

**Commonwealth Secretariat Pension and Life Assurance  
Scheme**

**Statement of Investment Principles**

**September 2019**

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## Glossary

AVCs	Additional Voluntary Contribution
Baillie Gifford	Baillie Gifford & Co Limited
BMO	BMO Global Asset Management
ESG	Environmental, Social and Governance (including, but not limited to, climate change)
Insight	Insight Investment Funds Management Limited
Investec	Investec Asset Management Limited
LDI	Liability Driven Investment
LGIM	Legal & General Investment Management Limited
Members	Members and beneficiaries of the Scheme
Mobius	Mobius Life Limited
Payden	Payden & Rygel Global Limited
Scheme	Commonwealth Secretariat Pension and Life Assurance Scheme
Trustees	The Trustees of the Scheme
UNPRI	United Nations Principles for Responsible Investment

## 1. Introduction

This statement is made in accordance with the requirements of legislation<sup>1</sup> and, in determining a suitable investment strategy for the Scheme, the Trustees have considered the Pension Regulator's Investment Guidance for defined benefit pension schemes.

The main body of this statement sets out the principles and policies that govern investments made by the Trustees of the Scheme. Details of the specific investment arrangements in place are set out in the Appendices.

Upon request, a copy of this statement will be made available to members, the Scheme Actuary and any investment managers used by the Trustees.

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<sup>1</sup> In particular, the Pensions Act 1995, the Occupational Pensions (Investment) Regulations 2005 and the Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.

## **2. Investment Governance Structure**

### **Investment Advice**

As required by legislation, in the preparation and maintenance of this statement and when considering the suitability of any investments, the Trustees will obtain and consider written advice from their investment adviser.

The Trustees are advised on investment matters by First Actuarial LLP. First Actuarial LLP is regulated by the Institute and Faculty of Actuaries and is qualified to provide the required advice through knowledge and practical experience of financial matters relating to pension schemes.

### **Legal Advice**

Whenever deemed necessary, the Trustees will seek advice from their legal adviser on investment matters.

### **Employer Consultation**

Under legislation, the ultimate responsibility for determining the investment strategy rests with the Trustees. However, the Trustees must consult with the sponsoring employer and consultation must comprise a sharing of views, not simply notification of intent.

### **Investment Managers**

Day-to-day management of the Scheme's assets is delegated to one or more investment managers.

To ensure safekeeping of the assets, ownership and day to day control of the assets is undertaken by custodian organisations which are independent of the sponsoring employer and the investment managers. Where pooled investment vehicles are used, the custodians will typically be appointed by the investment manager.

### **Members' Views and Other Non-Financial Matters**

In the relevant regulations "non-financial matters" refers to the views of the members. This includes, but is not limited to, ethical views, views on ESG factors and views on the present and future quality of life of the members.

The Trustees recognise that it is likely that members will hold a broad range of views. However, the Trustees do not take non-financial matters into account in the selection, retention and realisation of investments. The Trustees will review their policy on whether or not to take account of non-financial matters as appropriate.

The Trustees believe that their duty to members and beneficiaries will be best served by ensuring that all benefits can be paid as they fall due and the Trustees' Investment Objectives are designed to ensure this duty is achieved.

### **Conflicts of Interest**

The Trustees are satisfied that the investment strategy described in this Statement meets their responsibility to invest the assets in the best interests of the members and beneficiaries and, in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries.

### **3. Investment Beliefs**

The investment beliefs stated below have been developed by the Trustees and are reflected in the Scheme's investment strategy.

#### **Appropriate Time Horizon**

In determining investment objectives and a suitable investment strategy for the Scheme, the Trustees take into account an appropriate time horizon. The Trustees believe that an appropriate time horizon will be the period over which benefits are expected to be paid from the Scheme.

#### **Risk versus Reward**

Targeting higher levels of investment return requires increased levels of investment risk which increases the volatility of the funding position.

#### **Asset Allocation**

Long-term performance of the Scheme's assets is attributable primarily to the strategic asset allocation rather than the choice of investment managers.

#### **Diversification**

Asset diversification helps to reduce risk.

#### **Use of Pooled Funds**

Taking into account the size of the Scheme's assets, it is expected that pooled funds will typically be a more practical way of implementing the Scheme's investment strategy than establishing segregated mandates with investment managers.

#### **Use of Active Management**

Active management has the potential to add value either through offering the prospect of enhanced returns or through the control of volatility. In addition, it is recognised that active management may help to mitigate the financial impact of ESG risks.

For each asset class, the Trustees will consider whether the higher fees associated with active management are justified.

#### **ESG and Other Financially Material Considerations**

The Trustees believe that financially material considerations, including ESG factors and the risks related to such factors, can contribute to the identification of both investment opportunities and financially material risks. Consequently, financially material considerations can have a material impact on investment risk and return outcomes.

The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

Assessment of how ESG risks are mitigated will be one of the factors considered by the Trustees when selecting and monitoring investment managers.

#### **Stewardship**

The Trustees believe that good stewardship can help create, and preserve, value for companies and markets as a whole.

## **4. Investment Objectives and Strategy**

### **Defined Benefit Assets – Investment Objectives**

The Trustees' primary investment objectives are:

- to ensure that the assets are sufficient and available to pay members' benefits as and when they fall due;
- to generate an appropriate level of investment returns – to improve the funding position and thereby improve security for members; and
- to protect the funding position – limiting the scope for adverse investment experience reducing security for members.

The Trustees' investment approach is designed to strike a balance between the above primary objectives but also considers:

- the nature and timing of benefit payments;
- expected levels of investment return on different asset classes;
- expected levels of investment return variability and, specifically, the expected level of short-term volatility of the funding position;
- the sponsoring employer's ability to withstand additional contribution requirements that may arise from volatility in the funding position; and
- the full range of available investments (within the bounds of practicality).

### **Defined Benefit Assets – Investment Strategy**

The Trustees have taken advice from their investment adviser to construct a portfolio of investments consistent with these objectives. In doing so, consideration is given to all matters which are believed to be financially material over the appropriate time horizon.

The Trustees do not take account of non-financial matters when determining the Scheme's investment strategy.

### **AVCs**

AVCs are held separately from the Scheme's other investments and the Trustees aim to make a variety of funds available with the member choosing which funds to use. From time to time, the Trustees review the range of available funds to ensure the choice remains appropriate for members' needs.

Details of the current AVC arrangements are provided in Appendix 1.

## **5. Use of Investment Managers**

### **Investment Manager Selection**

The Trustees delegate the day to day management of the assets, including selection, retention and realisation, to professional investment managers.

When considering the suitability of an investment manager, the Trustees (in conjunction with its investment adviser), will take account of all matters which are deemed to be financially material. In particular, the Trustees will:

- ensure that the investment manager has the appropriate knowledge and experience;
- ensure that the investment manager's mandate is appropriate; and
- consider the investment manager's approach to ESG factors.

When selecting investment managers, the Trustees may also take into account non-financially material considerations such as the investment manager's administrative capabilities and the liquidity of the investments.

Where pooled investment vehicles are used, it is recognised that the mandate cannot be tailored to the Trustees' particular requirements. However, the Trustees ensure that any pooled investment vehicles used are appropriate to the circumstances of the Scheme.

The Trustees will normally select investment managers who are signatories to the UNPRI and who publish the results of their annual UNPRI assessment. This principle may be waived if a fund offered by a non-signatory manager is deemed to have investment characteristics which are particularly important for meeting the Trustees' investment objectives.

### **Manager Implementation**

Assets are invested predominantly on regulated markets, as so defined in legislation. Any investments that do not trade on regulated markets are kept to a prudent level.

#### *Use of Derivatives*

The investment managers are permitted to use derivative instruments to reduce risk or for efficient portfolio management. Risk reduction would include mitigating the impact of a potential fall in markets or the implementation of currency hedging whilst efficient portfolio management would include using derivatives as a cost-effective way of gaining access to a market or as a method for generating capital and/or income with an acceptable level of risk.

#### *Leverage*

The instruments used by the investment managers of the Liability Matching Assets may result in the Liability Matching Assets being leveraged. Since these assets are closely aligned to the liabilities, the allocation to Liability Matching Assets (and any associated leverage) reduces the volatility of the Scheme's funding position and therefore reduces risk.

## 6. Stewardship

The Trustees' policy in relation to the exercise of rights attaching to investments, and undertaking engagement activities in respect of investments, is that they wish to encourage best practice in terms of stewardship.

However, the Trustees invest in pooled investment vehicles and therefore accept that ongoing engagement with the underlying companies (including the exercise of voting rights) will be determined by each investment manager's own policies on such matters. For that reason, the Trustees recognise that their ability to directly influence the action of companies is limited.

Nevertheless, the Trustees expect that each investment manager will discharge its responsibilities in respect of investee companies in accordance with that investment manager's own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustees also expect that each investment manager will take ESG factors into account when exercising the rights attaching to investments and in taking decisions relating to the selection, retention and realisation of investments.

When considering the suitability of an investment manager, the Trustees (in conjunction with their investment adviser) will take account of any particular characteristics of that manager's stewardship policy that are deemed to be financially material.

The Trustees recognise that members might wish the Trustees to engage with the underlying companies in which the Scheme invests with the objective of improving corporate behaviour to benefit the environment and society. However, the Trustees' priority is to select investment managers which are best suited to help meet the Trustees' investment objectives. In making this assessment, the Trustees will receive advice from their investment adviser. The Trustees recognise that each investment manager's own policies are likely to be focussed on maximising financial returns and minimising financial risks rather than targeting an environmental or societal benefit.

## 7. Risk Mitigation

When determining suitable investment objectives and when designing the Scheme's investment strategy, the Trustees (in conjunction with their investment adviser), will take into account all risks that are assessed to be financially material. The principal investment risks are listed in the Trustees' *Investment Risk Policy*. That Policy also provides an explanation of how the investment risks are managed.

### **Risk Capacity and Risk Appetite**

In determining a suitable investment strategy, the Trustees consider how the volatility of the funding position is likely to be affected by changes to the asset allocation. An important consideration for the Trustees is whether a potential investment strategy is consistent with the ability of the sponsoring employer to address any future increase in deficit that may arise due to market movements.

### **Self-Investment Risk**

Legislation imposes a restriction that no more than 5% of a pension scheme's assets may be related to the sponsoring employer. The Trustees do not hold any direct employer-related assets and any indirect exposure is expected to be less than 5% of total assets.

### **ESG Risks**

The Trustees (in conjunction with their investment adviser) have considered the likely impact of the financially material ESG risks associated with all of the Scheme's investments and have assessed the mitigation of such risks implemented by each of the investment managers. In making this assessment, the Trustees recognise that, where pooled investment vehicles are held, the extent to which ESG factors will be used in the selection of suitable underlying investments will be determined by the investment managers' own policies on such matters.

### **Liquidity Risk**

The majority of the Scheme's investments will be liquid and will be realisable for cash at relatively short notice without incurring high costs. However, the Trustees recognise that the liabilities are long-term in nature and that a modest allocation to less-liquid investments may be appropriate.

Details of the liquidity characteristics of the funds held are provided in Appendix 2.

## **8. Monitoring**

The Trustees regularly review the Scheme's investments for all matters considered to be financially material over the appropriate time horizon. This includes reviewing that the assets continue to be managed in accordance with each investment manager's mandate and that the choice of investment managers remains appropriate.

Furthermore, the Trustees regularly monitor the position of the investment managers with regards to ESG matters.

To assist with the monitoring of the investment managers, the Trustees receive regular information from their investment adviser providing details of investment manager performance and asset allocation decisions. This analysis includes comparisons with benchmarks and relevant peer-group data.

The analysis assesses whether performance has been in line with expectations given market conditions and whether the level of risk has been as expected.

The investment adviser also provides regular updates on the investment managers' actions regarding ESG factors and shareholder engagement.

The investment adviser regularly meets with the managers of pooled funds on its approved list.

## 9. Future Amendments

This statement will be reviewed at least every three years and without delay after any significant change in circumstances or investment strategy.

The Trustees have consulted with the sponsoring employer as part of the work preparing this statement.

Signed:  .....

Date: 27/09/19 .....

For and on behalf of the Trustees of the Commonwealth Secretariat Pension and Life Assurance Scheme.

## Appendix 1: The Trustees' Investment Strategy

### Strategic Asset Allocation

In determining the strategic asset allocation, the Trustees view the investments as falling into two broad categories:

1. **Growth Assets** – Assets that are expected to deliver long-term returns in excess of liability growth. The use of Growth Assets is expected to deliver a level of investment returns deemed appropriate by the Trustees given the risk involved.
2. **Liability Matching Assets** – Assets that are expected to react to changes in market conditions in a similar way to the liabilities. The use of Liability Matching Assets is expected to protect the funding position of the Scheme.

At the time of preparing this statement, the split of the Scheme's assets between Growth and Liability Matching Assets was approximately 85% Growth and 15% Liability Matching. This split is not regularly rebalanced and will vary over time as market conditions change.

The Trustees will review the strategic asset allocation periodically, and at least every three years, to ensure that the investment strategy remains consistent with the Trustees' funding objectives. As part of such a review, the Trustees will consider the risks associated with the investment strategy.

### Investment Strategy Implementation

The Trustees have selected funds managed by Baillie Gifford, BMO, Insight, Investec, LGIM and Payden to implement the Scheme's investment strategy. Investments in these funds are made via the Mobius investment platform.

Further details of the investment strategy and the funds used are provided below.

### Design of the Growth Asset Portfolio

The structure of the Scheme's Growth Assets has been designed to offer diversification across a range of underlying asset classes and to achieve this by combining investment managers with different asset management styles.

The strategic allocation for the Scheme's Growth Assets is as follows:

Fund	Strategic Allocation	Control Range
Payden Absolute Return Bond Fund	9%	+/- 5%
Baillie Gifford Diversified Growth Pension Fund	9%	+/- 5%
Insight Broad Opportunities Fund	19%	+/- 5%
Investec Emerging Markets Multi-Asset Fund	13%	+/- 5%
LGIM UK Equity Index Fund	19%	+/- 5%
LGIM World (ex UK) Equity Index Fund	22%	+/- 5%
LGIM World Equity Index Fund - GBP Hedged	9%	+/- 5%
<b>Total Growth Assets</b>	<b>100%</b>	

## Appendix 1: The Trustees' Investment Strategy (continued)

The allocation of the Growth Assets is not automatically rebalanced but will be monitored and rebalanced at the discretion of the Trustees. If the allocation to any of the funds listed in the table above moves outside of the stated control range, monitored on a quarterly basis, then the Trustees will agree the rebalancing that is to take place.

### Design of the Liability Matching Portfolio

The Scheme's Liability Matching Assets are invested in the BMO Real Dynamic LDI Fund.

### LDI Leverage Management Policy

As gilt yields and expectations of future inflation fluctuate, the leverage of the LDI fund will change. BMO will monitor the leverage of the LDI fund to ensure it remains within a permissible range and, if the leverage moves towards either extreme of the range, the manager may:

- require a recapitalisation payment be paid into the LDI fund to reduce leverage; or
- make a releveraging payment out of the LDI fund to increase leverage.

The Trustees have provided Mobius with authority to fund any LDI recapitalisation payments requested by BMO by disinvesting in the following proportions: 50% Insight Broad Opportunities Fund, 25% Payden Absolute Return Bond Fund, and 25% Baillie Gifford Diversified Growth Fund.

If a releveraging payment is made from the LDI fund, the Trustee has provided Mobius with authority to allocate the proceeds in the same funds (and in the same proportions) as used for recapitalisation payments.

### Cashflow Management Policy

Any investments or disinvestments will be made at the discretion of the Trustees, but the Trustees will maintain a *Cashflow Management Policy* which will record how such payments should be structured. The *Cashflow Management Policy* will be designed to ensure the allocation of the Scheme's assets remains closely aligned with the strategy described in this statement.

To ensure the Scheme operates efficiently, the *Cashflow Management Policy* may be shared with the individual(s) responsible for processing payments from the Scheme.

The *Cashflow Management Policy* will be reviewed from time-to-time by the Trustees and, as a minimum, at least every three years in line with a review of this statement. Given that the *Cashflow Management Policy* is designed to keep the Scheme's asset allocation aligned with the investment strategy and investment principles described in this statement, the sponsoring employer is satisfied that the *Cashflow Management Policy* can be amended by the Trustees without consulting the sponsoring employer.

### Insured Pensioners

The Trustees insure a proportion of the Scheme's pensioner liabilities with Canada Life and Scottish Equitable. These insurance policies will provide a stream of income in respect of named individuals for as long as those individuals remain alive. The income received offsets pension payments made from the Scheme.

### Additional Voluntary Contributions

The Scheme's AVC arrangements are held with Equitable Life Assurance Society.

## Appendix 2: Fund Details

This Appendix provides a summary of the funds selected by the Trustees' to implement the Scheme's investment strategy. The details provided below were correct as at June 2019.

The following points should be noted:

- **AMC:** The Annual Management Charge applicable to each fund represents the fee payable to the fund manager. The AMC includes the fee payable to Mobius for accessing a fund via the Mobius investment platform.
- **Additional expenses:** These are third party costs associated with the operation of a fund such as fees paid to the administrator, the custodian and the auditor and the costs associated with the use of third-party funds where these are used. The level of the additional expenses may vary over time.
- **Legal Structure:** The legal structure of a pooled fund.
- **T:** The trade date at which units in a fund are sold or bought. Notice and settlement periods are expressed in days relative to the trade date.

Payden Absolute Return Bond Fund	
Objective	The Fund invests in a global portfolio of short-dated bonds and credit instruments. The fund's objective is to deliver a return of 1-month LIBOR +2%-3% p.a. (after fees) over a 3-year period, while seeking preservation of capital over a medium-term horizon.
Legal Structure	Investment company with variable capital (incorporated in Ireland under the OEIC Regulations and qualifying as a UCITS scheme)
Trading Frequency	Daily
Notice Period	T-2
Settlement Period	T+3
Fee	AMC: 0.50% per annum
	Additional Expenses (approx.): 0.05% per annum

**Appendix 2: Fund Details (continued)**

<b>Baillie Gifford Diversified Growth Pension Fund</b>	
Objective	<p>Invests in a variety of asset classes with the aim of achieving long-term capital growth at a level of risk lower than investment in equities.</p> <p>The fund's objective is to outperform the UK base rate by at least 3.5% p.a. (net of fees) over rolling five-year periods with an annualised volatility of less than 10%.</p>
Legal Structure	Investment company with variable capital (OEIC incorporated in Great Britain)
Trading Frequency	Daily
Notice Period	T-2
Settlement Period	T+3
Fee	AMC: 0.635% per annum
	Additional Expenses (approx.): 0.17% per annum

<b>Insight Broad Opportunities Fund</b>	
Objective	<p>Aims to provide returns above cash (3 month LIBID) of 3% - 5% p.a. net of fees over the course of an investment cycle.</p> <p>The fund adopts a dynamic asset allocation strategy involving several asset classes including equities, bonds, commodities and property. Underlying investments are accessed through both internal and external funds and using derivative instruments.</p>
Legal Structure	Investment company with variable capital (incorporated in Ireland under the OEIC Regulations and qualifying as a UCITS scheme)
Trading Frequency	Daily
Notice Period	T-2
Settlement Period	T+3
Fee	AMC: 0.55% per annum
	Additional Expenses (approx.): 0.16% per annum

**Appendix 2: Fund Details (continued)**

<b>Investec Emerging Markets Multi-Asset Fund</b>	
Objective	To outperform the following comparison index by 2-4% p.a. (gross of fees) over a rolling three year period - 50% MSCI Emerging Market Equity NDR Index, 25% JP Morgan EMBI Global Diversified Index, 25% JP Morgan GBI-EM Diversified Index in GBP.
Legal Structure	Investment company with variable capital (incorporated under Luxembourg law and qualifying as a UCITS scheme)
Trading Frequency	Daily
Notice Period	T-2
Settlement Period	T+3
Fee	AMC: 0.70% per annum
	Additional Expenses (approx.): 0.28% per annum

<b>LGIM UK Equity Index Fund</b>	
Objective	To track the performance of the FTSE All-Share Index (less withholding tax if applicable) to within +/-0.25% p.a. for two years out of three.
Legal Structure	Unit-linked insurance policy
Trading Frequency	Daily
Notice Period	T-2
Settlement Period	T+2
Fee	AMC: 0.085% per annum
	Additional Expenses (approx.): 0.00% per annum

**Appendix 2: Fund Details (continued)**

<b>LGIM World (ex UK) Equity Index Fund</b>	
Objective	To track the performance of the FTSE World (ex-UK) Index (less withholding tax if applicable) to within +/-0.5% p.a. for two years out of three.
Legal Structure	Unit-linked insurance policy
Trading Frequency	Daily
Notice Period	T-2
Settlement Period	T+2
Fee	AMC: 0.125% per annum
	Additional Expenses (approx.): 0.00% per annum

<b>LGIM World Equity Index Fund - GBP Hedged</b>	
Objective	To replicate the performance of the FTSE World Index (less withholding tax where applicable) - GBP Hedged (with the exception of advanced emerging markets), which is a customised index, to within +/-0.5% p.a. for two years out of three.
Legal Structure	Unit-linked insurance policy
Trading Frequency	Daily
Notice Period	T-2
Settlement Period	T+2
Fee	AMC: 0.14% per annum
	Additional Expenses (approx.): 0.00% per annum

**Appendix 2: Fund Details (continued)**

<b>BMO Real Dynamic LDI Fund</b>	
Objective	To provide liability hedging by offering interest rate and inflation protection which replicates the liability profile of a typical UK defined benefit pension scheme.
Legal Structure	Open-Ended Investment Company
Trading Frequency	Daily
Notice Period	T-2
Settlement Period	T+2
Fee	AMC: 0.33% per annum
	Additional Expenses (approx.): 0.0474% per annum

*Note: Due to minimum trade sizes that apply to the LDI fund, the AMC for this fund will be settled on a quarterly basis by disinvesting from the Payden Absolute Return Bond Fund. This process will be managed by Mobius.*

