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# **Royal Grammar School Support Staff Pension Scheme – Statement of Investment Principles (SIP)**

11/09/2020

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# Introduction

This Statement of Investment Principles (“the Statement”) has been prepared by the Trustee of the Royal Grammar School Support Staff Pension Scheme (“the Scheme”). It has been prepared to comply with Section 35 of the Pensions Act 1995 as amended by the Pensions Act 2004, and Regulation 2 of the Occupational Pension Schemes (Investment) Regulations 2005, as amended by subsequent regulations.

This Statement sets down the principles governing decisions about investments for the Scheme.

In preparing this statement, the Trustee has:

- Consulted with the principal sponsoring employer, Royal Grammar School registered charity (“the Company”), although responsibility for maintaining this Statement and setting investment policy rests solely with the Trustee.
- Obtained and considered written professional advice and recommendations from a suitably qualified individual, Steven Cattle, Senior Independent Financial Adviser of Explore Wealth Management. Steven Cattle is authorised and regulated by the Financial Conduct Authority (“FCA”). They have confirmed to the Trustee that they have the appropriate knowledge and experience to give the advice required by the Pensions Acts.

The Scheme is a defined contribution plan, wholly insured with Clerical Medical, part of the Lloyds Banking Group. All of the Scheme’s assets are invested on the Clerical Medical platform, using the pooled funds available. The only Scheme assets held outside of Clerical Medical are those in the Trustee Bank Account, which is cash held on deposit by the trustees or managers pending payment to Clerical Medical or members of the scheme, to meet accrued liabilities, administrative expenses or any investments arising from voluntary contributions.

The Trustees’ investment powers are set out in rule 2.4 of the Definitive Deed & Rules dated 25th of February 2008 and subsequent amending deeds. This statement is consistent with those powers and with the Scheme’s governing documents.

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# Investment Responsibilities

## **THE TRUSTEE**

Under the legal documentation governing the Scheme, the power of investment is vested in the Trustee. Therefore the Trustee is responsible for the setting the investment objectives and determining the strategy to achieve those objectives. They set the overall investment target and then monitor the performance of their investment managers against the 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.

## **DELEGATION TO FUND MANAGERS**

The Trustee relies on professional investment managers for the day-to-day management of the Scheme's assets.

The Trustee uses a range of pooled funds provided by Clerical Medical. A cash account is also maintained for the purpose of managing short-term cash flow.

As a result of the limited choice available in the past the Balanced fund has been the default fund on the basis of its reasonable past performance record and its multi asset nature thus providing a mixture of asset classes for the members to invest within. Clerical Medical has recently increased the fund choices available to members of such schemes as detailed in Appendix 2.

The charges that each member incurs are dependent on the units invested in and the underlying investment fund used. Appendix 1 of this report highlights the difference in costs associated with 'Old World' and 'New World' units.

Each underlying investment fund has an Annual Management Charge (AMC) which the member would be required to meet. Those invested in 'New World' units receive a discount on these annual charges which is currently 0.55%. Appendix 2 lists the AMC's that apply for each fund.

The investment managers are authorised and regulated by the FCA and are responsible for stock selection and the exercise of voting rights.

## **CUSTODIANS**

The safe-keeping of the Scheme's assets is performed by external custodians on behalf of the investment manager. The ongoing appointment of the custodians is reviewed by the investment managers from time to time.

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# Setting the Investment Strategy

The Trustee considers the investment strategy in place and the investment products used to be appropriate for the Scheme. In formulating the strategy and deciding on the suitability of the products, the Trustee sought advice from their professional advisers. The Trustee will review their decisions from time to time with their advisers.

## **TYPES OF INVESTMENT**

Full details of the investment restrictions placed on each manager (including restrictions in relation to the allocation of assets, credit limits, and the use of asset classes such as derivatives and foreign currency) are contained within the investment agreements mentioned in the previous section of this statement and in the individual products' documentation produced by the investment managers.

The Trustee has placed no additional constraints on the investment managers.

The default fund is the Balanced fund, however at outset new members are provided with a formal joining process to ascertain if the default fund is suitable for their needs. If it is deemed that they are of a lower risk nature and/or their circumstances dictate a lower risk strategy is appropriate, such as their proximity to retirement, the With Profits fund is recommended for their membership.

Additionally the option of utilising a Lifestyle strategy program is provided as well as the self-selection of a range of funds from those that are available to the members as displayed in Appendix 2.

Members are automatically switched from their existing fund to the Cash fund on attaining the normal retirement age of the scheme (65) unless they request otherwise.

The Trustee will keep the default investment strategy under review however they believe that the current fund is suitable due to its multi asset nature and as fewer retirees now are electing to purchase an annuity, it is more reflective of the longer term investment period that members are saving towards. This is the main rationale for not setting the default fund as a Lifestyle strategy i.e. to maintain investment within assets that provide the potential for growth up to the normal retirement age of the scheme. More detail about the funds currently use by the members and the expected returns of these are given in Appendix 3.

As it is the intention of the trustees to Wind Up the pension scheme and indeed has already replaced this for active members with a scheme via Aviva APTIS no changes are intended to be made to the default arrangement.

## **REALISATION OF INVESTMENTS**

The Trustee's policy is to ensure that the assets invested are sufficiently realisable to enable the Trustee to meet their obligation to provide benefits as they fall due. The Trustee is satisfied that the arrangements in place conform to this policy.

### **FINANCIALLY MATERIAL CONSIDERATIONS**

The Trustee has considered financially material factors such as environmental, social and governance ('ESG') issues as part of the investment process to determine a strategic asset allocation over the length of time during which the benefits are provided by the Scheme for members. It believes that financially material considerations (including climate change) are implicitly factored into the expected risk and return profile of the asset classes they are investing in.

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustee has elected to invest through pooled funds. The Trustee acknowledges that it cannot directly influence the environmental, social and governance policies and practices of the companies in which the pooled funds invest. However, the Trustee does expect its fund managers and investment consultant to take account of financially material considerations when carrying out their respective roles.

The Trustee accepts that the Scheme's assets are subject to the investment manager's own policy on socially responsible investment. The Trustee will assess that this corresponds with its responsibilities to the beneficiaries of the Scheme with the help of its investment consultant.

An assessment of the ESG and responsible investment policies forms part of the manager selection process when appointing new managers and these policies are also reviewed regularly for existing managers with the help of the investment consultant. The Trustee will only invest with investment managers that are signatories for the United Nations Principles of Responsible Investment ('UN PRI') or other similarly recognised standard.

The Trustee will monitor financially material considerations through the following means:

- Obtain training where necessary on ESG considerations in order to understand fully how ESG factors including climate change could impact the Scheme and its investments;
- Use ESG ratings information provided by its investment consultant, to assess how the Scheme's investment managers take account of ESG issues; and
- 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, via its investment consultant.

If the Trustee determines that financially material considerations have not been factored into the investment managers' process, it will take this into account on whether to select or retain an investment.

### **NON-FINANCIALLY MATERIAL CONSIDERATIONS**

The Trustee has not considered non-financially material matters in the in the selection, retention and realisation of investments.

### **STEWARDSHIP**

The Trustee's policy on the exercise of rights attaching to investments, including voting rights, is that these rights should be exercised by the investment manager on the Trustee's behalf, having regard to the best financial interests of the beneficiaries.

The investment manager should engage with companies to take account of ESG factors in the exercise of such rights as the Trustee believes this will be beneficial to the financial interests of members over the long term. The Trustee will review the investment managers' voting policies, with the help of its investment consultant, and decide if they are appropriate.

The Trustee also expect the fund manager to engage with investee companies on the capital structure and management of conflicts of interest.

If the policies or level of engagement are not appropriate, the Trustee will engage with the investment manager, with the help of its investment consultant, to influence the investment managers' policy. If this fails, the Trustee will review the investments made with the investment manager.

The Trustee has taken into consideration the Financial Reporting Council's UK Stewardship Code and expect investment managers to adhere to this where appropriate for the investments they manage.

## **ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) AND CLIMATE CHANGE RISKS**

There is a risk that ESG issues and climate change are not considered as part of the investment process and so may expose the portfolio to unexpected risks. This can lead to losses that may not have been factored into any expectations of future investment returns. The Trustee has considered ESG issues including climate change as part of the investment process.

## **INVESTMENT MANAGER ARRANGEMENTS**

### **Incentives to align investment managers investment strategy and decisions with the trustees' policies**

The Scheme invests in pooled funds and so the Trustee acknowledges the fund's investment strategy and decisions cannot be tailored to the Trustee's policies. However, the Trustee sets its investment strategy and then selects managers that best suits its strategy taking into account the fees being charged, which acts as the fund managers incentive.

The Trustee uses the fund objective/benchmark as a guide on whether its investment strategy is being followed and monitors this regularly.

### **Incentives for the investment manager to make decisions based on assessments about medium to long-term financial and nonfinancial 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**

The Trustee selects managers based on a variety of factors including investment philosophy, and process, which it believes should include assessing the long term financial and non-financial performance of the underlying company.

The Trustee also considers the managers voting and ESG policies and how it engages with the company as it believes that these can factors can improve the medium to long-term performance of the investee companies.

The Trustee will monitor the fund managers' engagement and voting activity on an annual basis as they believe this can improve long term performance. The Trustee expects their managers to make every effort to engage with investee companies but acknowledges that their influence may be more limited in some asset classes, such as bonds, as they do not have voting rights.

The Trustee acknowledges that in the short term, these policies may not improve the returns it achieves, but do expect those companies with better financial and non-financial performance over the long term will lead to better returns for the Scheme.

The Trustee believes the annual fee paid to the fund managers incentivise them to do this.

If the Trustees feel that the fund managers are not assessing financial and non-financial performance or adequately engaging with the companies they are investing in, it will use these factors in deciding whether to retain or terminate a manager.

**How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the trustees' policies**

The Trustee reviews the performance of each fund [quarterly/semi-annually, annually] on a net of fees basis compared to its objective.

The Trustee assesses the performance periods of the funds over at least a 3-5 year period when looking to select or terminate a manager, unless there are reasons other than performance that need to be considered.

The fund managers' remuneration is considered as part of the manager selection process and is also monitored regularly with the help of its investment consultant to ensure it is in line with the Trustee's policies.

**How the trustees monitor portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range**

The Trustee monitors the portfolio turnover costs on an annual basis.

The Trustee defines target portfolio turnover as the average turnover of the portfolio expected in the type of strategy the manager has been appointed to manager. This is monitored on an annual basis.

The Trustee has delegated the responsibility of monitoring portfolio turnover costs and target portfolio turnover to their investment consultant.

**The duration of the arrangement with the asset manager**

The Trustee plans to hold each of its investments for the long term but will keep this under review.

Changes in investment strategy or change in the view of the fund manager can lead to the duration of the arrangement being shorter than expected.



**ADDITIONAL VOLUNTARY CONTRIBUTIONS**

The Scheme has available facilities to allow contribution into any of the same funds for members who wish to contribute to enhance their retirement benefits. The Trustee believes these to be appropriate facilities for this purpose but note that the decisions on the level of contributions paid and the funds used rest entirely with the members.

The AVC arrangement will be reviewed from time to time to ensure that the arrangement remains suitable for members.

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# Risk Management & Risk Measurement

The Trustee is satisfied that their investment managers are prudent and professional in their general approach to investment. The investment products used involve holding units in pooled funds that maintain diversified portfolios of underlying assets (e.g. shares, bonds, and other financial instruments). This reduces the risk to the Scheme and members of investing in any specific individual asset. The predominant use of passive funds also removes most of the risk involved in a purely active investment strategy.

The Trustee considers the Balanced fund to be a suitable compromise between the risk that members' funds are invested in assets that could fall in value but also provide potential for a positive investment return as they approach retirement age.

The switching of the assets as the members approach normal retirement date to cash reduces the risk that members may suffer at retirement from significant market fluctuations however this is only at age 65 so does not gradually reduce risk as retirement approaches as with a life styling option. This option is available however to members if they so wish.

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# Compliance

The Trustee confirms that they have received and considered written advice from Stephen Sumner of Explore Wealth Management on the establishment and implementation of their investment strategy.

The Trustee confirms that they have consulted with the Company regarding their strategy.

The Trustee will formally review this statement as and when required, and at least every three years, with the assistance of their advisers. A copy of this statement and any subsequent amendments will be made available to the Company, the investment managers, the Scheme auditor and the Scheme members upon request.

This statement has been agreed by the Trustee on 18<sup>th</sup> September 2020.

Signed by two authorised signatories:

**Name**                      Signature                      .....

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# Appendix 1

## FEES

The fee arrangements for the investment managers are summarised below:

There are two charging structures for the scheme.

### *'Old World' units*

These are charges incurred by contributions made to the scheme up to the 31st August 2004. The only charge that remains now is a 1% per annum Annual Management Charge (AMC). Bid/Offer spreads, monthly fees, allocation rates and early exit penalties were all removed in January 2017.

### *'New World' units*

These are charges incurred by contributions made to the scheme after the 31st August 2004. The only charge is a 0.45% per annum Annual Management Charge (AMC) which is provided by way of a reduction of 0.55% from the standard 1% Annual Management Charge.

### *With Profits funds*

The returns of the With Profits funds are provided after any charges. So, as the current bonus rate is just 0.1% this is after all charges rather than the above AMC's further reducing this. Those members with the 4% and 2% guaranteed rate of return With profits receive this return after the charges.

### *Adviser fees*

The Trustee has appointed Steven Cattle of Explore Wealth Management Ltd as their investment consultant. Explore Wealth Management Ltd is remunerated on a fixed annual fee basis of £4,000 per annum however this is to reduce to £2,500 per annum from August 2020 due to the reduction in work from using APTIS as an Auto Enrolment compliant scheme.

## Appendix 2

The table below shows the annual management charges for the funds available for the members. The total cost to the member would depend on the unit type, i.e. are they invested via 'Old World' or 'New World' units. If 'Old World' the cost is as shown, if 'New World' a 0.55% discount is applied to the figure shown.

e.g. If a member is invested in the Clerical Medical Dynamic Return fund within 'Old World' units the AMC is 1.75% therefore this is the annual cost the member would pay for these units. If invested in the same fund but in 'New World' units, the cost is the AMC of 1.75% - the discount of 0.55% therefore the cost to the member is 1.2%.

<b>Fund Name</b>	<b>AMC %</b>
Clerical Medical Adventurous	1
Clerical Medical Balanced	1
Clerical Medical Balanced Fund of Funds	1.75
Clerical Medical Cash	1
Clerical Medical Cautious	1
Clerical Medical Dynamic Return	1.75
Clerical Medical UK Equity Income (Acc)	1
Clerical Medical Ethical	1
Clerical Medical European	1
Clerical Medical Far Eastern	1
Clerical Medical Gilt & Fixed Interest	1
Clerical Medical Global Equity Tracker	1
Clerical Medical Halifax	1
Clerical Medical UK Index Linked Gilt	1
Clerical Medical International Growth	1
Clerical Medical Japanese	1
Clerical Medical Non Equity	1
Clerical Medical North American	1
Clerical Medical UK Property	1
Clerical Medical Retirement Protection	1
Clerical Medical Target Return	1.75
Clerical Medical UK Growth	1
Clerical Medical UK Equity Fund of Funds	1.75
Clerical Medical UK Equity Tracker	1
Clerical Medical Smaller Companies	1

Clerical Medical With-Profits (Regular	1.3
Clerical Medical With-Profits (Single)	1.3
CM Blackrock Corporate Bond All Stock	1
CM Blackrock Over 15 Year Gilt	1
CM Blackrock Over 5 Year Gilt	1
CM Blackrock UK Equity	1
CM Blackrock World (Ex UK)	1
CM Fidelity Defensive Managed	1.75
CM Fidelity MoneyBuilder Growth	1.75
CM Fidelity MoneyBuilder Income	1.6
CM Fidelity Worldwide Special Situations	2.1
CM Invesco Perpetual Distribution	1.85
CM Invesco Perpetual Global Bond	1.65
CM Invesco Perpetual High Income	1.8
CM Boston Company US Opportunities	1.35
CM Newton Multi-Asset Balanced	1.25
CM Newton Continental European	1.35
CM Newton UK Income	1.4
CM Newton UK Equity	1.35
CM Newton International Bond	1.4
CM Newton Global Equity	1.35
CM Newton Multi-Asset Growth	1.25
CM Newton Multi-Asset Diversified Return	1.85
CM Schroder Corporate Bond	1.6
CM Schroder Gilt & Fixed Interest	1
CM Schroder Global Equity	1.35
CM Schroder Managed Balanced	1.45
CM Schroder Monthly High Income	1.3
CM Schroder UK Mid 250	1.6
CM UBS Global Allocation	1.85
CM UBS Global Growth	1.25
CM UBS UK Opportunities	1.25
CM UK Smaller Companies	1.25
CM UBS US Equity	1.25
CM Veritas Asian	1.5

Note all 6 Life Style strategies have an Annual Management Charge of 1% per annum

## Appendix 3

The table below summarises the detail of the funds currently being used by members of the scheme.

Fund name	Asset Class	Manager	FE crown rating	Additional Information
UK Growth	UK Equity	Quantitative Investment Team	2 out of 5	The fund aims to achieve long term capital growth by investing in UK companies.
Balanced	Multi Asset fund	Mark Henzell & Matthew Davies	2 out of 5	The fund aims to achieve long term capital growth by gaining exposure predominately to UK and overseas equities with flexibility to gain a minority exposure to commercial property and fixed interest stocks.
UK Property	Property	Mark Henzell & Matthew Davies	None available	The fund aims to achieve long term capital growth by investing mainly in UK properties, generally of a large commercial nature. Currently suspended for withdrawals as with the majority of Commercial property funds.
Balanced Fund of Funds	Multi Asset fund (no equity investment)	Steve Waddington	1 out of 5	The fund aims to achieve long term capital growth. The policy of the fund is to gain exposure to a wide range of asset classes by investing in other pooled funds.
Cash	Money Market	Money Market Team	3 out of 5	The fund invests in deposits within the Lloyds Banking Group.

Note - FE Crown Fund Ratings are quantitative ratings ranging from one to five designed to help investors identify funds which have displayed superior performance in terms of stock picking, consistency and risk control.

The other main fund used within the scheme historically is the With Profits fund. This fund has in the past been recommended to members who exhibit a low risk attitude and/or who are near to normal retirement age.

Fund name	Asset Class	Manager	FE crown rating	Additional Information
With Profits	Multi Asset	No details provided	Not applicable	The fund aims to generate capital growth over the medium to long term with some stability against market volatility over the short term. The return is not based on the precise level of stock market returns on the day of investment due to the smoothing process.

#### EXPECTED RETURN ON INVESTMENTS

Fund	Expected Return (Based on Past Performance) and benchmarking
UK Growth	The fund is held in the ABI UK All Companies sector. Over a 5 year period the fund has provided cumulative returns of 0.2% vs 0.6% via the average of the sector.
Balanced	The fund is held in the ABI Mixed 40%-85% sector. Over a 5 year period the fund has provided cumulative returns of 11.9% vs 22.9% via the average of the sector.
UK Property	The fund is held in the ABI UK Direct Property sector. Over a 5 year period the fund has provided cumulative returns of 20.8% vs 13.8% via the average of the sector.
Balanced Fund of Funds	The fund is held in the ABI Mixed 40%-85% sector. Over a 5 year period the fund has provided cumulative returns of 7.3% vs 10% via the average of the sector.
Cash	The fund is held in the ABI Money Market sector. Over a 5 year period the fund has provided cumulative returns of -0.4% vs 0.2% via the average of the sector.
With Profits	The fund provides returns to members by way of reversionary and terminal bonuses. The rate of bonus members receive can also include a guaranteed minimum bonus rate of 2% or 4%. Some members have no guaranteed rate of return. The current regular bonus rate is 0.1%. The current 5 year annualized unsmoothed return of the fund is 5.3% per annum.

The funds will be monitored relative to the average performance of the sectors.