

# Brit Group Services Limited Retirement Benefits Scheme

Statement of Investment Principles

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# 1 Introduction

- 1.1 This is the Statement of Investment Principles prepared by the Brit Pension Trustee Limited (the "Trustee") as Trustee to the Brit Group Services Limited Retirement Benefits Scheme (the "Scheme"). This statement sets down the principles which govern the decisions about investments that enable the Scheme to meet the requirements of:
- the Pensions Act 1995, as amended by the Pensions Act 2004;
  - the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010; the Occupational Pension Schemes (Charges and Governance) Regulations 2015; and the Occupational Pension Schemes (Investment) (Amendment) Regulations 2018; and
  - the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.
- 1.2 In preparing this statement the Trustee has consulted Brit Group Services Limited, the Principal Employer, and obtained advice from Lane Clark & Peacock LLP ("LCP"), the Trustee's investment consultants.
- 1.3 This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.
- 1.4 The Trustee will review this statement at least every three years or if there is a significant change in the policy on any of the areas covered by the statement
- 1.5 The investment powers of the Trustee are set out in Clause 6 of the Definitive Trust Deed & Rules, dated 28 June 2010. This statement is consistent with those powers.

# 2 Choosing Investments

- 2.1 The Trustee's policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustee considers the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.
- 2.2 The Trustees, with the help of their advisers, purchased a bulk annuity policy with Just Retirement Limited in December 2022 to cover members' pension benefits. As such, the majority of Scheme assets are held in this buy-in policy.
- 2.3 The day-to-day management of the Scheme's residual assets (ie excluding the bulk annuity policy) is delegated to one or more fund managers. The Scheme's fund managers are detailed in the Appendix to this Statement. The fund managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights.
- 2.4 The Trustee reviews the appropriateness of the Scheme's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the fund manager with respect to performance within any guidelines set. The Trustee will also consult the employer before amending the investment strategy.

# 3 Investment Objectives

- 3.1 The Trustee's main investment objectives are:

- to ensure that they can meet the members' entitlements under the Trust Deed and Rules as they fall due;
- that the Scheme's funding position (i.e. the value of its assets relative to the assessed value of its liabilities) should remain at an appropriate level. The Trustee is aware that there are various measures of funding, and have given due weight to those considered most relevant to the Scheme. In particular, the Trustee has taken into account the funding requirements detailed in the Occupational Pensions Scheme (Scheme Funding) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010.
- to invest in assets of appropriate liquidity which will generate income and capital growth to meet, together with contributions from the participating employer, the cost of current benefits which the Scheme provides;
- to minimise the long-term costs of the Scheme by maximising the return on the assets whilst having regard to the above objectives.

3.2 The Trustee is aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Scheme's liabilities at any time. The Trustee has obtained exposure to investments that they expect will meet the Scheme's objectives as best as possible.

## 4 Kinds of investments to be held

4.1 The Scheme can invest in a wide range of asset classes including:

Equities;  
 Bonds;  
 Cash;  
 Property;  
 Alternatives, including private equity, commodities, hedge funds, infrastructure, currency, high yield debt and derivatives;  
 Annuity policies.

4.2 Any investment in derivative instruments is only made to contribute to a reduction in the overall level of risks in the portfolio or for the purposes of efficient portfolio management.

4.3 The Trustee monitors from time to time the employer-related investment content of their portfolio as a whole and will take steps to alter this should they discover this to be more than 5% of the portfolio.

## 5 The balance between different kinds of investments

5.1 The Scheme invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained within the Appendix to this Statement.

5.2 The Trustee considers the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Appendix to this Statement.

5.3 From time to time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate for any short term cashflow requirements or any other unexpected items.

- 5.4 The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and therefore the Scheme's asset allocation will be expected to change as the Scheme's liability profile matures.
- 5.5 The Trustees, with the help of their advisers, purchased a bulk annuity policy with Just Retirement Limited in December 2022 to cover member's pension benefits. Further details of the current allocation is continued within the Appendix to this statement.

## 6 Risks

- 6.1 The Trustee has considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities:
- 6.2 **Risk versus the liabilities** The Trustee will monitor and review the investment strategy with respect to the liabilities following each actuarial valuation. The investment strategy will be set with consideration of the appropriate level of risk required for the funding strategy as set out in the Scheme's Statement of Funding Principles. The buy-in policy is expected to fully match the liabilities.
- 6.3 **Asset Allocation risk** The asset allocation is detailed in the Appendix to this Statement and is monitored on a regular basis by the Trustee.
- 6.4 **Fund manager risk** The Trustee monitors each of the Scheme's fund manager's performance on a regular basis. The Trustee has a written agreement with each fund manager, which contains a number of restrictions on how each fund manager may operate.
- 6.5 **Governance risk** Each fund manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustee monitors these and will report on the manager's practices in their annual Implementation Statement, where appropriate.
- 6.6 **ESG/Climate risk** The Trustee has considered long-term financial risks to the Scheme and ESG factors as well as climate risk are potentially financially material and will continue to develop its policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments in order to avoid unexpected losses.
- 6.7 **Concentration risk** Each fund manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities, where appropriate.
- 6.8 **Loss of investment** The risk of loss of investment by each fund manager and custodian is assessed by the Trustee. Each fund manager monitors counterparty credit risk and evaluates counterparty credit quality on a continuous basis, where relevant. The Scheme's buy-in policy provides a series of cashflows to meet the Scheme's liabilities and substantially protect against the risk of inadequate returns.
- 6.9 **Liquidity risk** The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Scheme's cash flow requirements. The Scheme's administrators assess the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.
- 6.10 **Covenant risk** The creditworthiness of the employer and the size of the pension liability relative to the employer's earnings are monitored on a

regular basis. The appropriate level of investment risk is considered with reference to the strength of the employer covenant.

6.11 **Solvency and mismatching** Risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustee is aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Scheme's funding basis.

6.12 **Currency risk** The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management.

## 7 Expected return on investments

7.1 The Trustee has regard to the relative investment return and risk that each asset class is expected to provide. The Trustee is advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the fund managers.

7.2 The Trustee recognises the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

7.3 In considering the expected return from investments, the Trustee recognises that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.

7.4 Having established the investment strategy, the Trustee monitors the performance of each fund manager against an agreed benchmark as frequently as appropriate according to market conditions and the Scheme's funding position. The Trustee meets the Scheme's fund managers as frequently as is appropriate in order to review performance.

## 8 Realisation of investments

8.1 The Trustee has delegated the responsibility for buying and selling investments to the fund managers. The Trustee has considered the risk of liquidity as referred to above.

8.2 Ultimately, the investments will all have to be sold when the Scheme's life comes to an end. In this situation, the Trustee is aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Scheme accounts.

## 9 Financially material considerations, the exercise of voting rights and engagement activities, and non-financial matters

9.1 The Trustees have set policies in relation to these matters. These policies are set out in Appendix 2

## 10 Policy on arrangements with asset managers

### Incentivising alignment with the Trustee's investment policies

10.1 Prior to appointing an investment manager, the Trustee discusses the investment manager's approach to the management of ESG and climate related

risks with the Scheme's investment consultant, and how their policies are aligned with the Trustee's own investment beliefs.

- 10.2 When appointing an investment manager, in addition to considering the investment manager's investment philosophy, process and policies to establish how the manager intends to make the required investment returns, the Trustee also considers how ESG and climate risk are integrated into these. If the Trustee deems any aspect of these policies to be out of line with their own investment objectives for the part of the portfolio being considered, they may consider using another manager for the mandate.
- 10.3 The Trustee considers the Scheme's strategy at least every three years where they assess the continuing relevance of the strategy in the context of the Scheme's membership and their aims, beliefs and constraints. The Trustee monitors the investment managers' approach to ESG and climate related risks on an annual basis.
- 10.4 In the event that an investment manager ceases to meet the Trustee's desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment may be terminated. The investment managers have been informed of this by the Trustee.
- 10.5 Investment manager ESG policies are reviewed in the context of best industry practice and feedback will be provided to the investment manager.

#### **Incentivising assessments based on medium to long term, financial and non-financial considerations**

- 10.6 The Trustee is mindful that the impact of ESG and climate change has a long-term nature. However, the Trustee recognises that the potential for change in value as a result of ESG and climate risk may occur over a much shorter term than climate change itself. The Trustee acknowledges this in their investment management arrangements.
- 10.7 When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustee assesses these over a rolling timeframe. The Trustee believes the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon. Where a fund may have an absolute return or shorter term target, this is generally supplementary to a longer term performance target. In the case of assets that are actively managed, the Trustee expects this longer term performance target to be sufficient to ensure an appropriate alignment of interests.
- 10.8 The Trustee expects investment managers to be voting and engaging on behalf of the Scheme's holdings and the Scheme monitors this activity within the Implementation Statement in the Scheme's Annual Report and Accounts. The Trustee does not expect ESG considerations to be disregarded by the investment managers in an effort to achieve any short term targets.

#### **Method and time horizon for assessing performance**

- 10.9 The Trustee monitors the performance of their investment managers over medium to long term periods that are consistent with the Trustee's investment aims, beliefs and constraints.
- 10.10 The Scheme invests in pooled funds and a bulk annuity contract.
- 10.11 The Trustee believes that this fee structure enables the investment manager to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.

10.12 The Trustee asks the Scheme's investment consultant to assess if the asset management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered regularly as part of the review of the Statement of Investment Principles.

### Portfolio turnover costs

10.13 The Trustee acknowledges that portfolio turnover costs can impact on the performance of their investments. Overall performance is assessed as part of the regular investment monitoring process.

10.14 During the investment manager appointment process, the Trustee may consider both past and anticipated portfolio turnover levels. When underperformance is identified, deviations from the expected level of turnover may be investigated with the investment manager concerned if it is felt they may have been a significant contributor to the underperformance. Assessments reflect the market conditions and peer group practices. The Trustee acknowledges that for some asset classes, such as leveraged gilts, a higher turnover of contracts such as repurchase agreements, can be beneficial to the fund from both a risk and cost perspective.

### Duration of arrangement with asset manager

10.15 For the open-ended pooled funds in which the Scheme invests, there are no predetermined terms of agreement with the investment managers.

10.16 The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustee's investment beliefs is considered every three years, or when changes deem it appropriate to do so more frequently. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is considered.

## 11 Agreement

11.1 This statement was agreed by the Trustee, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the employer, the fund managers, the actuary and the Scheme auditor upon request.

# Appendix 1 Note on investment policy of the Scheme as at January 2023 in relation to the current Statement of Investment Principles

## Choosing investments

The Trustee has appointed Insight Investment to carry out the day-to-day investment of the assets (excluding the bulk annuity contract).

The Trustee has also entered into a bulk annuity contract with Just Retirement Limited.

The fund managers and insurer are authorised and regulated by the Financial Conduct Authority.

The Trustee has appointed LCP to advise on investment matters.

The fee arrangements with the fund managers are negotiated and agreed on a periodic basis.

LCP is remunerated based upon a mixture of fixed fees and on a time cost basis.

The Trustee has an AVC contract with Utmost Life and Pensions Limited for the receipt of members' Additional Voluntary Contributions. No further contributions are allowed. Members are free to select any investment funds within the ranges offered by the manager.

## Kinds of investments to be held

The Trustee has considered all asset classes and has gained exposure to the following asset classes:

- An index-linked gilt fund managed by Insight;
- A liquidity fund managed by Insight; and
- A bulk-annuity contract.

The Trustee also utilises a money market fund as part of its cash management policy.

## The balance between different kinds of investment and rebalancing

The asset allocation has been agreed after considering the Scheme's liability profile, funding position, expected return of the various asset classes and the need for diversification.

The investment benchmarks and objectives for the fund manager are given below:

| Investment manager             | Fund                                                         | Objective                                                                                                         |
|--------------------------------|--------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|
| Insight Investment             | LDI Solutions Plus Funded Index-Linked Gilts Funds 2031-2040 | To deliver inflation-linked return through primarily investing in UK index-linked gilts, on a fully funded basis. |
| Insight Investment             | Liquidity Fund                                               | To provide stability of capital and income through investment in short-term securities.                           |
| Goldman Sachs Asset Management | Goldman Sachs Sterling Liquid Reserves Fund                  | Seeks to maximise current income, consistent with preservation of capital and daily liquidity                     |

The performance of the fund managers will be monitored as frequently as the Trustee considers appropriate in light of the prevailing circumstances. The monitoring takes into account both short term and long term performance.

The Scheme has an asset allocation made up of a bulk-annuity contract (i.e. fully bought in liabilities) with residual holdings in an index linked gilt fund and liquidity funds.

## Investment of new money

New money, if received, will generally be invested into a liquidity fund.

## Realisation of investments

The Scheme's cash flow requirements will generally be met by payments from the bulk annuity, and from the liquidity fund holdings.

## Appendix 2 Financially material considerations, non-financially material considerations, the exercise of voting rights and engagement activities

### Policy on financially material considerations

The Trustee Directors consider the financial materiality of environmental, social and governance issues, including climate change (referred to together as “ESG issues”), within their investment strategy. The Trustee views ESG issues within an investment context as financially material, however, they appreciate that taking ESG into account within an investment strategy and process will yield different returns and/or risks for different asset classes.

The Trustee has elected to invest the Scheme's assets through pooled funds and an annuity contract. The choice of underlying funds is made by the Trustee after taking advice from their investment consultant. The Trustee, and the managers of the underlying funds, takes into account ESG factors (including climate change risks) in their decisions in relation to the selection, retention and realisation of investments.

The Trustee takes those factors into account in the selection, retention and realisation of investments as follows:

**Selection of investments:** assess the investment managers' ESG integration credentials and capabilities, including stewardship, as a routine part of requests for information/proposals as well as through other regular reporting channels.

**Retention of investments:** The Trustee will monitor ESG considerations on an ongoing basis by seeking information on the responsible investing policies and practices of the investment managers as and when necessary.

**Realisation of investments:** The Trustee will request information from investment managers about how ESG considerations are taken into account in decisions to realise investments.

The Trustee will also take those factors into account as part of its investment process to determine a strategic asset allocation, and consider them as part of ongoing reviews of the Scheme's investments.

The Trustee's view on ESG integration within each asset class is outlined below:

### Multi-asset funds

The Trustee believes that ESG issues may be financially material to the risk-adjusted returns achieved by the Scheme's multi-asset fund manager. The investment process for the multi-asset fund manager should take ESG into account in the selection, retention and realisation of investments. Further to this, the process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

## Gilts

The Trustee does not believe there is scope for ESG issues to improve risk-adjusted returns within the Scheme's gilt holdings.

## Buy and maintain bonds

The Trustee believes that ESG issues may be financially material to the risk-adjusted returns achieved by the Scheme's buy and maintain bonds holding. The Trustee therefore requires the fund manager to consider ESG issues when selecting investments. The Trustee recognises that fixed income assets do not typically provide voting rights; they support engagement with companies by the fund manager. The process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

The Trustee is comfortable that all of the current investment managers are managing their respective funds with ESG taken into account as far as it is possible for that particular asset class and within applicable guidelines and restrictions.

Before considering any new mandate, the Trustee will take into account whether the manager is a signatory to the United Nations supported Principles for Responsible Investment (PRI). At time of writing, all of the Scheme's investment managers are PRI signatories.

The Trustee will continue to monitor and assess ESG factors, and risks and opportunities arising from them, as follows:

- The Trustee will obtain training on ESG considerations from time to time in order to understand how ESG factors including climate change could impact the Scheme and its investments;
- As part of ongoing monitoring of the Scheme's investment managers, the Trustee will use any ESG ratings information available within the pensions industry or provided by its investment consultant, to assess how the Scheme's investment managers take account of ESG issues; and
- Through their investment consultant the Trustee will request that all of the Scheme's investment managers provide information about their ESG policies, and details of how they integrate ESG into their investment processes as appropriate, as part of the ongoing monitoring of the Scheme's investment managers.

## Policy for taking into account non-financial matters

The Trustee does not take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life of the members and beneficiaries of the Scheme (referred to as "non-financial matters" in the relevant Regulations) in the selection, retention and realisation of investments.

## Policy on the exercise of voting rights

The Trustee's policy on the exercise of rights attaching to investments, including voting rights, and in undertaking engagement activities in respect of the investments is that these rights should be exercised by the investment managers on the Trustee's behalf. In doing so, the Trustee expects that the investment managers will use their influence as major institutional investors to exercise the Trustee's rights and duties as shareholders, including where appropriate engaging with underlying investee companies to promote good corporate governance, accountability and to understand how those companies take account of ESG issues in their businesses.

The Trustee will monitor and engage with the investment managers about relevant matters (including matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance), through the Scheme's investment consultant.

Investment managers will be asked to provide details of their stewardship policy and engagement activities on at least an annual basis. The Trustee will, with input from their investment consultant, monitor and review the information provided by the investment managers. Where possible and appropriate, the Trustee will engage with their investment managers for more information and ask them to confirm that their policies comply with the principles set out in the Financial Reporting Council's UK Stewardship Code.

## Policy on engagement activities

The Trustee acknowledges the importance of ESG and climate risk within their investment framework. When delegating investment decision making to their investment managers they provide their investment managers with a benchmark they expect the investment managers to either follow or outperform. The investment manager has discretion over where in an investee company's capital structure it invests (subject to the restrictions of the mandate), whether directly or as an asset within a pooled fund.

The Trustee is of the belief that ESG and climate risk considerations extend over the entirety of a company's corporate structure and activities, i.e. that they apply to equity, credit and property instruments or holdings. The Trustee also recognises that ESG and climate related issues are constantly evolving and along with them so too are the products available within the investment management industry to help manage these risks.

The Trustee considers it to be a part of their investment managers' roles to assess and monitor developments in the capital structure for each of the companies in which the managers invest on behalf of the Scheme or as part of the pooled fund in which the Scheme holds units.

The Trustee also considers it to be part of their investment managers' roles to assess and monitor how the companies in which they are investing are managing developments in ESG related issues, and in particular climate risk, across the relevant parts of the capital structure for each of the companies in which the managers invest on behalf of the Scheme.

Should an investment manager be failing in these respects, this should be captured in the Scheme's regular performance monitoring.

Through their consultation with the Principal Employer when setting this Statement of Investment Principles, the Trustee has made the Principal Employer aware of their policy on ESG and climate related risks, how they intend to manage them and the importance that the pensions industry as a whole, and its regulators, place on them.

The Scheme's investment consultant is independent and no arm of their business provides asset management services. This makes the Trustee confident that the investment manager recommendations they make are free from conflict of interest.

The Trustee expects all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so the Trustee believes they have managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustee/investment manager and the investee companies.

In selecting and reviewing their investment managers, where appropriate, the Trustee will consider investment managers' policies on engagement and how these policies have been implemented.