

Westminster School Retirement Benefits Scheme

Statement of Investment Principles

2020 Edition

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Westminster School Retirement Benefits Scheme

Statement of Investment Principles

2020 Edition

1. Introduction

This Statement of Investment Principles (“the Statement”) has been prepared by the Trustees of the Westminster School Retirement Benefits Scheme (“the Scheme”) in accordance with Section 35 of the Pensions Act 1995, as amended by the Occupational Pension Schemes (Investment) Regulations 2005, the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 and any subsequent additional requirements.

This document outlines the principles governing the investment policy of the Scheme and the activities undertaken by the Trustees to ensure the effective implementation of these principles. This Statement also details the Trustees’ compliance with the Myners Code of Best Practice (see Appendix A).

In preparing this Statement, the Trustees have obtained and considered written advice from an appropriately qualified individual and consulted with the Sponsoring Employer, Westminster School (“the School”). The advice and consultation process considered the suitability of the Trustees’ investment policy for the Scheme.

2. Investment Objectives

The investment objectives of the Scheme are to achieve an overall rate of return that will aim to ensure:

- sufficient resources are available to meet all liabilities as they fall due; and
- investment returns are maximised at an acceptable level of risk.

The Trustees consider that the investment objectives and the resultant investment strategy are consistent with the actuarial valuation methodology and assumptions used by the Scheme Actuary.

3. Trustees

3.1 Decision-making

The Trustees of the Scheme take investment decisions as a complete body rather than a formal investment sub-committee, although sub-committees may be formed from time-to-time to examine specific issues.

This more straightforward approach recognises the importance of investment strategy and the input that each Trustee can and may wish to make in the formulation of the Scheme’s investment policy.

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The duties of the Trustees include, but are not limited to, the following tasks:

- the ongoing approval of the content of this Statement;
- the appointment and regular review of the investment provider(s) and investment adviser(s);
- the assessment and regular review of the performance of the current investments of the Scheme and such other investments that the Trustees may decide to hold in future;
- the assessment and regular review of all financially material (including Environmental, Social and Governance) risks associated with the investment of scheme assets;
- the extent to which non-financial matters are taken into account;
- the assessment of the Scheme’s risk, including the investment provider, currently Aviva Life & Pensions UK Limited, who manage the With Profits Fund in which the Scheme invests; and
- the compliance of the investment arrangements with those principles set out within this Statement.
- the assessment and regular review of the financial strength and well-being of the Sponsor of the Scheme;
- the setting and regular review of the investment parameters within which the investment managers operate;
- the review of the engagement and voting activities of the investment managers; and
- the compliance of the investment arrangements with those principles set out within the Statement.

The Trustees formally review the content of this Statement following any significant change in investment policy or on not less than a triennial basis.

3.2 The Trustees

The Trustees of the Scheme are Capital Cranfield Pension Trustees Ltd (represented by Jacqueline Woods), Lesley Batty and Christopher Foster. The Board of Trustees has been appropriately constituted, in accordance with current legislation.

4. Investment Adviser

The Trustees have appointed Gemmell Financial Services Limited (“Gemmells”) as independent investment advisers to the Scheme. Gemmells provide advice as and when the Trustees request it. Gemmells are primarily remunerated on a fixed-fee basis. Estimates of the likely cost of any additional work to be undertaken are provided to the Trustees before the work commences.

The Trustees’ investment advisers are authorised and regulated by the Financial Conduct Authority (“FCA”).

5. Investment Manager(s)

The Trustees invest in the With Profits DA77 contract provided by Aviva Life & Pensions UK Limited (the “Fund”), which has the objective of providing capital growth over the medium to long term, whilst smoothing out fluctuations in investment markets.

The Scheme’s investments sit within the Aviva Life & Pensions UK Limited FPLAL With-Profit Sub-Fund and share in the regular distribution of the profits of Aviva Life & Pensions UK Limited through the addition of regular bonuses, though they are not eligible for final (or “terminal”) bonuses. Decisions over asset allocation, as well as the investment returns (bonuses) granted, which are smoothed over time, are at the full discretion of Aviva Life & Pensions UK Limited.

The underlying investments held by the Aviva Life & Pensions UK Limited FPLAL With-Profits Sub-Fund are subject to guidelines issued by the Executive Investment Committee of Aviva Life & Pensions UK Limited. The investment managers are properly regulated by the FCA in the conduct of their investment business.

The governance of the With Profits Fund is managed in accordance with Aviva Life & Pensions UK Limited’s Principles and Practices of Financial Management (“PPFM”), which includes the approach to setting bonus rates, investment policy and the assessment of underlying business risks.

The Executive Investment Committee of Aviva Life & Pensions UK Limited meets on a regular basis, usually monthly, to review the investment strategy. They also meet when required by events, such as major changes in market values.

Investment management and other running expenses, such as the costs of selling and buying assets, are not explicitly disclosed by Aviva Life & Pensions UK Limited. Such expenses are deducted from underlying asset returns before determining declared bonuses.

The Trustees also pay separate ongoing expenses for administration and professional services provided to them by Aviva Life & Pensions UK Limited.

6. Investments

6.1 Types of investments to be held

The Trustees, by investing in the With Profits DA77 contract with Aviva Life & Pensions UK Limited, utilise the following underlying asset classes in order to enable them to meet the investment objectives of the Scheme:

- UK Equities;
- Overseas Equities;
- Government Bonds;
- UK Fixed Interest Securities;
- Overseas Fixed Interest Securities;
- Property; and
- Cash.

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Derivatives are also used by Aviva Life & Pensions UK Limited for permitted purposes, such as the reduction of risk. There are no specific monetary limits on total exposure to derivatives, reflecting Aviva Life & Pensions UK Limited's view that strict conditions on the use of derivatives and limits on individual counterparties are sufficient to control the risks of these investments.

If it is viewed necessary, the Trustees will also consider other investment vehicles and asset classes when deciding upon the different types of investment that are suitable for meeting the objectives of the Scheme.

6.2 Risk measurement and risk management process

The Trustees, in preparing their Statement of Investment Principles, have had regard to both written investment advice as well as other relevant factors, in particular the three pillars underpinning trustee decision making and risk management, covering:

- Funding Strategy
- Investment Strategy; and
- Strength of the Sponsoring Employer's Covenant

The Trustees consider the strength of the sponsoring employer, Westminster School, to be financially strong. This provides comfort that any underperformance of the Scheme's assets relative to changes in the Scheme's liabilities, could be met by the School.

The Trustees will, in the normal course of events, review their investment strategy as and when further Actuarial Valuation results become available.

The Trustees, by investing in the With Profits DA77 contract provided by Aviva Life & Pensions UK Limited, hold a diversified portfolio of assets, in terms of both asset classes and also in having different investment holdings across each class.

The Trustees have considered the following risks, which influence the investment approach:

- the risk of deterioration in the Scheme's funding level over the long-term;
- the risk of a shortfall of assets relative to the Pension Protection Fund liabilities;
- the risk of the employer being unable to support the Scheme;
- the risk that the With Profits DA77 contract provided by Aviva Life & Pensions UK Limited will not achieve the rate of return expected by the Trustees;
- the risk that Aviva Life & Pensions UK Limited do not take appropriate action to reduce financially material (including ESG) risks;
- the risk that the investment return will not be sufficient to keep pace with the growth in the accrued liabilities and, in particular, price and salary inflation; and
- the risk of mismatching the profile of the assets with the liabilities.

6.3 Balance between different types of investment

The Trustees, by investing in the Aviva FPLAL With-Profits Sub-Fund Fund, have delegated to Aviva Life & Pensions UK Limited discretion over the day-to-day management of the Scheme's funds, including asset allocation and stock selection. This asset allocation policy is set and regularly reviewed by Aviva Life & Pensions UK Limited, and aims to maximise the investment returns consistent with:

- minimising the risk of insolvency to the With Profits Fund;
- the levels of policy guarantees; and
- Aviva Life & Pensions UK Limited's views on the expected short-term performance of different asset classes.

The majority of the Scheme's non-insured liabilities are in respect of active members and former members with deferred benefits. This means that the investment time horizon, until these members retire, is more than ten years.

6.4 Expected returns

The Trustees are aware of the long-term performance characteristics of various asset classes in terms of their expected returns and the volatility of those returns.

Notwithstanding the inherent volatility of different investment classes, the Trustees' investment in the With Profits DA77 contract provides a guarantee from Aviva Life & Pensions UK Limited that the underlying asset value of the fund will not fall while contributions continue to be paid to the policy (other than to meet any required expenses and disinvestments).

Also, the regular bonuses that are allocated are smoothed over time, so do not normally reflect the underlying actual investment performance over a particular period.

Overall, the absolute return achieved by the assets is expected to exceed the return required to fund the Scheme's liabilities over the medium to long-term, as assumed in the ongoing actuarial valuation.

6.5 Realisation of investments

The majority of the underlying assets, held in the With Profits Fund with Aviva Life & Pensions UK Limited, are invested in quoted markets and are readily realisable.

The Trustees regularly monitor the cash flow position of the Scheme and the expected development of the Scheme's liabilities, as appropriate.

Aviva Life & Pensions UK Limited is able to arrange the sale of units held in the With Profits Fund on request by the Trustees. Given the size of the With-Profits Fund is substantial, the Trustees do not anticipate any liquidity issues associated with such disinvestments.

6.6 Social, environmental and ethical considerations

The Trustees are aware of Aviva Life & Pension UK Limited's attitude to social, environmental and ethical factors with respect to their selection of investments through its Principles and Practices of Financial Management ("PPFM").

The Trustees are aware of the financially material risks that might affect the Scheme but has not adopted a formal and specific policy on how these should be managed. However, the Trustees are satisfied that Aviva Life & Pensions UK Limited are taking a responsible approach, consistent with the long-term financial interests of the Scheme and its members.

In endeavouring to invest for the best financial interests of the beneficiaries, the Trustees have elected to invest in a With Profits Fund. Under such an arrangement, the investment strategy is determined by the Executive Investment Committee of Aviva Life & Pensions UK Limited. This means that the Trustees cannot directly influence the social, environmental or ethical policies and practices of the investment managers of the With Profits Fund.

The Trustees review the investment manager policies and their implementation on at least an annual basis and has therefore decided not to impose any additional social, environmental or ethical guidelines on Aviva Life & Pensions UK Limited at the current time.

6.7 Voting policy

The Trustees have concluded that the decision on how to exercise voting rights should be left with Aviva Life & Pensions UK Limited, who will exercise these rights in accordance with their respective published corporate governance policies. These policies are provided to the Trustees from time-to-time and take into account the financial interests of the shareholders, which should ultimately be to the Scheme's advantage.

These policies are reviewed by the Trustee at least annually to ensure they continue to follow the Trustee's beliefs.

The Trustees also receives and reviews, on an annual basis, reports on the voting actions taken by its managers and believes that actions taken are in the financial interests of the shareholders, which should ultimately be to the Scheme's advantage.

Where the Trustees are specifically invited to vote on a matter relating to the With Profits Fund, the Trustees will exercise their right in the interests of the majority of the Scheme's membership.

7. Monitoring of Investment Adviser and Managers

7.1 Investment adviser

The Trustees measure the performance of their adviser on an ongoing basis in a qualitative way.

7.2 Investment managers

The Trustees review the performance of the With Profits Fund having regard to the Aviva Life & Pensions UK Limited bonus system, whereby bonuses declared are designed to smooth out year to year fluctuations in investment performance. In addition, an assessment of the performance of the underlying asset classes will be considered by the Trustees.

Unsatisfactory performance may lead to the Trustees choosing to move their investments from the With Profits Fund. The agreement with Aviva Life and Pensions UK Limited is indefinite but could be terminated by the Trustees at short notice.

8. Code of Best Practice

The Trustees are aware of the recommendations from the Myners report with respect to greater transparency within their Statement. The Trustees have considered these recommendations when formulating their investment policy and included them within this Statement, to the extent that they view them to be appropriate. The Trustees intend to regularly review their compliance with the recommendations.

The six principles are detailed in Appendix A.

9. Compliance with the Statutory Funding Objective (“SFO”)

The Trustees have completed their Statement of Funding Principles in accordance with the SFO and have established that the School has a strong covenant, with the intention and ability to fund for the benefits as they fall due.

The general funding policy is:

- to achieve and maintain the SFO funding level at 100%;
- to invest the assets such that the risk of deterioration of the SFO funding level is balanced against the risk of not achieving the other objectives set out in this Statement and the Statement of Funding Principles; and
- to give consideration to altering the investment strategy should the Trustees be advised in future that not doing so might involve an unacceptably high risk to the Scheme.

10. Compliance

The Scheme’s Statement of Investment Principles, the annual report and accounts and other documents are available to members on request.

A copy of the Scheme’s current Statement plus Appendix is also supplied to the Sponsoring Employer, the Scheme’s investment managers, the Scheme Auditor and the Scheme Actuary.

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This Statement of Investment Principles, taken as a whole with the Appendix, supersedes all others and was approved by the Trustees on 9th November 2020.

The Trustees of the Westminster School Retirement Benefits Scheme

Myners Compliance

Following a government consultation, the number of Myners principles was reduced from ten to six to provide a sharper focus and more flexibility for different types of schemes in terms of their size, financial position and strategy. These revised principles applicable to defined benefit pension schemes are set out below.

Principle 1: Effective Decision-making

- Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.
- Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.

Principle 2: Clear Objectives

- Trustees should set out an overall investment objective(s) for the scheme that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.

Principle 3: Risk and Liabilities

- In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities.
- These include sponsor covenant strength, the risk of sponsor default and longevity risk.

Principle 4: Performance Assessment

- Trustees should arrange for the formal measurement of the performance of investments.
- Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Principle 5: Responsible Ownership

- Trustees should adopt or ensure their investment managers adopt the Financial Reporting Council's Stewardship Code on the responsibilities of shareholders and agents.
- A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles.
- Trustees should report periodically to members on the discharge of such responsibilities.

Principle 6: Transparency and Reporting

- Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.
- Trustees should provide regular communication to members in the form they consider most appropriate.