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## **Charter Pension Scheme (“the Scheme”)** **Statement of Investment Principles**

### **Investment Objective**

The Trustee has entered into a bulk annuity contract with Legal and General Assurance Society. The only investment remaining in the Defined Benefit section is a liquidity fund with BlackRock Investment Management.

## **STRATEGY**

### **Defined Contribution section**

The Scheme holds a small amount of defined contribution assets in respect of certain members’ special pension bonus assets, arising from a scheme merger in 1991. These assets are held in a cash-based deposit account. The Trustee considered a number of factors in selecting this allocation, including the availability of providers, the need to segregate the assets from the Scheme’s Defined Benefit assets and options available to members upon retirement.

### **Defined Benefit section**

In November 2017, the Trustee purchased a bulk annuity policy with Legal and General Assurance Society (“L&G”), to cover all members’ Defined Benefit section benefits, and this fully insures the liabilities.

There remains a small liquidity fund allocation held with BlackRock Investment Management (“BlackRock”).

The Trustee consulted with the sponsoring employer when setting this strategy.

*This Statement of Investment Principles is produced to meet the requirements of Section 35 (as amended) of the Pensions Acts 1995 (“the Act”), the Occupational Pension Schemes (Investment) Regulations 2005 (as amended), the Pension Regulator’s guidance for defined benefit pension schemes (March 2017) and the Occupational Pension Schemes (Charges and Governance) Regulations 2015. The Trustee also complies with the requirements to maintain and take advice on the Statement and with the disclosure requirements.*

## **RISK**

The Trustee recognises that the key risk to the Scheme is that it has insufficient assets to meet its liabilities (“funding risk”). The Trustee has identified a number of risks which have the potential to cause a deterioration in the Scheme’s funding level and therefore contribute to funding risk, although these have all been largely mitigated by the purchase of the bulk annuity policy. These are as follows:

- The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors (“mismatching risk”). The Trustee purchased the bulk annuity policy to remove this mismatching risk.
- The risk of a shortfall of liquid assets relative to the Scheme’s immediate liabilities (“cash flow risk”). The bulk annuity policy covers all regular benefit payments from the Scheme and the Trustee has daily access to the liquidity fund to meet any other short-term liabilities.
- The failure by the fund manager to achieve the rate of investment return assumed by the Trustee (“manager risk”). This risk is considered by the Trustee and its advisers both upon the initial appointment of the fund manager and on an ongoing basis thereafter.
- The failure to spread investment risk (“risk of lack of diversification”). The Trustee and its advisers considered this risk when setting the Scheme’s investment strategy.
- The possibility of failure of the Scheme’s sponsoring employers (“covenant risk”). The Trustee and its advisers considered this risk when setting investment strategy and consulted with the sponsoring employer as to the suitability of the proposed strategy.
- The risk of fraud, poor advice or acts of negligence (“operational risk”). The Trustee has sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.
- The risk that a borrower will cause a financial loss for the other party by failing to meet required payments for a contractual obligation (“credit risk”). The Scheme is subject to credit risk in relation to the potential default of the bulk annuity provider, although this risk is considered very low given the regulatory regime for insurance companies. The Scheme is also subject to a small amount of credit risk through its investment in a cash pooled fund. The Trustee manages its exposure to credit risk by investing in a cash pooled fund with a diversified exposure to high quality issuers.

## **IMPLEMENTATION**

Lane Clark & Peacock LLP (“LCP”) has been selected as investment adviser to the Trustee. They operate under an agreement to provide a service which ensures the Trustee is fully briefed to take decisions themselves and to monitor those they delegate. LCP are paid on a time cost basis for all the work they undertake for the Scheme although fixed fees may be negotiated by the Trustee for certain projects. This structure has been chosen to ensure that cost-effective, independent advice is received.

The fund manager structure and investment objectives for BlackRock has been incorporated into the Investment Management Agreement ("IMA") between the Scheme and the manager, as follows:

**BlackRock Investment Management (cash portfolio)**

<u>Name of Fund</u>	<u>Fund Benchmark</u>	<u>Active/Passive</u>	<u>Target allocation</u>	<u>Range</u>
Aquila Life UK Cash Fund	7 day LIBID	Passive	100%	0%

The Trustee has delegated all day-to-day decisions about the investments that fall within the mandate, including the realisation of investments, to the fund manager through a written contract and in considerations relating to the liquidity of investments. When choosing investments, the Trustee and the fund managers (to the extent delegated) are required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 (regulation 4). The managers' duties also include decisions about:

- Selection, retention and realisation of investments
- Financially material considerations (including ESG factors)
- Where relevant, good stewardship practices and the exercise of rights attaching to the investments

Where possible, the Trustee has considered the following as part of implementation of investment arrangements, noting that the DB and DC sections are invested in money market vehicles only.

The Trustee has limited influence over managers' investment practices because all the Scheme's assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

The Trustee's view is that the fees paid to the investment manager, and the possibility of its mandate being terminated, ensure it is incentivised to provide a high quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice the manager cannot fully align its strategy and decisions to the (potentially conflicting) policies of all its pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

The Trustee acknowledges that environmental, social and governance ("ESG") factors (which include climate change) are sources of risk. However, the Trustee considers these risks as very small, given the assets held by the Scheme and the expected short time period until the Scheme's liabilities are secured.

Whilst the Trustee's investments do not carry voting rights, it recognises its responsibilities as owners of capital, and believe that good stewardship practices, including monitoring and engaging with investee companies, protect and enhance the long-term value of investments.

The Trustee does not take into account any non-financial matters (including matters relating to the ethical and other views of members and beneficiaries), other than considerations of financial risk and return, in the selection, retention and realisation of investments.

**Santander (deposit account)**

The DC assets of the Scheme are invested in cash-based deposits with Santander.

The fund does not have an explicit performance target; however, it pays interest semi-annually, with the rate of interest linked to the Bank of England Base Rate. There are no management charges deducted.

**GOVERNANCE**

The Trustee is responsible for the investment of the Scheme's assets. The Trustee takes some decisions themselves and delegates others. When deciding which decisions to take themselves and which to delegate, the Trustee takes into account whether they have the appropriate training and expert advice in order to take an informed decision. The Trustee has established the following decision making structure:

<p><b>Trustee</b></p> <ul style="list-style-type: none"> <li>• Monitors actual returns versus Scheme investment objective.</li> <li>• Sets structures and processes for carrying out its role.</li> <li>• Selects and monitor planned asset allocation strategy.</li> <li>• Selects direct investments (see below).</li> <li>• Appointing, monitoring, reviewing and dismissing investment advisers, fund managers, actuary and other service providers.</li> <li>• Sets structure for implementing investment strategy.</li> <li>• Monitors direct investments.</li> <li>• Makes ongoing decisions relevant to the operational principles of the Scheme's investment strategy.</li> </ul>	<p><b>Investment Adviser</b></p> <ul style="list-style-type: none"> <li>• Advise on all aspects of the investment of the Scheme assets, including implementation.</li> <li>• Advise on this statement.</li> <li>• Provide required training.</li> </ul>
	<p><b>Fund Manager</b></p> <ul style="list-style-type: none"> <li>• Operate within the terms of this statement and their written contract.</li> <li>• Select individual investments with regard to their suitability and diversification.</li> </ul>

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager with a written contract and those where a product is purchased directly, eg the purchase of an insurance policy or units in a pooled vehicle. The latter are known as **direct investments**.

The Trustee's policy is to review its direct investments and to obtain written advice about them at regular intervals. These include vehicles available for members' AVCs. When deciding whether or not to make any new direct investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the fund manager(s).

The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this statement. The regulations require all investments to be considered by the Trustee (or, to the extent delegated, by the fund managers) against the following criteria:

- The best interests of the members and beneficiaries
- Security
- Quality
- Liquidity
- Profitability
- Nature and duration of liabilities
- Tradability on regulated markets
- Diversification
- Use of derivatives

The Trustee's investment adviser has the knowledge and experience required under the Pensions Act 1995.

The Trustee expects the fund manager to manage the assets delegated to it under the terms of its contract and to give effect to the principles in this statement so far as is reasonably practicable. The fund manager is typically remunerated on an ad valorem basis, and the Trustees regular reviews the level of fees with the help of its investment advisers.

In addition, fund managers pay commissions to third parties on many trades they undertake in the management of the assets and also incur other ad hoc costs. The Trustee receives statements from the fund manager setting out these costs and reviews them annually. This is to ensure that the costs incurred are commensurate with the goods and services received.

The custodian provides safekeeping for all the Scheme's assets and performs the administrative duties attached. The Trustee's agreement with BlackRock is a tri-partite agreement, between the Trustee, the manager(s) and Bank of New York. In the case of the BlackRock cash fund, Bank of New York is responsible for the safekeeping of the assets held by this vehicle.

The Trustee will review this SIP at least every three years and immediately following any significant change in investment policy or in the demographic profile of relevant members. The Trustee will obtain and consider the written advice of a person who is reasonably believed to be qualified and take investment advice and consult with the Sponsoring Employer over any changes to the SIP.

Before investing in any manner the Trustee will obtain and consider proper advice, in writing, on the question whether the investment is satisfactory having regard to the requirements of regulations so far as relating to the suitability of investments, and to the principles contained in the SIP under PA95 S35.

**Auditors**

The Scheme auditor, PricewaterhouseCoopers, carries out an annual review of investment administration practices.

Signed.....  
Chairman of Trustee

Date.....