



Statement of Investment Principles

## **City and Guilds (1966) Pension Scheme**

Date reviewed: December 2023

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## ***Disclaimer***

*It is a legal requirement for the Trustee to prepare a Statement of Investment Principles. The information it contains should not be regarded as an offer or solicitation for Scheme members to take any investment action or decisions. Whilst the Trustee believes the information contained within the Statement to be an accurate representation of the Scheme's investment arrangements, they accept no responsibility for any decision made by any person based solely on the information it contains. The Trustee encourages all members to seek independent financial advice prior to taking decisions about their pension benefits.*

# Introduction

## **Pensions Act**

- 1.1 The Pensions Act 1995 (as amended by the Pensions Act 2004) requires the Trustee to prepare a statement of the principles governing investment decisions for the purposes of the Scheme (the "Statement"). This document fulfills that requirement.
- 1.2 In preparing this Statement the Trustee has consulted City & Guilds Limited and will do so whenever the Trustee intends to revise the Statement. Responsibility for maintaining the Statement and deciding investment policy rests solely with the Trustee.
- 1.3 In preparing this Statement and for the purposes of the Pensions Act the Trustee has obtained written advice from the Scheme's investment consultant, WTW and they also received input from the Scheme Actuary, Bridget Hall of WTW. The Trustee will similarly obtain such advice as appropriate whenever the Statement is reviewed or revised. The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this Statement.
- 1.4 Before adopting this document the Trustee has had regard to the requirements of the Pensions Act concerning diversification of investments and suitability of investments taking into consideration the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005. The Trustee will consider those requirements on any review of this document or any change in their investment policy.
- 1.5 The Trustee will review this Statement annually or without delay following any significant change in the investment policy and on such other occasions as may appear to them to be appropriate.

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

- 1.6 In accordance with the Financial Services and Markets Act 2000, the Trustee sets general investment policy, but delegates the responsibility for selection of specific investments to appointed Investment Managers, which may include an insurance company or companies. The Investment Managers provide the skill and expertise necessary to manage the investments of the Scheme competently.

## **Scheme details**

- 1.7 The Scheme operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries ("Members"). The Defined Benefit sections closed to future accrual on 30 June 2018. Within these sections the benefits at retirement are determined by the member's earnings history, tenure of service and age.

In addition the Scheme has a number of pensions in payment.

## **Members' best interests**

- 1.8 The aims, objectives and policies of the Trustee in relation to all investment funds together with an explanation of how they are intended to ensure that assets are invested in the best interests of members and beneficiaries are set out in this Statement.

## Section 2: Division of responsibilities

- 2.1 The Trustee has ultimate responsibility for decision-making on investment matters. In order to ensure that investment decisions are taken only by persons or organisations with the skills, information and resources necessary to take them effectively, the Trustee delegates some of these responsibilities.

### **Trustee**

- 2.2 The Trustee's responsibilities include:

- Reviewing regularly the content of this Statement in conjunction with the Investment Consultants and the Scheme Actuary, and modifying it if deemed appropriate.
- Reviewing the investment policy following the results of each actuarial review and/or asset liability modelling exercise.
- Appointing (and dismissing) Investment Managers.
- Consulting with the Institute when considering any amendment to this Statement.
- Monitoring compliance of the investment arrangements with this Statement on an ongoing basis.

### **Investment Managers**

- 2.3 Each Investment Manager's responsibilities include:

- Discretionary management of the portfolio, including implementation (within guidelines given by the Trustee) of changes in the asset mix and selecting securities within each asset class.
- Providing the Trustee with quarterly statements of the assets together with a quarterly report on actions and future intentions, and any changes to the processes applied to the portfolio.
- Informing the Trustee of any changes in the internal objectives and guidelines of any pooled funds used by the Scheme as soon as practicable.
- The independent safekeeping of the assets and appropriate administration (including income collection and corporate actions) within any pooled funds used by the Scheme.

### **Professional Advisors**

- 2.4 The Trustee recognizes the importance of managing and contracting with external advisers (including advice on strategic asset allocation, investment management and actuarial issues). However, the Trustee believes that the current arrangement (using a single advisory firm for both actuarial and investment advice) has certain advantages for the Scheme. The Trustee will continue with the current arrangement until this ceases to be appropriate.

## **Investment Consultant**

2.5 The role of the Investment Consultants is to give advice to the Trustee in the following areas:

- The development of a clear investment strategy for the Scheme
- Any asset-liability modelling process
- The construction of a strategic asset allocation policy having regard to the liabilities of the Scheme and the risk and return objectives of the Trustee
- The construction of an overall investment management structure that meets the objectives of the Trustee
- The regular updating of the Statement of Investment Principles
- The selection and appointment of appropriate investment management organisations
- Their evaluation of the Investment Managers employed by the Scheme
- Potential new areas or methods of investment
- Commentary on investment performance and risk taken by the Investment Managers
- General advice in respect of the Scheme's investment activities.

## **Scheme Actuary**

2.6 The Scheme Actuary's responsibilities, as they relate to investment matters, include:

- Liaising with the Investment Consultants on the suitability of the Scheme's investment strategy given the financial characteristics of the Scheme.
- Assessing the solvency position of the Scheme and advising on the appropriate response to any shortfall
- Performing the triennial (or more frequently, as required) valuations of the Scheme and advising on the appropriate contribution levels.

## Section 3: Objectives and long-term policy

### Objectives

- 3.1 The Trustee's longer-term goal is to significantly reduce the Scheme's reliance on the Institute in order to meet its liabilities. This will be achieved by building up sufficient assets within the Scheme to enable a very low risk investment strategy to be implemented, while retaining a high probability that the liabilities can be met without further recourse to the Institute. The Trustee anticipates that it will take between 10 years and 20 years to reach this position.
- 3.2 In seeking to achieve the longer-term goal, the Trustee has agreed the following investment objectives:
- The acquisition of suitable assets of appropriate liquidity intended to generate income and capital growth appropriate to meet, together with contributions from the Institute, the cost of current and future benefits which the Scheme undertakes to provide as set out in the Trust Deed and Rules.
  - Target a return of Gilts+1.6% p.a. consistent with the 2020 actuarial valuation.
  - Look to generate this return as efficiently as possible given the governance constraints of the Scheme.

### Policy

- 3.3 The Trustee reviewed the Scheme's asset allocation policy in 2023 and determined that a strategic benchmark with a 39.5% allocation to return-seeking assets was appropriate in light of the de-risking that was agreed as part of this review. The Trustee has adopted the following asset allocation as the Scheme's strategic benchmark.

Asset Class	Target % of total assets	Ranges % of total assets	Performance benchmark index
UK equities	0.25	0.0 – 0.5	FTSE All-Share
Overseas Developed Markets equities	4.25	0.0 – 6.0	
<i>GBP Hedged</i>	<i>2.125</i>	<i>0.0 – 3.0</i>	<i>FTSE All World Developed ex UK 95% GBP Hedged</i>
<i>Unhedged</i>	<i>2.125</i>	<i>0.0 – 3.0</i>	<i>FTSE All World Developed ex UK</i>
Emerging Markets	0.5	0.0 – 1.0	MSCI Emerging Markets Index
Total equities	5.0	0.0 – 7.5	
Property	7.5	5.0 – 10.0	IPD UK– All Balanced Property Funds Weighted Average
Diversification funds	27.0	22.0 – 32.0	50% UK CPI + 2%; 50% UK RPI + 3%
<b>Total Return Seeking</b>	<b>39.5</b>	<b>27.0 – 49.5</b>	
LDI Portfolio	60.5	50.5 – 73.0	Blended portfolio
<b>Total bonds</b>	<b>60.5</b>	<b>50.5 – 73.0</b>	
	<b>100.0</b>		

- 3.4 The Trustee's policy is to hedge a proportion of the interest rate and inflation risk of the liabilities using a pooled LDI strategy. The Trustee has set a target hedge ratio of 90% for both interest rates and inflation, measured as a % of assets. The actual hedge ratio will vary with market conditions, but would generally be expected to be in the range of 80% - 100%.
- 3.5 The Trustee's policy is to have overseas currency exposure of no more than 20% of total assets. This is implemented through hedging 50% of the currency exposure associated with the overseas equity investments, with the exception of the Emerging Markets allocation. This range allows for the typical non-sterling currency exposure with the diversified growth funds allocation, which is determined by the investment managers.
- 3.6 In light of the Investment Consultant's advice, the Trustee considers that this target asset allocation represents suitable investment classes, is appropriately diversified and provides a reasonable expectation of meeting the above objectives. The Trustee will review the investment strategy on an annual basis to ensure it remains consistent with the investment objectives set out in 3.2
- 3.7 Divergence from the asset allocation benchmark is expected as a result of market and manager performance. In the majority of circumstances, the Scheme's asset allocation would be expected to lie within the ranges set out in 3.3 above. The Trustee will review such divergence on a regular basis to ensure that the asset allocation remains suitable for the Scheme.
- 3.8 The Trustee's policy is to employ leverage within the LDI portfolio (using pooled LDI funds) to increase the proportion of interest rate and inflation risk that is managed by the LDI allocation. Some short-term borrowing for settlement is also allowed, but is strictly limited and for the purpose of trade settlement only (which is standard practice in investment management).

### Rates of return

- 3.9 In assessing the asset allocation, the Trustee took into account the historical rates of return earned on the various asset classes available for investment and the expected prospective rates of return of the Scheme's assets as advised by the Scheme's Investment Consultant and the Scheme Actuary.
- 3.10 The central asset class return assumptions used for the purposes of the investment strategy review (carried out by the Investment Consultant, WTW in 2023) are shown in the following

table. The central 10 year inflation (CPI) assumption used for the purposes of the investment strategy review was 2.6% pa.

- 3.11 The specific return assumptions from 31 December 2022 used in the investment strategy review are detailed below:

	10 year median real return % pa	1 year standard deviation % pa
UK equities	4.5%	18.0%
Overseas equities (unhedged)	5.2%	20.0%
Overseas equities (hedged)	4.9%	17.9%
Fixed interest gilts (long-dated)	2.0%	10.6%
Index-linked gilts (long-dated)	1.5%	10.7%
Cash	0.9%	1.0%
Property (UK)	3.5%	10.0%
Diversified funds	5.3%	12.0%

Note: the above assumptions are as advised by the Investment Consultant and do not represent a forecast or guarantee of the return that will be achieved. Returns are expressed relative to CPI inflation.

## Section 5: Investment manager arrangements

- 5.1 The Trustee considered the use of both passive and active investment management when reviewing the Scheme's strategy. The resultant use of active and passive management is formed following consideration of the efficiency, liquidity and level of transaction costs likely to prevail within each market as well as the impact of the investment manager fees on future expected returns net of fees.

### **Investment manager structure**

- 5.2 The assets are divided between a number of investment managers to reduce the risks associated with one investment manager having responsibility for all of the Scheme's assets.
- 5.3 The Trustee delegates day to day management of the Scheme's assets to the following Investment Managers:
- BlackRock Investment Management (UK) Limited – Passive Equity mandate; Pooled LDI portfolio
  - Schroder Property Investment Management Limited – Property mandate
  - Hermes Investment Management Limited – Property mandate
  - Towers Watson Investment Management – Diversification fund mandate
  - Fulcrum Asset Management LLP – Diversification fund mandate.
- 5.4 The individual managers, along with their benchmarks and objectives, are set out in Appendix A.
- 5.5 The Trustee has considered the guidelines and restrictions of each of the mandates in which the Scheme invests and is comfortable with them.

### **Manager monitoring**

- 5.6 The Trustee ensures that, in aggregate, its portfolio is consistent with the policies set out in this Statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). 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.

- 5.7 The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets.
- 5.8 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.
- 5.9 Whilst the Trustee is not involved in the investment managers' day to day method of operation and so cannot directly influence attainment of the performance target, they will assess performance and review appointments. Measurable objectives have been developed for each investment manager, consistent with the Scheme's longer term objectives and an acceptable level of risk.
- 5.10 These investment objectives will be treated as a target only and will not be considered as an assurance or guarantee of the performance or risk of the Scheme or any part of it.
- 5.11 The Trustee recognises that the active managers' performance will be volatile and that they will not always achieve their target. Nonetheless, the managers should demonstrate that the skill exercised in managing the portfolios is consistent with the target given the levels of risks adopted.
- 5.12 The Trustee has appointed Panda Connect to independently measure the performance of the assets. The Trustee receives performance monitoring reports from Panda Connect on a quarterly basis. In addition, the Trustee meets the Investment Managers periodically to review performance and to discuss any other developments of relevance to the Scheme's mandates.
- 5.13 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 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.
- 5.15 The Trustee, with the help of the Investment Consultant, reviews the costs incurred in managing the Scheme's assets annually, which includes the costs associated with portfolio turnover.
- 5.16 The Trustee, with the help of the Investment Consultant, monitors annually that the level of portfolio turnover for each manager/mandate is within an acceptable range for that mandate.

The appointment of the Investment Managers will be reviewed annually by the Trustee based on the results of their monitoring of performance and investment process and of the managers' compliance with the requirements of the Pensions Act 1995 concerning diversification and suitability where relevant. The Trustee will monitor the extent to which they give effect to the investment principles set out in it. To maintain alignment the managers are 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.

## **Fee structures**

- 5.17 The Trustee has agreed fees with each manager based on the value of assets in their respective portfolios. These fees are consistent with each manager's stated fee scale. Most managers are paid an ad valorem fee, in line with normal market practice, for a given scope of services agreed prior to investment. The scope of services will include consideration of long term factors and engagement where applicable. In some cases, additional fees may be paid to DB managers based on investment performance exceeding pre-agreed targets.
- 5.18 Details of the fee structures are included in the Investment Management Agreements for Defined Benefit investments

## **Delegation of investment discretion**

- 5.19 The Investment Managers are aware of the need for appropriate and suitably diversified investments which recognise the nature of the Scheme's liabilities. The Investment Managers have a statutory duty under the Pensions Act to exercise the investment powers delegated to them with a view to giving effect to the principles contained in this Statement, so far as is reasonably practicable.

## Section 6: Other investment policies

The Trustee also faces other requirements relating to investment, be they legislative or considered best practice.

### Choosing investments

- 6.1 The Trustee has appointed Investment Managers who are authorised under the Financial Services and Markets Act 2000 to undertake investment business. After gaining (and, at most, annually reconfirming) appropriate investment advice, the Trustee has specified the asset allocation of every manager. Investment choice has been delegated to the managers subject to defined tolerances relative to their respective benchmarks.
- 6.2 In this context, investment advice is defined by Section 36 of Pensions Act 1995 (as amended).

### Financially material considerations

- 6.3 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 a risk management framework, which takes account of members' investment time horizons and objectives. 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 this broader risk management framework.
- 6.4 The Trustee's policy is that day-to-day decisions relating to the investment of Scheme assets are left to the discretion of its investment managers. This includes consideration of all financially material factors, and other relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and including ESG-related issues where relevant. The Trustee explores these issues with its managers to understand how they exercise these duties in practice and receives reports on how these issues are addressed.
- 6.5 When considering the appointment of new managers, and reviewing existing managers, the Trustee, together with its investment consultant, looks to take account of the approach taken by managers with respect to sustainable investing including voting policies and engagement where relevant.
- 6.6 The Trustee's policy is to delegate responsibility for the exercising of ownership rights (including voting rights) attaching to investments to the investment managers. The Trustee recognises the UK Stewardship Code as best practice and encourages their investment managers to comply with the UK Stewardship Code or explain where they do not adhere to this policy.
- 6.7 Responsibility for engagement in respect of investments held by the Scheme is, in effect, delegated to the investment managers. The Trustee's expectation is that engagement will take place, either directly or as part of a collective multi-investor initiative as appropriate, with the aim of protecting or enhancing the value of the Scheme's investments. The Trustee is satisfied that, where appropriate, the investment managers have an explicit strategy elucidating the circumstances in which they will intervene in a company, the approach they will use in doing so and how they will measure the effectiveness of this strategy. The Trustee will monitor how the

investment managers fulfil their responsibilities with regards voting and engagement through the regular reporting provided by the managers.

#### *Non-financial matters*

- 6.8 The Trustee recognises that members and beneficiaries may have views on ethical investing or matters such as the social and environmental impact of the Fund's investments. In conjunction with there being practical challenges of capturing and maintaining a consensus view on multiple issues across a varied membership population, it is the Trustee's view that financial matters should take precedence in seeking to maximise the security of member benefits. As such, it is the Trustee's policy not to take into account the non-financial matters when taking investment decisions related to the Defined Benefit sections of the Scheme.

#### **Realisation of investments**

- 6.9 The Trustee, in conjunction with the Scheme's administrator, WTW, holds sufficient cash to meet the likely expenditure on benefits and expenses from time to time. The Trustee's policy is that there should be sufficient assets in liquid or readily realisable investments to meet cashflow requirements in the majority of foreseeable circumstances, so that as far as possible realisation of assets will not disrupt the Scheme's overall investment policy.

#### **Advisory Fees**

- 6.10 Fees charged by Towers Watson Limited for investment consulting and actuarial advice are calculated in a number of ways:
- In some circumstances, with reference to the time spent on any particular assignment and the relevant charge-out rates applying to the staff who provided the services in question
  - For some larger pieces of work, according to an agreed project-based fee.
- 6.11 These fee structures have been selected as the Trustee believes they are consistent with best market practice, while allowing the Trustee control over costs.

## Section 7: Risk management

7.1 The Trustee recognises a number of risks involved in the investment of the assets of the Scheme:

- Solvency risk and mismatching risk
  - are measured through a qualitative and quantitative assessment of the expected development of the assets relative to the selected investment policies
  - are managed through assessing the progress of the actual growth of the liabilities relative to the investment policy.
- Manager risk
  - is measured by the expected deviation of the prospective return, relative to the investment policy
  - is managed through diversification across investment managers, investing the majority of the Scheme's assets with index-tracking managers and by the ongoing monitoring of the performance of the investment manager as well as a number of qualitative factors supporting the manager's investment process.
- 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.
- Currency risk
  - is measured by the level of overseas investment and the translation effect of currencies leading to the risk of an adverse influence on investment values.
  - is managed by reducing the translation risk of investing overseas by hedging 50% of the overseas equity investments' currency translation risk for all regions with the exception of the Emerging Markets allocation.
- 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 regular assessment of the levels of diversification within the existing policy.
- Sponsor risk
  - is measured by the level of ability and willingness of the sponsor to support the continuation of the Scheme and to make good any current or future deficit
  - is managed by assessing the interaction between the Scheme and the sponsor's business, as measured by the number of factors, including the size of the pension liability relative to the financial strength of the sponsor.

7.2 These measures do not render the investment policy free of risk. Rather, the measures endeavour to balance the need for risk control and the need for assets which are likely to achieve the required performance target.

# Appendix A: Current Investment Managers and mandate details

The benchmarks and performance objectives for the managers are detailed as follows:

BlackRock Investment Management (UK) Limited – passive equity portfolio		
Fund	% of total assets	Performance benchmark index
<b>Total Equities</b>	<b>100.0</b>	
UK equities	6.5%	FTSE All Share
Overseas Equities (Unhedged)	42.25%	FTSE All World Developed ex UK
Overseas Equities (GBP Hedged)	42.25%	FTSE All World Developed ex UK 95% GBP Hedged
Emerging Market Equities	9.0%	MSCI Emerging Markets Index
<b>Performance objective:</b> to track the return of the market index for each of the underlying asset classes.		
BlackRock Investment Management (UK) Limited – Liability Hedging portfolio		
Fund	% of total assets	Performance benchmark index
Pooled LDI portfolio	100.0	Blended benchmark
<b>Performance objective:</b> to track the return of the liability proxy.		

Schroder Investment Management Ltd – property fund		
Fund	% of total assets	Performance benchmark index
Schroder UK Property Fund	100.0	IPD UK– All Balanced Property Funds Weighted Average
<b>Performance objective:</b> to outperform the benchmark over rolling 3 year periods.		

Hermes Investment Management Ltd – property fund		
Fund	% of total assets	Performance benchmark index
Hermes Property Unit Trust	100.0	IPD UK– All Balanced Property Funds Weighted Average
<b>Performance objective:</b> to outperform the benchmark over rolling 3 year periods.		

Towers Watson Investment Management – diversification fund		
Fund	% of total assets	Performance benchmark index
Towers Watson Partners Fund	100.0	CPI + 2%
<b>Performance objective:</b> to exceed CPI +5% over rolling 5 year periods		

The performance benchmark index above represents the long term target for the Fund. Over short time periods, the Fund's performance will be measured against other comparators, including equity market indices such as the MSCI AC World (60% GBP Hedged) Index

Fulcrum Asset Management LLP – diversification fund		
Fund	% of total assets	Performance benchmark index
TM Fulcrum Diversified Absolute Return Fund	100.0	RPI + 3%
<b>Performance objective:</b> to achieve long-term absolute returns of RPI + 3% to 5% in all market conditions over rolling five year annualized periods.		

The performance benchmark index above represents the long term target for the Fund. Over short time periods, the Fund's performance will be measured against other comparators, including equity market indices such as the MSCI AC World (60% GBP Hedged) Index