Schroders solutions

GMB 1961 Pension Fund

Statement of Investment Principles – v20

February 2024

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Section 1 Introduction

This document constitutes the Statement of Investment Principles (‘the SIP’) required under Section 35 of the Pensions Act 1995 for the GMB 1961 Pension Fund (‘the Fund’). It describes the investment policy being pursued by the Trustee Directors of the GMB Pension Trustee Company Limited who act on behalf of the Fund and is in compliance with the requirements of the Myners’ Principles for Institutional Investment. This SIP also reflects the requirements of Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.

The Scheme Actuary is Douglas Primrose of XPS Pensions, the Investment Advisor is Schroders Solutions and the Legal Advisor is Gareth Craft of Linklaters (collectively termed ‘the Advisors’).

The Trustee Directors confirm that, before preparing this SIP, they have consulted with GMB Union ('the Union') and the Scheme Actuary and have obtained and considered written advice from the Investment Advisor. The Trustee Directors believe the Advisors to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the investments of arrangements such as the Fund.

The Trustee Directors are responsible for the investment of the Fund’s assets and arrange administration of the Fund. Where they are required to make an investment decision, the Trustee Directors always receive advice from the relevant Advisors first and believe that this ensures that they are appropriately familiar with the issues concerned.

In accordance with the Financial Services & Markets Act 2000 (‘FSMA’), the Trustee Directors set general investment policy, but have delegated the day-to-day investment of the Fund’s assets to be undertaken through the fiduciary management service of Schroders IS Limited (“’Schroders”), hereafter referred to as the ‘Investment Manager’.

Section 2 Fund Governance

The Trustee Directors are responsible for the governance and investment of the Fund's assets. The Trustee Directors consider that the governance structure set out in this SIP is appropriate for the Fund as it allows the Trustee Directors to make the important decisions on investment policy, while delegating the day-to-day aspects to the Investment Manager or the Advisors as appropriate.

"No decision about investments for the purposes of the Fund will be made other than by a valid majority of the Trustee Directors at a meeting which has been called in accordance with the requirements of Articles 10 and 19 of the Trustee Company's Articles of Association, Rule 23.2 of the Fund Rules and Section 32 of the Act ("a Formal Trustee Directors Decision"). This will not apply however, to a decision taken in accordance with powers delegated by this SIP or by a Formal Trustee Directors' Decision."

The Trustee Directors' policy is to review the investments over which they retain control and to obtain written advice about them at least annually from the Advisor. When deciding whether or not to make amendments to the investment strategy, the Trustee Directors will obtain written advice from the Investment Advisor.

Section 3 Investment Objectives

The overall objective of the Fund is to meet the benefit payments promised as they fall due. The Trustee Directors have set the following qualitative objectives:

- To ensure that the Fund's assets and the future contributions are invested in such a manner that the benefits due to members and their beneficiaries can be paid from the Fund as they arise, keeping the contributions to an affordable level for the Union.
- To avoid volatility in the future contribution rate payable by the Union.

In order to meet these qualitative objectives, the Trustee Directors have set the following quantitative objectives. These are measurable and quantifiable objectives that the Trustee Directors can use to monitor the ongoing performance of the Fund's investments to ensure the qualitative objectives are met. The quantifiable objectives that the Trustee Directors have set from these are as below:

- Maintain an agreed level of £ surplus on the Technical Provisions basis deemed to be sufficient to cover downside risk events with a significant level of prudence. The sufficiency of the agreed surplus is to be reviewed on a 12-18 month basis.
- Performance is measured against an objective of 1.5% p.a. above the yield available on a curve used to calculate the Technical Provisions liabilities (the "liability yield curve", defined as 25% of the yields available on a swaps curve and 75% of the yields available on a gilts curve). This is deemed to be a suitable objective as it corresponds to the minimum return required to maintain a funding level that corresponds to the agreed £ surplus, including a 0.25% p.a. buffer for prudence.
- Reduce volatility in the Union contribution rate, by investing in a series of asset classes that seek to generate a return which develops over time.

Section 4 Asset Allocation Strategy

Having considered advice from the Advisors, and also having due regard for the objectives, the liabilities of the Fund, the risks of and to the Fund and the covenant of the Union, the Trustee Directors currently adopt the following broad asset allocation:

Asset Class	Strategic Allocation (%)
Liability Hedging Assets	42.0
Growth Assets	48.0
Buy & Maintain Credit Assets	10.0
Total	**100.0**

The allocation set out above reflects the Fund's long-term strategic allocation. The Trustee may choose to move away from this allocation on a short-term basis from time to time, in order to capitalise on investment opportunities.

The Fund has a liability hedge which aims, via a series of swaps contracts and gilt holdings, to control the variation between the Fund assets and liabilities that arise due to changes in interest rates and inflation. This should help to stabilise the funding level of the Fund over time.

The Trustee Directors, in conjunction with the Advisors, will formally monitor the actual asset allocation of the Fund on a quarterly basis via the Investment Governance Report.

4.1 Rates of Return

The current expected long-term rate of return for the Fund is to outperform a liability benchmark (calculated as the change in the Fund's Technical Provisions liabilities[1] due to changes in interest rate and inflation expectations as well as assumed unwinding of the risk-free rate) and cash by 1.5% p.a.

4.2 Suitability

The Trustee Directors have defined the investment objective and investment strategy with due regard to the Fund's liabilities.

The Trustee Directors have taken advice from the Advisors to ensure that the asset allocation strategy is suitable for the Fund, given its liability profile, any legal requirements, regulatory guidance and specifications in the Trust Deed.

4.3 Liquidity & Realisation of Investments

The Trustee Directors, together with the Fund's administrators, will ensure that they hold sufficient cash to meet the likely benefit outgoings. The Trustee Directors' policy is that there should be sufficient investments in liquid or readily realisable assets to meet unexpected cash flow requirements in the majority of foreseeable circumstances so that realisation of assets will not disrupt the Fund's overall investment strategy.

[1] As provided by the Scheme Actuary and discounted using the yield available on a "liability yield curve" derived as 25% of the yields available on a swaps curve and 75% of the yields available on a gilts curve.

The Trustee Directors will receive advice from the Investment Advisor about where best to disinvest assets from to meet cash flow requirements and to bring asset allocation back in line with the investment strategy asset allocation.

The majority of assets are held in underlying pooled funds, most of which can be realised easily if the Trustee so requires. The Investment Manager is permitted to hold up to 20% of on-risk assets into illiquid investments (as defined in the Fiduciary Management Agreement), which the Trustee acknowledges can take additional time to realise. The Trustee has considered this risk against the possibility of needing to realise these assets and are comfortable it is a reasonable approach to take.

4.4 Union-related Investments

The Trustee Directors will comply with Section 40 of the Pensions Act 1995 (Restriction on Union-related investments).

Section 5 Strategy Implementation

The Trustees have delegated the investment of the Scheme assets to the Investment Manager, which has discretion to invest the Scheme assets in underlying securities and funds, either directly or through the use of other investment managers of pooled funds (hereafter referred to as the 'Underlying Managers') to run the portfolio on a day-to-day basis. The Trustees have acknowledged and considered with sufficient diligence the potential conflict that may arise from the Investment Manager and the Investment Adviser being the same organisation.

5.1 Diversification

The assets are invested in a diversified range of suitable investments of different types and with different Underlying Managers in order to reduce investment risk, given the circumstances of the Fund. The Trustee Directors monitor the strategy regularly to ensure that they are comfortable with the level of diversification being achieved.

The range of, and any limitation on, the proportion of the Fund's assets held in any asset class will be agreed between the Investment Manager and the Trustee Directors. This range and set of limitations will be specified in the Investment Manager Agreement (IMA) and may be revised from time to time according to appropriate investment strategy advice provided to the Trustee Directors and having regard to the investment powers of the Trustee Directors as defined in the Trust Deed.

5.2 Derivatives

The Trustee Directors may enter into contracts with counterparties, including investment banks, in order to execute in derivative transactions. The Trustees have taken advice on the suitability of the contracts and have delegated responsibility to the Investment Manager to implement these instruments on its behalf. Derivative instruments are typically used for risk management purposes in the portfolio.

From time to time the Trustee Directors may mandate a manager, including transition managers, to affect short term derivative mandates to reduce risk in the portfolio, as part of efficient portfolio management or to aid a transition process. The Trustee Directors will take suitable advice as part of the decision and implementation process, but owing to the potentially market sensitive nature of such transactions may not detail these, or the specifics of the short-term manager mandates within this SIP.

Section 6 Monitoring

6.1 Investment Managers

The Trustee Directors will monitor the performance of the Investment Manager against the agreed performance objectives, in addition to having meetings with Underlying Managers from time to time as necessary.

The Trustee Directors, or any other suitably qualified Adviser on behalf of the Trustees, hold meetings as required with the Investment Manager to satisfy themselves that each Investment Manager continues to carry out their work competently and has the appropriate knowledge and experience to manage the assets of the Fund. If the Trustee Directors are not satisfied with the Investment Manager they will either require that such Investment Manager takes such steps to rectify the situation, or they will remove the Investment Manager and appoint another.

As part of these reviews, the Trustee Directors will consider whether or not the Investment Manager:

- Is carrying out its function competently.
- Has regard to the need for diversification of investments.
- Has regard to the suitability of each investment and each category of investment.
- Has been exercising its powers of investment with a view to giving effect to the principles contained in this SIP, so far as is reasonably practical.

6.2 Advisors

The Trustee Directors will monitor the advice given by the Advisors on a regular basis.

6.3 Other

The Trustee Directors will review this SIP at least every three years and modify it if deemed appropriate, in consultation with the Advisors. There will be no obligation to change this SIP or any Investment Manager or Advisor as part of such a review. Additionally, the SIP will be reviewed without delay after any significant change in investment policy. The Union is consulted about any changes to the SIP before they are implemented.

Section 7 Fees

7.1 Investment Managers

Where it can be determined, the Trustee Directors and Investment Manager assesses whether the Underlying Manager remuneration arrangements are aligned with the Trustee's objectives. The method and time horizon for evaluating and remunerating Underlying Managers is determined by criteria set by the Investment Manager, as detailed later in this document

The Trustee Directors acknowledge the inherent potential for conflicts of interest which exist as part of ongoing investment management business activities. Where Underlying Managers are regulated, they are likely to be subject to such requirements to manage conflicts of interest as are applicable in their jurisdiction of incorporation or operations. The Investment Manager directly monitors this as part of ongoing review. As an FCA regulated firm, the Investment Manager is required to prevent or manage conflicts of interest. The Investment Manager's Conflict of Interest policy available publicly here:

https://www.schroders.com/en/identification-and-management-of-conflicts-of-interest/

The Investment Manager oversees the turnover costs (where available) incurred by the Underlying Managers as part of its ongoing monitoring process and evaluates such costs to determine if they are in line with peer groups and the Investment Manager's expectations. Where there are material deviations the Investment Manager engages with the Underlying Managers to understand the rationale for such deviations and take appropriate action.

7.2 Advisors

Fees paid to the Advisors are based on the scope of services agreed in accordance with the IMA.

7.3 Trustee Directors

Trustee Directors are not paid for their role.

Section 8 Risks

The Trustee Directors recognise a number of risks involved in the investment of assets of the Fund. These risks are measured and managed as set out below:

1. **The risk of failing to meet the objectives as set out in Section 3** – the Trustee Directors will regularly take advice and monitor the investments to mitigate this risk.
2. **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. A Liability Related Objective or 'LRO' is used as a proxy for the liabilities (calculated as the change in the Fund's Technical Provisions liabilities due to changes in interest rate and inflation expectations as well as assumed unwinding of the risk-free rate). The Trustee Directors monitor this change relative to the change in asset values on a quarterly basis. The LRO is reviewed following each actuarial review.
    b. When setting and reviewing investment strategy, the Trustee Directors examine how the investment strategy impacts on downside risk. Downside risk of the investment strategy is also measured by reference to the LRO and can therefore be assessed as part of the quarterly review process.
    c. Liability Risk is addressed through the asset allocation strategy including the use of swaps to hedge the interest rate and inflation risk and through regular investment reviews. These risks are quantifiably measured by consideration of the investment strategy performance against the LRO. The Trustee Directors keep these risks under review and receives ad-hoc advice from the Investment Advisors.
    d. The Trustee Directors also recognise the risk of a negative impact on the funding level due to changes in the actuarial assumptions used to calculate the liabilities and variation in experience. This is managed by aiming for a higher overall investment return than implied by the liability discount rate.
    e. This risk is also monitored through regular actuarial and investment reviews.
3. **Underperformance risk** – the risk of underperforming the benchmarks and objectives set by the Trustee Directors. This risk is minimised using the following techniques:
    a. Appropriate diversification across asset classes, within sectors and between individual stocks to minimise the effect of a particular stock or sector performing badly.
    b. The use of instruments and strategies designed to control the extent of downside exposure.
    c. The use of passive management for asset classes where the downside risk of active management is considered too high.

d. Regular monitoring of the managers' performance, processes and capabilities with respect to their mandate and by the diversification across multiple Underlying Managers by the Investment Manager.

4. **Country risk** – the risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across many countries.
5. **Concentration risk** – the risk of an adverse influence on investment values from the concentration of holdings is reduced by the diversification of the assets.
6. **Mismanagement risk** – the risk of unsuitable investment activity by the Investment Manager. This is addressed in the agreement with the Investment Manager, and in turn by the Investment Manager with the Underlying Managers, which contain restrictions on the proportion and type of asset classes that the Investment Manager or Underlying Managers may invest in.
7. **Default risk** – the risk of income from assets not being paid when promised. This is addressed through restrictions for the Investment 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.
8. **Organisational risk** – the risk of inadequate internal processes leading to problems for the Fund. This is addressed through regular monitoring of the Investment Manager and Advisors by the Trustee Directors, and of the Underlying Managers by the Investment Manager.
9. **Counterparty risk** – the risk of the counterparty to an agreement not carrying out its 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. When the Trustee Directors have used derivatives they have also appointed multiple counterparties as means of reducing risk exposure to any one party.
10. **Cash flow risk** – addressed through the monitoring of the cash flow requirement of the Fund to control the timing of any investment/disinvestment of assets.
11. **Sponsor risk** – the risk of the Union ceasing to exist, which for reasons of prudence, has been taken into account when setting the asset allocation strategy. The Trustee Directors regularly review the covenant of the Union.
12. **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 Investment Manager to use currency hedging.
13. **ESG risk** – the risk of adverse performance due to ESG related factors including climate change. This is addressed by the Investment Manager's ESG assessment at the point of investment with Underlying Managers. A summary of the overall ESG characteristics in the portfolio in the quarterly governance report.

The Trustee Directors will keep these risks under regular review. Risk advice and measurement is provided by the Advisor on an ad-hoc basis.

Section 9 Other Issues

9.1 Statutory Funding Objective

The Trustee Directors will obtain and consider proper advice on the question of whether the investments and investment strategy are satisfactory having regard to both the investment objectives and the requirement to meet any statutory funding requirements. The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation every three years.

The Trustee Directors will consider with the Investment Advisor and the Scheme Actuary whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the Statutory Funding Objective.

9.2 Corporate Governance and Stewardship

The Trustee Directors and Investment Manager have agreed, and will maintain, formal agreements setting out the scope of the Investment Manager's activities, charging basis and other relevant matters. The Investment 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 Trustee Directors have appointed the Investment Manager to implement the Fund's investment strategy. The Investment Manager manages assets directly on behalf of the Truste as well as having delegated authority to appoint, monitor and change the Underlying Managers.

The Investment Manager is appointed to carry out its role on an ongoing basis. The Trustee Directors periodically review the overall value-for-money of using Schroders Solutions, and information in relation to costs associated with investing is included in the quarterly monitoring report. The Trustee Directors are satisfied that these arrangements incentivise the Investment Manager:

- to align its investment strategy and decisions with the Trustee Directors' investment policies, such as their return target and the restrictions detailed in the Fiduciary Management Agreement, 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 this medium- to long-term performance. The success of such engagement will contribute to the Fund's performance, which is measured relative to the Trustee's long-term performance objectives.

The Fund's investments are generally made via pooled investment funds, in which the Fund's investments are pooled with those of other investors. As such, direct control of the process of engaging with the companies that issue the underlying securities, whether for corporate governance purposes or other financially material considerations, is delegated to the Underlying Managers.

The Trustee Directors have delegated responsibility for monitoring and voting on decisions relating to their Underlying Manager holdings to the Investment Manager. The Investment Manager has in place a voting policy which sets out how it will aim to vote at a general meeting of a pooled fund. For any special resolutions or extraordinary general meetings, the proposed votes of the Investment Manager are subject to additional sign-off by the appropriate representative from the Investment Manager.

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The Trustee Directors undertakes engagement directly with its Investment Manager who appoints Underlying Managers to carry out engagement with investee companies directly. The Investment Manager has set out its voting and engagement priorities which focus on six themes including Climate, Natural Capital and Biodiversity, Human Rights, Human Capital Management, Diversity and Inclusion and Corporate Governance.

The Trustee Directors have considered their own ESG priorities at various points in recent years, with Social themes being agreed as the most important engagement themes agreed as the most important. This aligns with the Sponsor's and members' priorities, in particular health and safety and labour standards. However, the Trustee Directors still wish to engage with the Fund's Underlying Managers on issues relating to "E" (environmental) and "G" (governance), and as such have agreed to align its engagement priorities with those of the Investment Manager.

The Trustee believes those engagement priorities which have been chosen by the Investment Manager will result in better management of financially-material ESG and climate risks and, therefore, expected to improve the financial outcome of the Scheme which ultimately is in the members' and beneficiaries' best interest. The Trustee Directors review the voting and engagement activity of the Investment Manager on an annual basis including a review of the annual fiduciary management ESG report and will challenge the Investment Manager as necessary on its stewardship activity.

The Investment Manager undertakes regular reviews of the Underlying Managers. These reviews incorporate benchmarking of performance and fees, with some managers on performance-related fees, as well as performance reviews (including understanding key drivers of performance). The Investment Manager reviews the governance structures of the Underlying Managers, as well as assessing whether their fees, expenses (and any other charges) are in line with industry peers at inception and from time to time whilst invested.

9.3 Financially material investment considerations

These considerations which include the "Risks" (listed in Section 8 above) can affect the long-term financial performance of investments and can (but do not have to) include environmental, social and governance factors (otherwise known as "ESG") where relevant. The Trustee Directors delegate the day-to-day consideration of financially material factors to the Investment Managers who consider these when constructing their portfolios. All references to ESG relate to financial factors only. All references to ESG also include climate change.

The Trustee Directors' policy is to delegate consideration of financially material factors, including ESG to the Investment Manager who considers these when constructing the portfolio, including looking at Underlying Managers. All references to ESG relate to financial factors only. As part of their ongoing monitoring, the Trustee reviews some key metrics on a regular basis that are provided by the Investment Manager covering ESG which enable them to engage with the Investment Manager and understand the impact of ESG on the portfolio.

ESG factors and stewardship are considered, in the context of long-term performance, by the Investment Manager as part of the manager selection criteria. This review occurs before they are approved for investment in the portfolio. Once an Underlying Manager is appointed, the Investment Manager monitors the ESG implementation and ongoing compliance with other factors, such as stewardship, as a part of overall engagement.

9.4 Additional Voluntary Contributions (AVCs)

The Trustee Directors have terminated the facility for Fund members to pay additional voluntary contributions (AVCs). The Trustee Directors review the arrangements in place regularly having regard to their performance, the objectives and investment advice. Currently the Fund's AVC investments are held across Aviva (formerly Friends Life), Utmost Life and Pensions and Royal London (formerly Scottish Life).

9.5 Non-financially material investment considerations

The Trustee Directors do not at present take into account non-financially material factors (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 Trustee Directors have no plans to seek the views of the membership on ethical considerations.