Royal Horticultural Society (1974) Pension Scheme

Statement of Investment Principles

June 2024

01 **Introduction**

This document constitutes the Statement of Investment Principles ("the SIP") required under Section 35 of the Pensions Act 1995 for the Royal Horticultural Society (1974) 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 Occupational Pension Schemes (Investment) Regulations 2005.

The Scheme Actuary is Martin Wilson of XPS Pensions Limited and the Investment Adviser is XPS Investment Limited (collectively termed 'the Advisers').

The Trustees confirm that, before preparing this SIP, they have consulted with the employer, the Royal Horticultural Society (the "Society") and the Scheme Actuary and have obtained and considered written advice from the Investment Adviser. 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 it is 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. All of the pooled funds selected by the Trustees are managed by Legal and General Investment Management ("the Investment Manager").

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 relevant Advisers and Investment Manager. The responsibilities of each of the parties involved in the Scheme's governance are detailed in Appendix A.

03 **Investment Objectives**

The Principal aims are as follows:

> To invest existing funds and new contributions from the Society in assets that aim to generate sufficient income and capital growth to meet the cost of benefits provided by the Scheme as and when payable.

> To seek to achieve enhanced returns through active management whilst seeking to keep volatility low.

> To pay due regard to the Society's interests on the size and incidence of the Society's contribution payments.

The Trustees believe the investment objectives and the resultant investment strategy are consistent with the actuarial valuation methodology and assumptions used by the Scheme Actuary.

04 **Asset Allocation Strategy**

The Trustees have taken the view that the investment objective is best achieved by determining, and investing in accordance with, an appropriate split of assets classes. The Trustees maintain a level of "hedging"; achieved through investing in assets designed to move in a similar way to the liabilities due to interest and inflation movements, to reduce the risk that increases in the liabilities cause a strain in the funding position of the Scheme. The Trustees will hold an allocation of assets to maintain their desired level of hedging, as well as earning investment returns. This allocation will vary over time to reflect, amongst other factors, the profile of the liabilities, the perceived relative value of the different asset classes and the perceived risk to the investment objectives arising from any shortfall in the funding of the Scheme. The current benchmark and target allocation is set out in Appendix B and any changes in allocation will only be made after receiving written advice from the Investment Adviser that such allocation remains consistent with the investment objectives.

Due to the size of the fund, the Trustees have decided to use pooled funds to invest the Scheme's assets.

04.01 Rebalancing Policy

The Trustees review the asset allocation on a periodic basis to ensure that the Scheme's assets are allocated in a manner that is consistent with the objectives as detailed in this Statement.

There is no automatic rebalancing back to the target, however the Trustees will periodically review the position and take action to rebalance if considered appropriate.

04.02 Rates of Return

The benchmark and objective rates of return are detailed in Appendix B.

04.03 Diversification

The use of pooled funds with inherent diversification levels is designed to ensure that the Scheme's investments are adequately diversified overall given the Scheme's circumstances. The Trustees will monitor the pooled funds regularly to ensure that they are comfortable with the level of diversification.

04.04 Suitability

The Trustees intend to take further advice from the relevant Advisers on a regular basis to ensure that the asset allocation strategy remains suitable for the Scheme, given its investment objectives.

Currently, the Trustees have chosen to hold a portion of the Scheme's assets in liability-driven investments (LDI) and corporate bonds. The aim of these funds is to provide some hedging; matching the interest rate and inflation sensitivity of the Scheme's liabilities to a defined target level.

The LDI funds use "leverage" in order to increase the level of hedging. The leveraged nature of these funds means that there is an expectation that additional collateral will be required to be paid into these funds from time to time (and any excess collateral repaid to the Trustees). Where any additional collateral payments are required it is the Trustees' intention that these will be met through disinvestments from the Scheme's cash holding in the first instance, followed by disinvestments from the return-seeking assets.

Two corporate bond funds have been selected to provide long-term returns in excess of the return available on government bonds, whilst providing a profile of future payments that are similar to the Scheme's expected outgo. The Trustees consider the additional credit and duration risk to be acceptable, given the investment objectives.

The aim of the return-seeking assets (e.g. equity funds and diversified growth funds) is to provide additional expected return above that achieved by the hedging assets, consistent with the investment objectives. These assets have objectives and benchmarks in line with the Trustees' investment objective of keeping volatility low.

Recognising that non-Sterling investments carry an element of currency risk, the Trustees have a policy of holding substantially all of the assets in Sterling-denominated investments, to match the Scheme's liabilities.

However, given the difficulty of predicting currency movements, to put in place a policy that will not require frequent review by the Trustees and bearing mind the additional hedging costs, the equity allocation has a 50:50 split between hedged and unhedged funds.

04.05 Liquidity

The Trustees' policy is to hold a certain amount of cash as a balance to meet its short-term liquidity needs. This cash is held in an institutional cash fund given the extra protection this provides above the protections provided by the Trustees' bank account. All of the assets are held in pooled funds with frequent (weekly) dealing dates.

05 **Strategy Implementation**

05.01 Mandate and Performance Objectives

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 guidelines, agreements and 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 predominantly invested in regulated markets to maximise their security.

Investment Managers are incentivised to perform in line with expectations for their specific mandate as their continued involvement as Investment Managers as part of the Scheme's investment strategy – and hence the fees they receive – are 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, including its selection / deselection criteria.

The benchmark for each fund currently held and its objectives are set out in Appendix B.

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 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.

The Trustees believe that all Investment Managers should operate under an implicit 'Environmental, Social and Governance' 'contract' (including climate change) which will not only influence their long-term financial performance, but also promote higher ethical and environmental standards. The Trustees therefore require Investment Managers to integrate Environmental, Social and Governance factors and risks directly into the overall assessment of any investment they make.

05.02 Manager Agreement

As the Scheme is invested in pooled funds, the Trustees have not directly appointed an individual investment manager. All of the pooled funds are managed by Legal and General Investment Management ("LGIM").

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.

05.03 Custody

Each of the pooled funds has its own custody arrangements.

06 **Monitoring**

06.01 Pooled funds

The Trustees will monitor the performance of the pooled funds against the agreed performance objectives. The Trustees, or the Investment Adviser on behalf of the Trustees, will regularly review the performance of the pooled funds to satisfy themselves that the funds selected remain suitable for the investment objectives.

The Trustees will receive regular performance monitoring reports from the Investment Adviser which consider performance over the quarter, one and three year periods. In addition, any significant changes relating to the Trustees' selection and deselection criteria that the Investment Adviser is aware of will be highlighted, which may lead to a change in the Investment Adviser's rating for a particular mandate.

These ratings help 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.

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

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.

In addition the Trustees will consider whether or not the Investment Manager:

> is carrying out any rebalancing function competently; and

> has been exercising its powers of investment with a view to giving effect to the principles contained in this SIP, so far as is reasonably practical.

The Trustees require the Investment Managers to report on actual portfolio turnover periodically, and generally 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.

If the Trustees are not satisfied with the Investment Manager they will ask the Investment Manager to take steps to rectify the situation. If the Investment Manager still does not meet the Trustees' requirements, they will consider investing in pooled funds offered by an alternative manager and appointing a new investment manager to rebalance.

06.02 Advisers

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

06.03 Other

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

07 **Fees**

07.01 Investment Manager

The Trustees will ensure that the fees and expenses in the selected pooled funds are consistent with levels typically available in the industry for both active and passive funds.

07.02 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.

07.03 Custodian

There is no custodian appointed directly by the Trustees. The Trustees invest in pooled funds which have their own custodial arrangements.

08 **Risks**

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

> 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.

> 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.

> Risk of lack of diversification of investments – addressed through investing in pooled funds.

> Risk of holding assets that cannot be easily sold should the need arise – addressed through the use of pooled funds, the majority of which have frequent redemption dates, and by ensuring the Scheme's investment is not disproportionate relative to the overall size of the pooled fund(s) .

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

> Country/political risk – the risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across many countries and by investing in pooled funds focused on developed countries.

> Organisational risk – addressed through regular monitoring of the Investment Manager and the Advisers.

> Sponsor risk – the risk of the Society ceasing to exist, or being unable to support the Scheme, which for reasons of prudence, the Trustees have taken into account when setting the asset allocation strategy.

> Transition risk – the risk of paying unnecessary costs or being at increased risk of adverse market movements when transitioning assets from one manager to another. This risk is mitigated by organising transitions in a structured fashion with the advice of the Advisers or by using a specialist transition manager, for example.

> Environmental, Social and Governance - the risk that these factors have an adverse effect on the value of the Scheme's assets. The Trustees' full policy on this risk is set out in Section 9 of this Statement.

The Trustees will keep these risks under regular review.

09 **Other Issues**

09.01 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 with the Advisers whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the statutory funding requirement.

09.02 Environmental, Social and Governance issues and Stewardship

The Trustees have considered their approach to environmental, social and corporate governance ("ESG") factors and believe there can be financially material risks relating to them. The Trustees have delegated the ongoing monitoring and management of ESG risks (including those related to climate change) to the Scheme's Investment Manager. The Trustees require the Scheme's Investment Manager to take ESG risks (including climate change) 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 its views on ESG risks (including climate change) will 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 Manager from time to time, to ensure they remain appropriate and in line with the Trustees' requirements as set out in this Statement.

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 misaligned with the Trustees' expectations 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 Trustee has a fiduciary responsibility to act in the best interests of the beneficiaries of the Scheme, although they have neither sought nor taken into account the beneficiaries' views on risks including (but not limited to) ethical, social and environmental issues.

09.03 Additional Voluntary Contributions ("AVCs")

Prior to its closure, the Scheme provided a facility for members to pay AVCs into the Scheme. The Trustees' objectives with regard to the AVC facility, is to maximise, so far as is reasonable, the AVC assets over the long term with an acceptable degree of variation. Although no further contributions will be paid into these arrangements, existing AVC funds continue to be held. The Trustees will review these legacy AVC funds with the Investment Advisers as prescribed by any regulatory guidance.

Appendix A Responsibilities

A.01 Trustees

The Trustees of the Scheme are responsible for, amongst other things:

> Determining the investment objectives of the Scheme and reviewing these from time to time.

> Taking into account the advice from their appointed advisers, determining an investment strategy designed to meet the investment objectives of the Scheme.

> Reviewing triennially the content of this SIP and modifying it if deemed appropriate, in consultation with their appointed advisers.

> Reviewing the suitability of the investment policy following the results of each actuarial or investment review, in consultation with their appointed advisers.

> Assessing the quality of the performance and process of the Investment Manager by means of regular reviews of the investment results and other information, by way of meetings and written reports, in consultation with the appointed advisers.

> Appointing and dismissing investment manager(s), the performance measurer, custodian(s) and transition manager(s) in consultation with their appointed advisers.

> Assessing the ongoing effectiveness of their appointed advisers.

> Consulting with the Society when reviewing investment policy issues.

> Monitoring compliance of the investment arrangements with this SIP on an ongoing basis.

> Informing their appointed advisers of any changes to Scheme benefits or significant changes in membership.

A.02 Investment Manager

The Investment Manager is responsible for, amongst other things:

Regularly providing the Trustees with sufficient information to facilitate the review of its activities, including:

> A report of the strategy currently followed.

> The rationale for past and current strategy.

> A full valuation of the assets and a performance summary.

> A transaction report and a cash reconciliation.

> Corporate actions in relation to assets held by the Investment Manager.

> Any changes to the process applied to the portfolio.

> Future intentions in the investment management of the Scheme's assets.

Responsibilities
continued

A.03 Investment Adviser

The Investment Adviser will be responsible for, amongst other things:

> Participating with the Trustees in reviews of this SIP.

> Advising the Trustees how any changes within the Scheme's benefits, membership and funding position may affect the manner in which the assets should be invested.

> Advising the Trustees of any changes in the Scheme's Investment Manager that could affect the interests of the Scheme.

> Advising the Trustees of any changes in the investment environment that could either present opportunities or problems for the Scheme.

> Advising the Trustees before they make any investment decision to buy or sell any investment (otherwise than under the Investment Manager's rebalancing mandate).

> Undertaking reviews of the Scheme's investment arrangements including reviews of the asset allocation policy and current Investment Manager, and selection of new managers/custodians/performance measurers, as appropriate and as instructed by the Trustees.

A.04 Scheme Actuary

The Scheme Actuary will be responsible for, amongst other things:

> Liaising with the Investment Adviser (if appropriate) on the suitability of the Scheme's investment strategy.

> Performing the triennial (or more frequently as required) valuations and advising on the appropriate contribution levels.

> Commenting on the appropriateness of the investment strategy relative to the liabilities of the Scheme at the triennial valuations.

> Advising the Trustees and Investment Adviser (if appropriate) of any changes to contribution levels and funding level.

Appendix B
Pooled funds

For ease of monitoring and good governance the Trustees have purchased pooled funds managed by one Investment Manager, LGIM, to manage the assets of the Scheme.

Manager	Fund	%	Investment Style
LGIM	Matching Core Real Short Fund	9.5%	Passive
LGIM	Matching Core Real Long Fund	7.7%	Passive
LGIM	Maturing Buy and Maintain Credit Fund 2035 -2039	22.5%	Active
LGIM	Maturing Buy and Maintain Credit Fund 2040 -2054	32.5%	Active
LGIM	Sterling Liquidity Fund	27.9%	Passive

This strategy targets a hedging level of 100% of the interest rates and inflation risks affecting the liabilities on a solvency/buy-out basis. The asset allocations shown above will vary to maintain this objective and in response to market movements. The allocations may be rebalanced in future as the hedging level varies, or the Trustees' targets are updated.

B.01 Benchmark Returns and Performance Monitoring

The Trustees have agreed the following performance target with LGIM:

Fund	Benchmark Index	Objective
LGIM Matching Core Real Short Fund	Markit iBoxx - Real Short	To deliver nominal and inflation linked returns
LGIM Matching Core Real Long Fund	Markit iBoxx - Real Long	To deliver nominal and inflation linked returns
LGIM Maturing Buy and Maintain Credit Fund 2035 - 2039	N/A[1]	To provide credit exposure through a globally diversified portfolio of non-government bonds whilst avoiding bonds deemed likely to default or experience a significant deterioration in credit quality.
LGIM Maturing Buy and Maintain Credit Fund 2040 - 2054	N/A[1]	To provide credit exposure through a globally diversified portfolio of non-government bonds whilst avoiding bonds deemed likely to default or experience a significant deterioration in credit quality.
LGIM Sterling Liquidity Fund	SONIA	To offer access to liquidity whilst providing capital stability and to provide diversified exposure and a competitive return in relation to the Benchmark

Notes:

1. The LGIM Maturing Buy and Maintain Credit Funds do not have benchmarks as these funds have scope to invest in a wide selection of bonds, including bonds in different sectors, regions and credit quality. As such, it is challenging to make direct comparisons to a benchmark as the fund and benchmark may have significantly different compositions. However, a suitable reference benchmark for performance comparison purposes is a corporate bond index, such as Markit iBoxx GBP Corporates. The Trustees have agreed to use the index as a comparator, noting the limitations.

B.02 Fees

The investment management fees paid by the Funds to the Investment Manager are included in the Trustees' Investment Policy Implementation Document dated March 2024; please refer to this Document for further information.

Contact us

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Registration
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