The Staff Pension and Life Assurance Scheme of the Grand Lodge

Statement of Investment Principles

June 2021

Contents

1. Introduction

1.1. This is the Statement of Investment Principles prepared by the Trustees of the Staff Pension and Life Assurance Scheme of the Grand Lodge (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; and
- the Occupational Pension Schemes (Investment) Regulations 2005 as amended.

1.2. In preparing this statement the Trustees have consulted the Board of General Purposes of the United Grand Lodge of England, the Principal Employer (acting on behalf of all the sponsoring employers), and obtained written advice from Barnett Waddingham LLP, the Trustees' investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority and licensed by the Institute and Faculty of Actuaries for a range of investment business activities.

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 Trustees 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 Trustees are set out in Clause 3 of the Definitive Trust Deed & Rules, dated 31 May 2006. This statement is consistent with those powers.

2. Choosing investments

2.1. The Trustees' policy is to set the overall investment target and then monitor the performance of their manager against that target.

2.2. The day-to-day management of the Scheme's assets is delegated to Cazenove Capital Management. More details are set out in Appendix 1 to this Statement. Cazenove is a trading name of Schroder & Co. Limited who are authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

2.3. The Trustees have chosen to appoint and delegate the role of monitoring the performance of their manager to a sub-committee, consisting of the Chairman and one other Trustee, who report to the Trustees.

2.4. The Trustees review the appropriateness of the Scheme's investment strategy on a periodic basis. This review includes consideration of the continued competence of the investment manager with respect to performance within any guidelines set. The Trustees will also consult the Employer before amending the investment strategy.

3. Investment objectives

3.1. The Trustees' 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 invest in assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from members and the participating employers, the cost of current and future benefits which the Scheme provides;
- to minimise the long-term contributions to the Scheme by maximising the return on the assets whilst having regard to the above objectives.

3.2. The Trustees are 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 Trustees have 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 and alternatives.

4.2. There are no direct employer-related investments. Any potential indirect employer-related investment through pooled investment vehicles is unintentional and would represent less than 0.1% of Scheme net assets.

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 to this Statement.

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

6. Risks

6.1. The Trustees have 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 Trustees will monitor and review the investment strategy with respect to the liabilities in conjunction with each actuarial valuation.
Covenant risk	The creditworthiness of the employer and the size of the pension liability relative to the employer. 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 Trustees are 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 Appendix 1 to this Statement and is monitored on a regular basis by the Trustees.
Investment manager risk	The Trustees monitors the performance of each of the Scheme's investment manager on a regular basis in addition to having meetings with each manager as necessary. The Trustees have a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate.
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. Some currency hedging is employed to manage the impact of exchange rate fluctuations.
ESG/Climate risk	The Trustees have considered long-term financial risks to the Scheme and ESG factors as well as climate risk are potentially financially material and will continue to develop its policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments in order to avoid unexpected losses.
Loss of investment	The risk of loss of investment by each investment manager and custodian is assessed by the Trustees. 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 Trustees have regard to the relative investment return and risk that each asset class is expected to provide. However, the day-to-day selection of investments is delegated to the investment manager.

7.2. The Trustees recognise 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 Trustees recognise 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 Trustees monitor the performance of each investment manager against an agreed benchmark as frequently as appropriate according to market conditions and the Scheme's funding position.

8. Realisation of investments

8.1. The Trustees have delegated the responsibility for buying and selling investments to the investment manager. The Trustees have 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 Trustees are 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 and non-financial matters

9.1. The Trustees have set policies in relation to financially material considerations and non-financial matters. These policies are set out in Appendix 2.

10. Exercise of voting rights and engagement activities

10.1. The Trustees have set policies in relation to the exercise of voting rights and engagement activities. These policies are set out in Appendix 2.

11. Policy on arrangements with asset managers

11.1. Incentivising alignment with the Trustees' investment policies.

11.2. Prior to appointing an investment manager, the Trustees discuss the investment manager's approach to the management of environmental, social and governance ("ESG") factors and climate related risks with the Scheme's investment consultant, and how their investment strategy and decisions are aligned with the Trustees' own policies that are set out in this Statement of Investment Principles.

11.3. 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 Trustees also consider how ESG and climate risk are integrated into these. If the Trustees deem 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.

11.4. The Trustees carry out a strategy review as regularly as necessary where they assess the continuing relevance of the strategy in the context of the Scheme's membership and their aims, beliefs and constraints. The Trustees monitor the investment managers' approach to ESG and climate related risks as regularly as necessary.

11.5. In the event that an investment manager ceases to meet the Trustees' strategy and desired aims, including the management of ESG and climate related risks, using the approach expected of them, then their appointment will be terminated. The investment manager has been informed of this by the Trustees.

11.6. Investment manager ESG policies are reviewed in the context of best industry practice and feedback will be provided to the investment manager.

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

11.7. The Trustees are mindful that the impact of ESG and climate change has a long-term nature. However, the Trustees recognise that the potential for change in value as a result of ESG and climate risk may occur over a much shorter term than climate change itself. The Trustees acknowledge this in their investment management arrangements.

11.8. When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustees assess these over a rolling timeframe. The Trustees believe 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 Trustees expect this longer term performance target to be sufficient to ensure an appropriate alignment of interests.

11.9. The Trustees expect their investment manager 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 Trustees do not expect ESG considerations to be disregarded by the investment manager in an effort to achieve any short term targets.

11.10. The Trustees believe that good stewardship and positive engagement can lead to better risk-adjusted investor returns. Therefore the investment manager is incentivised to engage with issuers of debt or equity in order to improve their performance in the medium to long-term as this in turn will increase the size of the assets upon which management fees are based.

Method and time horizon for assessing performance

11.11. The Trustees monitor the performance of their investment manager over medium to long term periods that are consistent with the Trustees' investment strategy and decisions with the trustees' policies that are set out in this Statement of Investment Principles.

11.12. The investment manager is remunerated by the Trustees based on the assets they manage on behalf of the Trustees. As the funds grow, due to successful investment by the investment manager, they receive more and as values fall they receive less.

11.13. The Trustees believe 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.

11.14. The Trustees ask 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

11.15. The Trustees acknowledge that portfolio turnover costs (i.e. the costs incurred as a result of the buying, selling, lending or borrowing of investments) can impact on the performance of their investments. Overall performance is assessed regularly.

11.16. During the investment manager appointment process, the Trustees may 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 Trustees acknowledge that for some asset classes 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

11.17. There are no predetermined terms of agreement or duration with the investment manager.

11.18. The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustees' investment strategy is assessed every three years, or when certain changes deem it appropriate to do so more frequently (for example, a change in the law). As part of this review the ongoing appropriateness of the investment manager, and the specific funds used, is assessed.

12. Agreement

12.1. This statement was agreed by the Trustees, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the Employer, the investment manager(s), the Scheme Actuary and the Scheme Auditor upon request.

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

On behalf of the Trustees of the Staff Pension and Life Assurance Scheme of the Grand Lodge

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

1. Choosing investments

12.2. The Trustees have appointed Cazenove Capital Management to carry out the day-to-day investment of the Scheme. Cazenove is a trading name of Schroder & Co. Limited who are authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

The Trustees also have AVC contracts with Royal London Mutual Insurance Society Limited (formerly Scottish Life Assurance Company) and Standard Life Assurance Limited for the receipt of members' Additional Voluntary Contributions (AVCs). The arrangement is reviewed from time to time. The AVC providers are authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

The Trustees have appointed Barnett Waddingham LLP to advise on investment matters. Barnett Waddingham are normally remunerated on a time-cost basis, although fixed fees may be agreed for specific tasks.

2. 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 range of returns of the various asset classes and the need for diversification.

Cazenove actively manages the portfolio around the long term strategic asset allocation on a discretionary basis although there is no automatic rebalancing in place. The Trustees seek to maintain a balance between maintaining the asset allocation in line with its benchmark and limiting the cost of rebalances.

In actively managing the Scheme's portfolio, Cazenove has discretion to vary the asset classes within agreed limits. The Trustees have instructed Cazenove to invest at least 25% of the portfolio in index-linked bonds. In addition, the Trustees have instructed Cazenove to target an income yield of 2.0% p.a.

Portfolio	Asset class	Long term strategic allocation	Ranges*
Growth portfolio	**Equities**	**60%**	
	UK equities	10%	5% - 40%
	Overseas equities	50%	20% - 55%
Protection portfolio	**Bonds**	**40%**	
	Index-linked gilts	40%	25% - 50%
Total		**100%**	

*The above ranges have been agreed with Cazenove. They are for guidance only and the Trustees would not want asset classes sold just because they have hit the range.

In managing the Scheme's portfolio, Cazenove currently make use of:

- Directly held equities;
- Pooled third party equity funds;
- Index-linked government bonds (UK and overseas);
- Pooled third party multi-asset funds;
- Pooled third party hedge funds;
- Cash.

The performance of Cazenove will be monitored as frequently as the Trustees consider appropriate in light of the prevailing circumstances. The monitoring takes into account both short-term and long-term performance.

The investment benchmarks for each of the asset classes in the table above are given below:

Investment manager	Asset Class	Benchmark
Cazenove	UK equities	FTSE All Share Index
	Overseas equities	FTSE AW World (ex UK) Index
	Bonds	FTSE Index Linked Over 5 Years

3. Fee agreements

In addition to the management fee paid to Cazenove of 0.4% p.a. plus VAT on the market value of the portfolio, calculated on a daily basis and invoiced quarterly, additional annual management charges are payable within each of the underlying funds held. As of December 2019, these underlying annual fund charges come to around 0.2% to 0.3% of assets. There are minimal additional transaction costs.

4. Investments and disinvestments

New money will normally be invested to move the asset allocation towards its overall benchmark.

The Scheme's cashflow requirements are expected to be met by contributions, however where this is insufficient the Trustees may disinvest some of its investments, usually to move the overall asset allocation in line with the long term asset allocation.

In the case of both investments and disinvestments this is subject to the Trustees' discretion and they may choose to deviate from the long term strategic allocation. When the Trustees' exercise their discretion in this manner, they will obtain written investment advice and consider whether future decisions about those investments should be delegated to the fund manager. The Trustees will obtain and review written advice annually.

Where the above-mentioned written advice is obtained, the Trustees will consider suitability of the investments, the need for diversification and the principles contained in this statement. The adviser will be qualified by their ability in and practical experience of financial matters and have the appropriate knowledge and experience of the management of the investments of trust schemes required by pensions legislation.

Appendix 2 Policies on: i) financially material considerations; ii) non-financial matters; iii) exercise of voting rights; and iv) engagement activities

1. Financially material considerations

The Trustees believe that environmental, social and governance ("ESG") factors are potentially financially material over the life of the Scheme and therefore have a policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments. The Trustees take steps to ensure that their investment manager has an effective ESG policy in place and rely on them acting in accordance with that policy. Furthermore, an investment manager's excellence in this area will not take precedence over other factors, including (but not limited to) historical performance or fees.

The Scheme's investment manager, Cazenove Capital Management, will ultimately act in the best interests of the Scheme to maximise returns for a given level of risk.

The Trustees also believe that good stewardship and positive engagement can lead to improved governance and better risk-adjusted investor returns. The Trustees delegate engagement and voting on their behalf, to their investment manager.

The Trustees have taken into consideration the UK Stewardship Code, and their investment manager's stated corporate governance policies which comply with many or all of these principles.

The Trustees, with the assistance of their investment consultant and the manager of the underlying funds, take into account ESG factors (including climate change risks) in their decisions in relation to the selection, retention and realisation of investments. The Trustees, with the assistance of their investment consultant, take those factors into account in the selection, retention and realisation of investments as follows:

Selection of investments: assess the investment manager's ESG integration credentials and capabilities, including stewardship, as a routine part of requests for information/proposals as well as through other regular reporting channels.

Retention of investments: Developing a robust monitoring process in order to monitor ESG considerations on an ongoing basis by regularly seeking information on the responsible investing policies and practices of the investment manager.

Realisation of investments: The Trustees will request information from the investment manager about how ESG considerations are taken into account in decisions to realise investments.

The Trustees, with the assistance of their investment consultant, will also take those factors into account as part of its investment process to determine a strategic asset allocation, and consider them as part of ongoing reviews of the Scheme's investments.

The Trustees will continue to monitor and assess ESG factors, and risks and opportunities arising from them, as follows:

- The Trustees will obtain regular training on ESG considerations in order to understand fully how ESG factors including climate change could impact the Scheme and its investments;

- As part of ongoing monitoring of the Scheme's investment manager, the Trustees will use any ESG ratings information available within the pensions industry or provided by its investment consultant, to assess how the Scheme's investment manager takes account of ESG issues; and

- Through their investment consultant the Trustees will request that all of the Scheme's investment managers provides information about their ESG policies, and details of how they integrate ESG into their investment processes on an annual basis.

2. Non-financial matters

The Trustees do 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.

3. Exercise of voting rights

The Trustees' 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 manager on the Trustees' behalf. In doing so, the Trustees expect that the investment manager will use their influence as major institutional investors to exercise the Trustees' 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 issues in their businesses.

The Trustees will monitor and engage with the investment manager (and other relevant persons including, but not limited to, issuers of debt or equity or another stakeholder) 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.

Investment manager will be asked to provide details of their stewardship policy and engagement activities on at least an annual basis. The Trustees will, with input from their investment consultant, monitor and review the information provided by the investment manager. Where possible and appropriate, the Trustees will engage with their investment manager 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.

4. Engagement activities

The Trustees acknowledge the importance of ESG and climate risk within their investment framework. When delegating investment decision making to their investment manager they provide their investment manager with a benchmark they expect the investment manager 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.

The Trustees are 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 Trustees also recognise 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.

The Trustees consider 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.

The Trustees also consider it to be part of their investment manager's 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 manager invests on behalf of the Scheme.

Should an investment manager be failing in these respects, this should be captured in the Scheme's performance monitoring.

Through their consultation with the Principal Employer when setting this Statement of Investment Principles, the Trustees have made the Principal Employer aware of their policy on ESG and climate related risks, how they intend to manage them and the importance that the pensions industry as a whole, and its regulators, place on them.

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

The Trustees expect all investment manager to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so the Trustees believe they have managed the actual or potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustees/investment manager and the investee companies.

In selecting and reviewing their investment manager, where appropriate, the Trustees will consider investment manager policies on engagement and how these policies have been implemented.