

# **ST ANDREW'S HEALTHCARE PENSION SCHEME**

## **STATEMENT OF INVESTMENT PRINCIPLES**

### **SEPTEMBER 2020**

#### **1. Background**

This Statement has been prepared by St Andrew's Pension Trustee Limited ("the Pension Trustee") on behalf of the St Andrew's Healthcare Pension Scheme ("the Scheme"). It sets out the principles that govern the Pension Trustee's decisions about the investment of the Scheme's assets. The Pension Trustee refers to this Statement when making investment decisions, to ensure that they are consistent with these principles.

The Scheme's investment arrangements, based on the principles set out in this Statement, are detailed in the Investment Policy Implementation Document ("IPID") which is available to Scheme members on request.

In preparing this Statement, the Pension Trustee has obtained advice from the Scheme's Investment Consultant. Where matters described in this Statement may affect the Scheme's funding policy, input has also been obtained from the Scheme Actuary. The Pension Trustee will obtain similar advice whenever it reviews this Statement.

The Pension Trustee's investment powers are set out within the Scheme's governing documentation and relevant legislation. If necessary, the Pension Trustee will take legal advice regarding the interpretation of these. The Pension Trustee notes that, according to the law, it has ultimate power and responsibility for the Scheme's investment arrangements.

The Pension Trustee seeks to maintain a good working relationship with St Andrew's Healthcare ("the Sponsor"), and will discuss any proposed changes to the investment principles with the Sponsor. However, the Pension Trustee's fiduciary obligations to Scheme members will take precedence over the Sponsor's wishes should these ever conflict.

St Andrew's Healthcare has established an independent Investment Committee. The purpose of this committee is to advise the Board of Directors of St Andrew's Healthcare, and the Pension Trustee of the St Andrew's Healthcare Pension Scheme on investment strategies.

This Statement will be reviewed at least annually, or more frequently as required, in particular following valuations and investment strategy reviews.

#### **2. Investment Policy**

The investment policy has been developed after consideration of the objectives set out below.

##### **2.1 Investment Objectives**

The Pension Trustee aspires to reach a position over time (10-15 years) whereby the Scheme might be expected to be able to provide the accrued benefits without needing to

have further recourse to the Sponsor. The aim will be to take on investment risk in a controlled way and through the adoption of a prudent funding and investment strategy.

The Pension Trustee believes that, over the long term, excess return will be generated through investing in equities, other return enhancing asset classes such as corporate bonds and through the use of active management where appropriate. The Pension Trustee recognises that in adopting this approach, the Scheme is exposed to equity market and other risks and this may mean that, in the short term, the return target may either not be achieved or exceeded (i.e. the short-term funding position will be volatile).

As the Scheme is closed, the Pension Trustee expects to gradually reduce the Scheme's exposure to growth assets, in particular equities, over time in recognition of the fact that the Scheme has a maturing liability profile.

## 2.2 Risks, Financially Material Considerations and Non-Financial matters

In setting the return oriented objectives described in the previous section, the Pension Trustee has not lost sight of risk. In particular, the Pension Trustee is well aware that there exists solvency risk - the risk that economic circumstances force the winding-up of the Scheme at a time when asset values are depressed and the Sponsor is unable to make good the deficiency.

While it is impossible to eliminate this risk without making a significant sacrifice in expected excess return terms, the Pension Trustee intends to mitigate the risk as far as possible by:

- Maintaining a well diversified portfolio of assets.
- Diversifying by investment manager.
- Using active management where appropriate.
- Monitoring the financial strength of the Sponsor and its perceived commitment to the Scheme.
- Reducing risk relative to the solvency funding position should the financial strength of the Sponsor and/or its commitment to the Scheme deteriorate.

The following risks are also recognised by the Pension Trustee and are considered as part of any investment strategy work:

- The risk of deterioration in the Scheme's funding level.
- The risk that the day-to-day management of the assets will not achieve the rate of investment return expected by the Scheme Actuary.
- The risk of variation in the Scheme surplus or deficit resulting from stockmarket volatility.
- The risk of volatility in the Sponsor contribution rate and the implications of this to the Sponsor and the security of members' benefits.

The Pension Trustee will monitor these risks as part of the ongoing monitoring of the Scheme's investment arrangements and funding position (undertaken at Investment Committee meetings), and monitoring of the covenant (undertaken at Pension Trustee meetings). In addition, the Pension Trustee will engage in regular dialogue with the Sponsor to ensure that all parties are aware of the risks that are being run as they evolve.

Non-Financial Risks, or any factors that are not expected to have a financial impact on the Scheme's investments, are not taken into account in the selection, retention or realisation of investments.

## 2.3 Investment Policy

The investment policy falls into two parts: (1) the strategic management, the setting of which is one of the fundamental responsibilities of the Pension Trustee, and (2) the day-to-day management of the assets, which has been delegated to professional investment managers ("the Investment Managers").

### 2.3.1 Strategic Management

The key investment decision made by the Pension Trustee is the split between the "growth" portfolio which is focused on return enhancement, and the "bond-like" portfolio which is focused on risk reduction relative to the Scheme's liabilities (at an acceptable price). In each of these areas the Pension Trustee has diversified by asset class and investment manager.

The implementation of the de-risking has been delegated to the Investment Committee who have flexibility to deviate from the above, taking into account the Scheme's funding position and / or market conditions. Full details of the expected evolution of the Scheme's investment strategy are set out in the IPID.

The current strategic asset allocation of the Scheme is set out below:

<b>Asset Class</b>	<b>Strategy (%)</b>
Growth	45.0%
Bond-Like	55.0%

### 2.3.2 Day-to-day Management

Day-to-day management of the assets in accordance with the Scheme-specific benchmark is delegated to the Investment Managers. Details of the Investment Managers, along with further details on the investment strategy, are provided in the IPID.

The Investment Managers have full discretion to buy and sell investments on behalf of the Scheme, subject to the constraints of their mandates. They have been selected for their expertise in different specialisations and each manages investments for the Scheme to a specific mandate, which includes performance objectives, risk parameters, and timescales over which their performance will be measured.

### 2.3.3 *Investment management arrangements*

The Pension Trustee has the following policies in relation to the investment management arrangements for the Scheme:

<p><b>How the investment managers are incentivised to align their investment strategy and decisions with the Pension Trustee’s policies.</b></p>	<ul style="list-style-type: none"> <li>• As the Scheme is invested in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Pension Trustee’s policies. However, the Pension Trustee invests in a portfolio of pooled funds that are aligned to the Scheme’s strategic objectives.</li> <li>• The Scheme’s mandates with Orbis and Majedie are subject to a performance related fee.</li> </ul>
<p><b>How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.</b></p>	<ul style="list-style-type: none"> <li>• The Pension Trustee reviews the investment managers’ performance relative to medium and long-term objectives as documented in the investment management agreements.</li> <li>• The Pension Trustee does not incentivise the investment managers to make decisions based on non-financial performance.</li> </ul>
<p><b>How the method (and time horizon) of the evaluation of investment managers’ performance and the remuneration for their services are in line with the Pension Trustee’s policies.</b></p>	<ul style="list-style-type: none"> <li>• The Pension Trustee reviews the performance of all the Scheme’s investments on a net of cost basis to ensure a true measurement of performance versus investment objectives.</li> <li>• The Pension Trustee evaluates performance over the time period stated in the investment managers’ performance objective, which is typically 3 to 5 years.</li> <li>• Investment manager fees are reviewed</li> </ul>

	periodically to ensure they remain competitive.
<b>The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.</b>	<ul style="list-style-type: none"> <li>The Pension Trustee do not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.</li> </ul>
<b>The duration of the Scheme's arrangements with the investment managers</b>	<ul style="list-style-type: none"> <li>The duration of the arrangements is considered in the context of the type of fund the Scheme invests in. <ul style="list-style-type: none"> <li>For closed ended funds or funds with a lock-in period the Pension Trustee ensures the timeframe of the investment or lock-in is in line with the Pension Trustee's objectives and Scheme's liquidity requirements.</li> <li>For open ended funds, the duration is flexible and the Pension Trustee will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.</li> </ul> </li> </ul>

### 3. **Buying and Selling Investments**

The Pension Trustee has delegated the responsibility for buying and selling investments to each of the Investment Managers. The Scheme's assets are invested primarily in units in pooled funds run by the Investment Managers. The day-to-day activities which the Investment Managers carry out are governed by signed agreements with the Pension Trustee, which are reviewed from time to time to ensure that the operating instructions, guidelines and restrictions remain appropriate.

### 4. **Realisation of Investments**

The Pension Trustee recognises that there is a risk in holding assets that cannot be easily realised should the need arise. Thus, the majority of the growth assets held are realisable at short notice through the sale of units in pooled funds.

Additionally, a working cash balance is held for imminent payment of benefits and expenses. Separate to this the Pension Trustee may hold a significant cash balance if it believes it is appropriate to do so.

## 5. **Additional Voluntary Contribution Assets**

Assets in respect of members' additional voluntary contributions ("AVCs") are invested in a range of investment funds. With the assistance of the Scheme's Investment Consultant, the AVC arrangements will be reviewed periodically to ensure that the investment profile of the funds available remains consistent with the objectives of the Pension Trustee and the needs of the members. More information on the AVC providers is detailed in the IPID.

## 6. **Effective Decision Making**

The Pension Trustee recognises that decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. The Pension Trustee also recognises that where it takes investment decisions, it must have sufficient expertise and appropriate training to evaluate critically any advice taken.

The Pension Trustee believes that use of a separate advisory Investment Committee ensures that decisions are taken effectively.

## 7. **Responsible Investment and Corporate Governance**

The Pension Trustee believes that good stewardship and environmental, social and governance ("ESG"), including but not limited to climate change, issues may have a material impact on investment returns. The Pension Trustee has given the Investment Managers full discretion when evaluating ESG issues and in exercising rights and stewardship obligations attached to the Scheme's investments.

To manage ESG risks, the Pension Trustee will appoint investment managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria:

- Responsible Investment ('RI') Policy/Framework
- Implemented via Investment Process
- A track record of using engagement and any voting rights to manage ESG factors
- ESG specific reporting
- UN PRI signatory

The Pension Trustee monitor the managers on an ongoing basis. The Pension Trustee's ESG beliefs are set out in the ESG Policy Statement.

Similarly, the Scheme's voting rights are exercised by its Investment Managers in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code.

As part of the regular presentations the Investment Managers give to the Investment Committee, they are asked to comment on socially responsible investment, explain their corporate governance policy and practices, and explain their voting activities.

**8. Compliance with this Statement**

The Pension Trustee, the Investment Managers and Isio Group Limited all have duties to perform to ensure compliance with this Statement so far as reasonably practicable. These duties are:

**The Pension Trustee** will review this Statement from time to time and at least annually on the advice of Isio Group Limited. The Pension Trustee will also review the Statement without delay following any significant changes in investment policy and will record compliance with it regularly.

The **Investment Managers**, will prepare regular reports to the Pension Trustee including:

- a valuation of all investments held for the Scheme including a record of all transactions undertaken,
- performance of the Scheme's assets against their respective benchmarks; and
- a review of actions undertaken on behalf of the Scheme regarding areas such as corporate governance, socially responsible investment and disclosure of transaction costs, as recommended by the Myners review.

Isio Group Limited will provide appropriate advice to allow the Pension Trustee to review and update this Statement as necessary.

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**Pension Trustee Director**

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**Pension Trustee Director**

**For and on behalf of St. Andrew's Pension Trustee Limited**

Selected Terms Used in this Statement

**“Pension Trustee”** refers to *St Andrew’s Pension Trustee Limited*

**“Scheme”** refers to the *St Andrew’s Healthcare Pension Scheme*

**“IPID”** refers to the *Investment Policy Implementation Document (a sister document to this Statement)*

**“Sponsor”** refers to *St Andrew’s Healthcare*

**“Investment Managers”** refers to *the various professional investment managers to whom day-to-day management of the assets has been delegated*

**“AVCs”** refers to *Additional Voluntary Contributions*

**“ESG”** refers to *Environmental, Social, and Governance matters*