

# BIG THINKING FOR SMALL SCHEMES

## Statement of Investment Principles

EBC Pension Scheme

September 2019



# 1. Introduction

Under the Pensions Act 1995, as amended by the Pensions Act 2004, trustees are required to prepare and review regularly a Statement of Investment Principles, dealing with certain specific matters.

This Investment Statement sets out the principles governing decisions about the investment of the assets of The EBC Pension Scheme ("the Scheme"). Before preparing it, the Trustees obtained and considered written professional advice from Barker Tatham Investment Consultants Limited. Prior to finalising this document, it also consulted with the sponsoring employer. Barker Tatham Investment Consultants Limited is licensed by the Institute and Faculty of Actuaries to provide investment advice.

The Trustees review this Statement on a regular basis and will also do so in response to any material changes to the investment arrangements of the Scheme. Formal reviews will be undertaken no less frequently than every 3 years. Any such review will again be based on written expert investment advice and will be in consultation with the Scheme's principal employer, E B Consultants Limited.

**Signed for and on behalf of the Trustees of The EBC Pension Scheme**

A handwritten signature in dark ink, appearing to be 'R. S.', is written over a faint, light-colored signature line.

Signed: .....

Date: 30<sup>th</sup> September 2019

## 2. Governance Structure

The Trustee has ultimate responsibility for the investments of the Scheme's assets. The Trustee takes some decisions and delegate others.

### Trustee roles

The Trustee:

- sets structures and processes for carrying out their role
- sets investment structures and their implementation
- selects and monitor investment advisors and fund managers
- takes on-going decisions relevant to the principles of the Scheme's investment strategy.

### Barker Tatham, investment advisor, role

Barker Tatham:

- advises on this Statement

### LGIM, fund provider and platform administrator, role

Legal and General Investment Management (LGIM):

- operates within the terms of their agreement with the Scheme Trustee
- provides due diligence with regard to the selection of investment options available on the appropriate investment platform
- provides administration services

The fund provider and underlying fund managers used by the Trustee are authorised and regulated by the FCA.

### Principles of Investment Governance and New duties for DC Schemes

The Trustee is aware that adherence to the Principles for Investment Governance of Work Based DC Schemes is recommended and the Trustee and advisers work to ensure that the

spirit of the Principles is implemented. These Principles are outlined in Section 4 of this Statement.

From April 2015, trustees of DC schemes had to meet new requirements on governance standards, charge controls and communicating about pension flexibilities.

These requirements include:

- meeting certain governance standards and explaining this in the annual chair's report
- appointing a chair of trustees who signs the annual statement
- meeting new charge controls for their default arrangements where the scheme is being used to comply with auto-enrolment duties
- Informing members about the increased range of options they have at retirement.

Under 2019 updates to the Investment Regulations trustees of DB and DC schemes will have to update or prepare their SIP, before 1 October 2019, to set out their policies in relation to:

- "financially material considerations" over the "appropriate time horizon" of the investments including how those considerations are taken into account in the selection, retention and realisation of investments
- the extent (if at all) to which "non-financial matters" are taken into account in the selection, retention and realisation of investments
- undertaking engagement activities in respect of investments (stewardship)

In addition to the SIP requirements above, trustees of DC schemes will be required to publish their SIP on a publicly available website and inform scheme members of its availability in their annual benefit statement. DC schemes with 100 or more members are required to state a policy in relation to the stewardship of their scheme's investments in their default investment strategy.

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations which expand the requirements for Statements of Investment Principles such as this. SIPs must be updated before 1 October 2020.

Trustees must set out:

- How they incentivise their appointed investment managers to align investment strategy and decisions with the Trustees' policies, including risk, return and ESG
- How the asset managers are incentivised to make decisions on assessments about medium to long term financial and non-financial performance of an issuer of debt or equity. Also, how the managers are incentivised to engage with the issuers in order to improve their performance.
- How the method and time horizon of the evaluation of managers' performance and remuneration are in line with the Trustees' policies.
- How the Trustees monitor portfolio turnover costs incurred by the managers (and how they define and monitor targeted portfolio turnover or turnover range).
- The duration of their arrangement with the asset managers.

### 3. Trustee's Investment Objectives, Policy on Risk and Investment Beliefs

#### Trustees' investment objective

The Trustee recognises that members have differing investment needs and that these may change during the course of the members' working lives. The Trustee also recognises that members have different attitudes to risk. The Trustee believes that members should make their own investment decisions based on their individual circumstances and, therefore, sees its duty as making available a range of suitable investment options, sufficient to allow members to tailor their own investments.

The Trustee also recognises that some members may not believe themselves able to make an investment decision and, as such, the Trustee makes available a default option. The Trustee regularly reviews the suitability of the options provided and from time to time will change or introduce additional investment options, as appropriate.

#### Trustees' policy with regard to risk

The Trustee is mindful of its responsibility to provide members with an appropriate range of investment funds.

The Trustee recognises that, in a defined contribution arrangement, members assume the investment risks themselves. The Trustee further recognises that members are exposed to different types of risk at different stages of their working lifetimes. Broadly speaking, the following types of risk can be identified:

- **Investment-Return Risk**  
This is the risk that the investment return over the members' working lives will not keep pace with inflation and does not provide adequate savings to meet members' retirement income needs.
- **Underperformance Risk**  
This is the risk that the investment vehicles in which monies are invested underperform the expectations of the Trustees.
- **Annuity-Rate Risk**  
This is the risk that a member's ability to purchase an adequate annuity at retirement is compromised by rising annuity prices.
- **Market Movement Risk**  
The risk that investment market movements in the period immediately prior to retirement leads to a substantial reduction in the level of members' retirement savings.

- **Lump-Sum Risk**  
When close to retirement, a member may still be fully invested in those asset classes (every type except Cash), which are subject to volatility in capital-value terms.
- **Market-Switching Risk**  
If there is to be switching between investment vehicles and it is performed wholesale, members may be unnecessarily exposed to the fluctuations in the markets on a particular day.

### Underlying investment principles

The Trustee, having taken investment advice, has adopted the investment strategy based on the following underlying principles:

- long term growth on investments options that invest predominantly in equities and other growth seeking asset classes (e.g. diversified growth funds) will exceed price inflation and general salary growth
- the Trustee selected passively managed funds (index-tracking funds) to replicate an index and as a result benefit from lower charges.
- the long-term returns on bonds and cash options will be lower than the largely equity invested options
- bond funds broadly match the price of annuities, and so investing in a bond fund is expected to provide some protection for the amount of projected pension that a member could expect to purchase at retirement
- cash funds provide protection against changes in short term capital values, and may be appropriate for members taking all, or part, of their retirement benefits in the form of a cash lump sum (although it is not guaranteed that these funds will not fall in value).

In choosing the Scheme's investment options, the Trustee has considered:

- a full range of asset classes, including alternative asset classes
- the suitability of each asset class within a defined contribution scheme
- the need for appropriate diversification and adequate liquidity.

The member options are invested entirely in regulated markets and properly diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings so as to avoid, as far as is reasonably possible, accumulations of risk in the individual member's portfolios as a whole. Investment in derivatives is only made by the managers in so far as they contribute to the reduction of investment risks or facilitate efficient portfolio management and are managed such as to avoid excessive risk exposure to a single counterparty or other derivative operations.

## 4. Principles for Investment Governance

These principles were designed by an Investment Governance Group to provide a framework which can be used as a practical checklist to benchmark a scheme's investment governance processes against "best practice".

### Principle 1: Clear roles and responsibilities

*"Roles and responsibilities in relation to investment decision making and governance are clearly defined and communicated to interested parties."*

- This lays foundations for the process of investment governance and advocates that schemes have defined and documented roles and responsibilities for each element of the governance chain. The Trustees have outlined these roles in this Statement.

### Principle 2: Effective decision making

*"Decisions relating to investment governance are taken on a fully informed basis and the investment governance processes are sound."*

- The Trustee is a professional, independent Trustee organisation with members skilled in DC issues.

### Principle 3: Appropriate investment options

*"The investment options provided take account of a range of member risk profiles and needs and are designed appropriately."*

- The Trustee has formally reviewed their investment objectives and investment options with the assistance of their investment consultant.
- The Scheme offers an appropriate default fund and a range of investment options, given the expected risk tolerances and requirements of Scheme members.

### Principle 4: Appropriate default strategy

*"An appropriately designed investment strategy is offered for members who prefer not to make a choice."*

- A relatively straightforward default strategy is set up that would cater for the majority of members, given the profile of the members.
- The life-styling arrangement currently in place specifically targets the purchase of an annuity at retirement together with a cash lump sum.

### **Principle 5: Effective performance assessment**

*"The performance of investment options is monitored."*

- The Trustee currently receives:
  - valuation reports from the fund managers
  - annual audited accounts.

### **Principle 6: Clear and relevant communication to members**

*"Clear information on the investment options and their characteristics that will allow members to make informed choices is provided."*

- Members are provided with annual summary funding statements, and also information on this is provided in the Scheme's annual report to members.
- Communications are tailored to the expertise of the members.
- A copy of this Statement of Investment Principles is available to members on request.

## 5. Default Lifestyle Option

### Objectives

- Designed for members who wish to use their retirement savings in the Scheme to take a tax -free lump sum and purchase an annuity on retirement
- Strong growth in early stages
- Protect against annuity price changes in later stages
- Assume that 25% tax-free cash lump sum will be taken at retirement
- Keep fund manager charges as low as possible
- Avoid unnecessary transactions and their associated costs

### Strategy

- 100% investment in passive **LGIM Multi Asset (Former Consensus) Index Fund** until age 60.
- Switch into 75% **LGIM Over 15 Year Gilts Index Fund** and 25% **LGIM Cash Fund** by age 65
- **Switching period of 5 years**

The below table sets out the investment holding:

Years to Retirement (as at 6 <sup>th</sup> April)	Multi Asset Fund %	Over 15 Year Gilt Fund %	Cash Fund %
5 or more	100	0	0
4	80	20	0
3	60	40	0
2	40	55	5
1	20	65	15
0	0	75	25

The switching of investments takes place with effect from 6 April each year, commencing on 6 April prior to members 60th Birthday.

Members may opt out of the 'lifestyle' approach and have their contributions split between the funds referred to above.

### Rationale

- The Multi Asset Fund is expected to provide higher long term expected return
- The constituent asset classes within the Multi Asset Fund are passively managed, thereby protecting against underperformance of the benchmark
- The Over 15 Year Gilt Fund provides some hedge against changing annuity prices.

## 6. Self-select investment options

The options available to members are restricted to those funds, available with LGIM, detailed below.

Following suitable advice, the list of funds below reflects careful consideration of all options by the Trustee and provides members with some choice to allow them to design an investment strategy that suits each individual member's circumstances and needs.

Members can choose to invest in any of the following funds:

- LGIM - Multi Asset (former consensus) Index Fund
- LGIM - Global Equity (70:30) Index Fund
- LGIM – Over 15 Year Gilts Index fund
- LGIM – Cash Fund

The investment objectives for the funds available to members are outlined in Appendix 1, together with details of the Annual Management Charges applicable to each fund.

### **Additional Voluntary Contributions (“AVCs”)**

The Trustee holds assets invested separately from the main fund in the form of individual insurance policies with Equitable Life, securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions

## 7. Other matters

### Investment Management Structure

The Trustee has appointed LGIM as the investment platform provider for lifestyle and self-select options.

### Investment restrictions

As the assets of the Scheme are invested in pooled vehicles the investment restrictions applying to these funds are determined by the investment manager.

### Securities Lending

The Trustee recognises that the fund managers may engage in securities lending in order to produce additional incremental returns, subject to supervision rules as detailed in the fund managers' prospectuses.

### Balance between Investments

The Trustee recognises the advantages of diversifying across different asset classes in order to take advantage of different asset class characteristics.

- Reducing the risk that results from investment in any one particular market; and
- Enhancing return.

### Expected Return on Investments

Gilts are the easiest asset class for which to predict the long-term returns. Providing that they are held to maturity, and ignoring reinvestment risk, the return on gilts over their lifetime will be the current Gross Redemption Yield (GRY).

The Trustee bases expected investment returns for other asset classes on this GRY as a starting point. Over the long-term, they expect the following returns per year over and above that of gilts:

Developed market equities	+3.0%
Corporate bonds	+1.0%

### Realisation of Investments

The Scheme's assets are invested in the investment manager's pooled vehicles, which in turn invest in securities traded on recognised exchanges. The Trustee has concluded that the majority of the Scheme's investments can be realised at short notice if required.

## **Responsible Investment and Corporate Governance**

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustee has elected to invest through pooled funds. It acknowledges that it cannot directly influence the environmental, social and governance (“ESG”) policies and practices of the companies in which the pooled funds invest. The Trustee also acknowledges that where pooled index fund vehicles are employed which track composite market indices it is not always possible to take ESG considerations into account due to the nature of the investment. The Trustee encourages and expects the fund manager/s to actively participate in engagement activities in respect of investments (stewardship).

In principle, the Trustee believes that ESG factors can have an impact on the performance of its investments and that the management of ESG risks and the exploitation of ESG opportunities, especially in relation to climate change, can add value to the portfolio. To that effect, the Trustee expects their fund managers, where appropriate, to have integrated ESG factors as part of their investment analysis and decision- making process.

Appropriate weight will be given to ESG factors in the appointment of fund managers.

The Trustee views that the stewardship responsibilities attached to the ownership of shares is important but recognise that investment in pooled funds limits their ability to be fully involved. The Trustee expects their investment managers to report in detail on how they have exercised voting rights attached to shares (including across passive equity mandates). Managers are expected to be signatories to the FRC UK Stewardship Code.

The Trustee has not deemed it necessary to survey the members of the Scheme on non-financial matters in relation to the social and environmental impact of investments as their understanding and knowledge of the membership leads them to believe that members’ views would be aligned with those of the trustee.

### **Default Fund**

In relation to the default option for members the Trustees have selected component funds which state in their objectives that they have taken into account the same ESG factors which the Trustees believe are financially significant.

The Trustee will monitor these funds against the stated ESG policies.

### **Additional policies required in this document by October 2020**

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations which expand the requirements for Statements of Investment Principles such as this. SIPs must be updated before 1 October 2020.

The Trustees’ policies are set out below:

- **How they incentivise their appointed investment managers to align investment strategy and decisions with the trustees' policies, including risk, return and ESG.**

The Scheme members invest solely in pooled funds where fees charged are a combination of fixed fees and a proportion of the assets under management. There are no performance-related components of the fees.

The only incentivisation that the Trustees and members can exert is through the decision to retain or to liquidate their holdings in each fund.

The investment strategies of the pooled funds are aligned to the Trustees' and members' investment objectives by selecting funds with suitable characteristics:

- Benchmarks
- Risk budgets
- Constraints
- Approaches (this includes ESG where appropriate)

The Trustees maximise the probability of their members' investment objectives being met by selecting an appropriate range of such funds, as well as setting suitable defaults, with advice from their investment consultant.

- **How the asset manager is incentivised to make decisions on assessments about medium to long term financial and non-financial performance of an issuer of debt or equity. Also, how the managers are incentivised to engage with the issuers in order to improve their performance.**

The Scheme members invest in some passively managed funds. Passive fund managers are not expected to make assessments about the financial or non-financial performance of the issuers of securities they invest in.

The only incentivisation that the Trustees can exert is through the decision to retain or to liquidate their holdings in each fund, whether actively or passively managed.

- **How the method and time horizon of the evaluation of managers' performance and remuneration are in line with the trustees' policies.**

The Trustee and members have access to reports from the fund managers.

Where these funds are passively managed, the performance is expected to be broadly in line with the benchmarks.

Performance is compared to the benchmark and tracking error target of each fund, in order to ensure that this is in alignment to the objectives and policies of the Trustees.

In selecting pooled funds, the Trustee and its investment consultant take into account the fees charged by the fund manager. These are judged in terms of value for money given the nature of the fund, particularly the asset class and outperformance target.

Fund managers need to give the Trustee notice if they plan to change the level of the fees. If this occurs, the Trustee will seek advice from their investment consultant on whether to retain or replace the manager or fund.

- **How the trustees monitor portfolio turnover costs incurred by the manager/s (and how they define and monitor targeted portfolio turnover or turnover range).**

Given the size of the Scheme's investment it would not be cost effective to monitor the turnover or turnover costs directly. The performance figures that the Trustee should receive are net of transactions costs, so this is taken into account indirectly.

The Trustee does not believe that it should micro-manage the level of turnover provided that the net outcome to the members is acceptable.

- **The duration of their arrangement with the asset manager.**

In order to maintain an incentive for the fund manager to performance well, the Trustee does not enter any fixed term arrangements with its manager. Investments in each pooled fund are only retained for as long as the aim of the fund is consistent with the overall investment objectives of the Scheme, and the Trustee has confidence that the fund managers can credibly deliver that aim in a cost-effective manner.

## Appendix 1: Investment Funds

The following funds are listed as “preferred” to the members of The EBC Pension Scheme, either indirectly via the lifestyle options or directly via the self- select options:

- **Multi Asset (Former Consensus) Index Fund**  
The fund invests in a wide range of UK and Overseas equities, gilts and cash. The fund previously followed the asset allocation of peer group of managed funds. The fund now follows the asset allocation of LGIM’s Multi Asset Fund, with a similar focus on long term growth, cost efficiency and liquidity but with lower expected risk and greater diversification than before. The weighting of stocks in each asset class is determined by the relevant index.  
(Annual Management Charge: 0.25%)
- **Global Equity (70:30) Index Fund**  
The fund aims to capture the total return of the UK and overseas equity markets by investing 70% in the FTSE All Share Index Fund and 30% in the FTSE All World Index Fund.  
(Annual Management Charge: 0.16%)
- **Over 15 Year Gilt Index Fund**  
The investment objective of the Fund is to track the performance of the FTSE A Government (Over 15 Year) Index to within +/-0.25% p.a. for two years out of three.  
(Annual Management Charge: 0.10%)
- **Cash Fund**  
The Fund aims to perform in line with 7 Day LIBID, without incurring excessive risk.  
(Annual Management Charge: 0.125%)

The default lifestyle will have an AMC that is an amalgam of those listed above.

## Appendix 2: Third Party Arrangements

### Advisors

The following advisors assist the Trustee, PTL Governance Ltd:

#### **Pension Consultant**

Capita  
65 Gresham St  
London  
EC2V 7NQ

#### **Auditor**

TWP Accounting LLP  
The Old Rectory, Church Street  
Weybridge  
Surrey  
KT13 8DE

#### **Lawyers**

BDB Pitmans LLP  
50 Broadway  
Westminster  
London  
SW1H 0BL

#### **Investment Advisor**

Barker Tatham Investment Consultants  
Ltd  
5th Floor, AMP House  
Dingwall Road  
Croydon CR0 2LX

#### **Administrator**

Mike Ferdinands  
Capita Employee Solutions (Consulting)  
Limited  
Suite N, 1<sup>st</sup> Floor  
Arlington Business Centre  
Millshaw Park Lane  
Leeds LS11 ONE

### Investment Platform Provider

The Trustees have appointed the following investment platform provider:

#### **Legal & General Investment Management Limited**

One Coleman Street,  
London  
EC2R 5AA