



Statement of Investment Principles

NATIONAL CENTRE FOR SOCIAL RESEARCH RETIREMENT BENEFITS SCHEME
November 2023

1. Introduction

This Statement of Investment Principles (the “SIP”) sets out the policy of the Trustees of the National Centre for Social Research Retirement Benefits Scheme (the “Scheme”) on various matters governing decisions about the investments of the Scheme. This SIP replaces the previous SIP dated November 2021.

This SIP has been drawn up by the Trustees to meet the requirements of Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004) (the “Act”), the Occupational Pension Schemes (Investment) Regulations 2005, the Occupational Pension Schemes (Investment and Disclosure)(Amendment) Regulations 2019 (“the Regulations”) and subsequent legislation. This SIP is also in compliance with the Government’s voluntary code of conduct for Institutional Investment in the UK (‘the Myners Principles’) and TPR’s Investment Guidance for defined benefit pension schemes.

This SIP has been prepared after obtaining and considering written professional advice from the Trustees’ Investment Advisor and Fiduciary Manager, Van Lanschot Kempen Investment Management (UK) Limited (“VLK IM”), and the scheme actuary, Mercer (the “Actuary”, and collectively termed “Professional Advisors”).

In preparing this SIP the Trustees consulted the principal employer, National Centre for Social Research (the “Employer”), to ascertain whether there are any material issues which the Trustees should consider in determining the Scheme’s investment arrangements. The Trustees seeks to maintain a good working relationship with the Employer and will discuss any proposed changes to the SIP with the Employer. However, the fiduciary obligation of the Trustees is to the Scheme’s members.

2. Investment Governance

The Trustees are responsible for the governance and investment of the Scheme’s assets. The Trustees consider that the governance structure set out in this SIP is appropriate for the Scheme as it allows the Trustees to make the important decisions on investment policy including the strategic asset allocation, while delegating the day-to-day aspects of investment management to its Professional Advisors. The Trustees have concluded a fiduciary management approach would be most appropriate, and consequently appointed VLK IM as the Scheme’s Investment Advisor and Fiduciary Manager.

The Trustees are responsible for setting the general investment policy, but delegate the responsibility for the selection of specific investments to VLK IM, who in turn delegate the day-to-day management of the assets to underlying investment managers. The Professional Advisors and the underlying investment managers provide the skill and expertise necessary to advise on and manage the assets of the Scheme. The Trustees believe them to be suitably qualified and experienced to provide such advice. The advice takes into account the suitability of investments including the need for diversification, the circumstances of the Scheme, and the principles contained in this SIP.

The Trustees have decided not to appoint an investment sub-committee to deal with investment matters. The Trustees generally prefer to involve all Trustees in all investment-related decision making.

The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation at least every three years. The Trustees consider with the Professional Advisors whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the statutory funding requirement.

3. Suitability

It is the responsibility of the Trustees to maintain investments that are consistent with the investment objectives (and consistent with the SIP more generally) and with due regard to the Scheme’s liabilities.

The Trustees’ policy on the kinds of assets held is that they must be suitable given the investment objectives, legislative requirements, regulatory guidance, statutory funding requirements and any specifications in the trust deed and rules governing the Scheme (the Trust Deed).

The Trustees have taken advice from the Professional Advisors to ensure that the proposed investment strategy, and the assets held by the Scheme are in line with its policy.

4. Investment Policy

The investment policy is determined by the Trustees and specifies the key elements of the investment of the Scheme's assets. It is the responsibility of the Trustees to maintain investments that are consistent with this investment policy (and consistent with the SIP more generally) and with due regard to the Scheme's liabilities.

4.1 Objectives

The overall objective of the Trustees is to ensure the Scheme should be able to meet benefit payments as they fall due. To do this, the Trustees, in consultation with their Professional Advisors, have agreed a number of additional objectives to help guide them in their management of the assets and control the various risks to which they are exposed. These are as follows:

- The acquisition of suitable assets, having due regard to the risks as described in Appendix B, which will optimise the return on investments whilst managing and maintaining investment risks at an appropriate level consistent with the Trustees' risk tolerance.
- Achieve an investment return on the Scheme's assets which is expected to at least meet the Actuary's assumptions over the long term.
- Target an investment return on the Scheme's assets which is compatible with the aim of maintaining the Scheme's funding position (i.e. the value of the assets relative to the assessed value of its liabilities) at an appropriate level. The Trustees are aware that there are various measures of funding, and have given due weight to those considered most relevant to the Scheme.
- That the key risks run by the Scheme are reduced over time, as and when it is affordable to do so in light of the funding position and progress against the objectives.

4.2 Investment Strategy

In light of these objectives, the Trustees agreed that an appropriate investment strategy is required that invests in various asset classes to achieve a return of Gilts + 3.0% per year, over the period until the Scheme is expected to have achieved its long term funding target. The Trustees' policy on the balance between different kinds of investments is to delegate this decision to VLK. VLK's approach is to assess the appropriate balance based on the Trustees' investment strategy.

The current central target is for the Scheme to be invested in a combination of risk management 'matching' assets alongside return enhancing 'growth' assets, though the Trustees have delegated the decision as to the precise balance of these two broad categories to VLK IM, subject to the constraints agreed in advance with the Trustees. The main purpose of the 'matching' assets are to manage the Scheme's exposure to liability risks including interest rate and inflation with the aim to minimise the volatility of the funding level with respect to the Scheme's liabilities (the "Liabilities"). The main purpose of the of the 'growth' assets are to generate additional return and improve the Scheme's funding level.

4.3 Strategy Implementation

The Trustees recognises the importance of asset allocation to the overall investment strategy, and has therefore delegated the implementation of the strategy (including the appointment, termination and ongoing monitoring of the underlying investment managers who manage the assets of the Scheme) to its fiduciary manager, VLK IM. The Fiduciary Management Agreement sets out in detail the terms on which the strategy is to be implemented.

Before investing in any manner, the Trustees obtain and consider advice from VLK IM on whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments that meet the Scheme's investment objectives. The Trustees also receives advice from VLK IM on the appropriateness of the investment managers that are selected to implement the investment.

The Trustee, VLK and the underlying investment managers to whom discretion has been delegated exercise their powers giving effect to the principles in this Statement of Investment Principles, so far as is reasonably practicable.

4.4 Derivatives

Derivatives or other financial instruments may be used to hedge the Scheme's liability risks (principally interest rate, inflation and longevity risks) or other risks (e.g. equity or currency risks). At any given time a minimum level of assets of sufficient liquidity and quality will be held to ensure the Scheme is able to satisfy collateral or margin calls which may arise as a result of the derivatives positions it holds.

4.5 Selection and Monitoring of investment managers

The Trustees' policy is to delegate to VLK the responsibility for the selection, appointment, monitoring and removal of the underlying investment managers. VLK's role includes:

- Agreeing the terms of appointment for underlying managers;
- Putting in place fee arrangements which incentivise the manager to align its strategy to the Trustees' policies generally (to the extent possible);
- monitoring the underlying investment managers, to ensure they continue to perform in a competent manner and have the appropriate knowledge, skills and experience to manage the assets of the Scheme;
- monitoring the extent to which the underlying investment managers (i) make decisions based on assessments about medium to long-term financial performance of an issuer of debt or equity; and (ii) engage with issuers of debt or equity in order to improve their performance in the medium to long-term; and
- assessing the duration of any appointments of asset managers and, where appropriate terminating managers that are no longer aligned with the Trustee's investment strategy.

This will involve quarterly assessments against criteria such as strength of organisation and their operating capabilities, adherence to and the success of their designated strategies, and reviews of portfolio characteristics including responsible investment factors. VLK evaluates the performance of the underlying investment managers versus their objectives and against the Trustees' investment strategy and policies generally, over an appropriate time horizon.

The Trustees, or any other suitably qualified adviser on behalf of the Trustees, will regularly review the activities of VLK IM to satisfy themselves that they continue to carry out their work competently and have the appropriate knowledge and experience to advise on and implement the agreed strategy.

4.6 Realisation of assets

VLK IM has discretion over the timing of the realisation of portfolios managed by the selected underlying investment managers. The underlying investment managers have discretion over the timing of realisation of investments of the Scheme within the portfolios that they manage, and in considerations relating to the liquidity of investments.

When appropriate, the Trustees, on the administrator's recommendation, decides on the amount of cash required for benefit payments and other outgoings and informs VLK IM of any liquidity requirements. The preference of the Trustees is for investments that are readily realisable, but the Trustees recognises that achieving a well-diversified portfolio may mean holding some investments that are less liquid (e.g. property and infrastructure assets). In general, the Trustees' policy is to use cash flows to rebalance the Scheme's assets towards the strategic asset allocation, and also receive income from some of the assets where appropriate.

4.7 Portfolio turnover costs

These are the costs incurred as a result of the buying, selling, lending or borrowing of investments and the Trustee monitors these costs (as well as other investment management fees and costs) through annual cost reports provided by VLK.

The Scheme's investment portfolios are re-balanced quarterly, to ensure the assets continue to be aligned with the agreed investment strategy. The turnover and transaction costs associated with this rebalancing activity is expected to be small. A greater degree of portfolio turnover (and therefore cost) is only expected as a result of changes to the asset allocation, for example as the investment strategy is de-risked as the funding level improves or if VLK IM believed that a different combination of approved instruments could achieve the return targets after taking all transaction costs into consideration.

5. The Trustees' policy on financially material considerations and non-financial matters

The Trustees have considered how responsible investment, climate change and other ethical factors (collectively known as 'ESG'), should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Scheme and its members. The Trustees believes that if it manages these factors, are considered and managed within the investments the Scheme holds, it is expected to produce better financial (and therefore member) outcomes.

In setting and implementing the Scheme's investment strategy, the Trustees do not explicitly take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as non-financial factors).

The Trustees believe that ESG factors within an investment context can be financially material, and that by taking these financial factors into account within the investment plan can yield different returns and/or risks. The Trustees also recognises that ESG factors, particularly climate change, are more likely to influence risk adjusted returns over the long term.

The Trustees selected VLK IM as Fiduciary Manager in part as a result of its investment policies and approach to ESG in general. The alignment of the Trustees and VLK IM's approach on ESG issues will be taken into account in the Trustees' review of the Fiduciary Manager. That will take place at least annually.

Without prejudice to the Trustees' legal obligations, the Trustees delegate full discretion to their Investment Advisor and Fiduciary Manager, VLK IM, around the evaluation of ESG factors within the investment process as well as direct engagement and exercise of shareholder rights. VLK IM, who is responsible for the appointment and removal of the underlying investment managers, exercise discretion when evaluating ESG issues giving consideration to ESG related risks and making sure the investment strategy is aligned with the investment policy and ESG beliefs of the Trustees.

The Trustees recognise that VLK IM has limited influence over investment managers' investment practices where assets are held in pooled funds, but ESG factors and associated risks are managed as a consequence of the following:

- Each investment manager appointed by VLK IM is assessed based on international conventions and initiatives, such as UN Global Compact and the Principles for Responsible Investment (PRI)
- Each investment manager is also assessed against more specific ESG criteria, for example:
 - does the manager have a responsible investment policy
 - is the manager open for a dialogue on ESG, and
 - how well does the manager adhere to VLK IM's own responsible investment policies, for example does the manager have exposure to companies that are on VLK IM's exclusion list?
- All investment managers are then further reviewed against ESG criteria on an ongoing basis. For example:
 - do ESG considerations continue to be integrated into their investment process
 - is the fund manager making progress
 - is the fund manager well informed and up-to-speed on ESG criteria and initiatives
 - screening of all underlying equity and debt securities during quarterly monitoring cycle to check for exclusion candidates
- VLK IM encourages their chosen managers to improve their practices where appropriate (as explained in the next section)
- VLK IM uses a "Sector Avoidance Framework", which ensures exclusion of companies involved in the production, trade and maintenance of controversial weapons.

As a result, the Trustees are satisfied that VLK IM is providing advice and implementation services that are aligned with the Trustees' investment beliefs and that a responsible approach is being taken which is consistent with the long term financial interests of the Scheme.

6. Stewardship

The Trustees recognise their responsibilities as owners of capital, and believe that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments.

The Trustees have appointed VLK IM as an Investment Advisor and Fiduciary Manager, and thus a considerable degree of decision making with regards to the asset allocation and investment manager selection is delegated to VLK IM. Furthermore, the investment strategy is typically implemented by VLK IM using investment managers who operate pooled investment funds, whereby the Scheme's assets are aggregated with those of other investors. As a result, direct control of the process of engaging with the companies that issue securities in which the Scheme is invested, whether for corporate governance purposes or social, ethical or environmental factors, is delegated via VLK IM to the investment manager of the pooled investment fund. The investment managers, acting on behalf of the Trustees, are expected to have an interest in ensuring that corporate management act in the long-term interests of shareholders or bondholders and hence will, where appropriate and possible, engage with management.

The Trustees have therefore adopted a policy of delegating voting decisions on stocks to the underlying investment managers who will exercise the voting rights attached to individual investments on their behalf in accordance with their own voting and engagement policies. The Trustees also expect the fiduciary manager to undertake monitoring and engagement with the underlying investment managers, in line with its' own responsible investment policies.

VLK IM supports and expects the underlying managers, who are regulated in the UK, to comply with the UK Stewardship Code 2020 (as updated or amended from time to time), including public disclosure of compliance via an external website. For an underlying manager to be appointed they must also abide by the VLK IM's Responsible Investment and Exclusions policy, or at least show a willingness to abide to it over time (with progress monitored by VLK IM).

The Trustees will review annual reports on the voting undertaken by the underlying manager during the period to get assurance that it remains broadly consistent with the Trustees' view of good stewardship standards. However, the Trustees are conscious that the underlying manager may not be able to provide voting records for all investments held within certain pooled structures.

7. Fee structures

The Trustees recognise that the provision of investment management, implementation and advisory services to the Scheme results in a range of charges to be met, directly or indirectly, by deduction from the Scheme's assets. The Trustees have agreed Terms of Business with the Scheme's advisers, under which charges are calculated on a fixed fee or "time-cost" basis as appropriate.

The fiduciary manager levies a fee based on the value of the Scheme's assets managed by VLK IM which covers the design, implementation, monitoring and review of the investment strategy. This fee structure helps align the Trustees' policies and investment priorities. The Trustees periodically check the fee structure against similar providers to ensure it remains appropriate in relation to the services provided and to ensure it incentivises VLK to align its strategy and decisions with the Trustees' investment policy.

VLK is responsible for the negotiation of the fees of underlying investment managers. Their fees are based on a percentage of the value of the assets under management. VLK ensures their fee rates are consistent with the managers' general terms for institutional clients and is responsible for ensuring the underlying managers policies are aligned with or consistent with the Trustees' policies and objectives. However, it is recognised that investments in pooled funds offer limited scope to tailor strategies and decisions to the Trustees' specific policies. The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustees' view as to the most appropriate arrangements for the Scheme. However, the Trustees will consider revising any given structure if and when it is considered appropriate to do so.

8. SIP compliance and review

The Trustees will monitor compliance with this SIP annually. In particular they will obtain confirmation from the VLK IM that it has complied with this SIP insofar as is reasonably practicable and that in exercising any discretion it has done so in accordance with Section 4 of the Occupational Pension Scheme (Investment) Regulations 2005. The Trustees undertake to advise the fiduciary manager and, where necessary, investment managers promptly and in writing of any change to this SIP.

The Trustees will review this SIP once every three years, and immediately after any significant change in investment policy. Any change to this SIP will only be made after having obtained and considered the written advice of Professional Advisers who the Trustees reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

Adopted by the Trustees with effect from:

Signed

Name

Date

for and on behalf of The Trustees of the National Centre for Social Research Retirement Benefits Scheme

Appendix A: Risks

When deciding to invest the assets, the Trustees consider a number of risks, including, but not limited to those set out below. The management of investment risk is a function of the asset allocation and diversification strategies and the implementation of that strategy is delegated to the Investment Advisor.

Strategic risk

This is the risk that the performance of the Scheme's assets and liabilities diverges in certain financial and economic conditions. This risk is managed in the following ways:

- A liability benchmark is used as a proxy for the liabilities in order to measure the approximate changes in the liabilities. The Trustees monitor this change relative to the change in asset values on a regular basis.
- The Trustees also recognise the risks of a negative impact on the funding level due to changes in the actuarial assumptions used to calculate the liabilities and variation in experience. This is managed by aiming for a higher overall investment return than implied by the liability discount rate alone.
- When setting and reviewing investment strategy, the Trustees examine how the investment strategy impacts on downside risk. Downside risk of the investment strategy is also measured by reference to the liabilities and can therefore also be assessed as part of the regular review process.
- The Trustees will review the investment strategy regularly and at least every three years in light of the various risks faced by the Scheme.

Investment manager risk

The failure by VLK IM and/or its selection of underlying investment managers to achieve the rate of investment return assumed by the Trustees. This risk has been considered by the Trustees on the initial appointment of VLK IM and thereafter will be considered as part of the investment review procedures the Trustees have put in place. This risk is also minimised using the following techniques:

- Appropriate diversification across asset classes and geographies to minimise the effect of a particular asset class underperforming.
- The use of instruments and strategies designed to control the extent of downside risk.
- The selective use of active management when appropriate given market conditions, the asset class considered and where the benefits (risk and/or return) are expected to outweigh the additional costs/fees.
- Regular monitoring of performance, by both the Trustees and VLK IM.

Active manager risk

The Trustees understand that the use of active, rather than passive management introduces additional risk. Where active management is adopted, the Trustees deem the risk to be acceptable in the context of the Scheme's overall investment risk profile.

Concentration risk

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Trustees' ability to meet their investment objectives.

The Trustees believe that the need for the assets to be adequately diversified between different geographies, asset classes and underlying investment managers has been met by the investment strategy outlined in Section 3 and by the investment guidelines agreed with VLK IM who aim to ensure that the investments are placed in an adequately diversified portfolio.

Currency risk

Whilst the majority of the currency exposure of the Scheme's assets is to Sterling, the Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets. VLK IM on behalf of the Trustees considers the overseas currency exposure in the context of the overall investment strategy, and will reduce these risks as they deem appropriate via either a currency hedging program, or by making use of hedged share classes.

Counterparty and derivative risk

Counterparty risk is reduced by investing the assets into pooled investment vehicles managed by competent investment managers with strong organisational and operational processes. In addition, and where securities are owned directly by the Scheme, the Trustees have appointed a Custodian, Northern Trust, to mitigate the risk of misappropriation of such assets.

Where derivatives are used, the Scheme will have additional risk with the counterparty to that derivative. These risks are managed through the use of collateral arrangements with each counterparty.

Interest rate and inflation risk

The assets are subject to interest rate and inflation risk because a portion of the assets are held either directly or indirectly in government bonds, interest rate and inflation swaps and other fixed income instruments such as corporate bonds. However, the interest rate and inflation exposure of the Scheme's assets hedges part of the corresponding risks associated with the Scheme's liabilities. The net effect will be to reduce the volatility of the funding level, and so the Trustees believe that it is appropriate to have exposures to these risks in this manner.

The Fiduciary Manager works with the Actuary to analyse the Scheme's liabilities and looks to buy assets that match interest rate and inflation sensitivities as closely as possible with the sensitivities of the Scheme's liabilities to these same risks. As and when the liabilities are updated the matching portfolio is rebalanced accordingly so as to maintain as close a match as possible.

Liquidity risk

This is the risk that the Scheme is unable to realise assets to meet benefit cash flows as they fall due. The Trustees are aware of the Scheme's cash flow requirements and believe that this risk is managed appropriately via the measures described below.

The Fiduciary Manager, Trustees and Scheme Administrators will seek to ensure that the Scheme holds sufficient cash to meet the likely benefit outflow from time to time. VLK IM will ensure that there are sufficient investments in liquid or readily realisable assets to meet unexpected cash flow requirements so that realisation of assets will not disrupt the Scheme's overall investment policy where possible.

Environmental, social and governance risks

Environmental, social and corporate governance (ESG) factors are sources of risk to the Scheme's investments which could be financially material, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Trustees considers these risks by taking advice from VLK IM.

Other non-investment risks

The Trustees recognise that there are other, non-investment, risks faced by the Scheme. Examples include:

- longevity risk (the risk that members live, on average, longer than expected);
- sponsor covenant risk (the risk that, for whatever reason, the sponsoring employer is unable to support the Scheme as anticipated);
- Advice risk where decisions are taken without appropriate advice or expertise; and
- Derivative counterparty risks, such as the risk of counterparty insolvency.

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Scheme's funding position falls below what is considered an appropriate level. By understanding and considering each of the risks that contribute to funding risk, the Trustees and their Professional Advisors believe that they have addressed and are positioned to manage this general risk.

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