Statement of Investment Principles – ReAssure Staff Pension Scheme (September 2024)

Introduction

1 This document is the Statement of Investment Principles ('SIP') made by the Trustee of the ReAssure Staff Pension Scheme (the 'Scheme') in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and regulations made under it).

2 The Trustee will review this SIP at least every three years and without delay after any significant change in investment policy. Before finalising this SIP, the Trustee took written advice from the Scheme's Investment Consultant (WTW) and consulted ReAssure Midco Limited (the 'Employer'). The ultimate power and responsibility for deciding investment policy, however, lies solely with the Trustee.

Scheme objectives

3 The investment objectives of the assets backing the Scheme are:

a. the acquisition of suitable assets of appropriate liquidity which, together with such new contributions from the Employer as may be made from time to time (if any), will generate income and capital growth to meet the cost of benefits as they fall due which the Scheme provides.

b. to limit the risk of the assets failing to meet the liabilities over the long term (noting the existence of the Security Account set up as part of the Funding Agreement).

c. to minimise the long-term costs of the Scheme by prudentially maximising the return on the assets whilst having regard to the objective shown under point "b" above.

d. to hold suitable assets to allow the Scheme's liabilities to be settled with an insurer over the medium term.

Investment strategy

4 The Trustee has received advice to determine an appropriate investment strategy for the Scheme. The Trustee has a desire to diversify its risk exposures and to manage its investments efficiently and has therefore delegated responsibility for investment decisions to its Funding and Investment Sub-Committee ("FISC"). All decisions of the FISC will be recorded in committee minutes and made available to the full Trustee Board.

5 The investment strategy makes use of two key types of investments:

a. a range of instruments that provide a match to changes in the value of the Scheme's liabilities, including government bonds, swaps, credit and secure income assets

b. a range of return-seeking assets, including (but not limited to) equities, credit, diversifying strategies and alternative credit that seek to provide a return in excess of that of the liabilities.

6 The balance within and between these investments will be determined from time to time with regard to maximising the chance of achieving the Scheme’s investment objectives. The asset allocation is considered by the Trustee on a regular basis and reviewed in detail following each actuarial valuation. The current allocation was agreed in Q1 2023 and was based on the assumptions that equities would deliver a real return of 4.8% pa and corporate bonds would deliver a real return of 2.1% pa, both over the long term. The target asset allocation is shown below:

Asset class	Weighting
Return seeking assets	20%
Matching assets	80%

The Trustee has in place asset allocation ranges of +/- 2% of the target asset allocation, at which point rebalancing of the portfolio will be considered.

7 The Scheme will hold assets in cash and other money market instruments from time to time as may be deemed appropriate.

8 The Trustee will monitor the liability profile of the Scheme and will regularly review, in conjunction with the Investment Consultant and the Scheme Actuary, the appropriateness of the investment strategy.

9 The expected return of an investment will be monitored regularly and will be directly related to the Scheme’s investment objective.

10 The Trustee's policy is that there will be sufficient investments in liquid or readily realisable assets to meet cashflow requirements in foreseeable circumstances so that the realisation of assets will not disrupt the Scheme's overall investments, where possible. The Trustee, together with the Scheme's administrators, will hold sufficient cash to meet benefit and other payment obligations.

11 The Trustee will ensure that the Scheme’s investment strategy is at all times consistent with Funding Agreement agreed with the Employer dated 8 July 2016 and as amended from time to time.

Investment managers

12 In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policy, but will delegate the responsibility for selection of specific investments to an appointed investment manager or managers. The investment managers shall provide the skill and expertise necessary to manage the investments of the Scheme competently.

13 The Scheme uses many different managers and mandates to implement its investment policies. The Trustee will also ensure that the investment objectives and guidelines of any particular pooled vehicle are consistent with its policies, where relevant to the mandate in question.

14 To maintain alignment, managers are provided with the most recent version of the Scheme’s Statement of Investment Principles on an annual basis and are required to confirm that the management of the assets is consistent with those policies relevant to the mandate in question.

15 The Trustee is not involved in the investment managers' day-to-day method of operation and does not directly seek to influence attainment of their performance targets. The Trustee will maintain processes to ensure that performance is assessed on a regular basis against a measurable objective for each manager, consistent with the achievement of the Scheme's long term objectives, and an acceptable level of risk. As part of this process, the Trustee has delegated the detailed monitoring of the Scheme’s investment managers to its Investment Consultant. Should the Trustee’s monitoring process reveal that a manager’s portfolio is not aligned with the Trustee’s policies, the Trustee will engage with the manager further to encourage alignment.

16 The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages engaged ownership of the Scheme’s assets. When assessing a manager’s performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate a manager’s appointment based purely on short term performance. However, a manager’s appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

17 Managers are paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement. Some of the managers may be paid incentive fees based on the performance achieved.

18 The Trustee reviews the costs incurred in managing the Scheme’s assets annually, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustee will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

Other matters

19 The Scheme is a Registered Pension Scheme for the purposes of the Finance Act 2004.

20 The Scheme previously allowed members to make additional contributions into either a Free Standing Fund of their choice, or directly into the existing Scheme’s products on a Money Purchase basis. However all additional voluntary contributions ceased when the Scheme closed to future accrual on 30 September 2010. (The Scheme has also provided an option to invest in a separate stand-alone Trustee policy in the past; this is also closed to new contributors). The Trustee believed these were appropriate facilities for this purpose, but notes that the choice of funds rests entirely with the members, as did the level of contributions prior to the Scheme closing.

21 The Trustee takes account of all financially material risks and opportunities in consultation with its advisers. All risks and opportunities are considered for materiality and impact within an integrated risk management framework, which takes account of the Scheme’s investment and funding time horizon along with sponsor covenant.

a. Deficit risk:

- is measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies.

- is managed through assessing the progress of the actual growth of the liabilities relative to the selected investment policy.

b. Manager risk:

- is measured by the expected deviation of the return relative to the benchmark set.

- is managed by limiting exposure to any one investment manager, consideration of the appropriate amount of the Scheme to allocate to each active portfolio and by monitoring the actual deviation of returns relative to the benchmark and factors supporting the managers' investment process.

c. Liquidity risk:

- is measured by the level of cashflow required by the Scheme over a specified period.

- is managed by the Scheme's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy and through holding assets of appropriate liquidity.

d. Currency risk:

- is measured by the level of exposure to non-Sterling denominated assets.

- is managed where considered appropriate by the implementation of a currency hedging programme (to be implemented by the Scheme's investment managers under the relevant pooled fund structure), which reduces the impact of exchange rate movements on the Scheme's asset value.

e. Interest rate and inflation risk:

- is measured by comparing the likely movement in the Scheme's liabilities and assets due to movements in inflation and interest rates.

- is managed by the Scheme's liability hedging investment manager (LGIM), who manage a portfolio of matching assets (physical bonds and derivatives) that enable the Scheme's assets to better-match movements in the value of the liabilities due to inflation and interest rates. The level of hedging by the portfolio is monitored on a daily basis.

f. Political risk:

- is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention.

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

g. Sponsor risk:

- is measured by receiving regular financial updates from the Employer and if deemed necessary periodic independent covenant assessments.

- is managed through an agreed contribution and funding schedule via the Deed of Amendment to the Funding Agreement dated 14 March 2023.

h. Derivatives risk

- Counterparty risk – this risk is mitigated through collateral management, diversifying exposure across counterparties, and the use of robust ISDA, GMRA or other relevant derivatives documentation.

- Liquidity risk – the risk that changes to market conditions could lead to the Scheme needing to post additional collateral at short notice in order to maintain the Scheme's liability hedging arrangements. This risk is mitigated through the guidelines provided to the Fund's LDI manager, maintaining a minimum level of excess available collateral and the monitoring of the LDI portfolio undertaken by the Trustee.

- Basis risk – the returns of assets used to match the Scheme's liabilities may not mirror exactly the returns of the liabilities. This risk is addressed through the investment policy adopted by the Trustee for the matching assets and the investment managers' asset management capabilities.

- Liability risk – pension liabilities can only be estimated and there is a risk of divergence between the performance of the derivatives and the actual value of the liabilities (for example, due to changes in assumptions or demographics). This risk is mitigated by updating the liability hedging benchmark at regular intervals.

- Legal and operation risk – the successful operation of derivatives depends on the various legal documents governing the derivative contracts and the correct completion of some operational tasks. The Trustee takes appropriate advice when putting in place legal documents, reviewing legal documents already in place and appointing and monitoring providers capable of carrying out the required operational tasks.

22 In determining its approach to sustainability, the Trustee feels it is important to take into consideration both its views and the views of the Sponsor. The Trustee considers sustainable investment factors, such as (but not limited to) those arising from Environmental, Social and Governance (ESG) considerations, including climate change, in the context of the broader risk management framework described above.

23 When considering its policy in relation to stewardship including engagement and voting, the Trustee expects the Investment Managers to address broad ESG considerations taking into account the nature of the assets held under the relevant investment mandate. As part of this process, the Trustee has identified climate change as its key area of focus.

24 The Trustee has articulated the following sustainability policies to reflect the collective responsibility to ultimately deliver member benefit security:

a. The Trustee has adopted a medium-term time horizon for the assessment of financially material risks, with a focus on good governance and stewardship.

b. The Trustee believes that long-term sustainability issues can have an impact on risk and outcomes, both financial and non-financial, and should be considered at all stages of the investment process.

c. Understanding how an investment manager takes into account sustainability factors is a relevant consideration when selecting investments. The Trustee relies on its advisers to reflect its beliefs in all aspects of investment advice (particularly when selecting managers) and industry engagement, and monitors and engages with its advisers to ensure this happens appropriately. In doing this, the Trustee relies on the transparency of its adviser's research process, which considers ESG integration, team diversity, documented policies, voting policies, engagement, transparency and alignment of all investment managers that are researched.

d. Sustainable investment and ESG factors are important risks, and can have financial impacts on the Scheme's portfolio. As such, they should be considered in a balanced risk/return framework when making investment decisions.

e. The Trustee also considers other relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings as part of its overall policy.

f. Understanding how an investment allows for stewardship and ESG factors (including climate change) is relevant, but exclusion and impact investing is not likely to be a material part of investment strategy. The Trustee receives reporting from the investment consultant on an annual basis to ensure sustainability issues are assessed and taken account of in each investment manager's investment decision making process as appropriate. The Trustee also considers alignment with the exclusion policy of the Sponsor as part of its ongoing monitoring of the Scheme's investment managers. Should the Trustee determine that a manager's approach to stewardship or ESG considerations are not appropriate, the Trustee will raise this with the relevant manager and, if not remedied, will ultimately consider terminating their appointment.

g. For most of the Scheme's investments, the Trustee expects the investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods.

h. When the risk and return characteristics of potential investments are suitable, the Trustee may consider which of the possible investments will provide the greatest long-term societal benefit.

i. The Trustee does not intend to use pension scheme money to implement any kind of moral/ethical/lobbyist agenda, but recognises the collaborative initiatives undertaken on their behalf by their managers and advisers.

Signed:

Name:

Date:

Authorised for and on behalf of the Trustee of the Scheme