Harrow School Support Staff Pension Scheme

Statement of Investment Principles

September 2020

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01 **Introduction**

This document constitutes the Statement of Investment Principles ('the SIP') required under Section 35 of the Pensions Act 1995 for the Harrow School Support Staff Pension Scheme ('the Scheme'). It describes the investment policy being pursued by the Trustees of the Scheme (‘the Trustees’) and is in accordance with the Government's voluntary code of conduct for Institutional Investment in the UK (‘the Myners Principles’). This SIP also reflects the requirements of Occupational Pension Schemes (Investment) Regulations 2005.

The Scheme Actuary is William Wolfenden of XPS Pensions Limited and the Investment Adviser is XPS Investment Limited (collectively termed 'the Advisers').

The Trustees confirm that, before preparing this SIP, they have consulted with the employer, the Governors of Harrow School ('the Sponsoring Employer') and have obtained and considered written advice from the Advisers. The Trustees believe the Investment Adviser to be qualified by their ability and practical experience of financial matters and to have appropriate knowledge of the investment arrangements that the Scheme requires.

The Trustees are responsible for the investment of the Scheme’s assets and for arranging administration of the Scheme. In order to meet the requirements of s36 of the Pensions Act (choosing investments), where they are required to make an investment decision, the Trustees obtain written advice from the Investment Adviser. They consider this to be proper advice as such term is defined in the Pensions Act 1995 because the Investment Adviser is authorised and regulated by the Financial Conduct Authority.

Given the size of the Scheme, the Trustees have decided the most cost effective way of investing the Scheme assets is to invest in pooled funds with Investment Manager organisations, rather than directly appointing an individual investment manager. They have also taken the decision not to directly appoint a custodian. Decisions about which pooled funds to invest in are made after receiving investment advice from the Investment Adviser.

In accordance with the Regulations this SIP will be reviewed at least every three years or on a significant change of investment policy.

01.01 Declaration

The Trustees confirm that this Statement of Investment Principles reflects the investment strategy they have decided to implement for the Scheme. The Trustees acknowledge that it is their responsibility, with guidance from the relevant Advisers, to ensure the assets of the Scheme are invested in accordance with these Principles.

02 **Scheme governance**

The Trustees are responsible for the governance and investment of the Scheme's assets. The Trustees consider that the governance structure set out in this SIP is appropriate for the Scheme as it allows the Trustees to make the important decisions on investment strategy, while delegating the day-to-day aspects to the managers of the funds. The Trustees have decided not to appoint an investment committee to which certain investment matters may otherwise be delegated.

03 Investment objectives and key considerations

The Trustees' investment objectives are:

> To generate returns that will improve the funding level of the Scheme significantly.

> To preserve the security of the members' benefits, having regard to the risks associated with the target level of return.

> To operate a well-diversified asset allocation strategy, so as to avoid excessive reliance on any particular sector, asset, issuer or group of undertakings and so as to avoid accumulations of risk in the portfolio as a whole.

In addition, the Trustees ensure:

> That return expectations for the investment strategy are consistent with assumptions made in relation to each formal actuarial valuation (and vice versa).

> That the Scheme's funds are invested with a view to ensuring appropriate security, quality and liquidity and profitability of the portfolio as a whole.

> That sufficiently liquid assets are available to meet benefit payments as they fall due.

> That they consider the interests of the Sponsoring Employer in relation to the size and volatility of the Sponsoring Employer's contribution requirements.

04 Asset allocation strategy

The allocation between the asset classes making up the assets will vary over time to reflect, amongst other factors, the profile of the liabilities, the perceived relative value of the different asset classes and the perceived risk to the investment objectives. More details about the Trustees' asset allocation strategy are set out in Appendix A and any changes in such allocations will only be made after receiving written advice from the Investment Adviser that those changes are consistent with the investment objectives. The Trustees, in conjunction with the Investment Adviser, will regularly monitor the actual asset allocation of the Scheme's assets in each asset class against the chosen benchmark allocation and will seek to increase the allocation to matching assets over time to help protect improvements in the Scheme's funding position.

The Trustees' preference is for a significant proportion of the overall portfolio to be invested passively, in order to gain market exposure as cost-effectively as possible. Active management may be used where passive management is not viable or as a means of allocating between mainstream and specialist asset classes to improve governance and diversification.

The Trustees' asset allocation strategy is to draw a distinction between return-seeking and lower risk assets. The former will consist of holdings including, but not limited to, equities and diversified growth funds and the latter will consist of holdings including, but not limited to, corporate bonds, government bonds and, potentially, liability driven investment ("LDI") solutions. Where LDI solutions are included, these may make use of derivative instruments in order to help manage risk.

If any changes are required to be made to the Investment Managers or funds used to implement the investment strategy, the Trustees will first consult with the Investment Adviser but for the avoidance of doubt any such change will not in and of itself constitute a change of investment policy requiring a revision to this SIP.

04.01 Alignment of incentives

Based on the structure set out in Appendix A, the Trustees consider the arrangements with the Investment Managers to be aligned with the Scheme's overall strategic objectives. Details of each specific mandate are set out in agreements and pooled fund documentation with each Investment Manager.

The amounts allocated to any individual category or security will be influenced by the overall benchmark and objectives, varied through the Investment Managers' tactical asset allocation preferences at any time, within any scope given to them through any asset allocation parameters set by the Trustees or governing the pooled funds in which the Scheme is invested.

The Trustees will ensure that the Scheme's assets are predominately invested in regulated markets to maximise their security.

Asset allocation strategy contd...

Investment Managers are incentivised to perform in line with expectations for their specific mandate as their continued involvement as Investment Managers as part of the Scheme's investment strategy – and hence the fees they receive – are dependent upon them doing so. They are therefore subject to performance monitoring and reviews based on a number of factors linked to the Trustees' expectations.

The Trustees encourage Investment Managers to make decisions in the long-term interests of the Scheme. The Trustees expect engagement with management of the underlying issuers of debt or equity and the exercise of voting rights on the basis that such engagement can be expected to help Investment Managers to mitigate risk and improve long term returns.

As covered in more detail in this document, the Trustees also require the Investment Managers to take ESG factors and climate change risks into consideration within their decision-making as the Trustees believe these factors could have a material financial impact in the long-term. The Trustees therefore make decisions about the retention of Investment Managers, accordingly.

04.02 Rebalancing policy

The Trustees, in conjunction with the Advisers, will monitor the actual asset allocation of the Scheme on a regular basis via regular investment updates received from the Advisers. If the actual allocation is materially different from the chosen benchmark allocation, the Trustees will make a decision as to whether to switch assets back to the strategy following consideration of advice.

04.03 Expected returns

The Trustees expect the return on the Scheme's assets to be consistent with the investment objectives above. Details of the return targets of the Scheme's investments are given in Appendix A. These return targets are based on XPS internal assumptions as at 30 June 2020. The Trustees recognise that, over the short term, performance may deviate from their long-term targets.

For the Technical Provisions, a prudent estimate of returns will generally be used, as agreed in the Statement of Funding Principles, on the basis of advice from the Scheme Actuary.

04.04 Diversification

The choice of asset classes, in particular, is designed to ensure that the Scheme's investments are adequately diversified given the Scheme's circumstances. The Trustees will monitor the strategy regularly to ensure that they are comfortable with the level of diversification.

Asset allocation strategy contd...

04.05 Liquidity

The Trustees' policy is that the majority of the assets are held in pooled funds with frequent redemption dates that are sufficiently liquid to be realised ahead of any planned or unexpected demand for cash. Furthermore, the majority of underlying investments held should be traded regularly on a public exchange such that there are no foreseeable circumstances in which redemption requests could not be met.

04.06 Additional Voluntary Contributions

Some members of the Scheme have paid Additional Voluntary Contributions ("AVCs") into the Scheme, which are invested and will be used to increase benefits at retirement, or in the event of death. Members who pay AVCs are able to invest in various pooled funds operated by AXA.

04.07 Employer-Related Investments

The Trustees' policy is not to hold any direct employer-related investments as defined in the Pensions Act 1995, the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005.

05 **Monitoring**

05.01 Investment Managers

The Trustees, or the Investment Adviser on behalf of the Trustees, will regularly review the performance of the pooled funds to satisfy themselves that the funds selected are continuing to meet the investment objectives within a tolerable level of underperformance risk.

05.02 Portfolio turnover costs

The Trustees require the Investment Managers to report on actual portfolio turnover at least annually, including details of the costs associated with turnover, how turnover compares with the range that the Investment Manager expects and the reasons for any divergence.

05.03 Investment manager duration

Appointments of Investment Managers are expected to be long-term, but the Trustees will review the appointment of the Investment Managers in accordance with their responsibilities.

05.04 Performance and remuneration reporting

The Trustees receive regular performance monitoring reports from the Investment Adviser which consider performance over the half, one and three year periods. In addition, any significant changes relating to the Trustees' selection and deselection criteria that the Investment Adviser is aware of will be highlighted, which may lead to a change in the Investment Adviser's rating for a particular mandate.

These ratings help to determine an Investment Manager's ongoing role in implementing the investment strategy. If there are concerns, the Trustees may carry out a more in-depth review of a particular Investment Manager. Investment Managers will also attend Trustees' meetings as requested.

Fund manager remuneration is considered as part of the manager selection process. It is also monitored regularly with the help of the Investment Adviser to ensure it is in line with the Trustees' policies and with fee levels deemed by the Investment Adviser to be appropriate for the particular asset class and fund type.

05.05 Advisers

The Trustees will monitor the quality of advice given by the Advisers on a regular basis.

05.06 Other

The Trustees are required to review this SIP on a triennial basis, or, without undue delay, following any changes to the investment strategy.

06 Fees

06.01 Funds

The Investment Managers are paid a management fee, embedded in their pooled funds, on the basis of asset under management. The Trustees will seek to ensure that the fees charged for the funds they use and their expense ratios are consistent with levels typically available in the industry for such funds. The current fee expectations for the investment strategy are set out in Appendix A.

06.02 Advisers

Fees paid to the Advisers are based either on actual time spent and hourly rates for relevant individuals, or on fixed fees agreed for specifically defined projects.

07 **Risks**

The Trustees recognise a number of risks involved in the investment of assets of the Scheme:

i. Interest rate risk – the risk that liabilities will increase as a result of a fall in interest rates without a similar increase in the value of the assets is measured by reference to the percentage of liabilities that are interest rate hedged and addressed by holding a significant proportion of the Scheme in assets that are matching assets that will increase in value as interest rates fall.

ii. Inflation risk – the risk that liabilities will increase as a result of an increase in the expected rate of inflation without a similar increase in the value of the assets is measured by reference to the percentage of liabilities that are inflation hedged and managed by holding assets such as equities that are expected to increase in value in the long term as a result of inflation and/or by holding index-linked gilts/LDI products whose value increases as inflation expectations increase.

iii. Diversification risk – the risk that the Scheme is exposed to a significant loss from esoteric factors relating to a single investment are measured by reference to the maximum exposure limits in each pooled fund and addressed by investing in a number of pooled funds that have minimum diversification requirements.

iv. Liquidity risk – the risk that liabilities cannot be met when due is addressed through the use of pooled funds, the majority of which have frequent redemption dates, and by ensuring the Scheme's investment is not disproportionate relative to the overall size of the pooled fund(s).

v. Underperformance risk – the risk that each fund held underperforms its expected level of return over the medium to long term. This is addressed through monitoring closely the performance of each fund and taking necessary action when this is not satisfactory.

vi. Organisational risk – the risk of losses arising through operational mistakes or errors is addressed through regular monitoring of the Investment Managers and the Advisers.

vii. Sponsor risk – the risk that the Sponsoring Employer ceases to exist or otherwise is unable to fully support the Scheme is measured by reference to the strength of the Sponsoring Employer covenant and is managed by ensuring the asset allocation strategy takes into account the level of sponsor risk and any changes in it over time.

viii. Market risk - the risk of the Scheme failing to meet its investment objectives due to a general decline in markets is measured by reference to the expected volatility of return seeking assets relative to equity markets and is managed by investing across a diverse selection of return seeking assets which are expected to have returns that are not directly correlated.

ix. Credit risk - the risk that a bond issuer will default on its obligations is measured by reference to the exposure of funds to corporate debt and is managed by investing in funds with a diversified list of credits.

x. ESG risk – the risk of environmental, social and governance factors that materialises when these are not given significant consideration. This can be addressed by having a policy whereby such factors should be given appropriate consideration in relation to current and future investment decisions made.

xi. Counterparty risk - the risk that a counterparty fails whilst owing money on a derivative contract is measured by reference to the exposure to such counterparties and is managed by ensuring the Investment Manager(s) chooses counterparties with a strong credit rating.

The Trustees recognise that it is in the nature of return-seeking assets that they may underperform liability matching assets in the short term and accordingly it is possible that the funding position could worsen from one actuarial valuation to the next. The Trustees are prepared to accept this risk because over the longer term the holding of return-seeking assets is expected to improve the funding position.

The Trustees will keep these risks under regular review.

08 **Other issues**

08.01 Statutory Funding Requirement

The Trustees will obtain and consider proper advice on the question of whether the investments are satisfactory having regard to both the investment objectives and statutory funding requirements. The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation every three years.

The Trustees will consider with the Advisers whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the statutory funding requirement.

08.02 Environmental, social and governance issues

The Trustees have determined their approach to financially material considerations over the Scheme's long term funding horizon – including environmental, social and corporate governance ("ESG") factors – by acknowledging that there can be risks relating to them. The Trustees have delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Scheme's Investment Managers. The Trustees require the Scheme's Investment Managers to take ESG and climate change risks into consideration within their decision-making, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest. In pooled funds the Trustees have limited influence over the managers' investment practices, particularly in relation to those pooled funds which are designed to track an index where the choice of the index dictates the assets held by the manager.

The Trustees will seek advice from the Investment Adviser on the extent to which its views on ESG and climate change risks may be taken into account in any future investment manager selection exercises. Furthermore, the Trustees, with the assistance of the Investment Adviser, will monitor the processes and operational behaviour of the investment managers from time to time, to ensure they remain appropriate and in line with the Trustees' requirements as set out in this Statement. When considering the selection, retention or realisation of investments, the Trustees have a fiduciary responsibility to act in the best interests of the beneficiaries of the Scheme, although it has neither sought, nor taken into account, the beneficiaries' views on matters including (but not limited to) ethical issues and social and environmental impact. The Trustees will review this policy if any beneficiary views are raised in future.

08.03 Voting rights

As the Scheme invests in pooled funds, the Trustees acknowledge that they cannot directly influence the policies and practices of the companies in which the pooled funds invest. They have therefore delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the Investment Managers.

The Trustees encourage them to engage with investee companies and vote whenever it is practical to do so on financially material matters such as strategy, capital structure, conflicts of interest policies, risks, social and environmental impact and corporate governance as part of their decision-making processes. The Trustees require the Investment Managers to report on significant votes made on behalf of the Trustees.

If the Trustees become aware of an Investment Manager engaging with the underlying issuers of debt or equity in ways that they deem inadequate or that the results of such engagement are mis-aligned with the Trustees' expectation, then the Trustees may consider terminating the relationship with that Investment Manager.

Appendix A: Asset allocation

The Trustees are in the process of implementing a new investment strategy based on the objectives and other key considerations contained within this SIP whereby they draw a distinction between return-seeking and lower risk assets. The investment strategy shown in the table reflects the intended new investment strategy for the Scheme. It cannot be assumed that the investment strategy will be effective from the date at which the SIP has been signed by the Trustees.

Asset class	Fund Name	Benchmark asset allocation (%)	Active / Passive	Target / Objective	Expected return p.a. (net of fees)
Equities	LGIM All-World Equity Index-GBP Hedged	31.5	Passive	To track the performance of the FTSE All-World Index (less withholding tax where applicable) to within +/-0.5% p.a. for two years out of three.	Gilts + 5.0%
Credit	LGIM Invt Grade Cp Bnd All Stks Ind	12.5	Passive	To track the performance of the Markit iBoxx £ Non-Gilts Index to within +/-0.5% p.a. for two years out of three.	Gilts + 1.3%
	LGIM Over 5y Index-Linked Gilts	24.5	Passive	To track the performance of the FTSE Actuaries UK Index-Linked Gilts Over 5 Years Index to within +/-0.25% p.a. for two years out of three.	Gilts - 0.1%
Diversified growth funds	LGIM Dynamic Diversified Fund	31.5	Active	To outperform the Bank of England Base Rate by 4.5% p.a. over a full market cycle (5-7 years) gross of management fees (4.1% p.a. net of fees).	Gilts + 4.0%

At the timing of signing this document the Trustees had decided to hold 5% of the Scheme's assts in cash, which will be used to help pay benefits over a number of months, before giving rise to the allocations shown above.
Expected returns are based on XPS Investment's asset class assumptions as at 30 June 2020.

Contact us

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