People's Dispensary for Sick Animals Retirement Benefits Plan (1978)

Defined Benefit Section

Statement of Investment Principles

Date agreed: 18 July 2023

Date signed: 19 July 2023

1. Introduction

1.1 This is the Statement of Investment Principles prepared by Whitechapel Associates Limited ('the Trustee') as trustee of the People's Dispensary for Sick Animals Retirement Benefits Plan (1978) ('the Plan'). This statement sets down the principles governing decisions about the Plan's investments to meet the requirements of:

- The Pensions Act 1995, as amended by the Pensions Act 2004;
- the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010;
- the Occupational Pension Schemes (Charges and Governance) Regulations 2015;
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018; and
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

1.2 In preparing this statement, the Trustee has consulted the People's Dispensary for Sick Animals ('the Society'), the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustee's investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.

1.3 This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.

1.4 The Trustee will review this statement at least every three years or if there is a significant change in the policy on any of the areas covered by the statement.

1.5 The investment powers of the Trustee are set out in Rules 77 and 78 of the Trust Deed & Rules, dated 5 June 2017. This statement is consistent with those powers.

2. Choosing Investments

2.1 The Trustee's policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustee considers the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.

2.2 The day-to-day management of the Plan's assets is delegated to one or more fund managers. The Plan's fund managers are detailed in the Statement of Investment Strategy. The fund managers are authorised and regulated by the Financial Conduct Authority and are responsible for stock selection and the exercise of voting rights.

2.3 The Trustee reviews the appropriateness of the Plan's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the fund managers with respect to performance within any guidelines set. The Trustee will consult the Society before amending the investment strategy.

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3. Investment Objectives

3.1 The Trustee's main investment objectives are:

- to ensure that they can meet the members' entitlements under the Trust Deed and Rules as they fall due;
- to take account of the long-term risks, including those relating to non-financial factors, when making investment decisions;
- to invest such that the solvency position of the Plan is expected to improve, allowing for the strength of the Society's covenant and the expected lifespan of the Plan;
- to manage the expected volatility of the returns achieved in order to control the level of volatility in the Plan's required contribution levels; and
- to minimise the long-term costs of the Plan by maximising the return on the assets whilst having regard to the above objectives.

3.2 The Trustee is aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Plan's liabilities at any time. The Trustee has obtained exposure to investments that they expect will meet the Plan's objectives as best as possible.

4. Kinds of investments to be held

4.1 The Plan is permitted to invest in a wide range of assets including equities, diversified growth funds, bonds, cash, property, alternatives (including private equity, commodities, hedge funds, infrastructure, currency, high yield debt and derivatives) and annuity policies.

4.2 The Trustee has purchased a buy-in policy with Aviva Plc to secure the liabilities of a cohort of the Plan's pensioners.

4.3 Any investment in derivative instruments is only made to contribute to a reduction in the overall level of risks in the portfolio or for the purposes of efficient portfolio management.

4.4 The Trustee monitors from time-to-time the employer-related investment content of their portfolio as a whole and will take steps to alter this should they discover this to be more than 5% of the portfolio. Typically this check is carried out annually by the Plan Auditor.

5. The balance between different kinds of investments

5.1 The Plan invests in assets that are expected to achieve the Plan's objectives. The allocation between different asset classes is contained in the Plan's Statement of Investment Strategy.

5.2 The Trustee considers the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Statement of Investment Strategy.

5.3 From time to time the Plan may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate for any short term cashflow requirements or any other unexpected items.

5.4 The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and therefore the Plan's asset allocation will be expected to change as the Plan's liability profile matures.

6. Risks

6.1 The Trustee has considered the following risks for the Plan with regard to its investment policy and the Plan's liabilities:

6.2 **Risk versus the liabilities:** The Trustee will monitor and review the investment strategy with respect to the liabilities following each actuarial valuation. The investment strategy will be set with consideration of the appropriate level of risk required for the funding strategy as set out in the Plan's Statement of Funding Principles.

6.3 **Covenant risk:** The creditworthiness of the Society and the size of the pension liability relative to the Society's receipts from donations are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the Society's covenant.

6.4 **Solvency and mismatching:** Risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustee is aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Plan's funding basis.

6.5 **Asset Allocation risk:** The asset allocation is detailed in the Plan's Statement of Investment Strategy and will be monitored on a regular basis by the Trustee.

6.6 **Fund manager risk:** The Trustee monitors each of the Plan's fund manager's performance on a regular basis in addition to having meetings with each manager from time to time as necessary. The Trustee has a written agreement with each fund manager, which contains a number of restrictions on how each fund manager may operate.

6.7 **Concentration risk:** Each fund manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.

6.8 **Liquidity risk**: The Plan invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Plan's cash flow requirements. The Plan's administrators assess the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.

6.9 **Currency risk:** The Plan's liabilities are denominated in sterling. The Plan may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management.

6.10 **Loss of investment:** The risk of loss of investment by each fund manager and custodian is assessed by the Trustee. Each fund manager monitors counterparty credit risk and evaluates counterparty credit quality on a continuous basis.

6.11 **Governance risk:** Each investment manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustee monitors these and will report on the managers' practices in their annual Implementation Statement.

6.12 **Environmental, Social and Governance ("ESG") risk and climate risk**: The Trustee considers ESG factors and climate risk to be financially material. Going forward, the Trustee will assess these risks alongside other financially material risks when selecting or reviewing the Plan's investments.

7. Expected return on investments

7.1 The Trustee has regard to the relative investment return and risk that each asset class is expected to provide. The Trustee is advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the fund managers.

7.2 The Trustee recognises the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

7.3 In considering the expected return from investments, the Trustee recognises that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.

7.4 Having established the investment strategy, the Trustee monitors the performance of each fund manager against an agreed benchmark as frequently as appropriate according to market conditions and the Plan's funding position. The Trustee meets the Plan's fund managers as frequently as is appropriate in order to review performance.

8. Realisation of investments

8.1 The Trustee has delegated the responsibility for buying and selling investments to the fund managers. The Trustee has considered the risk of liquidity as referred to above.

8.2 Ultimately, the investments will all have to be sold when the Plan's life comes to an end. In this situation, the Trustee is aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Plan accounts.

9. Financially material considerations, non-financial matters, the exercise of voting rights and engagement activities

Policy on ESG considerations

9.1 Given the long-term nature of the Plan and the objective to fund future member benefits from the Plan's assets as they fall due, the Trustee has a long-term horizon over which they believe that environmental, social and governance factors will be financially material and therefore have a policy to consider these, alongside other factors (including, but not limited to, climate change), when selecting or reviewing the Plan's investments. The Trustee's full policy on ESG is set out in Appendix 1 for ease of disclosure.

Policy on stewardship

9.2 In selecting and reviewing their investment managers, where appropriate, the Trustee will consider the investment managers' policies on engagement and how these policies have been implemented. The Trustee's policy on stewardship is set out in Appendix 1 for ease of disclosure.

Policy for taking into account non-financial matters

9.3 The Trustee has considered and chosen to adopt the Society's ethical investment policy for the investment of the Plan's assets; albeit recognising that the Plan's use of pooled funds impacts upon the ability to implement this approach. The Trustee will be looking further into ethical investing in due course and will update the Statement of Investment Principles as and when ethical policies are implemented.

10. Policy on arrangements with asset managers

Aligning the investment strategy and decisions of the asset manager with the Trustee's investment policies

10.1 When choosing an investment manager, the Trustee selects the manager that most closely aligns with their own investment strategy and policies, including their policy on ESG and climate risk.

10.2 The Trustee recognises that when investing in pooled funds there is limited scope to influence the investment managers' strategy and decisions but has resolved to:

- Monitor the performance of the funds relative to the stated investment objectives and philosophy, on which basis the manager has been appointed, to ensure the investment strategy and decisions continue to be in line with the Trustee's expectations.
- In the event that the investment manager ceases to invest in line with the Trustee's policies and expectations, including the management of ESG and climate related risks, their appointment will be reviewed.

10.3 In the event that an investment manager ceases to meet the Trustee's desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment will be terminated.

10.4 Investment manager ESG policies are reviewed in the context of best industry practice and feedback will be provided to the investment manager.

Incentivising investment managers to make decisions based on assessments about medium to long-term financial and non-financial performance

10.5 In making investment decisions, the Trustee expects the Plan's active investment managers to assess the long-term financial and non-financial prospects of any investment. The Trustee believes that non-financial factors – such as ESG risk, climate risk and the engagement of investment managers with the companies in which they invest – may have a long-term impact on returns and therefore investment managers should take these into consideration when making decisions.

10.6 In order to encourage this, the Trustee will notify the manager of the following:

- The Trustee believes the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon and will therefore focus on the performance of the investment managers over this timeframe. In particular, in the case of assets that are actively managed, the Trustee expects this to be sufficient to ensure an appropriate alignment of interests.
- The Trustee does not expect ESG considerations to be disregarded by the investment manager in an effort to achieve any short-term targets.

- The Trustee expects investment managers to be voting and engaging on behalf of the Plan's holdings and the Trustee monitors this activity within the Implementation Statement in the Plan's Annual Report and Accounts.

Method and time horizon for assessing performance

Evaluation of investment managers' performance

10.7 From time to time the Trustee reviews the investment managers' performance on a net of fees basis. This is considered over 3-5 year periods, which is consistent with the Trustee's wider investment policies. This review reflects not only fund returns, but also whether the investment managers continue to invest in line with the Trustee's expectations in terms of their investment approach, philosophy and process. This includes the investment managers' approaches to ESG and climate risk.

Remuneration of asset managers

10.8 The Plan invests exclusively in pooled funds. In all cases, the investment manager's remuneration is linked to the value of the assets they manage on behalf of the Plan. Therefore, as the assets grow in value, due to successful investment by the investment manager, the manager receives more in fees and as values fall they receive less. The Trustee believes that this fee structure incentivises the manager to invest in a way that benefits the Plan; in particular, it enables the investment manager to focus on long-term performance.

10.9 The Trustee asks the Plan's Investment Consultant to assess whether the investment management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered from time to time.

Portfolio turnover costs

10.10 The Trustee acknowledges that portfolio turnover costs can impact on the performance of their investments. However, equally the Trustee believes that active managers can add value through turnover of investments.

10.11 When underperformance is identified, the level of turnover may be investigated with the investment manager concerned if it is felt this may have been a significant contributor to the underperformance. In these cases, the Trustee defines the target turnover with respect to the market conditions and peer group practices.

Duration of the arrangement with the investment manager

10.12 For the open-ended pooled funds in which the Plan invests, there are no predetermined terms of agreement with the investment managers.

10.13 The suitability of the Plan's asset allocation and its ongoing alignment with the Trustee's investment aims, beliefs and constraints is assessed periodically as appropriate. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.

For closed-ended funds, the Plan reviews the appointment with the investment manager as the manager releases new iterations of the funds (which the Trustee may consider further investment into) and at, or just prior to, maturity of the closed-ended fund.

11. Agreement

11.1 This statement was agreed by the Trustee and replaces any previous statements. Copies of this statement and any subsequent amendments will be published on a publicly accessible website and thereby be made available to the employer, the fund managers, the actuary, the Plan Auditor and the Plan members.

Signed: ....

Date: ....

On behalf of Whitechapel Associates Limited, the Trustee to the People's Dispensary for Sick Animals Retirement Benefits Plan (1978)

Appendix 1: Note on financially material considerations, the exercise of voting rights and engagement activities

Policy on ESG considerations

The Trustee believes that environmental, social, and governance factors are financially material and therefore has a policy to consider these, alongside other factors, when selecting or reviewing the Plan's investments.

Given the maturity profile of the Plan and the objective to fund future member benefits from the Plan's assets as they fall due, the Trustee has a long-term time horizon over which they take into account the financial materiality of ESG factors (including climate change).

The Trustee considers ESG factors more pertinent for some areas of investment rather than others. For example, the Trustee believes more of the impact of these factors can be realised through the Plan's investments in equities whereas there is less scope for ESG issues to have a major impact within the Plan's Liability Driven Investments.

The Plan primarily invests through managed pooled investment vehicles where the Plan's assets may represent only a small proportion of the capital invested by the investment manager. Therefore, the Trustee understands that in some cases they will be constrained by the policies of the manager. However, the Trustee recognises the important role that the Plan has as an asset owner, and the opportunity to influence positive ESG standards through the managers' ability to engage with the boards on behalf of the Plan, which the Trustee would influence and monitor. The Trustee therefore believes it would be good governance to try, wherever reasonably practicable, to ensure their manager selection and existing manager monitoring process can identify investment approaches that can have a positive material impact on both risk and returns allowing for ESG issues.

The Trustee will be reliant on the information presented by the investment managers and their investment advisors regarding the extent to which an investment manager allows for ESG and climate risk in making their investment decisions. Furthermore, an investment manager's excellence in this area will not take precedence over other factors, including (but not limited to) historical performance or fees.

The Trustee will engage with investment managers regarding issues believed to have a material impact (both positive and negative) on future returns.

In order to establish and maintain an investment portfolio that incorporates ESG, the Trustee will also:

1. Have received, and will continue to receive, training to understand the key issues around ESG factors and latest developments;

2. Have the Plan's investment consultants provide a dashboard for each manager on an annual basis which summarises some key metric around how ESG is incorporated for each investment mandate;

3. Assess, as part of their regular review of managers, their approach to ESG issues within each mandate; and

4. Consider a manager's approach to ESG as part of any new manager selection exercises.

The exercise of voting rights

The Trustee believes that good stewardship and positive engagement can lead to improved governance and may lead to better risk-adjusted investor returns.

As an investor in pooled funds, the Trustee delegates the exercise of rights (including voting rights) attaching to the Plan's investments to the investment managers, who are signatories to the UK Stewardship Code or equivalent. In doing so, the Trustee expects that the investment managers will use their influence as major institutional investors to exercise the Trustee's rights and duties as shareholders, including where appropriate engaging with underlying investee companies to promote good corporate governance, accountability and to understand how those companies take account of ESG issues in their businesses. The exception to this is the voting rights attached to the Plan's holdings in the BlackRock ACS World Equity Fund. For these holdings, the Trustee has chosen to implement a Socially Responsible Investment ("SRI") focused third party proxy voting policy and votes are cast in accordance to this policy using BlackRock's voting infrastructure. This allows the Plan to incorporate a pre-defined voting policy that better reflects the Trustee's beliefs. The Trustee will monitor the exercise of voting rights through the annual Implementation Statement.

The Trustee will monitor and engage with the investment managers about relevant matters (including matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance), through the Plan's Investment Consultants.

Engagement activities

The Trustee also delegates the undertaking of engagement activities to the investment managers, which includes entering into discussions with company management in an attempt to influence behaviour.

The investment manager has discretion over where in an investee company's capital structure it invests (subject to the restrictions of the mandate), whether directly or as an asset within a pooled fund. The Trustee is of the belief that ESG and climate risk considerations extend over the entirety of a company's corporate structure and activities, i.e. that they apply to equity, credit and property instruments or holdings. The Trustee also recognises that ESG and climate-related issues are constantly evolving and along with them so too are the products available within the investment management industry to help manage these risks.

The Trustee considers it to be a part of their investment managers' roles to assess and monitor developments in the capital structure for each of the companies in which the managers invest on behalf of the Plan or as part of the pooled fund in which the Plan holds units.

The Trustee also considers it to be part of their investment managers' roles to assess and monitor how the companies in which they are investing are managing developments in ESG-related issues, and in particular climate risk, across the relevant parts of the capital structure for each of the companies in which the managers invest on behalf of the Plan.

In selecting and reviewing their investment manager, where appropriate and applicable, the Trustee will consider the investment manager's policies on engagement and ESG and how these policies have been implemented. If the Trustee finds that any investment manager is not engaging with the companies in which the manager invests in a suitable manner or is not taking sufficient account of ESG matters in its exercising of voting rights, it will engage with that investment manager with the help of the Plan's Investment Consultants.

The Plan's Investment Consultants, Barnett Waddingham, are independent and no arm of their business provides asset management services. This, and their FCA regulated status, makes the Trustee confident that the investment manager recommendations they make are free from conflict of interest.

The Trustee expects all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so, the Trustee believes they have appropriately managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustee/investment manager and the companies in which the manager invests.