



# **The Royal Zoological Society of Scotland Pension Fund**

## **Statement of Investment Principles**

July 2024

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# 01 Introduction

This document constitutes the Statement of Investment Principles ('the SIP') required under Section 35 of the Pensions Act 1995 for The Royal Zoological Society of Scotland Pension Fund ('the Fund'). It describes the investment policy being pursued by the Trustee of the Fund and is in accordance with the Government's voluntary code of conduct for Institutional Investment in the UK ("the Myners Principles"). This SIP also reflects the requirements of Occupational Pension Funds (Investment) Regulations 2005.

The Scheme Actuary is Gerry Devenney of XPS Pensions Group and the Investment Adviser is XPS Investment (collectively termed 'the Advisers').

The Trustee confirms that, before preparing this SIP, they have consulted with the employer, The Royal Zoological Society of Scotland ('the Society') and the Advisers and have obtained and considered written advice. The Trustee believes the Advisers to be qualified by their ability and practical experience of financial matters and to have appropriate knowledge of the investment arrangements that the Fund requires.

The Trustee is responsible for the investment of the Fund's assets and the administration of the Fund. Where it is required to make an investment decision, the Trustee always receives advice from the Advisers first and they believe that this ensures that they are appropriately familiar with the issues concerned.

The Trustee is responsible for the investment of the Fund's assets and arranges administration of the Fund. Where he is required to make an investment decision, the Trustee always receives advice from the relevant Advisers first and believes that this ensures that he is appropriately familiar with the issues concerned.

In accordance with the Financial Services & Markets Act 2000 ('FSMA'), the Trustee sets general investment policy, but has delegated the day-to-day investment of the Fund's assets to a professional Investment Manager. The Investment Manager is authorised under the FSMA and provide the expertise necessary to manage the investments of the Fund.

## 01.01 Declaration

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The Trustee confirms that this Statement of Investment Principles reflects the Investment Strategy they have decided to implement. The Trustee acknowledges that it is their responsibility, with guidance from the Advisers, to ensure the assets of the Fund are invested in accordance with these Principles.

## 02 Fund Governance

The Trustee is responsible for the governance and investment of the Fund's assets. The Trustee considers that the governance structure set out in this SIP is appropriate for the Fund as it allows the Trustee to make the important decisions on investment policy, while delegating the day-to-day aspects to the relevant Advisers. The responsibilities of each of the parties involved in the Fund's governance are detailed in Appendix A.

# 03 Investment Objectives

The main objective of the Fund is to operate an investment strategy that provides sound long term growth and appropriate security for all beneficiaries.

# 04 Asset Allocation Strategy

Having considered advice from the Investment Adviser, and also having due regard for the objectives, the liabilities of the Fund, the risks of and to the Fund, the covenant of the Society and the Fund's contingent asset, the Trustee has decided that the assets should be invested in such a way that provides a suitable split between return-seeking and matching assets.

The asset allocation decided upon by the Trustee, following advice from the Advisers, to best meet the investment strategy is set out in Appendix B. The Trustee, in conjunction with the Investment Adviser, will monitor the actual asset allocation of the Fund.

## 04.01 Rebalancing Policy

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The proportions invested in each asset class will be managed by the Investment Manager's specified benchmark. The Trustee, in conjunction with the Advisers, will monitor the actual asset allocation of the Fund on a regular basis. If the actual allocation moves +/- 5% from the strategic allocation, the Trustee will make a decision as to whether to switch assets back to the strategy following consideration of advice.

## 04.02 Diversification

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The choice of asset classes is designed to ensure that the Fund's investments are adequately diversified given the Fund's circumstances. The Trustee will monitor the strategy regularly to ensure that he is comfortable with the level of diversification.

### 04.01 Suitability

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The Trustee has taken advice from the relevant Advisers to ensure that the asset allocation strategy is suitable for the Fund, given its liability profile, any legal requirements, regulatory guidance and specifications in the Trust Deed.

### 04.02 Liquidity

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All of the non-cash assets are held in pooled funds with frequent dealing dates.

### 04.01 Alignment of Objectives

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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 guidelines, agreements and pooled fund documentation with the Investment Manager.

The amounts allocated to any individual category or security will be influenced by the overall benchmark and objectives, varied through the Investment Manager's tactical asset allocation preferences at any time, within any scope given to them through any asset allocation parameters or guidelines set by the Trustee or governing the pooled funds in which the Fund is invested.

The Trustee will ensure that the Scheme's assets are invested in regulated markets to maximise their security.

The Investment Manager is incentivised to perform in line with expectations for their specific mandate as their continued involvement as Investment Manager 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 the selection / deselection criteria.

## **Asset Allocation Strategy**

continued

The Trustee encourages the Investment Manager to make decisions in the long-term interests of the Fund. The Trustee expects engagement with management of the underlying issuers of debt or equity and the exercising of voting rights in line with the investment mandate guidelines provided.

This expectation is based on the belief that such engagement can be expected to help the Investment Manager to mitigate risk and improve long term returns.

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 makes decisions about the retention of Investment Managers, accordingly.

# 05 Strategy Implementation

## 05.01 Mandate and Performance Objectives

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The Trustee has received advice on the appropriateness of each pooled fund that the Fund is invested in from the Advisers and believes them to be suitable to meet the Fund's investment objectives. The benchmark for each fund currently held and its objectives are set out in Appendix B.

## 05.02 Manager Agreement

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The Fund invests in pooled funds managed by the Investment Manager and governed by an investment management agreement.

## 05.03 Diversification

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The assets are invested in pooled funds across different asset classes. Each pooled fund holds a diversified portfolio of assets where applicable. The Trustee will monitor the strategy regularly to ensure that they are comfortable with the level of diversification being achieved.

## 05.04 Custody

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Custody of the underlying assets is at the discretion of the pooled funds, whilst shares and/or units in the funds are held in book form only.



# 06 Monitoring

## 06.01 Pooled Funds

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The Trustee will monitor the performance of the Investment Manager against the agreed performance objectives.

The Trustee, or the Advisers on behalf of the Trustee, will regularly review the activities of the Investment Manager to satisfy himself that the Investment Manager continues to carry out its work competently and has the appropriate knowledge and experience to manage the assets of the Fund.

As part of this review, the Trustee will consider whether or not the Investment Manager:

- is carrying out its functions competently; and
- has been exercising its powers of investment with a view to giving effect to the principles contained in this SIP, so far as is reasonably practical.

If the Trustee is not satisfied with the Investment Manager he will ask the Investment Manager to take steps to rectify the situation. If the Investment Manager still does not meet the Trustee's requirements, he will remove the Investment Manager and appoint another.

## 06.02 Portfolio turnover Costs

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The Trustee requires the Investment Manager 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. The Trustee does not believe it appropriate to set a specific turnover limit, but does expect the Investment Manager to be able to justify any higher than expected turnover as part of their reporting.

## 06.03 Investment manager Duration

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Appointments of Investment Managers are expected to be long-term, but the Trustee will review the appointment of the Investment Managers in accordance with their responsibilities.

## 06.04 Performance and remuneration Reporting

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The Trustee will receive, and consider, regular performance monitoring reports from the Investment Adviser which review performance over the quarter, one and three year periods.

This monitoring helps 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 a particular Investment Manager. Investment Managers will also attend Trustee 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.

## 06.05 Advisers

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The Trustee will monitor the advice given by the Advisers on a regular basis.

## 06.06 Other

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The Trustee is required to review this SIP on a triennial basis, or, without undue delay, following any changes to the investment strategy.

# 07 Fees

## 07.01 Investment Manager

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Investment 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.

The Trustee will ensure that the fees paid to the Investment Manager is consistent with levels typically available in the industry and the nature of services provided. The current fee basis for each Investment Manager's funds is set out in Appendix B.

The Trustee is aware of the Investment Manager's policy regarding soft commission arrangements. The Investment Manager discloses its fees, commissions and other transaction costs in accordance with the Financial Conduct Authority ('FCA') Disclosure Code.

## 07.02 Advisers

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Fees paid to the Advisers are based either on actual time spent and hourly rates for relevant individuals, or on fixed fees agreed in advance for specifically defined projects.

## 07.03 Custodian

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There is no custodian appointed directly by the Trustee.

## 07.04 Trustee

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The Trustee is a sole independent Trustee, and is paid directly for his duties.

# 08 Risks

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

- i. The risk of failing to meet the objective as set out in Section 3 – the Trustee will regularly monitor the investments to mitigate this risk.
- ii. The risk of adverse consequences arising through a mismatch between the Fund's assets and its liabilities – this is addressed through the asset allocation strategy and through regular actuarial and investment reviews and the funding target.
- iii. Risk of lack of diversification of investments – addressed through the asset allocation policy and through the use of diversified growth funds.
- iv. Risk of holding assets that cannot be easily sold should the need arise – addressed through the use of pooled funds.
- v. Underperformance risk – monitoring closely the performance of each Investment Manager and taking necessary action when this is not satisfactory and by investing partly in passively managed funds.
- vi. Country/political risk – the risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across many countries, and partly addressed through hedging.
- vii. Organisational risk – addressed through regular monitoring of each Investment Manager and the Advisers.
- viii. Sponsor risk – the risk of the Society ceasing to exist, which for reasons of prudence, the Trustee has taken into account when setting the asset allocation strategy.
- ix. Liquidity risk – investing in assets that are generally realisable at short notice.
- x. Environmental, Social and Governance risk – the risk that environmental, social and governance factors are not given significant consideration. This is addressed by having a policy whereby such factors should be given appropriate consideration in relation to current and future investment decisions made.

The Trustee will keep these risks under regular review.

# 09 Other Issues

## 09.01 Statutory Funding Requirement

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The Trustee will obtain and consider proper advice on the question of whether the investments are satisfactory having 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.

## 09.02 Environmental, Social and Governance

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The Trustee has determined their approach to financially material considerations over the Fund's long term funding horizon – including environmental, social and corporate governance ("ESG") factors – by acknowledging that there can be risks relating to them. The Trustee has delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Fund's investment managers. The Trustee requires the Fund's investment managers to take ESG and climate change risks into consideration within their decision-making, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest.

The Trustee will seek advice from the Investment Adviser on the extent to which their views on ESG and climate change risks may be taken into account in any future investment manager selection exercises. Furthermore, the Trustee will monitor the processes and operational behaviour of the investment managers from time to time, to ensure they remain appropriate and in line with the Trustees' requirements as set out in this Statement.

The Trustee has delegated responsibility for the exercise of rights (including voting rights) attached to the Fund's investments to the Investment Manager and encourages them to vote whenever it is practical to do so on financially material matters including those deemed to include a material ESG and/or climate change risk in relation to those investments.

Further, the Trustee's policy is that non-financial matters should not be taken into account in the selection, retention and realisation of investments.

## 09.03 Voting rights

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As the Scheme invests in pooled funds, the Trustee acknowledges that it cannot directly influence the policies and practices of the companies in which the pooled funds invest. It has therefore delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the Investment Managers.

The Trustee encourages them to engage with investee companies and vote whenever it is practical to do so on financially material matters such as strategy, capital structure, conflicts of interest policies, risks, social and environmental impact and corporate governance as part of their decision-making processes. The Trustee requires the Investment Managers to report on significant votes made on behalf of the Trustees.

If the Trustee becomes aware of an Investment Manager engaging with the underlying issuers of debt or equity in ways that they deem inadequate or that the results of such engagement are mis-aligned with the Trustee's expectation and the investment mandate guidelines provided, then the Trustees may consider terminating the relationship with that Investment Manager.

## 09.04 Liquidity

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The invested assets held by the Fund are sufficiently liquid to be realised easily if the Trustee requires, as they are invested via units in a pooled fund with frequent dealing dates.

## 09.05 Custody

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Since the assets are held in pooled funds as arranged, the Trustee has effectively delegated to the Investment Manager the appointment of custodian of the Fund's investments.

# Appendix A

## Responsibilities

### Trustee

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The Trustee of the Fund is responsible for, amongst other things:

- i. Determining the investment objectives of the Fund and reviewing these from time to time.
- ii. Agreeing an investment strategy designed to meet the investment objectives of the Fund.
- iii. Reviewing triennially the content of this SIP and modifying it if deemed appropriate, in consultation with the Advisers.
- iv. Reviewing the suitability of the investment policy following the results of each actuarial or investment review, in consultation with the Advisers.
- v. Assessing the quality of the performance and process of the Investment Managers by means of regular reviews of the investment results and other information, by way of meetings and written reports, in consultation with the Advisers.
- vi. Appointing and dismissing investment manager(s), the performance measurer, custodian(s) and transition manager(s) in consultation with the Advisers.
- vii. Assessing the ongoing effectiveness of the Advisers.
- viii. Consulting with the Society when reviewing investment policy issues.
- ix. Monitoring compliance of the investment arrangements with this SIP on an ongoing basis.
- x. Advising the Advisers of any changes to Fund benefits or significant changes in membership.

### Investment Manager

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Each Investment Manager will be responsible for, amongst other things:

- i. At their discretion, but within any guidelines given by the Trustee, implementing changes in the asset mix and selecting and undertaking transactions in specific investments within each asset class.
- ii. Providing the Trustee with sufficient information each quarter to facilitate the review of its activities, including:
  - A report of the strategy followed during the quarter.
  - The rationale behind past and future strategy.
  - A full valuation of the assets and a performance summary.
  - A transaction report and a cash reconciliation.
  - Corporate actions taken by the Investment Manager.
  - Any changes to the process applied to the portfolio.
  - Future intentions in the investment management of the Fund's assets.
- iii. Informing the Trustee immediately of:
  - Any breach of this SIP that has come to their attention.
  - Any serious breach of internal operating procedures.
  - Any material change in the knowledge and experience of those involved in managing the Fund's investments.
  - Any breach of investment restrictions agreed between the Trustee and the Investment Manager from time to time.

## Investment Adviser

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The Investment Adviser will be responsible for, amongst other things:

- i. Participating with the Trustee in reviews of this SIP.
- ii. Advising the Trustee how any changes within the Fund's benefits, membership and funding position may affect the manner in which the assets should be invested.
- iii. Advising the Trustee of any changes in the Fund's Investment Managers that could affect the interests of the Fund.
- iv. Advising the Trustee of any changes in the investment environment that could either present opportunities or problems for the Fund.
- v. Undertaking reviews of the Fund's investment arrangements including reviews of the asset allocation policy and current Investment Manager, and selection of new managers/custodians/performance measurers, as appropriate.

# Appendix B

## Pooled Funds

The Trustee has appointed Legal & General Investment Management ('LGIM') to manage the assets of the Fund. The mandate for the Investment Manager is as follows:

Investment Manager	Asset Classes	Fund	%	Investment Style
LGIM	Diversified Growth	Diversified Fund	10	Active and Passive
LGIM	Corporate Bonds	Buy and Maintain Credit Fund	30	Active
LGIM	Gilts (fixed and index-linked)	Selection of unlevered single stock gilts	60	Passive
LGIM	Cash	Sterling Liquidity Fund		Active

### Expected Returns and Performance Monitoring

The Trustee has agreed the following performance targets:

Investment Manager	Fund	Benchmark Index	Objective
LGIM	Diversified Fund	FTSE Developed World Index – 50% GBP Hedged	The objective of the fund is to provide long-term investment growth through exposure to a diversified range of asset classes
LGIM	Corporate Bonds	iBoxx Sterling Non-Gilts Index	The fund will invest in a portfolio of investment grade corporate bonds with the aim of holding until maturity unless there is a significant deterioration in credit quality.
LGIM	Gilts (fixed and index-linked)	n/a	A portfolio of single maturity gilts designed to broadly match the interest rate and inflation sensitivity of the Fund's liabilities
LGIM	Sterling Liquidity Fund	Sterling Overnight Index Average (SONIA)	To provide capital stability and a return broadly in line with the Bank of England Base Rate whilst providing daily access to liquidity

### Fees

In addition to the following fees, LGIM also charge a flat rate fee of £1,500 per annum.

Investment Manager	Fund	Annual Management Charge % p.a.	Additional Charges % p.a.
LGIM	Diversified Fund	0.30	0.01
LGIM	Buy and Maintain Credit Fund	0.15	0.00
LGIM	Selection of unlevered single stock gilt funds	0.10	0.00
LGIM	Sterling Liquidity Fund	0.13	0.00



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