

**Labour Party Superannuation Society ("The Society")  
Statement of Investment Principles ("SIP")**

**1. Introduction**

The Trustee has drawn up this SIP to comply with the requirements of the Pensions Act 1995 ("the Act"). As required under the Act, the Trustee has consulted a suitably qualified person. The Trustee, in preparing this SIP, has also consulted the Labour Party (the "Principal Employer")

Overall investment policy falls into two parts. The strategic management of the assets is fundamentally the responsibility of the Trustee acting on advice from its investment consultants, Aon Investments Limited ("AIL") and is driven by its investment objectives as set out below. The remaining elements of the policy are part of the day-to-day management of the assets which is delegated to a professional fiduciary investment provider, Aon Investments Limited ("AIL").

**2. Decision Making Structure**

**2.1 Setting Investment Objectives**

The Trustee is responsible for identifying appropriate investment objectives, under guidance from its advisers.

**2.2 Delegation**

The Trustee has delegated certain decision making powers to AIL. The Trustee has taken advice from AIL regarding the suitability of AIL in this capacity, and recognises that there exists a conflict of interest in taking this advice.

**3. Investment Objectives, Risk and Investment Strategy**

**3.1 Investment Objectives**

In setting the Society's investment strategy, the Trustee's primary concern is to act in the best financial interests of the Society and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk.

**3.2 Risk**

The Trustee recognises that the key risk to the Society is that it has insufficient assets to make provision for 100% of its liabilities ("funding risk"). The Trustee has identified a number of risks which have the potential to cause deterioration in the Society's funding level and therefore contribute to funding risk. These are as follows:

- The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors ("mismatching risk"). The Trustee and its advisers considered this mismatching risk when setting the investment strategy and have specifically structured the Society's assets so as to minimise this risk as far as is practical.
- The risk of a shortfall of liquid assets relative to the Society's immediate liabilities ("cash flow risk"). The Trustee and its advisers will manage the Society's cash flows taking into account the timing of future payments in order to minimise the probability that this occurs.
- The failure by AIL to achieve the rate of investment return assumed by the Trustee ("manager risk"). This risk is considered by the Trustee and AIL both upon the initial appointment and on an ongoing basis thereafter.
- The failure to spread investment risk ("risk of lack of diversification"). The Trustee and its advisers considered this risk when setting the Society's investment strategy.

- The possibility of failure of the Society’s Sponsoring Employer (“covenant risk”). The Trustee and its advisers considered this risk when setting investment strategy and consulted with the Sponsoring Employer as to the suitability of the proposed strategy.
- The risk of fraud, poor advice or acts of negligence (“operational risk”). The Trustee has sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.

Due to the complex and interrelated nature of these risks, the Trustee considers the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review (normally triennially). Some of these risks may also be modelled explicitly during the course of such reviews.

Having set an investment objective which relates directly to the Society’s liabilities, the Trustee’s policy is to monitor, where possible, these risks quarterly/periodically. The Trustee receives quarterly reports showing:

- Progress of the estimated funding level over the quarter.
- Performance versus the expected growth in the Society’s liabilities.
- Any significant issues that may impact AIL’s ability to meet the performance target set by the Trustee.

### **3.3 INVESTMENT STRATEGY**

The investment objective is to outperform the Liability Benchmark by 2.0% per annum (net of fees) over rolling three year periods and to hedge 100% (as a proportion of assets) of the interest rate and inflation risk. This is achieved by holding risk-reducing “matching” investments (designed specifically to hedge the interest rate and inflation exposure of the Society’s liabilities) with the balance in a diversified portfolio of “growth” investments (designed to deliver sufficient investment returns to improve the funding position over time).

## **4 MANAGEMENT OF THE ASSETS**

### **4.1 Asset Guidelines**

AIL will manage the assets with regard to the:

- need for diversification of investments, so far as appropriate to the circumstances of the Society; and to the
- suitability to the Society of both the asset classes proposed and also the particular assets proposed within those classes.

The underlying exposure to assets will be properly diversified in such a way as to avoid excessive reliance on any particular asset, issuer and so as to avoid accumulation of risk in the portfolio as a whole. AIL may use pooled vehicles to help with diversification.

Investments in derivative instruments are permitted if they:

- contribute to a reduction of risks; or
- facilitate efficient portfolio management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk), and any such investments must be made and managed so as to avoid excessive risk exposure to a single counterparty and to other derivative operations.

With few exceptions, the Trustee or fund managers must not borrow money or act as guarantor for the purpose of providing liquidity (unless it is temporary).

A full triennial valuation of the Society will be performed, using asset return assumptions developed by the Scheme Actuary. The Trustee will reconsider the investment objective of the Society in the light of this valuation and at other times, as deemed necessary.

#### **4.2 Inflation and Interest Rate Hedging**

The target strategic hedge ratio for inflation and interest rates is 100% of the assets.

#### **4.3 Rebalancing Policy**

AIL will regularly review the asset allocation and will rebalance the portfolio if the allocation is no longer consistent with the investment objective.

#### **4.4 Manager Monitoring**

Whilst the Trustee is not involved in AIL's day to day method of operation and so cannot directly influence attainment of the performance target, it will assess performance and review the appointment. Measurable objectives have been developed for this purpose consistent with the Society's longer term objectives and an acceptable level of risk.

These investment objectives will be treated as a target only and will not be considered as an assurance or guarantee of the performance or risk of the Society or any part of it.

The appointment of AIL will be reviewed by the Trustee based on the results of their monitoring of performance and investment process and of the manager's compliance with the requirements of the Act. AIL has been provided with a copy of this SIP and the Trustee will monitor the extent to which they give effect to the investment principles set out in it. The Trustee will provide AIL with any material amendment to or replacement of this SIP.

#### **4.5 Fee and Cost Transparency**

AIL is paid on an ad valorem basis. This structure has been chosen to align the interests of AIL with those of the Society.

The Trustee is aware of the importance of monitoring its asset managers' total costs and the impact these costs can have on the overall value of the Society's assets. The Trustee recognises that in addition to annual management charges, there are other costs incurred by asset managers that can increase the overall cost incurred.

The Trustee expects to receive annual cost transparency reports from AIL. These reports present information in line with prevailing regulatory requirements for fiduciary managers. They clearly set out on an itemised basis:

- The total amount of investment costs incurred by the Society;
- The fees paid to AIL;
- The fees paid to the underlying asset managers appointed by AIL;
- The amount of portfolio turnover costs (transaction costs) incurred by the asset managers appointed by AIL;
  - The Trustee defines portfolio turnover costs as the costs incurred in buying and selling underlying securities held within the funds of the underlying asset managers appointed by AIL;
- Any charges incurred through the use of pooled funds (custody, admin, audit fees etc)

- The impact of costs on the investment return achieved by the Society.

The Trustee acknowledges that portfolio turnover costs are a necessary cost to generate investment returns and that the level of these costs varies across asset classes and manager. AIL monitors the level of portfolio turnover (defined broadly as the amount of purchases plus sales) of all the underlying asset managers appointed on behalf of the Trustee.

The Trustee benefits from the economies of scale provided by AIL in two key cost areas:

- The ability of AIL to negotiate reduced annual management charges with the appointed underlying asset managers;
- The ability of AIL to monitor ongoing investment costs (including additional fund expenses and portfolio turnover) incurred by the underlying asset managers and achieve efficiencies where possible

The Trustee assesses the (net of all costs) performance of AIL on a rolling three-year basis against the Society's specific liability benchmark and investment objective. The remuneration paid to AIL and fees incurred by third parties appointed by the AIL are provided annually by AIL to the Trustee. This cost information is set out alongside the performance of the AIL to provide context. The Trustee monitors these costs and performance trends over time.

#### **4.6 Arrangements with Asset Managers**

The Trustee recognises that the arrangements with AIL, and correspondingly the underlying asset managers, are important to ensure that interests are aligned. In particular, the Trustee seeks to ensure that AIL is incentivised to operate in a manner that generates the best long-term results for the Society and its beneficiaries.

The Trustee receives regular reports and verbal updates from AIL on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustee focuses on longer-term performance when considering the ongoing suitability of the investment strategy and assess AIL over rolling 3-year time periods.

The Trustee also expects to receive annual stewardship reports on the monitoring and engagement activities carried out by AIL, which supports the Trustee in determining the extent to which the Society's engagement policy has been followed throughout the year.

The Trustee shares the policies, as set out in this SIP, with AIL and request that they review and confirm whether their approach is in alignment with the Trustee policies.

The Trustee delegates the ongoing monitoring of underlying asset managers to AIL. AIL monitors the Society's investments to consider the extent to which the investment strategy and decisions of the underlying asset managers are aligned with the investment objectives of the Society.

This includes monitoring the extent to which the underlying asset managers:

- Make decisions based on assessments about 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.

Before appointment of a new fiduciary manager, the Trustee reviews the governing documentation associated with the investment and will consider the extent to which it aligns with Trustee policies. Where possible, the Trustee will seek to amend that documentation or express their expectations (such as through side letters, in writing, or verbally at trustee meetings) so that there is more alignment.

The Trustee relies on appropriate governing documentation, with clear expectations and regular monitoring to ensure AIL make decisions that align with its policies based on assessments of medium- and long-term financial and non-financial factors.

Where AIL is considered to make decisions that are not in line with Trustee policies, expectations, or the other considerations set out above, the Trustee will typically engage with AIL to understand the circumstances and materiality of the decisions made. The Trustee will monitor this through the regular reporting they receive from AIL and a review of AIL which is undertaken annually.

There is typically no set duration for arrangements with AIL although the continued appointment will be reviewed periodically. Similarly, there are no set durations for arrangements with the underlying asset managers that AIL invests in, although this is regularly reviewed as part of the manager research and portfolio management processes in place.

#### **4.7 Custodian**

AIL has appointed custodians for the safe custody of the assets held within its respective pooled funds in which the Society is invested. The custodian is responsible for the safekeeping for all the Society's assets and performs the administrative duties including the collection of interest and dividends and dealing with corporate actions.

#### **4.8 Other Assets**

Assets in respect of members' additional voluntary contributions ("AVCs") are held in a range of investment vehicles with Aegon.

#### **4.9 Choosing Investments**

The Trustee has appointed AIL who are authorised and regulated by the Financial Conduct Authority ("FCA") to undertake investment business. After taking appropriate investment advice, the Trustee has specified the investment objective for AIL. Investment choice has been delegated to AIL.

In this context, investment advice is defined by Section 34 of the Act.

#### **4.10 Responsible investment (including Environmental, Social, and Governance "ESG" considerations)**

The Trustee recognises that ESG factors and climate change could have a financial impact on the Society's investments over the time horizon of the Society if not understood and evaluated properly. The Trustee takes account of these risks by taking advice from its investment adviser when setting the Society's asset allocation, when selecting managers and when monitoring their performance.

The Trustee has appointed AIL to manage the Society's assets. AIL invests in a range of underlying investment vehicles. As part of AIL's management of the Society's assets, the Trustee expects AIL to:

- Where relevant, assess the integration of ESG factors in the investment process of underlying managers;
- Use its influence to engage with underlying managers to ensure the Society's assets are not exposed to undue risk; and
- Report to the Trustee on its ESG activities through quarterly reporting including, where available, Aon's latest ESG ratings for underlying managers and any significant developments

#### **4.11 Stewardship – Voting and Engagement**

The Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Society invests, as ultimately this creates long-term financial value for the Society and its beneficiaries.

The Trustee annually review the stewardship activity of AIL to ensure the Society's stewardship policy is being appropriately implemented in practice. The Trustee expects to receive annual reports on stewardship activity carried out by AIL. These reports include detailed voting and engagement information from underlying asset managers.

As part of AIL's management of the Society's assets, the Trustee expects it to:

- Ensure that (where appropriate) underlying asset managers exercise the Trustee's voting rights in relation to the Society's assets; and
- Report to the Trustee on stewardship activity by underlying asset managers as required.

The Trustee will engage with AIL as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned.

Where possible, the transparency for voting should include voting actions and rationale with relevance to the Society, in particular where: votes were cast against management; votes against management generally were significant; votes were abstained. Where voting is concerned the Trustee would expect underlying asset managers, to recall stock lending, as necessary, in order to carry out voting actions.

The Trustee may engage with AIL, who in turn is able to engage with underlying asset managers, investee company or other stakeholders, on matters including performance, strategy, risks, social and environmental impact, corporate governance, capital structure, and management of actual or potential conflicts of interest. Where a significant concern is identified, the Trustee will consider, on a case by case basis, a range of methods by which they would monitor and engage so as to bring about the best long-term outcomes for the Society.

#### **4.12 Members' Views and Non-Financial Factors**

In setting and implementing the Society's investment strategy the Trustee act for members as a whole. Given the primary fiduciary duty to secure member benefits as well as the significant practical and cost implications the Trustee does not take into account the views of individual members and beneficiaries in relation to non-financial factors.

### **5. Governance**

#### **5.1 Division of Responsibilities**

The Trustee is responsible for the investment of the Society's assets. The Trustee takes some decisions themselves and delegate others. When deciding which decisions to take themselves and which to delegate, the Trustee has taken into account whether they have the appropriate training and expert advice in order to take an informed decision. The Trustee has established the following decision making structure:

##### **Trustee**

- Monitor actual returns versus the Society's investment objective
- Monitor investment advisers (AIL) and fiduciary provider (AIL)
- Make ongoing decisions relevant to the operational principles of the Society's investment strategy (where these decisions have not been delegated)
- Approve this document

<p><b>Investment Adviser (AIL)</b></p> <ul style="list-style-type: none"> <li>▪ Advise on all aspects of the investment of the Society's assets</li> <li>▪ Advise on this SIP</li> <li>▪ Provide required training</li> <li>▪ Advise on the Liability Benchmark used by the Manager</li> <li>▪ Carry out further project work when required</li> </ul>	<p><b>Fiduciary Provider (AIL)</b></p> <ul style="list-style-type: none"> <li>▪ Set the strategy for investing in different asset classes in line with the investment objective</li> <li>▪ Determine strategy for selecting fund managers</li> <li>▪ Implement the investment strategy</li> <li>▪ Select and appoint investment managers</li> <li>▪ Monitor investment managers</li> <li>▪ Adjust asset allocations to reflect medium term market expectations</li> <li>▪ Report on asset performance against the liability benchmark</li> <li>▪ Report on asset returns against objectives</li> <li>▪ Communicate any significant changes to the investment arrangements</li> </ul>
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## 5.2 Direct Investments

The Act distinguishes between investments where the management is delegated to a fund manager with a written contract and those where a product is purchased directly, e.g. the purchase of an insurance policy or units in a pooled vehicle. The latter are known as direct investments.

The Trustee's policy is to review its direct investments and to obtain written advice about them at regular intervals. These include vehicles available for members' AVCs. When deciding whether or not to make any new direct investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the fund managers.

The written advice will consider the issues set out in the Occupational Pension Plans (Investment) Regulations 2005 and the principles contained in this SIP. The regulations require all investments to be considered by the Trustee (or, if more appropriate, the Manager) against the following criteria:

- The best interests of the members and beneficiaries
- Security
- Quality
- Liquidity
- Profitability
- Nature and duration of liabilities
- Tradability on regulated markets
- Diversification
- Use of derivatives

## 5.3 Review of this SIP

The Trustee will review this SIP at least every three years and following any significant change in investment policy. The Trustee will take investment advice and consult with the Principal Employer over any changes to the SIP.

Approved by LPSS Trustee Limited  
7 September 2022