

Contents

Introduction

Pensions Act

- 1.1 The Pensions Act 1995 (as amended by the Pensions Act 2004) requires the Trustee to prepare a statement of the principles governing investment decisions for the purposes of the Scheme (the "Statement"). This document fulfills that requirement.
- 1.2 In preparing this Statement the Trustee has consulted the City and Guilds of London Institute ("The Institute") and will do so whenever the Trustee intends to revise the Statement. Responsibility for maintaining the Statement and deciding investment policy rests solely with the Trustee.
- 1.3 In preparing this Statement and for the purposes of the Pensions Act the Trustee has obtained written advice from the Scheme's investment consultant, WTW and they also received input from the Scheme Actuary, Bridget Hall of WTW. The Trustee will similarly obtain such advice as appropriate whenever the Statement is reviewed or revised. The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this Statement.
- 1.4 Before adopting this document the Trustee has had regard to the requirements of the Pensions Act concerning diversification of investments and suitability of investments taking into consideration the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005. The Trustee will consider those requirements on any review

Section 2: Division of responsibilities

2.1

Investment Consultant

2.5 The role of the Investment Consultants is to give advice to the Trustee in the following areas:

The development of a clear investment strategy for the Scheme

Any asset-liability modelling process

The construction of a strategic asset allocation policy for the Defined Benefit section having regard to the liabilities of the Scheme and the risk and return objectives of the Trustee

The construction of an overall investment management structure that meets the objectives of the Trustee

The construction of an overall range of funds for the Defined Contribution section of the Scheme that meets the objectives of the Trustee

The regular updating of the Statement of Investment Principles

The selection and appointment of appropriate investment management organisations

Their evaluation of the Investment Managers employed by the Scheme

Potential new areas or methods of investment

Commentary on investment performance and risk taken by the Investment Managers

General advice in respect of the Scheme's investment activities.

Scheme Actuary

2.6 The Scheme Actuary's responsibilities, as they relate to investment matters, include:

Liaising with the Investment Consultants on the suitability of the Scheme's investment strategy given the financial characteristics of the Scheme.

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

Performing the triennial (or more frequently, as required) valuations of the Scheme and advising on the appropriate contribution levels.

Section 3: Objectives and long-term policy for the Defined Benefit section

Objectives

3.1

- 3.4 The Trustee's policy is to hedge a proportion of the interest rate and inflation risk of the liabilities using a pooled LDI strategy. The Trustee has set a target hedge ratio of 75% for both interest rates and inflation, measured as a % of assets. The actual hedge ratio will vary with market conditions, but would generally be expected to be in the range of 65% - 85%.
- 3.5 The Trustee's policy is to have overseas currency exposure of no more than 20% of total assets. This is implemented through hedging 50% of the currency exposure associated with the overseas equity investments, with the exception of the Emerging Markets allocation. This range allows for the typical non-sterling currency exposure with the diversified growth funds allocation, which is determined by the investment managers.
- 3.6 In light of the Investment Consultant's advice, the Trustee considers that this target asset allocation represents suitable investment classes, is appropriately diversified and provides a reasonable expectation of meeting the above objectives. The Trustee will review the investment strategy on an annual basis to ensure it remains consistent with the investment objectives set out in 3.2
- 3.7 Divergence from the asset allocation benchmark is expected as a result of market and manager performance. In the majority of circumstances, the Scheme's asset allocation would be expected to lie within the ranges set out in 3.3 above. The Trustee will review such divergence on a regular basis to ensure that the asset allocation remains suitable for the Scheme.
- 3.8 The Trustee's policy is to employ leverage within the LDI portfolio (using pooled LDI funds) to increase the proportion of interest rate and inflation risk that is managed by the LDI allocation. Some short-term borrowing for settlement is also allowed, but is strictly limited and for the purpose of trade settlement only (which is standard practice in investment management).

Rates of return

- 3.9 In assessing the asset allocation, the Trustee took into account the historical rates of return earned on the various asset classes available for investment and the expected prospective rates of return of the Scheme's assets as advised by the Scheme's Investment Consultant and the Scheme Actuary.
- 3.10 The central asset class return assumptions used for the purposes of the investment strategy review (carried out by the Investment Consultant, WTW in 2020) are shown in the following table. The central 10 year inflation (CPI) assumption used for the purposes of the investment strategy review was 1.7% pa.

Section 4: Objectives and investment options for the Defined Contribution section

Objectives

- 4.1 The overall long-term objective for the Scheme is the acquisition, on behalf of members, of secure assets of appropriate liquidity which are intended to generate income and capital growth. These assets, together with new contributions from the member and the Institute, where applicable, provide a fund at retirement which the member will use to provide pension benefits in a flexible way, depending on member needs.
- 4.2 The Trustees' long-term investment objectives are:
- to provide members with a range of reasonably diversified investment options to meet their

- 4.5 As members can choose how to invest their accumulated funds, the balance between different kinds of investment within the Scheme will be a function of the members' investment choices.

Lifestyle investment programme

- 4.6 The Trustee offers members access to a historic Lifestyle Programme over three, five or ten years. Under these options a member's funds are automatically moved to lower risk investments as they approach their selected retirement date in order to protect the buying power of their investment fund.

- 4.7 These options work as follows:

Three, five or ten years respectively before the member's selected retirement date, future contributions and the existing account value are gradually switched on an automatic monthly basis so that on reaching retirement 45% of the fund will be invested in the BlackRock UK Corporate Bond Index Fund, 30% in the BlackRock Over 15 Years UK Gilts Index Fund and 25% in the Aviva Cash Fund.

- 4.8 The Trustee also introduced three new lifestyle options in 2015. These are:

'My Future Target Annuity' option (this was the Scheme's default prior to September 2019), which is structured as follows in its Growth and Consolidation phases:

Growth Phase – 15 years prior to the member's selected retirement age, the My Future Growth Fund aims to help pension savings grow by investing in a fund with medium investment risk. The My Future Growth Fund is made up of a variety of passively managed funds investing in shares, Government and Corporate Bonds, and commodities amongst others.

Consolidation Phase – 15 years prior to the member's retirement age, investment risk is reduced by gradually moving

Growth Phase ñ Up to 15 years prior to the member's selected retirement age this invests

copy of this Statement and the Trustee will monitor the extent to which they give effect to the policies set out in it.

- 5.19 The Trustee monitors the performance of the DC fund range using investment research information provided by Morningstar. Should an Investment Manager or fund within the Defined Contribution section appear to the Trustee to underperform the performance objectives or be considered by the Trustee to be unlikely to deliver on the policies and objectives of the Scheme, it may be closed to future contributions and/or be disinvested of the accumulated value of past contributions.

Fee structures

- 5.20 The Trustee has agreed fees with each manager based on the value of assets in their respective portfolios. These fees are consistent with each manager's stated fee scale. Most managers are paid an ad valorem fee, in line with normal market practice, for a given scope of services agreed prior to investment. The scope of services will include consideration of long term factors and engagement where applicable. In some cases, additional fees may be paid to DB managers based on investment performance exceeding pre-agreed targets.
- 5.21 Details of the fee structures are included in the Investment Management Agreements for Defined Benefit investments, and are shown in Appendix B for Defined Contribution investments

Delegation of investment discretion

- 5.22 The Investment Managers are aware of the need for appropriate and suitably diversified investments which recognise the nature of the Scheme's liabilities. The Investment Managers have a statutory duty under the Pensions Act to exercise the investment powers delegated to them with a view to giving effect to the principles contained in this Statement, so far as is reasonably practicable.

Section 6: Other investment policies

investment managers fulfil their responsibilities with regards voting and engagement through the regular reporting provided by the managers.

- 6.8 The Trustee recognises that members and beneficiaries may have views on ethical investing or matters such as the social and environmental impact of the Fund's investments. In conjunction with there being practical challenges of capturing and maintaining a consensus view on multiple issues across a varied membership population, it is the Trustee's view that financial matters should take precedence in seeking to maximise the security of member benefits. As such, it is the Trustee's policy not to take into account the non-financial matters when taking investment decisions related to the Defined Benefit or Defined Contribution sections of the Scheme.

Realisation of investments

- 6.9

Section

- is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.

Sponsor risk

- is measured by the level of ability and willingness of the sponsor to support the continuation of the Scheme and to make good any current or future deficit
- is managed by assessing the interaction between the Scheme and the sponsor's business, as measured by the number of factors, including the size

- 7.4 The Trustee seeks to manage the uncertainty inherent in the inflation, capital pension conversion and mismatching risk by making available (and keeping under review) a reasonable range of investment options which enables members to choose funds that suit their view of those risks.

Risks	Definition	Objective
Inflation risk	The risk that investments do not provide a return at least in line with inflation, such that the 'purchasing power' of the ultimate fund available to provide the benefits is not maintained	To provide an investment option which is expected to provide a long-term rate of return that matches or exceeds inflation.
Capital risk	The risk that the monetary value of a member's account falls	To provide an investment option which offers a degree of capital protection. A cash deposit fund is an example of such an option.
Pension conversion risk	The risk that assets held do not match fluctuations in annuity rates as a member approaches retirement	To provide an investment option which generally reflects changes in long term interest rates in the belief that the cost of many annuities in the future will be based, at least in part, on these rates.
Mismatching risk	The risk that investment holdings are not aligned to the way that members wish to access benefits at retirement.	To provide alternative investment options, enabling members to align their investment approach to the way in which they wish to access their pension rights on retirement.

Appendix A: Current Investment Managers and mandate details ñ Defined Benefit section

The benchmarks and performance objectives for the managers are detailed as follows:

BlackRock Investment Management (UK) Limited – passive equity portfolio		
Fund	% of total assets	Performance benchmark index
Total Equities	100.0	
UK equities	6.5%	FTSE All Share
Overseas Equities (Unhedged)	42.25%	FTSE All World Developed ex UK
Overseas Equities (GBP Hedged)	42.25%	FTSE All World Developed ex UK 95% GBP Hedged
Emerging Market Equities	9.0%	MSCI Emerging Markets Index
Performance objective: to track the return of the market index for each of the underlying asset classes.		
BlackRock Investment Management (UK) Limited – Liability Hedging portfolio		
Fund	% of total assets	Performance benchmark index
Pooled LDI portfolio	100.0	Blended benchmark
Performance objective: to track the return of the liability proxy.		

Schroder Investment Management Ltd – property fund		
Fund	% of total assets	Performance benchmark index
Schroder UK Property Fund	100.0	IPD UKñ All Balanced Property Funds Weighted Average

Performance objective: to outperform the benchmark over rolling 3 year periods.

Appendix B: Current Investment Managers and mandate details ñ Defined Contribution section

Funds

For each fund their objectives and fees are shown below. Funds and investment options marked* are classified as default funds:

Fund name	Objective	Annual Fees (Total Expense Ratio)	Benchmark
BlackRock Emerging Markets Equity Fund*	This fund aims to achieve a return consistent with the return of the MSCI Emerging Markets Index	0.61%	MSCI Emerging Markets
BlackRock (30:70) Global Equity Currency Hedged Index Fund	This fund aims to invest approximately 30% in shares of UK companies and 60% into developed overseas equities with currency exposure hedged back to sterling. The remaining 10% is invested in emerging market equities	0.36%	60% FTSE Developed ex UK, Canada, Israel and S Korea (95% Hedged) Index, 30% FTSE All-Share Index and 10% MSCI Emerging Markets Index
BlackRock (40:60) Global Equity Index Fund*	This fund aims to invest approximately 40% in UK equities and 60% in overseas companies.	0.36%	40% FTSE All Share, 60% FTSE Developed (ex UK) Index
BlackRock UK Equity Index Fund*	This fund invests in shares of UK companies and aims to achieve a return in line with the FTSE All Share Index	0.36%	FTSE All Share
BlackRock World (ex-UK) Equity Index Fund*	This fund aims to achieve returns in line with global equity markets, excluding the UK	0.36%	FTSE Developed (ex UK) Index
HSBC Amanah Global Equity Index Fund	This funds objective is to grow money in line with the performance of the 100 largest companies engaged in Shariah compliant activities.	0.66%	Dow Jones Titans 100

