**CFAO UK STAFF PENSION FUND**

**Statement of Investment Principles (“SIP”)**

**Purpose of this Statement**

This SIP has been prepared by the Trustee of the CFAO UK Staff Pension Fund (the “Fund”). This statement sets out the principles governing the Trustee’s decisions to invest the assets of the Fund.

The Fund’s investment strategy is derived from the Trustee’s investment objectives. The objectives have been taken into account at all stages of planning, implementation and monitoring of the investment strategy.

In preparing this Statement, the Trustee has consulted with the Company and has taken professional advice from their Investment Consultant (Isio Group Limited/ Isio Services Limited (“Isio”)).

Details of the Fund’s investment arrangements are set out in Appendix A.

**Governance**

The Trustee of the Fund makes all major strategic decisions including, but not limited to, the Fund’s asset allocation and the appointment and termination of investment managers.

When making such decisions, and when appropriate, the Trustee takes proper written advice. The Trustee believes that its investment advisers, Isio, are qualified by their ability in, and practical experience, of financial matters, and have the appropriate knowledge and experience. The investment advisers’ remuneration may be a fixed fee or based on time worked, as negotiated by the Trustee in the interests of obtaining best value for the Fund.

**Investment objectives**

The Fund closed to future accrual on 31 May 2006.

The Trustee invests the assets of the Fund with the aim of ensuring that all members’ current and future benefits can be paid. The Fund’s funding position will be monitored by the Trustee on an ongoing basis and formally reviewed at each triennial valuation, to assess the position relative to the funding target and whether the investment arrangements remain appropriate to the Fund’s circumstances.

As the Fund is fully funded on an illustrative solvency basis, the Trustee and the Principal Employer of the Fund has set an objective to execute a full member buy-in with an insurer over the next 12-24 months prior to executing a full Scheme buy-out over the longer term.

**Investment strategy**

The Trustee takes a holistic approach to considering and managing risks when formulating the Fund’s investment strategy.

The Fund’s investment strategy was derived following careful consideration of the factors set out in Appendix B. The considerations include the nature and duration of the Fund’s liabilities, the risks of investing in the various asset classes, the implications of the strategy (under various scenarios) for the level of employer contributions required to fund the Fund, and also the strength of the sponsoring company’s covenant. The Trustee considered the merits of a range of asset classes.

In January 2023, the Trustee agreed a new investment strategy, which aimed to materially reduce risk and secure the strong funding position, with the view to transact an insurance buy-in over the short term.

The new strategy was implemented in February 2023. The new investment strategy invested in physical gilt and cash mandates with Legal and General Investment Management (“LGIM”) via the Mobius Life investment platform. The LGIM physical gilt portfolio aims to hedge 100% of the liabilities of the Fund, on a solvency basis, with the remaining assets held in cash. The assets of the Fund consist predominantly of investments which are traded on regulated markets.

**Leverage and collateral management**

The Trustee is not required to adhere to regulation or guidance in relation to investing in leveraged liability hedging (“LDI”) portfolios as all of the Fund’s gilt investments are made on an unleveraged basis.

**Investment Management Arrangements**

The Trustee has appointed Mobius Life as the platform provider and LGIM as the underlying investment manager, as listed in Appendix A. Both Mobius Life and the investment manager are regulated under the Financial Services and Markets Act 2000.

All decisions about the day-to-day management of the assets have been delegated to the investment manager via a written agreement. The delegation includes decisions about:

* Selection, retention and realisation of investments including taking into account all financially material considerations in making these decisions;
* The exercise of rights (including voting rights) attaching to the investments;
* Undertaking engagement activities with investee companies and other stakeholders, where appropriate.

The Trustee takes investment managers’ policies into account when selecting and monitoring managers. The Trustee also takes into account the performance targets the investment managers are evaluated on. The investment managers are expected to exercise powers of investment delegated to them, with a view to following the principles contained within this statement, so far as is reasonably practicable.

The investment platform and underlying investment manager’s remuneration is based upon a percentage value of assets under management.

As the Fund’s assets are invested in pooled vehicles, the custody of the holdings is arranged by the investment manager.

**Investment Manager Monitoring and Engagement**

The Trustee monitors and engages with the Fund’s investment managers and other stakeholders on a variety of issues. Below is a summary of the areas covered and how the Trustee seeks to engage on these matters with investment managers.

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| --- | --- | --- |
| Areas for engagement | Method for monitoring and engagement | Circumstances for additional monitoring and engagement |
| Performance,  Strategy and Risk | * The Trustee receives a six-monthly performance report which details information on the underlying investments’ performance, strategy and overall risks, which are considered by the Trustee. | * There are significant changes made to the investment strategy. * The risk levels within the assets managed by the investment managers have increased to a level above and beyond the Trustee’s expectations. * Underperformance vs the performance objective over the period that this objective applies. |
| Environmental, Social, Corporate Governance factors and the  exercising of rights | * The Trustee’s investment managers provide annual reports on how they have engaged with issuers regarding social, environmental and corporate governance issues. * The Trustee receive information from their investment advisers on the investment managers’ approaches to engagement. | * The manager has not acted in accordance with their policies and frameworks (including stewardship priorities). |

Through the engagement described above, the Trustee will work with the investment managers to improve their alignment with the above policies. Where sufficient improvement is not observed, the Trustee will review the relevant investment manager’s appointment and will consider terminating the arrangement.

**Employer-related investments**

The policy of the Trustee is not to hold any employer-related investments as defined in the Pensions Act 1995 and the Occupational Pension Funds (Investment) Regulations 2005 except where the Fund invests in collective investment funds that may hold employer-related investments. In this case, the total exposure to employer-related investments will not exceed 5% of the Fund’s total asset value. The Trustee will monitor this on an ongoing basis to ensure compliance.

**Direct investments**

Direct investments, as defined by the Pensions Act 1995, are products purchased without delegation to an investment manager through a written contract. When selecting and reviewing any direct investments, the Trustee will obtain appropriate written advice from their investment advisers.

**Compliance**

This Statement has been prepared in compliance with the Pensions Act 1995, the Pensions Act 2004, and the Occupational Pension Funds (Investment) Regulations 2005. Before preparing or subsequently revising this Statement, the Trustee consulted the Principal Employer of the Fund and took appropriate written advice. The Statement is reviewed at least every three years, and without delay after any significant change in the investment arrangements.

**Signed:**

**Date: 12 September 2023**

**Appendix A**

Actual asset allocation split by asset class (as at 30 June 2023), which is invested via the Mobius Life Platform.

|  |  |  |  |
| --- | --- | --- | --- |
| Investment Manager | Asset Class | Asset Allocation | Expected Return[[1]](#footnote-2) (%) |
| LGIM | Fixed Interest Gilts | 26.6% | 0.0% |
| Index-Linked Gilts | 19.0% | 0.0% |
| Cash | 54.4% | 0.0% |
|  | Total | 100.0 |  |

**Appendix B – Risks, Financially Material Considerations (including ESG and climate change) and Non-Financial matters**

A non-exhaustive list of risks and financially material considerations that the Trustee has considered and sought to manage is shown below.

The Trustee adopts an integrated risk management approach. The three key risks associated within this framework and how they are managed are stated below:

|  |  |  |
| --- | --- | --- |
| **Risks** | **Definition** | **Policy** |
| Investment | The risk that the Fund’s position deteriorates due to the assets underperforming. | * Selecting an investment objective that is achievable and is consistent with the Fund’s funding basis and the Principal Employer’s covenant strength. * Investing in a low-risk, liability matching portfolio to minimise funding risk relative to the Fund’s buy-out target measure. |
| Funding | The extent to which there are insufficient Fund assets available to cover ongoing and future liability cash flows. | * Funding risk is considered as part of the investment strategy review and the actuarial valuation. * The Fund is fully funded on an illustrative solvency basis. Funding will be monitored closely as part of the Fund’s six-monthly reporting schedule. |
| Covenant | The risk that the Principal Employer becomes unable to continue providing the required financial support to the Fund. | * When developing the Fund’s investment and funding objectives, the Trustee takes account of the strength of the covenant ensuring the level of risk the Fund is exposed to is at an appropriate level for the covenant to support. |

The Fund is exposed to a number of underlying risks relating to the Fund’s investment strategy, these are summarised below:

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| --- | --- | --- |
| Risk | Definition | Policy |
| Interest rates and inflation | The risk of mismatch between the value of the Fund assets and present value of liabilities from changes in interest rates and inflation expectations. | To hedge 100% of these risks on a solvency basis. |
| Liquidity | Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment. | The Trustee, with support of the Principal Employer, has agreed to maintain a large cash holding in order to meet ongoing Scheme cashflows and manage risk as a full member buy-in is targeted over the short term. |
| Market | Experiencing losses due to factors that affect the overall performance of the financial markets. | To hedge away any unrewarded risks, where practicable. |
| Credit | Default on payments due as part of a financial security contract. | Beyond the Fund’s gilt investments, the Trustee’s cash holdings are invested in an institutional money market fund, which invests in a wide range of low risk, investment grade money market instruments. |
| Environmental, Social and Governance | Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Fund’s investments. | To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria:  1. Responsible Investment (“RI”) Policy / Framework  2. Implemented via investment process  3. A track record of using engagement and any voting rights to manage ESG factors  4. ESG specific reporting  5. UN PRI signatory  6. UK Stewardship Code signatory  The Trustee monitors the managers on an ongoing basis. |
| Currency | The potential for adverse currency movements to have an impact on the Fund’s investments. | Hedge all currency risk on all assets that deliver a return through contractual income. |
| Non-financial | Any factor that is not expected to have a financial impact on the Fund’s investments. | Non-financial matters are not taken into account in the selection, retention or realisation of investments. |

**Appendix C**

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

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| --- | --- |
| **How the investment managers are incentivised to align their investment strategy and decisions with the Trustee’s policies.** | * As the Fund is invested in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustee’s policies. However, the Trustee invests in a portfolio of pooled funds that are aligned to the strategic objective. |
| **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.** | * The Trustee reviews the investment managers’ performance relative to medium and long-term objectives as documented in the investment management agreements. * The Trustee monitors the investment managers’ engagement and voting activity on an annual basis as part of their ESG monitoring process. * The Trustee does not incentivise the investment managers to make decisions based on non-financial performance. |
| **How the method (and time horizon) of the evaluation of investment managers’ performance and the remuneration for their services are in line with the Trustee’s policies.** | * The Trustee reviews the performance of all of the Fund’s investments on a net of cost basis to ensure a true measurement of performance versus investment objectives. * Investment manager fees are reviewed annually to make sure the correct amounts have been charged and that they remain competitive. |
| **The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.** | * The Trustee does not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis. |
| **The duration of the Fund’s arrangements with the investment managers.** | * The duration of the arrangements is considered in the context of the type of fund the Fund invests in. * The Trustee invests in open ended funds. The duration is flexible and the Trustee will from time to time consider the appropriateness of these investments and whether they should continue to be held. |
| **Voting Policy - How the Trustee expects investment managers to vote on its behalf.** | * Voting policy does not apply to the Fund as the investment strategy is invested in physical gilts and cash. Voting rights do not apply to these asset classes/mandates. |
| **Engagement Policy - How the Trustee will engage with investment managers, direct assets and others about ‘relevant matters’** | * The Trustee has acknowledged responsibility for the engagement policies that are implemented by the Fund’s investment managers on its behalf. * The Trustee, via its investment advisers, will engage with managers about ‘relevant matters’ (including the Fund’s stewardship priorities) at least annually. * Example stewardship activities that the Trustee has considered are listed below:   + Selecting and appointing asset managers – the Trustee will consider potential managers’ stewardship policies and activities.   + Asset manager engagement and monitoring – the Trustee assesses the engagement activity of its asset managers via its investment consultant. The results of this analysis feeds into the Trustee’s investment decision making. |

1. Expected return assumptions quoted relative to Gilts and based on Isio’s central assumptions as at 30 June 2023. [↑](#footnote-ref-2)