STATEMENT OF INVESTMENT PRINCIPLES

Church of Scotland Pension Scheme for Staff 'the Scheme'

February 2024

Church of Scotland

Background

The employers are the Social Care Council (CrossReach) and the Central Services Committee of the Church of Scotland.

1. Introduction

This document constitutes the Statement of Investment Principles for the Scheme. It has been prepared by the Trustees of the Scheme, having considered advice from the investment adviser and the scheme actuary. It has been prepared in accordance with section 35 of the Pensions Act 1995 and associated regulations and it is reviewed each year or after any significant change in investment policy.

2. Objectives

The Trustees are responsible for the stewardship of the Scheme's assets. Their main objectives are to ensure that:

- All beneficiaries receive the benefits to which they are entitled under the rules of the Scheme
- There are sufficient assets to meet the Scheme's liabilities as they fall due.

The Trustees aim to be fully funded at all times on a prudent actuarial basis which allows them to run a low risk investment policy with limited call on the employers for additional deficit reduction contributions. They have consulted with the employers in setting these objectives.

3. Investment policy

The Trustees set investment policy. They consult with the employers and take advice from their scheme actuary and investment adviser. The investment policy is kept under review and updated (when necessary) following each actuarial valuation or significant change in circumstances.

The Trustees delegate responsibility for developing and implementing investment policy to the Investment and Funding Sub-Group (IFSG). The IFSGIFSG appoints, monitors the performance of, and removes investment managers. It sets and oversees asset allocation policy and directs how cash flow requirements are met from the different asset types, adjusting the Scheme's assets, as necessary. The IFSGIFSG monitors, reviews and recommends changes to the Trustees' policies in respect of investment, corporate governance, ethical and socially responsible investment and engagement.

4. Investment strategy

In setting the investment strategy, the Trustees take account of the employers' stated willingness to underwrite the liabilities of the Scheme, together with the guarantee approved by the General Assembly of the Church of Scotland. The Trustees monitor the covenant of the Church of Scotland on a continuous basis to assess its ability to support the Scheme in the event of unplanned investment experience, or another adverse outcome.

The value of the assets in each Section of the Scheme is greater than the value of the liabilities discounted using the appropriate UK government bond yield for the duration of each cash payment. The Trustees invest around 88% of the fund assets in 'matching assets' where the expected cashflow matches expected payments from the fund. The remaining 12% of the fund assets are invested in 'growth assets' with the aim of achieving an overall return of 0.3% per annum above the discounted value of each sub-fund's liabilities at the lowest risk possible.

5. Investment management

The IFSG carries out the selection and monitoring of investment managers taking investment advice, as appropriate. The IFSG delegates day to day investment decisions to suitably qualified independent investment managers, who are required to comply with this statement. Their activities are defined and constrained by management agreements. Investment managers have discretion to buy and sell investments within the terms of their agreements.

To aid diversification of the growth assets the IFSG employs investment managers with varying investment remits and styles. Investment Manager performance is reported and reviewed quarterly, with face to face meetings whenever required. Fees are charged as a proportion of the assets under management and are negotiated individually when an investment manager is appointed and kept under review. The IFSG takes advice to ensure that fees are competitive and commensurate with the services provided.

6. Choosing Investments

The Trustees invest in a mix of matching and return seeking growth assets, balancing expected returns against volatility in the funding level. The matching assets reduce volatility in the funding level and the call on further contributions from the employers. Within the matching assets leverage is made to help neutralise the impact on changes in the value of the liabilities while leaving scope for potential excess returns from the allocation to return seeking growth assets. Growth assets are chosen to seek return above the matching assets using investment manager skill and market risk.

The Trustees exercise their powers of investment to ensure the security, quality, liquidity and appropriateness of the portfolio as a whole and to avoid any undue concentration of risk. This diversification is both within, and across, the major growth asset classes. The Trustees and the IFSG consider new areas of investment and take advice to decide whether they are appropriate.

7. Arrangements with investment managers

The IFSG regularly monitor the Scheme's investments to consider the extent to which the investment strategy and decisions of the investment managers are aligned with the Trustees' policies, including those on non-financial matters. This includes monitoring the extent to which investment managers assess medium- to long-term financial and non-financial performance of an issuer of debt or equity and engage with issuers of debt or equity to improve their performance in the medium- to long-term.

The IFSG receive quarterly updates from their appointed investment adviser on the investment strategy, performance, and longer-term positioning of the Scheme's assets. The Trustees focus on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Scheme's objectives, and assessment of the appointed investment managers.

The Trustees will express their expectations to the investment managers by various means (including verbally at IFSG meetings) and believe this approach incentivises the investment managers to make decisions that align with the Trustees’ policies and the managers are assessed on medium and long-term financial performance. If the IFSG considers that decisions made by investment managers are not in line with the Trustees’ policies, expectations, or the other considerations set out above, the IFSG will typically first engage with the manager, but could ultimately replace the investment manager where this is deemed necessary.

There is no set duration for arrangements with investment managers, although the continued appointment for each investment manager will be reviewed periodically, and at least every three years.

8. Safe keeping of assets

The Trustees invest in collective funds which give a right to the cash value of the units rather than to ownership of the underlying assets. The investment managers of the funds are responsible for the appointment and monitoring of the custodian of the fund's assets.

9. The balance between different types of investment

Asset allocation is driven by the specific characteristics of the fund, including its demography, the pattern of liabilities, the funding level and the risk tolerance of the Trustees and the employers. The strategic asset allocation and the methodology used to set it is reviewed periodically to ensure that the framework and any changes to the strategic asset allocation are appropriate.

10. Sale of investments

The Scheme is now closed to new members and is maturing. This means the Scheme has negative cash flow. The Trustees direct which investments are to be sold, adjusting the Scheme’s assets from time to time to keep them in line with the strategic asset allocation. All the assets of the Scheme are readily marketable.

11. Risk

The Trustees adopt an Integrated Risk Management approach, as set out by the Pensions Regulator in December 2015. This summarises the approach taken to quantify and manage all types of risk, including investment risk and others which impact on investment decision making.

The Trustees recognise the Scheme’s assets are exposed to investment and operational risks. They consider these risks when deciding investment policy, strategic asset allocation, the investment manager structure, the terms of their agreements and other aspects of the ongoing management of the Scheme.

The quality of the sponsor’s covenant is an integral consideration in determining the amount and nature of risk that is appropriate for the Scheme to take. It is kept under review.

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Risks to the Scheme are captured and monitored in a series of risk reports, a process managed and overseen by the Trustees' Risk Sub-Group. A variety of steps are taken by the Trustees to measure these risks. The risk of investment manager underperformance is assessed by meeting and questioning the investment manager; reviewing written quarterly reports from each investment manager; comparing investment manager risk and return performance measures with those of a peer group.

12. Environmental, Social and Governance (ESG) matters

In setting the Scheme's investment strategy, the Trustees' primary concern is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. These include the risk that environmental, social and governance (ESG) factors including climate change negatively impact the value of investments held if not understood and evaluated properly.

The IFSG considers this risk by receiving regular reports from its investment managers on the action they are taking concerning ESG matters and by taking advice from their investment consultant when setting the Scheme's asset allocation, when selecting managers and when monitoring their performance.

The Trustees' policy is for the pooled investment funds, and the underlying investment managers they select going forward, to have the highest ESG rating available for the asset class they are looking to invest in, as determined by the Trustees' Investment Adviser. However, there may be exceptional circumstances where the Trustees believe this would compromise the return they are seeking against the inherent risk of the asset class they are looking to invest in. The Trustees may also consider going further and investing in explicitly sustainable approaches as the sector evolves and more funds become available.

The Trustees reflect their consideration of ESG matters by investing in two sustainable diversified growth funds. These funds are awarded a Sustainable designation by the investment adviser and the Trustees received investment advice to assess the suitability of transferring its other multi-asset funds, to the two sustainable funds. The Trustees will continue to seek advice from the Investment Adviser on the extent to which its views on ESG and climate change risks may be taken into account in any future investment manager selection exercises.

13. Stewardship matters

The Scheme makes it investments via pooled funds and the Trustees acknowledge that they cannot directly influence the policies and practices of the companies in which the pooled funds invest. They have therefore delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the investment managers.

In order to ensure sufficient oversight of the engagement and voting practices of their managers, the Trustees may periodically meet with their investment managers to discuss the engagement which has taken place. The Trustees will also expect their investment adviser to engage with the managers from time to time as needed and report back to the Trustees on the stewardship credentials of their managers. The Trustees will then discuss the findings with the investment adviser, in the context of their own preferences, where relevant. This will include considering whether the manager is a signatory to the UK Stewardship Code. The

Trustees recognise the Code as an indication of a manager's compliance with best practice stewardship standards.

The Trustees encourage the investment managers to engage with investee companies and vote whenever it is practical to do so on financially material matters such as strategy, capital structure, conflicts of interest policies, risks, social and environmental impact and corporate governance as part of their decision-making processes. The Trustees require the investment managers to report on significant votes made with the pooled fund investments on behalf of the Trustees. The IFSG will engage with the investment managers to ensure that robust active ownership behaviours, reflective of the Trustees' active ownership policies, are being actioned.

Where appropriate, the IFSG receives an annual stewardship report on the monitoring and engagement activities carried out by each investment manager, which supports the Trustees in determining the extent to which the Scheme's engagement policy has been followed throughout the year. The Trustees expect the investment managers to engage with investee companies with the aim to protect and enhance the value of assets and to exercise the Trustees' voting rights in relation to the Scheme's assets.

14. Members' views and non-financial factors

In setting and implementing the Scheme's investment strategy the Trustees do not explicitly take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as 'non-financial factors'). However, where members share their views with the Trustees, these will be considered by the Trustees and the IFSG as appropriate.

15. Cost monitoring

The Trustees evaluate the performance of their investment managers relative to their respective objectives on a regular basis via investment reports and updates from the investment managers. The Trustees also review the remuneration of the Fund's investment managers on at least a triennial basis to ensure that these costs are reasonable. The Trustees review the actual and targeted portfolio turnover from their investment managers on an annual basis.

16. Effective decision making

The Trustees recognise that decisions should be taken only by persons or organisations with the skills, information, and resources necessary to take them effectively. They also recognise that where they take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.

The Trustees believe that given the scale of the Scheme that a separate IFSG is appropriate. Therefore, all investment decisions are discussed by the IFSG with assistance from the Scheme's investment advisor, where appropriate, before decisions are taken by the IFSG where appropriate, or otherwise by the Trustees.

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17. Additional Voluntary Contributions (AVCs)

Members of the Scheme may have paid AVCs, in accordance with separate provisions published by the Trustees. The funds in which members can choose to invest their AVCs are reviewed regularly, to ensure that they are professionally managed and represent good value. The Trustees have the right to vary the arrangements and take advice from their investment adviser in doing so.

The liabilities in respect of AVCs are equal to the value of the investments bought by the contributions.