CHURCH PASTORAL AID SOCIETY PENSION AND LIFE ASSURANCE SCHEME

STATEMENT OF INVESTMENT PRINCIPLES

SEPTEMBER 2020

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1 INTRODUCTION

This Statement of Investment Principles ("the Statement") has been prepared by HR Trustees Limited as Trustee of the Church Pastoral Aid Society Pension and Life Assurance Scheme ("the Scheme") in accordance with Section 35 of the Pensions Act 1995, as amended, and its attendant Regulations.

The Statement outlines the principles governing the investment policy of the Scheme and the activities undertaken by the Trustee to ensure the effective implementation of these principles.

In preparing the Statement, the Trustee has:

- obtained and considered written advice from a suitably qualified individual, employed by their investment consultants, Mercer, whom they believe to have a degree of knowledge and experience that is appropriate for the management of their investments; and
- consulted with the Sponsor, although they affirm that no aspect of their strategy is restricted by any requirement to obtain the consent of the Sponsor.

The advice and the consultation process considered the suitability of the Trustee's investment policy for the Scheme.

The Trustee will review the Statement formally at least every three years to coincide with the triennial Actuarial Valuation or other actuarial advice relating to the statutory funding requirements. Furthermore, the Trustee will review the Statement without delay after any significant change in investment policy. Any changes made to the Statement will be based on written advice from a suitably qualified individual and will follow consultation with the Sponsor.

2 INVESTMENT OBJECTIVES

The Trustee's primary investment objective for the Scheme is to achieve an overall rate of return that is sufficient to ensure that assets are available to meet all liabilities as and when they fall due.

In doing so, the Trustee also aims to maximise returns at an acceptable level of risk taking into consideration the circumstances of the Scheme.

The Trustee is satisfied that the resultant investment strategy is consistent with the actuarial valuation methodology and the assumptions used in the Statutory Funding Objective.

3 INVESTMENT RESPONSIBILITIES

3.1. TRUSTEE'S DUTIES AND RESPONSIBILITIES

The Trustee is responsible for setting the investment objectives and determining the strategy to achieve the objectives.

The duties and responsibilities of the Trustee include, but are not limited to, the following tasks and activities:

- The regular approval of the content of the Statement
- The appointment and review of the investment platform provider
- The choice of appropriate funds to implement the agreed investment strategy
- The appointment and review of the investment adviser
- The assessment and review of the performance of each fund
- The assessment of the risks assumed by the Scheme at total scheme level and manager by manager
- The approval and review of the asset allocation benchmark for the Scheme
- The compliance of the investment arrangements with the principles set out in the Statement

3.2. INVESTMENT ADVISER'S DUTIES AND RESPONSIBILITIES

The Trustee has appointed Mercer as the investment adviser to the Scheme. Mercer provides advice as and when the Trustee requires it. Matters on which Mercer expects to provide advice to the Trustee include the following:

- Setting of investment objectives
- Determining investment strategy and asset allocation
- Determining an appropriate investment structure
- Assistance in determining funds that are suitable to meet the Trustee's objectives
- Setting cashflow management (investment and withdrawal) policies (see Appendix 1)

The Trustee may seek advice from Mercer with regard to both strategic and tactical investment decisions (see Section 4 - Investment Strategy); however, they recognise that they retain responsibility for all such decisions, including those that concern investments and disinvestments relating to cashflows (see Appendix 1). Mercer may be proactive in advising the Trustee regarding tactical investment decisions; however, there is no responsibility placed on Mercer to be proactive in all circumstances.

Any services provided by Mercer will be remunerated primarily on a time-cost basis.

The Trustee is satisfied that Mercer does not receive commission or any other payments in respect of the Scheme that might affect the impartiality of their advice. The Trustee believes this to be the most appropriate adviser remuneration structure for the Scheme.

Mercer is authorised and regulated by the Financial Conduct Authority ("FCA").

3.3. ARRANGEMENTS WITH INVESTMENT MANAGERS

The Trustee, after taking appropriate investment advice, has invested the assets of the Scheme via the Mobius Life Limited Platform ("Mobius") through a Trustee Investment Policy ("TIP"), whose appointment forgoes the need for a custodian. The Mobius TIP facilitates investment into a range of underlying funds managed by third party investment managers and the value of the Mobius TIP is directly linked to the change in value in the underlying funds.

Underlying investment managers are appointed by the Trustee following appropriate advice from their investment advisor and based on their capabilities and therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected.

The Trustee will only invest in pooled investment vehicles via Mobius. The Trustee therefore accepts that they cannot specify the risk profile and return targets of the managers, but the pooled funds are chosen with appropriate characteristics to align with the overall investment strategy.

The Trustee is a long term investor and does not look to change the investment arrangements on a frequent basis. If a manager is significantly downgraded by Mercer's Manager Research Team, the investment adviser will advise the Trustee and they may replace that manager with a suitable alternative.

The details of the funds invested in are set out in Appendix 1.

The underlying investment managers are responsible for all decisions concerning the selection and de-selection of the individual securities within the portfolios it manages.

All of the investment managers engaged by the Trustee are authorised and regulated by the Prudential Regulation Authority ("PRA"), the FCA or both. Mobius itself is authorised by the PRA and regulated by both the PRA and the FCA.

Both Mobius and the underlying investment managers are remunerated by ad valorem charges based on the value of the assets that they manage on behalf of the Scheme. Where possible, discounts have been negotiated by Mercer and Mobius with the underlying managers on their standard charges. None of the underlying managers in which the Scheme's assets are invested have performance based fees which could encourage the manager to make short term investment decisions to hit their profit targets.

The Trustee therefore considers that the method of remunerating fund managers is consistent with incentivising them to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity. By encouraging a medium to long-term view, it will in turn encourage the investment managers to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.

The Trustee accepts that it cannot influence the charging structure of the pooled funds in which the Scheme is invested, but is satisfied that the ad-valorem charges for the different underlying funds are clear and are consistent with each fund's stated characteristics. The Trustee is therefore satisfied that this is the most appropriate basis for remunerating the underlying investment managers and is consistent with the Trustee's policies as set out in this SIP.

3.4. SUMMARY OF RESPONSIBILITIES

A summary of the responsibilities of all relevant parties, including the Scheme Actuary and the scheme administrators, so far as they relate to the Scheme's investments, is set out at Appendix 2.

4 INVESTMENT STRATEGY

4. SETTING INVESTMENT STRATEGY

The Trustee has determined the investment strategy after considering the Scheme's liability profile and requirements of the Statutory Funding Objective, its own appetite for risk, the views of the Sponsor on investment strategy, the Sponsor's appetite for risk, and the strength of the Sponsor's covenant. The Trustee has also received written advice from its Investment Adviser.

Taking all these factors into consideration, the Trustee has established an appropriate benchmark allocation, which is set out in Appendix 1.

In respect of the investment of contributions and any disinvestments to meet member benefit payments, the Trustee will consider these on a case by case basis. This approach is confirmed in Appendix 1.

4.1. INVESTMENT DECISIONS

The Trustee distinguishes between three types of investment decision: strategic, tactical and stock-level.

Strategic Investment Decisions

These decisions are long-term in nature and are driven by an understanding of the objectives, needs and liabilities of the Scheme.

The Trustee takes all such decisions themselves and does so after receiving written advice from their investment adviser and consulting with the Sponsor. Examples of such decisions and of tasks relating to the implementation of these decisions include the following:

- Setting investment objectives
- Determining the split between the growth and the stabilising portfolios
- Determining the allocation to asset classes within the growth and stabilising portfolios
- Determining the Scheme benchmark
- Reviewing the investment objectives and strategic asset allocation

Tactical Investment Decisions

These decisions are short-term and based on expectations of near-term market movements. Such decisions may involve deviating temporarily from the strategic asset allocation and may require the timing of entry into, or exit from, an investment market or asset class.

These decisions are the responsibility of the Trustee. However, where such decisions are made within a pooled fund, they are the responsibility of the investment manager of the fund.

Stock Selection Decisions

All such decisions are the responsibility of the investment managers of the pooled funds in which the Scheme is invested.

4.2. TYPES OF INVESTMENTS TO BE HELD

The Trustee is permitted to invest across a wide range of asset classes.

All the funds in which the Scheme invests are pooled and unitised. The use of derivatives is permitted by the guidelines that apply to the pooled funds. Details relating to the pooled funds can be found in Appendix 1.

4.3. FINANCIALLY MATERIAL CONSIDERATIONS

The Trustee considers many risks which it anticipates could impact the financial performance of the Scheme's investments over its lifetime. Such risks are set out in the next section of this statement.

The Trustee recognises that environmental, social and corporate governance ("ESG") factors, including climate change, can influence the investment risk and return outcomes of the Scheme's portfolio and it is therefore in members' and the Scheme's best interests that these factors are taken into account within the investment process.

The Trustee further recognises that investing with a manager which approaches investments in a responsible way and takes account of ESG related risks may lead to better risk adjusted performance results as omitting these risks in investment analysis could skew the results and underestimate the level of overall risk being taken. Therefore, other factors being equal, the Trustee would seek to invest in funds which incorporate ESG principles.

The Trustee will consider if and how to incorporate ESG further. This Statement will be updated to reflect the results of that review.

The Trustee receives ESG scores provided by the Investment Consultant in relation to the funds in which the Scheme is invested and will monitor how these develop over time.

The Trustee is therefore satisfied that ESG factors are appropriately reflected in the overall investment approach.

4.4. NON-FINANCIAL MATTERS

The Trustee currently only considers factors that are expected to have a financial impact on the Scheme's investments. The Trustee has decided, at this time, not to consider non-financial considerations, such as ethical views, or take members' preferences in to account when setting the investment strategy.

the Trustee will give consideration to the Church Investors Group ("CIG") ethical principles, on the basis that the Scheme's sponsor invests its assets in line with such principles and that this may be aligned with the views of the Scheme's members. The CIG aims to encourage the formulation of investment policies based on Christian ethical principles, to encourage responsible business practice through engagement with company managements and to share information and views on ethical matters related to investment.

4.5. STEWARDSHIP

The Scheme is invested solely in pooled investment funds. The Trustee's policy is to delegate responsibility for engaging with, monitoring investee companies and exercising voting rights to the pooled fund investment managers and expects the investment managers to use their discretion to act in the long term financial interests of investors.

If the Trustee is specifically invited to vote on a matter relating to corporate policy, the Trustee would exercise its right in accordance with what it believes to be the best interests of the majority of the Scheme's membership.

5 RISK

The Trustee is aware, and seeks to take account of a number of risks in relation to the Scheme's investments, including the following:

Under the Pensions Act 2004, the Trustee is required to state its policy regarding the ways in which risks are to be measured and managed. These are set out below.

Solvency Risk and Mismatching Risk

- These are measured through monitoring the development of assets relative to liabilities at successive actuarial valuations.
- These are managed by setting a scheme-specific strategic asset allocation with an appropriate level of risk.

Manager Risk

- This is assessed through considering the expected deviation of the prospective risk and return, as set out in the managers' objectives.
- It is measured by monitoring the actual deviation of returns relative to the objective.

Liquidity Risk

- This is monitored according to the level of cashflows required by the Scheme over a specified period.
- It is managed by holding an appropriate amount of readily realisable investments. The Scheme's assets are invested in pooled funds which are readily realisable.

Political Risk

- This is measured by the level of concentration in any one market leading to the risk of adverse influence on investment values arising from political intervention.
- It is managed by regular reviews of the investments and through investing in funds which provide diversification across different markets.

Corporate Governance Risk

- This is assessed by reviewing the Scheme's investment managers' policies regarding corporate governance.
- It is managed by delegating the exercise of voting rights to the managers, who exercise this right in accordance with their published corporate governance policies. These policies are available to the Trustee on request and take into account the financial interests of the shareholders, which should ultimately be to the Scheme's advantage.

Sponsor Risk

- This is assessed as the level of ability and degree of willingness of the sponsor to support the continuation of the Scheme and to make good any current or future deficit.
- It is managed by assessing the interaction between the Scheme and the sponsor, as measured by a number of factors, including the covenant of the sponsor and the size of the pension liability relative to the sponsor.

Legislative Risk

- This is the risk that legislative changes will require action from the Trustee so as to comply with any such changes in legislation.
- The Trustee acknowledges that this risk is unavoidable but will seek to address any required changes so as to comply with changes in legislation.

Credit Risk

- This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
- The Trustee acknowledges that the assessment of credit risk on individual debt instruments is delegated to the investment managers. .

Market Risk

- This is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of the following three types of risk:

Currency Risk

- This is the risk that occurs when the price of one currency moves relative to another (reference) currency. In the context of a UK pension scheme, the scheme may be invested in overseas stocks or assets, which are either directly or indirectly linked to a currency other than Sterling. There is a risk that the price of that overseas currency will move in such a way that devalues that currency relative to Sterling, thus negatively impacting the overall investment return.
- The Trustee notes that the Fixed Interest Fund invests in UK gilts and bonds, and acknowledges that currency risk within the Pooled Mixed Fund is delegated to the underlying investment managers where the manager is responsible for the decision of whether or not to hedge.

Interest rate risk

- This is the risk that an investment's value will change due to a change in the level of interest rates. This affects debt instruments more directly than growth instruments.
- The Trustee notes that the value of the Scheme's liabilities is subject to interest rate risk, and it is therefore appropriate to consider the net risk of the liabilities versus the assets. The Trustee has therefore invested in funds containing bonds to manage this risk.
- The Trustee acknowledges that the interest rate risk related to individual debt instruments is managed by the underlying investment manager through a combination of strategies.

Other Price risk

- This is the risk that principally arises in relation to the return seeking assets, for which the Scheme has exposure to equities within the Pooled Mixed Fund.
- The Trustee notes that the Pooled Mixed Fund invests across a range of different equity markets to diversify this risk, and the Trustee has reduced the allocation to the Pooled Mixed Fund so that it is comfortable with the overall level of equity market investment.

ESG risk

- This is the risk that Environmental, Social or Corporate Governance concerns, including climate change, have a financially material impact on the return of the Plans assets.
- The Trustee manages this risk by investing in a well-respected investment manager whose ESG principles are an established part of the investment decision making process and by reviewing the ESG scoring placed on the Plan's manager by its investment Adviser, as well as any scoring by the Investment Adviser for proposed managers.

6 MONITORING OF INVESTMENT ADVISER AND MANAGERS

6. INVESTMENT ADVISER

The Trustee assesses and reviews the performance of their adviser in a qualitative way. In doing so, the Trustee will take in to account the objectives it set for its investment adviser in the document entitled “Outcome of the CMA review: Setting Objectives for Investment Consultants”, which was signed and formally adopted by the Trustee on 4 November 2019.

6.1. INVESTMENT MANAGER

The Trustee receives annual reports on the performance of the Scheme’s assets from Mercer. These present performance information over 3 months, 1 year and 3 years. The reports show the absolute performance and performance against the manager’s stated target performance (over the relevant time period).

The Trustee in conjunction with advice from their investment adviser, have the role of replacing the underlying investment managers where appropriate. It takes a long-term view when assessing whether to replace the underlying investment managers, and such decisions would not be made based solely on short-term performance concerns. Instead, changes would be driven by a significant downgrade of the investment manager by Mercer’s Manager Research Team. This in turn would be due to a significant reduction in Mercer’s confidence that the investment manager will be able to perform in line with their fund’s mandate over the long term.

Changes will also be made to the underlying managers if there is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager.

6.2. PORTFOLIO TURNOVER COSTS

The Trustee does not currently monitor portfolio turnover costs for the funds in which the Scheme is invested, although notes that the performance monitoring which it receives is net of all charges, including such costs. Portfolio turnover costs means the costs incurred as a result of the buying, selling, lending or borrowing of investments.

The Trustee is also aware of the requirement to define and monitor targeted portfolio turnover and turnover range.

Given that the Scheme invests in a range of pooled funds, many of which invest across a wide range of asset classes, the Trustee does not have an overall portfolio turnover target for the Scheme.

The Trustee is working with Mercer to determine the most appropriate way to obtain and monitor the information required in relation to the pooled funds in which the Scheme is invested and will include further information about this when next updating the SIP.

7 CODE OF BEST PRACTICE

The Trustee notes that in March 2017, the Pensions Regulator released 'Investment Guidance for Defined Benefit Pension Schemes'.

The Trustee receives investment advice which ensures that the principles contained within this guidance are applied to the Scheme as far as it is relevant to the Scheme's circumstances.

The Trustee meets with their investment adviser on an annual basis, monitoring developments both in relation to the Scheme's circumstances and in relation to evolving guidance, and will revise the Scheme's investment approach if considered appropriate.

8 COMPLIANCE

The Scheme's Statement of Investment Principles and annual report and accounts are available to members on request.

A copy of the Scheme's current Statement plus Appendices is also supplied to the Sponsor, the Scheme's Investment Manager, the Scheme's auditors and the Scheme Actuary.

This Statement of Investment Principles, taken as a whole with the Appendices, supersedes all others and was approved by the Trustee on ...24th...September...2020

Signed on behalf of the Trustee by	Kevin Kenneally	Alex Davies
On	24th September 2020	24th September 2020
Full Name	Kevin Kenneally	Alex Davies
Position	Trustee - Client Director, HR Trustees Limited	Trustee - Client Director, HR Trustees Limited

APPENDIX 1: INVESTMENT STRATEGY AND FUND INFORMATION

The tables below show the strategic allocation and details relating to the funds invested in.

Manager / Fund	Benchmark Allocation	Performance Benchmark	Objective	Dealing Frequency	SORP / IFRS Class
L&G Life UK Equity Index Fund	10%	FTSE All-Share Index	The investment objective of the fund is to track the performance of the benchmark (less withholding tax where applicable) to within +/-0.25% p.a. for two years out of three.	Daily	(b) / 2
L&G Life World (ex UK) Developed Equity Fund	25%	FTSE Developed World (ex UK) Index	The investment objective of the fund is to tracker the performance of the benchmark (less withholding tax where applicable) to within +/-0.5% p.a.	Daily	(b) / 2
Threadneedle Multi Asset Fund	16%	UK Base Rate	To outperform the benchmark by 4% p.a. gross of fees over rolling five year periods	Daily	(b) / 2
Investec Diversified Growth Fund	12%	UK CPI	The investment objective of the fund is to outperform the benchmark by 5% (gross of fees) and to achieve a volatility target half the level of equities.	Daily	(b) / 2
Pictet Multi Asset Fund	8%	3 month LIBOR	The investment objective of the fund is to outperform the benchmark by 4% (net of fees) and to achieve a volatility target less than 75% of the global equity market.	Daily	(b) / 2
Nordea Diversified Return Fund	4%	1 month LIBOR	To outperform the benchmark by 4.0% p.a. gross of fees over rolling three year periods and to achieve a volatility target of less than half of equities.	Daily	(b) / 2

BMO Real Dynamic LDI Fund	15%	The liability profile of a typical UK DB pension scheme	To provide hedging by offering interest rate and inflation protection which replicates the liability profile of a typical UK DB pension scheme.	Daily	(b) / 2
BMO Nominal Dynamic LDI Fund	10%	The liability profile of a typical UK DB pension scheme	To provide hedging by offering interest rate protection which replicates the benchmark.	Daily	(b) / 2

The SORP/IFRS class is in conformance with FRS 102's valuation hierarchy, under which investments are to be categorised by a three-level fair value hierarchy.

All holdings are implemented via Mobius.

Cashflow and Rebalancing Policy

There is no automatic benchmark management policy in place. The Trustee will review the asset allocation from time to time and consider revising if it moves significantly away from the above benchmark allocation.

In respect of the investment of contributions and any disinvestments to meet member benefit payments, the Trustee will consider these on a case by case basis.

The Trustee will review the cashflow policy from time to time to ensure that it remains appropriate taking into account changes in the Scheme's cashflow requirements.

APPENDIX 2: RESPONSIBILITIES OF PARTIES

TRUSTEE

The Trustee's responsibilities include the following:

- Reviewing at least triennially, and more frequently if necessary, the content of this Statement in consultation with the Investment Adviser and modifying it if deemed appropriate
- Reviewing the investment strategy following the results of each actuarial review, in consultation with the Investment Adviser and Scheme Actuary
- Appointing the Investment Manager(s) and custodian (if required)
- Assessing the quality of the performance and processes of the Investment Manager(s) by means of regular reviews of investment returns and other relevant information, in consultation with the Investment Adviser
- Consulting with the Sponsor regarding any proposed amendments to this Statement
- Monitoring compliance of the investment arrangements with this Statement on a continuing basis

INVESTMENT ADVISER

The Investment Adviser's responsibilities include the following:

- Participating with the Trustee in reviews of this Statement of Investment Principles
- Advising the Trustee, at their request, on the following matters:
  - Through consultation with the Scheme Actuary, how any changes within the Scheme's benefits, membership, and funding position may affect the manner in which the assets should be invested
  - How any significant changes in the investment managers' organisations could affect the interests of the Scheme
  - How any changes in the investment environment could present either opportunities or problems for the Scheme
- Undertaking project work, as requested, including:
  - Reviews of asset allocation policy
  - Research into and reviews of investment managers
- Advising on the selection of new managers and/or custodians

INVESTMENT MANAGERS

The investment managers' responsibilities include the following:

- Informing the Platform provider of any changes in the internal performance objectives and guidelines of their funds
- Having regard to the need for diversification of investments, so far as appropriate for the particular mandate, and to the suitability of investments
- Managing their funds in accordance with their stated mandates

The underlying investment managers are not directly appointed by the Trustee and therefore do not have any direct responsibility to the Trustee.

PLATFORM PROVIDER

The platform provider's responsibilities include the following:

- Ensure contributions are invested/disinvested in accordance with instructions, and that switches are processed accordingly
- Ensure instructions are in accordance with the Authorised Signatory Lists
- Informing the Trustee of any changes in the internal performance objectives and guidelines of any pooled fund used by the Scheme as and when they occur
- Providing the Trustee, on a quarterly basis (or as frequently as agreed), with a statement and valuation of the assets and appropriate management information and reporting.

SCHEME ACTUARY

The Scheme Actuary's responsibilities include the following:

- Liaising with the Investment Adviser regarding the suitability of the Scheme's investment strategy given the financial characteristics of the Scheme
- Assessing the funding position of the Scheme and advising on the appropriate response to any shortfall
- Performing the triennial (or more frequent, as required) valuations and advising on the appropriate contribution levels

ADMINISTRATOR

The Administrator's responsibilities include the following:

- Ensuring there is sufficient cash available to meet benefit payments as and when they fall due
- Paying benefits and making transfer payments
- Investing contributions not required to meet benefit payments with the investment managers according to the Trustee's instructions.