

# WESLEYAN STAFF PENSION SCHEME (THE "SCHEME")

STATEMENT OF INVESTMENT  
PRINCIPLES ("SIP")

**WESLEYAN**  
*we are all about you*

## INVESTMENT OBJECTIVE

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Wesleyan Staff Pension Trustees Limited ("the Trustee") aims to invest the assets of the Scheme prudently to enable the Scheme to meet all of its liabilities as they fall due, at an appropriate cost to the Principal Employer, Wesleyan Assurance Society ("the Society").

A specific return objective has been agreed with the Principal Employer and is as follows:

To set an investment strategy which targets an expected return over the liabilities (as valued by gilt yields plus a margin of 0.25%) of at least 0.25% per annum (net of fees).

## STRATEGY

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The Trustee aims to meet the investment objective by:

- ▶ Substantially hedging the interest rate and inflation risks to the Scheme, using an appropriate mix of corporate and government fixed interest and inflation linked securities
- ▶ Investing a proportion of the Scheme's assets in UK and Overseas Credit, which is expected to provide a return in excess of gilts.

The planned asset allocation strategy is detailed within the Scheme's Investment Policy Implementation Document ("IPID"). The strategy is determined with regard to the characteristics of the Scheme, in particular its funding position, the liability profile and the strength of the employer covenant. When choosing the Scheme's planned asset allocation strategy, the Trustee considers written advice from its investment adviser and, in doing so, addresses the following:

- ▶ The need to consider a full range of asset classes.
- ▶ The risks and rewards of a range of alternative asset allocation strategies.
- ▶ The suitability of each asset class.
- ▶ The need for appropriate diversification.

In addition, the Trustee consults with the Principal Employer when setting this strategy.

The Trustee will monitor the actual asset allocation versus the target weights and the ranges set out in the IPID.

## IMPLEMENTATION

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### Responsibility for Investment Management

The Trustee is responsible for the investment of the Scheme's assets, but it delegates the day to day management of the assets, including the realisation of investments, to Wesleyan Assurance Society (acting as the Scheme's investment manager, "the Investment Manager"). The Investment Manager acts in accordance with the instructions, objectives and constraints determined by the Trustee, as specified in the IPID.

The Trustee recognises that the Scheme's Principal Employer provides the Scheme with Investment Management services and this supports greater alignment of the Investment Managers decisions with the delivery of the Trustees investment performance objectives.

No incentives are paid by the Trustee to the Investment Manager to align the investment strategy and decisions of the Investment Manager to the Trustee's investment policies. This includes any decisions made by the Investment Manager based on assessments of medium to long term financial and non-financial performance of an issuer of debt or equity, and any engagement with such issuers to improve medium to long term performance.

When choosing investments, the Trustee and the Investment Manager (to the extent delegated) are required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 (regulation 4) and amendments to date.

In setting the Scheme's investment strategy, the Trustee's primary concern is to act in the best interests of the Scheme and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. This includes the risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly. The Trustee considers this risk when setting the Scheme's investment strategy and monitoring the performance of the Investment Manager.

To monitor performance of the Investment Manager against the Investment Objectives of the Scheme, the Trustee receives quarterly reports from the Investment Manager. The Trustee will normally meet the Investment Manager at each Trustee meeting to discuss the results achieved and review the investments being made. The quarterly investment reporting includes a review of asset allocations and performance versus benchmark over the short and longer term, providing confirmation to the Trustee that these remain in line with the Investment Objectives of the Scheme.

The Investment Manager's duties include:

### **1. Financially material considerations**

Taking into account 'financially material considerations' including (but not limited to) environmental, social and governance including (but not limited to) climate change in the selection, retention and realisation of investments, and which the trustees of the trust scheme consider financially material.

The Investment Manager's approach to financially material considerations is to employ internal analysis together with further analysis provided by a third-party service to integrate responsible investing into its long-term investment approach. This approach does not mean investments in a specific sector or company are ruled out; it is to ensure all relevant factors are considered when investing.

### **2. Non-financial matters**

Determining the extent in which 'non-financial matters' are considered in the selection, retention and realisation of investments. Non-financial matters include (but are not limited to) the ethical views of members and beneficiaries of the trust scheme, and their views on the impact of social and environmental issues and the present/future quality of life of members and beneficiaries.

Although there is no obligation for the Trustee to take account of members' views, the Trustee also holds the responsibility to act in the best interests of members. As such, the views of the Trustee are deemed to be sufficient when considering non-financial matters in the selection, retention and realisation of investments.

The Investment Manager will in turn act in accordance with the instructions, objectives and constraints as determined by the Trustee.

### **3. Corporate Governance and Voting**

Monitoring corporate governance in relation to the Scheme's assets, including the stewardship of investments held (the engagement, monitoring and exercising of voting rights associated with these investments) and taking into account the Institutional Shareholders' Committee Statement of Principles on the Responsibilities of Institutional Shareholders and Agents.

A Shareholder Engagement policy is in operation covering all funds under management (including the Wesleyan Staff Pension Scheme). The policy has been introduced to provide a framework for promoting governance, including sound long-term investment decision-making and effective stewardship of assets.

The responsibility to decide when and how to engage with underlying investee companies/issuers is delegated to the Investment Manager and this activity is reported to the Trustee periodically. If the engagement activity carried out by the Investment Manager is not consistent with Trustee expectations, the Trustee will engage with the Investment Manager for more information.

The Investment Manager is not remunerated by the Scheme for its activities of providing asset management services. However, it may pay commissions to third parties on trades it undertakes in the management of the assets and also incurs other ad hoc costs.

The Society's dual role as Principal Employer and provider of non-remunerated investment management services acts as a natural incentive for the Investment Manager to ensure investment turnover and transactional costs are only incurred when this is appropriate for the delivery of the Trustee's investment objectives.

Portfolio turnover costs are reported to the Trustee quarterly alongside confirmation of the transactions that have taken place over the same period. As the Trustee has delegated the day to day management of the assets (including the realisation of investments) to the Investment Manager, the Trustee does not have a defined target portfolio turnover or turnover range. The Investment Manager determines the appropriate activity commensurate to delivering the required investment performance.

The Trustee periodically reviews the corporate governance of the Investment Manager and monitors voting activity as appropriate.

The Trustee's policy is to assume that active fund management can be expected to add value. The arrangement with the Investment Manager is ongoing rather than over a set duration, although this is re-assessed every 3 years by the Trustee.

#### **Investment Advice**

Aon Hewitt Limited (Aon) provides investment advice to the Trustee, as and when it is required. Fees are agreed between Aon and the Trustee on an ad hoc basis. This structure has been chosen to ensure that cost-effective, independent advice is received.

The Trustee's investment adviser has the knowledge and experience required under the Pensions Act 1995.

#### **Administration and Custody of Assets**

The administration of the Scheme's assets is carried out by Wesleyan Assurance Society.

HSBC Institutional Fund Services were appointed as custodians to the Scheme assets in 2003. These arrangements will be kept under review and issues will be reported to the Trustee as appropriate.

# RISK

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The Trustee maintains a 'Statement of Funding Principles' which specifies that the funding objective is to have sufficient assets so as to make provision for 100% of the Scheme's liabilities as determined by an actuarial calculation.

The Trustee recognises that the key risk to the Scheme is that it has insufficient assets to make provisions for its liabilities ("funding risk"). The Trustee has identified a number of risks which have the potential to cause a deterioration in the Scheme's funding level and therefore contribute to funding risk. These are as follows:

- ▶ The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors ("mis-matching risk"). The Trustee and its advisers consider this mis-matching risk when setting the investment strategy.
- ▶ The risk of a shortfall of liquid assets relative to the Scheme's immediate liabilities ("cash flow risk"). The Trustee will manage the Scheme's cash flows taking into account the timing of future payments in order to minimise the probability that this occurs.
- ▶ The failure by the Investment Manager to achieve the rate of investment return assumed by the Trustee ("manager risk"). The Trustee reviews the performance of the Investment Manager on an ongoing basis.
- ▶ The failure to spread investment risk ("risk of lack of diversification"). The Trustee and its advisers consider this risk when setting the Scheme's investment strategy.
- ▶ The possibility of failure of the Scheme's Principal Employer ("covenant risk"). The Trustee considers this risk when setting the investment strategy and consults with the Principal Employer as to the suitability of the proposed strategy. The Trustee has arrangements in place for periodically monitoring the strength of the employer covenant.
- ▶ The risk of fraud, poor advice or acts of negligence ("operational risk"). The Trustee has sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.

Due to the complex and inter-related nature of these risks, the Trustee considers the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review (normally triennially). Some of these risks may also be modelled explicitly during the course of such reviews.

Having set an investment objective which relates directly to the Scheme's liabilities and implemented it using the Investment Manager, the Trustee's policy is to monitor these risks periodically. The Trustee receives regular reports showing:

- ▶ Actual funding level versus the Scheme specific funding objective.
- ▶ Performance versus the Scheme investment objective.
- ▶ Performance of the Investment Manager versus its objectives and guidelines.

## GOVERNANCE

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The Trustee takes some decisions and delegates others. When deciding which decisions to take and which to delegate, the Trustee Directors have taken into account whether they have the appropriate training and expert advice in order to take an informed decision. The Trustee has established the following decision-making structure:

### Trustee

- ▶ Set structures and processes for carrying out its role.
- ▶ Select and monitor the planned asset allocation strategy.
- ▶ Monitor actual returns versus the Scheme's investment objective.
- ▶ Select and review direct investments (see below).

### Investment Adviser

- ▶ Provide advice, as and when it's requested by the Trustee.
- ▶ Advise on this SIP.

### Investment Manager

- ▶ Operate within the terms of this SIP, the IPID and its Letter of Appointment.
- ▶ Select individual investments with regard to their suitability and diversification.
- ▶ Comment, where applicable, on the suitability of the indices in their benchmark.

## DIRECT INVESTMENTS

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The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager under a written contract and those where a product is purchased directly, e.g. the purchase of an insurance policy or units in a pooled vehicle. The latter are known as "direct" investments.

The Trustee's policy is to review their direct investments and to obtain written advice about them at least triennially. These include vehicles available for members' AVCs. The Scheme's AVC fund options are set out below. When deciding whether or not to make any new direct investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the fund manager.

The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this SIP. The regulations require all investments to be considered by the Trustee (or, to the extent delegated, by the fund manager) against the following criteria:

- ▶ The best interests of the members and beneficiaries
- ▶ Security
- ▶ Quality
- ▶ Liquidity
- ▶ Profitability
- ▶ Nature and duration of liabilities

- ▶ Tradability on regulated markets
- ▶ Diversification
- ▶ Use of derivatives

The Trustee expects the fund manager to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this SIP so far as is reasonably practicable.

## ADDITIONAL VOLUNTARY CONTRIBUTIONS

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### Additional Voluntary Contributions (AVCs)

Scheme AVCs constitute investments which are directly controlled by the Trustee. The Trustee will review these arrangements and take written advice on them at least every three years. Following the closure of the Wesleyan Staff Pension Scheme to future accrual, the Wesleyan Assurance Society AVC policy is closed. The Trustee takes a proportionate approach to monitoring the performance and total costs of the AVCs. Where a significant concern is identified by the Trustee, the Trustee may decide to engage with the AVC fund managers, taking advice from its investment adviser, if necessary.

The Wesleyan AVC policy provides a choice of three investment funds. The following information has been provided by the Society's Chief Actuary, on behalf of the Society:

#### Pensions With Profits Fund

The Pensions With Profits Fund aims to provide capital growth over a medium to long term period by investing in UK and International shares, fixed interest stocks, property, cash and other related investments. The fund aims to avoid sharp rises and falls by "smoothing" the return on an investment over the period of the plan. Further details on the smoothing process can be found in the Principal Employer's With Profits booklets and Principles and Practices of Financial Management document, which are available on request, or via the Society website [www.wesleyan.co.uk](http://www.wesleyan.co.uk). Under normal circumstances it is recommended that investments in the Pensions With Profits Fund are for a minimum of five years.

Permitted investments: All listed and unlisted UK and International Securities (e.g. equities, government and other fixed interest stocks, convertibles, warrants and subsidiary equities), unit trusts, OEICS, property and money market instruments.

This fund is most appropriate for members with a cautious attitude to risk but who wish to invest in the stock markets over a medium to long timescale and who are prepared to accept the risk of a market value reduction.

#### Pensions Managed Fund

The Pensions Managed Fund aims to provide capital growth over a medium to long term period by investing in UK and International shares, fixed interest stocks, property, cash and other related investments. Under normal circumstances it is recommended that investments in the Pensions Managed Fund are for a minimum of five years.

Permitted investments: All UK and International Securities (e.g. equities, government and other fixed interest stocks), property and money market instruments. To remain within the 'Balanced Managed' sectors the total equity holdings should not exceed 80% of the fund value.

This fund is most appropriate for members with a balanced attitude to risk and who wish to invest in the stock markets over a medium to long timescale.

## **Pensions Deposit Fund**

The Pensions Deposit Fund aims to provide a short-term home for investments when the aim is to hold some or all of a fund in non-equity linked investments. The Fund aims to achieve a high level of security by investing in bank deposits and other money market instruments. The fund aims to deliver a competitive return compared to other funds of this type.

Permitted investments: Short term (less than five years) UK cash bank deposits and other money market instruments.

This fund is most appropriate for members investing over a short timescale, as a short-term defensive position, or as part of a gradual reduction in investment risk approaching retirement date.

## **COMPLIANCE**

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### **Consultation with the Employer**

The Trustee has consulted the Principal Employer who has agreed in writing the content of this statement.

### **Compliance with the Myners Principles**

The Trustee has considered the extent to which the Scheme complies with the Myners Principles (as updated in 2008). The Trustee considers that the Scheme broadly complies with the majority of these Principles, and is comfortable that the extent of this compliance is appropriate for the Scheme.

### **Reviewing the SIP**

The Trustee will review this SIP at least every three years and immediately following any significant change in investment policy. The Trustee will take investment advice and consult with the Principal Employer over any changes to the SIP.

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