



the Cheviot **trust**

**Statement of  
Investment Principles  
With Profits Section**

**18 September 2024**



## 1. Introduction

- 1.1 This Statement describes the investment strategy and policies of the Trustee of the With Profits Section of the Cheviot pension. It reflects the legislative requirements<sup>1</sup> and forms the basis for the decision-making process in relation to investment strategy.
- 1.2 The With Profits Section of the Cheviot Pension is a cash balance scheme under changes introduced in the Pensions Act 2011 and implemented by regulation in July 2014. Members continue to earn guaranteed returns until Normal Retirement Date. Pensions are paid to members who retired before 2005. Bonuses may be awarded to members and pensioners in addition to the promised benefits if the funding permits in future. No bonuses have been paid since 2001.
- 1.3 The With Profits Section complies with the Scheme Funding Requirements.<sup>2</sup> Employers which were contributing in 2002 when the With Profits Section closed to future service have statutory funding obligations in relation to the promised benefits.
- 1.4 The Trustee introduced a contribution rule which extended the obligation to make additional funding contributions to a wider range of employers. Approximately 500 employers still have employees or former employees with benefits provided by the With Profits Section.
- 1.5 The Trustee has appointed Van Lanschot Kempen Investment Management (UK) Limited (“**VLK**”) as fiduciary manager and investment adviser to the Trust.<sup>3</sup> The fiduciary manager provides investment advice and investment management services to the Trustee, including advice on setting the Investment Objectives. The Trustee makes investment strategy decisions based on advice from VLK. The strategy is then implemented by VLK in its role as Fiduciary Manager. VLK has been provided with a copy of this Statement and is expected to exercise its powers in accordance with it.
- 1.6 The Trustee has obtained and considered written advice in respect of this Statement from VLK and the Scheme Actuary, both of which the Trustee believes are qualified by their ability in and practical experience of financial matters and have the appropriate knowledge and experience of the management of investments of pension schemes. The Trustee also consulted its lawyers and employers about this Statement.
- 1.7 The Trustee will also obtain and consider advice (as required by law) before making any future changes in investment strategy or investment options, and before revising this Statement. The Trustee will consult with the employers on any proposed revisions.

## 2. Investment Objectives

- 2.1 The primary objectives of the Trustee Board for the With Profits Section are:
  - i. To invest the assets of the With Profits Section so that pensions in payment can be met and any guaranteed return can be provided to members.
  - ii. To protect the Section as far as possible against adverse movements in the value of assets and the cost of providing the benefits because of changes in interest rates and price inflation when practicable and cost effective.
  - iii. To reach a level of funding through a combination of investment returns and contributions from

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<sup>1</sup> Including those of the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005

<sup>2</sup> Under Part 3 of the Pensions Act 2004

<sup>3</sup> February 2024



employers over the medium term which will allow the remaining benefits to be bought out.

- 2.1 The Investment performance objective is to achieve a level of return which will stabilise the funding position and, in conjunction with contributions from employers, enable the Trustee to buyout the benefits provided by the Section in accordance with the long-term funding plan.

The Trustee's policy on the kinds of investments held is that they must be suitable given the investment objectives, legislative requirements, regulatory guidance, statutory funding requirements and any specifications in the trust deed and rules governing the With Profits Section.

### 3. Risks

- 3.1 The main funding risks are:

- i. Mortality risk associated with existing pensioners.
- ii. Guaranteed returns on contributions.
- iii. Interest rate and inflation risks which affect the cost of providing the promised benefits.
- iv. Sponsor risk, including inability to pay the required contributions.
- v. Investment risk.
- vi. Cash flow risk.

- 3.2 The Trustee Board has recognised and addressed these risks as far as possible in the investment strategy for the Investment and Matching Funds. The Trustee Board keep these risks under regular review and will work with VLK to regularly monitor risks.

- 3.3 The interest rate and inflation risks are mitigated by the use of a liability hedge, constructed using derivatives and gilts or a combination of appropriate assets. This provides protection against interest or inflation rate movements adversely affecting the funding level. It is not practical to hedge mortality risk.

- 3.4 The Trustee also recognises that members and pensioners face risks:

- i. Inflation risk - that the purchasing power of their investments or pension does not keep up with inflation.
- ii. Pension conversion risk – that the cost of converting their investments to an income varies.
- iii. Capital protection risk – that the cash value of their investments varies.

- 3.5 Whilst it is not possible to fully protect against these risks, members who have not yet reached their Normal Retirement Date receive guaranteed returns which provide some protection against the inflation and capital risk. Members can transfer to the Money Purchase Section of the Cheviot Pension as they approach retirement to access an option which provides protection against pension conversion risk. Members can also access some flexible retirement options including drawdown.

- 3.6 Some pensioners receive guaranteed increases on their pension which provide some protection against inflation.

- 3.7 The Trustee has considered these risks and other relevant risks such as market risk, counterparty risk, operational risk, environmental/social/ governance risk and risk of ill-timed disinvestments to meet cash flow requirements, when designing the investment strategy.

- 3.8 Risks are measured and managed as part of regular investment strategy governance, asset allocation reviews and investment strategy reviews. The Trustee identifies, evaluates, manages and monitors risks to the With Profits Section, including their impact, what controls can be put in place to manage those risks and



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the effectiveness of the risk management process. As part of quarterly reporting, risks are measured against risk tolerance and market conditions.

### 4. Investment strategy

- 4.1 The Trustee recognises the importance of asset allocation to the overall investment strategy and has delegated the implementation of the strategy (including the appointment, termination and ongoing monitoring of the selected underlying investment managers who manage assets of the Plan) to VLK. An Investment Fund/Matching Fund/Credit Fund structure is adopted for the management of asset allocation. The strategic allocation to each Fund is reviewed as part of each triennial valuation or more frequently if necessary. The allocation is based on an assessment of the strength of the combined employers' covenant by the Covenant Adviser and advice from VLK..
- 4.2 The Investment Fund holds assets with the objective of producing a return to meet some of the cost of the benefits. It is invested in a diversified range of investments to manage investment risk.
- 4.3 Managers are appointed via an investment platform<sup>4</sup> and are required to act within the terms of their appointment. The appointment may be delegated. Custody arrangements are reviewed regularly to ensure proper safekeeping of the assets. Assets are generally held in pooled funds to ensure assets are easily realised if required. The Trustee, working with VLK manages any cash flow requirements.
- 4.4 The Matching Fund holds lower risk assets which more closely match the cost of the benefits. The Matching Fund is invested in assets which are designed to minimize the impact of movements in interest and inflation rates on the funding level of the With Profits Section. The Credit Fund provides income to help meet the cashflow requirements of the Section. The level of interest and inflation rate protection varies depending on market conditions but will not be reduced below 50% of the estimated cost of the promised benefits.
- 4.5 The Trustee's policy is to set the target returns annually for the Investment Fund and Matching Fund based on advice from VLK reflecting current expectations of the assets held. The target returns for these funds combined with the asset split at the date of this Statement, gives an overall target return of 2.0% per year above the return available from gilts
- 4.6 VLK is responsible for constructing the portfolios which will be used to generate returns and to hedge liability risk. Construction includes responsibility for the strategy asset allocation and the funds used to implement the allocation.
- 4.7 The Trustee, VLK and the underlying investment managers to whom discretion has been delegated exercise their powers giving effect to the principles in this Statement, so far as is reasonably practicable.

### 5. Other Issues

#### Environmental, Social and governance factors<sup>5</sup>

- 5.1 The Trustee considers materially financial factors in line with its fiduciary responsibilities to investors (both members and employers). It recognises the Paris Agreement's objectives and that a failure to meet the agreement will have a significant negative impact on members, investments and the wider financial structure.

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<sup>4</sup> Some assets are in the process of transferring from being held off platform to on platform.

<sup>5</sup> All references to ESG include climate change



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- 5.2 ESG and sustainability was a key part of VLK's appointment as fiduciary manager and investment adviser to the Cheviot Pension. Together with an excellent record as a fiduciary manager, VLK's well established approach to sustainability was consistent with Cheviot's bespoke net zero commitment. Moving to a fiduciary managed approach will significantly improve the data and information available to the Trustee to assess the impact of ESG factors and monitor progress towards its target. Without prejudice to the Trustee's legal obligations, the Trustee delegates full discretion to VLK around the evaluation of ESG and climate change within the investment process and assets. VLK will apply its Responsible Investment Policy to the funds it selects.<sup>6</sup> The policy is based on the following pillars: exclusion, ESG integration, and active ownership. VLK's approach to active ownership is not accessible to the Trustee acting independently.
- 5.3 More information about how the Trustee has previously considered ESG factors is available in the annual Implementation Statements, including how the Trustee has assessed the commitment and performance of managers in relation to long term financial factors deriving from ESG. The latest Implementation Statement is available on the website.<sup>7</sup>
- 5.4 The Trustee, together with VLK, is also considering those elements of the investment strategy where the investment objective is short term in nature or if taking account of ESG factors is unlikely to influence investment performance, subject to VLK's Sustainable Investment Charter.
- 5.5 The change in investment adviser and structure will facilitate direct engagement by VLK with managers and companies in relation to climate change issues and stewardship. This level of engagement was not available to the Trustee under the previous arrangements.

### Non-financially material factors

- 5.6 The Trustee does not consider non-financially material factors (such as members' ethical considerations, social and environmental impact matters or quality of life considerations) when making investment decisions as there is not likely to be a common view on any ethical matters amongst members. Currently, the Trustee has no plans to seek the views of the membership on ethical considerations.

### Asset manager review

- 5.7 VLK is responsible for managing and reviewing the underlying managers held in the portfolios as part of their role as fiduciary manager to ensure they are aligned with Trustee policy. The Trustee's policy is to delegate to VLK the responsibility for the selection, appointment monitoring and removal of the selected underlying investment managers.
- 5.8 VLK's role includes:
- Agreeing the terms of appointment for selected underlying managers;
  - Putting in place fee arrangements which incentivise the manager to align its strategy to the Trustee's policies generally (to the extent possible);
  - Monitoring the underlying investment managers, to ensure they continue to perform in a competent manner and have the appropriate knowledge, skills and experience to manage the assets of the Cheviot Pension;
  - Monitoring the extent to which the underlying investment managers (i) make decisions based on assessments about medium to long-term financial performance of an issuer of debt or equity; and (ii) engage with issuers of debt or equity in order to improve their performance in the medium to long-

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<sup>6</sup> <https://www.vanlanschotkempen.com/-/media/files/documents/investment-management/esg/policies/sustainable-investment-charter.ashx>

<sup>7</sup> [https://www.cheviottrust.com/Uploads/Documents/00/00/00/61/DocumentFile\\_FILE/WPS-Implementation-statement-2024-Website-signed.pdf](https://www.cheviottrust.com/Uploads/Documents/00/00/00/61/DocumentFile_FILE/WPS-Implementation-statement-2024-Website-signed.pdf)



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- term; and
- e. Assessing the duration of any appointments of asset managers and, where appropriate terminating managers that are no longer aligned with the Trustee's investment strategy.
- 5.9 VLK evaluates the performance (and remuneration) of the underlying investment managers stated in the investment managers' performance objective against the Trustee's investment strategy and policies generally over an appropriate time horizon.
- 5.10 The Trustee has appointed a third-party adviser, Ernst & Young LLP, to provide external ongoing advice in relation to VLK's performance. These reviews incorporate benchmarking of performance and fees. VLK's responsibilities include assessing whether any managers appointed are in line with its Sustainable Investment Charter and the Trustee's policies and beliefs.
- 5.11 The Trustee acknowledges the inherent potential for conflicts of interest which exist as part of ongoing investment management business activities. Where investment managers are regulated, they are likely to be subject to such requirements to manage conflicts of interest as are applicable in their jurisdiction of incorporation or operations. The Trustee and VLK will monitor this as part of an ongoing review. As an FCA regulated firm, VLK is required to prevent or manage conflicts of interest. VLK's Conflict of Interest policy is available publicly.<sup>8</sup>
- 5.12 The oversight of portfolio turnover costs (where available) incurred by the investment managers is delegated to VLK.
- 5.13 VLK has discretion over the timing of the realisation of portfolios managed by the selected underlying investment managers. The underlying investment managers have discretion over the timing of realisation of investments within the portfolios that they manage, and in considerations relating to the liquidity of investments.

### Fees

- 5.14 Professional fees are charged in relation to the services received and may be based on assets under management, performance, hourly rates, or fixed fees according to the agreement with each adviser. Fees are regularly reviewed by the Trustee.

### Liquidity

- 5.15 Where practicable, VLK is instructed to invest in assets that can be quickly realised (i.e. bought and sold) to allow it to invest or disinvest in each on a daily basis, recognising that managing cash flow is important.

### Review of Statement of Investment Principles

- 5.16 The Trustee's investment policies described in this Statement comply with the relevant legislation and are reviewed each year. This Statement will be reviewed at least every three years or without delay when a significant change to investment strategy or policy is made. This statement is published on the Cheviot website.

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<sup>8</sup> <https://www.vanlanschotkempen.com/-/media/files/documents/investment-management/compliance-documents/im-statement-of-conflicts>



Signed on behalf of the Cheviot Trustees Limited:

**SIR DEREK MORRIS**

Sir Derek Morris, Chair.

Date: 18/09/2024



## Appendix

### Asset Allocation and Ranges

The chart below shows the long term allocation between the Matching and Investment Fund. This may change from time to time in light of market conditions and funding levels, without updating this Appendix.

<b>Funds</b>	<b>Strategic Asset Allocation (%)</b>
Matching Fund	40-60%
Investment Fund	40-60%
Total	100%

The Matching Fund is invested in assets which match interest and inflation rate exposure.

The central asset allocation and ranges for the **Investment Fund** of the With Profits Section are shown below and may change from time to time. The asset allocation is reviewed monthly.

<b>Asset Class</b>	<b>Minimum</b>	<b>Maximum</b>
Total Equity*	15.0%	70.0%
Other Bonds (higher yielding)	0.0%	50.0%
Investment Grade Bonds	0.0%	50.0%
Alternative assets	0.0%	30.0%
Gilts	0.0%	50.0%
Cash	0.0%	50.0%