

Royal Agricultural Society of England (1978) Pension & Life Assurance Scheme

Statement of Investment Principles 2021



ROYAL AGRICULTURAL
SOCIETY of ENGLAND

1 Introduction

- 1.1 This Statement sets out the principles governing decisions concerning investments for the Royal Agricultural Society of England (1978) Pension & Life Assurance Scheme (the Scheme) in accordance with the requirements of the Pensions Acts 1995 & 2004 and, the Occupational Pension Schemes (Investment) Regulations 2005 and the 2018 changes to this Act. The amended Investment Regulations now mean that it is important that trustees of all schemes understand and include Environmental, Social and Governance (ESG) factors and stewardship approaches in their investment decision-making. A failure to do this puts trustees at significant risk of breaching their legal and regulatory duties. This document is subject to periodic review by the Trustees of the Scheme. It is subject to periodic review by the Trustees. It is subject to periodic review by the Trustees.
- 1.2 Before finalising this Statement the Trustee has, as required by section 35(3) of the 1995 Act and the 2005 Regulations, considered written advice from its investment adviser, who they believe has the appropriate knowledge, ability and experience of the management of the investments of schemes such as this, to enable them to provide that advice. The Trustee has also taken account of the liability profile and projected cash flows provided by their advisers.
- 1.3 Following this the Trustees have asked Ascot Lloyd (AL) to prepare a draft for the Trustees consideration. It should be noted that the Investment Adviser role is very limited, which reflects the wider knowledge within the Trustee body.
- 1.4 The Trustees have consulted the Royal Agricultural Society of England (RASE) as the Principal Employer under the Scheme, and agreed the approach taken in this Statement.
- 1.5 The Scheme provides Defined Benefits (DB) for members and their dependants in accordance with its Trust Deed and Rules (the Rules). This category is closed to future accrual.
- 1.6 This Statement is consistent with the investment powers of the Trustees as set out in the Rules and the Trustees will refer to the Rules for any clarification of their investment powers. (See Appendix 2.) Neither this Statement nor the Rules restricts the Trustees' investment powers by requiring the consent of the Principal Employer.
- 1.7 Except for cash, the Trustees do not themselves conduct any day-to-day management of any of the Scheme's investments. Such management is delegated to appropriately qualified investment managers.

2 Choosing Investments

- 2.1 The Trustees expect any fund manager appointed by them to have regard to the need for diversification of investments, in so far as this is appropriate to the circumstances of the Scheme.
- 2.2 Before investing in any manner, the Trustees will obtain and consider advice from their appointed Investment Adviser and/or their appointed fund managers as appropriate on the suitability of such investment and its appropriateness in accordance with this Statement.
- 2.3 Trustees currently have one fund with Schroder.
- 2.4 AL's standard service is one of monitoring and identifying trends rather than proactive investment decisions. At the Trustees request AL has varied this standard service to provide a strictly limited service. This will NOT include any advice, commentary or recommendation on the selection of investment manager. Additionally, commentary on Fund choice will be restricted to observations on the suitability of the funds selected by the Trustees in relation to the requirements of the Statement of Investment Principles and Statement of Funding Principles and will not include any recommendation on fund selection. AL's role will be to implement decisions made by the Investment Sub Committee, providing they are satisfied as to suitability.
- 2.5 The Trustees acknowledge 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

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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.

- 2.6 The Trustees are of the belief that ESG and climate risk considerations may 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 Trustees also recognise 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.
- 2.7 The Trustees considers it to be part of their investment managers' role 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.
- 2.8 Should an investment manager be failing in these respects, this should be captured in the Scheme's regular performance monitoring.
- 2.9 The Scheme's investment managers are granted full discretion over whether to invest in the Principal Employer's business. Through their consultation with the Principal Employer when setting this Statement of Investment Principles, the Trustees have 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.
- 2.10 The Trustees expect all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so, the Trustees believe they have managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustees /investment manager and the investee companies.
- 2.11 In selecting and reviewing their investment managers, where appropriate, the Trustees will consider the investment managers' policies on engagement, stewardship and how these policies have been implemented.

3 Governance

- 3.1 The Trustees of the Scheme are responsible for the investment of the Scheme assets. The Trustees take some decisions themselves and delegate others. When deciding which decisions to take themselves and which to delegate, the Trustees have considered whether they have the appropriate training and expert advice in order to take an informed decision. The Trustees have established the following decision-making structure:

Trustees

- Set structures and processes for carrying out their role
- Select and monitor asset allocation
- Select and monitor investment managers
- Make day to day decisions relevant to the operation of the Scheme's investment strategy
- Consider new investment ideas and approaches.

Investment Adviser

- Provides restricted Advice to the Trustees in conjunction with the pension sub-committee.
- Advises on all aspects of the investment of the Scheme assets, including implementation

Fund Managers

- Operate within the terms of this Statement and their written contracts
- Select individual investments with regard to their suitability and diversification
- Advise Trustees on suitability of their benchmark

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- Advises on this Statement
- Provides training as required to Trustees

4 Compliance with the Statutory Funding Objective (SFO)

- 4.1 The Trustees have completed their Statement of Funding Principles in accordance with the SFO and their current assessment is that the Employer has a moderate to strong Covenant with the intention and ability to fund for the benefits as they fall due.
- 4.2 The general funding policy is:
- to seek to establish and maintain the SFO funding level at 100% or above over the triennial valuation period.
 - to consider altering the investment strategy should the Trustees be advised, at a future stage, that not to do so might involve an unacceptably high risk that the SFO funding level might be unstable and adversely threatened; and
 - to invest the assets such that the risk of deterioration of the SFO funding level to below 100% is balanced against the risk of not achieving the other objectives set out in this Statement and the Statement of Funding Principles.

5 Types of Investments to be Held

- 5.1 The Scheme's invested assets have increased to around £15.3 million with additional funds held on deposit. Members no longer accrue benefits.
- 5.2 At the present time there are 65 Deferred and 105 Pensioner members' giving a total of 170. The membership profile suggests that the longer-term investment strategy to match this liability profile would be to invest in the following proportions:
- UK equities (or similar types of assets) 20% to 50%,
 - UK bonds (or similar types of assets) 50% to 80%
- 5.3 However, to take advantage of wider investment opportunities in the UK and overseas and to allow for temporary anomalies in investment markets, the tactical asset allocation is currently:

| Asset Class | |
|--|----------|
| ● UK equities | 20 – 40% |
| ● Overseas equities | 0 - 40% |
| ● UK and Overseas bonds | 50 - 80% |
| ● Property | 0 – 10% |
| ● NOTE: the above are aspirations because of the funds' nature | Total |

- 5.4 The Trustees have confirmed that other than for reasons of portfolio insurance to help reduce volatility there will be no direct investment in venture capital.
- 5.5 There will normally be no direct investment in property, and no investment in unquoted companies or illiquid assets.
- 5.6 There will be no self-investment in the Employer.

6 Fund Choice

- 6.1 The current investment is in the Schroder Managed Balanced Fund and the Trustees receive a DB IQ (Investment quarterly) from their Investment Adviser and a full quarterly report from Schroder. The value as at 31st March 2021 was £15,286,387.

7 Concentration of Investments

- 7.1 In order to avoid undue concentration in any type or sector of investment, where segregated funds are used, the Trustees will impose on any fund manager appointed by them such requirements to diversify and such restrictions as they deem appropriate.

8 Risk

- 8.1 The Trustees have considered the following risks which influence the investment approach:
- the risk of deterioration in the Scheme's funding level over the long term
 - the risk of a shortfall of assets relative to the PPF liabilities
 - the risk of the SFO ratio falling below 80%
 - the risk of the Employer being unable to support the Scheme
 - the risk that the fund managers will not achieve the rate of return expected by the Trustees
 - the risk that the investment return will not be enough to keep pace with the growth in the accrued liabilities and price and salary inflation
 - the risk of mismatching the profile of the assets with the liabilities
 - Risk of fund managers not meeting their objectives ("manager risk"). This risk is considered by the Trustees and their advisers both upon the initial appointment of the fund manager and on an on-going basis thereafter.
 - The risk of fraud, poor advice or acts of negligence ("operational risk"). The Trustees 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.
- 8.2 These risks are considered as part of each normal strategy review. In addition, the Trustee measures risk in terms of the performance of the assets compared to the benchmarks quarterly, along with monitoring any significant issues with the fund managers that may impact their ability to meet the performance expectations.

9 Investment Objectives

- 9.1 The primary investment objective of the Scheme is to ensure that the existing assets together with stable future contributions will be enough to provide for the benefits as they fall due.
- 9.2 It is the Trustees' intention to follow a stable investment strategy to achieve: -
- a below average risk of reducing the security of members' accrued benefits
 - a stable long-term funding rate
- 9.3 The fund managers have self-imposed targets which are endorsed by the Trustees.
- 9.4 The Trustees expect the long-term return on funds that invest predominantly in equities to exceed price inflation and general salary growth. The long term returns on the bond and cash investments are expected to be lower than returns on funds that invest predominantly in equities. However, bond investments are expected to broadly match the price of annuities, giving some protection in the amount of secured pension for members closer to retirement. Cash/Deposit style funds will provide protection against changes in short-term capital values and may be appropriate for that part of members' retirement benefits that are taken in the form of tax-free cash.

10 Realisation of Investments

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10.1 Subject to any cash requirements of the Scheme to meet benefit payments, the realisation of investments is delegated to the appointed fund managers as part of their day-to-day management activities. The Trustees advise which funds to disinvest from.

11 Environmental, social, and governance (ESG) criteria

- 11.1 The Trustees believe their primary duty is to act in the best financial interests of the beneficiaries. The Trustees believe their primary duty is to act in the best financial interests of the beneficiaries.
- 11.2 The Trustees believes that environmental, social and governance factors are financially material and therefore have a policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments.
- 11.3 Prior to appointing an investment manager, and where relevant, the Trustees discuss 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.
- 11.4 The Trustees will be reliant on the information presented by the investment manager and their investment advisors regarding the extent to which an investment manager allows for ESG in making their investment decisions. Furthermore, an investment manager's excellence in this area will not take precedence over other factors, including (but not limited to) historical performance or fees.
- 11.5 The Trustees carries out a strategy review at least every three years where they assess the continuing relevance of the strategy in the context of the of the Scheme's membership, and their aims, beliefs and constraints.
- 11.6 Investment manager ESG policies are reviewed in the context of best industry practice and feedback may be provided to the investment managers where relevant.
- 11.7 The Trustees are mindful that the impact of ESG and Climate Change (CC) is of a long term nature but recognise 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 and this is acknowledged in their investment management arrangements.
- 11.8 When considering the management of objectives for an investment manager, including ESG and CC, and the effectiveness and performance, the Trustees will assess these over a rolling timeframe of typically 3 to 5 years. This is to ensure the investment manager makes decisions based on an appropriate time horizon. Where a fund has a shorter-term target such as absolute return, it is expected that these will be supplementary to the longer-term performance target which the Trustees expect to represent an appropriate alignment of interests.
- 11.9 The Trustees expect the investment manager to be voting and engaging on behalf of the Schemes holdings and this will be monitored within the Implementation Statement in the Scheme's Annual Report and Accounts.
- 11.10 The Trustees do not expect ESG and CC considerations to be disregarded by investment managers in pursuit of short-term targets.

12 Governance and Assessing Performance

- 12.1 The Trustees expect the Investment Manager to exercise the rights attaching to investments on behalf of all participants in the manner which supports the investment and performance objectives of the Scheme. The Trustees 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.

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- 12.2 The Scheme invests exclusively in pooled funds. The investment manager is remunerated by the Trustees based on the assets they manage on behalf of the Trustees. As the funds grow, due to successful investment by the investment manager, they receive more and as values fall, they receive less.
- 12.3 The Trustees believe that this fee structure, including the balance between any fixed and performance related element, enables the investment manager to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.
- 12.4 The Trustees ask 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.
- 12.5 The Trustees acknowledge that portfolio turnover costs can impact on the performance of their investments. Overall performance is assessed regularly.
- 12.6 During the investment manager appointment process, the Trustees 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 Trustees acknowledge that for some asset classes, such as LDI, a higher turnover of contracts such as repurchase agreements can be beneficial to the fund from both a risk and cost perspective.
- 12.7 The Scheme's investments are in open-ended pooled funds and as such there are no pre-agreed timeframes for investment.
- 12.8 The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustees' investment beliefs is assessed 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 assessed.

13 Additional Voluntary Contributions (AVCs)

- 13.1 The Trustees have full discretion as to the appropriate vehicles made available for the investment of members' AVCs. Only investment vehicles considered suitable for AVC investments are considered by the Trustees, having taken appropriate advice.
- 13.2 The Trustees review their policy regarding the investment of AVCs at annual intervals and take account of the returns achieved for members and any comments from members.
- 13.3 The present AVC providers were an interest-bearing bank account, but this has been closed

14 Myners Principles

- 14.1 The Trustees note the Myners principles and follow them to the extent that they are relevant to the size of the Scheme, nature of the liabilities and covenant of the Employer. The main investment principles set out in the Myners report are as follows:
- only those with sufficient expertise should take investment decisions
 - clear objectives should be set for fund managers relevant to the circumstances of the Scheme
 - consider asset classes reflecting the Scheme's own characteristics and not just the average asset allocation among other funds
 - have a clear understanding of transaction costs involved
 - operate a formal process of performance measurement.

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15 Compliance

- 15.1 The Trustees will require any fund manager appointed by them to report at regular intervals (at least half yearly) to the Trustees on that manager's stewardship of the share of the Scheme assets under the manager's control.
- 15.2 The Trustees will review this Statement annually in response to any material changes to any aspects of the Scheme, its liability profile, funding position, the attitude to risk of the Trustees and the Employer and any weakening of the Employer's covenant, which they judge to have a bearing on the stated Principles.
- 15.3 The Trustees are aware of the potential disruption to anticipated cash flow projections that could arise from members seeking to transfer their scheme benefits to a DC arrangement in order to access Pension Freedoms. No particular action is to be taken at this time but the demand and effect on the fund will be kept under review.
- 15.4 A review of this Statement will coincide with the triennial actuarial valuation. Any such review will be based on written, expert investment advice and will be in consultation with the Employer. Copies of the amended Statement will be sent to the appointed Investment Adviser and the Scheme Actuary.

Signed for and on behalf of the Trustees

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Date:

30/4/21

Appendix 2 – Investment Clause in Trust Deed

Trust Deed & Rules – Investment Clauses – 6 October 1998

13.10 Investment

All money shall be placed on current or deposit account with a bank or invested in such stocks, funds, shares, securities, loans or other investments or property, whether involving liability or not, and whether producing income or not, and with or without security, as the Trustees think fit. The Trustees shall have the same full and unrestricted powers of investing and changing investments as if they were the beneficial owners. All investments shall be held in the names of the Trustees or in the name of a nominee appointed by the Trustees. In particular: -

- (a) money may be invested in any securities which are restricted to a particular class of persons, the Trustees being members of that class, and the Trustees shall, in making any investment which requires an indemnity to be given against liabilities arising in any event of the Fund losing its status as an Exempt Approved Scheme, have power to bind the Fund, even though the indemnity may only become operative because of a breach of trust
- (b) the Trustees may enter into any joint investment arrangement with the trustees of any other fund or with the managers of any joint fund so long as this would not prejudice the approval of the Scheme by the Board of Inland Revenue and for that purpose may enter into any common investment fund, syndicate, unit trust, pooled fund or any other joint arrangement on such terms as they think appropriate
- (c) the Trustees may enter into any underwriting or sub underwriting contracts, whether resulting in the actual investment of money or not and may use trust money for meeting liabilities
- (d) the Trustees may sell, purchase or create any option contract traded on any recognised traded option market or any contract traded on any recognised financial futures market and may comply with all the requirements of any such contract and of such market, including the deposit of assets as security
- (e) the Trustees may effect with one or more Insurance Companies managed fund contracts, deferred annuity policies, annuity policies or contracts for the purpose of providing pensions, whether immediate or future and whether contingent or otherwise, and the Trustees may deal with any policy by sale, surrender or otherwise as they think fit
- (f) the Trustees shall not in any event invest in employer-related investments except to the extent permitted by the Pensions Act 1995
- (g) the Trustees shall prepare, maintain and revise from time to time a written statement in accordance with Section 35 of the Pensions Act 1995 (investment principles).

13.11 Power to Delegate

The Trustees may delegate their powers of investment to any person they consider competent and may pay that person such fees as may be agreed, so long as the Trustees consider they are reasonable. The Trustees may also delegate their discretionary powers to any person whom they consider competent.

