Statement of Investment Principles

Provident Financial Staff Pension Scheme

Introduction

This Statement of Investment Principles (SIP) has been prepared by the Trustees of the Provident Financial Staff Pension Scheme ("the Scheme") to comply with the requirements of the Pensions Act 1995, as amended, and the Occupational Pension Schemes (Investment) Regulations 2005. This SIP is effective from 19 September 2023.

Strategy

Investment Objectives

The Trustees' strategic objectives are:

- To target over the long term a return on the investments which aims to improve the funding level of the Scheme so that it is sufficiently well funded by 2035 that the Scheme can be run with minimal investment, mortality and other risks.
- To seek to preserve the security of member's benefits having regard to the risks associated with the target levels of return.

Allocation of Assets

The Trustees have divided the assets of the Scheme notionally into two portfolios:

The **Risk Reducing Portfolio** is designed to invest mainly in assets where the investment cashflows can be expected to match the pensions paid to pensioners. The Risk Reducing Portfolio is mainly invested in index-linked and conventional bonds and liability driven investments (LDI) to help manage interest rate and inflation risks.

The **Return Seeking Portfolio** is invested with a longer-term horizon to generate the returns to provide the remaining expected cashflows for the beneficiaries. This Portfolio is invested in equities, diversified credit and short dated credit strategies.

The current planned asset allocation strategy chosen to meet the Trustees' strategic objectives is to invest in the following asset classes in the following weights and ranges:

Asset Class	Weight (%)	Range (%)
Risk Reducing Portfolio		
Liability Driven Investment	50.0	40.0 - 60.0
Global Credit	20.0	10.0 - 30.0
Return Seeking Portfolio		
Diversified Credit	10.0	0.0 - 20.0
Short Dated Credit	10.0	5.0 - 15.0
Global Equities	10.0	5.0 - 15.0
Total	**100.0**	

The Trustees have agreed that reasonable deviations around the strategic allocations from time to time are acceptable.

The target asset allocation above is used as a guideline only and the Trustees retain discretion to rebalance back to the above split. The actual asset allocation is regularly monitored by the Trustees and where the actual allocation is materially different to the above target allocation the Trustees will take advice from its advisers before deciding whether any action is required or if the deviation from the above target is acceptable.

Liability Driven Investment (LDI)

In early 2021, the Scheme's risk reducing portfolio was restructured and transferred into a bespoke Qualifier Investor Alternative Investment Fund (QIAIF). The underlying LDI and global credit portfolios are managed by LGIM within a single fund tailored to and for the Scheme's requirements.

The LDI strategy utilises leverage to hedge a proportion of the Scheme's exposure to changes in interest rate and inflation risk, broadly equivalent to 100% of the funded liabilities.

Diversification

In order to avoid an undue concentration of risk a spread of assets is held. The diversification is both within and across asset classes.

Risks

The Scheme is exposed to a number of different investment risks. These include risks relating to:

- Funding – insufficient assets to cover 100% of the accrued liabilities
- Mismatching – a difference in the sensitivity of asset and liability values to financial and demographic factors
- Cash flows– a shortfall of liquid assets to pay benefits
- Investment manager – a failure to meet target returns
- Diversification – inadequate spread of investments
- Covenant – the possibility of failure of the Scheme’s sponsor
- Operations risk – fraud, poor advice or negligence.

The Trustees reduce these risks by careful structuring of their funding and investment management arrangements and by the written contracts with the fund managers. They also closely monitor these risks and receive formal quarterly reports on funding, cash flows, the investment managers' activities and diversification.

Mismatching is formally reviewed as part of the triennial actuarial valuation process but is frequently monitored as part of the Journey Plan. Operational risk is reduced as far as possible by due diligence on the appointment and review of the investment managers and advisers, and by contracts of engagement.

Implementation

The fund manager structure and investment objectives for each mandate are as follows:

Portfolio	Asset Class	Manager	Objective
Risk Reducing Portfolio	Liability Driven Investment	Legal & General Investment Management (LGIM)	To broadly match changes in the value of a proportion of the Scheme's liabilities due to movements in interest rates and expected inflation, whilst seeking additional returns in excess of gilts
	Global Credit 'Buy & Maintain' Strategy		
Return Seeking portfolio	Global Equities	Legal and General Investment Management (LGIM)	To track the performance of the SciBeta Developed Low-Carbon & ESG High-Factor-Intensity Multi-Beta (vol, val, mom, pro/inv) Maximum Deconcentration Index - GBP Hedged, within appropriate tolerance levels
		Aon Investments Limited	To achieve long-term total returns (net of fees) in excess of the MSCI World 100% Hedged to GBP Index (NTR)
	Short Dated Credit Strategy	Robeco Institutional Asset Management	To achieve 0.5% - 0.7% outperformance (gross of fees) over the Bloomberg Barclays Global Aggregate Corporate 1-5 years index over a full market cycle
		Insight Investment Management	To achieve an absolute return over a full market cycle consistent with the iBoxx Corporates & Collateralized 0-5 years index
	Diversified Credit Strategy	PIMCO Global Advisors (Ireland) Limited (PIMCO)	To seek an attractive, sustainable income stream with the secondary objective of long-term capital appreciation

Choosing Investments

The asset allocation strategy was determined with regard to the liability profile of the Scheme, the funding level of the Scheme and the Trustees' objectives. When choosing the Scheme's asset allocation strategy, the Trustees considered advice from their investment adviser.

The Trustees have delegated the day-to-day decisions about the investments that fall within each mandate, including the realisation of investments and considerations relating to the liquidity of those investments, to a range of carefully selected and monitored investment managers through written contracts.

When choosing investments, the Trustees and the investment managers (to the extent delegated) are required to have regard to the factors set out in the Occupational Pension Schemes (Investment) Regulations 2005 (regulation 4).

General

Additional Voluntary Contributions (AVCs)

AVCs are invested in assurance policies with Aviva, Utmost and Scottish Equitable, depending on the choices made by contributors.

Direct Investments

Assets directly held by the Trustees, such as policies of assurance, will be regularly reviewed to ensure that they continue to be appropriate, and written advice will be obtained from the Trustees' investment adviser.

Responsible Investment

In setting the Scheme's investment strategy, the Trustees' primary concern is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. This includes the risk that environmental, social and governance (ESG) factors including climate change negatively impact the value of investments held if not understood and evaluated properly. The Trustees consider this risk by taking advice from their investment adviser when setting the Scheme's asset allocation, when selecting managers and when monitoring their performance.

Arrangements with Investment Managers

The Trustees regularly (typically quarterly) monitor the Scheme's investments to consider the extent to which the investment strategy and decisions of its investment managers (and underlying investment managers where appropriate) are aligned with the Trustees' policies, including those on non-financial matters. This includes monitoring the extent to which:

- The investment managers (or underlying investment managers where appropriate) make decisions based on assessments about medium- to long-term financial and non-financial performance of an issuer of debt or equity; and
- The investment managers (or underlying investment managers where appropriate) engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

The Trustees are supported in this monitoring activity by their investment adviser.

The Trustees receive regular (typically quarterly) reports and verbal updates from their investment adviser on various items, including on the investment strategy, performance, and longer-term positioning of the portfolio. The Trustees focus on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Scheme's objectives and assesses its investment managers over three-year periods depending on the nature of the mandate in question.

Where relevant, the Trustees receive annual stewardship reports on the monitoring and engagement activities carried out by the Scheme's investment managers which supports the Trustees in determining the extent to which the Scheme's engagement policy, as set out in this SIP, has been followed throughout the year.

Before appointing a new investment manager, the Trustees review the governing documentation associated with the investment and consider the extent to which it aligns with their policies. Where possible, the Trustees will seek to amend that documentation so that there is more alignment. Where it is not possible to make changes to the governing documentation, the Trustees express their expectations to the investment managers by other means (such as through a side letter, in writing, or verbally at Trustee meetings). Furthermore, the Trustees share their policies with the Scheme's investment managers, and requests that they review and confirm whether their approach is in alignment with their policies.

The Trustees believe that having appropriate governing documentation, setting clear expectations to the investment managers by other means (where necessary), and regular monitoring of its investment managers’ performance and investment strategy, is sufficient to incentivise the investment managers to make decisions that align with the Trustees' policies and are based on assessments of medium- and long-term financial and non-financial performance.

Where an investment manager is considered to make decisions that are not in line with the Trustees' policies, expectations, or the other considerations set out above, the Trustees will typically engage with the manager to understand the circumstances and materiality of the decisions made. However, should a satisfactory position not be reached, the Trustees may ultimately replace the manager in question.

There is no set duration for arrangements with investment managers, although the continued appointment for all investment managers is reviewed periodically, and at least every three years. For certain closed ended vehicles, the duration may be defined by the nature of the underlying investments.

Stewardship – Voting and Engagement

The Trustees recognise that effective stewardship of the Scheme's assets is an important component of their fiduciary duty to the members and beneficiaries of the Scheme. More broadly, the Trustees have adopted an ESG integration approach within their investment decision making processes, whereby the Trustees seek to incorporate all financially material environmental, social and governance risks into investment decisions.

The Trustees have ultimate responsibility for the Scheme's investment strategy and have delegated day-to-day management of the Scheme's investments to appointed investment managers. The Trustees delegate all stewardship activities, including voting and engagement, to their appointed investment managers. The Trustees accept responsibility for how the investment managers steward assets on their behalf, including the casting of votes in line with each manager's individual voting policies.

The Trustees monitor their investment managers to ensure that their activities – including on stewardship and responsible investment more broadly – are aligned with the Trustees' requirements and policies as set out in this SIP. The Trustees carefully review their investment managers' approaches to stewardship and other ESG-related matters and communicate their expectations and standards to their investment managers. These standards include an expectation that the Scheme's investment managers and, where relevant, underlying investment managers:

- Use their influence as major institutional investors to exercise the Scheme's rights and duties as a shareholder, including exercising voting rights.
- Engage with underlying investee companies and assets to promote good corporate governance, accountability, and positive change.
- Consider collaboration with others, as permitted by relevant legal and regulatory codes, where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed.
- Provide adequate transparency to the Trustees around their stewardship activities.

Where voting is concerned, the Trustees expect their investment managers to recall stock lending, as necessary, in order to carry out voting actions.

The Trustees review their investment managers' stewardship activities on an annual basis and include a summary of their review in the annual report and accounts. As part of this review, the Trustees expect their investment managers to provide:

- A summary of the investment managers' voting activities over the year, setting out in particular how the manager voted (for/against) and the rationale, where votes were cast against management; votes against management were significant; votes were abstained or voting differed from the voting policy of the investment manager.
- A summary of the investment managers' engagement activities over the year, including the objectives of the engagement and relevance to the fund, the methods of engagement, progress and perspectives around shortcomings and outcomes and procedures for managing unsuccessful engagements.

The Trustees will engage with their investment managers as necessary for more information to ensure that robust active ownership behaviours, reflective of the Trustees' active ownership policies, are being actioned. The Trustees are supported in this by their investment adviser. Prospective managers are also required to provide information on their voting and engagement policies and activities in advance of their appointment.

Should the Trustees' monitoring process reveal that a manager's voting and engagement policies and actions are not aligned with the Trustees' expectations, the Trustees will engage with the manager, via different medium such as emails and meetings, to discuss how alignment may be improved. If, following engagement with the manager, it is the view of the Trustees that the degree of alignment remains unsatisfactory, the arrangements with the manager may be altered or their appointment terminated.

The Trustees will consider the methods by which, and the circumstances under which, they would monitor and engage with an issuer of debt or equity, an asset manager or another holder of debt or equity, and other stakeholders. The Trustees may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.

Members' Views and Non-Financial Factors

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").

Costs and Performance

The Trustees assess the performance of their asset managers on a net of all costs basis and recognise that this provides an incentive on the manager to control costs. However, they also believe that explicit, regular monitoring of the level and the trends of costs incurred will enhance those incentives.

The Trustees collect annual cost transparency reports covering all of the Scheme's investments and ask that the Scheme's investment managers provide this data in line with relevant industry standard templates for each asset class. This allows the Trustees to understand exactly what fees are being paid to the Scheme's investment managers.

The Trustees will only appoint investment managers who offer full cost transparency via industry templates to manage assets of the Scheme. This will be reviewed before the appointment of any new managers and includes the existing managers held by the Scheme.

Targeted portfolio turnover is defined as the expected frequency with which each investment manager's fund holdings change over a year. The Scheme's investment adviser monitors this on behalf of the Trustees as part of the manager monitoring they provide to the Trustees and flags to the Trustees where there are concerns.

The Trustees accept that transaction costs will be incurred to drive investment returns and that the level of these costs varies across asset classes and by manager style within an asset class. In both cases, a high level of transaction costs is acceptable as long as it is consistent with the asset class characteristics and manager's style and historic trends. Where the Trustees' monitoring identifies a lack of consistency, the mandate will be reviewed.

The Trustees assess the performance of the Scheme's investment managers on a quarterly basis and the remuneration of their investment managers on at least an annual basis through the cost data that they collect.

The Trustees review how their investment managers are remunerated on a case by case basis, dependent on the asset class and remuneration options presented by the asset manager. The Trustees intend to review their existing managers as well as any future appointments.

Custody & Accounting

The Scheme does not employ a custodian since the Trustees do not have direct control over the underlying assets.

Investment Advisor

Aon Investments Limited has been appointed as investment adviser to the Trustees. It has the knowledge and experience required under the Pensions Act 1995.

Review of SIP

This SIP will be reviewed at least every three years or immediately following a change of investment policy. Written advice on any changes will be taken from the Trustees' investment adviser, and the Sponsoring Employer will also be consulted.