



Licensed Trade Charity 1967 Pension and
Life Assurance Scheme

Statement of Investment Principles

March 2024

1. Introduction

This Statement of Investment Principles in respect of the Licensed Trade Charity 1967 Pension and Life Assurance Scheme (“the Scheme”) has been drawn up by the Trustees of the Scheme in accordance with Section 35 of the Pensions Act 1995, amended by Section 244 of the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005, the Pension Protection Fund (Pensionable Service) and Occupational Pension Scheme (Investment and Disclosure) (Amendment and Modification) Regulations 2018, and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

2. Decision Making Process

The Trustees

The investment of the Scheme’s assets is the responsibility of the Trustees and the Scheme Rules give the Trustees broad powers on investment. There are no restrictions (however expressed) on any power to make investments by reference to the consent of the Employer.

The Trustees’ policy is to seek professional advice on investment strategy. They decide on the investment strategy after considering investment advice from the Investment Consultant. The Trustees recognise that their level of investment expertise must be kept under review in order to be able to critically evaluate this advice.

The Trustees meet regularly and ensure that adequate time is set aside to discuss investment issues. In determining the investment strategy, the Trustees address the following:

- the need to consider a full range of asset classes,
- the risks and rewards of a range of alternative asset allocation strategies,
- the suitability of each asset class,
- the need for appropriate diversification, and
- the Scheme’s Investment and Funding Objectives

The Investment Consultant

The Investment Consultant advises on an investment strategy appropriate to the investment objectives. This advice is provided after each formal actuarial valuation and on a regular basis between formal valuations. The Investment Consultant also monitors and reports on the performance of the Investment Managers.

The Investment Consultant is paid a fee for their advice and their appointment is reviewed from time to time by the Trustees.

Broadstone Corporate Benefits Limited (Broadstone) has been appointed as Investment Consultant to the Trustees on the basis that the Trustees believe them to be suitably qualified and have the appropriate knowledge and experience of the management of the investments of such schemes. Broadstone is authorised and regulated by the Financial Conduct Authority.

The Employer

The Trustees will consult with the Employer (The Licensed Trade Charity) as part of the process for deciding on investment strategy.

Delegation

The Trustees have a policy of delegating all day-to-day powers of investment to the Investment Managers who are authorised and regulated by the Financial Conduct Authority.

The safe custody of the Scheme's assets is delegated to professional custodians via the use of pooled vehicles.

3. Investment Objectives

Funding Objective

The primary funding objective of the Scheme is to ensure, as far as possible, that there are sufficient assets to provide benefits to the Scheme members as and when these fall due.

Investment Objectives

The Trustees' high level objectives with regard to investing the Scheme assets are to:

- achieve a return which is sufficient over the longer term to meet the Funding Objective.
- adopt an approach that recognises the need to balance risk with the achievement of a satisfactory investment return.

Performance Objective

The Investment Managers have each been set Performance Objectives to achieve returns in line with, or in excess of, a benchmark.

4. Investment Strategy

The Trustees have adopted a multi asset / multi strategy style approach which incorporates an element of Liability Driven Investments for the investment strategy to more closely align with the funding strategy.

The investment strategy aims to deliver an expected return above that of the Scheme's liabilities. As well as this, the investment strategy is designed to hedge a significant amount of the movements in the Scheme's liabilities which occur due to changing interest rate and inflation expectations.

Given their investment objectives, the Trustees have agreed the following long term strategic asset allocation. The assets are held in a combination of pooled funds: currently the property fund is dealt each quarter, the Liability Driven Investment funds are weekly-dealt and the Diversified Growth Funds and Corporate Bonds are dealt on a daily basis:

	Asset Allocation
Growth / Return Seeking Portfolio	
Diversified Growth Fund	21%
Property Funds	20%
Corporate Bonds	20%
Total return seeking	61%
Protection / Liability Matching Portfolio	
Liability Driven Investment (LDI) funds enhanced with passive equities	15%
Liability Driven Investment Funds (LDI)	24%
Total Liability Matching	39%

Due to the aim of using assets to hedge a significant portion of the Scheme's liabilities, the asset allocations will vary over time from those shown in the table. While the Trustees will monitor these variations, this Statement of Investment Principles will not be updated solely due to variations from these allocations.

The Trustees may, from time to time, decide to change the funds used within the overall investment strategy and the investment allocation between the funds as alternatives emerge, funds change, and the Scheme develops.

5. Cash flow and Rebalancing

New money will be invested (or disinvestments required for cash flow will be made) on a mechanical basis to bring the asset allocation back to the benchmark strategy as far as possible.

The Trustees will monitor the Scheme's actual asset allocation on a regular basis and will decide on a course of action which may involve redirecting cash flows, a switch of assets or taking no action, taking into account advice from the Investment Consultant.

6. Expected Return

The Trustees expect the return on assets to be consistent with the investment objective and investment strategy outlined on the previous pages.

The Trustees expect to generate a return over the long-term of approximately 1.8% per annum above the yield of long term government bonds (gilts) after fees. This return has been derived using the weighted-average of the expected return on the asset types that the Scheme is invested in. This return is a 'best estimate' of future returns that has been arrived at given the Scheme's longer term asset allocation and in light of advice from the Investment Consultant.

The Trustees recognise that, over the short-term, performance may deviate significantly from this long-term expectation. This 'best estimate' will also generally be higher than the estimate used for the actuarial valuation of the Scheme's liabilities. For this purpose, a more prudent estimate of returns will generally be used, agreed by the Trustees on the basis of advice from the Scheme Actuary.

7. Investment Managers

The Trustees utilise a number of Investment Managers to manage the assets of the Scheme. The Investment Managers are regulated by the Financial Conduct Authority. The Trustees entered into contracts with Abrdn (previously Aberdeen Standard Investments) in December 2016, Baillie Gifford in December 2002 and Schroder Investment Management in September 2016.

The Trustees have decided to invest in pooled funds, other collective investment vehicles and cash. The Scheme does not invest directly in stocks, shares, bonds, derivatives etc.

The Trustees have decided to invest in pooled funds because:

- the Scheme is not large enough to justify direct investment in equities or bonds on a cost-effective basis;
- pooled funds allow the Scheme to invest in a wider range of assets which serves to reduce risk; and
- pooled funds provide a more liquid form of investment than certain types of direct investment.

The Investment Managers appoint individual custodians to hold the securities owned by the Scheme.

8. Investment Monitoring

The Trustees employ Broadstone to assist in monitoring the performance of the Scheme's investment strategy and Investment Managers.

The Investment Managers provide the Trustees with quarterly reports setting out a valuation of the funds and a commentary on performance.

The Investment Managers will supply the Investment Consultant with sufficient information when requested in order to monitor financial and non-financial performance.

9. Portfolio Turnover costs

The Trustees expect the Investment Managers to change underlying holdings only to an extent required to meet their investment objectives. The reasonableness of such turnover will vary by fund and change according to market conditions.

The Trustees therefore do not set a specific portfolio turnover target for their strategy or the underlying funds.

The Investment Managers when requested by the Investment Consultant shall provide information on portfolio turnover and associated costs so that this can be monitored, as appropriate.

10. Engagement and voting rights

The Trustees wish to encourage best practice in terms of activism. The Trustees' voting and engagement policy is to use their investments to improve the Environmental, Social and Governance (ESG) behaviours of the underlying investee companies. These ESG topics encompass a range of priorities, which may over time include climate change, biodiversity, the remuneration and composition of company boards, as well as poor working practices. The Trustees believe that having this policy and aiming to improve how companies behave in the medium and long term will protect and enhance the value of their investments and is in the members' best interests.

The Trustees accept that by using pooled investment vehicles, the day-to-day application of voting rights will be carried out by the Investment Managers. The Trustees will aim to monitor the actions taken by the investment managers on their behalf and if there are significant differences from the policy detailed above, they will escalate their concerns which could ultimately lead to disinvesting their assets from the manager.

11. Environmental, Social and Governance factors

The Trustees believe that the consideration of financially material Environmental (including climate change), Social and Governance (ESG) factors in investment decision making can lead to better risk adjusted investment returns. The Trustees expect its investment managers, when exercising discretion in investment decision making, to take financially material ESG factors into account. On an ongoing basis the Trustees (delegating to the Investment Consultant where appropriate) assess the ESG integration capability of its investment managers.

The Trustees believe that in order to protect and enhance the value of the investments, over the time horizon over which the benefits are paid, it must act as a responsible asset owner. The Trustees expect its investment managers to exercise its ownership rights, including voting and engagement rights, in order to safeguard sustainable returns over this time frame. On an ongoing basis the Trustees (delegating to the Investment Consultant where appropriate) assess the stewardship and engagement activity of its investment managers.

Where ESG factors are non-financial (i.e. they do not pose a risk to the prospect of the financial success of the investment) the Trustees believe these should not drive investment decisions. The Trustees expect its investment managers, when exercising discretion in investment decision making, to consider non-financial factors only when all other financial factors have been considered and in such a circumstance the consideration of non-financial factors should not lead to a reduction in the efficiency of the investment. Members' views are not sought on non-financial matters (including ESG and ethical views) in relation to the selection, retention and realisation of investments.

Responsibility for monitoring the makeup and development of the capital structure of investee companies is delegated to the Investment Managers. The Trustees expect the extent to which the Investment Managers monitor capital structure to be appropriate to the nature of the mandate.

12. Conflicts of Interest

The Trustees maintain a separate conflicts of interest policy and register.

Subject to reasonable levels of materiality, these documents record any actual or potential conflicts of interest in relation to investee companies or the Investment Managers, while also setting out a process for their management.

13. Incentivisation of Investment Managers

The Investment Managers are primarily remunerated based on an agreed fixed annual percentage of the asset value for each underlying fund.

The Trustees do not directly incentivise the Investment Managers to align the approach they adopt for a particular fund with the Trustees' policies and objectives. Instead, the Investment Managers and the funds are selected so that, in aggregate, the returns produced are expected to meet the Trustees' objectives.

Neither do the Trustees directly incentivise the Investment Managers to make decisions about the medium to long-term performance of an issuer of debt or equity, or to engage with those issues to improve their performance. The Trustees expect such assessment of performance and engagement to be undertaken as appropriate and necessary to meet the investment objectives of the funds used by the Scheme.

14. Employer Related Investments

The Trustees' policy is not to hold any direct employer-related investments as defined in the Pensions Act 1995, the Pensions Act 2004 and the Occupational Pension Scheme (Investment) Regulations 2005.

15. Risks

The Trustees recognise that a number of risks are involved in the investment of the assets of the Scheme. They have identified the following principle risks which have the potential to cause deterioration in the Scheme's funding level:

- Solvency risk: The risk that the fund has insufficient assets to meet all its liabilities as they fall due.
- Mismatching risk: The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors.
- Manager risk: The failure by the Investment Managers to achieve the rates of investment return assumed.
- Liquidity risk: The risk of a shortfall of liquid assets relative to the Scheme's immediate liabilities. This includes liquidity risk in respect of the Scheme's LDI funds.
- Custodian risk: The risk of failed or inadequate performance by the custodian.
- Concentration Risk: The risk that the performance of any single investment that constituted a large proportion of the assets would disproportionately influence the overall level of assets.
- Political risk: The financial risk that a country's government will suddenly change its policies. This includes events unfolding in the Eurozone and elsewhere, other government actions, geopolitical events, and socio-economic changes that can lead to social unrest.
- Sponsor risk: The possibility of failure of the Scheme's sponsoring employers.

- Counterparty risk: The risk that other parties in any trade or position will default, i.e. will renege on their contractual obligations, resulting in a financial loss to the Scheme. This again includes risk in respect of the Scheme's LDI funds.
- Currency Risk: The risk associated with exposure to unexpected fluctuations in exchange rates. Fluctuations in currency values (both of the home currency and the foreign currency) can reduce the returns associated with foreign investments.

Due to the complex and interrelated nature of these risks, the Trustees consider the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review. Some of these risks may also be modelled explicitly during the course of such reviews.

The policy of the Trustees is to monitor, where possible, these risks on a regular basis. The Trustees therefore consider:

- The actual funding level versus the Statutory Funding Objective.
- Actual performance versus the Scheme's investment and funding objectives.
- Investment Managers' performance versus their respective benchmarks and targets.
- Any significant issues with the Investment Manager that may impact their ability to meet investment performance objectives set by the Trustees.

16. Fee Structures

The Investment Managers are paid a management fee on the basis of assets under management. The Investment Consultant is paid on a project basis which may be a fixed fee or based on time cost, as negotiated by the Trustees in the interests of obtaining best value for the Scheme.

The appropriateness of the Investment Managers' remuneration will be assessed relative to market costs for similar strategies, the skill and resources required to manage the strategy, and the success or otherwise a manager has had in meeting its objectives, both financial and non-financial.

17. Review of this Statement

The Trustees will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believes to be qualified by their ability in, and experience of, financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

Peter Raynsford

For and on behalf of the Licenced Trade Charity 1967 Pension and Life Assurance Scheme

27 /3/2024

Date

<u>Version</u>	<u>Date</u>	<u>Comment</u>
Version 2	November 2018	Revised strategy
Version 3	September 2019	Revised "Social, Environmental and Ethical Considerations" section in line with ESG compliance
Version 3	September 2020	Updated to ensure compliance with 1 October 2020 legislation
Version 4	March 2023	General updates including hedging and asset allocation changes. Added Engagement and Voting Rights section.
Version 5	March 2024	General updates including asset allocation changes.