# Benenden Healthcare Pension Plan
# Defined Benefit Section

## Statement of Investment Principles – September 2020

**Introduction**

The Trustees of the Benenden Healthcare Pension Plan (the "Plan"), have drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of the Pensions Act 1995, the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005, and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2018 and 2019. The Statement is intended to confirm the investment principles that govern decisions about the Plan's investments in relation to the Defined Benefits Section. In preparing this Statement the Trustees have consulted Benenden Healthcare Society Limited (the "Employer") on the Trustees' investment principles.

**Governance**

The Trustees make all major strategic decisions involving the Plan's assets, including, but not limited to, the Plan's asset allocation and the appointment and termination of investment managers. The process for making investment decisions is as follows:

- Identify appropriate investment objectives;
- Agree the level of risk consistent with meeting the objectives; and
- Implement an investment strategy and investment manager structure in line with the level of risk and objectives agreed.

When making such decisions, and when appropriate, the Trustees take proper advice. The Trustees' investment consultant, Capita Employee Solutions, is qualified by its ability in and practical experience of financial matters, and has the appropriate knowledge and experience to provide such advice.

**Investment Objectives**

The Trustees are required to invest the Plan's assets in the best interest of members, and their main objectives with regard to investment policy are:

- To achieve, over the long term, a return on the Plan's assets which is sufficient (in conjunction with the Plan's existing assets, and contributions paid by both members and the Employer) to pay all members' benefits in full;
- To ensure that sufficiently liquid assets are available to meet benefit payments as they fall due; and
- To consider the interests of the Employer in relation to the size and volatility of the Employer's contribution requirements.

The Trustees understand, following discussions with the Employer, that the Employer is willing to accept a degree of volatility in the Employer's contribution requirements in order to aim to reduce the long-term cost of providing the Plan's benefits. The Trustees are comfortable that the covenant of the Employer is strong enough to support this approach.

**Risk Management and Measurement**

The Trustees are aware of and pay close attention to a range of risks inherent in investing the assets of the Plan. The Trustees believe that the investment strategy provides for adequate diversification both within and across different asset classes. The Trustees further believe that the current investment strategy is appropriate given the Plan's liability profile. The Trustees' policy on risk management is as follows:

- The primary investment risk faced by the Plan arises as a result of a mismatch between the Plan's assets and its liabilities. The Trustees' principal focus in setting investment strategy is therefore taking into account the nature and duration of the Plan's liabilities.

- The Trustees recognise that whilst increasing risk can potentially increase long-term returns, it can also increase the short-term volatility of the Plan's funding position. The Trustees have taken advice on the matter and (in light of the objectives noted previously) considered the implications of adopting different levels of risk.

- The Trustees recognise the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustees aim to ensure the asset allocation strategy in place results in an adequately diversified portfolio. Due to the size of the Plan's assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles.

- The documents governing the managers' appointment include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Plan.

- The Trustees recognise that, where appropriate, the use of active management involves a risk that the assets do not achieve the expected return. However, they believe this risk can be outweighed by the potential gains from successful active management, in particular in regions or asset classes where this potential is greater than others. Therefore, the Plan's assets are managed through a mixture of active and passive management which may be adjusted from time to time.

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

Should there be a material change in the Plan's circumstances, the Trustees will review whether the current risk profile remains appropriate.

**Investment Strategy**

Given their investment objectives, the Trustees have agreed to the strategic asset allocation detailed in the table below – further details are shown in the Appendix.

The Trustees believe that the investment risk arising from the investment strategy is consistent with the overall agreed level of risk.

| Asset Class | Strategic Asset Allocation (%) | Control Limits (+/- %) |
|---|---|---|
| Diversified Growth | 27.6 | |
| Property | 2.6 | |
| Global Equities | 20.0 | |
| Multi Asset Credit | 17.5 | |
| Absolute Return Bonds | 10.0 | |
| **Growth Assets** | **77.7** | **5.0** |
| Liability Driven Investment (‘LDI’) Long Real | 16.6 | |
| LDI Short Real | 5.7 | |
| **Matching Assets** | **22.3** | **5.0** |
| **Total** | **100** | |

The LDI funds employ leverage (i.e. the level of protection provided against changes in longer-term interest rates/inflation expectations is greater than the amount invested). Should the leverage within one of the LDI funds deviate substantially from the fund’s target leverage level, Legal & General Investment Management Limited will rebalance the LDI fund back to the target leverage level. These LDI leverage rebalancing events could result in money being requested or released from the LDI funds and the Trustees have established a default cash management policy for these events (see below).

If capital is required for the LDI funds, this will be taken from the diversified growth allocation (i.e. Newton’s Real Return Fund and Schroder’s Intermediated Diversified Growth Fund). If cash is released from the LDI funds, the Trustees will take advice on the most suitable way to reinvest it at the time. The Trustees may decide to change this cash flow policy from time-to-time, subject to receiving the necessary written advice from their investment consultant.

The Trustees will monitor the Plan’s actual asset allocation at least quarterly and subject to stated control limits will decide if any changes are required, such as redirecting cash flows or a switch of assets. The Trustees will take into account advice from their investment consultant prior to making any decision. Further details on the investment funds and control ranges can be found in the Appendix.

**Expected Return**

The Trustees expect the return on assets to be consistent with the investment objectives and investment strategy outlined above.

The Trustees expect the Plan’s assets to generate a return, over the long term, of circa 2.1% per annum, net of expenses, above a portfolio of long-dated UK Government bonds – which are considered to change in value in a similar way to the Plan’s self-sufficiency liability value. This return is a “best estimate” of future returns that has been arrived at given the Plan’s target strategic asset allocation and in light of advice from the investment consultant.

The Trustees recognise that, over the short term, actual performance may deviate significantly from this long-term expectation. This “best estimate” should be higher than the assumption used for funding purposes for the actuarial valuation of the Plan's technical provisions. For funding purposes, a prudent estimate of returns is used, as agreed by the Trustees on the basis of advice from the Scheme Actuary.

**Investment Mandates**

The Trustees have selected Newton Investment Management Limited ('Newton'), Schroder Investment Management Limited ('Schroder'), Payden & Rygel Investment Management ('Payden & Rygel'), CQS Investment Management Limited ('CQS') and Legal & General Investment Management Limited ('LGIM') as the appointed investment managers (the "Investment Managers") to manage the assets of the Plan. The Investment Managers are themselves regulated under the Financial Services and Markets Act 2000.

The Trustees have rolling contracts with their investment managers.

The Trustees monitor the performance of their investment managers on a quarterly basis. This monitoring is contained in a report provided by their advisors.

The Trustees have set performance objectives, including time periods, consistent with the investment strategy set out in this statement.

**Investment Manager Remuneration**

The Trustees monitor the remuneration, including incentives, that are paid to their investment managers and how they reward their key staff who manage client funds, along with how the pay and incentives motivate employees who manage client funds.

As part of the monitoring that the Trustees carry out on a regular basis, they ensure that this policy is in line with their investment strategy.

**Investment Manager Philosophy and Engagement**

The Trustees monitor the investment managers' process for assessing the businesses they invest in, and whether business performance over the medium to long-term involves a holistic look beyond purely accountancy measures. The Trustees consider if the fund manager is incentivised to make decisions on a short-term basis or on a medium to long-term basis and whether this coincides with the business assessments. The Trustees are conscious of whether the investment manager is incentivised by the agreement with the Trustees to engage with the investee business and to what extent any engagement focuses on improving medium to long-term performance.

**Investment Manager Portfolio Costs**

The Trustees will monitor costs of buying, selling, lending and borrowing investments and they will look to monitor the costs breakdown annually, with the investment managers expected to provide these costs using the Cost Transparency Initiative template. They will also ensure that, where appropriate, their investment managers monitor the frequency of transactions and portfolio turnover. If there are any targets then they will monitor compliance with these targets.

**Environmental, Social and Governance ("ESG") Considerations**

The Trustees believe that their main duty, reflected in their investment objectives, is to protect the financial interests of the Plan's members. The Trustees believe that ESG considerations (including but not limited to climate change) and stewardship in the selection, retention and realisation of their investments is an integral part of this duty and can contribute to the generation of good investment returns. Legislation requires that the Trustees form a view of the length of time that they consider is needed for the funding of future benefits by the investments of the Plan. The Trustees recognise that this is a DB scheme closed to new entrants with an ageing membership. Nevertheless, the Trustees believe that an appropriate time horizon for the Plan could still be over 15 years, which gives plenty of scope for ESG considerations to be financially material.

The Trustees have elected to invest predominantly in pooled funds and it is difficult to, therefore, directly influence the ESG policies, including the day-to-day application of voting rights, of the funds in which they invest (especially where assets are managed passively). However, the Trustees will consider the manager policies in all future selections and will deepen their understanding of their existing manager policies by reviewing these at least annually. The Trustees will also seek to understand what other options might be available at their managers and in the wider market. In cases where they are dissatisfied with a managers' approach they will take this into account when reviewing them. They are also keen that all their managers are signatories of the UN Principles of Responsible Investment, which is currently the case apart from CQS.

The Trustees believe that stewardship is important, through the exercising of rights (including voting rights) attaching to investments. The Trustees are keen that their managers can explain when, and by what practical methods, the managers monitor and engage with relevant persons about relevant matters in this area. They will be liaising with their managers (including their passive managers) to obtain details of the voting behaviour (including the most significant votes cast on the Trustees' behalf). The Trustees are also keen that their managers are signatories of the UK Stewardship Code. This is currently the case.

The Trustees are aware that ESG and stewardship considerations involve an ongoing process of education for themselves and engagement with their investment managers. To that end they dedicate time regularly to the discussion of this topic and intend to review and renew their approach periodically with the help of their investment consultants, where required. Consequently, the Trustees expect the Plan's Investment Managers to have effective ESG policies (including the application of voting rights) in place, and look to discuss the investment managers' ESG policies with them when the managers attend Trustee meetings.

The Trustees will monitor the voting being carried out by investment managers and custodians on their behalf. They will do this by receiving reports from their investment managers which should include details of any significant votes cast and proxy services that have been used.

Non-financial matters, including members' views are not taken into account.

**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 Schemes (Investment) Regulations 2005.

**Fee Structures**

The Investment Managers are paid a management fee on the basis of the assets under management. No additional performance fees are payable.

The investment consultant is paid on a time-cost or fixed fee basis, as agreed between the Trustees and the Capita.

**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 to this Statement will only be made after having obtained and considered the written advice of someone whom the Trustees reasonably believe 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.

Colin Richardson

Date: 25 SEPTEMBER 2020

**Signed on behalf of the Trustees of the Benenden Healthcare Pension Plan**

## Appendix – Summary of Investment Mandates

The Trustees have selected the Investment Managers to manage the assets of the Plan.  and they are regulated under the Financial Services and Markets Act 2000. The Investment Managers' mandates are set out below:

| Asset Class | Investment Manager | Fund Name | Management Style | Strategic Asset Allocation (%) | Control Limits (+/- %) |
|---|---|---|---|---|---|
| Diversified Growth | Newton | Real Return Fund | Active | 27.6 | |
| | Schroder | Intermediated Diversified Growth Fund | Active | | |
| Property | Schroder | UK Real Estate Fund | Active | 2.6 | |
| Global Equities | LGIM | World Equity Index Fund | Passive | 20.0 | |
| Multi Asset Credit | CQS | Multi Asset Credit Fund | Active | 17.5 | |
| Absolute Return Bonds | Payden & Rygel | Absolute Return Bond Fund | Active | 10.0 | |
| **Growth Assets** | | | | **77.7** | **5.0** |
| Dynamic LDI | LGIM | Matching Core Long Real Fund | Mechanistic | 16.6* | |
| | | Matching Core Short Real Fund | | 5.7* | |
| **Matching Assets** | | | | **22.3** | **5.0** |
| **Total** | | | | **100.0** | |

The diversified growth funds are expected to be broadly equally split between the investment managers chosen to help diversify the active manager risk.

* Split of LDI funds chosen to broadly match the duration and inflation properties of the liabilities.