THE INSTITUTE OF CANCER RESEARCH PENSION SCHEME

STATEMENT OF INVESTMENT PRINCIPLES

INTRODUCTION

Purpose of Statement

This statement sets out the principles governing decisions about the investment of the assets of the ICR Pension Scheme (the Scheme). This statement is issued by the Trustees to comply with Section 35 of the Pensions Act 1995. The statement also reflects the requirements of the Occupational Pension Schemes (Investment) Regulations 2005.

Advice

The Trustees have obtained written advice on the content of this statement from Redington Ltd and consulted with the Scheme Actuary, Alan Wilkes (collectively termed “the Advisers”). They review the content and appropriateness of this Statement on an annual basis at a meeting of the Trustees of the Scheme. The Trustees believe that the Advisers have the appropriate knowledge and experience to give the advice required by the Pensions Act.

Consultation

The Trustees consult the Employer, the Institute of Cancer Research: Royal Cancer Hospital, about the content of this statement.

Investment Powers

The investment powers of the Trustees are set out in Clause 12 of the Trust Deed and Rules. This statement is consistent with those powers. Neither the Statement nor the Trust Deed and Rules restrict the Trustees’ investment powers by requiring the consent of the Employer.

COMPLIANCE WITH SCHEME SPECIFIC FUNDING

Scheme Specific Funding

The Scheme Specific Funding regime for actuarial valuations came into effect for valuations with an effective date after 22 September 2005.

The funding position is reviewed periodically by the Trustees, with a full actuarial valuation every three years. The Trustees will consider with the Scheme Actuary and the other Advisers whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued consistency with the Scheme Specific Funding requirements.

CHOOSING INVESTMENTS

Process for Choosing Investments

The Trustees are responsible for the investment of the Scheme's assets. Where the Trustees are required to make an investment decision, they always receive written advice from the Advisers first and they believe that this, together with their own collective expertise, ensures that they are appropriately familiar with the issues concerned.

Investment Strategy

Having considered advice from the Advisers, the Trustees have set the investment policy with regard to the Scheme's liability and funding level. The Trustees have set an investment strategy to deliver their strategic funding objective within an acceptable risk budget.

The funding objective and the risk budget are set out in the Scheme's Pension Risk Management Framework (PRMF). The funding objective is to achieve full funding on a Technical Provisions basis by a date agreed by the Trustees in consultation with the Employer. The risk budget is defined by the Scheme's aim to have a level of protection against interest rate and inflation risk so as to minimize the volatility of the funding level to these market factors for an assumed expected return.

These objectives have been set with a view to supporting the long-term sustainability of the Scheme.

The objectives will be reviewed at least after every actuarial valuation to ensure they remain relevant and appropriate.

Progress against the objectives is monitored and reviewed by the Trustees on a regular basis.

The Scheme's assets are invested in line with the strategic funding objective and the risk budget. The Scheme's allocation to return-seeking assets will be adjusted by the investment manager selected by the Trustees when pre-defined funding level triggers are hit so that the Scheme does not take more risk than is necessary to achieve the funding objective.

In consultation with the Employer and having considered advice from the Advisers and also having due consideration for the objectives and attitude to risk of the Trustees and the liabilities of the Scheme, the Trustees have decided upon an investment strategy whereby the portfolio will be notionally split into two elements: a bulk annuity policy arising from the buy-in of pensioner liabilities on 31 January 2013 and a portfolio consisting of return-seeking assets and liability-hedging assets. The allocation of the assets to the two elements as well as the details of performance measurement are set out in the Scheme's Investment Policy Implementation Document ("IPID").

Delegation to Investment Manager and Investment Manager Policy

In accordance with the Financial Services & Markets Act 2000 ("FSMA"), the Trustees have delegated the day-to-day investment of the Scheme's assets to a professional Investment Manager.

The Trustees are responsible for the central allocation of the investment portfolio to each asset class.

Due to the cost benefits and ease of implementation, it is the Trustees' preference to invest in pooled investment vehicles. The Trustees recognise that due to the collective nature of these investments, there is less scope to directly influence how the investment manager invests. However, the Trustees' investment advisors ensure the investment objectives and guidelines of the manager are consistent with that of the Trustees where practicable.

When relevant, the Trustees requires its investment manager to invest with a medium to long-term time horizon, and use any rights associated with the investment to drive better long-term outcomes. For some asset classes, the Trustees do not expect investment managers to make decisions based on long-term performance. These may include investments that provide risk reduction through diversification or through hedging, consistent with the Trustees' strategic asset allocation.

The investment manager is responsible for implementing the strategic asset allocation and selecting appropriate funds and/or managers within each asset class. The investment manager is regulated by the Financial Conduct Authority (FCA) under the Financial Services and Markets Act 2000 as amended by the Financial Services Act 2012. The Trustees have a signed agreement with the investment manager.

When assessing the manager's performance, the focus is on longer-term outcomes and is assessed over a medium to longer-term timeframe, subject to a minimum of three years. The Trustees would not expect to terminate the manager's appointment

based purely on short-term performance. However, the manager's appointment could be terminated within a shorter timeframe than three years due to other factors such as a significant change in business structure or the investment team.
The Trustees require the investment manager to exercise their investment powers in accordance with the Scheme Rules. The manager will exercise their investment powers with a view to giving effect to the principles contained in this statement so far as reasonably practicable.

The manager is paid an ad valorem fee for a defined set of services. The Trustees review the fees periodically to confirm they are in line with market practices.

The Trustees review the portfolio transaction costs and portfolio turnover range of managers, where the data is disclosed and available. The Trustees will then determine whether the costs incurred were within reasonable expectations.

Sub Delegation

The investment manager may only delegate his duties to a third party fund manager with the prior permission of the Trustees. Discretion may only be delegated to a fund manager to whom Section 34(3) of the Pension Act applies. The Third Party manager should exercise its discretion with a view to giving effect to the principles contained in this statement so far as reasonably practicable.

New Investments

Within the categories of investment permitted by the Trustees the investment manager can purchase any new investments, as long as they do not breach the provisions of the fund management agreement.

RESPONSIBLE INVESTMENT

Financially material Environmental, Social and Governance factors

The Trustees incorporate all financially material considerations into decisions on the selection, retention and realisation of investments through strategic asset allocation decisions and the appointment of investment managers, so far as possible.
The Trustees believe that environmental, social and governance factors (including but not limited to climate risk) will be financially material over the time horizon of the Scheme but will have varying levels of importance for different types of assets invested in by the Scheme.

The Trustees' investment advisors will provide regular updates on the performance of the Scheme's investment manager against the above.

Ethical considerations

The Trustees have an ethical (non financial) policy that no investment shall be made in companies perceptibly involved in the manufacture or sale of tobacco or tobacco products. The definition of the tobacco restriction is set out in the Scheme's IPID. The Trustees do not currently factor any additional non-financial issues (such as ethical or moral beliefs) into their investment decision making.

Engagement Policy

The Trustees recognise that good stewardship practices, including engagement and voting activities are important as they help preserve and enhance asset owner value over the long term.

Direct engagement with underlying companies (as well as other relevant persons) of which the Trustees own shares and debt is carried out by the Scheme's investment manager.

The Trustees expect its investment manager to practice good stewardship. This includes monitoring, engaging with issuers of debt or equity on relevant matters such as performance, strategy, risks, capital structure, conflicts of interest and environmental, social or governance considerations, and using voting rights to effect the best possible long-term outcomes. Wherever possible, votes should be cast in line with the Red Line Voting instructions published by the Association of Member Nominated Trustees.

The Trustees' investment advisors assess the ability of the investment manager in engaging with underlying companies in order to promote the long-term success of the investments, and reports to the Trustees on an annual basis covering how the investment manager has acted in line with this policy.

When selecting, monitoring and de-selecting investment managers, stewardship is factored into the decision-making process to the appropriate level for the specific asset class in question.

Engagement with relevant persons includes the exercise of rights (including voting rights) attaching to the Scheme's equity investments, which are exercised by the Scheme's investment manager. The Trustees monitor and disclose the voting records of the manager on an annual basis.

DIVERSIFICATION AND RISK CONTROL

The following measures have been implemented to reduce the risks associated with making investments:-

Number of Managers

The Trustees have delegated the management of all the Scheme's non-insured assets to a single investment manager after a careful selection process. Having taken into account the investment manager's reputation, capabilities, the size of assets under management and advice from Redington Ltd., the Trustees believe a single investment manager to be appropriate.

The Scheme is also invested in a buy-in arrangement with Pension Insurance Corporation Ltd. The buy-in policy took effect from 1 February 2013 following a thorough selection process. The policy matches the liabilities in respect of the Scheme's pensioner members as at 31 July 2012.

Risk versus the Liabilities

The value of the Scheme's liabilities is sensitive to changes in inflation and interest rates. The Trustees have therefore decided to invest a substantial proportion of the Scheme's portfolio into assets whose sensitivity to these rate movements mirrors that of the liabilities as this will help protect the Scheme's funding position.

The Trustees measure this mismatching risk explicitly with reference to the liabilities of the Scheme, and examine how the investment strategy and asset allocation impacts on downside risk. The Trustees in conjunction with the Advisers will monitor the actual asset allocation of the Scheme.

Range of Assets

The Trustees have selected an investment strategy which contains assets suitable for the pension scheme's funding and risk objectives. The Trustees review the investment strategy annually and will consider investment in other asset classes.

Manager Restrictions

The Trustees' agreement with the investment manager contains a series of restrictions on the way the portfolio is managed which may be amended from time to time. The purpose of the restrictions is to limit the risks from each individual investment and prevent unsuitable investment activity. The fund manager will comply with these restrictions.

Employer Related Investment

Whilst the Trust Deed and Rules do not prevent employer related investment the Trustees do not hold any employer related investments and it is their policy not to undertake any employer related investments.

Manager Controls

In exercising the responsibilities delegated to them and meeting their performance objectives, the investment manager will be required to adhere to the statement. The manager will also ensure that suitable internal operating procedures are in place to control individuals making investments for the Scheme. The investment manager will satisfy themselves as to the security of the Scheme's assets, reporting annually to the Trustees on the suitability of the custodian and to reaffirm that confirmation has been received from the agent on the stock actually held.

The Scheme's IPID sets out the Trustees' approach to managing investment risk, i.e. market risk (currency, interest rate and other price risk) and credit risk.

COMPLIANCE

Frequency of Review

The Trustees will review this statement annually or sooner if there is a change in the policy in any of the areas covered by this statement. The Trustees will consult with the Employer and take written advice when revising the statement.

Professional Advice

The Trustees receive written advice from the Advisers to help review the investment strategy.

Review of Investment Manager

Formally every 12 months, the Trustees will consider whether or not the investment manager:-

- Has the appropriate knowledge and experience;
- Is carrying out his work competently;
- Has had regard to the suitability of each investment and each category of investment; and
- Has been exercising his powers of investment with a view to giving effect to the principles contained in this statement, so far as is reasonably practicable.

If the investment manager is not able to satisfy the Trustees about these issues, the Trustees will replace that manager.

Information from Managers

The investment manager will inform the Trustees of the below as soon as practical:-

- Any breach of this statement;
- Any serious breach of internal operating procedures; or
- Any material change in the knowledge and experience of those involved in managing the Scheme's investments.

The investment manager will supply the Trustees with sufficient information each quarter to facilitate the review of his activity, including:-

- A full valuation of assets;
- Performance of the assets;
- A transaction report;

In order to allow the Trustees to carry out their annual review of the fund manager, the fund manager will supply the Trustees with:-

- Evidence of his knowledge and experience for managing the investments of the Scheme;
- His approach to making decisions about the suitability and diversification of the investments delegated to him;
- Details of operating procedures used by the fund manager and controls over the individuals making investments for the Scheme; and
- Details of the monitoring procedures in place for any manager to whom he has delegated part of his responsibilities.

For and on behalf of the Trustees of the Institute of Cancer Research Pension Scheme

Reviewed [21 September 2020] by Trustees of ICRPS