Goldsmiths' Company's Staff Pension Scheme

Statement of Investment Principles

July 2023

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01 **Introduction**

This document constitutes the Statement of Investment Principles (the "SIP') required under Section 35 of the Pensions Act 1995 for the Goldsmiths' Company's Staff Pension Scheme (the "Scheme"). It describes the investment policy being pursued by the Trustees of the Scheme and is in accordance with the Government's voluntary code of conduct for Institutional Investment in the UK (the "Myners Principles"). This SIP also reflects the requirements of the Occupational Pension Schemes (Investment) Regulations 2005.

The Scheme Actuary is Ben Fisher of XPS Pensions, and the Investment Adviser is XPS Investment (collectively termed the "Advisers").

The Trustees confirm that, before preparing this SIP, they have consulted with the employer, the Goldsmiths' Company (the "Employer") and the Advisers and have obtained and considered written advice. The Trustees believe the Advisers to be qualified by their ability and practical experience of financial matters and to have appropriate knowledge of the investment arrangements that the Scheme requires.

The Trustees are responsible for the investment of the Scheme's assets and the administration of the Scheme. Where they are required to make an investment decision, the Trustees always receive advice from the Advisers first and they believe that this ensures that they are appropriately familiar with the issues concerned.

Given the size of the Scheme, the Trustees have decided the most cost-effective way of investing the Scheme assets is to invest in pooled funds managed by an organisation, rather than directly appointing an individual investment manager. Decisions about which pooled funds to invest in are made after receiving investment advice from an FCA regulated firm.

01.01 Declaration

The Trustees confirm that this Statement of Investment Principles reflects the Investment Strategy they have decided to implement. The Trustees acknowledge that it is their responsibility, with guidance from the Advisers, to ensure the assets of the Scheme are invested in accordance with these Principles.

02 Scheme governance

The Trustees are responsible for the governance and investment of the Scheme's assets. The Trustees consider that the governance structure set out in this SIP is appropriate for the Scheme as it allows the Trustees to make the important decisions on investment policy, while delegating the day-to-day aspects to the managers of pooled funds and obtaining advice before making decisions about which pooled funds to invest in.

The Trustees believe that, given the size of the Scheme, a separate investment sub-committee would not be appropriate. Therefore, all investment issues are discussed by the Trustees, with assistance from the Scheme's Investment Advisers, before decisions are taken.

03 **Investment objectives**

The primary objectives of the Scheme are:

a) ‘funding objective’ – to ensure that the Scheme is fully funded using assumptions that contain a modest margin for prudence. Where an actuarial valuation reveals a deficit, a recovery plan will be put in place which will take into account the financial covenant of the employer.

b) ‘stability objective’ – to have due regard to the likely level and volatility of required contributions when setting the Scheme’s investment strategy.

c) ‘security objective’ – to ensure that the solvency position of the Scheme (as assessed on a gilt basis) is expected to improve. The Trustees will take into account the strength of the employer’s covenant when determining the expected improvement in the solvency position of the Scheme.

These qualitative objectives have been used to formulate the investment strategy set out in Appendix A.

The Trustees consider the investment objectives and the resultant investment strategy alongside the actuarial valuation methodology and assumptions used by the Scheme Actuary for each formal actuarial valuation.

04 **Asset allocation strategy**

The allocation between the asset classes making up the on-risk and off-risk assets will vary over time to reflect, amongst other factors, the profile of the liabilities, the perceived relative value of the different asset classes, the strength of the Employer covenant and the perceived risk to the investment objectives arising from any shortfall in the funding of the Scheme. The Investment Managers and funds that the Trustees have selected to achieve the investment objectives, along with the benchmark allocations, are detailed in Appendix A. If any changes are required to be made to the Investment Managers or funds, the Trustees will first consult with the Investment Adviser but for the avoidance of doubt any such change will not in and of itself constitute a change of investment policy requiring a revision to this SIP.

04.01 Alignment of incentives

Based on the structure set out in the Appendix, the Trustees consider 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 pooled fund documentation with each Investment Manager.

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 Trustees or governing the pooled funds in which the Scheme is invested.

The Trustees will ensure that the Scheme's assets are predominately 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 Trustees' expectations.

The Trustees encourage Investment Managers to make decisions in the long-term interests of the Scheme. The Trustees expect engagement with management of the underlying issuers of debt or equity and the exercise 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 Trustees also require the Investment Managers to take ESG factors and climate change risks into consideration within their decision-making as the Trustees believe these factors could have a material financial impact in the long-term. The Trustees therefore make decisions about the retention of Investment Managers with this in mind.

04.02 Rebalancing policy

The Trustees, in conjunction with the Advisers, will monitor the actual asset allocation of the Scheme on a regular basis via regular investment updates received from the Advisers. If the actual allocation has moved significantly from that set out in Appendix A, the Trustees will make a decision as to whether to switch assets back to the strategy following consideration of advice.

04.03 Rates of return

The passively managed funds are expected to perform in line with their respective benchmarks over the longer term. The actively managed funds are expected to outperform their respective benchmarks over the longer term. The targets for each fund are detailed in Appendix A.

04.04 Diversification

The Trustees have sought to achieve diversification by investing in a range of asset classes, including funds which invest across multiple asset classes (e.g. diversified growth funds). The Trustees have sought to achieve further diversification by investing in pooled funds which have investment restrictions (i.e. funds which impose concentration limits on individual positions and limits on the exposure to individual issuers). Generally speaking, each asset class would expect to have different issuers and therefore add to the diversification of the Scheme. The Trustees will monitor the strategy regularly to ensure that they are comfortable with the level of diversification.

04.05 Suitability

The Trustees have taken advice from the relevant Advisers to ensure that the asset allocation strategy is suitable for the Scheme, given its investment objectives.

04.06 Liquidity

All of the non-cash assets are held in pooled funds with frequent dealing dates.

04.07 Derivatives

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.

04.08 Custody

The custodian of the assets in the pooled funds is appointed by the respective funds.

04.09 Additional Voluntary Contributions

Some members of the Scheme have paid Additional Voluntary Contributions ("AVCs") into the Scheme, which are invested and will be used to increase benefits at retirement, or in the event of death. These facilities are now closed to future contributions. The Trustees monitor the performance of these funds and ensure that the investment profile of the funds remain consistent with the objectives of the Trustees and needs of the members.

The Scheme's AVCs are managed by Prudential.

05 **Monitoring**

05.01 Pooled funds

The Trustees will monitor the performance of the funds against their stated performance objectives.

The Trustees, or the Investment Adviser on behalf of the Trustees, will regularly review the performance of the funds to satisfy themselves that the funds remain suitable.

If the Trustees are not satisfied with the performance of the funds then they will ask the managers of those funds what steps they intend to take to rectify the situation. If the funds still do not meet the Trustees' requirements, they will look to purchase other funds - potentially with a different manager - after consultation with the Investment Adviser.

05.02 Advisers

The Trustees will monitor the advice given by the Advisers on a regular basis.

05.03 Portfolio turnover costs

The Trustees require the Investment Managers 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.

05.04 Investment manager duration

Appointments of Investment Managers are expected to be long-term, but the Trustees will review the appointment of the Investment Managers in accordance with their responsibilities.

05.05 Performance and remuneration reporting

The Trustees receive regular performance monitoring reports from the Investment Adviser which consider performance over the quarter, one and three year periods.

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

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 Trustees' policies and with fee levels deemed by the Investment Adviser to be appropriate for the particular asset class and fund type.

05.06 Other

The Trustees are required to review this SIP on a triennial basis, or, without undue delay, following any changes to the investment strategy.

06 **Fees**

06.01 Funds

The Trustees will seek to ensure that the fees charged for the funds they use and their expense ratios are consistent with levels typically available in the industry for such funds. The current fee basis for each of the funds is set out in Appendix A.

Information about the Investment Managers' fees, commissions and other transaction costs is available in the annual report of the pooled funds in accordance with the Financial Conduct Authority (FCA) Disclosure Code.

06.02 Advisers

Fees paid to the Advisers are based either on actual time spent and hourly rates for relevant individuals, or on fixed fees agreed in advance for specifically defined projects.

06.03 Custodian

There is no custodian appointed directly by the Trustees.

06.04 Trustees

None of the Trustees are paid directly for their duties. Their expenses are met and they are given time off from their other employment duties to attend the periodic Trustees' meetings.

07 **Risks**

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

i. The risk of failing to meet the objectives as set out in Section 3 – the Trustees will regularly monitor the investments to mitigate this risk.

ii. The risk of adverse consequences arising through a mismatch between the Scheme's assets and its liabilities. This is addressed through the asset allocation strategy and through regular actuarial and investment reviews and the funding target.

iii. Risk of lack of diversification of investments – addressed through investing in pooled funds with diversification requirements and through the asset allocation policy.

iv. Risk of holding assets that cannot be easily sold should the need arise – addressed through the use of pooled funds with frequent dealing dates.

v. Underperformance risk – addressed through monitoring closely the performance of each fund and taking necessary action when this is not satisfactory.

vi. Organisational risk – addressed through regular monitoring of the Investment Managers and the Advisers and by seeking to minimise the number of changes to the pooled funds.

vii. Interest rate risk – addressed through holding index-linked government bonds of appropriate duration whose value increases as interest rate expectations fall.

viii. Inflation risk – addressed through holding investments in index-linked government bonds of appropriate duration whose value increases as inflation expectations increase.

ix. Currency risk – addressed through investing predominantly in Sterling denominated pooled funds.

x. Sponsor risk – the risk of the Employer ceasing to exist, which for reasons of prudence, the Trustees have taken into account when setting the asset allocation strategy. These are addressed by monitoring the Failure Score (as defined for the purposes of calculating the risk-based element of the Pension Protection Fund levy). The Trustees also have an agreement with the Employer to receive notification of any events which have the potential to alter the creditworthiness of the Employer; in particular, the Trustees will be informed of Type A events, as defined in appropriate guidance issued by the Pensions Regulator and employer-related Notifiable Events. On receipt of such notification the Trustees will re-consider the continued appropriateness of the Scheme's investment strategy in consultation with the Advisers.

The Trustees will keep these risks under regular review.

08 **Other issues**

08.01 Statutory Funding Requirement

The Trustees will obtain and consider proper advice on the question of whether the investments are satisfactory having regard to both the investment objectives and the requirement to meet statutory funding requirements. The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation every three years.

The Trustees will consider the investment strategy at each actuarial valuation and determine whether it is necessary to make changes to the investment strategy to ensure continued compliance with the statutory funding requirement.

08.02 Environmental, Social and Governance Issues

The Trustees have determined their approach to financially material considerations over the Scheme's long term funding horizon – including environmental, social and corporate governance ("ESG") factors – by acknowledging that there can be risks relating to them. The Trustees have delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Scheme's Investment Managers. The Trustees require the Scheme's investment managers to take ESG and climate change risks into consideration within their decision-making, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest.

The Trustees will seek advice from the Investment Adviser on the extent to which their views on ESG and climate change risks may be taken into account in any future investment manager selection exercises. Furthermore, the Trustees, with the assistance of the Investment Adviser, will monitor the processes and operational behaviour of the investment managers from time to time, to ensure they remain appropriate and in line with the Trustees' requirements as set out in this Statement.

08.03 Voting rights

As the Scheme invests in pooled funds, 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.

The Trustees encourage them 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 on behalf of the Trustees.

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 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.

If the Trustees become aware of an Investment Manager engaging with the underlying issuers of debt or equity in ways that they deem inadequate or that the results of such engagement are mis-aligned with the Trustees' expectation and the investment mandate guidelines provided, then the Trustees may consider terminating the relationship with that Investment Manager.

When considering the selection, retention or realisation of investments, the Trustees have a fiduciary responsibility to act in the best interests of the beneficiaries of the Scheme, although it has neither sought, nor taken into account, the beneficiaries' views on matters including (but not limited to) ethical issues and social and environmental impact. The Trustees will review this policy if any beneficiary views are raised in future.

Appendix A - Strategic asset allocation and implementation

Having considered advice from the Advisers, and also having due regard for the investment objectives, the current liabilities of the Scheme together with their expected timing, the risks of and to the Scheme and the covenant of the Employer, the Trustees have decided upon the following long-term investment strategy:

Asset class	Fund name	Benchmark asset allocation (%)	Target / Objective
Global equities	LGIM – All World Equity Index Fund (GBP Currency Hedged)	15	To track the performance of the FTSE All-World Index (less withholding tax where applicable) - GBP Hedged (with the exception of emerging markets) to within +/-0.5% p.a. for two years out of three.
Multi-Asset	abrdn – Diversified Growth Fund	15	To outperform SONIA[1] by 5.0% pa, gross of fees, over rolling five-year periods.
	LGIM – Dynamic Diversified Fund (Daily)	15	To outperform the Bank of England Base rate by 4.5% over a full market cycle.
Index-linked government bonds	LGIM – All Stocks Index-Linked Gilts Index Fund	50	To track the performance of the FTSE Actuaries UK Index-Linked Gilts All Stocks Index to within +/-0.25% p.a. for two years out of three.
Leveraged liability driven investment	LGIM – Matching Core Fixed Short Fund and LGIM Matching Core Fixed Long Fund		To provide exposure to changes in interest rates by investing in physical gilts, gilt repurchase agreements, gilt total return swaps and interest rate swaps.
Cash	LGIM – Sterling Liquidity Fund (Daily)	5	To offer access to liquidity and diversified exposure whilst providing capital stability and a competitive return in relation to SONIA[1].

Notes:
1. "SONIA" stands for Sterling Overnight Index Average

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