# The Royal Society of Chemistry Pension Scheme

## Statement of Investment Principles – September 2020

### 1. Introduction

The Trustees of the Royal Society of Chemistry Pension Scheme (“the Scheme”) have drawn up this Statement of Investment Principles (“the Statement”) to comply with the requirements of the Pensions Act 1995 (“the Act”) and subsequent legislation. It also meets the requirements of the Occupational Pension Schemes (Investment) Regulations 2005 as well as taking into account the principles underlying the Investment Governance Group’s Code of Best Practice for pension scheme investment.

The Statement is intended to affirm the investment principles that govern decisions about the Scheme’s investments. The specifics of the Scheme’s investments arrangements are detailed in the Statement of Investment Arrangements (“SIA”), which is available on request.

In preparing this Statement, the Trustees have consulted the Scheme sponsor (“the Society”) to ascertain whether there are any material issues of which the Trustees should be aware of in agreeing the Scheme’s investment arrangements.

### 2. Process For Choosing Investments

The Trustees’ process for choosing investments is as follows:

- Identify appropriate investment objectives.

- Agree the level of investment return expectation consistent with meeting the objectives set.

- Construct a portfolio of investments that is designed to achieve the return expectation (net of all costs) with the minimum degree of risk.

In considering the appropriate investments for the Scheme the Trustees have obtained and considered the written advice of Mercer Limited (“Mercer”) who are regulated by the Financial Conduct Authority (“FCA”) and whom the Trustees believe to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustees’ opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

### 3. Governance

The Trustees consider that they have the skills, information and resources to evaluate critically the advice received in respect of the Scheme’s strategic asset allocation and investment managers to decide an effective strategic asset allocation and investment manager structure for the Scheme. The Trustees have appointed Mercer as actuary and investment consultants.

The agreements between the Trustees, the investment managers and Mercer do not form part of this Statement but are contained in separate documents.

## 4. Investment Responsibilities

4.1 Trustees' Duties and Responsibilities

*Investment Sub Committee*

The Trustees have appointed an Investment Sub Committee ("ISC") which is governed by a set of Regulations covering all aspects of its activities. The duty of the ISC is to manage and maintain the investment business plan including, but not limited to, the following tasks:

- The regular approval of the content of the Statement
- The appointment and review of the investment managers and investment consultants
- The assessment and review of the performance of each investment manager
- The setting and review of the investment parameters within which the investment managers can operate
- The assessment of the risks assumed by the Scheme at total Scheme level and manager by manager
- The approval and review of the asset allocation benchmark for the Scheme
- The compliance of the investment arrangements with the principles set out in the Statement

The ISC formally review the contents of the Statement following any significant change in investment policy and at least every three years.

*The Trustee Board*

The Trustees formally ratify the major investment recommendations put to them by the ISC before these can take effect.

The Trustee Board comprises an appropriate number of Society and member-nominated trustees in accordance with the prevailing legislation.

4.2 Investment Adviser's Duties and Responsibilities

The Trustees have appointed Mercer as the independent investment adviser to the Scheme. Mercer provides advice as and when the Trustees require it, as well as raising any investment-related issues, of which it believes the Trustees should be aware. Matters on which Mercer expects to provide advice to the Trustees include the following:

- Setting of investment objectives
- Determining investment strategy and asset allocation
- Determining an appropriate investment structure

- Determining funds and investment managers that are suitable to meet the Trustees' objectives

- Setting cashflow management (investment and withdrawal) policies

Mercer are primarily remunerated on a fixed fee basis and will agree fees for any additional projects in advance.

Mercer does not receive commission or any other payments in respect of the Scheme that might affect the impartiality of their advice.

The Trustees are satisfied that this is the most appropriate adviser remuneration structure for the Scheme.

Mercer is authorised and regulated by the Financial Conduct Authority ("FCA").

4.3 Investment Manager's Duties and Responsibilities

The Trustees, after considering appropriate investment advice, have appointed investment managers to manage the assets of the Scheme.

The details of investment managers selected by the Trustees are set out in the SIA, together with the details of each manager's mandate.

All of the investment managers are authorised and regulated by the Prudential Regulation Authority ("PRA"), the FCA or both.

The investment managers are remunerated by ad valorem charges based on the value of the assets that they manage on behalf of the Scheme. Certain mandates may also make use of performance based fees. The Trustees believe that this is the most appropriate basis for remunerating managers.

4.4 Scheme Actuary's Duties and Responsibilities

The Scheme Actuary's responsibilities include the following:

- Liaising with the Investment Adviser regarding the suitability of the Scheme's investment strategy given the financial characteristics of the Scheme

- Assessing the funding position of the Scheme and advising on the appropriate response to any shortfall

- Performing the triennial (or more frequent, as required) valuations and advising on the appropriate contribution levels Administrator's Duties and Responsibilities

4.5 The Administrator's responsibilities include the following:

- Ensuring there is sufficient cash available to meet benefit payments as and when they fall due

- Paying benefits and making transfer payments

- Investing contributions not required to meet benefit payments with the Investment Managers according to the Trustees' instructions

## 5. Investment Objectives

The Society has stated its wish to secure the Scheme's liabilities in full with an insurance company. The Society designated £15m of reserves in 2018, with a view that these would be invested to meet the expected buy-out shortfall at that time of around £30m in 2033. The Trustees are very supportive of this goal and have re-visited their own investment objectives and strategy to more closely align with the aim of securing buy-out in 2033.

It is recognised that if the Society's available reserves in 2033 are insufficient to meet the buy-out shortfall at that time, the goal may need to be adjusted and similarly that the goal may be achieved sooner than 2033.

The investment objectives of the Scheme are therefore as follows:

- To achieve buy-out with an insurer in, or around, 2033

- In the interim, use a portfolio of well diversified growth assets to achieve an overall rate of return that will ensure that sufficient resources are available to meet all liabilities as they fall due and to aim to grow the assets to help reduce the buy-out deficit

- To invest in assets, such as Liability-Driven Investments (LDI) to hedge buy-out pricing

- To increase the holdings in buy-out price-hedging assets over time as the funding level of the Scheme improves

## 6. Risk Management and Measurement

There are various risks to which any pension scheme is exposed, which the Trustees believe may be financially material to the Scheme. The Trustees have considered the following risks over the Scheme's anticipated lifetime:

- The risk of deterioration in the Scheme's funding level. This includes changes in interest rate and inflation expectations, which is managed by the Scheme's LDI mandate. The LDI mandate aims to hedge a proportion of the interest rate and inflation sensitivity of the Scheme's liabilities.

- The risk of a deterioration in the strength of the Society Covenant.

- The risk that the appointed investment managers, in the day-to-day management of the assets, will not achieve the rate of investment return expected by the Trustees. The Trustees recognise that the use of active management involves such a risk. However, it believes that this risk is outweighed by the potential gains from successful active management in certain asset classes.

- The Trustees recognise that whilst increasing risk increases potential returns, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's liabilities as well as increasing volatility in the Scheme's funding position. The Trustees take advice on the matter and (in light of the objectives noted in Section 4) carefully considers 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 policy in place results in an adequately diversified portfolio. Because of the size of the Scheme's assets and recognising the need to diversify, investment exposure is obtained primarily via pooled vehicles.

- The documents governing the investment managers include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme. The investment managers are not authorised to invest in asset classes outside of their mandate without the investors' prior consent.

- Arrangements are in place to monitor the Scheme's investments to help the Trustees check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustees receive regular asset values and semi-annual performance reports from Mercer. The semi-annual performance reports include an analysis of the overall level of return, along with their component parts, to ensure the returns achieved are consistent with those expected.

- The safe custody of the Scheme's assets is delegated to professional custodians, which are selected by the investment managers.

- Environmental, social and governance risk as outlined in Section 12.

Should there be a material change in the Scheme's circumstances, the Trustees will review whether and to what extent the investment arrangements should be altered.

## 7. Portfolio Construction

The Trustees have adopted the following control framework when structuring the Scheme's investments:

- All strategic investment decisions will be taken by the Trustees, after receiving written advice from their investment adviser and consulting with the Society.

- Stock selection decisions are the responsibility of the investment managers of the pooled funds in which the Scheme is invested.

- The Trustees are permitted to invest across a wide range of asset classes and the Scheme's investments are primarily in pooled and unitised funds. The use of derivatives is permitted by the guidelines that apply to the pooled funds.

## 8. Investment Strategy

The Trustees have determined their investment strategy after considering:

- the Scheme’s liability profile and long term funding target of achieving buy-out around 2033;
- the requirements of the Statutory Funding Objective;
- their own appetite for risk;
- the views of the Society on investment strategy;
- the Society’s appetite for risk; and
- the strength of the Society’s covenant.

The Trustees have also received written advice from their Investment Adviser.

The target asset allocation set out below reflects the Scheme’s target investment strategy, it is expected the allocation will gradually be moved towards the target. In particular, the Trustees are currently in the process of implementing the Liability Driven Investment mandate. :

| **Asset Class** | **Manager** | **Target Benchmark Allocation (%)** | **Target Benchmark Allocation Ranges (%)** |
|---|---|---|---|
| **Growth Assets** | | **70.0** | **50.0-90.0** |
| Global Equities | LGIM | 20.0 | 10.0-30.0 |
| Emerging Markets | Ninety One | 10.0 | 5.0-15.0 |
| Diversified Growth | Ninety One | 4.0 | 0.0-10.0 |
| Diversified Growth | Threadneedle | 10.0 | 5.0-15.0 |
| Diversified Growth | Pictet | 6.0 | 0.0-10.0 |
| Secured Loans | M&G | 15.0 | 5.0-20.0 |
| Private Credit | Permira | 5.0 | 0.0-10.0 |
| **Hedging Assets** | | **30.0** | **10.0 – 50.0** |
| Liability Driven Investment | LGIM | 30.0 | 0.0-50.0 |
| **Total** | | **100.0** | |

*Actual allocation to LDI will vary over time as a result of changing interest rate and inflation expectations. The Trustees do not intend to rebalance this allocation if the allocation deviates from the benchmark weight due to potential implications on the level of interest rate and inflation hedging or collateral. The Scheme currently has an allocation to corporate bonds with Fidelity, however this mandate is expected to be redeemed in order to fund the LDI mandate.

This Investment Strategy was agreed in order to deliver the required expected return on assets in a risk controlled way and is reviewed on a regular basis. As at 31 December 2019, the expected return for the Scheme's investment strategy was gilts + 3.2% per annum.

It is expected that as the funding level improves, the level of risk within the investment strategy will reduce. There are no formal de-risking triggers in place at the current time. The Trustees monitor the Scheme's funding position and may choose to de-risk if they believe it is appropriate and affordable to do so. The Trustees will review whether formal de-risking triggers should be adopted as part of future investment strategy reviews.

The LDI portfolio seeks to match the sensitivities of the liabilities to interest rate and inflation. As such, the composition of the underlying funds aims to match the growth of the liabilities. The allocation to underlying funds will be managed by LGIM in order to maintain a target hedge ratio of broadly 100% of the interest and inflation sensitivity relative to funded liabilities.

The Scheme's asset allocation is monitored regularly and will be rebalanced towards the strategic benchmark as deemed necessary.

## 9. Day-to-Day Management of the Assets

The Trustees delegate the day-to-day management of the assets to the investment managers. The Trustees have taken steps to satisfy itself that the managers have the appropriate knowledge and experience for managing the Scheme's investments and that they are carrying out their work competently.

The Trustees regularly review the continuing suitability of the Scheme's investments, including the appointed managers. Any adjustments are carried out with the aim of ensuring the overall level of risk and return is consistent with that being targeted.

Details of the appointed managers can be found in the SIA, which is available to members upon request.

## 10. Additional Assets

Under the terms of the Trust Deed the Trustees are responsible for the investment of Additional Voluntary Contributions ("AVCs") paid by members. The Trustees review the investment performance of the chosen providers on a regular basis and take advice as to the providers' continued suitability.

## 11. Realisation of Investments

In general, the investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments.

The Trustees monitor the allocation between the appointed managers and between asset classes and will rebalance the portfolio as and when necessary.

## 12. Responsible Investment and Corporate Governance

The Trustees understand that they must consider all factors that have the ability to impact the financial performance of the Scheme's investments over the appropriate investment and funding time horizon. This includes, but is not limited to, environmental, social and governance (ESG) factors (including but not limited to climate change).The Trustees believe that ESG issues present both a risk and an opportunity within investments, and that these issues could materially impact the best financial interests of the Scheme's beneficiaries. The Trustees also believe that ESG risks could present a reputational risk for the Scheme.

In setting their current investment strategy, the Trustees have prioritised funds which will enable the Scheme to meet its primary objective of ensuring that there are sufficient assets to meet the Scheme's liabilities as they fall due. However, the Trustees recognise that good management of ESG issues is a key determinant of long-term shareholder value and therefore believe that ESG risk management is important.

In endeavouring to invest for the best financial interests of the beneficiaries, the Trustees have elected to invest primarily in pooled funds and therefore have limited influence over the social, environmental and ethical policies and practices of the companies in which the pooled funds invest. However, the Trustees believe that clear expectations of investment managers and advisers should be set regarding ESG incorporation, where these issues are well understood and known to have relevance to investment outcomes.

The ISC monitor the investment managers' ESG and stewardship policies on an annual basis and are satisfied that the managers are taking a responsible approach, consistent with the long-term financial interests of the Scheme and its members. The ISC have therefore decided not to impose any additional social, environmental and ethical guidelines on their managers. The ISC will continue to monitor the managers' ESG policies going forward, and will also use Mercer's ESG ratings to assess the appointed manager strategies for ESG integration. The Trustees have chosen to invest with investment managers that exclude those companies involved in the manufacture and production of controversial weapons.

The Trustees only consider factors that are expected to have a financial impact on the Scheme's investments. Non-financial matters are not taken into account in the selection, retention and realisation of investments. For this purpose, non-financial matters mean the views of the members and beneficiaries including (but not limited to) their ethical views and their views in relation to social and environmental impact and present and future quality of life of the members and beneficiaries of the Scheme.

The Trustees believe that acting collectively with other investors is an effective way to engage with the companies. However, in relation to the exercise of the rights (including voting rights) attaching to the investments, the Trustees have delegated the decision on how to exercise voting rights to its investment managers under the terms of the investment arrangements with the managers. The Trustees expect the investment managers to exercise these rights in accordance with its respective published corporate governance policies. These policies, which are provided to the Trustees from time to time, take into account the financial interests of shareholders and should be for the Scheme's benefit.

Where the ISC are specifically invited to vote on a matter relating to a policy or contract held with any of the Scheme's investment managers, the Trustees will exercise their right in accordance with what they believe to be in the best interests of the majority of the Scheme's membership.

## 13. Investment Restrictions

The Trustees have not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future.

## 14. Investment Managers monitoring and engagement

Aligning Manager Appointments with Investment Strategy and Managing Conflicts of Interest with Investment Managers

- Investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class for which the Trustees have appointed them.

- The Trustees look to their investment consultant (Mercer) for their forward looking assessment of a manager's ability to outperform over a full market cycle. This view will be based on the consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the Scheme invests in. The consultant's manager research ratings assist with due diligence and questioning managers during presentations to the Trustees. These ratings are used in decisions around selection, retention and realisation of manager appointments.

- If the investment objective for a particular manager's fund changes, the Trustees will review the manager's appointment to ensure it remains appropriate and consistent with the Trustees' wider investment objectives.

- Some appointments are actively managed and the managers are incentivised through remuneration and performance targets (an appointment will be reviewed following periods of sustained underperformance or significant outperformance). The Trustees are aware of potential conflicts of interest with investment managers and will review will review the appropriateness of using actively managed funds (on an asset class basis) as part of each strategic review.

- As the Trustees invest in pooled investment vehicles, they accept that they have no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy.

Encouraging long-termism and consideration of ESG issues:

- As per section 12 of this SIP, the Trustees consider the investment consultant's assessment of how each investment manager embeds ESG issues into its investment process and how the manager's responsible investment philosophy aligns with the Trustees' responsible investment policy. This includes the investment managers' policies on voting and engagement. The Trustees will use these assessments in decisions around selection, retention and realisation of manager appointments.

- The Trustees meet with the investment managers regularly and can challenge decisions made including voting history (in respect of equities) and engagement activity, and can challenge such decisions to try to ensure the best performance over the medium to long term.

- Investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed. If the Trustees are dissatisfied, then the manager will be replaced.

Monitoring manager appointments

- The Trustees receive performance reports from the investment consultant every 6 months, which present performance information over 3 months, 1 year, 3 year and 5 year periods. The Trustees review absolute performance and relative performance against a suitable index used as a benchmark, and against the manager's stated target performance (over the relevant time period) on a net of fees basis. The Trustees' focus is primarily on long term performance but short term performance is also reviewed.

- If a manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the Trustees may ask the manager to review their fees instead of terminating the appointment.

Monitoring portfolio turnover costs

- The Trustees do not currently monitor portfolio turnover costs.

- However, the Trustees will continue to monitor industry improvements concerning the reporting of portfolio turnover costs. In future, the Trustees may ask managers to report on portfolio turnover cost. They may assess this by comparing portfolio turnover across the same asset class, on a year-on-year basis for the same manager fund, or relative to the manager's specific portfolio turnover range in the investment guidelines or prospectus.

Manager Turnover

- The Trustees are long-term investors and are not looking to change investment arrangements on a frequent basis. There is therefore no set duration for manager appointments. The Trustees will retain an investment manager unless:

    - There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;

    - The manager appointment is reviewed and the Trustees decide to terminate for a more suitable appointment.

## 15. 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 who 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.

Signed on behalf of the Trustees of the Royal Society of Chemistry Pension Scheme.

Signed: ______________ Date: 22 September 2020

Name: Alison Bostock

Signed: DWB Date: 23 September 2020

Name: Duncan Bruce