

Statement of Investment Principles

For the BMA Staff Pension Scheme

Effective from: June 2023



1. Introduction

This Statement of Investment Principles (“SIP”) has been produced by the Trustee of the BMA Staff Pension Scheme.

It sets out our policies on various matters governing investment decisions for the BMA Staff Pension Scheme (“the Scheme”).

This SIP replaces the previous SIP dated July 2022.

This SIP has been prepared after obtaining and considering written advice from LCP, our investment adviser, whom we believe to be suitably qualified and experienced to provide such advice. The advice considered the suitability of investments including the need for diversification given the circumstances of the Scheme and the principles contained in this SIP.

We have consulted with the relevant employer in producing this SIP.

We will review this SIP from time to time and will amend it as appropriate. Reviews will take place without delay after any significant change in investment policy and at least once every three years.

This SIP contains the information required by legislation, and also considers the Pension Regulator’s guidance on investments.

We have produced a separate SIP addendum document, which details further background and other matters relevant to the Scheme’s investments, but which are not required to be included in the SIP.

2. Investment objectives

The primary objective for the Scheme is to ensure that the benefit payments are met as they fall due. In addition to this primary objective, we have the following objectives:

- that the expected return on the Scheme’s assets is maximised whilst managing and maintaining investment risk at an appropriate level. What we determine to be an appropriate level of risk is set out in part 2 of the addendum to this Statement.
- that the Scheme should be fully funded on a technical provisions basis (ie the asset value should be at least that of its liabilities on this basis). We are aware that there are various measures of funding and have given due weight to those considered most relevant to the Scheme.

3. Investment Strategy

With input from our advisers and in consultation with the employer, we reviewed the investment strategy for the Scheme in February 2023, considering the objectives described in Section 2.

The investment strategy for the Scheme is shown in the following table.

Asset class	Strategic allocation
Equities	20%
Investment Grade Credit	9%
Long lease property	11%
Secured income	10%
Liability Driven Investing & Cash	50%
Target interest rate and inflation hedging (on a gilts + 0.5% p.a. liability basis)	100%

Our policy is to target the maximum expected return level subject to ensuring the level of investment risk is appropriate to reflect the Scheme’s circumstances. We believe that the strategy above meets this objective.

There is no formal rebalancing policy. We monitor the asset allocation from time to time. If material deviations from the strategic allocation occur, we will consider with our advisers whether it is appropriate to rebalance the assets, considering factors such as market conditions and anticipated future cash flows.

As the Scheme matures over time, we intend to de-risk the investment strategy in line with the change in the liability profile of the Scheme. This means that the investment strategy will gradually target a higher allocation to lower risk assets as the Scheme matures.

We manage leverage by receiving advice from our investment advisers on which assets to sell down to source liquidity to support the Scheme's LDI arrangements when needed. The Trustee will review the liquidity of its investment strategy on a quarterly basis as part of its investment monitoring.

4. Considerations in setting the investment arrangements

When deciding how to invest the Scheme's assets, it is our policy to consider a range of asset classes, taking account of the expected returns and risks associated with those asset classes, as well as our beliefs about investment markets and which factors are most likely to impact investment outcomes. The primary ways that we manage investment risk is via diversification, ensuring we receive professional written advice prior to making any material investment decision, and our ongoing monitoring and oversight of the investments

In setting the strategy for the Scheme it is our policy to consider:

- the Scheme's investment objectives, including the target return required to meet these;
- the circumstances of the Scheme, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the strength of the employer covenant; and
- the need for appropriate diversification between different asset classes to manage investment risk, and ensure that both the overall level of investment risk and the balance of individual asset risks are appropriate.

We also consider any other factors which we believe to be financially material over the applicable time horizons of the Scheme, including environmental, social and governance ("ESG") factors and the risks and opportunities relating to climate change.

Our key investment beliefs, which influenced the setting of the investment arrangements, are as follows:

- asset allocation is the primary driver of long-term returns
- costs may have a significant impact on long-term performance and therefore obtaining value for money from the investments is important
- investment managers who can consistently spot and profitably exploit market opportunities are difficult to find, and therefore passive management is usually better value
- risk-taking is necessary to achieve return, but not all risks are rewarded. Equity, credit, and illiquidity are the primary rewarded risks. Risks that do not have an expected reward should generally be avoided, hedged, or diversified
- long-term environmental, social and economic sustainability, including the implications of climate change, is one factor that we consider when making investment decisions
- environmental, social and governance (ESG) factors are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors
- climate change is a financially material systemic issue, climate-related factors are likely to be an area of market inefficiency and investment managers are likely to improve risk-adjusted returns by taking account of climate-related factors.

5. Implementation of the investment arrangements

Before investing in any manner, we obtain and consider proper written advice from our investment adviser as to whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

We have signed agreements with the investment managers setting out the terms on which the portfolios are to be managed.

Details of the investment managers are set out in the separate SIP addendum.

We have limited influence over managers' investment practices because all the Scheme's assets are held in pooled funds, but we encourage our managers to improve their practices within the parameters of the fund they are managing.

Our view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high

quality service that meets the stated objectives, guidelines, and restrictions of their fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement, and portfolio turnover.

It is our responsibility to ensure that the managers' investment approaches are consistent with our policies before any new appointment, and to monitor and to consider terminating any arrangements that appear to be investing contrary to those policies. We expect investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance (or where appropriate to explain why). We assess this when selecting and monitoring managers.

We evaluate investment manager performance over both shorter and longer term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance.

Our policy is to evaluate each of its investment managers by reference to the manager's individual performance as well the role it plays in helping the Scheme meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

We recognise that portfolio turnover and associated transaction costs are a necessary part of investment management. Since the impact of these costs is reflected in performance figures used in our assessment of the investment managers, we do not explicitly monitor portfolio turnover. We expect our investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates.

6. Realisation of investments

When appropriate, we, on the administrators' recommendation, decide on the amount of cash required for benefit payments and other outgoings and inform the investment managers of any liquidity requirements. Our preference is for investments that are readily realisable, but recognise that achieving a well-diversified portfolio may mean holding some investments that are less liquid (eg property and secured income). In general, our policy is to use cash flows to

rebalance the assets towards the strategic asset allocation, and also receive income from some of the portfolios where appropriate.

7. Financially material considerations and non-financial matters

We consider how environmental, social, governance ("ESG") considerations (including but not limited to climate change) should be addressed in the selection, retention, and realisation of investments, given the time horizon of the Scheme and its members.

We influence the Scheme's approach to ESG and other financially material factors through our investment strategy and manager selection decisions. We expect all of our investment managers to take account of financially material factors (including climate change and other ESG factors) within the parameters of the mandates they are set. We seek to appoint managers that have the skills and processes to do this, and periodically review how the managers are taking account of these issues in practice.

We have limited influence over managers' investment practices where assets are held in pooled funds, but we encourage our managers to improve their ESG practices within the parameters of their funds.

The Trustee will consider funds (where available) that demonstrate the incorporation of strong stewardship practices into the investment process. In addition, the Trustee may consider investing in actively managed funds which are highly rated for integration of climate-related factors and specialist funds which seek to have a demonstrably positive environmental impact.

We have chosen to invest in a passively managed equity fund that tracks an index with reduced exposure to climate-related risks and increased exposure to climate-related opportunities.

We do not consider any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention, and realisation of investments.

8. Voting and engagement

We recognise our responsibilities as owners of capital, and believe that good stewardship practices, including monitoring and engaging with investee

companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments.

We have delegated to the investment managers the exercise of rights attaching to investments, including voting rights, and engagement with relevant persons such as issuers of debt and equity, stakeholders and other investors about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG factors.

We do not monitor or engage directly with issuers or other holders of debt or equity, but we do engage with current and prospective investment managers on matters including ESG and stewardship. We expect the investment managers to exercise ownership rights and undertake monitoring and engagement in line with their policies on stewardship, considering the long-term financial interests of the beneficiaries. We expect the managers to communicate their policies on stewardship to us from time to time, and provide us with reporting on the results of their engagement and voting activities regularly and at least once a year.

We seek to appoint managers that have strong stewardship policies and processes, reflecting the principles of the UK Stewardship Code 2020 issued by the Financial Reporting Council, and from time to time we review how these are implemented in practice.

We have selected some priority ESG themes to provide a focus for our monitoring of investment managers' voting and engagement activities. We review the themes regularly and update them if appropriate. The current priorities are climate change, biodiversity and business ethics (including board remuneration, modern slavery and human rights).

We communicate these stewardship priorities to our managers. If our monitoring identifies areas of concern, we will engage with the relevant manager to encourage improvements.