

STATEMENT OF INVESTMENT PRINCIPLES

THE SOLICITORS' LAW STATIONERY SOCIETY LIMITED PENSION SCHEME

SEPTEMBER 2020

1. Introduction

This document is the "Statement of Investment Principles" (SIP) for The Solicitors' Law Stationery Society Limited Pension Scheme (the Scheme). Under current legislation the Scheme is exempt from preparing a SIP, but the Trustee intention is to describe the governing decisions about investment matters, as they impact on the Scheme. The SIP has been produced broadly in accordance with the requirements of Section 35 of the Pensions Act 1995, Section 244 of the Pensions Act 2004 and the Occupational Pension Scheme (Investment) Regulations 2005, as amended.

The arrangement is a Defined Benefit Occupational Pension Scheme and includes additional voluntary contribution policies. The Scheme was closed with no further accrual with effect from 31st August 2004. The Scheme was contracted out of the State Earning Related Pension Scheme.

The sponsoring employer became insolvent in May 2020, and so the Trustees of the Scheme have amended the investment strategy to take into account the new circumstances of the Scheme.

2. Preparation and review of the SIP

Before preparing this SIP, the Trustee has consulted with the Employer.

The Trustee is responsible for the investment strategy of the Scheme and has obtained written investment advice from their Investment Adviser, XPS Investment. The Trustee believes that XPS Investment has suitable knowledge, qualifications and experience to offer this investment advice and otherwise fulfils the legislative requirements to be able to offer financial advice.

The Trustee has considered when to take advice, the circumstances of that advice, the types of investment to be held and when to seek further investment advice.

This document was prepared with an effective date of 30 September 2020 and may be reviewed no later than the earlier of 30th September 2023 or immediately after a significant change in the Scheme's investment policy.

The Trustee is aware of the penalties for failing to comply with the Pension Act 1995, the Pensions Act 2004 and subsequent regulations. There is however no statutory requirement to produce a SIP for the Scheme.

3. Scheme Objectives

The Scheme objective is the security of rights and expectations of the members in order to provide the benefits due.

The Trustee will use prudent assumptions to ensure the Scheme is appropriately funded. Where an actuarial valuation shows a deficit, a recovery plan is put in place, taking into account the financial wellbeing of the Employer.

4. Investment Objective

The Trustee investment objective is to invest the assets to meet the Scheme liabilities. The estimated liabilities consist of a series of projected cash flows calculated on assumptions contained within the actuarial valuation.

The Trustee has an investment policy that aims to match the interest rate and inflation sensitivity of the liability cashflows, given that there is no longer any sponsor contributions likely to be made to the Scheme.

The Trustee has chosen investments that they believe will achieve this objective, whilst maintaining an appropriate degree of risk and diversification in the Scheme.

5. Strategic Asset Allocation

The Trustee acknowledges that when setting the strategic asset allocation there may be significant investment risk. These risks are considered constantly. The Trustee takes appropriate investment advice and reviews the existing investment strategy when required.

The Trustee considers the Employer covenant when setting the strategic asset allocation. The Employer covenant is effectively non-existent following the insolvency event and so the Trustee has borne this in mind when setting the strategic allocation. The Trustee may reconsider the suitability of the Scheme's existing investment strategy at any time.

The Trustee monitors the risks associated with the underlying fund managers on a regular basis in conjunction with the investment reports it receives.

The Trustee understands the investment risk in meeting the Scheme's objectives will arise from the chosen asset allocation. The Trustee retains the responsibility for selecting the asset allocation after consulting with the Employer and taking advice from PPI.

Based on the structure set out in section 7, the Trustee considers the arrangements with the Investment Managers to be aligned with the Scheme's overall strategic objectives. Details of each specific mandate are set out in the pooled fund documentation with Mobius Life.

The amounts allocated to any individual category or security will be influenced by the overall benchmark and objectives, varied through the Investment Managers' tactical asset allocation preferences at any time, within any scope given to them through any asset allocation parameters or guidelines set by the Trustee or governing the pooled funds in which the Scheme is invested.

The Trustee will ensure that the Scheme's assets are invested in regulated markets to maximise their security.

Investment Managers are incentivised to perform in line with expectations for their specific mandate because their continued involvement as Investment Managers as part of the Scheme's investment strategy – and hence the fees they receive – is dependent upon them doing so. They are therefore subject to performance monitoring and reviews based on a number of factors linked to the Trustee's expectations.

The Trustee encourages Investment Managers to make decisions in the long-term interests of the Scheme. The Trustee expects engagement with management of the underlying issuers of debt or equity and the exercising of voting rights in line with the investment mandate guidelines provided.

This expectation is based on the belief that such engagement can be expected to help Investment Managers to mitigate risk and improve long term returns.

As covered in more detail in this document, the Trustee also requires the Investment Managers to take ESG factors and climate change risks into consideration within their decision making as the Trustee believes these factors could have a material financial impact in the long-term. The Trustee therefore makes decisions about the retention of Investment Managers, accordingly.

The Trustee has decided that a diverse investment approach using pooled funds is appropriate considering the size of the Scheme. The Trustee will regularly review this decision. Within the range of pooled funds used the day to day investment management is delegated to fund managers to ensure the security, liquidity and quality of the portfolio. The Trustee will select and review the performance of the fund managers against their specific benchmarks on the advice of XPS Investment. The fund managers are responsible for the appointment and monitoring of the custodian of the pooled fund assets.

The Trustee requires the Investment Manager to report on actual portfolio turnover at least annually, including details of the costs associated with turnover, how turnover compares with the range that the Investment Manager expects and the reasons for any divergence.

Appointments of Investment Managers have been made through an investment platform investing in liquid funds, given that there is the potential that the assets will need to be disinvested to fund an insurance company buy-out in the near future.

The Trustee will receive, and consider, regular performance monitoring reports from the Investment Manager.

This monitoring helps to determine an Investment Manager's ongoing role in implementing the investment strategy. If there are concerns, the Trustee may carry out a more in depth review of a particular Investment Manager. Investment Managers will also attend Trustee meetings as requested.

The Investment Adviser has also carried out a review of how well the Trustee's guidelines in relation to ESG factors are incorporated into each Investment Manager's processes and the Trustee will re-assess progress on ESG issues periodically.

6. Investment Policy

The Trustee policy is to achieve the investment objective by investing in a portfolio of assets that best matches, on a pragmatic basis, the interest rate and inflation sensitivity of the liability cashflows.

The Trustee believes there may be periods when equity, property and credit underperform UK government bonds and given the lack of sponsor covenant, is no longer prepared to accept this risk.

The investment strategy is implemented by delegating the day to day management of assets to the specialist investment managers. The Trustee may employ more than one investment manager to limit the risk of underperformance.

To minimise underlying fund management costs the Trustee is inclined to use passively managed (index tracking) funds.

For fixed interest assets the Trustee will use passive funds combined, where appropriate, with active managers to access their skill in the credit arena, with a focus on low turnover, buy and maintain mandates for corporate bond assets.

There will be enough investments in liquid and readily realisable assets to meet expected and occasional unexpected cash flow requirements in all foreseeable circumstances.

7. Existing Asset Allocation

The Scheme investments are held on the Mobius Platform. The underlying funds invest in various asset classes within pooled funds. The purpose of diversification is to limit excessive reliance on any one particular asset. The Scheme strategic asset allocation is driven by the financial characteristics of the Scheme such as:

- The duration of the liabilities
- The sensitivity of value of the liabilities to future inflation and interest rates
- The risk tolerance of the Trustee and the Employer
- The overall investment benchmark and asset spread

As a result of the current investment review the asset classes of the underlying Trustee investments will be held in the following approximate proportions:

Asset Class	Allocation	Benchmark Index
Over 15 year UK Gilts	17	FTSE Over 15 year gilt index
Over 5 year UK Index-linked Gilts	45	FTSE Over 5 year index-linked gilt index
Over 15 Year UK corporate bonds (AAA-AA-A)	10	Markit iBoxx Sterling non gilt (ex BBB) over 15 year index
UK "buy and maintain" bonds	25	n/a
Cash	3	
Total	100	

The cash holding was set at £500,000 in October 2020 and will be used for expenses and any benefit payments in the near term.

Note that the Asset allocation, and the cash levels will not be rebalanced, but will be reviewed regularly by the Trustees

The Trustee believes that these proportions will be broadly stable although some variation is expected due to relative change in asset values and cash flow.

8. Investment Risk

Prior to deciding reduce the investment risk relative to the liabilities, the Trustee has reviewed the most recent actuarial comments within the actuarial valuation report regarding key risks and uncertainties that could affect the funding position. The Trustee has also received advice from XPS Investment.

The Trustee reviews the Scheme investment performance on a regular basis, taking advice from XPS Investment. The Trustee is aware of the benchmarks for the underlying funds and believe collectively they are suitable to meet the Trustee's objective in maintaining a suitable level of risk within the Scheme. If the Trustee identifies any significant issues relating to the performance or other risk management matters, they will seek further advice from their adviser.

The Trustee does not hold any investments in the Employer and does not intend to make any such investments.

9. Expected Rate of Return

The Trustee believes that fixed interest investments may provide a return that is likely to be both lower and more stable than the other asset classes. Although a lower return is expected, the fixed interest holdings may reduce the level of overall volatility of the Scheme relative to the funding standard. The following asset classes are measured against their relevant benchmarks.

Asset Class	Benchmark
Corporate Bonds	Aggregated Corporate Bond Index
Gilt Funds	FTSE Actuary Conventional Over 15 Year Gilts Index
Index-Linked Gilts	FTSE Actuary Over 5 Years Index-Linked Index

10. Realisation of Investments

The Scheme investments are held in unitised funds with leading institutional investment managers. Accordingly, the Trustee is comfortable that due to the liquidity of these funds and their underlying investments, the units can be realised when required. There is a documented procedure between the Trustee, Royal London and Mobius Life, as operator of the investment platform, that states that only authorised signatories can realise investments.

11. Ethical, Environmental, Social and Governance (ESG) Investment Considerations

The Trustee believes that companies with good stewardship and governance could help to build sustainable business models and are beneficial to society. The Trustee also appreciates sustainable investing extends to “inclusion and diversity”. The Trustee and their adviser will seek pooled fund managers that hold an ESG culture without creating a prejudicial financial impact to the Scheme. The Trustee does review and will continue to review from time to time the policies operated by each fund manager in respect of corporate governance, environmental, social governance, ethical and diversity issues.

With specific regard to climate change impact the Trustee is monitoring the actions of their investment managers and may consider the suitability of their market capitalisation approach to indices. Generally, over time, the Trustee expects to reduce the overall equity risk content of the portfolio.

12. Voting Rights

As the Plan no longer invests in assets with attaching voting rights, the Trustee no longer requires a policy in this area.

12. Fees

Fund manager remuneration is considered as part of the manager selection process. It is also monitored regularly with the help of the Investment Adviser to ensure it is in line with the Trustee’s policies and with fee levels deemed by the Investment Adviser to be appropriate for the particular asset class and fund type.

13. Representations

The Trustee invests money on behalf of the members of the Scheme and after consultation with the Employer. The Trustee welcomes comment from the members on matters of governance decisions. Contact information is provided in the Annual Report and Financial Statements produced by the Trustee.

September 2020