

# Raleigh Pension Scheme – DB Section

**Statement of Investment Principles** 

December 2021

## **Statement of Investment Principles**

The Trustees of Raleigh Pension Scheme ("the Scheme") have prepared this Statement of Investment Principles ("the SIP") in accordance with the Pensions Act 1995<sup>1</sup> ("the Act") as amended and the Occupational Pension Scheme (Investment) Regulations 2005 as well as the principles recommended by the Myners Code.

It supersedes any previous SIP and reflects the investment policy agreed by the Trustees in respect of assets covering Defined Benefit liabilities and AVCs. The DC Section of the Scheme was closed for active members as from 1<sup>st</sup> June 2021 and the bulk transfer to the L&G Workplace Master Trust took place on 30<sup>th</sup> September 2021.

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

Before preparing this SIP the Trustees have:

- Obtained and considered the written advice from the Scheme's Investment Consultant, XPS Pensions Group, who is suitably qualified through ability and experience and has appropriate knowledge.
- Consulted the employer.

#### **Choosing investments**

The Trustees set the investment strategy and investment policies for the Scheme.

The Trustees have considered the Scheme's liabilities and strength of Employer covenant when setting the investment strategy and policies.

The Trustees rely on Investment Managers for the day-to-day management of the Scheme's assets but retain 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 Trustees rely on the Investment Managers to appoint appropriate Custodians for pooled funds who are responsible for the safekeeping of the assets of the Scheme.

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

Appointments of Investment Managers are expected to be long-term, but the Trustees will review the appointment of the Investment Managers in accordance with their responsibilities.

<sup>&</sup>lt;sup>1</sup> As amended 30<sup>th</sup> November 2018

### Investment objective and strategy

#### Investment objective

The Trustees have set the following objectives:

- The primary investment objective of the Trustees is to seek to ensure the Scheme holds sufficient liquid assets to meet any remaining costs for the Scheme.
- To adhere to the provisions contained within this SIP.

#### **Investment strategy**

The Trustees intend to meet the investment objective by investing in cash and index-linked gilts with a duration similar to the liabilities.

The Trustees can utilise a wide range of 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 provide immediate liquidity such as cash or cash instruments.
- Assets or funds that combine liability outperformance, liability hedging or liquidity characteristics including the use of derivatives and leverage.
- Annuity or insurance policies designed to match the specific characteristics of the Scheme's liabilities or membership.

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

#### **Investment restrictions**

The Trustees intend 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 Trustees have identified a number of risks including (but not limited to):

- Employer covenant risk
- Liability risks: Interest rate risk, Inflation risk, Longevity risk

- Asset risks: Equity risk, Property risk, Currency risk, Credit risk, Interest rate risk, Inflation risk
- Strategy risks: Asset allocation risk, Liquidity risk (including collateral risk), Growth asset risk (including currency risk)
- Implementation risks: Investment manager risk, Counterparty risk, Operational risk

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

- The Trustees have set an investment strategy that adheres to the contents of this SIP.
- The Trustees receive 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 Trustees undertake 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 Trustees periodically assess the strength of the Employer covenant and uses external expertise where appropriate.
- The Trustees delegate the day-to-day management of some of these risks to the appointed Investment Managers.
- The Trustees consider the Investment Managers' role and approach to managing risk is considered when selecting appropriate Investment Managers.
- The Trustees utilise custodian relationships to ensure Scheme assets are held securely.
- The Trustees assess 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 Trustees recognise that assets may need to be realised to meet Scheme obligations at any time.

The Trustees 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.

The Trustees will from time to time agree a policy for sourcing cash from the investments as required. Further details are set out in the Appendix.

#### **Monitoring**

Any significant changes relating to the Trustees' selection and deselection criteria 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 an Investment Manager's ongoing role in implementing the investment strategy. If there are concerns, the Trustees may carry out a more in-depth review of a particular Investment Manager. Investment Managers will also attend Trustees' meetings as requested.

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

The buy-in policy is expected to provide sufficient funds and matching cashflows to pay the benefits covered under the buy-in policy as they fall due. The Trustee, or the Investment Advisor, on behalf of the Trustees, will regularly review the performance of the investments to satisfy themselves that the buy-in policy remains suitable for the investment

objective.

The Trustees will monitor the advice given by the Advisors on a regular basis.

The Trustees will review the SIP on a triennial basis, or without undue delay, as part of any changes to the investment strategy.

#### Responsible investment

The Trustee has considered their approach to environmental, social and corporate governance ("ESG") factors and believes there can be financially material risks relating to them in the long-term.

However, given the current extremely low-risk investment strategy expected to be held in the short period until the Scheme is wound-up, the Trustee does not consider ESG risks to be material to the Scheme.

The Trustees policy on Stewardship is to delegate responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the investment managers.

Signed on behalf of the Trustees:

| Signature: |  |
|------------|--|
| Name:      |  |
| Date:      |  |

This SIP is the responsibility of the Trustees. You must not use, copy or repeat any part of the SIP for commercial purposes without obtaining permission to do so in writing to us. We use material from third parties in preparing the SIP and although we try to ensure that all of the information is correct we do not give any express or implied warranty as to the accuracy of the material in the SIP and are not responsible, and do not accept and liability, for any error, omission or inaccuracy. We are not liable for any damages (including, without limitation, damages for loss of business or loss of profits) arising in contract, tort or otherwise from the use of or inability to use this SIP, or any material contained in it, or from any action or from any action or decision taken as a result of using it.

## Appendix – Investment strategy

#### **Overall strategy**

The investment strategy of the Scheme is summarised in the table below:

| Asset class               | Strategic<br>allocation | Expected return (above gilts pa) | Manager and fund                      | Objective   | AMC (pa)   |
|---------------------------|-------------------------|----------------------------------|---------------------------------------|---|--|
| Bulk<br>Annuity<br>Policy | 88%                     | 0.0%                             | Legal & General                       | Provide exposure to changes in interest rates and inflation with the aim of liability matching together with longevity risk cover | N/A  |
| Cash                      | 8%                      | 0.0%                             | BMO Sterling Liquidity<br>Fund        | SONIA   | 0.10%  |
| LDI                       | 4%                      | 0.0%                             | BMO Unleveraged Gilt<br>Profile Funds | Provide exposure to<br>changes in interest rates<br>and inflation<br>with the aim of liability<br>matching                        | 0.08% on the first<br>£15m, 0.06% on the next<br>£35m and 005% on the<br>next £100 million |
|                           | 100%                    | 0.0%                             |                                       |   | 0.0%   |

Return expectations quoted above are best estimates for long-term returns.

#### Liability hedging

This strategy is designed to achieve liability hedging of:

- 100% of the interest rate risk, as a proportion of the Scheme's total liabilities, as assessed against an estimate of the Buy-out liability.
- 100% of the inflation risk as a proportion of the Scheme's total liabilities, as assessed against an estimate of the Buy-out liability.

100% of longevity risk

#### Rebalancing investments

As the Schemes moves towards buy-out rebalancing will take place. Cash will be used to meet expenses of the Scheme as well as certain liabilities relating to GMP equalization.

#### **Realising investments**

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

#### **AVCs**

The Trustees have made the following AVC investment options available to members of the Scheme:

- Clerical Medical with profits
- Clerical Medical Balanced Pension
- Clerical Medical International Growth Pension
- Clerical Medical Ethical
- Clerical Medical Cash
- Clerical Medical Halifax Fund
- Utmost 'Investing-by-age' Strategy Portfolio

The Trustees will review the AVC providers, 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 Trustees are 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 willnot 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.

The Trustees consider that, in making a number of funds available, they provide these members with sufficient options to meet their reasonable expectations and to mitigate the risks faced.

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#### Authorisation

XPS Investment Limited is authorised and regulated by the Financial Conduct Authority for investment and general insurance business (FCA Register No. 528774).

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