

# The Pension Scheme of The Royal Star and Garter Home for Disabled Ex- Service Men and Women

## Statement of Investment Principles

**Barnett Waddingham LLP**

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## 1. Introduction

- 1.1. This is the Statement of Investment Principles prepared by the Trustees of the Pension Scheme of The Royal Star and Garter Home for Disabled Ex-Service Men and Women ("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 by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010, the Occupational Pension Schemes (Charges and Governance) Regulations 2015, the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018, and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.
- 1.2. In preparing this statement the Trustees have consulted the Principal Employer, The Royal Star & Garter Homes and obtained advice from Barnett Waddingham LLP, the Trustees' investment consultants. Barnett Waddingham LLP 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).
- 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 5.3 of the Definitive Trust Deed & Rules, dated 27 April 2007. 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 managers against that target. In doing so, the Trustees consider the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.
- 2.2. The day-to-day management of the Scheme's assets is delegated to one or more investment managers. The investment managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights.
- 2.3. The Trustees review 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 Trustees will also consult the Principal Employer before amending the investment strategy.

## 3. Investment objectives

- 3.1. The Trustees' main investment objectives are:
  - to ensure that they can meet the members' entitlements under the Trust Deed and Rules as they fall due;
  - to secure liabilities with an insurer within the next year;

- to manage the expected volatility of returns in order to minimise the level of volatility in required Employer contributions; and
- to minimise the long-term cost of the Scheme.

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;

- Equity
- Bonds;
- Cash;
- Property;
- Alternatives, including private equity, commodities, hedge funds, infrastructure, currency, high yield debt and derivatives;
- 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 Employer is a registered Charity and does not issue shares or other marketable securities. Notwithstanding this, the Trustees monitor from time-to-time the Employer-related investment content of their portfolio as a whole and will instruct the investment managers to dispose of any such investments in an orderly manner should any be discovered.

## 5. The balance between different kinds of investments

5.1. The Scheme invests in assets that are expected to achieve the Scheme's objectives.

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.

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 has considered ways of managing/monitoring these risks:

<b>Risk versus the liabilities</b>	The Trustees 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.
<b>Covenant risk</b>	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.
<b>Solvency and mismatching</b>	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.
<b>Asset allocation risk</b>	The asset allocation is monitored on a regular basis by the Trustees.
<b>Governance risk</b>	Each asset manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustees monitor these and will report on the managers' practices in their annual Implementation Statement.
<b>ESG/Climate risk</b>	The Trustees have considered long-term financial risks to the Scheme and consider ESG factors, as well as climate risk, to potentially be 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.
<b>Investment manager risk</b>	The Trustees monitor the performance of each of the Scheme's investment managers on a regular basis in addition to having meetings with the managers from time to time 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.
<b>Concentration risk</b>	Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.
<b>Liquidity risk</b>	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.
<b>Currency risk</b>	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 may be employed by the fund managers to manage the impact of exchange rate fluctuations.
<b>Loss of investment</b>	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. The Trustees are advised by their professional investment consultants and other advisors 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 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. The Trustees meet the Scheme's investment managers as frequently as is appropriate in order to review performance.
- 7.5. The Trustees expect the investment strategy to return approximately 0.2% p.a. above an all-stocks gilts index (based on market conditions as at 31 March 2025), noting the primary objective of the strategy is to approximate insurer buy-out pricing rather than achieve a required level of return.

## 8. Realisation of investments

- 8.1. The Trustees have delegated the responsibility for buying and selling investments to the investment managers. 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, the exercise of rights and engagement activities, and non-financial matters

- 9.1. The Trustees have set policies in relation to these matters. These policies are set out in Appendix 1.

## 10. Agreement

- 10.1. 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, Scheme members, investment managers, Scheme Actuary and the Scheme's auditor upon request.

**Agreed by Zedra Governance on 4 September 2025**

**As Trustee of The Pension Scheme of the Royal Star and Garter Home for Disabled Ex-Service Men and Women**

## Appendix 1: Note on financially material considerations, the exercise of rights and engagement activities, and non-financial matters

After receiving training and advice from its investment advisor, Barnett Waddingham, the Trustees believe that Environmental, Social and Governance ("ESG") factors, including but not limited to climate change, are potentially financially material and therefore have a policy to review these, alongside other factors, when selecting or reviewing the Scheme's investments. The Trustees do not currently impose any specific restrictions on the investment managers with regard to ESG issues, but will review the position from time to time.

The Trustees have reviewed the approach to ESG of all of the managers taking into account UN Principles for Responsible Investment scores where appropriate. The Trustees are comfortable that the funds currently invested in by the Scheme are managed in accordance with their views on financially material factors, as set out in this policy. This position is monitored periodically. Further to Barnett Waddingham's initial presentation provided to the Trustees setting out the ESG integration credentials for the Scheme's current investment managers, the Trustees periodically ask the Scheme's investment managers to attend meetings and provide updates on the funds, which will include an update on ESG considerations.

The Trustees will consider information presented by the investment managers and their investment adviser regarding the extent to which an investment manager takes account of ESG factors when making their investment decisions. Trustees will consider each investment manager's approach to ESG factors in conjunction with other factors including (but not limited to) historical performance and fees.

The Trustees appreciate that the method of incorporating ESG in the investment strategy and process will differ between asset classes. A summary of the Trustees' views for each asset class in which the Scheme invests is outlined below. The Trustees understand that ESG analysis is not conducted on derivatives-based instruments and therefore ESG factors are not considered by the investment managers in the selection and management of such instruments.

### Absolute Return Bonds

The Trustees believe that ESG issues will be financially material to the risk-adjusted returns achieved by the Scheme's Absolute Return Bond holdings over the Trustees' intended time horizon for the investment in question. The investment process for the manager should take ESG into account when selecting holdings. The Trustees also support engagement activities, although they appreciate that fixed income assets do not typically provide voting rights. The process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

### Liability Driven Investment

The Trustees believe that ESG issues are not financially material to the risk-adjusted returns achieved by the Scheme's Liability Driven Investment strategy, given its sole purpose is to provide a hedge against the Scheme's exposure to movements in nominal interest rates and inflation.

## Policies on the exercise of voting rights and engagement activities

The Trustees acknowledge the importance of Environmental, social and governance ('ESG') and climate risk within their investment monitoring 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 managers have 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 believe that ESG and climate risk considerations potentially 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' role to assess and monitor developments in the capital structure for each of the companies in which the manager invests 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 managers' role 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. Where the Trustees use pooled funds the Trustees expect the investment manager to employ the same degree of scrutiny.

The Scheme's investment consultants, Barnett Waddingham, are independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes the Trustees confident that their performance monitoring reports and investment manager recommendations are free from conflict of interest.

The Trustees expect all investment managers 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 potential for conflicts of interest in the appointment of the investment managers and conflicts of interest between the Trustees/investment manager and the investee companies.

The Employer is a registered Charity and does not issue shares or other marketable securities. Notwithstanding this, the Trustees monitor from time-to-time the Employer-related investment content of their portfolio as a whole and will instruct the investment managers to dispose of any such investments in an orderly manner should any be discovered.

Through their consultation with the Sponsoring Employer when setting this Statement of Investment Principles the Trustees have made the Sponsoring Employer aware of their attitude to 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 Trustees receive regular investment performance monitoring reports from Barnett Waddingham. Should an investment manager be failing in these respects, this should be captured in the Scheme's regular performance monitoring.

The Scheme does not have any investments which include voting rights.



## Policy for taking into account non-financial matters

The Trustees do not consider any non-financial matters, such as members' ethical views, when constructing the investment strategy and/or when selecting or reviewing fund managers. This policy will be reviewed periodically.

## Appendix 2: Policy on arrangements with asset managers

### Incentivising alignment with the Trustees' investment policies

Prior to appointing the investment manager, the Trustees discuss the investment manager's benchmark and approach to the management of ESG and climate related risks with the Scheme's investment consultant, and how they are aligned with the Trustees' own investment aims, beliefs and constraints.

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 use another manager for the mandate.

The Trustees carry out a strategy review at least every 3 years where they assess the continuing relevance of the strategy in the context of the scheme and their aims, beliefs and constraints. The Trustees monitor the investment managers' approach to ESG and climate related risks on an annual basis.

In the event that an investment manager ceases to meet the Trustees' desired aims, including the management of ESG and climate related risks, their appointment will be reviewed and may be terminated if agreement regarding future performance cannot be agreed. The investment managers have been informed of this through Barnett Waddingham.

Investment manager ESG policies are reviewed in the context of best industry practice and feedback is provided to the investment manager where relevant.

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

The Trustees are mindful that the impact of ESG and climate change may have a long-term nature. 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 have acknowledged this in their investment management arrangements.

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 an agreed predetermined 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 to be sufficient to ensure an appropriate alignment of interests.

The Trustees expect investment managers to be voting and engaging on behalf of the fund'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.

## Method and time horizon for assessing performance

Trustees monitor the performance of their investment managers over medium and longer term periods that are predetermined and consistent with the Trustees' investment aims, beliefs and constraints.

The Scheme invests exclusively in pooled funds. The investment managers are 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. In some instances, a performance fee may also be applied.

The Trustees believe that the agreed fee structures, including the balance between any fixed and performance related element, enable the investment managers to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.

The Trustees ask the Scheme's Investment Consultant to assess whether 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 every three years as part of the review of the Statement of Investment Principles.

## Portfolio turnover costs

The Trustees acknowledge that portfolio turnover costs can impact on the performance their investments. Overall performance is assessed as part of the regular investment monitoring process.

During the investment manager appointment process, the Trustees consider both past and anticipated portfolio turnover levels. When underperformance is identified deviations from the expected level of turnover may be investigated with investment manager concerned if it is felt they may have been a significant contributor to the underperformance. Assessments take into account market conditions and peer group practices.

The Trustees acknowledge 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

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

The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustees' investment aims, beliefs and constraints 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.