

CCHT Pension Fund

Statement of Investment Principles

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1 Introduction

Fund background

- This Statement of Investment Principles (the “Statement”) details the principles governing investment decisions for the CCHT Pension Fund (the “Fund”).
- The Fund:
 - operates for the exclusive purpose of providing retirement and death benefits to eligible participants and beneficiaries,
 - provides benefits calculated on a defined benefit (DB) basis,
 - is closed to new entrants.
- Buck is the investment consultant to the Trustees.

Regulatory requirements and considerations

- This statement covers the requirements of, and the Fund’s compliance with, the provisions of the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005 as well as additional non-statutory information recommended to be included following the Myners review of “Institutional Investing in the UK”, the results of which were first published in 2001 (referred to as the “Myners Principles”).
- The Myners Principles require Trustee Boards to act in a transparent and responsible manner. The information set out in this document helps ensure that the Trustees are complying with this requirement.
- In respect of the additional voluntary contributions that were made available on a money-purchase basis within the Fund until 9 June 2008, the Trustees have taken into account the requirements and recommendations within the Pension Regulator’s DC code and regulatory guidance.

2 Statement of Investment Principles

Introduction

- This section of the Statement covers the requirements of the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005.
- In accordance with section 35 of the Pensions Act 1995, the Trustees have reviewed and considered written advice from the investment consultant prior to the preparation of this Statement and have consulted the Sponsoring Employer.
- The Trustees will review this Statement, in consultation with the investment consultant and the Sponsoring Employer, at least once every three years, or more frequently if there are any significant changes in the Fund's circumstances. However, ultimate power and responsibility for deciding investment policy lies solely with the Trustees.

Key investment principles

Kind of investments to be held

- The Trustees have full regard to their investment powers under the Trust Deed and Rules and the suitability of the various types of investments, the need to diversify, the custodianship of assets and any self-investment.
- The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities, fixed interest and index-linked bonds, cash, property and all other alternative pooled investment vehicles considered appropriate for tax-exempt registered occupational pension schemes. The Trustees have considered the attributes of the various asset classes (including derivative instruments), these attributes being:
 - security (or quality) of the investment,
 - yield (expected long-term return),
 - spread (or volatility) of returns,
 - term (or duration) of the investment,
 - exchange rate risk,
 - marketability/liquidity (i.e., the tradability on regulated markets),
 - taxation.
- The Trustees consider all of the stated classes of investment to be suitable to the circumstances of the Fund.

Investment Decisions

- All investment decisions are taken by the Trustee Board as a whole. The Trustees believe that collective responsibility is the appropriate structure, given the size of the board. The Trustees will examine regularly whether additional investment training is desirable for any individual Trustee.
- All investment decisions relating to the Fund are under the Trustees' control without constraint by the Sponsoring Employer. The Trustees are obliged to consult with the Sponsoring Employer when changing this Statement.
- All day-to-day investment decisions are delegated to properly qualified and authorised investment managers of pension scheme portfolios. Investment management agreements and/or an insurance contract have been exchanged with the investment managers, and are reviewed from time-to-time to ensure that the manner in which they make investments on the Trustees' behalf is suitable for the Fund, and appropriately diversified.

Investment Objectives and Suitability of Investments:

- The Fund's investment strategy has been agreed by the Trustees having taken advice from the investment consultant and takes due account of the Fund's liability profile along with the level of disclosed surplus or deficit.
- The Trustees' agreed investment strategy is based on an analysis of the Fund's liability profile, the required investment return and the returns expected from the various asset classes over the long-term.
- The Trustees' primary objectives are:
 - to provide appropriate security for all beneficiaries,
 - to achieve long-term growth sufficient to provide the benefits from the Fund, and
 - to achieve an appropriate balance between risk and return with regards to the cost of the Fund and the security of the benefits.
- The Trustees have translated their objectives into a suitable strategic asset allocation benchmark for the Fund, details of which are included in the appendices.
- In accordance with the Financial Services & Markets Act 2000, the Trustees are responsible for setting the general investment policy, but the responsibility for all day-to-day investment management decisions has been delegated to an investment manager authorised under the Act. Details are included in the appendices.
- The Trustees are responsible for reviewing both the Fund's asset allocation and investment strategy as part of each actuarial valuation in consultation with the Fund's investment consultant. The Trustees may also reconsider the asset allocation and the investment strategy outside the triennial valuation period where necessary.
- The Trustees consider the Fund's current strategic asset allocation to be consistent with the current financial position of the Fund.

Diversification

- The Trustees, after seeking appropriate investment advice, have selected a strategic asset allocation benchmark for the Fund (see Appendix 1).
- Subject to its respective benchmarks and guidelines (shown in Appendix 1) the investment manager is given full discretion over the choice of stocks and is expected to maintain diversified portfolios.
- The Trustees are satisfied that the investments selected are consistent with their investment objectives, particularly in relation to diversification, risk, expected return and liquidity.
- Given the size and nature of the Fund, the Trustees have decided to invest the Fund's assets on a pooled fund basis. All such investments are effected through a direct agreement with the investment manager and/or through an insurance contract.
- The Trustees are satisfied that the range of vehicles in which the Fund's assets are invested provides adequate diversification.

Risk

- The Trustees consider the main risk to be that of the assets being insufficient to meet the Fund's liabilities as they fall due. The Trustees have assessed the likelihood of undesirable financial outcomes arising in the future.
- Investment policies are set with the aim of having sufficient and appropriate assets to cover the Fund's Technical Provisions, and with the need to avoid undue contribution rate volatility.
- In determining their investment strategy, the Trustees received advice from the investment consultant as to the likely range of funding levels for strategies with differing levels of investment risk relative to the Fund's liability profile. Taking this into account, along with the expected returns underlying the most recent actuarial valuation, the strategy outlined in Appendix 1 of this Statement has been adopted.
- Although the Trustees acknowledge that the main risk is that the Fund will have insufficient assets to meet its liabilities, the Trustees recognise other contributory risks, including the following. Namely the risk:
 - associated with the differences in the sensitivity of asset and liability values to changes in financial and demographic factors,
 - of the Fund having insufficient liquid assets to meet its immediate liabilities,
 - of the investment manager failing to achieve the required rate of return,
 - due to the lack of diversification of investments,
 - of failure of the Fund's Sponsoring Employer to meet its obligations.
- The Trustees manage and measure these risks on a regular basis via actuarial and investment reviews, and in the setting of investment objectives and strategy.
- The Trustees undertake monitoring of the investment manager's performance against its targets and objectives on a regular basis.

- Each fund in which the Fund invests has a stated performance objective by which investment performance will be measured. These are shown in Appendix 1. Within each asset class, the investment manager is expected to maintain a portfolio of securities (or funds), which ensures that the risk being accepted in each market is broadly diversified.

Expected return on investments

- Over the long term, the Trustees expect the return on Fund assets to be sufficient to meet their objectives.

Realisation of investments

- In the event of an unexpected need to realise all or part of the assets of the portfolio, the Trustees require the investment manager to be able to realise the Fund's investments in a reasonable timescale by reference to the market conditions existing at the time the disposal is required and subject to the best interests of the Fund. The majority of the assets are not expected to take an undue time to liquidate.

Investment Manager Monitoring

- The Trustees will assess the performance, processes and cost effectiveness of the investment manager by means of regular, but not less than annual, reviews of the results and other information, in consultation with the investment consultant.
- All investment decisions, and the overall performance of the investment manager, are monitored by the Trustees with the assistance of the investment consultant.
- The investment manager will provide the Trustees with quarterly statements of the assets held along with a quarterly report on the results of the past investment policy and the intended future policy, and any changes to the investment processes applied to their portfolios. The investment manager will also report orally on request to the Trustees.
- The investment manager will inform the Trustees of any changes in the internal performance objective and guidelines of any pooled funds used by the Fund as and when they occur.
- The Trustees will assess the quality of the performance and processes of the investment manager by means of a review at least once every three years in consultation with the investment consultant.
- Appropriate written advice will be taken from the investment consultant before the review, appointment or removal of investment managers.

Performance Monitoring

- Each of the funds in which the Fund invests has a stated performance objective against which the performance is measured.
- The Trustees will review the performance of the investment manager from time to time, based on the results of their performance and investment process;
- The investment manager is expected to provide written reports on a quarterly basis; and
- The Trustees receive an independent investment performance monitoring report from their investment consultant on an annual basis.

Balance between different kinds of investments

- The appointed investment manager will hold a diversified mix of investments in line with their agreed benchmark and within their discretion to diverge from the benchmark. Within each major market the manager will maintain a diversified portfolio of securities.

Financially material considerations

- The Trustees expect their investment manager, where appropriate, to have taken account of financially material considerations, including environmental, social and governance (ESG) factors as part of their investment analysis and decision-making process.
- The Trustees' adviser has reported on the investment manager's policies in respect of financially material considerations and the Trustees were satisfied that these policies were consistent with the above approach.
- The Trustees will take into account the approach to financially material considerations in deciding whether to retain or appoint investment managers.

Non-financial matters

- The financial interests of the members is the Trustees' first priority when choosing investments. The Trustees will take members' preferences into account if they consider it appropriate to do so.

Stewardship in relation to the Fund's assets

- The Trustees have a fiduciary duty to consider their approach to the stewardship of the investments, to maximise financial returns for the benefit of members and beneficiaries over the long term. The Trustees can promote an investment's long term success through monitoring, engagement and/or voting, either directly or through their investment manager.

Engagement and monitoring

- The Trustees' policy is to delegate responsibility for engaging and monitoring investee companies to the investment manager and the Trustees expect the investment manager to use their discretion to maximise financial returns for members and others over the long term.

Voting Rights attaching to Investments

- The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment manager and to encourage the manager to exercise those rights. The investment manager is expected to provide regular reports for the Trustees detailing their voting activity. The Trustees will take corporate governance policies into account when appointing and reviewing such investment managers.

The Trustees' policy in relation to their investment manager

- In detailing below the policies on the investment manager arrangements, the over-riding approach of the Trustees is to select investment managers that meet the primary objectives of the Trustees. As part of the selection process and the ongoing review of the investment manager, the Trustees consider how well the investment manager meets the Trustees' policies and provides value for money over a suitable timeframe.

How the arrangement incentivises the investment manager to align its investment strategy and decisions with the Trustees' policies

- The Trustees have delegated the day to day management of the majority of the Fund's assets to an investment manager. The majority of the Fund's assets are invested in pooled funds which have their own policies and objectives and charge a fee, agreed with the investment manager, for their services. Such fees incentivise the investment manager to adhere to their stated policies and objectives.

How the arrangement incentivises the investment manager to engage and take into account financial and non-financial matters over the medium to long-term

- The Trustees, in conjunction with their investment consultant, appoint investment managers and choose the specific pooled funds to use in order to meet specific Fund policies. They expect that their investment manager makes decisions based on assessments about the financial performance of underlying investments, and that it engages with issuers of debt or equity to improve its performance (and thereby the Fund's performance) over an appropriate time horizon.
- The Trustees have decided that the financial interests of the members is their first priority when choosing investments. The Trustees will take members' preferences into account if they consider it appropriate to do so.

How the method (and time horizon) of the evaluation of the investment manager's performance and the remuneration for asset management services are in line with the Trustees' investment policies

- The Trustees expect their investment manager to invest the assets within their portfolio in a manner that is consistent with the guidelines and constraints set out in its appointment documentation. The Trustees review the investment manager periodically. These reviews incorporate benchmarking of performance and fees. Reviews of performance focus on longer-term performance (to the extent that is relevant), e.g. looking at five years of performance.
- If the Trustees determine that the investment manager is no longer managing the assets in line with the Trustees' policies they will make their concerns known to the investment manager and may ultimately disinvest.
- The Trustees pay their investment manager a management fee which is a fixed percentage of assets under management.
- Prior to agreeing a fee structure, the Trustees, in conjunction with their investment consultant, consider the appropriateness of this structure, both in terms of the fee level compared to that of other similar products and in terms of the degree to which it will incentivise the investment manager.

How the Trustees monitor portfolio turnover costs incurred by the investment manager, and how they define and monitor targeted portfolio turnover or turnover range

- The Trustees, in conjunction with their investment consultant, have processes in place to review investment turnover costs incurred by the Fund on an annual basis. The Trustees receive a report which includes the turnover costs incurred by the investment manager used by the Fund.

- The Trustees expect turnover costs of the investment manager to be in line with its peers, taking into account the style adopted by the investment manager, the asset class invested in and prevailing market conditions.
- The Trustees do not explicitly monitor turnover, set target turnover or turnover ranges. The Trustees believe that the investment manager should follow its stated approach with a focus on risk and net return, rather than on turnover. In addition, the individual mandates are unique and bespoke in nature and there is the potential for markets to change significantly over a short period of time.

The duration of arrangements with investment managers

- The Trustees do not in general enter into fixed long-term agreements with investment managers and instead retain the ability to change investment manager should the performance and processes of the investment manager deviate from the Trustees' policies. However, the Trustees expect their manager appointments to have a relatively long duration, subject to the manager adhering to its stated policies, and the continued positive assessment of its ability to meet its performance objective.

Additional Voluntary Contributions (AVCs)

- The Trustees have full discretion as to the appropriate investment vehicles made available to members of the Fund for their voluntary contributions. Only investment vehicles normally considered suitable for voluntary contributions will be considered by the Trustees, having taken appropriate written advice from properly qualified and authorised financial advisers.
- NPI is the investment provider for the members' AVCs.
- The Trustees will continue to manage the AVC arrangements having taken professional advice on these matters.
- The Trustees will monitor the performance of AVC provider periodically.
- Members are directed to seek independent financial advice when considering their AVC arrangements.

3 Appointments & Responsibilities

This section sets out the key appointments and responsibilities with respect to the investment aspects of the Fund.

Trustees

The Trustees' primary responsibilities include:

- preparation of this Statement, reviewing its contents and modifying it if deemed appropriate, in consultation with the Sponsoring Employer and the investment consultant, at least every three years. The Statement will also be reviewed following a significant change to investment strategy and/or the investment managers,
- appointing investment consultants and investment managers as necessary for the good stewardship of the Fund's assets,
- reviewing the investment strategy as part of each triennial actuarial valuation, and/or asset liability modelling exercise, and/or significant changes to the Fund's liabilities, taking advice from the investment consultant,
- assessing the processes (and therefore the performance) of the investment managers by means of regular, but not less than annual, reviews of information obtained (including investment performance),
- monitoring compliance of the investment arrangements with this Statement on a regular basis, and
- monitoring risk and the way in which the investment managers have cast votes on behalf of the Trustees in respect of the Fund's equity holdings.

Investment Consultant

The main responsibilities of the investment consultant include:

- assisting the Trustees in the preparation and periodic review of this Statement in consultation with the Sponsoring Employer,
- undertaking project work including reviews of investment strategy, investment performance and manager structure as required by the Trustees,
- advising the Trustees on the selection and review of the investment manager(s),
- providing training or education on any investment related matter as and when the Trustees see fit, and
- monitoring and advising upon where contributions should be invested or disinvested on a periodic basis.

Investment Manager

The investment manager's main responsibilities include:

- investing assets in a manner that is consistent with the objectives set,
- ensuring that investment of the Fund's assets is compliant with prevailing legislation and the constraints detailed in this Statement,
- providing the Trustees with quarterly reports including any changes to the investment process and a review of the investment performance,
- attending meetings with the Trustees as and when required,
- informing the Trustees of any changes in the fee structure, internal performance objectives and guidelines of any pooled fund used by the Fund as and when they occur, and
- exercising voting rights on shareholdings in accordance with their general policy.

Custodian

The custodians used are responsible for the safe-keeping of the Fund's assets.

- The custodianship arrangements are those operated by the investment manager for all clients investing in their pooled funds.

Administrators

- The administrator's primary responsibilities are the day to day administration of the Fund and the submission of specified statutory documentation, as delegated by the Trustees.
- The Fund's administrator is Buck.

Scheme Actuary

The Scheme Actuary's main responsibilities in respect of investment policy include:

- commenting on the suitability of the Fund's investment strategy given the financial characteristics of the Fund; and
- performing the triennial (or more frequently as required) actuarial valuation and advising on the Fund's funding level and therefore the appropriate level of contributions in order to aid the Trustees in balancing short-term and long-term investment objectives.

The Scheme Actuary is employed by Buck.

Signed on behalf of the Trustees of the Fund:

.....

Name

Signature

.....

Date

Appendix 1– Strategic Benchmark and Objectives

Fund’s target asset allocation

The Fund’s target asset allocation is tabulated below:

Asset Type	Investment Style	Allocation (%)
Equity - UK	Passive	15.0
Equity - World ex-UK	Passive	15.0
Property	Active	10.0
Return enhancing		40.0
UK Corporate Bonds	Active	20.0
LDI	Passive	40.0
Cash	Active	
Risk reducing		60.0
Total		100.0

Notes:

1. The Trustees aim to hedge 85% of the interest rate and inflation sensitivity of its liabilities as measured on the Technical Provisions basis. In the event of a conflict, this target takes precedent over the asset allocation targets.
2. The Equity World ex-UK holding is shared between GBP hedged and unhedged funds. The Trustees’ neutral view is that that the allocation should be split equally between the funds. The Trustees monitor the respective holdings and have flexibility to tilt the allocation should it have a strong view on the level of currency risks appropriate for the Fund.

Benchmarks & performance objectives

Benchmark indices and relative performance objectives for each of the funds in which the Fund is invested are outlined below.

Manager	Fund	Benchmark Index	Objective % p.a.
Legal & General Investment Management ("LGIM")	UK Equity Index Fund	FTSE All Share	±0.25*
	World ex-UK Equity Index Fund	FTSE All World ex-UK	±0.50*
	World (ex UK) Equity Index Fund - GBP Currency Hedged	FTSE World (ex UK) Index - GBP Hedged	±0.50*
	Managed Property Fund	AREF/ IPD UK Quarterly All Balanced Property Fund Index (UK PFI)	See note**
	Active Corporate Bond Fund – All Stocks	Markit iBoxx £ Non-Gilts All Stocks	+0.75***
	Matching Core Funds	See note****	See note****
	Cash Fund	7 Day LIBID	See note*****

* LGIM passive index-tracking funds express their objectives as staying within the stated tracking errors for two in every three years.

** To outperform the benchmark (net of fees) over three and five-year periods.

*** Performance target is gross of fees and relate to rolling three-year periods.

**** The respective benchmarks for the Matching Core Funds are detailed below:

Matching Core Fixed Short Fund	Markit iBoxx Fixed Short
Matching Core Fixed Long Fund	Markit iBoxx Fixed Long
Matching Core Real Long Fund	Markit iBoxx Real Long

The performance objective for the Funds is to track the bespoke benchmark return measured over the long term.

***** The fund aims to perform in line with 7 Day GBP LIBID, without incurring excessive risk.

Appendix 2 – Fees

Investment manager fees

Manager	Fund	Investment Style	Management Fee % p.a.
LGIM	UK Equity Index	Passive	0.100
	World ex-UK Equity Index	Passive	0.220
	World (ex UK) Equity Index Fund - GBP Currency Hedged	Passive	0.243
	Property Fund	Active	0.700
	Active Corporate Bond Fund – All Stocks	Active	0.200
	Matching Core Funds	Passive	0.240
	Cash Fund	Active	0.125

Investment consultancy fees

The investment consultant provides agreed services on a fixed fee basis, with additional projects provided on a time cost basis subject to agreement in advance.

The basis of remuneration is kept under review.