

Statement of Investment Principles

1 Introduction

- 1.1 This is the Statement of Investment Principles (the “Statement”) made by the Trustees of the Arts Council Retirement Plan (1994) (“the Trustees”, “the Plan”) in accordance with the Pensions Act 1995 (as amended). In preparing this Statement, the Trustees have consulted with the Principal Employer to the Plan and have taken and considered written investment advice from Hymans Robertson LLP.
- 1.2 The Statement is subject to periodic review at least every three years and without delay after any significant change in investment policy.

2 Investment beliefs

- 2.1 The Trustees have determined their investment beliefs which reflect the way in which they will translate their objectives into actual investment arrangements for the Plan. These investment beliefs are set out in Appendix 1.

3 Plan objectives

- 3.1 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 build up assets to provide for new benefits of active members as they are earned;
 - to recover any shortfall in assets relative to the value placed on accrued liabilities over the longer term; and
 - 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.
 - to aim to maintain stable employer contribution rates over the medium term.
- 3.2 The value of liabilities is calculated on the basis agreed by the Trustees and the Plan Actuary; the Trustees also consider the Plan’s funding position on a more stringent minimum risk basis. These funding positions are monitored regularly by the Trustees and formally reviewed at each triennial actuarial valuation, or more frequently as required by the Pensions Act 2004.

4 Investment strategy

- 4.1 The Trustees have translated their objectives into a suitable long-term strategic asset allocation benchmark for the Plan. This strategy is set out below and further detail of the implementation of the long-term benchmark is provided in Appendix 2.

Asset Class	Long term benchmark allocation	Control range
Equity	40%	36 - 44%
Multi-Asset	2.5%	0 - 5%
Property	10%	8 - 12%
Infrastructure	17.5%	14 - 21%
Corporate Bonds	10%	8 - 12%
Index linked gilts	20%	17 - 23%

Rebalancing Policy

4.2 The Trustees have implemented a rebalancing policy based on the following priorities:

- 1 Maintaining the desired strategic risk / expected return balance across the Plan's assets; and
- 2 Maintaining the desired allocation between the various managers.

The rebalancing process will determine whether the split between growth, income and protection assets are within the set control ranges outlined in the above table. The process will also determine which managers are most overweight or underweight relative to their target allocations. If the control ranges for the investment categories have been breached then, all other things being equal, this would prompt rebalancing between the portfolios. As part of the process, the Trustees will also look to lock in gains when a particular asset class or manager outperforms relative to the others, and buy into relatively 'cheap' asset classes or managers when they underperform.

In practice, the investment advisers will monitor the asset positions post quarter-ends and overlay the relative allocations with rebalancing advice, considering market views and the Plan's strategic developments at the time.

- 4.3 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 choice and mix of funds in which the Plan invests.
- 4.4 The investment strategy takes due account of the maturity profile of the Plan (in terms of the relative proportions of liabilities in respect of pensioners and non-pensioners), together with the level of disclosed surplus or deficit (relative to the funding bases used) and the Trustees' view of the covenant of the sponsoring employers.
- 4.5 The Trustees monitor the 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.
- 4.6 The Trustees monitor the performance of Plan investments relative to agreed criteria on a regular basis and have delegated all day to day investment decisions to authorised investment managers.

5 Implementation of investment strategy

Choosing investments

- 5.1 The Trustees have appointed five investment managers to manage the Plan's investments. All investment managers are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The Trustees, after taking appropriate advice, have given the investment managers specific guidelines including, but not limited to, asset allocation and geographic spread, and how investment

mandates are to be managed. Stock selection decisions have been delegated to these managers, subject to their respective benchmarks and asset guidelines.

- 5.2 Given the size of the Plan, the Trustees have decided to invest on a pooled fund basis; any such investment is effected through a direct agreement with the investment managers or through an insurance contract. In either event, the investment manager of each underlying pooled fund has full discretion over the choice of individual stocks and is expected to maintain a diversified portfolio. The Trustees are satisfied that the pooled funds selected are consistent with the objectives of the Plan, particularly in relation to diversification, risk, expected return and liquidity.
- 5.3 Assets are invested both actively and passively. An active mandate seeks to deliver investment returns which are in excess of an index benchmark or to achieve a particular return objective whilst a passive mandate seeks to deliver investment returns which are in line with the benchmark.
- 5.4 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 in undertaking such a review. 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 and diversification.

Kinds of investment to be held

- 5.5 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, infrastructure, and commodities either directly or through pooled funds.
- 5.6 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 consider all of these classes of investment to be suitable in the circumstances of the Plan.

Balance between different kinds of investments

- 5.7 The Plan's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks or return targets. Within each major market each manager will maintain a diversified portfolio of stocks.
- 5.8 The manager of the passive funds in which the Plan invests holds a mix of investments within each pooled fund that reflects the respective benchmark indices.

Expected return on investments

- 5.9 The investment strategy aims to achieve a return on Plan assets which is expected to exceed the rate of return assumed by the Scheme Actuary in valuing the Plan's liabilities.

Realisation of investments

- 5.10 The majority of the Plan's investments may be realised quickly if required. Property and infrastructure investments may be difficult to realise quickly in certain circumstances although the Trustees believe that they are adequately compensated for the relative illiquidity of these investments.

Manager engagement

- 5.11 The Trustees appoint investment managers, each with a mandate that fulfils in part the needs of the investment strategy, and ensures that the benchmark, objective and management parameters for each mandate is aligned with the requirements of the Plan.

- 5.12 As noted in 5.2, the Trustees 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. The Trustees will take advice in determining the appropriateness of each manager and mandate for the Plan. By investing in this manner, the Trustees are confident that the managers appointed will make decisions which are commensurate with the period over which the Trustees expect to be invested in each mandate.
- 5.13 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 reconsidering their continued appropriateness within the investment strategy. For closed-ended investments, the Trustees expect the term of the appointment to be the lifetime of the investment and will ensure that such term is appropriate for the Plan.
- 5.14 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 consider and agree to a fee structure where the manager is incentivised to deliver outperformance relative to an agreed benchmark. The Trustees periodically review the fees paid to all of their managers against industry standards.
- 5.15 The Trustees review the performance of each of the 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 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. The Trustees draw input from their investment adviser to support any such review of and engagement with the investment managers. Where necessary, the Trustees will highlight any areas of concern identified during such reviews to the manager as part of their 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 terminated.
- 5.16 The Trustees have expectations of the level of turnover within each mandate which are determined at the inception of the mandate, based on the Trustees' knowledge of the manager, investment process and the nature of the underlying portfolio. Whilst the Trustees expect financial performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustees also 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, including details of the costs associated with transactions. The Trustees will challenge the manager if there is a material deviation in portfolio turnover from expectations or historic experience within the mandate.

6 Risk

Funding Risks

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

- **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.

6.2 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 risks relative to liabilities by monitoring the progression of the funding level of the Plan over time.

6.3 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. The Trustees may enter into insurance contracts (bulk annuities or longevity swaps) to reduce these demographic risks.

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

Asset risks

6.5 The Trustees recognise that their investments are exposed to a range of asset specific risks which include:

- **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.

6.6 The Trustees provide a practical constraint on Plan investments deviating greatly from the intended approach by investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within their expected parameters.

- 6.7 By investing across a range of assets, including quoted equities and bonds, the Trustees recognise the potential need to access funds in the short term to pay benefits. The risk of manager underperformance is mitigated by the inclusion of passive investment mandates within the investment portfolio. In appointing several investment managers, the Trustees have considered the risk of underperformance by any single investment manager.
- 6.8 The Trustees have adopted a policy of hedging 50% of currency exposure on overseas equity assets. This is implemented through investment in currency hedged share classes of the equity funds in which the Plan invests.

Other provider risk

- 6.9 The Trustees recognise that investment risk arises in the operational management of the Plan and have identified the following major risks:
- **Transition risk:** The risk of incurring unexpected costs in relation to the transition of assets between managers.
 - **Custody risk:** The risk of losing economic rights to Plan assets, when held in custody or when being traded.
 - **Credit default:** The possibility of default of a counterparty in meeting its obligations.
- 6.10 Given the strategy is implemented through pooled funds, the Trustees delegate the monitoring and management of operational risks to the appointed investment managers. The Trustees monitor and manage risks in these areas through a process of regular scrutiny of the managers and audit of the operations it conducts for the Plan. When carrying out significant transitions, the Trustees seek professional advice.

7 Consideration of financially material factors

- 7.1 The Trustees recognise that a number of factors, including ESG factors, create uncertainty in the future returns that may be achieved from their investment strategy. 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 systematically to do so. Where there is insufficient data or evidence, they expect that their investment managers take such considerations into account within their decision making. In framing their strategic asset allocation, the Trustees have considered market level assumptions which reflect the combined impact of all operational factors, including ESG factors, on the risk and return from a particular asset class.
- 7.2 The Trustees expect their investment managers to take all financially material factors into account where relevant and the terms of the mandate permit.
- 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 index benchmark and believe this approach is in line with the basis on which their current strategy has been set. The Trustees will review the index benchmarks employed for the Plan at least every three years. However, even within passive

mandates the Trustees expect the investment manager to engage actively with the management of companies in which the fund is invested.

- In active mandates, the Trustees recognise that the manager has freedom to exercise discretion as to the choice of assets held. The Trustees expect their managers to take into account all financially material factors in the selection of assets within their portfolios and to be able to demonstrate their approach when challenged.

- 7.3 In appointing new investment managers, the Trustees will explicitly consider the managers' ability to integrate the consideration of ESG factors within their investment process. The Trustees will also periodically review their investment managers and seek evidence that managers are meeting the Trustees' expectations with regard to the integration of ESG factors.
- 7.4 The Trustees recognise that climate change poses a long-term systemic risk which could affect the returns achieved from their investment strategy. The Trustees have taken steps to mitigate climate risk in the implementation of their strategy through the inclusion of equity mandates that make explicit allowances for climate-related risks. The Trustees will regularly review exposure to climate related risks with their investment managers and advisers.

8 Stewardship & Engagement

- 8.1 The Trustees aim to meet with all their investment managers on a rotational basis. Ahead of each meeting, the Trustees provide their managers with an agenda for discussion. 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.
- 8.2 The Trustees have identified priority stewardship themes that they will look to address in their ongoing engagements with managers. The purpose of prioritising certain themes is to bring greater focus to the Trustees' manager engagement sessions and to promote consistency within the Trustees' governance and disclosure requirements. The themes are not exhaustive, and the Trustees may also engage with managers on additional topics as appropriate. The themes are expected to be in place for a period of several years given their enduring nature, and will be tested by the Trustees periodically. The Trustees' priority stewardship themes are detailed in Appendix 3.
- 8.3 The Trustees have adopted a policy of delegating voting decisions on stocks to their Investment Managers who will exercise the voting rights attached to individual investments on their behalf in accordance with their own house policy. The Trustees have reviewed the voting policies of their investment managers and the approach adopted and determined that these policies are appropriate. On an annual basis, the Trustees will request their investment managers to provide details of any change in their house policy.
- 8.4 The Trustees do not engage directly with issuers but actively encourage their investment managers to engage with key stakeholders which may include 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 their broader monitoring activity.
- 8.5 Responsibility for investment decisions has been delegated to the investment managers, which includes consideration of the capital structure of investments and the ongoing appropriateness of any investments 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.

- 8.6 The Trustees separately consider any conflicts of interest arising in the management of the Plan and its investments and have ensured that each manager has an appropriate conflicts of interest policy in place. Managers are required to disclose any potential or actual conflict of interest to the Trustees.
- 8.7 Investment managers report on voting and engagement activity to the Trustees on a periodic basis. The Trustees will monitor such activity and may periodically review and compare managers' voting patterns, particularly in relation to the Trustees' priority stewardship themes. The Trustees may also monitor investment managers' voting on particular companies or issues affecting more than one company. Where the Trustees deem it appropriate, they will raise issues of concern in respect of voting activity directly with their managers.
- 8.8 The Trustees will review the reporting provided by their investment managers on an annual basis and will, if appropriate, request the disclosure of additional information if it will assist the Trustees in their monitoring of managers or in order to fall in line with evolving best practice. The Trustees have also requested that their investment adviser provide an annual ESG assessment of their investment strategy and appointed managers.

9 Other issues

- 9.1 **Non-financially material factors.** The Trustees do not have a policy of applying exclusions or restrictions to investment arrangements based on non-financially material factors. The Trustees have made investments in global equity funds that employ exclusionary policies. The Trustees recognise the rationale for the use of such policies by the respective fund managers and do not believe this will have a material impact on financial outcomes.

Appendix 1 – Trustees’ Statement of Investment Beliefs

Governance

- Clear and well-defined objectives are essential to reflect the Plan’s long-term strategic direction of travel and to help build a plan for achieving these objectives.
- The Plan and its liabilities are long-term in nature and the Trustees support long term investing as a means of enhancing returns, reducing transaction costs, encouraging improved governance and delivering stable contribution rates.
- Fees and costs matter; investment managers’ fees should be transparent and reviewed regularly.

Investment strategy

- Strategic asset allocation is a key determinant of risk and return, and thus is typically more important than manager or stock selection.
- Risks should be rewarded. The Trustees believe that investing in certain asset classes offers an adequate risk premium as a reward to justify the risk and are willing to accept the greater volatility associated with such risks.
- Diversification is expected to reduce the overall volatility of investment returns although diversification over many different managers needs to be balanced against the Trustees’ governance budget.

Investment Structure

- There is generally a positive relationship between the level of investment risk taken and the rate of expected investment return. However, for certain investments, it may take a long period of time for this relationship to be established.
- Passive management has a role to play in the Plan’s investment structure, most notably in more efficient equity markets.
- Active management can add value in some markets although outperformance is not guaranteed. Where it is used, the Trustees believe active managers should not be unnecessarily constrained.
- In the light of the very long-term nature of the liabilities in an open fund, the Trustees believe that they should be able to access a premium for illiquidity.

Responsible Investment

- A responsible investment policy can be implemented using third party products or delegated to third parties; in either case policies should be regularly monitored, and implementation of the policies challenged. It’s incumbent on the Trustees to ensure that those they select to implement their strategy are closely aligned with the values and beliefs of the Trustees.
- Investment managers have the ability to positively influence corporate behaviours through engagement and the exercise of voting rights. Where change is deemed appropriate then managers should be prepared to hold companies to account and drive change. An unwillingness to act, either by the manager or by the corporate, should always be challenged.
- Environmental and societal factors are expected to create long term change which will give rise to both investment risks and opportunities for additional returns. The Trustees can have a positive environmental and/or social impact by investing with the expectation of change whilst also recognising that such change will create short term risk. Where impact is expected, efforts should be made to measure it.

Appendix 2 – Benchmark asset allocation

The Plan's long-term target benchmark asset allocation was reviewed in 2023 and is currently as follows:

Manager	Asset Class	Benchmark Asset Allocation %	Benchmark and Target
LGIM	Global Equity (Currency Hedged)	10.0	Solactive L&G ESG Global Markets Index – GBP Hedged
	Global Multifactor Equity	10.0	FTSE All-World ex CW Climate Balanced Factor Index
	Global Multifactor Equity (Currency Hedged)	10.0	FTSE All-World ex CW Climate Balanced Factor Index – GBP Hedged
Storebrand	Global Equity	10.0	MSCI World Net Return Index
Baillie Gifford	Absolute Return	2.5	UK Base Rate + 3.5% p.a.
Federated Hermes	Property	10.0	MSCI/AREF UK Other Balanced Property Fund Index
IFM	Core Infrastructure	10.0	Target (net) return of 10.0% p.a.
	Renewable Energy Infrastructure	2.5	Target (net) return of 8.0% p.a.
Quinbrook	Renewable Energy Infrastructure	5.0	Target (net) IRR of 13.0% p.a.
LGIM	Index-Linked Gilts	20.0	FTSE A Index-Linked >5 Years Index
	Corporate Bonds	10.0	iBoxx £ Non-Gilts (ex BBB) Over 15 Years Index

Appendix 3 – Trustees' priority stewardship themes

Environmental theme

Achieving net zero: we will aim to monitor whether our managers and the companies within their portfolios are focused on ensuring companies are on a trajectory to decarbonise their activity. Within this, we will specifically focus on:

- Climate change: Decarbonisation of industry, looking to ensure that those companies with high emissions are taking strategic actions to make changes in line with the goal of reaching zero carbon emissions (SDGs 12 & 13).
- Biodiversity: Addressing deforestation, looking to ensure that those companies affected are taking steps to pursue actions that will reduce deforestation (SDGs 14 & 15).

Social theme

Good employment practices: we will aim to ensure that our managers and the companies within their portfolios are focused on promoting good employment practices. Within this, we will specifically focus on:

- Decent work & employment practices: looking to ensure that those companies involved in manufacturing are protecting labour rights and promoting safe and secure working environments (SDG 8).
- Diversity & Inclusion: ensuring companies are providing equal opportunities and are actively reducing inequalities, promoting inclusion irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status, particularly in the context of emerging markets. Where there are cultural barriers that impact companies in emerging markets, understanding what steps are being taken to achieve fair representation (SDGs 5 & 10).

Governance theme

Good quality disclosures: we will aim to ensure that our managers and the companies within their portfolios provide timely, accurate disclosures, in particular with respect to the provision of financially material ESG data. Where data may be challenging or uneconomic to collect, e.g. private markets, understanding what actions are being taken to ensure ESG risks are being properly managed.