected), we have included suitably compliant wording in order to ensure that the Trustee meets the prevailing legal requirements.

We believe this approach ensures that the Trustee meets the new requirements in full.

Investment Manager Arrangements

The Scheme's assets have historically been held in pooled funds, as is common for a Scheme of this size. The Trustee has limited influence over the investment managers' investment decisions. In practice, investment managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

It is therefore the Trustee's responsibility to ensure that the approaches adopted by investment managers are consistent with the Trustee's policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies.

The Trustee expects investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt / equity issuers, and to engage with issuers to improve their performance. The Trustee assesses this when selecting and monitoring managers.

The Trustee's policy on selecting, monitoring, evaluating and (where necessary) terminating these arrangements is set out in further detail below.

Compatibility of Pooled Funds with the Trustee's Investment Strategy

When selecting a pooled fund, the Trustee considers various factors, including:

- the assets that will be held within that fund and whether the asset allocation of the fund is expected to change over time;
- the risks associated with the fund along with the return that is expected;
- the fund's objective (as stated by the fund's investment manager) and whether the objective is consistent with the performance that the Trustee expects from that fund;
- the fund's fee structure to ensure that this is reasonable and that it does not provide an incentive for the investment manager to manage the fund in a way that differs from the expectations of the Trustee;
- how frequently underlying investments within the fund are expected to be traded by the investment manager;
- how financially material considerations (including ESG factors) over the appropriate time horizon are taken into account by the investment manager;
- the investment manager's policy in relation to the exercise of the rights (including voting rights) attaching to the investments held within the pooled fund; and
- the investment manager's policy in relation to undertaking engagement activities in respect of the investments held within the pooled fund*.

**This includes engaging with an issuer of debt or equity regarding matters including (but not limited to) performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, and ESG matters. It also includes engaging on these matters with other investment managers, other holders of debt or equity and persons or groups of persons who have an interest in the issuer of debt or equity.*

Investment Manager Arrangements (continued)

After analysing the above characteristics for a fund, the Trustee identifies how that fund would fit within its overall investment strategy for the Scheme and how the fund is expected to help the Trustee meet its investment objectives.

Duration of Investment Manager Arrangements

The Trustee normally expects that pooled funds will be held for several years.

However, as part of the periodic strategic asset allocation reviews (which take place at least every three years), the Trustee will review whether the ongoing use of each fund remains consistent with its investment strategy.

The Trustee regularly monitors the financial and non-financial performance of the pooled funds held and details of this monitoring process is set out below. If the Trustee becomes concerned about the ongoing suitability of a pooled fund, it may reduce exposure to it or disinvest entirely. Such action is expected to be infrequent.

Monitoring Pooled Funds

The Trustee regularly assesses the performance of each fund held and this monitoring includes an assessment of whether the investment manager continues to operate the fund in a manner that is consistent with the factors used by the Trustee to select the fund (as listed above).

When assessing the performance of a fund, the Trustee does not usually place too much emphasis on short-term performance although it will seek to ensure that reasons for short-term performance (whether favourable or unfavourable) are understood.

The Trustee expects the investment managers of pooled funds to invest for the medium to long term and it expects investment managers to engage with issuers of debt or equity with a view to improving performance over this time frame.

If it is identified that a fund is not being operated in a manner consistent with the factors used by the Trustee to select the fund, or that the investment manager is not engaging with issuers of debt or equity, the Trustee may look to replace that fund. However, in the first instance, the Trustee would normally expect its investment adviser to raise the Trustee's concerns with the investment manager. Thereafter, the Trustee, in conjunction with its investment adviser, would monitor the performance of the fund to assess whether the situation improves.

Investment Manager Arrangements (continued)

Portfolio Turnover

The Trustee is aware of the requirement to monitor portfolio turnover costs (the costs incurred as a result of the buying, selling, lending or borrowing of investments).

When selecting a pooled fund, the Trustee will consider how the investment manager defines and measures:

- the targeted portfolio turnover (the frequency within which the assets of the fund are expected to be bought or sold); and
- turnover range (the minimum and maximum frequency within which the assets of the fund are expected to be bought or sold).

At least annually, the Trustee, in conjunction with its investment adviser, will consider the transaction costs incurred on each pooled fund. As part of this analysis, the Trustee will consider whether the incurred turnover costs have been in line with expectations.

The Trustee will take the above information on portfolio turnover into account when assessing the ongoing suitability of each pooled fund.

Stewardship

The Trustee’s policy in relation to the exercise of rights attaching to investments, and undertaking engagement activities in respect of investments, is that they wish to encourage best practice in terms of stewardship.

However, the Trustee invests in pooled investment vehicles and therefore accept that ongoing engagement with the underlying companies (including the exercise of voting rights) will be determined by the investment managers’ own policies on such matters. For that reason, the Trustee recognises that its ability to directly influence the action of companies is limited.

Nevertheless, the Trustee expects that each investment manager will discharge its responsibilities in respect of investee companies in accordance with that investment manager’s own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustee also expects that each investment manager will take ESG factors into account when exercising the rights attaching to investments and in taking decisions relating to the selection, retention and realisation of investments.

When considering the suitability of an investment manager, the Trustee (in conjunction with its investment adviser) will take account of any particular characteristics of that manager’s engagement policy that are deemed to be financially material.

The Trustee recognises that the members might wish the Trustee to engage with the underlying companies in which the Scheme invests with the objective of improving corporate behaviour to benefit the environment and society. However, the Trustee’s priority is to select investment managers which are best suited to help meet the Trustee’s investment objectives. In making this assessment, the Trustee will receive advice from its investment adviser. The Trustee recognises that the investment managers’ own policies are likely to be focussed on maximising financial returns and minimising financial risks rather than targeting an environmental or societal benefit.