

# Schools of King Edward VI in Birmingham Retirement Benefits Scheme

## Statement of Investment Principles

August 2024

# 1. Introduction

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The Trustees of the Schools of King Edward VI in Birmingham Retirement Benefits Scheme ('the Scheme') have prepared this Statement of Investment Principles ('SIP') for the Scheme with effect from August 2024. It has been prepared in accordance with applicable legislation, taking into account guidance from The Pensions Regulator and written advice from an independent investment adviser as required.

The purpose of the SIP is to set out the Trustees' investment strategy in high level, including the investment objectives, investment strategy and other investment policies the Trustees have adopted.

The Trustees must review the SIP in consultation with the Sponsoring Employer at least every three years; and without delay after any significant change in investment policy or circumstances of the Scheme.

## 2. Scheme governance

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The Trustees are responsible for the governance of the Scheme's assets and the investment of these assets in the best interests of members and beneficiaries. The Trustees exercise their powers of investment in accordance with the Trust Deed and Rules of the Scheme and applicable law. Where the Trustees are required to make an investment decision, the Trustees must receive advice from the relevant advisers first. They believe that this ensures that they are appropriately familiar with the issues concerned.

The Trustees have delegated day-to-day investment of the Scheme's assets to be undertaken through the fiduciary management service of Schroders Investment Solutions Limited ('**Schroders Solutions**'), hereafter referred to as the '**Fiduciary Manager**'. The Trustees are satisfied that the Fiduciary Manager has the appropriate knowledge and experience for managing the investments of the Scheme and they carry out their role in accordance with the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 (the "**Investment Regulations**"), the principles contained in this SIP and any applicable investment guidelines and restrictions agreed with the Trustees.

The Trustees acknowledge the potential for conflicts of interest as part of ongoing Fiduciary Management business activities. As an FCA regulated firm, the Fiduciary Manager is required to prevent or manage conflicts of interest. Where third party managers the Scheme invests in ("**the Underlying Managers**") are also regulated, they may be required to manage conflicts of interest as are applicable in their jurisdiction of incorporation or operations. The Fiduciary Manager monitors these conflicts as part of its regulatory filings (where applicable), and as part of ongoing review. The Fiduciary Manager's Conflict of Interest policy is available to be shared to Trustees when required.

The Trustees consider that the governance structure is appropriate for the Scheme as it allows the Trustees to make the important decisions on investment policies, while delegating the day-to-day aspects to the Fiduciary Manager as appropriate.

### 3. Investment objectives and strategy

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The primary objective of the Trustees of the Scheme with regard to investment policy is to meet the benefit payments promised to the Scheme's members as they fall due. Hence, the Trustees have defined the investment strategy with due regard to the Scheme's liabilities.

The Trustees have set the following investment strategy:

- 1) The acquisition of suitable growth and matching assets, having due regard to the risks set out in this SIP, which will generate income and capital growth to pay, together with any contributions from members or the Sponsoring Employer, the benefits which the Scheme provides as they fall due.
- 2) To limit the risk of the assets failing to meet the liabilities over the long term having regard to any statutory funding requirement.
- 3) To achieve a return on investments which is expected to at least meet the Scheme Actuary's assumptions over the long term.

Growth assets comprise a diversified range of investments including (but not limited to) developed and emerging market equities, corporate bonds and alternative assets, which are held with the aim of outperforming the Scheme's liabilities over the medium term.

Matching assets comprise investments including (but not limited to) UK government bond and derivative exposures, which are held with the aim of matching the interest rate and inflation sensitivities of the Scheme's expected liabilities.

### 4. Arrangement with the Fiduciary Manager

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The Trustees have appointed the Fiduciary Manager to implement the Scheme's investment strategy. The Fiduciary Manager manages assets directly on behalf of the Trustees as well as having delegated authority to appoint, monitor and change the Underlying Managers. The Fiduciary Manager is appointed to carry out its role on an ongoing basis.

The Trustees and Fiduciary Manager have agreed a Fiduciary Management Agreement setting out the scope of the Fiduciary Manager's activities, performance objectives, charging basis and other relevant matters. The Fiduciary Manager has been provided with a copy of this SIP and is required to exercise its powers with a view to giving effect to the principles contained herein and in accordance with subsection (2) of Section 36 of the Pensions Act 1995.

The Trustees periodically review the overall value-for-money of using the Fiduciary Manager, and information in relation to costs associated with investing is included in the quarterly monitoring report. The Trustees are satisfied that these arrangements incentivise the Fiduciary Manager:

- to align its investment strategy and decisions with the Trustees' investment policies, and

- to assess and make decisions based on the medium- to long-term financial and non-financial performance of issuers of debt or equity, and to engage with such issuers to improve performance.

## 5. Arrangement with the Underlying Managers

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The Investment Regulations require the Trustees to disclose its policies in relation to its arrangements with its Underlying Managers who are appointed by the Fiduciary Manager.

The Trustees incentivise their Underlying Managers via the Fiduciary Manager to align their investment strategies with the Trustees' requirements as set out in this SIP. However, the Scheme's investments are generally made via pooled investment funds, in which the Scheme's investments are pooled with those of other investors. As such, direct control of the process of engaging with the companies that issue these securities, whether for corporate governance purposes (such as capital structure) or other financially material considerations, may not be aligned with the Trustees' investment policies.

Where it can be determined, the Fiduciary Manager assesses whether Underlying Manager remuneration arrangements are aligned with the Trustees' objectives. The Fiduciary Manager regularly reviews the Underlying Managers on behalf of the Trustees in order to incentivise the Underlying Managers. These reviews include evaluation of the investment performance, remunerations and turnover cost of the investment funds in comparison to their peers.

The method and time horizon for evaluating and remunerating Underlying Managers is determined by criteria set by the Fiduciary Manager.

## 6. Monitoring

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The Trustees will monitor the performance of the Fiduciary Manager against the agreed performance objectives.

The Trustees, or any other suitably qualified adviser on behalf of the Trustees, regularly review the activities of the Fiduciary Manager to satisfy themselves that the Fiduciary Manager continues to carry out their work competently, exercises its powers of investment with a view to giving effect to the principles in this SIP and has the appropriate knowledge and experience to manage the assets of the Scheme.

If the Trustees are not satisfied that the Fiduciary Manager is aligned with their policies, they will consider making changes to the Fiduciary Manager's mandate as necessary, or seek to make an alternative appointment.

## 7. Derivatives

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The Trustees may enter into contracts with counterparties, including investment banks, in order to execute derivative transactions. The Trustees have taken advice on the suitability of the contracts and have delegated responsibility to the Fiduciary Manager to implement these

instruments. Derivative instruments are typically used for risk management purposes in the portfolio.

## 8. Realisation of investments

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The majority of assets the Scheme holds can be realised easily when required. The Trustees will ensure that the Fiduciary Managers are made aware of the cashflow requirements of the Scheme. The Fiduciary Manager will be responsible for ensuring that, in normal market conditions, sufficient assets are readily realisable to meet any disinvestments required by the Trustees to meet these cashflows. The Fiduciary Manager is permitted to hold up to 20% of on-risk assets in illiquid investments (as defined in the Investment Management Agreement), which the Trustees acknowledge can take additional time to realise. The Trustees have considered this risk against the possibility of needing to realise these assets and are comfortable it is a reasonable approach to take.

## 9. Risk management

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The Trustees recognise a number of risks involved in the investment of the assets of the Scheme. The Trustees will keep these risks and how they are measured and managed under regular review. The main risks include, but not limited to:

- **Funding and asset/liability mismatch risk** – the risk that the funding level is adversely affected due to a mismatch between the assets and liabilities. This risk is managed in the following ways:
  - A liability benchmark portfolio (or **LBP**) is used as a proxy for the liabilities in order to measure the approximate changes in the present value of the Scheme’s liabilities (due to changes to the relevant gilt yields only). The Trustees monitor this change relative to the change in asset values on a quarterly basis. The LBP is reviewed following each actuarial review, or when significant market or Scheme events (e.g. a significant change in inflation expectations) occur.
  - The Trustees recognise the risk of a negative impact on the funding level due to changes in the Scheme Actuary’s assumptions. This is managed by aiming for a higher overall investment return than implied by the liability discount rate.
  - When setting and reviewing investment strategy, the Trustees examine how the investment strategy impacts on downside risk. Downside risk of the investment strategy is also measured by reference to the LBP and can therefore also be assessed as part of the quarterly review process.
  - This risk is also monitored through regular actuarial and investment reviews.
- **Underperformance risk** – the risk of underperforming the benchmarks and objectives set by the Trustees. This risk is minimised using the following techniques:
  - Appropriate diversification across asset classes, within sectors and between individual stocks to minimise the effect of a particular stock or sector performing badly.
  - The use of instruments and strategies designed to control the extent of downside exposure.

- The selective use of active management when appropriate given market conditions, the asset class considered and where the benefits (risk and/or return) are expected to outweigh the additional costs/fees.
  - Regular monitoring of the managers' performance, processes, and capabilities with respect to their mandate and by the diversification across multiple Underlying Managers by the Fiduciary Manager.
- **Cashflow risk** – which is the risk that the Scheme is unable to meet benefit payments as they fall due, addressed through the monitoring of the cashflow requirement of the Scheme to control the timing of any investment/disinvestment of assets.
  - **Concentration risk** – the risk of an adverse influence on investment values from the concentration of holdings is reduced by the diversification of the assets.
  - **Counterparty risk** – the risk of a counterparty to an agreement not carrying out his side of the deal. Where derivatives are used, the risk of counterparty default is reduced through the requirement in the relevant documentation that regular collateral or margin payments be made. It is also considered in the selection of counterparties and the incorporation of protection mechanisms in the documentation in the event of a downgrade in credit quality of an existing counterparty.
  - **Country risk** – the risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across many countries.
  - **Currency risk** – the risk that fluctuations in the value of overseas currencies affect the total return of the Scheme's investments when compared to a Sterling benchmark. The Trustees mitigate this risk by electing to allow the Fiduciary Manager to use currency hedging.
  - **Default risk** – the risk of income from assets not being paid when promised. This is addressed through restrictions for the Fiduciary Manager and Underlying Managers, e.g. a minimum credit rating of the bonds they are allowed to buy and also a high proportion of the bonds held are government bonds which have little default risk.
  - **ESG risk including climate risk** – the risk of adverse performance due to ESG-related factors including climate change. The Trustees recognise climate change as a systemic, long-term material financial risk to the value of the Scheme's investments. The Trustees are supportive of the Paris Agreement and will aim to achieve a carbon neutral portfolio (net zero) by 2050 or sooner. This risk is addressed by the following:
    - Climate change scenarios being considered as part of the Trustees' regular review of investment strategy from time to time (if applicable).
    - The Fiduciary Manager's ESG assessment at the point of investment with Underlying Managers.
    - The Trustees monitoring the overall ESG characteristics including carbon metrics of the portfolio in the quarterly governance report.
  - **Mismanagement risk** – the risk of unsuitable investment activity by the Fiduciary Manager. This is addressed in the agreement with the Fiduciary Manager, and in turn by the Fiduciary Manager with the Underlying Managers, which contain restrictions on the proportion and type of asset classes that the Fiduciary Manager or Underlying Managers may invest in.

- **Organisational risk** – the risk of inadequate internal processes leading to problems for the Scheme. This is addressed through regular monitoring of the Fiduciary Manager and relevant advisers by the Trustees, and of the Underlying Managers by the Fiduciary Manager
- **Sponsor risk** – the risk of the Sponsoring Employer becoming unable to support the Scheme which, for reasons of prudence, has been taken into account when setting the asset allocation strategy. The Trustees regularly review the covenant of the Sponsoring Employer.

The Trustees will keep these risks and how they are measured and managed under regular review.

## 10. Financially material investment considerations

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Financial material considerations encompass various factors, including environmental, social, and governance (ESG) aspects (including, but not limited to, climate change), which the Trustees deem financially significant.

The Trustees believe that certain ESG factors can have an impact on financial performance and part of its fiduciary duty is to incorporate this information into its investment decisions to reduce investment risk and enhance portfolio returns over the length of time needed for the funding of future benefits of the Scheme. The Trustees consider a wide range of ESG risks, including corporate governance, human rights, labour and environmental standards and so on and it believes that climate risk presents a material financial risk to the assets invested in its portfolio.

The Trustees currently do not have a standalone ESG policy but the Trustees' policy is to delegate the monitoring and overall management of financially material ESG risks and opportunities to the Fiduciary Manager. The Trustees are comfortable with the delegation given the approach the Fiduciary Manager takes towards ESG and climate-related risks and opportunities. The approach taken by the Fiduciary Manager is aligned with the Trustees' beliefs, which was confirmed on appointment of the Fiduciary Manager.

The Trustees receive regular training and updates on ESG-related topics such as portfolio ESG reporting, voting and engagement examples on a quarterly basis through Trustees' meetings. In addition, on an annual basis, the Trustees review the ongoing suitability of the Fiduciary Manager's monitoring and management of ESG and climate-related issues via an ESG annual report and challenges or engages with the Fiduciary Manager as required on its approach.

The Trustees delegate the integration of climate-related risks into the investment process to the Fiduciary Manager. The Fiduciary Manager provides regular updates for the Trustees to:

- Understand the exposure of its investments to climate change in the quarterly monitoring report, and
- Ensure that new and existing investments take account of climate change risks and opportunities.

The Trustees expect its Fiduciary Manager to take their policy into account as part of manager selection.

## 11. Non-financial material investment considerations

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The Trustees do not at present take into account non-financial matters (such as members' ethical considerations, social and environmental impact matters or future quality of life considerations for members and beneficiaries) when making investment decisions as there is no likely common view on any ethical matters which members are likely to hold. At this time the Trustees have no plans to seek the views of the membership on ethical considerations.

## 12. Stewardship

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The Trustees are responsible for developing their own stewardship policy which includes both voting (where applicable) and engagement. The Trustees believe proper stewardship will result in better management of financially material ESG and climate-related risks and opportunities. This is expected to improve the long-term financial outcomes of the Scheme which ultimately is in the best interests of the Scheme's members and beneficiaries. The Trustees expect their Fiduciary Manager to be a signatory to the UK Stewardship Code.

The Trustees have received training on the Fiduciary Manager's approach to stewardship. The Fiduciary Manager has its own voting and engagement policies documented in its Engagement Blueprint which sets out six sustainability themes to prioritise and which guides the voting and engagement behaviours of the Fiduciary Manager. Therefore, to ensure focused voting and engagement with the Underlying Investment Managers, the Trustees have chosen to align their stewardship priorities with those of the Fiduciary Manager: Climate Change, Natural Capital & Biodiversity and Human Rights. The Trustees expect the Fiduciary Manager to take their policy and stewardship priorities into account as part of its own stewardship activities and manager selection.

The Trustees review, monitor and challenge the Fiduciary Manager where necessary in relation to the voting and engagement activities of the Fiduciary Manager and the Underlying Investment Managers.

## 13. Additional Voluntary Contributions (AVCs)

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Under the Scheme's Trust Deed and Rules, members are allowed to invest Additional Voluntary Contributions to improve the benefits they receive at retirement. The Trustees have selected a range of investment funds with Utmost Life and Pensions and ReAssure for the AVCs to be invested in.

The Trustees review these arrangements regularly considering their performance, the objectives and the views of the advisers.

For and on behalf of the Trustees of the Scheme