

# **ASSOCIATION OF BRITISH INSURERS' PENSION AND ASSURANCE SCHEME**

## **STATEMENT OF INVESTMENT PRINCIPLES** JANUARY 2024

Approved by the Trustees on .....

Signed .....

Effective Date: January 2024

## 1. Introduction

This document is the current Statement of Investment Principles of the Association of British Insurers' Pension and Assurance Scheme (the "Scheme"). It describes the investment policy and arrangement of the Scheme.

This Statement has been prepared by the Trustees of the Scheme. The Trustees have sole responsibility for decisions regarding the Scheme's investment arrangements.

The Trustees consult with the Association of British Insurers (the "Employer") regarding the investment policy and on the employment or removal of investment managers.

In establishing the Scheme's investment arrangements, the Trustees have

- Had regard to the requirements of the Pensions Act, in particular those concerning diversification and suitability of investments and
- Sought advice from the Scheme's investment consultants
- Sought advice from the Scheme Actuary

In preparing this Statement, the Trustees have

- Complied with the requirements of section 35 of the Pensions Act 1995 as amended by the Pension Act 2004 and subsequent Regulations, regarding the content of Statements of Investment Principles.
- Complied with the regulations regarding the disclosure in the Statement of Investment Principles of the extent (if any) to which social, environmental or ethical considerations are taken into account.
- Received written advice from the investment consultant.

The Trustees monitor the Scheme's investment arrangements on a regular basis, as set out in this Statement. It is the intention of the Trustees to review this Statement annually.

Copies of this Statement are publically available.

## 2. Governance

The Trustees have ultimate responsibility for decision-making on investment matters. In order to ensure that investment decisions are taken only by persons or organisations with the skills, information and resources necessary to make them effectively, the Trustees delegate some of these responsibilities.

Responsibility for all day-to-day investment decisions is delegated to the Scheme's investment managers. The Trustees retain direct responsibility for other investment matters including:

- Establishing appropriate governance arrangements.
- Determining the Scheme's investment objectives.
- Determining the Scheme's strategic asset allocation benchmark.

- Determining the mandates for the Scheme's investment managers.
- Appointing (and dismissing) investment managers.
- Monitoring the Scheme's investment arrangements on a regular basis.
- Reviewing annually the content of this Statement of Investment Principles and modifying it if deemed appropriate, in consultation with the investment consultant, Scheme Actuary and the Employer.

When making decisions about the Scheme's investment arrangements, the Trustees take advice as appropriate from the Scheme Actuary, the Scheme's investment consultant and the Trustees' other advisers. The Trustees are satisfied, taking into account the external expertise available, that they have sufficient in-house staff to support them in their investment responsibilities.

The Trustees are satisfied that the Trustee Board has sufficient expertise and appropriate training to evaluate critically the advice it receives. The Trustees are also satisfied that the board's members have an appropriate set of skills individually and collectively, and the right structures and processes, to carry out their role effectively.

Decisions affecting the Scheme's investment strategy are taken with appropriate advice from the Scheme Actuary, the Investment Consultant and the Trustees' other advisers. A listing of the Trustees' current advisers and investment managers is provided in Appendix A. A summary of their responsibilities is provided in Appendix B.

### **3. Overall Policy, Investment Objectives of the Scheme and Risk**

#### **3.1 Investment Objectives**

To guide the Trustees in their strategic management of the assets and control of the various risks to which the Scheme is exposed, the Trustees have considered their objectives and adopted the following:

- The Trustees' primary responsibility is to manage the Scheme so that members receive their benefits as and when they fall due. The benefits payable are defined by the Scheme's Trust Deed and Rules. As a key step to achieving this, the Trustees, following consultation with the Sponsoring Employer, entered into a bulk purchase annuity policy issued by Just Retirement Limited ("Just") in June 2023 for all remaining members of the Scheme. This is in addition to the prior bulk purchase annuity policies issued by Legal & General Assurance Society Limited ("L&G") and Aviva Life and Pensions UK Limited ("Aviva"). Just, L&G and Aviva are authorised by the Prudential Regulation Authority to write policies of long term life insurance of this nature in the UK.
- The Trustees' key objective with the agreement of the Sponsoring Employer is to ensure an efficient progression towards an insurer buy-out of the Scheme's known liabilities, with the aim of achieving an appropriate discharge of liability in respect of known obligations in accordance with the Scheme's governing documentation and relevant legislation.

In due course, in order to complete buy-out, the known members' benefits will be secured by means of individual annuity policies issued by L&G, Aviva and Just directly to the members, in accordance with the terms of the bulk annuity policy.

The Scheme's principal asset are the bulk annuity policies, with the exception of a remaining cash balance which will be invested in the LGIM Sterling Liquidity Fund.

Future benefits payable from the Scheme prior to buy-out will be funded by the bulk annuity policy.

### **3.2 Risk**

There are various risks to which any pension scheme is exposed. The Trustees consider the following risks to be relevant to their situation in relation to the Scheme's investments:

- Counterparty risk. Between now and the completion of the buy-out, the principal risk facing the Trustees and Scheme members is that L&G, Aviva and Just may default on its obligations under the bulk annuity policy. Before entering into the bulk annuity policy, the Trustees obtained and carefully considered professional advice regarding the suitability of L&G, Aviva and Just as providers. In addition the Trustees are aware of the regulatory oversight, and, ultimately the protection offered to members by the Financial Services Compensation Scheme ("FSCS").
- Liquidity risk. Measured by the level of cashflow required by the Scheme over a specific period, the Trustees do not expect to be able to obtain cash from the bulk annuity policy other than in respect of benefits insured with L&G, Aviva and Just. Prior to purchasing the policy, the Trustees satisfied themselves that all known members' benefits would be insured in full. Under the terms of the policies, a post transaction period of data cleansing is being undertaken between the Scheme administrator, L&G, Aviva and Just.

The Trustees continue to monitor these risks.

### **3.3 Investment Strategy**

The strategic asset allocation is driven by the financial characteristics of the Scheme, in particular the Scheme's liabilities and the risk tolerance of the Trustees and the Employer. The current policy is set out in Appendix C and the current investment manager arrangements are in Appendix D.

## **4. Corporate Governance and Responsible Investment**

### **4.1 Social, Environmental and Ethical Issues**

The Trustees believe that good stewardship, environmental, social and corporate governance ("ESG") issues will have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly will require explicit consideration.

As the Scheme now mainly invests in the bulk annuity policies with L&G, Aviva and Just, the Trustees recognise that L&G, Aviva and Just has full discretion when evaluating ESG issues, exercising rights and stewardship obligations attached to the Scheme's investments, including engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure and management of actual or potential conflicts of interest and risks. In addition, L&G, Aviva and Just have full discretion when deciding on the degree to which the above are integrated into their investment processes. The Trustees are satisfied this corresponds with their responsibilities to the beneficiaries.

The Trustees do not monitor or engage directly with issuers or other holders of debt or equity. It expects L&G, Aviva and Just to exercise ownership rights and undertake monitoring and

engagement in line with L&G, Aviva and Just's general policies on stewardship, as provided to the Trustees from time to time, considering the long-term financial interests of the beneficiaries.

#### **4.2 Member Views**

Member views are not currently specifically sought in the selection, retention and realisation of investments.

### **5. Non-Financial Matters**

The Trustees do not take into account any non-financial matters (i.e. matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

### **6. Compliance with this Statement**

The Trustees will monitor compliance with this Statement annually until buy-out with L&G, Aviva and Just.

### **7. Review of this Statement**

The Trustees will review this Statement in response to any material changes to any aspect of the Scheme, its liabilities, finances and the attitude to risk of the Trustees and the Employer which they judge to have a bearing on the stated Investment Policy. As part of the review, the Trustees will take expert investment advice and consult the Employer.

# APPENDIX A

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## Current Advisers and Investment Managers

|                              |   |
|------------------------------|---|
| <b>Scheme Actuary</b>        | David Field FIA<br>Capita plc<br>65 Gresham Street<br>London<br>EC2V 7NQ  |
| <b>Investment Consultant</b> | Mercer Limited<br>Clarendon House<br>23 Clarendon Road<br>Belfast<br>BT1 3BG  |
| <b>Investment Managers</b>   |   |
| Liquidity Fund               | Legal & General Investment Management Limited<br>One Coleman Street<br>London<br>EC2R 5AA   |
| Bulk annuity                 | Legal & General Assurance Society Ltd<br>Legal & General House<br>Kingswood, Tadworth<br>Surrey<br>KT20 6EU<br><br>Aviva Life and Pensions UK Limited<br>1 Undershaft, London<br>EC3P 3DQ<br>Just Retirement Limited<br>Enterprise House<br>Bancroft Road<br>Reigate<br>Surrey<br>RH2 7RP |
| <b>Administrator</b>         | Capita plc<br>65 Gresham Street<br>London<br>EC2V 7NQ   |
| <b>Legal Advisers</b>        | Shepherd and Wedderburn LLP<br>Condor house<br>10 St Pauls Churchyard<br>London<br>EC4M 8AL   |
| <b>Scheme auditors</b>       | Ernst & Young LLP<br>25 Churchill Place<br>Canary Wharf<br>London<br>E15 5EY  |

# APPENDIX B

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## Division of Responsibilities

### Investment Managers

1. The investment managers' principal responsibilities are:

- At their discretion, but within any guidelines given by the Trustees, implementing changes in the asset mix and selecting securities within each asset class.
- Informing the Trustees of any changes in the internal performance objective and guidelines of any pooled fund used by the Scheme as soon as practicable after they occur.
- Having regard to the need for diversification of the investments and to the suitability of investments.
- Providing the Trustees with a quarterly statement of assets.
- Giving effect to the principles contained in the Statement.

An annual management fee is levied by each of the managers as a percentage of the value of assets under management. LGIM's fee structure is given below:

| Mandate                        | Estimated Annual Fee (% p.a.)* |
|--------------------------------|--------------------------------|
| <i>Sterling Liquidity Fund</i> | 0.125                          |

(\* LGIM operates a progressive fee schedule whereby the annual management fee is reduced as more assets are committed in each fund. The fees shown in the table above are top tier (i.e. the highest) fee in each fund).

For all managers there will be additional fees payable in relation to administration of the funds.

### Investment Consultant

2. The investment consultant's principal responsibilities are:

- Participating with the Trustees in a review of this Statement of Investment Policy as required.
- Undertaking project work as required.

Services and projects are charged on the basis of time spent and relevant charge out rates applying to staff providing the services.

### Scheme Actuary

3. The Scheme Actuary's responsibilities with regard to investment are:

- Liaising with the investment consultant on the suitability of the Scheme's investment strategy given the financial characteristics of the Scheme.

- Assessing the position of the Statutory Funding Objective, and advising on the appropriate response to any shortfall.
- Performing the triennial (or more frequently as required) valuations and advising on the appropriate contribution levels.

Fees will be calculated either on a fixed fee basis or by reference to the time spent on any particular assignment multiplied by the relevant charge out rates applying to the staff that provided the services in question.



# APPENDIX C

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## Current Asset Allocation

Following a bulk annuity purchase in 2021 of all pensioners, a number of subsequent de-risking exercises in 2021 and 2022 and a further bulk annuity purchase in 2023, the Trustees have agreed that the remaining assets held in the scheme above the costs of all annuities should be invested in a low risk manner as below:

### Total Scheme Invested Asset Allocation

|                         | Asset Allocation % |
|-------------------------|--------------------|
| Sterling Liquidity Fund | 100.0              |
| Total                   | 100.0              |

The Scheme holds two buy-in insurance policies with Legal & General Assurance Society Limited and Aviva Life and Pensions UK Limited, which fully match the liabilities of the Scheme's pensioners in payment as at February 2021 and a buy-in insurance policy with Just Retirement Limited for all remaining known members of the Scheme which was purchased in June 2023.

## Cashflows/ Realisation of Investments

In the normal course of events, the Trustees do not expect to be able to obtain cash from the bulk annuity policies other than in respect of benefits insured with L&G, Aviva and Just. Any future expenses would be sourced from LGIM using the Sterling Liquidity Fund or from the Employer.

# APPENDIX D

## Current Investment Manager Arrangements

### 1. Manager Structure

Three annuity providers are currently employed in the following roles:

|   |   |
|---|---|
| Legal & General Assurance Society Limited | Bulk annuity (insurance) contracts to fund a proportion of the Scheme's pensions payable.                             |
| Aviva Life and Pensions                   | Bulk annuity (insurance) contracts to fund a proportion of the Scheme's pensions payable.                             |
| Just Retirement                           | Bulk annuity (insurance) contracts to fund the remaining Scheme's pensions payable and deferred members entitlements. |

In addition, the Scheme has a number of legacy insurance contracts to cover historic pension liabilities.

### 2. Managers' Benchmarks

#### Legal & General Investment Management Ltd

LGIM currently manages the remaining Scheme assets in a liquidity fund, as below, following the purchase of the insurance contracts highlighted above.

| Fund                    | Benchmark                                | Performance Target |
|-------------------------|--|--------------------|
| Sterling Liquidity Fund | SONIA (Sterling Overnight Index Average) | To track benchmark |
| <b>Total</b>            |  |                    |