

Bradford & Bingley Staff Pension Scheme

# **Statement of Investment Principles**

October 2022



# Table of Contents

<b>Section 1 : Introduction .....</b>	<b>1</b>
<b>Section 2 : Division of Responsibilities .....</b>	<b>3</b>
<b>Section 3 : Investment Objectives and Risk Management .....</b>	<b>6</b>
<b>Section 4 : Investment Strategy .....</b>	<b>8</b>
<b>Section 5 : Investment Manager Arrangements .....</b>	<b>10</b>
<b>Section 6 : Compliance with and Review of this Statement .....</b>	<b>13</b>

This page is intentionally blank

# Section 1: Introduction

## Scheme details

- 1.1 Under the Pensions Act 1995 (as updated by the Pensions Act 2004), the Trustee is required to prepare a statement of the principles governing investment decisions. This document describes the investment policy pursued by Bradford & Bingley Pensions Limited as the Trustee of the Bradford & Bingley Staff Pension Scheme ("the Scheme").
- 1.2 The Scheme operates for the exclusive purpose of providing retirement benefits to eligible participants and beneficiaries. The Scheme is a defined benefits arrangement.
- 1.3 The Trustee offers an Additional Voluntary Contribution (AVC) arrangement, however no further contributions are being made following the closure of the Scheme to future accrual on 31st December 2009. All AVC funds are currently managed by Scottish Friendly, prior to Scottish Friendly the AVC funds were managed by Mobius.
- 1.4 The Trustee invests certain Special Contributions received from the Employer in separately designated accounts. The investment vehicles adopted for members' AVCs are used for this purpose.
- 1.5 The Scheme is managed by the Trustee, who is responsible for the investment of the Scheme's assets.

## Pensions Act 1995 (as amended)

- 1.6 Under the Pensions Act, the Trustee is required to prepare a statement of the principles governing investment decisions. This document fulfils that requirement for the Scheme.
- 1.7 The Trustee will consult UK Asset Resolution Limited ('the Principal Employer') on any changes in investment policy as set out in this document and on the employment or removal of fund managers. The Trustee seeks to agree investment strategy changes with the Principal Employer.
- 1.8 Before preparing this document the Trustee has had regard to the requirements of the Pensions Act concerning diversification of investments and suitability of investments and the Trustee will consider those requirements on any review of this document or any change in the investment policy. The Trustee will refer to this document where necessary to ensure that it exercises its powers of investment so as to give effect to the principles set out in the Statement as far as is reasonable.

## Statement of Funding Principles

- 1.9 The Pensions Act 2004 requires that the Trustee prepares a Statement of Funding Principles. The Trustee will prepare this document, after obtaining advice from the Scheme Actuary, in conjunction with each actuarial valuation.

- 1.10 The Statement covers the Scheme's statutory funding objective, the principles used in determining the objective, the policy for securing that it is met, and the process through which the Trustee and the Principal Employer reach agreement on the contents of the Statement.

### **Financial Services and Markets Act 2000**

- 1.11 In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment guidelines, but, where applicable, will delegate the responsibility for the selection of specific investments or specified pooled investment funds to the appointed investment managers. The investment managers shall provide the skill and expertise necessary to competently manage the investments of the Scheme.

# Section 2: Division of Responsibilities

## Trustee

2.1 The Scheme Trustee's responsibilities include:

- (i) Reviewing annually the content of this Statement of Investment Principles and modifying it if deemed appropriate, in consultation with the investment consultant and Scheme Actuary.
- (ii) Reviewing the investment policy following the results of each actuarial review, and/or asset liability modelling exercise, in consultation with the investment consultant and Scheme Actuary.
- (iii) Assessing the quality of the performance and processes of the investment managers, by means of regular, but not less than annual, reviews of the investment results and other information, in consultation with the investment consultant and Scheme Actuary.
- (iv) Consulting with the Principal Employer when reviewing investment policy issues.
- (v) Monitoring compliance of the investment arrangements with this statement on an ongoing basis.
- (vi) Reviewing the Custodian from time to time, if required.
- (vii) Considering on an annual basis the effectiveness of the decisions it has made and the contributions to those decisions by the Scheme's investment managers and consultants.
- (viii) Assessing its own procedures and decisions as Trustee.
- (ix) Monitoring and reviewing the Scheme's investment strategy on an ongoing basis.
- (x) Overseeing necessary implementation and transition activity

## Investment Managers

2.2 The investment managers will be responsible for:

- (i) At their discretion, but within any guidelines given by the Trustee, implementing changes in the asset mix and selecting securities or pooled investment funds within each asset class.
- (ii) Informing the Trustee of any changes in the internal performance objective and guidelines of any pooled fund used by the Scheme as and when they occur.
- (iii) Obtaining advance approval from the Trustee before diverting from agreed guidelines.

- (iv) Operating within investment performance requirements and/or restrictions criteria specified from time to time, and/or detailed within the Investment Management Agreement.
- (v) The independent safekeeping of the assets and appropriate administration (including income collection and corporate actions) within any pooled funds used by the Scheme.

## **Investment Consultant**

2.3 The investment consultant's responsibilities include:

- (i) Participating with the Trustee in annual reviews of this Statement of Investment Principles (in consultation with the Scheme Actuary as necessary).
- (ii) Provision of a commentary on investment performance and performance measurement services as required.
- (iii) Undertaking project work as required including reviews of investment policy and the investment managers.
- (iv) Advising on the removal and selection of new investments and investment managers.
- (v) Advising the Trustee on:
  - (i). How any changes in the investment managers' organisations could affect the interests of the Scheme.
  - (ii). How any changes in the investment environment could either present opportunities or problems for the Scheme.

## **Scheme Actuary**

2.4 The Scheme Actuary will be responsible for:

- (i) Liaising with the investment consultant on the suitability of the Scheme's investment strategy given the financial characteristics of the Scheme.
- (ii) Assessing the Statutory Funding Objective position of the Scheme and advising on the appropriate response required to eliminate any shortfall.
- (iii) Performing the triennial (or more frequently as required) actuarial valuations and advising on the appropriate contribution levels set from time to time for the various sections of the Scheme.

## **Custodians**

2.5 Where applicable, the Custodians' responsibilities include:

- (i) The safekeeping of all of the assets of the Scheme.
- (ii) Providing the Trustee with quarterly statements of the assets, cashflows and corporate actions.
- (iii) Undertaking all appropriate administration relating to the Scheme's assets.
- (iv) Processing all dividends and tax reclaims in a timely manner.
- (v) Where necessary, investing in cash in a suitable low risk manner consistent with the Trustee's guidelines.
- (vi) Notifying the Trustee and relevant authorities when the Scheme's aggregate holdings exceed disclosable amounts.
- (vii) Dealing with corporate actions.

# Section 3: Investment Objectives and Risk Management

## Scheme Objectives

3.1 The objectives are:

- (i) The acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with any new contributions from the Principal Employer, the cost of benefits which the Scheme provides.
- (ii) To limit the risk of the assets failing to meet the liabilities both over the long term, and on a shorter-term basis.

## Risk

3.2 The Trustee recognises a number of risks involved in the investment of the assets of the Scheme. These include:

- (i) Solvency risk and mismatching risk - addressed through the asset allocation strategy and through ongoing triennial actuarial valuations.
- (ii) Manager risk - addressed through the ongoing monitoring of the managers.
- (iii) Liquidity risk - the pensions administrator estimates the monthly benefits paid and ensures that sufficient cash balances are available.
- (iv) Inappropriate investments - addressed through constraints on the use of derivatives, gearing and other restrictions, as set out in the Investment Management Agreements.
- (v) Political risk - the risk of an adverse influence on investment values from UK political intervention is reduced by an ability to enter into derivatives and ongoing monitoring of the investment strategy.
- (vi) Custodian risk - addressed through the ongoing monitoring of the custodial arrangements. Restrictions are applied to who can authorise transfer of cash and the account to which transfers can be made.
- (vii) Counterparty risk - addressed through the investment manager guidelines with respect to cash management.
- (viii) Fraud and dishonesty – addressed through the use of custodian services to hold assets and documents of title and control of persons authorised to issue instructions.

- (ix) Legal and operational risk – the risk that legal documents are inappropriate or that operational tasks are not completed correctly. This risk is mitigated through the choice of investment managers and the appointment of legal advisors as appropriate.
- (x) Sponsorship risk – addressed through ongoing assessment and consideration of the employer's covenant.

# Section 4: Investment Strategy

## Asset Allocation principles

- 4.1 The Trustee considers the asset allocation in the table below to be appropriate for the purposes of meeting the objectives. This strategy has been developed following the results from the 30 June 2018 triennial statutory actuarial valuation and has been updated in March 2021

<b>Asset class</b>	<b>Benchmark asset allocation (%)</b>
<b>Total liability-matching</b>	<b>100.0</b>
<i>Government bonds, swaps and collateral</i>	98.5
<i>Index-linked non-government bonds</i>	1.5
<b>Total</b>	<b>100.0</b>

- 4.2 Futures, options and other derivatives will not be used for trading purposes but may be used for the purposes of managing risk within the Scheme. A liability driven investment programme involving swaps and gilts (utilising a repo facility as required) has been implemented to hedge out part of the Scheme's liabilities' inflation and interest rate risk. The Trustee has agreed the liability driven investment programme should have an aspirational target of 100% hedging of the Scheme's liabilities on a low risk basis (i.e. protecting the funding level of the Scheme) from interest rate and inflation risk. Currently the Scheme has a hedge ratio target of 98% of the Scheme's liabilities which looks to avoid the Scheme being overhedged as a result of transfers out of the Scheme. The Trustee will review the hedging on a regular basis and amend the hedge appropriately as required.
- 4.3 The Trustee has considered other possible investments and has concluded that no other asset classes are currently appropriate for the Scheme.
- 4.4 In determining this benchmark asset allocation, the Trustee has had regard for the historical rates of return earned on the various asset classes available, their expected future returns and the expected short-term volatility of each asset class. The Trustee recognises that fluctuations from year to year can be very large.
- 4.5 The overall Scheme asset and manager allocation will be reviewed on a quarterly basis taking account of market movements and economic conditions. Discussions will be undertaken with the Scheme's investment consultant and any adjustments to asset allocation in order to limit deviations from the benchmark will be made.

## Suitability

- 4.6 The Trustee has taken advice from the investment consultant, the Scheme Actuary and the investment managers to ensure that the benchmark is suitable for the Scheme given its liability profile.

## Liquidity

- 4.7 The Trustee, together with the Scheme's administrators, will ensure that it holds sufficient cash to meet the likely benefits due to be paid at any time. The Trustee's policy is that there should be sufficient investments in liquid or readily realisable assets to meet unexpected cashflow requirements in the majority of foreseeable circumstances so that realisation of assets will not disrupt the Scheme's overall investment policy.

## Socially Responsible Investment

- 4.8 The Trustee has delegated responsibility for the selection, retention and realisation of investments to the investment managers (within certain guidelines and restrictions). The Trustee recognises that an investment's long-term financial success is influenced by a range of factors including Environmental, Social and Governance (ESG) issues and climate change. The Trustee retains its own Sustainable Investment beliefs and considers its investment manager practices in line with these beliefs.
- 4.9 The Trustee's focus is explicitly on financially material considerations, however the Trustee expects ESG considerations to be taken into account as part of the investment managers' mandates. The Trustee's policy is that the extent to which ESG considerations are taken into account in these decisions is left to the discretion of the investment managers, this includes relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings. The Trustee periodically meets with the Scheme's investment managers and reviews their approach to this area. The Trustee's policy at this time is not to take into account non-financially material or ethical considerations and not to take account of member's views within its ESG policy. The Trustee receives regular training on this subject to aide with the monitoring of these policies.
- 4.10 The Trustee's policy is to delegate authority for the exercising of rights (including voting rights) attaching to investments to the investment managers, where relevant.
- 4.11 The Trustee recognises that compliance with best practice guidelines (e.g. the Financial Reporting Council's Stewardship Code) is in the best interests of the Scheme. The Trustee expects its investment managers to comply with the spirit of these voluntary principles and has documented the managers' approach in this area.

# Section 5: Investment Manager Arrangements

## Investment Manager Structure

5.1 The assets of the Scheme are invested with a number of investment managers appointed by the Trustee. These are set out in the table below.

Manager	Asset class	Total Portfolio Allocation (%)	Benchmark
<b>Henderson Global Investors*</b>	European Property	0.0	N/A
<b>Insight Investment</b>	LDI	98.5	N/A
	Network Rail index-linked bonds	1.5	N/A

The above figures may not sum to 100% due to rounding

\*The Scheme has fully disinvested from Henderson Global Investors European Property fund but is waiting for the final distribution to be paid

## Investment Manager objectives

5.2 Henderson Global Investors

- (i) Henderson manages the Henderson Indirect Property Fund (Europe), a pooled fund of funds, holding real estate across Europe. The fund is currently in the process of being liquidated with capital being returned to the Scheme.

5.3 Insight Investment

- (i) The LDI portfolio is a segregated liability hedging mandate targeting a 98% hedge ratio of the Scheme's liability inflation and interest rate sensitivity on a low risk basis. Insight have discretion to manage the portfolio in line with the Scheme's liability benchmark and can invest in index-linked gilts, fixed interest gilts, swaps and gilt repo.
- (ii) The index-linked gilts, index-linked bonds issued by Network Rail, fixed interest gilts, swaps programme and gilt repo facility are held in a segregated account.

5.4 Cash managed by Trustee

- (i) The Trustee retains control of a proportion of the Scheme's assets in the form of cash. The maximum proportion of the Scheme's assets held in cash in this way will not exceed 5% (unless being used as reserved collateral for the leveraged swaps and gilt programme or as a temporary holding position). The day to day management of such cash is delegated to the Scheme Secretary. Cash balances are normally held to meet operating expenses and to pay pensions and other benefits to Scheme members.
- 5.5 Appropriate guidelines and restrictions have been agreed with each of the managers, and these are set out in investment management agreements.
- 5.6 Managers are paid an ad valorem fee, in line with normal market practice, for a given scope of services agreed prior to investment.
- 5.7 The Trustee, with the help of the investment consultant, monitors the level of transaction costs (including commissions) across the Scheme incurred by each investment manager through regular engagement with the manager on this subject and through receipt of MiFID II compliant cost reporting. There is no broad targeted portfolio turnover (how frequently assets within a fund are bought and sold by investment managers) which the Trustee adheres to. The Trustee, with the help of the investment consultant, will monitor that the level of portfolio turnover remains appropriate in the context of the investment managers' strategy and the Scheme's investment strategy
- 5.8 Custody for the segregated portfolio managed by Insight is provided by BNY Mellon Asset Servicing.

## Manager Monitoring

- 5.9 Alignment between a manager's management of the Scheme's assets and the Trustee's policies and objectives are a fundamental part of the appointment process of a new manager. When investing in a pooled investment vehicle, the Trustee will ensure the investment objectives and guidelines of the vehicle are consistent with its own objectives. Where segregated mandates are used, the Trustee will use its discretion, where appropriate, to set explicit guidelines within the Investment Management Agreement. The appointments of the investment managers will be reviewed by the Trustee from time to time and not less than annually, based on the results of their monitoring of performance and process and of the managers' compliance with the requirements in the Pensions Act concerning diversification and suitability, where relevant. The custodian will also be monitored.
- 5.10 To maintain alignment the managers and custodian have been provided with a copy of this Statement and the Trustee will monitor the extent to which they give effect to the policies set out in it.
- 5.11 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.

- 5.12 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 where applicable to drive improved performance over these periods.
- 5.13 BNY Mellon Asset Servicing is used as an external independent performance measuring agency to consider the performance of the Scheme and its managers against the benchmarks. The investment consultant attends each quarterly meeting to review investment performance and any developments at each investment manager used by the Scheme. 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.
- 5.14 The Trustee holds periodic meetings with the investment managers to satisfy itself that the investment managers continue to carry out their work competently and have the appropriate knowledge and experience to manage the investments of the Scheme.

# Section 6: Compliance with and Review of this Statement

## Compliance with this Statement

6.1 The Trustee will monitor compliance with this Statement annually.

## Review of this Statement

6.2 In preparing this document, the Trustee has sought advice from WTW, its investment consultant, and consulted the Scheme Actuary and the investment managers. The Trustee will review this document, in consultation with the investment consultant and Scheme Actuary, at least once a year, or sooner when the Trustee considers that a review is needed for other reasons.

Signed for on and on behalf of the Trustee:

---

Name:

---

Date:

---

Signed for on and on behalf of the Trustee:

---

Name:

---

Date:

---