



# **Western Provident Association Pension Scheme**

## **Statement of Investment Principles**

July 2024

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# 01. Introduction

This document constitutes the Statement of Investment Principles (“SIP”) required under Section 35 of the Pensions Act 1995 for the Western Provident Association Pension Scheme (“the Scheme”). This SIP details the matters that are required to be covered under Section 2 of the Occupational Pension Schemes (Investment) Regulations 2005 (the “Regulations”). It also has been prepared in accordance with the Government’s voluntary code of conduct for Institutional Investment in the UK (“the Myners Principles”).

The Investment Adviser is XPS Investment.

The trustee of the Scheme, WPA Pension Trustees Limited, (“the Trustee”) confirms that, in preparing this SIP, they have consulted with the employer, Western Provident Association Limited (“the Association”) and the Scheme Actuary and have obtained and considered written advice from the Investment Adviser. The Trustee believes the Investment Adviser 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 Trustee is responsible for the investment of the Scheme’s assets and arranges administration of the Scheme. In order to meet the requirements of S36 of the Pensions Act (choosing investments), where they are required to make an investment decision the Trustee obtains written advice from the Investment Adviser. They consider this to be proper advice as such term is defined Pensions Act 1995 because the Investment Adviser is authorised and regulated by the Financial Conduct Authority. The Trustee also confirms that they will consult with the Association and take advice from the Advisers prior to this SIP being revised in future.

The Trustee has purchased an insurance policy in the form of a bulk-annuity (otherwise referred to as the “buy-in policy”) which secures the benefits of all Scheme members through an insurance company – with Aviva. The surplus assets – assets not used to purchase the buy-in policy – are invested separately to the insurance policy.

Similarly to before the bulk annuity purchase, these remaining, surplus assets are invested in a life policy offering investment in pooled funds managed by one organisation, rather than directly appointing an individual investment manager. Decisions about which pooled funds to invest in are made after receiving investment advice from the Investment Adviser. The life policy managed by Legal and General Assurance (Pensions Management) Limited (“the Investment Manager”).

In accordance with the Regulations this SIP will be reviewed at least every three years or on a significant change of investment policy.

## 01.01 1.1 Declaration

The Trustee confirms that this SIP reflects the Investment Strategy it has decided to implement. The Trustee acknowledges that it is its responsibility, with guidance from the Advisers, to ensure the assets of the Scheme are invested in accordance with these Principles.

Signed: ..... Date: .....

Name: .....

For and on behalf of the Trustee of the Scheme

## 02. Scheme Governance

The Trustee is responsible for the governance and investment of the Scheme's assets. The Trustee considers that the governance structure set out in this SIP is appropriate for the Scheme as it allows the Trustee to make the important decisions on investment policy having obtained appropriate advice, while delegating the day-to-day aspects to the Investment Manager.

The Trustee has decided not to appoint an Investment Sub-Committee to deal with investment matters.

# 03. Investment Objectives

The Trustee's objectives for the Scheme are:

- to ensure there is a high expectation that payments to beneficiaries of the Scheme can be met, when due, out of the assets of the Scheme; and
- to seek to minimise so far as practicable all foreseeable risks that could impact on the Scheme's ability to meet liabilities when due.

The Trustee believes that these objectives would be best achieved by insuring members' benefits with an insurer and secured the benefits with a bulk annuity purchase in February 2024.. Following discussions throughout the buy-in process, the Trustee expects any surplus assets not paid to the bulk annuity provider to be returned to the Association. The Trustee therefore has regard to the Association's investment objectives when setting its own objectives for the investment of the surplus until it is returned.

# 04. Asset Allocation Strategy

Having considered advice from the Investment Adviser, and also having due regard for the objectives, the Trustee has agreed, in consultation with the Association, invest the majority of assets in a buy-in policy. The purchase of the buy-in policy was made having taken written investment advice from the Investment Adviser. The advice covered the suitability of the insurance policy, whether there was any need for diversification given the Scheme's circumstances and the principles within this Statement. The Trustee has also received separate advice on the suitability of Aviva as the buy-in policy provider.

Due to the size of the Scheme and the nature of the asset allocation strategy, the Trustee has decided to use pooled funds to invest the Scheme's assets in excess of the buy-in policy, via insurance life policy. The day to day responsibility for the investment of the Scheme's assets within the policy rests with the Investment Manager. The asset allocation may change over time (see Section 4.1 of this SIP for further details). The allocation, implemented following advice from the Investment Adviser is set out in Appendix A and any changes to such allocations will only be made after receiving written advice from the Investment Advisers such that the allocation remains consistent with the investment objectives. The appendix will be amended over time to reflect any such changes.

## 04.01 Rebalancing Policy

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There is no automatic rebalancing policy needed. When disinvestments are necessary, if required, the Scheme's Investment Adviser will confirm the assets from which to disinvest

## 04.02 Rates of Return

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The benchmark and target rates of return expected together with the impact of fees and other expenses are detailed in Appendix A for each fund.

# Asset Allocation Strategy

## continued

### 04.03 Diversification

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By securing the benefits of all Scheme members through the buy-in policy, the change in value of the policy will match the change in value of the benefits due under the Scheme, and therefore no investment risk is taken relative to the liabilities.

Regarding surplus assets, the Trustee maintains one policy with the insurer instead of directly holding shares or units in pooled funds. The Scheme is therefore subject to the risk of insolvency of the insurer. Whilst the Trustee has not diversified against this risk, the likelihood of the insolvency of the insurer is considered minimal as it is a regulated Life Insurance Company governed by UK Law and is therefore subject to regular scrutiny by the financial services regulators (Prudential Regulation Authority/Financial Conduct Authority) and has a strong credit rating.

### 04.04 Liquidity

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All of the non-annuity assets are held in pooled funds with frequent dealing dates and which hold underlying assets which would be expected to be realisable at no significant cost.

# 05. Assessment of Performance

## 05.01 Investment Managers

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The Trustee will review the appointment of the Investment Managers in accordance with their responsibilities.

Since the investments are in a cash fund, there is little underperformance risk but the Trustee will keep the reputation of the Investment Manager under review and may consider moving to another insurer if they have significant concerns.

The Trustee receives regular performance monitoring reports from the Investment Manager which consider performance relative to the relevant benchmark(s).. In addition, any significant changes relating to the Trustee's 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 Trustee may carry out a more in-depth review of the particular Investment Manager. The Investment Manager may also attend Trustee's meetings as requested.

The Investment Adviser has also carried out a review of how well the Trustee's guidelines in relation to ESG factors are incorporated into the Investment Manager's processes and the Trustee 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 Trustee's policies and with fee levels deemed by the Investment Adviser to be appropriate for the particular asset class and fund type.

Based on the structure set out in the Appendix, the Trustee considers the arrangements with the Investment Manager to be aligned with the Scheme's overall strategic objectives. Details of each specific mandate are set out in the pooled fund documentation with the Investment Manager.

The Investment Manager is 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 Trustee's expectations, including their selection / deselection criteria.

The Trustee encourages the Investment Manager to make decisions in the long-term interests of the Scheme. As covered in more detail in this document, the Trustee also requires the Investment Manager to take ESG factors and climate change risks into consideration within their decision-making as the Trustee believes these factors could have a material financial impact in the long-term. The Trustee therefore make decisions about the retention of Investment Managers, accordingly.

## 05.02 Portfolio Turnover

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The Trustee also requires 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.

## 05.03 Advisers

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The Trustee will monitor the timeliness and clarity of advice given by its appointed advisers on a regular basis and will assess their performance on the basis of their ability to explain the expected return on investments, how the investments will help the Trustee meet its investment objectives and the risks that will impact on such return.

# 06. Risks

The benefits of all Scheme members are secured by the buy-in policy, effective February 2024. Therefore the requirement of the surplus assets to meet other requirements (e.g. expenses and the Association's objectives) has been considered to ensure that the maximum value for these assets can be realised whilst also that they are invested in such a way that sufficient assets are easily marketable and realisable if and when required.

The Trustee recognises a number of risks involved in the investment of surplus assets of the Scheme:

- i. Interest rate risk – the risk that the surplus assets and intended use of the surplus do not react in the same way to changes in interest rates.
- ii. Inflation risk – the risk that the surplus assets and intended use of the surplus do not react in the same way to changes in inflation expectations.
- iii. Diversification risk – the risk that the Fund is exposed to a significant loss from very specific factors relating to a single investment are considered immaterial because of the low probability of such factors impacting on the Scheme's investments.
- iv. Liquidity risk – the risk that liabilities cannot be met when due is considered too insignificant to measure and is addressed through the use of pooled funds.
- v. Organisational risk – the risk of losses arising through operational mistakes or errors is measured by reference to the number of past such operational losses and is managed by holding pooled funds through a single insurance policy.
- vi. Insurance risk – the Trustees have considered the risk of the insurance policy provider becoming insolvent and note that it has been mitigated as far as practical (as set out in Section 4.3).

The Trustee will keep these risks under regular review.

# 07. Other Issues

## 07.01 Statutory Funding Requirement

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The Trustee's purchase of a buy-in policy is satisfactory with 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 Trustee 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.

## 07.02 Corporate Governance

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The Trustee has considered corporate governance issues and has agreed that they will have no specific policy in place. The Trustee has reviewed the Investment Manager's policy on corporate governance issues and has agreed that all corporate governance decisions should be delegated to the Investment Manager.

## 07.03 Social, environmental and ethical issues

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The Trustee believes that good stewardship and environmental, social and governance ("ESG") issues may have a material impact on investment returns. The Trustee has elected to invest in pooled fixed interest and index linked gilt funds and therefore ESG issues are likely to be minimal. The Trustee is satisfied that the Investment Manager's corporate governance policy (as it relates to the Scheme's investments) reflects the key principles of socially responsible investment. The Trustee has therefore given the Investment Managers full discretion when evaluating ESG issues.

## 07.04 Voting rights

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Since the surplus assets are invested wholly in a cash fund and the majority of assets are invested in a buy-in policy, there are no voting rights to be exercised in relation to the Scheme's investments.

## 07.05 Additional Voluntary Contributions ("AVCs")

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AVCs are currently invested with Aviva.

The Trustee will review the appropriateness of these arrangements from time to time.

# Appendix A

## Current Asset Allocation

Having considered advice from the Investment Adviser, and also having due regard for the objectives, the current liabilities of the Scheme together with their expected timing, the risks of and to the Scheme and the covenant of the Association, the Trustee has decided to invest the majority of assets in a buy-in policy. On the request of the Association, the surplus assets are invested in a cash fund. The Trustee is comfortable with this allocation because it is low risk and hence will preserve capital and it is not unreasonable should, for whatever reason, the surplus be used to augment benefits rather than be returned to the Association as expected.

Gilt/ Fund	Surplus asset allocation
Sterling Liquidity Fund	100%
<b>Total</b>	<b>100%</b>

### A.01 Expected Returns and Performance Monitoring

The Sterling Liquidity Fund aims to provide a competitive return in relation to SONIA (Sterling Overnight Index Average). Performance may be shown relative to this rate, but the Fund does not specifically target this performance objective.

### A.02 Fees

The investment management fees paid to the Investment Manager are ad valorem charges as follows:

Fund	% per annum
Sterling Liquidity Fund	0.125



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**Registration**

XPS Pensions Consulting Limited, Registered No. 2459442.

XPS Investment Limited, Registered No. 6242672.

XPS Pensions Limited, Registered No. 3842603.

XPS Administration Limited, Registered No. 9428346.

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**Authorisation**

XPS Investment Limited is authorised and regulated by the Financial Conduct Authority for investment and general insurance business (FCA Register No. 528774).