Schroders

STATEMENT OF INVESTMENT PRINCIPLES (SIP) The Welding Institute Pension & Life Assurance Scheme

September 2023

1. Introduction

This statement sets out the principles governing decisions about the investment of the assets of The Welding Institute Pension & Life Assurance Scheme ('the Scheme'). The Trustees of the Scheme ('the Trustees') issue this statement to comply with the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005.

This statement will be will be reviewed at least once every three years or after any significant change in investment policy.

Before preparing this statement, the Trustees have:

- obtained and considered the written advice of a person who is reasonably believed by the Trustees to have the appropriate knowledge and experience of financial matters and investment management; and
- consulted the employer in relation to the Scheme.

This statement sets out the overriding principles governing how decisions about investments must be made.

2. Investment objectives

The Trustees' main objectives with regard to investment policy are as follows:

- to hold sufficient assets to meet the liabilities of the Scheme; and
- to ensure that sufficient liquid assets are available to meet benefit payments as they fall due.

3. Policy on choosing investments

The policy on choosing investments is as follows:

- the nature of the liabilities of the Scheme are considered in setting the Scheme's strategic asset allocation. This includes consideration of interest rates, inflation, mortality and other financial and demographic factors.
- the Trustees' funding objectives are considered. To meet these objectives the Trustees have set an investment return target, an allocation to Growth and Matching assets and a target liability coverage, which in their opinion is consistent with their funding objectives and risk appetite.
- the Scheme's funding objective, investment return target and target liability coverage form part of the Trustees' investment policy. The implementation of the investment policy is delegated to a fiduciary manager.
- the Scheme's strategic asset allocation is split into Matching Assets and Growth Assets.
  - **Matching Assets**: Comprise assets (including, but not limited to, UK government bond and derivative exposures) which are held with the aim of matching the interest rate and inflation exposures of the Scheme's expected liabilities.
  - **Growth Assets**: The Trustees recognise the benefits of diversification across the Scheme's Growth Assets. Growth Assets comprise assets (including but not limited to, developed and emerging market equities, corporate bonds and alternative assets) that are held with the aim of outperforming the Scheme's liabilities over the medium term.

- in deriving the Scheme’s strategic asset allocation, the Scheme’s fiduciary manager makes use of a set of assumptions about the long-term expected return from the main permitted asset classes. These assumptions are developed by the fiduciary manager based on input from a range of experts including the fiduciary manager’s in-house economics specialists. The assumptions are updated by the fiduciary manager periodically. These can be provided upon request.

4. Risk

The Trustees measure and monitor the ongoing appropriateness of the investment objectives and risks through a combination of:

- Quarterly investment monitoring reports
- Annual reporting on turnover and transaction costs
- Estimates of the progression of the funding level and the impact of market moves on the funding level of the Scheme
- Triennial actuarial valuations
- Strategy reviews undertaken following completion of the actuarial valuation
- Ad-hoc investigations in the event of significant market events or changes to the expected liabilities.

The Trustees recognise a number of risks involved in the investment of the assets including:

- **Interest rate and inflation risk:** the risk that the fair value or future cash flows of the expected liabilities or a financial asset will fluctuate because of changes in market interest rates and expected future inflation rates. The Trustees receives information about the estimated level of interest rate and inflation risk in the strategy on a regular basis. Interest rate and inflation risks are managed using Liability Driven Investment techniques within the Matching Assets.

- **Currency risk:** the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates. This risk is measured and actively managed on an ongoing basis by the Scheme’s fiduciary manager. The majority of the overseas currency exposure in the portfolio is hedged back to Sterling, unless there is expected to be a risk or return benefit to the Scheme from leaving exposures to one or more overseas currencies unhedged.

- **Credit risk:** the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. This risk is measured and actively managed on an ongoing basis by the Scheme’s fiduciary manager. The fiduciary manager seeks to achieve a diversified exposure to a range of growth asset risks including credit risk so that no single risk in the portfolio dominates.

- **Other price risk:** the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). These are measured and managed on an ongoing basis by the

Scheme's fiduciary manager. The Scheme's fiduciary manager seeks to achieve a diversified exposure to a range of growth asset risks so that no single risk in the portfolio dominates.

- **Liquidity risk:** the risk that the Scheme is unable to meet benefit payments as they fall due. This is managed by the fiduciary manager by holding an appropriate level of readily realisable investments. The fiduciary manager is responsible for ensuring that all cashflow needs are met.

- **Concentration risk:** the risk the Scheme fails to spread investment risk, which may be caused by investing in too narrow a range of investments, or investments that are affected by markets in a similar way. The fiduciary manager ensures assets are diversified across a range of investments

- **Fiduciary manager risk:** the risk the fiduciary manager fails to meet its objectives. The Trustees monitor the performance of the portfolio against the investment objective of the Trustees and ensures that the fiduciary manager is suitably qualified and experienced to perform their role.

5. Realisation of investments

The majority of the Scheme's assets are realisable at short notice. Therefore, the Trustees are satisfied that sufficient assets held will be readily realisable to provide cash to meet payments by the Scheme.

In addition, the Trustees are also satisfied that the spread of assets and the fiduciary manager's policies provide adequate diversification of investments.

6. Social, environmental or ethical considerations and climate change

Financially material considerations

The Trustees believe that Environmental, Social and Governance (ESG) related risks, including climate change risks, are financially material and an important component of investment risk. The Trustees believe that organisations that soundly manage ESG related risks are more likely to be financially sustainable over time, and therefore deliver better long-term risk adjusted returns.

Environmental factors include climate change and resource management, especially water, scarcity, and waste treatment practices. The Trustees recognise that climate change is a key environmental challenge that poses both risks and opportunities. These may take the form of rising physical losses from extreme weather in the short term, the medium-term impacts from the implementation of climate change policies, and the longer-term impacts if global temperature rises are not limited.

Social factors include diversity, human capital management, health and safety, customer and supplier relationships, and interactions with local communities, regulators and governments. Organisations must recognise that they operate under a social licence, and that relationships with stakeholders should reflect these obligations.

Governance factors include business ethics, transparency of company management and reporting, executive remuneration and board structures. Well-governed organisations typically face lower levels of ESG risk as a result of a strong governance culture and appropriate policies and procedures, enabling them to deliver sustainable long-term returns.

The Trustees require the fiduciary manager to integrate analysis of relevant ESG issues into their investment decision making processes. The Trustees monitor how the fiduciary manager takes ESG issues into account in practice on a regular basis, through the quarterly investment monitoring reports.

Non-financial matters

The Trustees do not take into account non-financially material ESG considerations in the management of their investments.

7. Stewardship, voting and engagement activities

The Scheme's investments are generally made via pooled investment funds. As such, direct control of the process of engaging with the companies that issue these securities is delegated to the underlying managers.

The Trustees haves delegated responsibility for monitoring and voting on decisions relating to their underlying manager holdings to the Investment Manager. This includes instructing the fiduciary manager to exercise their voting and other rights as shareholders in a manner the fiduciary manager believes to be consistent with best practice in relation to Corporate Governance and in accordance with the Institutional Shareholders' Committee's ("ISC") Statement of Principles on the Responsibilities of Institutional Shareholders and Agents.

The Trustees do not have their own voting and engagement policy, but they have responsibility for the voting and engagement policies that the fiduciary manager implements on their behalf.

The Trustees undertake the engagement directly with their fiduciary manager who have discretion to appoint underlying managers to carry out engagement with investee companies directly. The fiduciary manager set out its voting and engagement priorities which focus on six themes as set out below.

Engagement theme	Engagement rationale / objective
Climate	Companies urgently need to transform the economy to avoid the most catastrophic effects of climate change on people and the planet, and adapt to future temperature rises.
Corporate Governance	Strong governance policies and practices ensure that businesses act in the best interest of shareholders and other key stakeholders in order to drive long term sustainable value creation.
Human Capital Management	People in an organisation are a significant source of competitive advantage. Effective human capital management is essential to drive innovation and long term value creation.
Human Rights	Businesses involved in human rights controversies could face higher operational and financial risks, and could suffer damages to their reputation. Respect for human rights is also an important foundation in building resilient supply chains and forging business stability.

Inclusion and Diversity	Diversity across multiple dimensions brings a valuable range of outlooks and opinions, and when paired with an inclusive culture, can lead to higher quality work, better decision making and problem solving, and greater team satisfaction.
Natural Capital and Biodiversity	Natural capital and biodiversity loss could mean businesses, banks and investors face increased insurance risks, higher costs of capital and a loss of investment opportunities. Furthermore, regulatory and policy pressures could have direct revenue impacts.

The Trustees have aligned their engagement priorities with the fiduciary manager's. The Trustees believe those engagement priorities which have been chosen by the fiduciary manager will result in better management of financially-material ESG and climate risks, therefore it is expected to improve the financial outcome of the Scheme which ultimately is in the members' and beneficiaries' best interest.

The Trustees oversee their fiduciary manager's voting and engagement activities to ensure compliance with this requirement. Reporting on the fiduciary manager's voting and engagement activities and how these activities have had a bearing on the purchase, retention and sale of investments is included in the quarterly investment monitoring reports.

The Trustees prepare an Implementation Statement along with their Report and Accounts which describes their voting and engagement policies and their voting behaviour.

8. Arrangements with asset managers

The Trustees incentivise the fiduciary manager's alignment with their policies relating to sections 3, 4, 5 and 6 using the reporting and activities listed under section 4 to oversee the fiduciary manager's execution of its mandate; should the Trustees believe that the fiduciary manager is not aligned with their policies they will consider making changes to the fiduciary manager's mandate as necessary.

The Trustees remunerate the fiduciary manager on a percentage of the assets under management, and will keep the rates under review. The Trustees do not have any fee arrangements in place with the fiduciary manager that incentivise it to deviate from the Trustees' policies (such as performance fees that reward positions taken in the market without regard to the environmental, social and governance considerations referred to in section 6). Rather, the fee arrangements are consistent with, and therefore incentivise alignment with, those policies by encouraging the preservation of capital and risk-managed returns over an extended time horizon.

The Trustees review the annual portfolio turnover and the associated costs incurred by their fiduciary manager against its targeted portfolio turnover or expected turnover range. Targeted portfolio turnover is defined as the expected level of asset sales and purchases in the portfolio based on recent historical experience and expected turnover range is similarly defined as the minimum and maximum frequency of such transactions based on recent historical experience.

The fiduciary manager was appointed by the Trustees in May 2018.

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Signed for and on behalf of the Trustees of the Scheme:

.... Name (Print)

.... Signature

.... Date

.... Name (Print)

.... Signature

.... Date