

# Statement of Investment Principles

This is the Statement of Investment Principles made by the Trustees of The College of Law Pension and Assurance Scheme (the “Scheme”) in accordance with the requirements of Section 35 of the Pensions Act 1995. It is subject to periodic review by the Trustees at least every three years and more frequently as appropriate.

In preparing this Statement, the Trustees have consulted with the Principal Employer of members of the Scheme (The Legal Education Foundation) and have taken and considered written advice from the Investment Practice of Hymans Robertson LLP.

## Scheme Objective

The primary objective of the Scheme is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis.

The Trustees’ over-riding funding principle for the Scheme is to set the employer contribution at a level which is sufficient to:

- Build assets to provide for the benefits of members ;
- Recover over the longer term any shortfall in assets relative to the value placed on accrued liabilities; and
- Ensure that there are sufficient assets in the Scheme (at their realisable value) to meet 100% of benefits as they fall due for payment to members.

The value of liabilities is calculated on the basis agreed by the Scheme Actuary and Trustees; the Trustees also consider the Scheme’s funding position on a more stringent minimum risk basis. These funding positions are monitored regularly by the Trustees and formally reviewed at each triennial actuarial valuation, or more frequently, as required by the Pensions Act 2004.

## Investment Strategy

The Trustees have translated their objectives into a suitable strategic asset allocation benchmark for the Scheme. All day to day investment decisions have been delegated to a number of authorised investment managers. The strategic benchmark is reflected in the choice and mix of funds in which the Scheme invests. The Scheme’s overall benchmark is consistent with the Trustees’ views on the appropriate balance between seeking an enhanced long-term return on investments and accepting greater short-term volatility and risk.

The investment strategy takes due account of the maturity profile of the Scheme (in terms of the relative proportions of liabilities in respect of pensioners and non-pensioners), together with the level of disclosed surplus or deficit (relative to the funding bases used). The Trustees monitor fund performance relative to their agreed asset allocation benchmark. Investment strategy is reviewed regularly. In reviewing the strategy, the Trustees seek written advice as required.

To achieve their objectives the Trustees have agreed the following:

### Kinds of Investment to be held

The Scheme may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property, and currency foreign exchange forward contracts, either directly or through pooled funds. The Scheme may also make use of derivatives and contracts for difference for the purpose of efficient portfolio management or to hedge specific risks. The Trustees consider all of these classes of investment to be suitable in the circumstances of the Scheme.

### Choosing Investments

Given the size and nature of the Scheme, the Trustees have decided to invest on a pooled fund basis; any such investment is effected through a direct agreement with an investment manager and/or through an insurance contract. In either event, the investment manager of each underlying pooled fund has full discretion over the choice of individual stocks and is expected to maintain a diversified portfolio. The Trustees are satisfied that the pooled funds selected are consistent with the objectives of the Scheme, particularly in relation to diversification, risk, expected return and liquidity.

The Trustees have, where relevant and after seeking appropriate investment advice, given their managers specific directions as to asset allocation, but investment choice has been delegated to these managers subject to their respective benchmarks and asset guidelines.

### Balance between different kinds of investments

The Scheme's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market each manager will maintain a diversified portfolio of stocks through direct investment or pooled vehicles.

### Appointment of investment managers

The Trustees check that any investment manager whom they appoint is required to report against clear, specific and measurable benchmarks, objectives and management parameters. When selecting managers, the Trustees review prospective managers' benchmarks with the Scheme's overall investment strategy in mind. They currently invest in pooled funds and so are not able to stipulate the investment return targets or risk profile of such funds. However, the Trustees evaluate and monitor the performance of those funds quarterly, to ensure that they continue to be appropriate for the needs of the Scheme and aligned with the broader Scheme investment strategy.

The Trustees take appropriate advice from their investment consultants before investing in any new fund or product, particularly if previously unknown to the Trustees, to ensure its suitability. The Trustees' investment consultants will also carry out due diligence on any prospective investment manager's underlying investment decision-making process, so the Trustees can be satisfied that investment managers intend to make investment decisions over an appropriate time horizon, aligned with the Scheme's objectives. In addition, the Trustees will typically obtain legal advice on the proposed legal terms of any Scheme investment before appointing a new manager.

The Trustees agree with an investment manager the rate of its remuneration when it is first appointed by the Trustees. The Trustees typically agree this in proportion to the size of the Trustees' investment, taking into account any commercial considerations and the Trustees' understanding of industry standards, based on professional advice from their investment consultants. However, the Trustees may review the fees charged by investment managers from time to time, recognising the constraints on their ability to effect changes to the fees as investors in pooled funds. For example, if the Trustees consider that an investment manager is underperforming, if they become aware that the investment objectives for a mandate have changed materially, or

if the Trustees' investment consultants advise that an investment manager's fees are materially out of line with industry standards.

### Monitoring investment managers

The Trustees review the nature of Scheme investments on a regular basis, to assess their suitability and degree of diversification. The Trustees also seek and consider written advice from their investment consultants from time to time, to determine whether an investment manager or mandate continues to be appropriate for the Scheme, taking into account such factors as diversification, risk, expected return and liquidity.

The Trustees expect that Scheme investment managers will take a medium to long term view of financial and non-financial matters when reviewing and monitoring the performance of their underlying investments. The Trustees also believe it is appropriate for their investment managers to engage with issuers of debt or equity in order to improve their performance in the medium to long-term. Further details are set out in the 'Stewardship' section, below.

The Trustees monitor the progress of the Scheme's strategy against its target at least on a quarterly basis. This includes monitoring the Scheme investment managers' performance against their respective benchmarks over a medium to long-term time horizon. The Trustees expect the Scheme's Investment Managers to explain to investors any significant deviations from their benchmark. Investment managers are aware that their continued appointment is contingent on investment performance and strategy and that, if the Trustees are dissatisfied with such matters, the Trustees will assess opportunities to invest Scheme assets with a different investment manager instead.

### Portfolio turnover

Whilst the Trustees expect performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustees expect managers to report on at least an annual basis on the level and cost of turnover within the portfolio over the period. The Trustees will challenge the Plan's managers if there is a sudden change in portfolio turnover or if the level of turnover seems excessive. This will typically be assessed relative to the previous years' levels.

### Duration of mandates

The Trustees determine the duration of each mandate at its inception. For close-ended investments, the Trustees expect the term of the appointment to be the lifetime of the investment.

For open-ended investments, the Trustees generally engage managers on an ongoing basis with no pre-determined term of appointment. For such mandates, the Trustees typically expect the minimum duration of an investment manager's appointment to be three years, although there may be exceptions to this where appropriate. The Trustees consider this to be the usual minimum period over which the performance of a mandate can be evaluated effectively. Nevertheless, the Trustees will continue to review the performance of mandates in the meantime, taking into account various financial and non-financial metrics, to assess their continued alignment with the Scheme's overall investment strategy.

The Trustees recognise the long-term nature of the Scheme's liability profile and so appoint investment managers with a view to generating long-term, sustainable investment returns. The Trustees do not typically expect to change the Scheme's investment arrangements frequently but may do so if:

- there is a material change in the Scheme's investment strategy, such that it no longer requires a particular asset class or investment manager; or
- the Trustees have reviewed an investment manager's appointment and decided to terminate it (e.g. following underperformance or any material deviation from the Scheme's overall investment strategy).

## Risk

The Trustees monitor risk in two ways. As indicated above, they have set a strategic asset allocation benchmark for the Scheme. They assess risk relative to that benchmark by monitoring the Scheme's asset allocation and investment returns relative to the benchmark. They also assess risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Trustees provide a practical constraint on the Scheme investments deviating greatly from the Trustees' intended approach by investing in pooled funds each of which has a defined objective, performance benchmark and manager process which taken in aggregate constrain risk within the Trustees' expected parameters.

In appointing several investment managers, the Trustees have considered the risk of underperformance of any single investment manager.

## Expected return on investments

Over the long term, the overall level of investment returns is expected to equal the rate of return assumed by the Scheme Actuary in the funding of the Scheme.

## Realisation of investments

The majority of the Scheme's investments may be realised quickly if required.

## Social, Environmental and Ethical Considerations

### Consideration of financially material factors in investment arrangements

The Trustees recognise that they have a legal duty to take account of financially material factors, which may include environmental, social and corporate governance ("ESG") factors including climate change when choosing, holding or realising investments. The Trustees take account of financially material factors over the period for which the Trustees expect investments to be required to fund future benefits. As part of this, the Trustees acknowledge that ESG factors may be relevant at different stages of the investment process.

The strategic benchmark has been determined using appropriate economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors.

Within active mandates, the Trustees have delegated responsibility for the consideration of stock specific issues to their individual investment managers. In passive mandates, the Trustees recognise that the choice of benchmark dictates the assets held by the investment manager and that the manager has minimal freedom to take account of factors that may be deemed to be financially material. The Trustees accept that the role of the passive manager is to deliver returns in line with the benchmark.

In selecting new investment managers for the Scheme, where relevant to the investment mandate, the Trustees explicitly consider potential managers' approach to responsible investment and the extent to which managers integrate ESG issues in the investment process as a factor in their decision making. Minimum manager standards for responsible investment are expected (e.g. being signatory to the Principles for Responsible Investment) unless there is good justification for the manager adopting a different approach. The Trustees receive advice from the Investment Consultants when making manager selections, which includes a view on the managers' approach to ESG.

The Investment Managers appointed by the Trustees subscribe to UNPRI principles. The Trustees believe that subscribing to UNPRI is an effective way to demonstrate compliance with ESG principles. As part of any future manager selection, the Trustees will consider whether managers subscribe to UNPRI principles.

### Consideration of non-financially material factors in investment arrangements

The Trustees' current policy is not to consider any non-financial matters in the development and implementation of their investment strategy. For this purpose, "non-financial matters" means the views of the members and other beneficiaries, including (but not limited to) their ethical views, their views in relation to social and environmental impact and their present, and future quality of life.

The Trustees have not imposed any restrictions or exclusions to the investment arrangements based on non-financial matters.

### Stewardship

The Trustees recognise that stewardship encompasses the exercise of rights (including voting rights), attaching to the Scheme's investments, engagement with investment managers and the monitoring of compliance by investment managers with their own stewardship policies

#### *Exercise of voting rights*

A consequence of the Trustees investing in pooled funds is that voting decisions on securities are taken by the investment managers. The investment managers are expected to exercise the voting rights attached to individual investments in accordance with their own house policy, with the objective of preserving and enhancing long term value for investors.

The Trustees will be targeting a full transaction on all assets and liabilities in the Insurance market in the medium term and maintain an asset strategy suitable to this objective. This has led to a strategy that is principally based on government bond and credit assets. As a result, the Trustees do not currently invest in equities and hence there is not likely to be any voting activity for investment managers to report.

#### *Engagement*

Where appropriate, the Trustees will engage with and may seek further information from their investment managers on how portfolios may be affected by a particular issue.

The Trustees do not engage directly with debt or equity issuers but believe it is appropriate for their investment managers to engage in stewardship activity with key stakeholders which may include debt or equity issuers, corporate management of the debt or equity issuers, other holders of the debt or equity or stakeholders with an interest in the debt or equity issuers, regulators and governance bodies (as appropriate to the investments) in order to discuss all relevant matters concerning the issuer of debt or equity, including corporate governance, performance, management of actual or potential conflicts of interest, capital structure, strategy, risks and social and environmental impact.

Responsibility for investment decisions has been delegated to the investment managers which includes consideration of the capital structure of investments and the appropriateness of any investment made. Where managers are responsible for investing in new issuance, the Trustees expect the manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors.

The Trustees separately consider any conflicts of interest arising in the management of the Scheme and its investments. Managers are required to disclose any potential or actual conflict of interest to the Trustees.

When the Investment Consultant recommends a new manager to the Trustees, they will consider stewardship factors in the recommendation. The Trustees will consider this when deciding whether to appoint a manager.

*Monitoring*

The Trustees consider manager performance and ESG reports on a quarterly basis. They also receive an overview report from the Investment Consultants. Trustees or individual trustees attend presentations by investment managers on a periodic basis.

Signed: ..... Name .....

Date: .....

For and on behalf of the Trustees of The College of Law Pension and Assurance Scheme.