**CHELMSFORD STAR CO-OPERATIVE SOCIETY LTD
EMPLOYEES SUPERANNUATION FUND**

# STATEMENT OF INVESTMENT PRINCIPLES

This statement of the principles governing investment decisions for the purposes of the Chelmsford Star Co-operative Society Limited Employees' Superannuation Fund has been prepared in accordance with the requirements of the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005. It was agreed by the Trustees having consulted the Fund's Investment Manager. The Chelmsford Star Co-operative Society Limited (the Society), as sponsoring employer, has been consulted and supports fully the principles set out in this statement. No amendments to the statement of investment principles will be made without written advice having been received from a suitably qualified person and until the Society has been consulted.

## Broad Principles of Investment Policy

Responsibility for the investment of the Fund's moneys lies with the Trustees, who are required to invest the moneys in the sole interests of the beneficiaries. Having regard to their relatively small number, the Trustees have agreed that all decisions on investment policy will be taken by the Trustee body as a whole, subject to the necessary quorum, and will not be delegated to any sub-group of the Trustees.

The basic aim of the investment policy is to maximise the return on the investments commensurate with an acceptable level of risk which, for this purpose, encompasses the volatility of contribution rates and funding levels. The Trustees seek to achieve this by investing in a range of assets, suitable for the investment of pension fund moneys, which take account of the nature of the Fund's liabilities. Risk is further diversified by having a wide spread of securities within each class of investment.

## Liability Profile and Funding Level

The Trustees have considered the implications on investment policy of the liability profile and funding level of the Fund, both on a continuing basis.

As at 28th January 2018, the funding level of the Scheme was 84% relative to the technical provisions.

The split of liabilities was:

| Type of Member | Proportion of Liability (%) |
|---|---|
| Active Member | 17.05 |
| Deferred | 28.60 |
| Pensioner | 54.35 |
| Total | 100.00 |

The Fund is open to new entrants and the liability profile is not expected to change materially in the foreseeable future.

**Investment Policy**

The Trustees' policy is to seek to achieve their objectives through investing in a mixture of equities, property and bonds, but with the emphasis on equities. They recognise that the returns on equities, while expected to be greater over the long term than the returns on bonds, are likely to be more volatile. A balance needs to be struck between the expected out-performance of equities and the additional risk inherent in equity investment.

The investment strategy adopted by the Trustees is to have a mixture across asset classes, based on 60 to 63% of the assets being invested in equities and diversified growth funds, 7 to 10% in property and 30% in bonds. This is designed to provide the level of returns required by the Fund to meet its liabilities at an acceptable level of risk for the Trustees and an acceptable level of cost to the Society. The Trustees consider that exposure to the different classes of investment is best achieved by investment through pooled funds.

The central benchmark chosen by the Trustees, and control ranges about that benchmark, are set out below:

| **Asset Class** | **Central Benchmark %** | **Control Ranges %** | **Index** |
|---|---|---|---|
| UK Equities | 31.5 | 21.5 - 41.5 | FTSE All Share |
| Overseas Equities* | 21.5 | 11.5 – 31.5 | |
| North America | 7.6 | | FTSE North America |
| Europe (ex-UK) | 7.6 | | FTSE All World developed Europe excl UK |
| Japan | 4.2 | | FTSE Japan |
| Asia Basin | 2.1 | | FTSE All World developed Asia Pacific excl Japan |
| Diversified Growth Funds | 10 | 0 – 20 | Libor + 4.5% |
| UK Gilts | 15 | 10 – 20 | FTSE 'A' British Government over 15 year Gilts |
| Index-Linked Gilts | 15 | 10 – 20 | FTSE 'A' British Government over 5 year index-linked |
| Property | 7 | 0 – 15 | IPD Monthly Property |
| Cash | - | 0 – 5 | |
| TOTAL | 100 | | |

** Exposure to Overseas Equities will be via Aberdeen Life and Pensions Global (ex-UK) Equity Fund*

The Trustees recognise that, in exceptional circumstances, the Investment Manager may consider it appropriate for the asset allocation to fall outside the control range in one or more of the asset classes. In any such circumstances (which could include a stock market 'crash' or significant currency realignment), the Investment Manager will consult the Trustees to agree an appropriate course of action. The Trustees also recognise that, whilst the assets held will not, other than in exceptional circumstances, fall outside these ranges, market activity and movement arising from normal trading and global stock market volatility (including interest rate adjustments) may lead to this occurrence. Under such circumstances, the Investment Manager would not be expected immediately to deviate from or amend the investment strategy so as to remedy the position, but rather to adopt periodical re-balancing. The Trustees understand that a move away from the central benchmark might result in additional investment risk.

The Society and the Trustees have adopted a recovery plan and the structure and maturity of the Fund are such that it is expected that there will be a positive amount of cash available for investment for the foreseeable future and the Fund is considered unlikely to be in a position where it is forced to realise investments in order to pay benefits.

**Expected Returns**

Over the long-term, the Trustees' expectations are for the real assets (equities, property etc) to achieve a rate of return which is at least 4% in excess of price inflation and for the monetary assets (bonds, cash etc) to achieve a rate of return which is at least 1.5% in excess of price inflation.

All Returns achieved by the Investment Manager are assessed against performance benchmarks set by the Trustees and contained in the Investment Management Agreement.

**Additional Voluntary Contributions**

The Fund provides a facility for members to pay additional voluntary contributions to augment the benefits they are entitled to from the Fund. These contributions are invested in insurance policies with the Co-operative Insurance Society Limited and the benefits payable to members are those payable under those policies.

**Investment Management**

The Trustees have appointed Aberdeen Asset Managers Limited as Investment Manager to the Fund.

Aberdeen Asset Managers Limited is authorised under the Financial Services and Markets Act 2000 to act as Investment Manager and is subject to the regulatory supervision of the Financial Conduct Authority.

The Investment Manager has full discretion in managing the assets of the Fund, subject to the principles set out in this statement and, in particular, the control ranges for the asset allocation, and also to the restrictions set out in the management agreement, details of which are available on request. The Investment Manager reports on a regular basis to the Trustees.

The Trustees have appointed State Street Bank and Trust Company to act as custodian of all documents of title relating to the assets of the Fund and no other custodian may be appointed without the specific approval of the Trustees.

In addition, the custodian's responsibilities include:

- processing the settlement of all transactions,
- providing statements of assets and cash flows,
- processing all dividends and tax reclaimed in a timely manner,
- undertaking appropriate administration of the Fund's assets.

## Scheme Actuary

The principal role of the Scheme Actuary in relation to investment policy is to:

- perform triennial (or more frequently as required) valuations and advise on the appropriate contribution rates,
- assess the funding position of the Fund and advise on the appropriate response to any shortfall.

## Fee Structure

Investment management fees, which include custody and other costs, are based on the amount of the assets of the Fund. Fees are on a 'clean' basis to ensure that no bias arises.

A basic fee for actuarial advice is payable related to the size of the membership of the Fund, with additional fees payable as appropriate on a time cost basis or by the agreement of a fixed fee.

## Responsible Investment and Corporate Governance

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustees have elected to invest through pooled funds. They acknowledge that they cannot directly influence the environmental, social and governance ("ESG") policies and practices of the companies in which the pooled funds invest. The Trustees also acknowledge that where pooled index fund vehicles are employed which track composite market indices it is not always possible to take ESG considerations into account due to the nature of the investment.

In principle, the Trustees believe that ESG factors can have an impact on the performance of its investments and that the management of ESG risks and the exploitation of ESG opportunities, especially in relation to climate change, can add value to the portfolio. To that effect, the Trustees expect the fund managers to have integrated ESG factors as part of their investment analysis and decision- making process where appropriate.

Appropriate weight will be given to ESG factors in the appointment of fund managers.

Trustees view that the stewardship responsibilities attached to the ownership of shares is important but recognise that investment in pooled funds limits their ability to be fully involved. The Trustees expect their investment managers to report in detail on how they have exercised voting rights attached to shares (including across passive equity mandates). Managers are expected to be signatories to the FRC UK Stewardship Code.

The Investment Manager, having a clear policy of normally voting on all issues on behalf of its investor's best financial interests, has provided the Trustees with a statement detailing its voting policies and practices.

The Trustees' policies are set out below:

- **How they incentivise their appointed investment managers to align investment strategy and decisions with the trustees' policies, including risk, return and ESG.**

  The Scheme invests solely in pooled funds where fees charged are a combination of fixed fees and a proportion of the assets under management. There are no performance-related components of the fees.

  The only incentivisation that the Trustees can exert is through the decision to retain or to liquidate their holdings in each fund.

  The investment strategies of the pooled funds are aligned to the Trustees' investment objectives by selecting funds with suitable characteristics:

  - Benchmarks
  - Risk budgets
  - Constraints
  - Approaches (this includes ESG where appropriate)

  The Trustees maximise the probability of their investment objectives being met by selecting an appropriate and Scheme-specific combination of such funds with advice from their investment consultant.

- **How the asset manager is incentivised to make decisions on assessments about medium to long term financial and non-financial performance of an issuer of debt or equity. Also, how the managers are incentivised to engage with the issuers in order to improve their performance.**

  Active fund managers are retained subject to, amongst other criteria, achieving adequate medium- to long- term performance. In order to do so, they will need to make assessments about the medium to long term financial performance of debt and equity issuers. They will also need to assess non-financial performance in as much as it may be a source of risk.

  It also incentivises them to engage with issuers where this is in the financial interests of the Scheme (i.e. where it will make a material impact on the performance of the fund).

  Passive fund managers are not expected to make assessments about the financial or non-financial performance of the issuers of securities they invest in.

- **How the method and time horizon of the evaluation of managers' performance and remuneration are in line with the trustees' policies.**

  The Trustees receive quarterly reports from the fund managers and quarterly analysis from their investment consultant. The investment consultant takes into account the performance of the fund managers but does not restrict their analysis to performance alone. However, given these funds are passively managed, the performance is expected to be broadly in line with the benchmarks.

  Performance is compared to the benchmark and tracking error target of each fund, in order to ensure that this is in alignment to the objectives and policies of the Trustees.

In selecting pooled funds, the Trustees and their investment consultant take into account the fees charged by the fund manager. These are judged in terms of value for money given the nature of the fund, particularly the asset class and outperformance target.

Fund managers need to give the Trustees notice if they plan to change the level of the fees. If this occurs, the Trustees seek advice from their investment consultant on whether to retain or replace the manager.

- **How the trustees monitor portfolio turnover costs incurred by the manager/s (and how they define and monitor targeted portfolio turnover or turnover range).**

  Given the size of the Scheme's investment it would not be cost effective to monitor the turnover or turnover costs directly. The performance figures that the Trustees and their investment consultant analyse are net of transactions costs, so this is taken into account indirectly.

  The Trustees do not believe that they should micro-manage the level of turnover provided that the net outcome to the Scheme is acceptable.

- **The duration of their arrangement with the asset manager**.

  In order to maintain an incentive for the fund manager to performance well, the Trustees do not enter any fixed term arrangements with their manager. Investments in each pooled fund are only retained for as long as the aim of the fund is consistent with the overall investment objectives of the Scheme, and the Trustees have confidence that the fund managers can credibly deliver that aim in a cost-effective manner.

## Investment Performance

The Investment Objective is to outperform the benchmark (as shown in the Investment Management Agreement) by 1% per annum, gross of fees, over rolling three year periods.

## Review

The Trustees will formally review this statement following the receipt of the next report on the actuarial valuation of the Fund, or earlier if deemed appropriate.

Signed for and on behalf of the Trustees

.............................................................. Susan Sullivan – Chair

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**Date: ......................................**