

Helaba (London) Pension & Life Assurance Plan

# Statement of Investment Principles

Fifth Edition

## 1.0 Introduction

This Statement of Investment Principles (the “Statement”) has been prepared by the Trustees of the Helaba (London) Pension & Life Assurance Plan (the “Trustees”) in respect of the Helaba (London) Pension & Life Assurance Plan (the “Plan”) in accordance with Section 35 of the Pensions Act 1995, as amended, and the Occupational Pension Scheme (Investment) Regulations 2005.

This is the fifth edition of the Statement and, taken with the document “Investment Managers and Advisers”, replaces all other versions and addenda.

In preparing this Statement the Sponsoring Employer has been consulted.

## 2.0 Investment Governance Structure

The Trustee Board comprises an appropriate number of Company and member-nominated Trustees in accordance with the prevailing legislation. The Trustees’ primary role is to act in the best interests of the Plan members.

The Trustees take investment decisions as a complete body, with advice from their investment adviser, and do not feel it necessary to set up an Investment Sub-Committee. Investment decisions include, but are not limited to:

- Objective setting/journey planning;
- Determining appropriate risk and return targets;
- Asset allocation, rebalancing and derisking;
- Currency hedging programmes;
- The use of derivatives for risk management purposes;
- Reviewing adviser recommendations, including in respect of fund managers;
- Ensuring sufficient liquidity to meet cashflow requirements.

The Trustees take advice from a suitably qualified investment adviser. The adviser’s role includes, but is not limited to:

- Asset and liability modelling to quantify expected risk and return, and provide strategic investment advice;
- Recommending changes to asset allocation and rebalancing against a ‘Journey Plan’;
- Due diligence on investment opportunities as appropriate;
- Completion of documentation on the Trustees’ behalf in respect of appointment and removal of fund managers and custodians, once a Trustee decision has been made;
- Recommending currency or liability hedging strategies;
- Quarterly performance reporting;
- Advising on liquidity to meet cash flow requirements;
- Attendance at Trustee meetings.

Details of the investment adviser’s remuneration can be found in a separate document entitled, “Investment Managers and Advisers”.

### 3.0 Investment Beliefs

It is in the members' best interests for the Scheme to deliver the returns necessary to meet all capital payments (including to members) when they fall due, within an acceptable risk framework.

Investment decisions are made with members' best interests at their core, and within the confines of our stated investment beliefs:

- It is preferable to take a long-term approach to investing; trying to time the markets in the short term is highly risky;
- Managing investment risk against liabilities is more appropriate than not, provided it is cost-effective to do so;
- Diversification across different drivers of return is key to delivering strong risk-adjusted returns;
- In very efficient markets, passive investment provides a cost-effective way of gaining market exposure. However, investing actively can be beneficial in less efficient markets;
- Provided liquidity is well managed against Plan circumstances and stress tested at a portfolio level, the Trustees will consider investing in illiquid assets such as private equity;
- Given inherent reliance on assumptions within complex investment models the preference is to use those models as a guide to investment decision-making and not as the only determinant;
- Investments that have a positive ESG impact, including in respect to climate change, may not be detrimental to performance;
- Well governed businesses are more likely to outperform poorly governed businesses;
- Fund managers who take an active approach to company engagement, are transparent in their reporting and are considered good stewards of assets will generally perform better than those that do not.

### 4.0 Investment Objectives

Investment objectives are set with reference to the liability profile of the Plan and the Sponsor covenant. Trustee meetings focus on the investment strategy and performance against objectives is monitored.

The Trustees have set out three main objectives for the investment strategy:

1. To ensure sufficiently realisable investments to meet member payments when they fall due;
2. For the value of the assets to be in excess of the value of the liabilities on a Technical Provisions basis, within the timeframe of the Recovery Plan;
3. To reduce funding level volatility by increasing interest rate and inflation hedges over time and adding assets that match cashflow requirements.

The Trustees, together with their investment adviser, have discussed the investment objectives and the resultant investment strategy with the Scheme Actuary to ensure it is consistent with the actuarial valuation methodology and assumptions. The Trustees have also discussed the objectives with the Company.

These objectives are the key driver of all decision making and overarch all other policies and beliefs.

## 5.0 Environmental, Social and Governance (ESG)

The Trustees believe ESG, including climate change, to be an important long-term factor when making investment decisions. It is therefore considered as part of the selection and retention of asset classes and fund managers, using analysis provided by their investment adviser.

The Trustees believe that climate change is a financially material consideration when investing and engage with their managers on the issue, encouraging them to consider the impact climate change may have on their portfolios. They expect fund managers to, as far as possible, align with the Task Force on Climate-Related Financial Disclosures.

Non-financially material ESG factors may be considered where it is believed there is a majority membership preference or where the financial impact is unlikely to be detrimental to returns.

Where there is choice, investment will be in fund managers with a superior ESG approach, as rated by the investment adviser, all else being equal. Fund managers are expected to report on ESG issues and developments.

The Trustees engage with the sponsoring employer on their ESG policy and consider any views they may have.

## 6.0 Stewardship

The Trustees do not have the necessary skills to vote or engage individually with the companies in which they invest through their fund managers. However, they do recognise that when investing via pooled funds it is important to ensure that the fund managers are aligned with the Trustees' own beliefs and priorities.

Portfolio managers are expected to engage and influence the companies in which they invest as well as exercise their right to vote, including on performance, strategy, capital structure, management of actual or potential conflicts of interest, social and environmental impact and corporate governance. The Trustees recognise the importance of their role in relation to stewardship and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying Plan assets.

The Trustees expect managers to report fully on such voting and engagement activity and the Trustees engage with and monitor pooled fund managers, with respect to, for example, conflicts of interest and performance. This is primarily carried out via the Trustees' investment adviser, who provides analysis and advice to the Trustees.

The Trustees assess each fund managers' own policies on ESG, significant votes, engagement and stewardship.

The impact of ESG and climate change, along with the voting of fund managers, will be assessed annually, via the Engagement Policy Implementation Statement to ensure that they continue to meet the Trustees' investment beliefs. Where activity or voting is not considered in line with their own beliefs,

The Trustees will request an explanation from the fund manager. If there is not a satisfactory response or continued conflict with policies, then disinvestment will be considered.

## 7.0 Risk Management

### 7.1 Integrated Risk Management

The Trustees fully understand the need to align the interests of all stakeholders in the Plan. Specifically, the Trustees ensure that the Actuarial assumptions, investment strategy and risk appetite of the Sponsor are balanced as far as possible.

### 7.2 Risk Appetite

The Company has expressed a desire to reduce, insofar as possible, the impact of adverse interest rate movements on the Plan's funding level. The Trustees have taken this view into account to allocate the maximum possible to 'Bond' assets without restricting the Plan's ability to meet long-term return objectives through investments in the Plan's 'Growth' portfolio.

The Trustees provide value-at-risk information to the Company and monitor risk on a quarterly basis. Given the size of the Plan and the spurious accuracy of risk metrics, the Trustees have not set an absolute risk level for the Plan, nor has the Company expressed a desire for one. However, all parties are aware of "value-at-risk" and monitor it.

### 7.3 Risk Reduction Strategies

The Trustees embrace diversification as a means to reduce portfolio risk. They seek to invest in funds with different drivers of return to achieve this.

In addition, risk mitigation strategies will be implemented, such as adding to pooled funds that have exposure to bonds and/or interest rate and inflation swaps, hedging currency risk or adding tail risk protection, as a means to address specific portfolio or liability valuation driven risks, where it is appropriate and cost-effective to do so.

It is recognised that full matching of liabilities can only be achieved through buy-in or buy-out and this will be considered by the Trustees when appropriate.

### 7.4 Cashflow Management

One of the key elements when setting investment strategy is the liquidity requirements of the Plan. The Trustees monitor ongoing liquidity needs quarterly and assess whether there are sufficiently liquid assets available in the short term by stressing capital calls, for example from private equity, member payments and hedging strategies.

The Trustees acknowledge the Pensions Regulator guidance on liquidity and LDI portfolios, and are compliant with it where appropriate.

## 8.0 Long Term Journey Plan

The Trustees have set an investment strategy, which broadly follows the following investment allocations, and required returns above the Bank of England Gilt yield curve (shown over the next 10 years, although the plan extends over 27 years at which point liabilities become backed by bonds and funding is on a low dependency basis):

Date	Assumed growth	Assumed bonds	Assumed LDI	Required Return above Yields
30/06/2021	51.2%	9.8%	39.0%	1.10%
30/06/2022	51.2%	9.7%	39.0%	1.10%
30/06/2023	50.9%	10.1%	39.0%	1.09%
30/06/2024	50.5%	10.5%	38.9%	1.09%
30/06/2025	50.0%	11.2%	38.9%	1.08%
30/06/2026	49.6%	11.6%	38.8%	1.08%
30/06/2027	46.3%	15.2%	38.5%	1.04%
30/06/2028	44.0%	17.8%	38.2%	1.01%
30/06/2029	39.3%	23.0%	37.7%	0.96%
30/06/2030	37.0%	25.6%	37.4%	0.93%

The Trustees will use the allocations as a benchmark holding but focus on achieving at least the required return, with LDI used to achieve the required hedging set out in Section 9.2 of this Statement.

If funding is ahead of plan, the Trustees may choose to reduce the allocation to growth assets ahead of the above targets but there are no formal derisking or rerisking triggers in place.

At any point in time the allocations may also diverge due to market conditions, liquidity requirements or other external factors, but the Trustees will look to rebalance to achieve the required return in the normal course of events, except when ahead of funding plan.

The journey plan is updated as part of the triennial valuation, or sooner should there be material change to the liability profile or status of the Plan. It is expected that the journey plan will be formally reviewed at these times.

## 9.0 Asset Allocation

### 9.1 Growth Assets

The Trustees have not restricted themselves by asset class and are willing to consider illiquid investments, provided they fit within a framework of diversification across different drivers of return.

The target return is a function of the assumptions set in the actuarial valuation and the Trustees aim to achieve at least this with less than two thirds the volatility of equities (as defined by the MSCI World Index), net of fees.

Given the size of the Plan, only pooled funds will be considered.

## 9.2 Bond Assets

The Trustees have worked with their Scheme Actuary, investment adviser and LDI provider to establish a liability proxy based on the 2021 Actuarial Valuation liability cashflows.

Following the 2022 Gilts crisis, the Trustees agreed to reduce the level of the interest rate and inflation hedges to 65% of the proxy, with the aim of increasing this back to 75% over time. Ultimately, hedging will increase as the available assets in the LDI portfolio increases and as funding improves with the aim of achieving a hedge of 90% to 100% of the proxy when the Plan is fully funded on a low dependency basis, or before if it is achievable without the detriment to return and if there is sufficient liquidity to support it.

However, the Trustees do have flexibility to change the hedge based on market conditions and liquidity needs.

Alongside the LDI portfolio, a corporate bond fund is held for liquidity and to provide additional return to the overall Bond portfolio.

The Trustees recognise that an exact hedge is not possible, given the size of the Plan, and that a full hedge is not possible given the actuarial valuation assumptions, without the use of leveraged products. At the present time, the Trustees have elected to use LDI vehicles to achieve a broad hedge based on interest rate and inflation sensitivities. It is recognised that the size of the Plan restricts investment to pooled funds only and that market conditions and liquidity requirements may result in the mix of assets deviating from the target in times of stress.

The LDI manager will monitor and rebalance the portfolio to maintain the hedge level against the liability proxy on an ongoing basis. If capital is required to maintain the hedge (for example, when yields rise) capital is taken from in the following order:

- Cash
- Growth
- Corporate bonds

Any capital paid out is paid to cash.

## 10.0 Expected Return on Investments

The portfolio of assets is expected to achieve at least the return assumed within the Actuarial Valuation. Each fund manager has a benchmark which they are expected to achieve, and these are set out in a separate Investment Managers and Advisers document.

## 11.0 Fund Manager Selection

Fund manager selection is made by the Trustees on advice from their investment adviser.

As part of the fund research process the investment adviser will consider each fund manager's approach to ESG issues, alongside other factors which may be considered financially significant. Other

non-financial matters are generally not considered unless there is a strong reason to do so. Whilst this does not restrict the investment to only managers who have strong ESG principles, it will form part of the selection process.

The Trustees use the fund objective/benchmark as a guide on whether its investment strategy is being followed and regularly monitors this.

A full list of the fund managers and their mandates can be found in the document entitled, "Investment Managers and Advisers".

## 12.0 Performance Monitoring

The Trustees review the performance of the Plan on a quarterly basis. Consolidated reporting is provided by their investment adviser, which covers market commentary, macro-economic themes, asset allocation and Plan performance, including performance against the actuarial liabilities.

In addition, they delegate monitoring outside quarterly reporting to their investment adviser, who is charged with bringing any significant issues to their attention outside the regular Trustee meetings.

The key measure of success of the Trustees' decisions and the advice given is through the improvement in the funding level, and this is monitored quarterly.

Managers are expected to provide transparency on the costs of running pooled funds, including transaction costs, and are expected to declare any conflicts of interest or changes in ownership as soon as is practical.

## 13.0 The Arrangements with Asset Managers

The Trustees monitor the Plan's investments to consider the extent to which the investment strategy and decisions of the asset managers align with the policies of the Trustees. This includes monitoring the extent to which the assets managers make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity.

Although fund managers are appointed for the long-term, it is recognised that there will be short-term performance volatility, which is monitored and kept under regular review via their investment adviser. There is typically no set duration for arrangements with assets managers.

The Trustees have clear expectations of the asset managers which are contained in their contractual agreements with them and regularly monitor performance. Under the agreements, the Trustees ultimately have the ability to terminate the engagement, including if they are not satisfied on performance in relation to their policies, although an interim step would be to engage via their investment adviser with regard to any concerns and to evaluate any explanations and any proposals for change.



## 14.0 Transparency

Information is available to members, including this Statement. It is the Trustees' aim to be transparent and free from conflicts as fiduciaries to the Plan.

## 15.0 Compliance

This Statement has been drawn up with reference to current legislation and best practice. In particular, the Trustees have considered the Myners' Principles and The Pensions Regulator's Investment Guidance for Defined Benefit Pension Plans, as appropriate to the Plan.

The Statement will be reviewed regularly and following any significant changes to the sponsoring employer's ability to support the Plan or significant changes to the liability profile.

Date .....

Signed on behalf of the Trustees by

Name .....

Signed .....

Helaba (London) Pension & Life Assurance Plan

# Statement of Investment Principles

**Addendum to the Fifth Edition**

## **1.0 Introduction**

This Addendum to the April 2023 Statement of Investment Principles (the “Addendum”) has been approved by the Trustees of the Helaba (London) Pension & Life Assurance Plan (the “Plan”) in accordance with Section 35 of the Pensions Act 1995, as amended, and the Occupational Pension Plan (Investment) Regulations 2005.

In preparing this Addendum the Sponsoring Employer (the “Company”) has been consulted.

## **2.0 Changes to the Statement of Investment Principles**

The Trustees and the Company are in ongoing dialogue regarding the potential insurance of the Plan liabilities.

Whilst discussions are ongoing, and to remove a larger proportion of the interest rate and inflation risk on a buy-in basis, the hedging levels are to be increased to 95% (less adjustments of c. 3%) on a Technical Provisions basis and additional credit strategies are to be introduced to the portfolio.

The result is a lowering of the expected return on the portfolio below the best estimate, but above the prudent basis, on the Technical Provisions basis until such time as the 2024 Actuarial Valuation or buy-in decision has been agreed.

Formal asset allocations have therefore been suspended for the short term.

Should buy-in funding improve further or the Company provide assurance that additional funding will be provided to achieve buy-in, the hedging levels are likely to be further increased and the growth portfolio sold down in favour of bonds and liability driven investments.