Thatcham Staff Pension and Life Assurance Scheme

Statement of Investment Principles

July 2020

1 Introduction

1.1 This is the Statement of Investment Principles prepared by the Trustee of the Thatcham Staff Pension and Life Assurance Scheme (the Scheme). This statement sets down the principles governing decisions about investments for the Scheme to meet the requirements of:

- the Pensions Act 1995, as amended by the Pensions Act 2004;
- the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010;
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018; and
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

1.2 In preparing this statement the Trustee has consulted with Thatcham Research, the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustee's investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.

1.3 The Scheme is a final salary (defined benefit) scheme.

1.4 This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.

1.5 The Trustee will review this statement at least every three years or if there is a significant change in the policy on any of the areas covered by the statement.

1.6 The investment powers of the Trustee are set out in the Definitive Trust Deed & Rules, dated 22 May 2006. This statement is consistent with those powers.

2 Choosing Investments

2.1 The Trustee's policy is to set the overall investment target and then monitor the performance of its managers against that target. In doing so, the Trustee considers the advice of its professional advisers, who they consider to be suitably qualified and experienced for this role.

2.2 The day-to-day management of the Scheme's assets is delegated to one or more investment managers. The Scheme's investment managers are detailed in the Appendix to this Statement. The investment managers are authorised by either the Financial Conduct Authority or the Prudential Regulation Authority and regulated by the Financial Conduct Authority. The investment managers are responsible for stock selection and the exercise of voting rights.

2.3 The Trustee reviews the appropriateness of the Scheme's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the investment managers with respect to performance within any guidelines set. The Trustee will also consult the Employer before amending the investment strategy.

3 Investment Objectives

3.1 The Trustee's main investment objectives are:

- to ensure that they can meet the members' entitlements under the Trust Deed and Rules as they fall due;
- to reduce the risk of the assets failing to meet the liabilities over the long term;
- to minimise the long-term costs of the Scheme by maximising the return on the assets whilst having regard to the above objectives.

3.2 The Trustee is aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Scheme's liabilities at any time. The Trustee has obtained exposure to investments that they expect will meet the Scheme's objectives as best as possible.

4 Kinds of investments to be held

4.1 The Scheme can invest in a wide range of asset classes including:

- Equities;
- Bonds;
- Cash;
- Target Return Funds;
- Property;
- Alternatives, including private equity, commodities, hedge funds, infrastructure, currency, high yield debt and derivatives;
- Annuity policies.

4.2 The Trustee monitors from time-to-time the employer-related investment content of their portfolio as a whole and will take steps to alter this should they discover this to be more than 5% of the portfolio. Typically this check is carried out annually by the Scheme's auditors.

5 The balance between different kinds of investments

5.1 The Scheme invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained within the Appendix to this Statement.

5.2 The Trustee considers the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Appendix to this Statement.

5.3 From time to time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate for any short term cashflows requirements or any other unexpected items.

5.4 The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and therefore the Scheme's asset allocation will be expected to change as the Scheme's liability profile matures.

6 Risks

6.1 The Trustee has considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities, and considered ways of managing/monitoring these risks:

6.2 **Risk versus the liabilities** The Trustee will monitor and review the investment strategy with respect to the liabilities following each actuarial valuation. The investment strategy will be set with consideration of the appropriate level of risk required for the funding strategy as set out in the Scheme's Statement of Funding Principles.

6.3 **Asset Allocation risk** The asset allocation is detailed in the Appendix to this Statement and is monitored on a regular basis by the Trustee.

6.4 **Investment manager risk** The Trustee monitors each of the Scheme's investment managers' performance on a regular basis in addition to having meetings with each manager from time to time as necessary, usually on an annual basis. The Trustee has a written agreement with each fund manager, which contains a number of restrictions on how each fund manager may operate.

6.5 **Concentration risk** Each fund manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.

6.6 **Loss of investment** The risk of loss of investment by each fund manager and custodian is assessed by the Trustee. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud). Where relevant, each fund manager monitors counterparty credit risk and evaluates counterparty credit quality on a regular basis.

6.7 **Liquidity risk** The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Scheme's cash flow requirements. The Scheme's administrators assess the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.

6.8 **Covenant risk** The creditworthiness of the employer and the size of the pension liability relative to the employer's earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the employer covenant.

6.9 **Solvency and mismatching** Risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustee is aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Scheme's funding basis.

6.10 **Currency risk** The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management.

6.11 **Governance risk** Each asset manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustee monitors this and will report on the managers' practices in their annual Implementation Statement.

6.12 **Environmental, Social and Governance ("ESG") Factors, including climate risk** The Trustee has considered long-term financial risks to the Scheme and ESG factors as well as climate risk are financially material and will continue to develop its policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments in order to avoid unexpected losses.

7 Expected return on investments

7.1 The Trustee has regard to the relative investment return and risk that each asset class is expected to provide. The Trustee is advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the investment managers.

7.2 The Trustee recognises the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

7.3 In considering the expected return from investments, the Trustee recognises that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.

7.4 Having established the investment strategy, the Trustee monitors the performance of each fund manager against an agreed benchmark as frequently as appropriate according to market conditions and the Scheme's funding position. The Trustee meets the Scheme's investment managers as frequently as is appropriate in order to review performance.

8 Realisation of investments

8.1 The Trustee has delegated the responsibility for buying and selling investments to the investment managers. The Trustee has considered the risk of liquidity as referred to above.

8.2 Ultimately, the investments will all have to be sold when the Scheme's life comes to an end. In this situation, the Trustee is aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Scheme accounts.

9 Environmental, Social and Governance factors, Corporate Governance and Voting Rights

9.1 The Trustee has set out their policies in relation to these matters in Appendix 2.

10 Agreement

10.1 This statement was agreed by the Trustee, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the Employer, the investment managers, the Scheme Actuary and the Scheme Auditor upon request.

Signed:……… …………………………………………. **Date:** …10/8/2020………………

Name:...Clare James..

On behalf of the Trustee of the Thatcham Staff Pension and Life Assurance Scheme

Appendix 1 Note on investment policy of the Scheme as at January 2019 in relation to the current Statement of Investment Principles

Choosing investments

The Trustee has appointed the following investment managers to carry out the day-to-day investment of the assets:

- Baillie Gifford & Co Limited; and
- Legal & General Assurance (Pensions Management).

The Trustee has appointed Barnett Waddingham LLP to advise on investment matters in addition to advice received from the investment managers on suitability of investments.

The Trustee has a contract with The Prudential Assurance Company limited for the receipt of members' Additional Voluntary Contributions. The arrangement is reviewed from time to time. AVCs are invested separately from the other assets of the Scheme on a money purchase basis. Members are able to select their own choice of funds from within the range offered by Prudential.

The investment managers and AVC providers are authorised by either the Financial Conduct Authority or the Prudential Regulation Authority and regulated by the Financial Conduct Authority.

Asset allocation

The Defined Benefit section of the Scheme has a strategic asset allocation as set out below. The Trustee recognises that the asset allocation of investments in different asset classes will vary over time as a result of market movements. The Trustee seeks to maintain a balance between maintaining the asset allocation in line with its benchmark and limiting the costs of rebalancing. The Scheme has no automatic rebalancing procedures in place, but monitors the asset allocation at least annually.

The Trustee broadly divides the Scheme's Defined Benefit assets into two parts. A "Protection Portfolio" containing assets which are held because they offer a degree of protection against fluctuations in the value of the Scheme's liabilities and a "Growth Portfolio" containing assets which are designed to deliver higher returns over the long term. The current strategic allocation is 75% towards the Growth Portfolio and 25% towards the Protection Portfolio. The strategic allocation for the Growth Portfolio is currently structured as follows:

Investment Fund	Manager	% of growth portfolio	% of total Scheme assets
Diversified Fund	Legal & General Assurance (Pensions Management)	53%	40%
Multi Asset Growth Fund	Baillie Gifford	47%	35%

The Trustee's strategic allocation to the Protection portfolio comprises Liability Driven Investment (LDI) funds. The LDI funds are held specifically as assets which have a similar sensitivity to interest rates and inflation as the Scheme's liabilities. The objective of investing in LDI funds is to reduce the volatility of the overall funding position of the Defined Benefit Section of the Scheme.

The balance between "Growth" and "Protection" portfolios is considered in light of the Scheme's funding strategy, details of which are set out in the Scheme's Statement of Funding Principles. Broadly speaking, "Growth" assets are held to back liabilities in respect of non-pensioners and a mix of "Growth" assets and "Protection" assets is held to back liabilities in respect of the remaining pensioners.

The actual allocation may be altered, for example, in order to reduce the level of investment risk.

The asset allocation has been agreed after considering the Scheme's liability profile, funding position, expected return of the various asset classes and the need for diversification.

All AVC assets are invested into the Prudential With Profits Fund.

Investment of new money

New money is normally invested to rebalance the overall asset allocation towards its overall benchmark, but the Trustee may exercise its discretion to invest in one or more of the other Funds.

Realisation of investments

The Scheme's cash flow requirements are expected to be largely met by Employer contributions, however where this is insufficient the Trustee may disinvest some of the Scheme's investments, usually to move the overall asset allocation back towards the benchmark allocation, but the Trustee may exercise its discretion to disinvest from one or more of the other Funds.

Fee arrangements

The fee arrangements with the investment managers are summarised below:

Fund manager	Fees
Baillie Gifford	
Multi Asset Growth Fund	0.50% Annual Management Fee
Legal & General*	
Matching Core Funds	0.24% Annual Management Fee
Diversified Fund	0.30% Annual Management Fee
AVC provider	
Prudential	
With Profits Fund	1.25% Annual Management Fee

*An annual fixed fee of £1,500 applies to the Legal & General holdings. This will be reduced to £1,000 p.a. if the value of the Scheme's holdings with Legal & General exceeds £10m.

As well as the annual management charges given above, additional fund expenses will apply (for example, covering legal, accounting and auditing fees for each fund). The additional fund expenses will vary from quarter to quarter but are expected to be in the region of 0.10% for the Baillie Gifford Multi Asset Growth Fund and a maximum of 0.05% for the Legal & General LDI Funds. There may be additional charges in respect of the Legal & General Diversified Fund's holdings in their commodities and property funds. Barnett Waddingham LLP is remunerated on a time cost basis.

Kinds of investments to be held

The Trustee has considered all asset classes and has gained exposure to the following asset classes:

- Target Return Funds; and
- Leveraged LDI Funds.

Target Return funds mean the Baillie Gifford Multi Asset Growth Fund and the Legal & General Diversified Fund. These funds may invest in a wide range of asset classes, including equities, bonds, alternative assets and derivatives. The target returns are expressed in terms of outperformance relative to short terms interest rates (LIBOR or Bank of England Base Rate) as set out in the table on the next page.

Leveraged LDI Funds means the Legal & General Matching Core Funds. These funds invest in swap and gilt repurchase agreements to achieve a return that performs similarly to the Scheme's liabilities. The LDI Funds employ leverage so that the level of exposure to changes in interest rates and inflation is greater than the value of the actual investment made. This allows a higher proportion of liabilities to be matched.

Investment benchmarks and objectives

The investment benchmarks and objectives for each investment manager are given below:

Fund manager	Benchmark	Objective
Baillie Gifford		
Multi Asset Growth Fund	Bank of England Base Rate	+3.5% p.a. net of fees
Legal & General		
Matching Core Funds	n/a	To provide nominal and real returns reflecting a typical liability profile
Diversified Fund*	50% FTSE All World Developed Index 50% FTSE All World Developed (GBP hedged) Index	To provide long term growth through exposure to a diversified range of asset classes.
AVC provider		
Prudential		
With Profits Fund	No formal benchmark	Deliver long term smoothed returns to members

*In addition to the official benchmark for the Diversified Fund, a comparator of 1 Month Sterling LIBOR +4% p.a. gross of fees will also be considered.

The performance of investment managers will be monitored as frequently as the Trustee considers appropriate in light of the prevailing circumstances. The monitoring takes into account both short term and long term performance.

Appendix 2 Environmental, Social and Governance factors, Corporate Governance and Voting Rights

Financial Materiality

The Trustee considers that factors such as environmental, social and governance (ESG) issues (including but not limited to climate change) will be financially material for the Scheme over the length of time before the Scheme can be bought out with an insurer or wound up. This is likely to be not less than five years from the date of this Statement of Investment Principles.

Trustee's Policy

The Trustee's policy on these matters, including engagement and the exercise of voting rights is set out below.

The Trustee has not considered it appropriate to take into account individual members' views when establishing the policy on ESG issues, engagement and voting rights.

The Trustee has elected to invest the Scheme's assets through pooled funds. The choice of underlying funds is made by the Trustee after taking advice from their investment consultant. The Trustee and the managers of the underlying funds take into account ESG factors (including climate change risks) in their decisions in relation to the selection, retention and realisation of investments.

The Trustee takes those factors into account in the selection, retention and realisation of investments as follows:

- The Trustee will assess the investment managers' ESG integration credentials and capabilities, and their approach to stewardship and voting rights, as a routine part of requests for information/proposals as well as through other regular reporting channels. When selecting new investments, an investment manager's excellence in relation to these considerations will not take precedence over other factors, including (but not limited to) historical performance or fees.

- The Trustee will monitor ESG considerations on an ongoing basis by regularly seeking information on the responsible investing policies and practices of the investment managers.

- The Trustee will also take those factors into account as part of its investment process to determine a strategic asset allocation and consider them as part of ongoing reviews of the Scheme's investments.

The Trustee will continue to monitor and assess ESG factors, and risks and opportunities arising from them, as follows:

- as part of ongoing monitoring of the Scheme's investment managers, the Trustee may use any ESG ratings information available within the pensions industry or provided by its investment consultant, to assess how the Scheme's investment managers take account of ESG issues; and
- the Trustee will request that all of the Scheme's investment managers provide information about their ESG policies, and details of how they integrate ESG into their investment processes on an annual basis.

Non-financially material considerations

The Trustee has not included any non-financial matters (such as ethical views) as constraints when setting investment strategy and/or when selecting or reviewing fund managers. The Trustee has not considered it appropriate to take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future qualify of life of the members and beneficiaries of the Scheme (referred to as "non-financial matters" in the relevant Regulations) in the selection, retention and realisation of investments. The Trustee will review the policy on whether to take account of non-financial matters periodically.

Voting Rights and Engagement

The Trustee believes that good stewardship and positive engagement can lead to improved governance and better risk-adjusted investor returns.

The Trustee's policy on the exercise of rights attaching to investments, including voting rights, and in undertaking engagement activities in respect of the investments, is that these rights should be exercised by the investment managers on the Trustee's behalf. In doing so, the Trustee expects that the investment managers will use their influence as major institutional investors to exercise the Trustee's rights and duties as shareholders, including where appropriate engaging with underlying investee companies to promote good corporate governance, accountability and to understand how those companies take account of ESG issues in their businesses.

The Trustee will monitor and engage with the investment managers about relevant matters (including matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance),.

Investment managers will be asked to provide details of their stewardship policy and engagement activities on at least an annual basis. The Trustee will monitor and review the information provided by the investment managers. Where possible and appropriate, the Trustee will engage with their investment managers for more information and ask them to confirm that their policies comply with the principles set out in the Financial Reporting Council's UK Stewardship Code.

The Trustee acknowledges the importance of ESG and climate risk within their investment framework. When delegating investment decision making to their investment managers they agree with their investment managers a return benchmark they expect the investment managers to either follow or outperform. The investment manager has discretion over where in an investee company's capital structure it invests (subject to the restrictions of the mandate), whether directly or as an asset within a pooled fund.

The Trustee is of the belief that ESG and climate risk considerations extend over the entirety of a company's corporate structure and activities, i.e. that they apply to equity, credit and property instruments or holdings. The Trustee also recognises that ESG and climate related issues are constantly evolving and along with them so too are the products available within the investment management industry to help manage these risks.

The Trustee considers it a part of their investment managers' roles to assess and monitor developments in the capital structure for each of the companies in which the managers invest on behalf of the Scheme or as part of the pooled fund in which the Scheme holds units.

The Trustee also considers it part of their investment managers' roles to assess and monitor how the companies in which they are investing are managing developments in ESG related issues, and in particular climate risk, across the relevant parts of the capital structure for each of the companies in which the managers invest on behalf of the Scheme.

Should an investment manager be failing in these respects, this should be captured in the Scheme's regular performance monitoring.

Through their consultation with the Principal Employer when setting this Statement of Investment Principles, the Trustee has made the Principal Employer aware of their policy on ESG and climate related risks, how they intend to manage them and the importance that the pensions industry as a whole, and its regulators, place on them.

Conflicts of Interest

The Scheme's investment consultant is independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes the Trustee confident that the investment manager recommendations they make are free from conflict of interest.

The Trustee expects all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so, the Trustee believes they have managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustee/investment manager and the investee companies.

Policy on arrangements with asset managers

Incentivising alignment with the Trustee's investment polices

Prior to appointing an investment manager, the Trustee considers the investment manager's approach to the management of ESG and climate related risks and how their policies are aligned with the Trustee's own investment beliefs.

When appointing an investment manager, in addition to considering the investment manager's investment philosophy, process and policies to establish how the manager intends to make the required investment returns, the Trustee also considers how ESG and climate risk are integrated into these. If the Trustee deems any aspect of these policies to be out of line with their own investment objectives for the part of the portfolio being considered, they will consider using another manager for the mandate.

The Trustee assesses the continuing relevance of the strategy in the context of the Scheme's membership and their aims, beliefs and constraints as part of the annual monitoring provided by their investment advisor. The Trustee also monitors the investment managers' approach to ESG and climate related risks on an annual basis.

In the event that an investment manager ceases to meet the Trustee's desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment will be terminated.

Investment manager ESG policies are reviewed in the context of best industry practice and feedback will be provided to the investment manager.

Incentivising assessments based on medium to long term, financial and non-financial considerations

The Trustee is mindful that the impact of ESG and climate change may be long-term in nature. However, the Trustee recognises that the potential for change in value as a result of ESG and climate risk may occur over a much shorter term than climate change itself. The Trustee acknowledges this in their investment management arrangements.

When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustee assesses these over a rolling timeframe. The Trustee believes the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon. Where a fund may have an absolute return or shorter term target, this is generally supplementary to a longer term performance target. In the case of assets that are actively managed, the Trustee expects this longer term performance target to be sufficient to ensure an appropriate alignment of interests.

The Trustee expects investment managers to be voting and engaging on behalf of the Scheme's holdings and the Scheme monitors this activity within the Implementation Statement in the Scheme's Annual Report and Accounts. The Trustee does not expect ESG considerations to be disregarded by the investment managers in an effort to achieve any short term targets.

Method and time horizon for assessing performance

The Trustee monitors the performance of their investment managers over medium to long term periods that are consistent with the Trustee's investment aims, beliefs and constraints.

The Scheme invests exclusively in pooled funds. The investment managers are remunerated by the Trustee based on the assets they manage on behalf of the Trustee. As the funds grow, due to successful investment by the investment manager, they receive more and as values fall they receive less. Details of the fee structures for the Scheme's investment managers are contained in the Fee arrangements section in Appendix 1.

The Trustee believes that this fee structure enables the investment manager to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.

The Trustee asks the Scheme's investment consultant to assess if the asset management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered regularly as part of the review of the Statement of Investment Principles.

Portfolio turnover costs

The Trustee acknowledges that portfolio turnover costs can impact on the performance of their investments.

During the investment manager appointment process, the Trustee may consider both past and anticipated portfolio turnover levels. When underperformance is identified, deviations from the expected level of turnover may be investigated with the investment manager concerned if it is felt they may have been a significant contributor to the underperformance. Assessments reflect the market conditions and peer group practices.

The Trustee acknowledges that for some asset classes, such as LDI, a higher turnover of contracts such as repurchase agreements, can be beneficial to the fund from both a risk and cost perspective.

Duration of arrangement with asset manager

The durations of the arrangements with the investment managers are open-ended rather than being subject to a fixed duration contract. Baillie Gifford were appointed in January 2019. Legal & General were appointed in July 2017.

The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustee's investment beliefs is assessed every three years, or when changes deem it appropriate to do so more frequently. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.