Chaucer Pension Scheme

Statement of Investment Principles

August 2024

Contents

1. Introduction

1.1. This is the Statement of Investment Principles prepared by the Trustee of the Chaucer Pension Scheme (the "Scheme"). This statement sets down the principles which govern the decisions about investments that enable the Scheme to meet the requirements of:

- the Pensions Act 1995, as amended by the Pensions Act 2004;
- the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010;
- the Occupational Pension Schemes (Investment) (Amendment) Regulations 2018; and
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

1.2. In preparing this statement the Trustee has consulted Chaucer Syndicates Limited, the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustee's investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.

1.3. This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.

1.4. The Trustee will review this statement at least every three years or if there is a significant change in any of the areas covered by the statement.

1.5. The investment powers of the Trustee are set out in C Rule 6.2 of the Rules of the Chaucer Pension Scheme, dated 10 November 2008. This statement is consistent with those powers.

2. Choosing investments

2.1. The Trustee's policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustee considers the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.

2.2. The Trustee recognises that the Scheme is relatively young, benefits from a strong employer covenant and diversifies its investments. As such, the Trustee is comfortable to carry relatively high levels of investment risk, within the parameters of what is reasonable, if the employer is content with this.

2.3. The day-to-day management of the Scheme's assets is delegated to one or more investment managers. The Scheme's investment managers are detailed in Appendix 1 of this Statement. The investment managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights.

2.4. The Trustee reviews the appropriateness of the Scheme's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the investment managers with respect to performance within any guidelines set. The Trustee will also consult the employer before amending the investment strategy.

3. Investment objectives

3.1. The Trustee has discussed key investment objectives in light of an analysis of the Scheme's liability profile as well as the constraints the Trustee faces in achieving these objectives. As a result, the Trustee's main investment objectives are:

- to ensure that the Scheme can meet the members' entitlements under the Trust Deed and Rules as they fall due;
- to manage the expected volatility of the returns achieved in order to control the level of volatility in the Scheme's required contribution levels;
- to invest in assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from the participating employer, the cost of current benefits which the Scheme provides; and
- to reduce the risk of the assets failing to meet the liabilities over the long term.

3.2. The Trustee is aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Scheme's liabilities. The Trustee has obtained exposure to investments that they expect will meet the Scheme's objectives as best as possible.

4. Kinds of investments to be held

4.1. The Scheme is permitted to invest in a wide range of assets including equities, bonds, cash, property, alternatives and annuity policies.

4.2. Any investment in derivative instruments is only made to contribute to a reduction in the overall level of risks in the portfolio or for the purposes of efficient portfolio management.

4.3. The Trustee seeks to avoid any employer-related investments.

5. The balance between different kinds of investments

5.1. The Scheme invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained within Appendix 1 of this Statement.

5.2. The Trustee considers the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in Appendix 1 of this Statement.

5.3. From time to time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate any short-term cashflow requirements or any other unexpected items.

5.4. The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and therefore the asset allocation of the Scheme will be expected to change as the Scheme's liability profile matures.

6. Risks

6.1. The Trustee has considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities, and considered ways of managing/monitoring these risks:

Risk versus the liabilities	The Trustee will monitor and review the investment strategy with respect to the liabilities in conjunction with each actuarial valuation. The investment strategy will be set with consideration to the appropriate level of risk required for the funding strategy as set out in the Scheme's Statement of Funding Principles.
Covenant risk	The creditworthiness of the Employer and the size of the pension liability relative to the Employer's earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the Employer covenant.
Solvency and mismatching	This risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustee is aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Scheme's funding basis.
Asset allocation risk	The asset allocation is detailed in the Appendix to this Statement and is monitored on a regular basis by the Trustee.
Investment manager risk	The Trustee monitors the performance of each of the Scheme's investment managers on a regular basis in addition to having meetings with each manager from time to time as necessary. The Trustee has a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate.
Governance risk	Each asset manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustee's Investment Consultants monitor these and the Trustee will report on the managers' practices in their annual Implementation Statement.
ESG/Climate risk	The Trustee believes that ESG factors and actual or anticipated climate change (and regulatory responses to this) risk are among the financial risks that its fund managers need to be considering when making investment decisions.
Concentration risk	Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.

Liquidity risk	The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Scheme's cashflow requirements. The Scheme's administrators assess the level of cash held in order to limit the impact of the cashflow requirements on the investment policy.
Currency risk	The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management. Currency hedging is employed to manage the impact of exchange rate fluctuations.
Loss of investment	The risk of loss of investment by each investment manager and custodian is assessed by the Trustee. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud).

7. Expected return on investments

7.1. The Trustee has regard to the relative investment return and risk that each asset class is expected to provide. The Trustee is advised by their Investment Consultants on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the investment managers.

7.2. The Trustee recognises the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

7.3. In considering the expected return from investments, the Trustee recognises that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.

7.4. Having established the investment strategy, the Trustee monitors the performance of each investment manager against an agreed benchmark as frequently as appropriate according to market conditions and the Scheme's funding position. The Trustee receives regular reports from the Scheme's investment managers and consultants in order to review performance.

8. Realisation of investments

8.1. The Trustee has delegated the responsibility for buying and selling investments to the investment managers. The Trustee has considered the risk of liquidity as referred to above.

8.2. Ultimately, the investments will all have to be sold when the Scheme's life comes to an end. In this situation, the Trustee is aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Scheme accounts.

9. Financially material considerations, the exercise of rights and engagement activities and non-financial matters

9.1. The Trustee has set policies in relation to these matters. These policies are set out in Appendix 2.

10. Policy on arrangements with asset managers

Incentivising alignment with the Trustee's investment polices

10.1. Prior to appointing an investment manager, the Trustee considers the investment manager's approach to the management of ESG and climate related risks with the Scheme's investment consultant, and how their policies are aligned with the Trustee's own investment beliefs.

10.2. When appointing an investment manager, in addition to considering the investment manager's investment philosophy, process and policies to establish how the manager intends to make the required investment returns, the Trustee also considers how ESG and climate risk are integrated into these. If the Trustee deems any aspect of these policies to be out of line with their own investment objectives for the part of the portfolio being considered, they will consider using another manager for the mandate.

10.3. The Trustee carries out a strategy review at least every three years where they assess the continuing relevance of the strategy in the context of the Scheme's membership and their aims, beliefs and constraints.

10.4. In the event that an investment manager ceases to meet the Trustee's desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment will be terminated.

Incentivising assessments based on medium to long term, financial and non-financial considerations

10.5. The Trustee is mindful that the impact of climate change has a long-term nature. However, the Trustee recognises that the potential for change in value as a result of ESG and climate risks may occur over a much shorter term than climate change itself.

10.6. When considering the management of objectives for an investment manager and then assessing their effectiveness and performance, the Trustee assesses these over a rolling timeframe. The Trustee believes the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon. Where a fund may have an absolute return or shorter term target, this is generally supplementary to a longer term performance target. In the case of assets that are actively managed, the Trustee expects this longer term performance target to be sufficient to ensure an appropriate alignment of interests.

10.7. The Trustee expects investment managers to be voting and engaging on behalf of the Scheme's holdings and the Scheme monitors this activity within the Implementation Statement in the Scheme's Annual Report and Accounts. The Trustee does not expect ESG and/or climate considerations to be disregarded by the investment managers in an effort to achieve any short term targets but accepts that these should not be the sole drivers of decision making. The investment managers are expected to give priority to achieving the best possible financial returns at appropriate levels of risk, and to that end other factors may be considered more relevant than ESG or climate risk.

Method and time horizon for assessing performance

10.8. The Trustee monitors the performance of their investment managers over medium to long term periods that are consistent with the Trustee's investment aims, beliefs and constraints.

10.9. The Scheme invests exclusively in pooled funds. The investment manager is remunerated by the Trustee based on the assets they manage on behalf of the Trustee. As the funds grow, due to successful investment by the investment manager, they receive more and as values fall they receive less.

10.10. The Trustee believes that this fee structure enables the investment manager to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.

10.11. The Trustee asks the Scheme's investment consultant to assess if the asset management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered regularly as part of the review of the Statement of Investment Principles.

Portfolio turnover costs

10.12. The Trustee acknowledges that portfolio turnover costs can impact on the performance of their investments. Overall performance is assessed as part of the quarterly investment monitoring process.

10.13. During the investment manager appointment process, the Trustee's investment consultants will consider both past and anticipated portfolio turnover levels. When underperformance is identified, deviations from the expected level of turnover may be investigated with the investment manager concerned if it is felt they may have been a significant contributor to the underperformance. Assessments reflect the market conditions and peer group practices. The Trustee acknowledges that for some asset classes, such as LDI, a higher turnover of contracts such as repurchase agreements, can be beneficial to the fund from both a risk and cost perspective.

Duration of arrangement with asset manager

10.14. For the open-ended pooled funds in which the Scheme invests, there are no predetermined terms of agreement with the investment managers.

10.15. The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustee's investment beliefs is assessed every three years, or when changes deem it appropriate to do so more frequently. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.

11. Agreement

11.1. This statement was agreed by the Trustee, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the employer, the investment managers, the actuary and the Scheme auditor upon request.

Signed by Trustee Director on 6 August 2024

Signed:.. **Date:**....................

On behalf of the Chaucer Pension Scheme

Appendix 1 Note on investment policy of the Scheme as at August 2024 in relation to the current Statement of Investment Principles

1. The balance between different kinds of investment

The Scheme has a strategic asset allocation as set out in the table below, which has been agreed after considering the Scheme's liability profile, funding position, expected return of the various asset classes and the need for diversification.

Rebalancing

The Trustee recognises that the asset allocation of investments in different asset classes will vary over time as a result of market movements. The Trustee seeks to maintain a balance between maintaining the asset allocation in line with its benchmark and limiting the costs of rebalances.

Portfolio	Asset class	Strategic asset allocation (%)
Growth portfolio	**Equities**	**20**
	Overseas equities	15
	UK equities	5
	Diversified Growth	**25**
	Multi Asset Credit	**12.5**
Protection portfolio	**Liability Driven Investment (LDI)**	**42.5***
	Absolute Return Bonds	
	Sterling Liquidity Fund	
Total		**100**

*The Sterling Liquidity Fund and Absolute Return Bond Fund are used as sources of collateral to manage the leverage of the LDI portfolio. As such, the relative allocation between these funds is expected to vary over time.

The table above shows the Scheme's agreed strategic asset allocation. As at 30 June 2024, the Scheme had a holding of around 2% of assets in a property fund – this allocation is not included in the strategic allocation and is a result of the allocation to property in the Scheme's former investment strategy. The Fund is still in the process of closing and is gradually distributing funds back to the Scheme's bank account. The Trustee will reinvest the proceeds from the M&G Property Fund closure in a way to bring the allocation back towards the strategic allocation above.

2. Choosing investments

The Trustee has appointed the following investment managers to carry out the day-to-day investment of the Scheme:

- Legal & General Investment Management "LGIM" (Protection portfolio, Diversified Growth and equities);
- M&G Investments "M&G" (Multi Asset Credit and incumbent property).

The Trustee also has an AVC contract with the Prudential Assurance Company Limited for the receipt of members' Additional Voluntary Contributions (AVCs).

The investment managers are authorised and regulated by the Financial Conduct Authority.

The investment benchmarks and objectives for each investment manager are given overleaf.

Investment manager	Fund	Benchmark	Objective
LGIM	UK Equity Index Fund	FTSE All-Share Index	Track the benchmark to within +/- 0.25% p.a. for two out of three years
	World (ex UK) Equity Index Fund – GBP Currency Hedged	FTSE World (ex UK) Index - GBP Hedged	Track the benchmark to within +/- 0.5% p.a. for two out of three years
	LGIM Diversified Fund	FTSE Developed World Index (50% GBP Hedged)*	No official outperformance target
	Leveraged LDI (Matching Plus) Funds	Liability benchmark	Match the change in the value of liabilities resulting from changes in interest rate and inflation.**
	Absolute Return Bond Fund	ICE BofA SONIA 3-Month Constant Maturity Total Return Index	Outperform the benchmark by 1.5% p.a. over a rolling 3-year period.
	Sterling Liquidity Fund	Sterling Overnight Index Average	To provide capital stability and a return in line with money market rates whilst providing daily access to liquidity and providing an income
M&G	M&G Total Return Credit Investment Fund	1-Month SONIA	To achieve a total return of 3-5% p.a. (gross of fees) above the benchmark, over any five year period.

*The Diversified Fund does not have a specific benchmark but LGIM measure performance against a comparator of Developed World Equities.

**The combination of LDI funds has been set with the intention that the strategy as a whole should broadly correspond to the profile of the Scheme's liabilities and hedge approximately 68% of the sensitivity of the liabilities to changes in interest rates and inflation (measuring the liabilities based on a gilts + 0.5% p.a. basis).

The performance of the investment managers will be monitored as frequently as the Trustee considers appropriate in light of the prevailing circumstances. The monitoring takes into account both short-term and long-term performance.

The AVC arrangement is reviewed from time to time.

3. Fee arrangements

The fee arrangements with the investment managers are summarised in the Trustee's Investment Manager Arrangement Summary.

4. Investments and disinvestments

Investments and disinvestments are usually made so as to move the actual asset allocation more in line with the target asset allocation.

In addition, some of the Scheme's assets are still being redeemed from the M&G Pooled Pensions UK Property Fund and paid into the bank account as this Fund is being closed. The precise timing of when this process will be complete is currently unknown, although the Trustee expects it to be in the next 12 months. The Trustee will consider what to do with the proceeds once the closure process has been completed, as well as after any significant redemption payments are received. They will normally be invested to move the asset allocation more in line with the target asset allocation but taking into account any expected cash outgo that needs to be met at the time.

Collateral management on the LGIM LDI Funds

The Scheme invests in LGIM's Matching Plus Funds which are pooled LDI funds that provide interest rate and inflation protection. In order to manage the amount of leverage within the funds, LGIM will inform the Trustee of the amount of any required cash collateral call or payout.

In the event of a cash collateral call (requiring the Trustee to top up the Scheme's investment in the LDI funds), LGIM will notify the Trustee and arrangements will normally be made for a transfer of funds from the Scheme's holding in the LGIM Sterling Liquidity Fund in the first instance, followed by the LGIM Absolute Return Bond Fund should the holding in the Sterling Liquidity Fund be insufficient. The collateral waterfall arrangement continues with the inclusion of the LGIM Diversified Fund, M&G Total Return Credit Investment Fund and then finally the LGIM World (ex UK) Index GBP Hedged Fund (75%), LGIM UK Equity Index Fund (25%).

In the event that cash collateral payouts are made from the LDI funds, LGIM will automatically pay these amounts directly into the LGIM Sterling Liquidity Fund. The Trustee will then consider on a case-by-case basis what to do with these amounts.

Appendix 2 Financially material considerations, non-financially material considerations, the exercise of voting rights and engagement activities

Policy on financially material considerations

1.1. The Trustee believes that Environmental, Social and Governance ("ESG") factors are financially material – that is, they have the potential to impact the value of the Scheme's investments over the lifetime of the Scheme. This is expected to be at least 5 years from the date of this Statement. The Trustee appreciates that the method of incorporating ESG in the investment strategy and process will differ between asset classes. The Trustee considers ESG and climate factors as just factors, not necessarily conclusive factors, in the assessments to be made by fund managers of the financial suitability of any investments.

1.2. The Trustee expects its investment consultants to review the approach to ESG of their managers and to advise the Trustee if it they have concerns that the funds currently invested in by the Scheme are not managed in accordance with the Trustee's views on financially material factors, as set out in this policy. This position is monitored periodically by the investment consultants, at least annually. As part of the monitoring process the Trustee is provided with periodic updates on governance and engagement activities of the managers and input from the investment advisors on ESG matters. The Trustee has the opportunity if it so chooses to meet the managers and question them on policies. The views set out below will be taken into account when appointing, reviewing and retaining managers. The Trustee appreciates that the method of incorporating ESG in the investment strategy and process will differ between asset classes. A summary of the Trustee's view for each asset class in which the Scheme invests is outlined below.

Passive equities

1.3. The Trustee believes that ESG issues will be financially material to the risk-adjusted returns achieved by the Scheme's passive equities over the Trustee's intended time horizon for the investment in question. The Trustee accepts that fund managers must invest in line with the specified index and, therefore, may not be able to disinvest if they have concerns relating to ESG. The Trustee therefore requires that the fund manager takes into account ESG considerations by engaging with companies and by exercising voting rights. However, the process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

Diversified growth

1.4. The Trustee believes that ESG issues will be financially material to the risk-adjusted returns achieved by the Scheme's absolute return fund holdings over the Trustee's intended time horizon for the investment in question. The Trustee therefore requires the fund manager to consider ESG issues when selecting investments. The Trustee recognises that the fund manager will hold a blend of underlying asset class and some of which, such as fixed income assets, do not typically provide voting rights; they support engagement with companies by the fund manager. The process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

Passive gilts, LDI and liquidity funds

1.5. The Trustee believes that ESG issues are not financially material to the risk-adjusted returns achieved by the Scheme's passive gilts and cash funds. This is because these funds are considered "least risk" when constructing the investment strategy.

Multi asset credit and absolute return bonds

1.6. The Trustee believes that ESG issues will be financially material to the risk-adjusted returns achieved by the Scheme's credit holdings over the Trustee's intended time horizon for the investment in question. The investment process for the managers should take ESG into account when selecting holdings. The Trustee recognises that fixed income assets do not typically provide voting rights; they support engagement with companies by the fund manager. The process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

Property

1.7. The Trustee believes that ESG issues can be financially material to the risk-adjusted returns achieved by the Scheme's property manager over the Trustee's intended time horizon for the investment in question. Environmental issues are particularly important when selecting appropriate properties for the property portfolio, and so the Trustee looks to the manager to incorporate environmental issues into their investment process.

Policy on non-financially material considerations

1.8. The Trustee does not take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life of the members and beneficiaries of the Scheme (referred to as "non-financial matters" in the relevant Regulations) in the selection, retention and realisation of investments. On the contrary, the Trustee considers its priority to be to ensure the optimal financial management of the Scheme's assets with a view to maximising the prospects of the Scheme being able to pay the promised benefits.

The exercise of voting rights

1.9. The Trustee's policy on the exercise of rights attaching to investments, including voting rights, and in undertaking engagement activities in respect of the investments is that these rights should be exercised by the investment managers on the Trustee's behalf. In doing so, the Trustee expects that the investment managers will use their influence as major institutional investors to exercise the Trustee's rights and duties as shareholders, including where appropriate engaging with underlying investee companies to promote good corporate governance, accountability and to understand how those companies take account of ESG, climate and other relevant financial issues in their businesses.

1.10. The Trustee will monitor and engage with the investment managers about relevant matters (including matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance), through the Scheme's investment consultant.

1.11. Investment managers will be asked by the investment consultant to provide details of their stewardship policy and engagement activities on at least an annual basis. The Trustee's investment consultant will monitor and review the information provided by the investment managers. Where possible and appropriate, the Trustee's investment consultant will engage with their investment managers for more information and ask them to confirm that their policies comply with the principles set out in the Financial Reporting Council's UK Stewardship Code.

Engagement activities

1.12. The Trustee acknowledges the importance of ESG and climate risk within their investment framework. When delegating investment decision making to their investment managers, they provide their investment managers with a benchmark they expect the investment managers to either follow or outperform. The investment manager has discretion over where in an investee company's capital structure it invests (subject to the restrictions of the mandate), whether directly or as an asset within a pooled fund.

1.13. The Trustee is of the belief that ESG and climate risk considerations extend over the entirety of a company's corporate structure and activities, i.e. that they apply to equity, credit and property instruments or holdings. The Trustee also recognises that ESG and climate related issues are constantly evolving and along with them so too are the products available within the investment management industry to help manage these risks.

1.14. The Trustee considers it to be a part of their investment managers' roles to assess and monitor developments in the capital structure for each of the companies in which the managers invest on behalf of the Scheme or as part of the pooled fund in which the Scheme holds units.

1.15. The Trustee also consider it to be part of their investment managers' roles to assess and monitor how the companies in which they are investing are managing developments in ESG related issues, and in particular climate risk, across the relevant parts of the capital structure for each of the companies in which the managers invest on behalf of the Scheme.

1.16. Should an investment manager be failing in these respects, this should be identified by the Trustee's investment consultant in the Scheme's regular performance monitoring.

1.17. Through their consultation with the Principal Employer when setting this Statement of Investment Principles, the Trustee has made the Principal Employer aware of their policy on ESG and climate related risks and how they intend to manage.

1.18. The Scheme's investment consultant Barnett Waddingham is independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes the Trustee confident that the investment manager recommendations they make are free from conflict of interest.

1.19. The Trustee expects all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so the Trustee believes they have managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustee/investment manager and the investee companies.

1.20. In selecting and reviewing their investment managers, where appropriate, the Trustee will consider reports from the investment consultant upon the investment managers' policies on engagement and how these policies have been implemented.