23 August 2022

Statement of Investment Principles for the Northgate Public Services Pension Scheme

This Statement of Investment Principles ("SIP") sets out the policy of the Trustee of the Northgate Public Services Pension Scheme ("the Trustee") on various matters governing decisions about the investments of the Northgate Public Services Pension Scheme ("the Scheme"), a Defined Benefit ("DB") Scheme. This SIP replaces the previous SIP dated October 2021.

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 ("the Act"), the Occupational Pension Schemes (Investment) Regulations 2005 and the Pension Regulator's guidance for defined benefit pension schemes (March 2017). The SIP also reflects the Trustee's response to the Myners voluntary code of investment principles.

This SIP has been prepared after obtaining and considering written professional advice from LCP, the Scheme's investment adviser, whom the Trustee believes to be suitably qualified and experienced to provide such advice. The advice takes into account the suitability of investments including the need for diversification, given the circumstances of the Scheme, and the principles contained in this SIP. The Trustee has consulted with the relevant employer in producing this SIP.

The Trustee will review this SIP from time to time and, with the help of its advisers, will amend it as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy and at least once every three years. The Investment Policy Implementation Documentation ("IPID") sets out supporting information which is not required to be within the SIP, including:

- details of the Scheme's investment governance structure;
- the Trustee's policy towards risk appetite, capacity, measurement and management; and
- the Scheme's investment manager arrangements.

1. Investment objectives

The primary objective is to ensure that the Scheme should be able to meet benefit payments as they fall due. In addition to this primary objective, the Trustee has a series of additional objectives. These are as follows:

- that the return on the Scheme's assets is maximised whilst managing and maintaining investment risk at an appropriate level. What the Trustee determines to be an appropriate level of risk is set out in Appendix 2.
- that the Scheme should be fully funded on a technical provisions basis (ie the asset value should be at least that of its liabilities on this basis). The Trustee is aware that there are various measures of funding, and has given due weight to those considered most relevant to the Scheme.

- that the Scheme has a long-term journey plan in place within the technical provisions funding basis (which has been agreed with the Company), which is designed to help it achieve full funding on a lower-risk basis over time.

2. Investment strategy

The Trustee, with the help of its advisers and in consultation with the employer, reviewed the investment strategy in June 2021, taking into account the objectives described in Section 1 above.

Following an improvement in the Scheme's funding position, the Trustee agreed to de-risk the investment strategy in June 2021 to a strategy targeting expected returns of gilts + 1.5% pa. This resulted in the broad strategic allocation below.

Asset class	Strategic allocation (%)
Global equities	9
Diversified growth	10
Long-lease property	10
Absolute return bonds	7
Buy and maintain corporate bonds	36
Liability driven investment	21
Cash	7
Total	**100**

The aim of the LDI investments is to maintain a hedge ratio for interest rates and inflation broadly equal to the funding level (or around 100% of assets).

The Trustee monitors the asset allocation from time to time. If material deviations from the strategic allocation occur, the Trustee will consider with their advisers whether it is appropriate to rebalance the assets, taking into account factors such as market conditions and anticipated future cash flows.

As the Scheme matures over time, the Trustee will seek to de-risk the investment strategy in line with the change in the liability profile of the Scheme. This means that the investment strategy will gradually target a higher allocation to lower risk assets as the Scheme matures.

3. Considerations in setting the investment arrangements

When deciding how to invest the Scheme's assets, the Trustee considers a number of risks, including, but not limited to, those set out in the IPID. Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each risk.

The Trustee considered a wide range of asset classes for investment, and the expected returns and risks associated with those asset classes. The key financial assumption made by the Trustee in determining the investment arrangements is that equity-type investments will, over the long term, outperform gilts by 4.8% pa.

The other key assumptions for expected returns above gilts are as follows:

Asset class	Expected excess return over gilts (% pa)
Global equities	4.8
Diversified growth	2.9
Long lease property	3.1
Absolute return bonds	1.4
Corporate bonds	0.6
Liability driven investment	0.7
Money market cash	0.0
Total	**1.5**

In setting the strategy the Trustee also took into account:

- the Scheme's investment objectives, including the target return required to meet the Trustee's investment objectives;
- the Scheme's cash flow requirements in order to meet benefit payments in the near to medium term;
- the best interests of members and beneficiaries;
- the circumstances of the Scheme, including the profile of the benefit cash flows, the funding level, and the strength of the employer covenant;
- the risks, rewards and suitability of a number of possible asset classes and investment strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken;
- the need for appropriate diversification between different asset classes to ensure both the Scheme's overall level of investment risk and the balance of individual asset risks are appropriate; and
- the Trustee's investment beliefs about how investment markets work and which factors are most likely to impact investment outcomes.

4. Implementation of the investment arrangements

Before investing in any manner, the Trustee obtains and considers proper written advice from its investment adviser on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

Details of the investment managers, their objectives, investment guidelines, and custody arrangements are set out in the IPID.

The Trustee has entered into a contract with a platform provider, who makes available the range of investment funds for the Scheme. For external funds held on the platform, there is no direct relationship between the Scheme and the underlying investment managers.

The Trustee has signed agreements with the investment managers and a platform provider setting out in detail the terms on which the portfolios are managed. The investment managers' primary role is the day-to-day investment management of the Scheme's investments.

The Trustee and investment managers to whom discretion has been delegated exercise their powers to giving effect to the principles in this Statement of Investment Principles, so far as is reasonably practicable.

The Trustee has limited influence over managers' investment practices because all the Scheme's assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

The Trustee's view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

It is the Trustee's responsibility to ensure that the managers' investment approaches are consistent with its policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustee expects investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. It assesses this when selecting and monitoring managers.

The Trustee evaluates investment manager performance by considering performance over both shorter and longer-term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. Generally, the Trustee would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustee's policy is to evaluate each of its investment managers with reference to the manager's individual performance as well as the role it plays in helping the Scheme meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustee recognises that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustee expects its investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates.

5. Realisation of investments

The investment managers have discretion over the timing of realisation of investments of the Scheme within the portfolios that they manage and in considerations relating to the liquidity of investments.

When appropriate, the Trustee, on the administrators' recommendation, decides on the amount of cash required for benefit payments and other outgoings and informs the investment managers of any liquidity requirements. The Trustee's preference is for investments that are readily realisable, but recognise that achieving a well-diversified portfolio may mean holding some investments that are less liquid (eg property). In general, the Trustee's policy is to use cash flows to rebalance the Scheme's assets towards the strategic asset allocation, and also receive income from some of the portfolios where appropriate.

6. Financially material considerations and non-financial matters

The Trustee has considered how environmental, social, governance ("ESG") and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Scheme and its members.

The Trustee expects its investment managers to take account of financially material considerations (including climate change and other ESG considerations). The Trustee seeks to appoint managers that have appropriate skills and processes to do this, and from time to time reviews how its managers are taking account of these issues in practice.

The Trustee has limited influence over managers' investment practices where assets are held in pooled funds, but it will encourage its managers to improve their practices where appropriate.

The Trustee does not take into account any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

7. Voting and engagement

The Trustee recognises its responsibilities as owners of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments. The Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. It expects the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustee from time to time, taking into account the long-term financial interests of the beneficiaries. The Trustee seeks to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and from time to time the Trustee reviews how these are implemented in practice.

On behalf of the Trustee of the Northgate Public Services Pension Scheme

August 2022