

Statement of Investment Principles

This is the Statement of Investment Principles made by the Trustee of the Institute of Chartered Accountants Staff Pensions Fund ("the Fund") in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended). It is subject to periodic review by the Trustee at least every three years and more frequently as appropriate.

In preparing this Statement, the Trustee has consulted with the principal employer to the Fund (the Institute of Chartered Accountants in England and Wales) and has taken written advice from the Investment Practice of Hymans Robertson LLP.

Fund objective

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis.

The Trustee's over-riding funding principle for the Fund is to set contributions at a level which is sufficient:

- To recover any shortfall in assets relative to the value placed on accrued liabilities over the longer term; and
- To ensure that there are always sufficient assets of the Fund (at their realisable value) to meet 100% of benefits as they fall due for payment to members.

The value of liabilities is calculated on a prudent basis agreed between the Trustee and principal employer with advice from the Fund Actuary; the Trustee also considers the Fund's funding position on more stringent bases including a very low risk (gilt yield) and self sufficiency. The funding position is monitored regularly by the Trustee and formally reviewed at each triennial actuarial valuation, or more frequently as required by the Pensions Act 2004.

In arriving at its investment principles, the Trustee has taken account of the liabilities of the Fund together with the funding position. This has been carried out in relation to the Fund's Statutory Funding Objective, which is that the Fund must have 'sufficient' and 'appropriate' assets to cover the expected cost of providing members' past service benefits.

Investment strategy

The Trustee has translated the objectives into a suitable strategic asset allocation benchmark for the Fund. All day to day investment decisions have been delegated to an authorised investment manager. The strategic benchmark has been translated into a benchmark for the manager that is consistent with the Fund's overall strategy. The Fund benchmark is consistent with the Trustee's views on the appropriate balance between seeking an enhanced long-term return on investments and accepting greater short-term volatility and risk.

The investment strategy takes account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners and non-pensioners), together with the level of disclosed surplus or deficit (relative to the funding bases used). The Trustee monitors fund performance relative to its agreed asset allocation benchmark. It is intended that the investment strategy will be reviewed formally at least every three years following actuarial valuations of the Fund; in practice, the Trustee monitors strategy on an ongoing basis and normally at least annually. In reviewing the strategy, the Trustee will seek written advice as required.

To achieve its objectives the Trustee has agreed the following:-

Choosing investments

The Trustee will appoint one or more investment managers, authorised under the Financial Services and Markets Act 2000 to undertake investment business. Currently, the Trustee has appointed one investment manager - Insight Investment (a subsidiary of BNY Mellon). The Trustee, after seeking appropriate investment advice, has agreed a specific mandate with the investment manager. Subject to their benchmarks and guidelines, the manager is given full discretion over the choice of assets and instruments underlying their mandates and is expected to maintain a diversified portfolio.

The Trustee has appointed its investment manager to deliver a specific benchmark return which aligns with the broader Fund investment strategy. The Trustee ensures that all manager engagements now and in the future will have clearly defined benchmarks, objectives and management parameters.

Where appropriate, and where commercial considerations permit, the terms of the mandate and the basis on which the manager is engaged will be defined specifically for the Fund. Where such tailoring is not directly achievable, the Trustee will invest in pooled funds where the objectives of the fund and the policies of the investment manager will be evaluated by the Trustee to ensure that they are appropriate for the needs of the Fund.

Remuneration for each mandate is determined at the inception of each mandate based on commercial considerations and typically set as a percentage of assets under management. Where appropriate to the nature of the mandate, the term of the mandate and the role the mandate plays within the investment strategy, the Trustee may agree to a fee structure where the manager is incentivised to deliver outperformance relative to an agreed benchmark, typically in conjunction with a lower ad valorem fee. The Trustee periodically reviews the fees paid to its manager against industry standards.

The Trustee reviews the nature of Fund's investments on a regular basis, with particular reference to suitability and diversification. The Trustee seeks and considers written advice from a suitably qualified person when determining the appropriateness of each manager and mandate for the Fund, particularly in relation to diversification, risk, expected return and liquidity. If, at any time, investment in a security or product not previously known to the Trustee is proposed, appropriate advice is sought and considered to ensure its suitability.

The Trustee recognises the long term nature of its liability profile and appoints its manager to invest in such a way that generates long term sustainable returns. The Trustee will carry out necessary due diligence on the underlying investment decision making process, to ensure the manager makes investment decisions over an appropriate time horizon aligned with the Fund's objective.

The duration of each mandate is determined by the Trustee at the inception of each mandate. For open-ended investments, the Trustee generally engages managers on an ongoing basis with no pre-determined term of appointment. For such mandates, the Trustee expects the minimum duration of the appointment will be three years, this being the period over which performance of the mandate can be appropriately evaluated, although all mandates are subject to ongoing review against various financial and non-financial metrics in addition to their continued appropriateness within the investment strategy. For closed-ended investments, the Trustee expects the term of the appointment to be the lifetime of the investment.

The Trustee monitors the manager's performance against its benchmark on a quarterly basis over a long term time horizon. The manager is expected to provide explanation for any significant deviations away from benchmark.

A summary of the Fund's investment mandates and the respective benchmarks (and targets) is included in the appendix.

In addition, the Trustee has purchased matching assets for subsets of pensioner liabilities via “buy-in” transactions, i.e. the purchase of bulk annuity policies. These transactions were with Just Retirement in January 2014, Partnership in November 2015 and Canada Life Limited in November 2021. The annuities are assets of the Fund and the corresponding pensioner obligations also remain as liabilities of the Fund.

Just Retirement and Partnership have since merged to form JUST Group. However, at this stage, Just Retirement and Partnership remain separate life companies in the group and the Just Retirement and Partnership policies are still being held and maintained separately.

Kinds of investment to be held

The Fund may invest in quoted securities of UK and overseas markets including equities, fixed interest and index-linked bonds and cash; whether directly or via pooled funds and annuity policies. The Fund may also make use of derivatives, repurchase agreements and contracts for difference for the purpose of efficient portfolio management or to hedge specific risks, again either directly or via pooled funds. These may also contain leverage within individual funds, but the Fund aims to be unlevered at the total Fund level.

The Trustee considers all of these classes of investment to be suitable in the circumstances of the Fund.

Balance between different kinds of investments

The Fund's investment manager will hold a mix of investments which reflect its views relative to respective benchmark components or return targets. Within each asset class the manager will maintain a diversified portfolio of securities through direct investment or pooled vehicles.

Risk

The Fund is exposed to a number of risks which pose a threat to the Fund meeting its objectives. The principal financial risks affecting the Fund are:

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics – The risk that longevity improves and other demographic factors change, increasing the cost of the Fund benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial ‘contagion’, resulting in an increase in the cost of meeting the Fund's liabilities. The Trustee considers and monitors the collateralisation of Liability Driven Investment (LDI) within this risk, including the level of collateral headroom available versus regulatory expectations.

The Trustee monitors, measures and manages financial mismatch in two ways. As indicated above, they have set a strategic asset allocation benchmark for the Fund. The Trustee assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. They also assess risk relative to liabilities by monitoring the delivery of returns relative to liabilities.

The Trustee provides a practical constraint on Fund investments deviating greatly from the intended approach by adopting and monitoring specific asset allocation benchmarks and by agreeing specific performance targets and mandates with its manager.

The Trustee keeps mortality and other demographic assumptions, which could influence the cost of benefits, under review. These assumptions are considered formally at triennial valuations and the Trustee may enter into insurance contracts (bulk annuities or longevity swaps) to reduce these demographic risks.

The Trustee seeks to mitigate systemic risks through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

The Trustee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund, or has delegated such monitoring and management of risk to the appointed investment manager as appropriate (e.g. custody risk in relation to pooled funds). When carrying out significant transitions, the Trustee seeks professional advice.

Expected return on investments

Over the long term, the overall level of investment return is expected to exceed the rate of return assumed by the Actuary in funding benefits.

Realisation of investments

The majority of assets held within the Fund may be realised quickly if required. The exception to this is the investment in the Secured Finance fund which allows quarterly redemptions and the bulk annuity policies with JUST Group and Canada Life.

The Trustee considers the liquidity of assets held in its overall investment strategy decision making.

For completeness, whilst the annuity policies can be transferred in certain circumstances, their value cannot be easily realised. The Trustee does not expect to need to do this in any event.

Portfolio turnover

The Trustee has expectations of the level of turnover within each mandate which is determined at the inception of the mandate, based on the Trustee's knowledge of the manager, investment process and the nature of the portfolio. Whilst the Trustee expects performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustee expects the manager to report on at least an annual basis on the underlying assets held within the portfolio and details of any transactions over the period.

The Trustee will challenge its manager if there is a sudden change in portfolio turnover or if the level of turnover seems excessive.

The Trustee will request turnover costs incurred by the asset manager over the Fund's reporting year.

Consideration of financially material factors in investment arrangements

The Trustee expects that their investment manager will take account of all financially material factors including the potential impact of Environmental, Social, Governance (ESG) and related climate factors over an appropriate time horizon in the implementation of their mandate. These three central factors are used (in addition to other financial measures) to evaluate corporations and determine the potential future financial performance of companies.

The Trustee recognises that the consideration of financially material factors over the appropriate time horizon of the investments, including ESG factors, is relevant at different stages of the investment process. The strategic benchmark has been determined using appropriate economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors other than climate change.

Given the inherent uncertainty associated with climate change and relatively short investment horizon of the Fund, the Trustee has not considered the risks of climate change in setting its strategic benchmark or implementing its strategy and the financial implications of these factors are delegated to the investment manager in the implementation of its mandate.

In active mandates, the Trustee recognises that the manager has freedom to exercise discretion as to the choice of assets held. The Trustee expects the manager to take into account all financially material factors in the selection of assets within their portfolios and to be able to demonstrate their approach when challenged.

Consideration of non-financially material factors in investment arrangements

The Trustee has not taken account of any non-financially material factors in its investment arrangements. The Trustee has determined that the practicalities of applying exclusions outweigh the impact that may otherwise arise.

Stewardship & engagement

As the Fund no longer invests in equities, shareholder engagement is no longer a relevant consideration.

However, the Trustee continues to believe appropriate stewardship of both its investments and the companies in which it invests remains appropriate.

Within active mandates, the Trustee has delegated responsibility for the consideration of asset specific issues to their individual investment manager. The Trustee has discussed the extent to which ESG issues, where relevant to the investment mandate, are integrated into the investment processes of their investment manager and are satisfied that the investment manager is following an approach which takes account of all financially material factors.

The Trustee meets with its investment manager on an annual basis. Ahead of each meeting, the Trustee provides their manager with an agenda for discussion, including where appropriate, ESG issues. The manager is challenged both directly by the Trustee and by its investment advisers on the impact of any significant issues including, where appropriate, ESG issues that may affect the prospects for return from the portfolio.

The Trustee does not engage directly with the companies held by the manager within their funds but believes it appropriate for its investment manager to engage with key stakeholders which may include corporate management, regulators and governance bodies, relating to their investments in order to consider the management of conflicts of interest and improve corporate behaviours, improve performance and mitigate financial risks.

Where relevant, the Trustee has reviewed the engagement policy of Insight and has determined that the policy is satisfactory. On a periodic basis, the Trustee will request Insight provide details of any change in house policy.

The Trustee also considers any conflicts of interest arising in the management of the Fund and its investments and has ensured that its manager has an appropriate conflicts of interest policy in place.

Signed for and on behalf of the Trustee of the Institute of Chartered Accountants Staff Pensions Fund on 4 June 2024

Appendix: Manager Arrangements

Investment manager

At the date of adopting this Statement, the Fund's target asset allocation excluding the buy-ins was:-

	Target (%)	Manager
Liability Driven Investments	34	Insight
Secured Finance II	25	Insight
Bonds Plus	25	Insight
Cash	16	Insight
Total	100%	

Reporting

Insight Investment has agreed to supply the Trustee with sufficient information each quarter to facilitate the review of its activity, including:-

- performance of assets under management and comparison benchmark;
- the rationale behind past investment strategy and recommended future policy;
- a full valuation of assets;
- a transaction report; and
- a cash reconciliation.

In order to allow the Trustee to carry out their annual review, Insight Investment will supply the Trustee with:-

- evidence of their knowledge and experience for managing the investments of the Fund;
- a description of their approach to making decisions about the suitability and diversification of the investments delegated to it; and
- an overview of operating procedures used by the fund manager and controls over the individuals making investments for the Fund.

Monitoring

The Trustee will review the performance of the manager at least twice yearly.

In addition, the Trustee will monitor on an annual basis whether or not the fund manager:-

- has the appropriate knowledge and experience;
- is carrying out work competently;
- has had regard to the need for diversification of investments;

- has had regard to the suitability of each investment and each category of investment;
- manages portfolio turnover, transaction costs and conflicts appropriately;
- is able to evidence the integration of ESG factors into investment decision making and effective stewardship of assets; and
- has been exercising their powers of investment with a view to giving effect to the principles contained in this statement, so far as is reasonably practicable.