Statement of Investment Principles (SIP)

This is the Statement of Investment Principles (the "Statement") made by the Trustees of the Benenden Healthcare Pension Plan ("the Plan") in accordance with the Pensions Act 1995 (as amended). The Statement, which was approved by the Trustees on 30 August 2023, is subject to periodic review at least every three years and without delay after any significant change in investment policy.

In preparing this Statement, the Trustees have consulted with Benenden Healthcare Society Limited and Benenden Hospital Trust as the participating Employers to the Plan and have taken and considered written advice from the Investment Practice of Hymans Robertson LLP.

The Plan is a defined benefit pension plan which has closed to new members and further accrual of benefits. The defined contribution section of the Plan was closed to new contributions on 31 May 2021 and DC member funds were transferred to a Mastertrust arrangement on 20 August 2021.

Plan objective

The primary objective of the Plan is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. The Trustees' over-riding funding principles for the Plan are to set the employer contribution at a level which is sufficient:

- to aim to recover any shortfall in assets relative to the value placed on accrued liabilities over the longer term; and
- to aim to ensure that there are always sufficient assets of the Plan (at their realisable value) to meet 100% of benefits as they fall due for payment to members.

For employee members, benefits are based on past service completed only (following the closure of the Plan in 2018). The value of liabilities is calculated on the basis agreed by the Trustees and the Scheme Actuary. The funding position is monitored regularly by the Trustees and formally reviewed at each triennial actuarial valuation, or more frequently as required by the Pensions Act 2004.

Investment strategy

The Trustees have translated their objectives into a suitable strategic (asset allocation) benchmark for the Plan. The strategic benchmark is consistent with the Trustees' view on the appropriate balance between seeking an enhanced long-term return on investments and accepting greater short-term volatility and risk.

The strategic benchmark is reflected in the benchmarks given to individual investment managers which, in aggregate, are consistent with the overall strategy.

The investment strategy takes account of the maturity profile of the Plan (in terms of the relative proportions of liabilities in respect of pensioner and deferred members), together with the level of disclosed surplus or deficit (relative to the funding bases used) and the Trustees' view of the covenant of the principal employer.

The Trustees monitor strategy relative to its agreed asset allocation benchmark. It is intended that investment strategy will be reviewed at least every three years following actuarial valuations of the Plan. Written advice is received as required from professional advisers.

The Trustees have delegated all day-to-day investment decisions to authorised investment managers.

Choosing investments

The Trustees have appointed four investment managers to manage Plan investments. All investment managers are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Trustees have appointed each of their investment managers to deliver a specific benchmark for each mandate, which overall aims to align to deliver the broader Plan investment strategy. The Trustees ensure that all manager engagements have clearly defined benchmarks, objectives and management parameters.

Where appropriate, and where commercial considerations permit, the terms of the mandate and the basis on which the manager is engaged will be defined specifically for the Plan. Where such tailoring is not directly achievable, the Trustees will invest in pooled funds where the objectives of the fund and the policies of the investment manager will be evaluated by the Trustees to ensure that they are appropriate for the needs of the Plan.

Remuneration for each mandate is determined at the inception of each mandate based on commercial considerations and typically set on an ad valorem basis. Where appropriate to the nature of the mandate, the term of the mandate and the role the mandate plays within the investment strategy, the Trustees may agree to a fee structure where the manager is incentivised to deliver outperformance relative to an agreed benchmark, typically in conjunction with a lower ad valorem fee. The Trustees periodically review the fees paid to all of their managers against industry standards.

The Trustees review the nature of Plan investments on a regular basis, with particular reference to suitability and diversification. The Trustees seek and consider written advice from a suitably qualified person when determining the appropriateness of each manager and mandate for the Plan, particularly in relation to diversification, risk, expected return and liquidity. If, at any time, investment in a security or product not previously known to the Trustees is proposed, appropriate advice is sought and considered to ensure its suitability. The Trustees recognise the long term nature of its liability profile and appoint its managers to invest in such a way that generates long term sustainable returns. The Trustees will carry out necessary due diligence on the underlying investment decision making process, to ensure the manager makes investment decisions over an appropriate time horizon aligned with the Plan objective.

The duration of each mandate is determined by the Trustees at the inception of each mandate. For open-ended investments, the Trustees generally engage managers on an ongoing basis with no pre-determined term of appointment. For such mandates, the Trustees expect the minimum duration of the appointment will be three years, this being the period over which performance of the mandate can be appropriately evaluated although all mandates are subject to ongoing review against various financial and non-financial metrics in addition to their continued appropriateness within the investment strategy. For close-ended investments, the Trustees expect the term of the appointment to be the lifetime of the investment.

The Trustees review the performance of each of their managers and mandates on a regular basis against a series of metrics, including financial performance against the benchmark and objectives of the mandate, the exercise of stewardship responsibilities (including engagement with issuers) as set out in greater detail below, and the management of risks. Material deviation from performance or risk targets is likely to result in the mandate being formally reviewed.

A summary of the Plan’s investment mandates and the respective benchmarks is included in the appendix.

Kinds of investment to be held

The Plan may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and commodities either directly or through pooled funds.

The Plan may also make use of contracts of insurance, derivatives and contracts for difference (or in pooled funds investing in these products) for the purpose of efficient portfolio management or to hedge specific risks. The Trustees acknowledge the importance of maintaining sufficient liquidity within the investment strategy, especially in relation to derivatives-based mandates that employ leverage, as detailed further below. The Trustees consider all of these classes of investment to be suitable in the circumstances of the Plan.

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

Balance between different kinds of investments

The Plan's investment managers will hold a mix of investments which reflect their views relative to their respective benchmarks or return targets. Within each major market each manager will maintain a diversified portfolio of stocks.

Risk

The Plan is exposed to a number of risks which pose a threat to the Plan meeting its objectives. The principal risks affecting the Plan are:

Funding risks

- Financial mismatch – The risk that Plan assets fail to grow in line with the developing cost of meeting the liabilities.

- Changing demographics –The risk that longevity improves and other demographic factors change, increasing the cost of the Plan benefits.

- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Plan's liabilities. Climate change is a particular systemic risk that has the potential to cause economic, financial and demographic impacts.

The Trustees measure and manage financial mismatch in two ways. As indicated above, the Trustees have set a strategic asset allocation benchmark for the Plan. The Trustees assess risk relative to that benchmark by monitoring the Plan's asset allocation and investment returns relative to the benchmark. The Trustees also assess risk relative to liabilities by monitoring the delivery of returns relative to liabilities.

The Trustees keep mortality and other demographic assumptions, which could influence the cost of benefits, under review. These assumptions are considered formally at triennial valuations and the Trustees may enter into insurance contracts (bulk annuities or longevity swaps) to reduce these demographic risks.

The Trustees seek to mitigate systemic risks through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.

- Illiquidity - The risk that the Plan cannot meet its immediate liabilities because it has insufficient liquid assets.

- Currency risk – The risk that the currency of the Plan's assets underperforms relative to Sterling (i.e. the currency of the liabilities).

- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.
- Environmental, Social and Governance (ESG) risks – the extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations.
- Climate risk - The extent to which climate change causes a material deterioration in asset values as a consequence of factors including but not limited to policy change, physical impacts and the expected transition to a low-carbon economy.
- Leverage risk – the risk that leveraged exposure to interest rates, inflation or equity markets (via derivatives) causes a liquidity strain through calls for additional collateral, potentially at short notice.

The Trustees manage asset risks as follows.

By investing across a range of assets, including quoted equities and bonds, the Trustees recognise the need to access funds in the short term to pay benefits. The risk of manager underperformance is mitigated by the inclusion of index tracking investment mandates within the investment portfolio.

In appointing several investment managers, the Trustees have considered the risk of underperformance by any single investment manager.

The Trustees do not expect managers to take excess short term risk and will regularly monitor the managers' performance against the benchmarks and objectives set on a short, medium and long terms basis.

The Trustees' approach to the consideration of ESG risks and climate risk is set out in further detail below.

The Trustees mitigate leverage risk through regular monitoring of collateral sufficiency including stress testing of collateral levels.

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers.
- Custody risk - The risk of loss of Plan assets when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

The Trustees monitor and manage risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Plan, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). When carrying out significant transitions, the Trustees seek professional advice.

Expected return on investments

The investment strategy aims to achieve a return on Plan assets, which taken in conjunction with contributions, is sufficient over time to match growth in the Plan's pension liabilities.

Realisation of investments

The majority of the Plan's investments may be realised quickly if required. Property and Multi Asset Credit, which together represent approximately 20% of total Plan assets at the date of writing, may be difficult to realise quickly in certain circumstances.

Portfolio turnover

The Trustees have expectations of the level of turnover within each mandate which is determined at the inception of the mandate, based on the Trustees' knowledge of the manager, investment process and the nature of the portfolio. Whilst the Trustees expect performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustees expect managers to report on at least an annual basis on the underlying assets held within the portfolio and details of any transactions over the period. The Trustees will challenge their managers if there is a sudden change in portfolio turnover or if the level of turnover seems excessive.

Consideration of financially material factors in investment arrangements

The Trustees recognise that the consideration of financially material factors over the appropriate time horizon of the investments, including ESG factors, is relevant at different stages of the investment process. The Trustees further recognise that the financial materiality of any factor, including ESG factors, is context-specific and that whilst some factors may be relevant to certain stocks/assets, they may not be relevant to others.

The Trustees will consider such factors in the development and implementation of their investment arrangements, for the purposes of determining the selection, retention and realisation of investments, where there is sufficient data or evidence to allow them to systematically do so. Where there is not sufficient data or evidence, they will engage with their investment managers to ensure they take such considerations into account within their decision making.

Strategic considerations

The strategic benchmark has been determined using appropriate long-term economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors.

Given the inherent uncertainty, the Trustees have not made explicit allowance for the risks of climate change in setting their strategic benchmark. The Trustees periodically discuss climate change with their investment adviser/investment managers to consider the potential implications for the Plan's investments.

Structural considerations

Given the discretion afforded to the active Investment Managers, the Trustees expect that their Investment Managers will take account of all financially material factors including the potential impact of ESG factors in the implementation of their mandate.

Selecting investment managers

Within active mandates, the Trustees have delegated responsibility for the consideration of stock specific issues to their individual Investment Managers. The Trustees are satisfied that the Investment Managers are following an approach which takes account of all financially material factors.

In passive mandates, the Trustees recognise that the choice of benchmark dictates the assets held by the investment manager and that the manager has minimal freedom to take account of factors that may be deemed to be financially material. The Trustees accept that the role of the passive manager is to deliver returns in line with the benchmark and believe this approach is in line with the basis on which their current strategy has been set.

In selecting new investment managers for the Plan, where relevant to the investment mandate, the Trustees explicitly consider potential managers' approach to responsible investment and the extent to which managers integrate ESG issues in the investment process as a factor in their decision making.

The Trustees meet with the Plan's investment managers regularly, and the managers are expected to address manager performance and company engagement. Managers will be challenged on their approach where this is not aligned to the Trustees' policies.

The Trustees expect its investment consultants to provide input and analysis to assist the Trustees in assessing their managers' performance. Where necessary, the Trustees will highlight any areas of concern identified during such reviews to the manager as part of its engagement process and request that the manager takes appropriate action. This may include concerns over performance, risk management, stewardship practices, investment process and operational issues and, where such concerns are raised, the Trustees will require the manager to demonstrate levels of improvement. Failure to achieve the desired improvements will result in the mandate being reduced or terminated.

Consideration of non-financially material factors in investment arrangements

The Trustees have not imposed any restrictions or exclusions to the investment arrangements based on non-financially material factors.

Stewardship

The Trustees recognise that stewardship encompasses the exercise of voting rights, engagement by and with investment managers and the monitoring of compliance with agreed policies.

Voting and engagement

The Trustees have adopted a policy of delegating voting decisions on stocks to their Investment Managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. The Investment Managers are expected to exercise the voting rights attached to individual investments in accordance with their own house policy.

Where appropriate, the Trustees will engage with and may seek further information from their Investment Managers on how portfolios may be affected by a particular issue.

The Trustees do not engage directly but actively encourages its Investment Managers to engage with key stakeholders which may including corporate management, regulators and governance bodies, relating to their investments in order to consider the management of conflicts of interest and improve corporate behaviours, improve performance and mitigate financial risks. Where necessary, Investment Managers are expected to notify the Trustees of any issue on which it may be beneficial for the Trustees to undertake further engagement. The Trustees will review engagement activity undertaken by their investment managers as part of its broader monitoring activity.

Responsibility for investment decisions has been delegated to the investment managers which includes consideration of the capital structure of investments and the appropriateness of any investment made. Where managers are responsible for investing in new issuance, the Trustees expect the manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors.

The Trustees separately consider any conflicts of interest arising in the management of the Plan and its investments and has ensured that each manager has an appropriate conflicts of interest policy in place.

Monitoring

Investment Managers report on voting activity to the Trustees on a periodic basis. The Trustees will monitor Investment Managers' voting activity and may periodically review managers' voting patterns. The Trustees may also monitor Investment Managers' voting on particular companies or issues affecting more than one company.

The Trustees review manager voting activity on an annual basis in conjunction with their investment adviser and use this information as a basis for discussion with their investment managers. Where the Trustees deem it appropriate, any issues of concern will be raised with their manager for further explanation.

The Trustees aim to meet with all their Investment Managers on an annual basis. The Trustees provide their managers with an agenda for discussion, including issues relating to individual holdings and, where appropriate, ESG issues. Managers are challenged both directly by the Trustees and by their investment advisers on the impact of any significant issues including, where appropriate, ESG issues that may affect the prospects for return from the portfolio.

Appendix – Summary of Investment Mandates

The Trustees have selected the following Investment Managers to manage the assets of the Plan, with the mandates set out below. They are regulated under the Financial Services and Markets Act 2000.

Asset Class	Fund	Benchmark	Management style	Strategic Asset Allocation	Control Limits (+/-)
Diversified Growth Fund	Nordea Diversified Return Fund	SONIA + 4% p.a.	Active	10%	
Property	Schroders UK Real Estate Fund	MSCI UK All Balanced Property Fund Index Weighted Average	Active	2.5%	
Total Growth (Physical)				**12.5%**	5%
Global Equities	Schroders Synthetic Equity Exposure*	MSCI World Index (GBP hedged)**	Passive	15%	
Total Growth (Physical + Synthetic)				**27.5%**	5%
Multi Asset Credit	CQS Multi Asset Credit Fund	SONIA + 4% p.a	Active	17.5%	
Absolute Return Bonds	Payden & Rygel Absolute Return Bond Fund	ICE BoA 1-Month Deposit Offered Rate Constant Maturity Index	Active	10%	
Total Income				**27.5%**	5%
Liability Driven Investment (LDI)	Schoders Segregated LDI	Liability benchmark (Interest rate and inflation target hedging level of 80% of liabilities on Gilts + 0.5% basis)	Active	60%	
Total Protection				**60%**	5%
Total				**100%**	

**The allocation to synthetic equity is supported by the collateral held by Schroders backing the LDI mandate. As a result, the allocations shown in the table above add to 115% including the exposure from the synthetic equity holding, but 100% excluding this allocation.*

***The mandate aims to replicate returns of the MSCI World Index (GBP hedged) by investing in a weighted basket of regional equity indices. The approximate proportions at inception on 30 November 2022 were: 70% US (S&P 500), 15% Europe (EuroStoxx 50), 10% Japan (Nikkei 225) and 5% UK (FTSE 100).*