

# STATEMENT OF INVESTMENT PRINCIPLES

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The effective date of this Statement is 7 May 2024.

## 1. Introduction

The purpose of this Statement of Investment Principles (“**Statement**”) is to document the investment policy of the Trustees of the Royal Institution of Chartered Surveyors Pension & Assurance Scheme (the “**Trustees**”) in relation to their management and stewardship of the investment portfolio of the Royal Institution of Chartered Surveyors Pension & Assurance Scheme (the “**Scheme**”).

Regulations require trustees and investment managers to exercise their investment powers in a manner to ensure the security, quality, liquidity and profitability of a scheme’s investments. This includes investing in a manner which considers, and is appropriate to, the nature and duration of the expected future retirement benefits of the scheme; having regard to the need for diversification in the choice of investments for the scheme, making sure that the scheme assets are invested mainly in regulated markets and limiting any investments in the sponsoring employer’s business.

The Trustees are responsible for setting the investment strategy of the Scheme and have delegated the day-to-day management of the Scheme’s assets to the Scheme’s Fiduciary Manager (the “**Fiduciary Manager**”) under an Investment Management Agreement (“**IMA**”).

The Fiduciary Manager is authorised and regulated by the Financial Conduct Authority under the Financial Services and Markets Act 2000.

This Statement has been prepared in accordance with Section 35 of the Pensions Act 1995, as amended by the Pensions Act 2004, and the Occupational Pension Schemes (Investment and Disclosure) Regulations 2019.

## 2. Consultation and Advice

The Trustees are responsible for the investment strategy of the Scheme. They have obtained and considered advice on the investment strategy appropriate for the Scheme and on the preparation of this Statement.

The Trustees have decided to invest the Scheme’s assets in a fiduciary management arrangement. Under this arrangement, the Trustees, following advice from the Fiduciary Manager, set specific funding objectives for the Scheme and investment guidelines, with the Fiduciary Manager providing the day-to-day management of the assets in order to achieve these objectives within the guidelines specified. In addition, the Trustees also employ an independent specialist firm to monitor and assist in regular reviews of the performance and services of the Fiduciary Manager.

The Trustees have consulted the Royal Institution of Chartered Surveyors (the “**Sponsor**”), and the Principal Employer, on this Statement and have taken the Sponsor’s comments into account when appropriate to do so.

A copy of this Statement is available on the internet.

### 3. Objectives

The Trustees' primary objective is to ensure the Scheme is able to pay the benefits which have been promised to its beneficiaries. The Trustees also have a long-term / secondary objective to purchase individual annuity policies to meet the benefits promised to members when it is affordable to do so. Once all benefits are insured the Trustees plan to wind up the Scheme.

The investment objective is set in relation to valuing the liabilities on a low-dependency measure whilst also considering the Scheme's future cashflow requirements. The risk-free measure used to value the liabilities is based on the yields available on fixed-interest and index-linked gilts with an allowance for expenses.

The Trustees' objective is to take an appropriate amount of investment risk over an agreed timeframe, such that the Scheme's investment portfolio increases in value and will eventually equal the low-dependency liability value.

### 4. Investment Strategy

The Trustees have invested the Scheme's investment portfolio in accordance with a Target Return and Target Hedge Ratio. The Scheme's investment portfolio is currently positioned to deliver a Target Return equal to the return on UK Government Gilts plus 1.0% p.a. net of fees. The Target Hedge Ratio has been set equal to the value of the Scheme's liabilities measured on a low-dependency basis of Gilts flat plus an allowance for expenses.

The Target Return and Target Hedge Ratio are achieved by investing in a combination of return-seeking ("**Growth Assets**"), income generating, ("**Income Generating Assets**") and liability matching ("**Hedging Assets**") assets. Further detail on the Scheme's investment strategy is contained in the Appendix.

### 5. Investment Choice

The types of investments held and the balance between them is adjusted as necessary to match the Trustees' objectives.

#### 5.a The types of investments held

The Trustees delegate their powers of investment to the Fiduciary Manager in a manner that is expected to ensure the security, quality, liquidity and profitability of the portfolio as a whole. The assets of the Scheme are invested predominantly in regulated markets (with investments not in regulated markets being kept to a prudent level) and properly diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings so as to avoid accumulations of risk in the portfolio as a whole. The diversification is both within and across major asset classes.

Assets held to cover the Scheme's liabilities are invested in a manner appropriate to the nature and duration of the expected future retirement benefits whilst also recognising the additional return required in order to meet the funding objective.

Investment in derivatives is only made in so far as they contribute to the reduction of investment risks or facilitate efficient portfolio management and are managed such as to avoid excessive risk exposure to a single counterparty or other derivative operations.

#### 5.b The balance between different kinds of investments

The Trustees recognise two key sources of financial risk (in relation to meeting their objectives). Firstly, the risk associated with the agreed level of investment return which the investment portfolio is tasked

with delivering and, secondly, how closely the investment portfolio tracks changes in the liability value on the dynamic buy-out basis.

To this extent, the Trustees have agreed the Target Return and Target (liability) Hedge Ratio with the Fiduciary Manager, and as appropriate will agree how the Target Return and Target Hedge Ratio should evolve over time as actual experience differs from expected experience.

The Trustees have delegated responsibility for managing the underlying investments to the Fiduciary Manager, within the guidelines and constraints set out in the IMA. This allows the asset allocation and underlying investment managers to be adjusted quickly where needed, to best meet the investment objectives of the Scheme.

## **6. Risks**

Regular checks are made as to whether the funding and investment strategy remain on target to achieve the objectives, within acceptable parameters. If not, then corrective action is considered (by adjusting investment policy, or through amendments to the funding arrangements).

The Trustees recognise a number of risks associated with the investment strategy and the implementation of the strategy and monitors these risks in conjunction with the Fiduciary Manager (and other providers) where appropriate.

### **6.a Solvency risk (the risk of not achieving the funding target in the time frame desired)**

Measured through a qualitative and quantitative assessment of the current and future investment portfolios relative to the Scheme's liabilities.

The Fiduciary Manager monitors the Scheme's assets relative to the dynamic buy-out liability measure on a daily basis. It prepares a written report for the Trustees every quarter detailing changes over the quarter and any actions taken.

The Scheme Actuary also prepares a written report on a triennial basis which places a value on the liabilities on the on-going technical provisions basis along with an estimate of the cost of purchasing annuity policies for the Scheme's members.

### **6.b Investment risk**

There are many investment related risks which the Trustees are aware of. Including: manager risk; liquidity risk (i.e. the risk of being unable to realise investments for cash); the risk of holding inappropriate investments; currency risk; political risk; corporate governance risk; counterparty risk, basis risk and legal and operational risk.

To reduce these risks, the Fiduciary Manager ensures the assets are diversified over different asset classes, sectors and securities and investment managers. It regularly monitors the underlying managers' performance, processes and capabilities.

The Fiduciary Manager is also responsible for managing overall currency risk.

The Trustees also acknowledge the following investment related risks and monitor these with the support from the Fiduciary Manager and their other advisors.

- The actual return on the investment portfolio vs the Target Return. The Target Return is not guaranteed, the Scheme's investment portfolio may not evolve as expected or indeed may fall in value.
- The probability of purchasing individual annuities for members and winding up the Scheme at a future point in time could reduce if annuity prices increase (for example, due to changes in insurance

regulations or changes in the assumptions used by insurers – which includes forecasting future mortality and longevity patterns).

### **6.c Custodian risk**

Custodian banks provide secure safekeeping and trading of the assets.

This risk is measured by assessing the credit-worthiness of the custodian bank and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody.

The custodian risk is managed by the Fiduciary Manager ratifying its trade reports and expected cashflows against the custodian's records. Restrictions are also applied to who can authorise cash transfers from the custody account and safeguards being in place around where any cash withdrawals are remitted.

### **6.d Fraud / Dishonesty**

Addressed through the Fiduciary Manager having the appropriate insurance policies, and internal and external audit.

### **6.e Liquidity risk (ability to pay member benefits as they fall due)**

The Scheme's administrator monitors monthly benefit payments and ensures sufficient cash is available to meet payments when due. The Fiduciary Manager invests predominantly in assets that can be quickly sold for cash if necessary, although the Fiduciary Manager may invest in more illiquid assets such as private markets-based investments (with investments being kept to a prudent level).

### **6.f Covenant Risk**

Risks associated with changes in the Sponsor's covenant are regularly monitored by the Trustees and assessed by various means. This includes the Sponsor periodically providing the Trustees with updates on its business projections and the strength of its covenant. The Trustees also employ an independent specialist firm to monitor the Sponsor's covenant and present periodic updates to the Trustees.

## **7. Monitoring**

The Trustees monitor the performance of the Scheme's assets on a quarterly basis via investment monitoring reports prepared by the Fiduciary Manager.

The Fiduciary Manager monitors the following areas on behalf of the Trustees on a daily basis:

- The funding level
- The asset allocation
- The liability hedge ratio
- The underlying investment managers
- The cash position (specifically cash held within the fiduciary management arrangements, i.e. excluding any cash held in the Trustees bank account)

Where action needs to be taken or is deemed to be sensible (for instance due to favourable/changing market conditions), the Fiduciary Manager will make appropriate changes, subject to the guidelines agreed with the Trustees. Where changes cannot be made due to the guidelines specified, and the Fiduciary Manager believes the changes would be sensible, the Fiduciary Manager will work with the Trustees to explore whether the guidelines can be adjusted and how this may impact the Scheme's investment strategy.

The Fiduciary Manager provides regular updates at Trustees' meetings and provides information to other third parties at the request of the Trustees, including the Scheme's administrators and auditors. In addition, the Trustees also employ an independent specialist firm to monitor and assist in regular reviews of the performance and services of the Fiduciary Manager.

## **8. Custody**

Day to day control of custody arrangements for the Scheme's assets is delegated to State Street Bank and Trust Company, who is independent of the Sponsor and Fiduciary Manager.

In addition, as the Scheme invests in pooled funds, these funds each have a custodian. The investment in pooled funds gives the Trustees a right to the cash value of the units rather than to the underlying assets.

## **9. Realisation of Investments**

The Trustees have delegated the realisation of investments to the Fiduciary Manager. The Fiduciary Manager monitors the Scheme's investment portfolio on a daily basis and in accordance with the objectives set by the Trustees. The Fiduciary Manager will use contributions into and disinvestments out of the Scheme's investment portfolio to manage and if necessary, rebalance the investment portfolio in-line with the objectives set by the Trustees.

## **10. Financially Material Considerations**

Over the period to achieving the overall investment objective of reaching full funding on the dynamic buy-out basis, the Trustees have tasked the Fiduciary Manager with monitoring financially material risks (including ESG considerations) within the Scheme's investment portfolio. At a high level, the Scheme is expected to increase its allocation to lower risk fixed-income assets as the Scheme matures. In addition to this, the Fiduciary Manager will use active ownership (see Section 11) to manage the Scheme's investment portfolio through time. The Fiduciary Manager also monitors, and where necessary reduces the financially material risks which the Scheme is exposed to as it travels through its journey to ultimately achieve its objective.

## **11. Responsible Investment**

The Trustees believe that investing sustainably is consistent with the Scheme's mission of taking full account of longer-term return drivers and risk. In particular, the Trustees believe climate change to be a systematic, long-term material financial risk to the value of Scheme assets, as well as impacting on the Scheme's liability profile and sponsor covenants.

By exercising good investor stewardship and by taking financially material environmental, social and governance ("ESG") factors, including climate change, into account in the investment process, the Trustees believe the Scheme is better positioned to deliver the required long-term investment objective of achieving full funding on the ongoing dynamic buy-out basis.

The Trustees have delegated the day-to day investment decisions in relation to responsible investment to the Fiduciary Manager, having reviewed the Fiduciary Manager's approach to ESG considerations as part of their appointment. More specific details on the Fiduciary Manager's approach to responsible investment are available [here](#).

The Trustees are satisfied that ESG considerations are integrated into the selection, retention and realisation of investments and are included in any manager selection and retention exercises that the Fiduciary Manager may undertake as part of both the investment and operational due diligence processes.

### 11.a Stewardship – Voting and Engagement

The Trustees are aware of their role as a responsible steward of capital and the need to assess all financially material risks which include the risks with climate change as well as other ESG-related factors. The Trustees believe that having a high standard of governance, promotion of corporate responsibility and appreciation of environmental factors will be additive and will help protect long term financial value.

The Trustees believe that active ownership (voting and engagement) is the most appropriate channel to promote positive ESG practices. All the Scheme's assets are either managed directly or overseen by the Fiduciary Manager. As such, the Trustees delegate active ownership to the Fiduciary Manager.

The Fiduciary Manager uses voting rights & engagement as an essential part of the value creation process. This process includes:

- Operating Proxy Voting Committee (PVC) which oversees the proxy voting policies, procedures, guidelines and voting decisions.
- Prioritising certain engagement themes that drive the engagement with underlying investment managers and holdings. The engagement themes in focus are outlined and updated on the Fiduciary Manager's engagement policy, saved [here](#).

The Trustees expect the Fiduciary Manager to: (i) be a signatory to the UN PRI Code; (ii) be a signatory to the UK Stewardship code; and (iii) provide adequate transparency around stewardship including an annual report on stewardship activities undertaken.

The Trustees will engage with the Fiduciary Manager as necessary for more information to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned. This will take the form of annual reporting which will be made available to Scheme members.

### 11.b Monitoring and Reporting

The Fiduciary Manager reports quarterly on the overall responsible investment position, including key ESG metrics, and regularly monitors the underlying Investment Managers in relation to their responsible investing and ESG integration processes. The Investment Managers report quarterly to the Fiduciary Manager on their proxy voting and engagement activities where relevant.

The Trustees aim to monitor the impact and progress of its responsible investing activities.

### 11.c Non-financial Factors

The Trustees do not take into account non-financial matters in the selection, retention and realisation of investments. The Trustees assess matters it considers to be financially material, this includes risks related to climate change and other ESG-related factors.

## 12. Arrangement with the Fiduciary Manager

The Trustees recognise the importance of ensuring that the Fiduciary Manager's investment strategy aligns with the Trustees' investment policies. The Trustees' arrangements with the Fiduciary Manager, as detailed in this section 12, seek to incentivise the Fiduciary Manager to align its investment strategy and decisions with the Trustees' investment policies and to make decisions and

operate in a manner that best generates medium to long-term financial and non-financial results for the Scheme and its beneficiaries.

### **12.a Implementation**

The services provided by the Fiduciary Manager to implement the Scheme's investment strategy include risk management, portfolio construction and manager selection (which incorporates continuous monitoring of managers and, where required, revisions to the manager line-up). The Fiduciary Manager monitors its sub-advisors and the companies held in its portfolios in accordance with its Stewardship Policy.

The Trustees expect the Fiduciary Manager, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. This includes monitoring and engaging with underlying investment managers to ensure they are aligned with the investment objectives of the Scheme. On an annual basis the Fiduciary Manager reports back to the Trustees on its engagement and stewardship practices via the annual implementation statement.

### **12.b Evaluation of Performance, Remuneration and Incentivisation**

The Trustees carry out periodic reviews to assess the Fiduciary Manager's performance (net of all costs) relative to the objectives set by the Trustees and against the Scheme's specific liability benchmark. The Trustees will consider both short (quarterly) and longer-term (3 and 5 year) horizons when assessing the performance of the Fiduciary Manager.

The remuneration paid to the Fiduciary Manager and the fees incurred by third parties appointed by the Fiduciary Manager are provided annually by the Fiduciary Manager to the Trustees. This cost information is set out alongside the performance of the Fiduciary Manager to provide context. The Trustees monitor these costs and performance trends over time. As part of the annual audit the Scheme's auditor also reviews the fees which have been incurred during each year to ensure the remuneration is in-line with what is specified in the IMA.

The Trustees believe that setting the Fiduciary Manager clear objectives and regularly monitoring the Fiduciary Manager's performance versus those expectations incentivises the Fiduciary Manager to make decisions that are aligned with the Trustees' investment policies.

### **12.c Portfolio turnover costs**

The Fiduciary Manager provides the Trustees with an annual breakdown of the portfolio turnover costs which have been incurred in-line with the Cost Transparency Initiative (CTI). The Trustees do not have a specified target portfolio turnover figure but do monitor and review the Fiduciary Manager's performance net of all transaction costs. The Trustees understand that the Fiduciary Manager will need to carry out trading within the portfolio in order to meet the return objective and properly manage risks.

The Fiduciary Manager monitors the level of portfolio turnover (defined broadly as the amount of purchases and sales) of all the investment managers appointed on behalf of the Trustees. Ultimately, the Fiduciary Manager is incentivised to manage transaction costs effectively given the adverse impact on performance.

### **12.d Monitoring Investment Performance**

The Trustees receive quarterly reports and verbal updates from the Fiduciary Manager on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustees focus on medium to longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Scheme's objectives.

The Trustees receive annual stewardship reports on the monitoring and engagement activities carried out by the Fiduciary Manager, which supports the Trustees in determining the extent to which the Scheme's engagement policy has been followed throughout the year.

The Trustees also receive annual cost transparency reporting from the Fiduciary Manager in line with the prevailing regulatory requirements for fiduciary managers. These include but are not limited to the total costs incurred by the Scheme, the fees paid to the Fiduciary Manager and underlying managers, the amount of portfolio turnover costs (in relation to section 12.c above), charges incurred through the use of pooled funds (e.g. custody, admin, audit fees etc.) and the impact of these costs on the investment return achieved by the Scheme.

#### **12.e Duration of Agreement**

The Trustees' arrangement with the Fiduciary Manager is not for a fixed term but an ongoing arrangement. The Trustees have a right to terminate this arrangement on notice under the terms specified in the IMA. The periodic reviews (referred to above) is an opportunity for ongoing assessment of the arrangement with the Fiduciary Manager with particular consideration for how the Fiduciary Manager is aligning to the Trustees' investment policies.

### **13. Timing of Periodic Review**

The Trustees will review the Statement and the Scheme's investment strategy each year and additionally whenever they believe there to be a significant change in the Scheme's circumstances.

The Appendix contains further detail of the Scheme's investment strategy and may be updated from time to time without updating this Statement.



## Royal Institution of Chartered Surveyors Pension & Assurance Scheme (the “Scheme”)

### Investment Policy: Appendix to Statement of Investment Principles

This Appendix sets out further detail on the Trustees investment policies, and is supplementary to the Trustees’ Statement of Investment Principles (the attached “Statement”).

#### Fiduciary Management Arrangements

##### Advice and Management

The Trustees have appointed Russell Investments to act as the Scheme’s Fiduciary Manager. The information contained within this Appendix provides further detail on the services provided and the Trustees’ policies, which have been developed in conjunction with Russell Investments as Fiduciary Manager.

##### Investment Strategy

The investment strategy aims to grow the Scheme’s investment portfolio so that the Scheme achieves full funding on the low-dependency measure.

To deliver this objective, the following investment strategy has been adopted:

- The investment portfolio needed to deliver a Target Return of 1.0% per annum in excess of the return on UK government Gilts, on a net of fees basis.
- The level of long-term interest rate and inflation hedging set equal to the value of the Scheme’s liabilities measured on a low-dependency basis of Gilts flat plus an allowance for expenses. The level of long-term interest rate and inflation hedging is referred to as the Target Hedge Ratio throughout this document.

To achieve this objective, the Scheme invests in:

- Growth Assets. These assets are expected to provide a return over the long-term in excess of gilts. Growth assets include shares, corporate bonds, real assets, absolute return funds and other assets which are permitted under the guidelines governed by the Investment Management Agreement.
- Income Generating Assets: These assets invest in investment grade corporate bonds on a buy and hold basis. The underlying bonds provide coupon payments and the return of principle when each issue matures, and this is used to help pay (in full or partially) the expected on-going benefit payments.
- Hedging Assets. These assets are expected to move in-line with UK government bond (gilt) prices for the agreed level of liability hedging. They include UK government bonds and Liability Driven Investment funds appropriate to the nature and duration of the Scheme’s liabilities. Investment in these assets is structured to mirror the nature and duration of the Scheme’s liabilities.

The allocation between these assets varies over time to meet the objective. The Fiduciary Manager is accountable for managing the allocation to and within the Growth, Income and Hedging Assets in order to meet the objective, within the guidelines set by the Trustees.

##### Cash balances

In addition to the assets managed by the Fiduciary Manager, the Trustees have a bank account which holds a working balance of cash, held for imminent payment of benefits, expenses, etc. Under normal circumstances it is not the Trustees’ intention to hold a significant cash balance and this is carefully monitored by the Scheme’s administrators.