# Federated Pension Scheme for the British Association of Occupational Therapists

## Statement of Investment Principles – September 2020

## 1. Introduction

This Statement of Investment Principles has been drawn up by the Trustees of the Federated Pension Scheme for the British Association of Occupational Therapists ("the Scheme") in accordance with Section 35 of the Pensions Act 1995, amended by Section 244 of the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005, the Pension Protection Fund (Pensionable Service) and Occupational Pension Scheme (Investment and Disclosure) (Amendment and Modification) Regulations 2018, and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

## 2. Decision Making Process

**The Trustees**

The investment of the Scheme's assets is the responsibility of the Trustees and the Scheme Rules give the Trustees broad powers on investment. There are no restrictions (however expressed) on any power to make investments by reference to the consent of the Employer.

The Trustees' policy is to seek professional advice on investment strategy. They decide on the investment strategy after considering investment advice from the Investment Consultant. The Trustees recognise that their level of investment expertise must be kept under review in order to be able to critically evaluate this advice.

The Trustees meet regularly and ensure that adequate time is set aside to discuss investment issues. In determining their investment strategy, the Trustees address the following:

- the need to consider a full range of asset classes
- the risks and rewards of a range of alternative asset allocation strategies
- the suitability of each asset class
- the need for appropriate diversification
- the Scheme's Investment and Funding Objectives

**The Investment Consultant**

The Investment Consultant advises on an investment strategy appropriate to the investment objectives. The Investment Consultant is paid a fee for their advice and their appointment is reviewed from time to time by the Trustees.

BROADSTONE Corporate Benefits Limited has been appointed as the Investment Consultant to the Trustees, on the basis that their representatives are reasonably believed by the Trustees to be suitably qualified by their ability in, and practical experience of, financial matters and have the appropriate knowledge and experience of the management of the investments of such schemes.

The Trustees received appropriate investment advice from Capita Employee Benefits associated with the purchase of a bulk annuity policy, initially a 'buy-in' of all defined benefit liabilities and regards to the potential buy-out.

BROADSTONE Corporate Benefits Limited and Capita Employee Benefits are authorised and regulated by the Financial Conduct Authority.

**The Employer**

The Trustees have consulted with the Employer as part of the process for deciding on their investment strategy.

**Delegation**

The Trustees have a policy of delegating all day-to-day powers of investment and safe custody of the Scheme's assets to the insurance company who is authorised and regulated by the Financial Conduct Authority and Prudential Regulation Authority.

## 3. Investment Objectives

The primary funding objective of the Scheme is to ensure, as far as possible, that there are sufficient assets to provide benefits to the Scheme members as and when these fall due.

The Trustees' investment objective is to wind up the Scheme and to buy-out the Scheme's liabilities. The Employer has agreed to meet the full cost of securing the benefits for Scheme members through a bulk annuity. In the interim period, the Trustees' have secured these benefits through the purchase of a buy-in policy with an insurance company in order to reduce volatility in annuity pricing and funding risk to the Scheme.

## 4. Investment Strategy

In accordance with the Trustees' ultimate aim of winding up the Scheme, the Trustees expect that, in the long term, the Trustees' strategy is a full transfer of risk to an insurance company through a 'buy-out' policy.

Prior to achieving this objective, the Trustees have transacted a buy-in policy with an insurance provider before transitioning to 'buy-out'

The assets in the buy-in policy are held by the insurer and are invested in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the Scheme.

Under the terms of the buy-in policy, the insurer will pay the Scheme the retirement benefits due to all members (deferred and pensioner) and their dependents, included in the terms of the policy at the time the policy was purchased. The Scheme may then use this income to pay the members their benefits.

## 5. Expected Return

Subject to the specific terms of the "buy-in" bulk annuity policy, value of the policy is expected to move in line with the value of the liabilities of the Scheme.

## 6. Insurance Provider

The Trustees purchased a buy-in contract from Aviva Life & Pensions UK Limited ('Aviva' and the 'insurance company') in December 2017. The contract is held in the Scheme's name as an asset within the Scheme. As the insurance company, Aviva will guarantee the Scheme's ongoing cash flow needs for future benefit payments as projected for the participants and agreed in the contract. The Scheme will remain responsible for ensuring pension benefits are paid until the assets are irrevocably transferred to a buy-out policy and the Trustees will then be discharged from their contractual obligation. Upon buy-out, Aviva will assume financial and administrative responsibilities of paying the benefits.

Aviva will supply the Investment Consultant with sufficient information when requested in order to monitor financial and non-financial performance.

## 7. Exercise of voting rights

The Trustees cannot directly influence Aviva's policies on the exercise of investment rights (such as voting and engagement) for their bulk annuity policy. This is due to the nature of these investments.

The Trustees have taken into consideration the Financial Reporting Council's UK Stewardship Code, and is supportive of the Code. The Trustees understand that investment rights will be exercised by Aviva in line with their general policies on corporate governance, which reflect the recommendations of the Code, and which are provided to the Trustees from time to time.

## 8. Social, environmental and ethical considerations

The Trustees have appointed Aviva to manage the buy-in policy and has given them discretion in relation to the selection, retention and realisation of investments.

The Trustees expect Aviva to take steps to ensure environmental, social and corporate governance factors are implicitly incorporated into the investment decision-making process and expect them to be cognisant of climate change risks and opportunities within their investment processes as applied to the assets of the Scheme.

The Trustees do not take into account social, environmental and ethical factors in making their investment decisions, given that the assets are held in an insurance contract.

Responsibility for monitoring the makeup and development of the capital structure of investee companies is delegated to the Insurance Provider. The Trustees expect the extent to which the Insurance Provider monitor capital structure to be limited.

## 9. Portfolio Turnover Costs

The Trustees understand that Aviva may change underlying holdings to an extent required to meet their investment objectives. The reasonableness of such turnover will vary by fund and change according to market conditions.

The Trustees therefore do not set a specific portfolio turnover target for their investment strategy.

The Investment Managers when requested by the Investment Consultant shall provide information on portfolio turnover and associated costs so that this can be monitored, as appropriate.

## 10. Conflicts of Interest

The Trustees discuss conflicts of interest at Trustee meetings and where a conflict of interest is identified, this is considered and documented in the meeting minutes.

Subject to reasonable levels of materiality, any actual or potential conflicts of interest in relation to investee companies or Aviva are documented, while also setting out a process for their management.

## 11. Incentivisation of Insurance Provider

The Trustees cannot directly incentivise Aviva to align the approach they adopt for the assets held within the bulk annuity policy with the Trustee's policies and objectives, given the nature of these investments.

Neither do the Trustees directly incentivise Aviva to make decisions about the medium to long-term performance of an issuer of debt or equity, or to engage with those issues to improve their performance. The Trustees expect such assessment of performance and engagement to be undertaken as appropriate and necessary to meet the investment objectives of the funds used by the Scheme.

## 12. Employer Related Investments

The Trustees' policy is not to hold any employer-related investments as defined in the Pensions Act 1995, the Pensions Act 2004 and the Occupational Pension Scheme (Investment) Regulations 2005.

## 13. Risks

The Scheme is expected to move towards a wind up and issue individual policies in the name of each member (i.e. a Scheme buy-out). The Trustees recognise that there is a risk that the data used for the buy-in does not accurately reflect the liabilities of the Scheme prior to completing the buy-out. The Trustees will mitigate this risk, where possible, to ensure the data is subject to detailed checks and that Aviva has correctly interpreted the Scheme's benefits during the interim period and during the subsequent winding up process.

In addition the Scheme is exposed to the risk that the insurer, Aviva, becomes insolvent or is unable to honour its obligation to the Scheme

The Trustees have reduced these risks by receiving appropriate investment advice from Capita Employee Benefits, including carrying out due diligence on the appointment of Aviva contract and training on the topic and the risk of insurer insolvency.

In the unlikely event that the insurer defaults, the Financial Services Compensation Scheme (FSCS) would apply to the bulk annuity policy. The amount covered under the FSCS was increased from 90% to 100% from July 2015.

## 14. Fee Structures

The Investment Consultants are paid on a project basis which may be a fixed fee or based on time cost, as negotiated by the Trustees in the interests of obtaining best value for the Scheme.

As an insurance provider, Aviva receives no explicit ongoing remuneration for the management of the assets held in the bulk annuity policy. Fees would have been reflected in the purchase price of the policy.

## 15. Best Practice Principles

In October 2008 the Government published the results of its consultation on revisions to the Myners' principles in response to recommendations made by the National Association of Pension Funds (NAPF) in 2007. This takes the form of six high level 'Best Practice' principles set out below, supported by best practice guidance and Trustee tools that can be used to assess compliance.

1. Effective decision-making
2. Clear objectives
3. Risk and Liabilities
4. Performance assessment
5. Responsible ownership
6. Transparency and Reporting

The Trustees periodically review their compliance with the best practice Principles. The Trustees believe that they comply with the spirit of the Principles. There may be some instances of deviation from the published Best Practice Guidance' on the Principles where the Trustees believe this to be justified.

## 16. Review of this Statement

The Trustees will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believe to be qualified by their ability in and experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

Rosemary Kennell

**For and on behalf of the Trustees of the Federated Pension Scheme for the British Association of Occupational Therapists**

**Date** 18 September 2020