

# Royal London Society for the Blind Pension and Life Assurance Scheme

## Statement of Investment Principles – September 2020

### Introduction

The Trustee of the Royal London Society for the Blind Pension and Life Assurance Scheme (“the Scheme”) has drawn up this Statement of Investment Principles (“the Statement”) to comply with the requirements of the Pensions Act 1995, the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005. The Statement is intended to affirm the investment principles that govern decisions about the Scheme’s investments. In preparing this Statement the Trustee has consulted Royal Society for Blind Children (“the Employer”) on the Trustee’s investment principles.

### Governance

The Trustee makes all major strategic decisions including, but not limited to, the Scheme’s asset allocation and the appointment and termination of investment managers. The process for making investment decisions is as follows:

- Identify appropriate investment objectives
- Agree the level of risk consistent with meeting the objectives
- Implement an investment strategy and investment manager structure in line with the level of risk and objectives agreed

When making such decisions, and when appropriate, the Trustee takes proper advice. The Trustee’s investment consultants, Capita, are qualified by their ability in and practical experience of financial matters, and have the appropriate knowledge and experience to provide such advice.

### Investment Objectives

The Trustee is required to invest the Scheme’s assets in the best interest of members, and the main objectives with regard to investment policy are:

- To buy out the Scheme’s liabilities using a third party insurer once the Scheme achieves full funding on a Solvency basis;
- To ensure that sufficiently liquid assets are available to meet benefit payments as they fall due; and
- To consider the interests of the Employer in relation to the size and volatility of the Employer’s contribution requirements.

The Trustee understands, following discussions with the Employer, that it is willing to accept a degree of volatility in the Employer's contribution requirements as a consequence of targeting returns designed to reduce the long-term cost of the Scheme's benefits. The Trustee is comfortable that the covenant of the Employer is strong enough to support this approach.

### **Risk Management and Measurement**

The Trustee is aware of and pays close attention to a range of risks inherent in investing the assets of the Scheme. The Trustee believes that the investment strategy provides for adequate diversification both within and across different asset classes. The Trustee further believes that the current investment strategy is appropriate given the Scheme's liability profile. The Trustee's policy on risk management is as follows:

- The primary investment risk faced by the Scheme arises as a result of a mismatch between the Scheme's assets and its liabilities. This is therefore the Trustee's principal focus in setting investment strategy, taking into account the nature and duration of the Scheme's liabilities.
- The Trustee recognises that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's liabilities as well as producing more short-term volatility in the Scheme's funding position. The Trustee has taken advice on the matter and (in light of the objectives noted previously) considered the implications of adopting different levels of risk.
- The Trustee recognises the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustee aims to ensure the asset allocation strategy in place results in an adequately diversified portfolio. Due to the size of the Scheme's assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles.
- The documents governing the managers' appointments include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme.
- The Trustee recognises that, where appropriate, the use of active management involves a risk that the assets do not achieve the target return. However, it believes that this risk is outweighed by the potential gains from successful active management, in particular in regions or asset classes where this potential is greater than others. Therefore, the Scheme's assets are managed through a mixture of active and passive management which may be adjusted from time to time.
- The safe custody of the Scheme's assets is delegated to professional custodians via the use of pooled vehicles.

Should there be a material change in the Scheme's circumstances, the Trustee will review whether the current risk profile remains appropriate.

## Investment Strategy

Given the investment objectives, the Trustee has agreed to the asset allocation detailed in the table below. The Trustee believes that the investment risk arising from the investment strategy is consistent with the overall agreed level of risk.

If the Scheme is well ahead on its funding plan, the Trustee has discretion to reduce the risk of future increases to contributions by reducing the Scheme's asset allocation in the nominal equity-linked bond funds and diversified growth funds and, instead, investing in cash, subject to the control limits in the table below.

Asset Class	Strategic Asset Allocation (%)	Range (%)
Equity-Linked Bond Funds - Nominal	16.0	0.0 - 20.0
Diversified Growth Funds	15.0	0.0 - 17.0
Absolute Return Bond Funds	10.0	
<b>Return-Seeking Assets:</b>	<b>41.0</b>	<b>10.0 – 46.0</b>
UK Corporate Bonds	15.0	
UK Fixed Interest Gilts	18.0	
UK Index-linked Gilts	5.0	
Nominal LDI	15.0	
Real LDI	6.0	
Cash	0.0	0.0 - 31.0
<b>Matching Assets:</b>	<b>59.0</b>	<b>54.0 to 90.0</b>
<b>Total:</b>	<b>100.0</b>	

The Liability Driven Investment (LDI) funds employ leverage (i.e. the level of protection provided against changes in longer-term interest rates and inflation expectations is greater than the amount invested in equivalent bond assets). Should the leverage within the LDI funds deviate substantially from the target leverage levels, it will be rebalanced back to the target leverage levels. These LDI leverage-rebalancing events could result in money being requested or released from the LDI funds and the Trustee has established a default cash management policy for these events (see below).

In general cash flows (including for LDI leverage-rebalancing) will be used to rebalance to the Scheme's strategic benchmark. However, if the Scheme is well ahead on its funding plan, the Trustee has discretion to reduce the risk of future increases to contributions by investing more in cash to deleverage the LDI funds, and reducing the allocation to the diversified growth allocation and nominal equity-linked bond funds. The Trustee may decide to change this cash flow policy from time-to-time, subject to receiving the necessary advice from the investment consultant.

The Trustee will monitor the Scheme's actual asset allocation at least quarterly and subject to stated Control Limits, will decide on a course of action. This may involve redirecting cash flows, a switch of assets, or taking no action. The Trustee may take into account advice from the investment consultant prior to making any decision. Further details on investment funds and control ranges can be found in the Appendix.

### **Expected Return**

The Trustee expects the return on assets to be consistent with the investment objectives and investment strategy outlined above.

The Trustee expects to generate a return, over the long term, of circa 1.3% per annum, net of expenses, above a portfolio of long-dated UK Government bonds – which are considered to change in value in a similar way to the Scheme's liability value. This return is a "best estimate" of future long-term expected returns based on the Scheme's longer term asset allocation and advice from the investment consultant.

The Trustee recognises that over the short term performance may deviate significantly from this long-term expectation. This "best estimate" will also generally be higher than the estimate used for the actuarial valuation of the Scheme's liabilities. For this purpose, a more prudent estimate of returns will generally be used, as agreed by the Trustee on the basis of advice from the Scheme Actuary.

### **Platform Provider**

The Trustee has appointed Legal and General Investment Management ("the Platform Provider") to manage all of the assets of the Scheme. The Platform Provider is regulated under the Financial Services and Markets Act 2000. All decisions about the day-to-day management of the assets have been delegated to the Platform Provider via a written agreement, including the realisation of investments.

### **Investment Mandates**

The Trustee has selected the Investment Managers set out in the Appendix to this Statement via a single policy with the Platform Provider. The Investment Managers are regulated under the Financial Services and Markets Act 2000.

The Trustee has rolling contracts with its Investment Managers.

The Trustee monitors the performance of its Investment Managers on a quarterly basis. This monitoring is contained in a report provided by their advisors.

The Trustee has set performance objectives, including time periods, consistent with the investment strategy set out in this statement.

### **Investment Manager Remuneration**

The Trustee monitors the remuneration, including incentives, that are paid to its Investment Managers and how they reward their key staff who manage client funds, along with how the pay and incentives motivate employees who manage client funds.

As part of the monitoring that the Trustee carries out on a regular basis, it will ensure that this policy is in line with their investment strategy.

### **Investment Manager Philosophy and Engagement**

The Trustee monitors the Investment Managers' process for assessing the businesses they invest in, and whether business performance over the medium to long-term involves a holistic look beyond purely accountancy measures. The Trustee considers if the fund manager is incentivised to make decisions on a short-term basis or on a medium to long-term basis and whether this coincides with the business assessments. The Trustee is conscious of whether the investment manager is incentivised by the agreement with the Trustee to engage with the investee business and to what extent any engagement focuses on improving medium to long-term performance.

### **Investment Manager Portfolio Costs**

The Trustee will monitor costs of buying, selling, lending and borrowing investments and will look to monitor the costs breakdown annually, as long as the investment managers provide these costs using the Cost Transparency Initiative template. The Trustee will also ensure that, where appropriate, its investment managers monitor the frequency of transactions and portfolio turnover. If there are any targets then the Trustee will monitor compliance with these targets.

### **Corporate Governance**

The Trustee wishes to encourage best practice in terms of activism. The Trustee accepts that by using pooled investment vehicles the day-to-day application of voting rights will be carried out by the investment managers. Consequently, the Trustee expects the Scheme's investment managers to adopt a voting policy that is in accordance with best industry practice.

The Trustee will monitor the voting being carried out by its Investment Managers and custodians on its behalf. It will do this by receiving reports from its investment managers which should include details of any significant votes cast and proxy services that have been used.

### **Responsible Investment**

The Trustee believes the main duty, reflected in the investment objectives, is to protect the financial interests of the Scheme's members. It therefore takes all financially material considerations into account when making decisions on the selection, retention and realisation of investments through strategic asset allocation decisions and the appointment of investment managers as far as possible.

The Trustee believes that environmental, social and governance factors will be financially material over the time horizon of the Scheme, which for the Trustee is over the medium term, but will have varying levels of importance for different types of assets invested by the Scheme.

The Trustee does not factor non-financial decisions (such as ethical or moral beliefs) into its investment decision making, nor does it appoint asset managers that take such factors into account in their decision making.

The Trustee has elected to invest predominantly in pooled funds and it is difficult to, therefore, directly influence the ESG policies, including the day-to-day application of voting rights, of the funds in which it invests (especially where assets are managed passively). However, the Trustee will consider the manager policies in all future selections and will seek to deepen its understanding of its existing manager policies by reviewing these at least annually. The Trustee will also seek to understand what other options might be available at its managers and in the wider market. In cases where it is dissatisfied with a manager's approach, it will take this into account when reviewing them. It is also keen that all its managers are signatories of the UN Principles of Responsible Investment, which is currently the case.

The Trustee believes that stewardship is important, through the exercising of rights (including voting rights) attaching to investments. The Trustee is keen that its managers can explain when, and by what practical methods, the managers monitor and engage with relevant persons about relevant matters in this area. It will be liaising with its managers (including its passive managers) to obtain details of the voting behaviour (including the most significant votes cast on the Trustee's behalf). The Trustee is also keen that its managers are signatories of the UK Stewardship Code. This is currently the case.

The Trustee is aware that ESG and stewardship considerations involve an ongoing process of education for and engagement with its investment managers. To that end it dedicates time regularly to the discussion of this topic and intends to review and renew its approach periodically with the help of its investment consultant, where required. Consequently, the Trustee expects the Scheme's investment managers to have effective ESG policies (including the application of voting rights) in place, and looks to discuss the investment managers' ESG policies with them when the managers attend Trustee meetings.

### **Compliance with Myners' Principles**

In October 2008 the Government published the results of its consultation on revisions to the Myners' principles in response to recommendations made by the National Association of Pension Funds (NAPF) in 2007. This takes the form of six higher-level principles, supported by best practice guidance and trustee tools that can be used to assess compliance:

- Principle 1: Effective decision making
- Principle 2: Clear objectives
- Principle 3: Risk and liabilities
- Principle 4: Performance measurement
- Principle 5: Responsible ownership
- Principle 6: Transparency and Reporting

The Trustee believes the Scheme to be compliant with the spirit of the Myners' Principles. There may be some instances of deviation from the published 'Best Practice Guidance' on the Principles where the Trustee believes this to be justified.

### **Employer-Related Investments**

The Trustee's policy is not to hold any direct employer-related investments as defined in the Pensions Act 1995, the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005.

### **Fee Structures**

The Platform Provider is paid a management fee on the basis of assets under management which includes the underlying investment managers' management fees. The investment consultant is paid on a fixed fee basis for providing 'core services'. The Trustee can also request that Capita undertake 'out-of-scope' projects, which may be undertaken on a fixed fee or time-cost basis - as negotiated between the Trustee and Capita.

### **Review of this Statement**

The Trustee will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustee reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

**Name**      **Huw Evans**

**Date**        **29 September 2020**

**For BESTrustees Limited acting as Trustee of the Scheme**

## Appendix – Investment Mandates

The Trustee has appointed the Investment Managers to manage the assets of the Scheme via the Legal and General Investment Management investment platform. The Investment Managers are regulated under the Financial Services and Markets Act 2000. Their mandates are set out below:

Asset Class	Investment Manager	Fund Name	Active / Passive Management	Strategic Allocation %	Range %
<b>Return-Seeking Asset Types</b>				<b>41.0</b>	<b>10.0 – 46.0</b>
Equity-Linked Bond Funds - Nominal	BMO	F&C UK Equity-Linked Gilt Fund	Passive	8.0	0.0 – 10.0
	BMO	F&C Overseas Equity-Linked UK Gilt Fund	Passive	8.0	0.0 – 10.0
Diversified Growth Funds	LGIM	LGIM Dynamic Diversified Fund	Active	15.0	0.0 – 17.0
Absolute Return Bond Funds	Newton	Newton Global Dynamic Bond	Active	10.0	
<b>Matching Asset Types</b>				<b>59.0</b>	<b>54.0 – 90.0</b>
UK Corporate Bonds	LGIM	LGIM Active Corporate Bond – Over 10yr – Fund	Active	15.0	
UK Fixed Interest Gilts	LGIM	LGIM Over 15 Year Gilts Index Fund	Passive	18.0	
UK Index-linked Gilts	LGIM	LGIM Over 5 Year Index-Linked Gilts Index Fund	Passive	5.0	
Nominal LDI	BMO	F&C Nominal Dynamic LDI Fund	Passive *	15.0	
Real LDI	BMO	F&C Real Dynamic LDI Fund	Passive *	6.0	
Cash	LGIM	Sterling Liquidity Fund	Active	0.0	0.0 - 31.0

\*These funds partially switch between swaps and gilts when one is significantly cheaper than the other.

Any cash flows (including for LDI leverage rebalancing) will be used to rebalance to the strategic benchmark, although the Trustee has discretion if the Scheme is well ahead of its funding plan to reduce the risk of future increases to contributions by investing more in cash (i.e. Sterling Liquidity Fund) and reducing the allocation to the diversified growth allocation (i.e. LGIM Dynamic Diversified Fund) and nominal equity-linked bond funds (i.e. F&C UK Equity-Linked Gilt Fund and F&C Overseas Equity-Linked UK Gilt Fund). The Trustee may decide to change this cash flow policy from time-to-time, subject to receiving the necessary advice from the investment consultant.