

# TRAFALGAR HOUSE PENSION TRUST

## STATEMENT OF INVESTMENT PRINCIPLES

This Statement of Investment Principles is produced by the Trustee to meet the requirements of the Pensions Acts 1995 and 2004 and the Occupational Pension Schemes (Investment) Regulation 2005 as amended. The Trustee also complies with the requirements to maintain and take advice on this Statement and with the disclosure requirements.

### INVESTMENT OBJECTIVE

The Trustee aims to invest the assets of the Trust prudently so that the benefits promised to members can be provided. The overriding principle guiding the Trustee's approach to investment is to manage both risk and return. The Trustee aims to take only those risks which it considers likely to be rewarded by additional return.

In keeping with this principle, the asset allocation strategy the Trustee has selected is designed to minimise downside risk in a manner that aims to allow the Trust to earn a sufficient return to pay full benefits to members. The Trust's sponsoring employer is not a substantial company which might be expected to be able to make contributions to make good any deficit and therefore in reality the liabilities can only be met by targeting an investment return in excess of the liabilities. The overall objective has been agreed and is as follows:

- ***To set an investment strategy which targets an expected return over the liabilities (as valued by gilt yields) of 3.0% per annum (net of fees).***

The Trustee is mindful that it needs to take enough risk to generate sufficient return such that the funding ratio is expected to improve over time, but not so much risk that an adverse event could knock the Trust so far off course that it would be unable to recover

The Trustee has therefore set a risk range within which it expects to manage the overall portfolio. This risk range is reviewed at least once a year

As the funding level improves, the Trustee will consider crystallizing gains and increasing the proportion of assets in the Liability Managed Portfolio, reducing the risk/return objective commensurately to reflect the lower requirement for return and risk taking.

### STRATEGY AND STRUCTURE

The planned medium-term investment strategy chosen to meet the return and risk objectives above is set out in the table below. This strategy will be monitored over time and may be adjusted in light of changed conditions.



The planned investment strategy was determined with regard to the actuarial characteristics of the Trust, in particular the funding position and the liability profile. Traditional equity investment approaches require a long time horizon and a significant tolerance for volatility. Our approach is to take risk in as diversified a manner as possible by investing across a number of different asset classes, styles of management and investment managers. Assets are grouped together according to how they are likely to perform under different scenarios, called Clusters. There is no set allocation for the Clusters, listed in above graph, within the Returns Portfolio.

We aim to take risks only where we believe that we will receive adequate compensation for taking those risks. To the extent that we believe there is inadequate compensation for taking large inflation and interest-rate risks, we have decided to use interest-rate and inflation

instruments to manage these risks. Unrewarded risk in currency will also be hedged where practical.

We recognise the potential volatility in the returns from certain asset classes, particularly relative to the Trust's liabilities, and the risk that the fund managers do not achieve the targets set. When choosing the Trust's planned investment strategy we considered written advice from our investment advisers and, in doing so, addressed the following:

- The need to consider a full range of asset classes.
- The risks and rewards of a range of alternative asset allocation strategies.
- The suitability of each asset class.
- The need for appropriate diversification.

The asset allocation is monitored on a regular basis by the Trustee's Investment Committee. No automatic rebalancing of the asset allocation takes place, and allocations may shift over time as a result of market movements and cash flows. The Trustee may also, on the basis of market conditions and taking into account the objective, move away from the planned allocations.

## **RISK**

We recognise that the key risk to the Trust is that it has insufficient assets to make provisions for 100% of its liabilities ("funding risk"). We have identified a number of risks which have the potential to cause a deterioration in the Trust's funding level and therefore contribute to funding risk. 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, such as longevity ("mismatching risk"). We and our advisers considered this mismatching risk when setting the investment strategy and have specifically structured the Trust's assets with the aim of minimising this risk over the medium term as far as is practical.
- The risk of a shortfall of liquid assets relative to the Trust's immediate liabilities ("cash flow risk"). We and our advisers will aim to manage the Trust's cash flows, taking into account the timing of future payments in order to minimise the possibility that this occurs.
- The risk of a shortfall of assets that can be posted as collateral in respect of hedging and other investment arrangements entered into with investment banks ("collateral risk"). We aim to hold at least 30% of the Trust's assets in assets that can be used as collateral. This is monitored on a monthly basis and if the amount of eligible collateral falls below 30% for two consecutive months then the Trustee's Investment Committee will consider whether any further action is required.
- The failure by the fund managers to achieve the rate of investment return that we have assumed ("manager risk"). This risk is considered by us and our advisers both upon the initial appointment of the fund managers and on an ongoing basis thereafter.
- The failure to spread investment risk ("risk of lack of diversification"). We and our advisers considered this risk when setting the Trust's investment strategy. A portion of the Returns Portfolio has been allocated to an Uncorrelated Portfolio and an Africa

Portfolio, which are specifically designed to have a low correlation to the other investments.

- The risk of fraud, poor advice or acts of negligence (“operational risk”). We have 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.

Due to the complex and interrelated nature of these risks, we consider the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review (normally triennially) and on an ad hoc basis in between. Some of these risks may also be modelled explicitly during the course of such reviews.

Having set an objective which relates directly to the Trust’s liabilities and having implemented it using a range of fund managers, our policy is to monitor these risks, together with our investment adviser, at least quarterly. We receive regular reports showing:

- Actual funding level versus the Trust-specific funding objective.
- Performance versus the Trust’s objective.
- Performance of individual fund managers versus their respective targets as measured by an independent performance measurer.
- Any significant issues with the fund managers that may impact their ability to meet the performance targets set by the Trustee.
- The proportion of liquid assets and projected cash flows, together with stress tests of key metrics, which could affect the proportion of liquid assets in the portfolio.

## IMPLEMENTATION

We have selected an investment adviser to the Trustee and the Trustee’s Investment Committee. The investment adviser operates under an agreement to provide a service so that the Trustee and the Investment Committee are briefed to take decisions and to monitor those decisions which they delegate.

The investment adviser has also been appointed to manage the Trust’s back office arrangements, which include cash management, the implementation of specific fund investments and disinvestments upon Trustee instruction and the implementation of corporate actions related to the investments.

We delegate all day-to-day decisions about the investments that fall within each mandate to the relevant fund manager through a written contract. When choosing investments, we and the fund managers (to the extent delegated) are required to have regard to the criteria for investment set out in the Occupational Pension Funds (Investment) Regulations 2005 (regulation 4). Fund managers will, as far as reasonably possible, be remunerated on a performance-related fee basis. This structure has been chosen to align the fund managers’ interests with those of the Trust. The managers’ duties also include:

- Taking into account social, environmental or ethical considerations in the selection, retention and realisation of investments.
- Voting and corporate governance in relation to the Trust's assets.

When deciding which decisions to take and which to delegate, we have taken into account whether we have the appropriate training and expert advice in order to take an informed decision. The Trustee has the following responsibilities:

- Setting the asset allocation strategy.
- Monitoring actual returns versus the Trust's objective.
- Setting structures and processes for carrying out its role.
- Appointing an Investment Committee (with clearly documented roles and responsibilities)
- Considering recommendations from the Investment Committee.
- Approving the selection of direct investments (see next section of this statement).

## **FINANCIALLY MATERIAL CONSIDERATIONS OVER THE APPROPRIATE TIME HORIZON OF THE INVESTMENTS**

The Trustee has a long-term time horizon for their portfolio and, as such, recognises that being a responsible investor should improve financial outcomes. The Trustee considers responsible investment to be the integration of environmental, social and governance (ESG) factors into investment decisions where financial risk and / or return could be materially affected. These considerations include the potential impact of Climate Change.

The majority of the Trust's assets are invested within pooled funds rather than held directly. The Trustee accepts that the investment managers have full discretion when evaluating ESG issues and in exercising rights and stewardship obligations attached to the Trust's investments. However, where relevant to the Trust's specific investment, the Trustee prefers investment managers who are signatories to the UN Principles of Responsible Investment (UN PRI) or can otherwise demonstrate an appropriate focus on ESG issues. The investment adviser maintains an independent assessment of each manager in this respect, other than the Uncorrelated and African Portfolios, where the Trustee monitors their approach to ESG directly. Furthermore, the investment adviser is a signatory to the UN PRI.

Where relevant, the Trustee prefers its investment managers to have an explicit strategy, outlining the circumstances in which they will engage with a company (or issuer of debt or stakeholder) on relevant matters (including performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance matters) and how they will measure the effectiveness of this strategy.

The Trustee has selected three stewardship priorities for manager engagement in order to improve alignment against its policies and beliefs as well as enhance disclosure. These priorities are linked to the UN Sustainable Development Goals with an international endeavour in mind and aim to improve sustainability within the portfolio and have a direct real-world impact. The Trustees' three stewardship priorities are:

- **Climate Crisis** (with a focus on climate change and net zero greenhouse gas emissions)
- **Environmental Impact** (with a focus on biodiversity, deforestation and water)
- **Human Rights** (with a focus on living wages, gender equality and health & nutrition)

## **THE EXTENT TO WHICH NON-FINANCIAL MATTERS ARE TAKEN INTO ACCOUNT IN THE SELECTION, RETENTION AND REALISATION OF INVESTMENTS**

The Trustee believes that, in addition to providing pension provisions for members, it would be reasonable to assume that, when they receive their pension, they and their dependents would want to spend it in a world where the environmental quality of life is broadly similar to or better than it is at present. To this end, within the context of its fiduciary responsibility, the Trustee is supportive of the United Nations Framework Convention on Climate Change (UNFCCC) agreement to limit temperature rises to 2 degrees centigrade above pre-industrial levels.

The Trustee recognises that Climate Change will be subject to much further analysis and subsequent policy changes in the coming years. The Trustee will seek to ensure, via its investment adviser, that its asset managers support and adopt an evolving policy in order to ensure all relevant developments are captured.

The Trustee expects that its Responsible Investment Policy and monitoring of its policy will evolve over time and has committed to year-on-year improvements. As a first step, the Trustee will establish metrics by which it will assess progress in areas such as Climate Change. For example, establishing metrics and targets at both a Trust and asset class level.

The Trustee recognises that individual members and beneficiaries may have views on non-financial matters, such as ethical, social and environmental considerations, that may have implications for the Trust's investments. The Trustee does not pro-actively take these views into account when making investment decisions but they do review communications of member views. The Trustee believes that the above policy is an appropriate reflection of the views of the membership in aggregate, given that individual members may have differing and conflicting views that cannot all be incorporated directly.

## **THE EXERCISE OF THE RIGHTS (INCLUDING VOTING RIGHTS) ATTACHING TO THE INVESTMENTS**

The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers. The investment adviser encourages the Trust's investment managers to discharge their responsibilities in respect of investee companies in accordance with the Stewardship Code published by the Financial Reporting Council.

## **UNDERTAKING ENGAGEMENT ACTIVITIES IN RESPECT OF THE INVESTMENTS**

The investment adviser is responsible for engaging with investment managers regarding those investment managers' voting records and level of engagement with the underlying investments, where this is expected to have meaningful impact.

## **ARRANGEMENTS WITH ALL INVESTMENT MANAGERS**

The Trustee believes that an understanding of, and engagement with, investment managers' arrangements (including the investment adviser) is required to ensure they are aligned with Trustee policy, including its Responsible Investment policy. In accordance with latest

regulation, it is the Trustee's policy to ensure that the following are understood and monitored by the investment managers and investment adviser:

- How investment manager arrangements incentivise investment managers to align their strategy and decisions with the Trustee's policies
- How investment manager arrangements incentivise investment managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.
- How the method (and time horizon) of the evaluation of investment managers' performance and their remuneration are in line with the Trustee's policies
- Portfolio turnover costs incurred by the investment managers, in the context of the investment manager's targeted portfolio turnover (defined as the frequency within which the assets are expected to be bought or sold)
- Duration of the arrangement with the investment manager

The responsibility for monitoring these aspects day to day has been delegated to the investment adviser, other than the Uncorrelated and African Portfolios, where the Trustee monitors their approach directly. They are responsible for ensuring each underlying investment manager is aligned with the Trustee policies at the time of appointment or explaining why this is not the case. They are also required to report back to the Trustee on any areas of potential divergence between Trustee policy and investment manager practice on an ongoing basis, including their own.

Stewardship policies and voting records are reviewed (and discussed with the investment managers) at least annually by the investment manager, who will collate the qualitative and quantitative information required to allow the Trustee to review all of the above aspects in sufficient detail each year. The Trustee will challenge any arrangements or stewardship practices that do not align with their Responsible Investment approach.

## GOVERNANCE

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, e.g. the purchase of an insurance policy or units in a pooled vehicle. The latter are known as **direct investments**.

Our policy is to review our 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 we 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 Funds (Investment) Regulations 2005 and the principles contained in this statement. The regulations require all investments to be considered by us (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.
- Trade-ability on regulated markets.
- Diversification.
- Use of derivatives.

Our investment adviser has the knowledge and experience required under the Pensions Act 1995.

We expect the fund managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this statement so far as is reasonably practicable.

We have appointed an independent custodian for the Trust. The custodian provides safekeeping for the Trust's assets and performs the administrative duties, such as the collection of interest and dividends and dealing with corporate actions.

We will review this SIP at least every three years and immediately following any significant change in investment policy. We will take appropriate advice over any changes to the SIP.

**December 2024**