# *Royal Liver (ROI) Superannuation Fund (the "Fund")*

## *Statement of Investment Governance*

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### *1 Purpose of Statement*

1.1 The purpose of this document is to outline the governance process relating to how the Trustee will decide on their investment strategy and implement that investment strategy.

1.2 This document therefore outlines the processes that the Trustee will follow when

(a) determining the investment objectives of the Fund;

(b) determining the investment strategy of the Fund; and

(c) determining how to implement the investment strategy (i.e. how investment managers will be appointed, reviewed and monitored).

1.3 This Policy is not, nor is it intended to be, a legal document with legally binding terms and conditions. While the Trustee's objective is to adhere to its principles, they recognise that circumstances may arise that may require them to not apply some or all of its terms in such other manner as they see fit.

1.4 This Statement of Investment Governance ("SIG") is separate to the Fund's Statement of Investment Policy Principles ('SIPP'); however, the two should be read in conjunction with each other. The SIG sets out the decision making process followed by the Trustee when making investment decisions, whereas the SIPP is primarily a disclosure document which summarises the Fund's current strategic asset allocation, the investment risk measurement and management processes and the implementation arrangements adopted by the Fund. The SIPP also outlines the Fund's policies on Environmental, Social and Governance ('ESG') considerations and on stewardship.

## 2 *General governance approach to investment matters*

2.1 The Trustee has primary responsibility for investment decisions but they consult with and are supported by a number of other parties in these decisions. The various parties involved in the investment arrangements of the Fund are summarised in the table below, together with an overview of their responsibilities.

| Party | Responsibility |
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| **Trustee** | Overall responsibility for investment of Fund assets and all investment decisions. Set the strategic direction and objectives of the Fund's investment strategy. |
| **Company/Sponsor** | It is the policy of the Trustee to consult with the Company in relation to the investment strategy and implementation arrangements of the Fund. |
| **Staff Pensions Department** | The Staff Pensions Department directly support the Trustee in developing, monitoring and implementing the Fund's investment strategy, including:<br>• Coordinating meeting attendance and liaising with investment managers and advisers, as required<br>• Input into reporting and on-going monitoring<br>• Liaising with and providing views on investment items from the Company on behalf of the Trustee |
| **Investment Consultant** | The Trustee has engaged an investment consultant to provide advice on the Fund's investment strategy and implementation arrangements and to provide consolidated investment performance reporting and market updates.<br><br>The Investment Consultant attends each Trustee meeting to facilitate and discuss Trustee investment decisions. |
| **Investment Sub-Group** | In order to ensure the appropriate and efficient consideration of investment issues including investment strategy and implementation, the Trustee may from time to time arrange for an Investment Sub-Group to evaluate these issues on the Trustee's behalf (e.g. to undertake a detailed review of a certain strategic objective of the Fund).<br><br>It is important to note that the Investment Sub-Group considers issues on behalf of the Trustee and consequently makes recommendations to the Trustee. Ultimate decision making responsibility remains with the Trustee.<br><br>This working group typically consists of a sub-group of the Trustee with support from the Staff Pensions Department and the Fund's advisors. |

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| **Investment manager(s)** | The Trustee has delegated the day to day management of the assets to professional external investment managers.<br><br>The process deployed by the Trustee in the selection and monitoring these managers is outlined in a later section. The list of funds and appointed managers is documented in the Fund's SIPP. |
| **Fund Actuary** | As required, the Trustee has appointed a Fund Actuary. The Trustee will ask the investment consultant to liaise with the Fund Actuary as appropriate to ensure that the investment strategy accords with the funding agreement and the development of the liabilities. |
| **Risk Manager** | The Trustee has engaged a Risk Manager to provide advice on the risks inherent in the Fund and how best to manage those risks. The Risk Manager attends Trustee meetings and provides updates at these meetings. The Risk Manager maintains a Risk Dashboard which monitors risk across the pension fund as a whole, including its investment arrangements. |
| **Liability Driven Investment ('LDI') manager** | The Trustee has engaged an LDI manager to implement an interest rate and inflation hedging strategy and to manage derivative positions on behalf of the Fund. |
| **Custodian** | The Fund has engaged a custodian to hold certain assets in custody on behalf of the Fund. |
| **AVC Provider** | Additional Voluntary Contributions (AVCs) held by members of the plan are managed via an insurance policy, currently with Irish Life Assurance. |

## Documentation and Fund structure

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| **Investment Appointment documentation** | The Trustee will appoint investment managers or invest in funds by completing documentation provided by the investment manager, undertaking external legal review on new manager appointments, where possible.<br><br>While Fund specific provisions may be achieved through an external legal review process, it is not within the resources of the Trustee to initiate bespoke manager or fund appointment documentation. |
| **Use of pooled funds** | Due to the scale of Fund assets and reflecting the governance preferences of the Trustee, the Fund's assets may be invested in multi-client pooled funds.<br><br>This will mean that investment objectives, performance benchmarks, investment return targets, pre-specified levels of risk tolerance or similar characteristics will be set for a given fund as a whole and, while suitable, will not be specific to this Fund alone. The characteristics may be set out |

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| | in factsheets, fund supplements or other similar documentation, made available by the investment manager.<br><br>The Trustee will choose an asset class or fund based on strategic evaluation of its characteristics, relative to the needs of the Fund.<br><br>Performance of the Fund will be evaluated against the characteristics as set out in the factsheets or fund supplements as noted above. |

2.2 All investment decisions made by the Trustee will be made in accordance with the general principles and procedures set out in the Fund's Board Manual.

2.3 Appointments in relation to the investments arrangements of the Fund will be made in accordance with the Fund's Outsourcing Policy (separately documented).

### *3 Conflicts of Interest*

3.1 The Trustee notes that conflicts of interest may arise on the investment arrangements, as is the case with other aspects of the pension fund. The Trustee maintains a Conflicts of Interest policy. As with the Fund's other service providers, it is the policy of the Trustee that the investment consultant and manager have their own arrangements in place for identifying, managing and disclosing their own conflicts. These arrangements are considered by the Trustee prior to and during the appointment with an investment provider, as set out in the Conflicts of Interest Policy

### *4 Determining the Fund's investment objectives*

4.1 The Trustee will determine their investment objectives in consultation with their advisors (in particular the Investment Consultant, Fund Actuary and Risk Manager) and taking account of the views of the Company.

4.2 The investment objectives will seek to balance generating the required return (to ensure the affordability of benefits and contributions) against the security of Fund benefits and be consistent with the Fund's funding strategy. In this regard the Trustee will consider the following factors when setting their investment objectives:

(a) The funding level of the Fund on the ongoing valuation and Funding Standard bases;

(b) The Fund's position and solvency for varying levels of expected return/ risk;

(c) The strength of the Sponsor Covenant (i.e. the ability and willingness of the Sponsor to fund the pension scheme), to the extent this can be assessed quantitatively or qualitatively;

(d) The advice of the Fund Actuary, Investment Consultant and the Risk Manager; and

(e) The provision of discretionary benefits.

*Determining the Investment Strategy*

4.3 Broadly, the investment strategy review process comprises the following components:

(a) Determination of the split between the **growth and matching portfolios** of the Fund and how that should evolve over time. This will be assessed by considering the impact on the current or projected solvency position and Value at Risk measures of the current and alternative asset allocation splits. The strategy will be considered in the context of relevant liability measures and stress testing of assumptions will be made. Consideration of insurer pricing and how best to match this will also be considered.

(b) Determination of the composition of the **matching portfolio and the target hedge ratio for interest rates and inflation**. This will take account of the term of the liabilities and the exposure of the liabilities to inflation. The Trustee will assess the expected return, together with interest rate and inflation hedge ratios for different matching portfolio compositions as well as considering core and discretionary benefits. The Trustee will consider the diversification of the portfolio across constituent asset classes and will consider the sovereign composition of Eurozone government bond portfolios. Additionally, the Trustee will assess the attribution of hedging across the liability curve.

(c) Determination of the composition of the **growth portfolio.** This will aim to balance the expected return required to support the Fund and the need for diversification across a range of asset classes. The agreed strategy will be arrived at through a combination of quantitative and qualitative assessments. Expected returns, volatility of returns, efficiency ratios may be considered. Additionally, the advice and views of asset class experts will be sought as required. The magnitude of the growth portfolio as a proportion of total assets will also be taken into account when considering the number and range of asset classes and funds which should be used to constitute the investment strategy.

(d) As the Fund nears the completion of its derisking programme, the investment strategy review process of the Fund will involve determination of the appropriate asset classes to deliver:

  (i) The required level of liability hedging both on interest rates and inflation;

  (ii) The alignment of the asset portfolio with the required return to deliver the Fund’s benefits.

4.4 When determining the investment strategy, the Trustee considers the following:

(a) The Fund’s investment objectives as determined in section 3 above.

(b) The profile of the liabilities of the Fund, particularly the sensitivity of the liability valuation to changes in interest rates and inflation expectations.

(c) How the liabilities and funding position are likely to develop over time.

(d) The liquidity requirements of the Fund (i.e. when cash inflow is required to meet benefit payments).

(e) The market environment and any developments or innovations in investment products.

(f) The regulatory environment and ensuring the Fund remains compliant with all regulatory or Trust Deed and Rules requirements.

(g) Environmental, Social and Governance considerations for the investments.

(h) The Trustee's (and Company's) perspectives and opinion on the nature and complexity of different asset classes and implementation options.

(i) The implementation options and structures available to the Fund for the particular investment and whether this can be accessed efficiently (including from a cost perspective) either within their existing investment managers or by appointing a new manager.

4.5 The Trustee will ask the Fund Actuary and Investment Consultant to liaise in order to ensure that the investment strategy and actuarial and funding policy are appropriately aligned.

4.6 If any changes to the investment strategy are determined to be appropriate, the proposed change is assessed in terms of the ESG policy of the Trustee.

## *5 Risk tolerance*

5.1 Taking account of the processes undertaken by the Trustee to arrive at their investment objectives and the assessments made to arrive at the investment strategy of the Fund, the strategic asset allocation of the Fund at a point in time reflects the Trustee's then prevailing risk tolerance.

5.2 Risk characteristics of the actual and strategic asset allocation are monitored and reviewed by the Trustee through a combination of quarterly investment reports, investment updates at trustee meetings, periodic investment strategy reviews and through the risk dashboard.

5.3 It is important to note that the Trustee evaluates investment risk in a number of contexts and thus may not determine or revise the investment strategy based on a single risk assessment.

## *6 Reviewing the Investment Strategy*

6.1 A full review of the investment strategy will be carried out at least every three years and ideally in conjunction with the Actuarial Funding Valuation and/or the Own Risk Assessment.

6.2 The review of the investment strategy may be carried out sooner should the Fund require an updated funding agreement or recovery plan, implement a significant change in benefit structure or following a material change in the sponsor covenant.

6.3 Notwithstanding the general three-yearly review, the Investment Strategy is further considered at each Trustee meeting to take account of any changes in the market environment, rebalancing considerations or any other relevant events.

## *7 Implementing the Investment Strategy*

7.1 Any changes agreed to the investment strategy will be implemented in a reasonable timeframe, noting that implementation advice may be required to ensure transactions take place in a cost and risk efficient manner.

7.2 The Trustee will consider the appropriate timing and method for implementing the investment strategy change in consultation with their Investment Consultant and the investment managers. In particular, whether the changes should be implemented immediately or whether they should be phased over time either based on time or market related triggers.

7.3 Once determined, the Fund's Investment Strategy will be set out in the Statement of Investment Policy Principles (SIPP). The SIPP will be reviewed at least every three years and updated as soon as possible following any material change in the investment strategy or investment arrangements.

7.4 The Trustee holds some of the assets of the Fund in directly held debt instruments and will comply with Pensions Authority requirements on the credit assessment process which applies to these holdings.

## *8 Appointing Investment Managers*

8.1 Where a change in investment strategy involves the appointment of a new investment manager the process set out in following section will be followed.

8.2 Broadly, the process for appointing an investment manager will comprise investment manager selection, legal due-diligence and then an asset transfer process.

*Investment manager selection*

8.3 If a new investment manager is required (e.g. for a new asset class or if an incumbent manager is being replaced), the following selection process is used:

(a) The Investment Consultant will provide the Trustee with a short-list of managers which are highly rated by Mercer's manager researchers for the asset class;

(b) The investment style as well as the investment management structure are considered and any inappropriate funds are excluded;

(c) The ESG integration of the funds are considered;

(d) Fees are also considered and assessed in the context of the wider market and Trustee views;

(e) The Trustee will then select a shortlist of investment manager(s) and may ask them to present at a Trustee meeting;

(f) Weighing up all the above considerations and any other matters they deem relevant, the Trustee will select an investment manager and minute the reasons for the decision.

(g) As noted in the table in paragraph 2 of this Statement, the Trustee will appoint investment managers/invest in funds, based on documentation provided by the Investment managers, undertaking legal review where possible.

*Legal due-diligence*

8.4 For new investment manager appointments or where new fund structures will be used, the Trustee may look to engage an independent legal advisor to provide a legal review of the appointment or fund documentation.

*Asset transfer Process*

8.5 In order to ensure assets are transferred between investment managers or funds in a cost and risk efficient manner, where deemed necessary, a dedicated transition coordinator may be appointed to coordinate and oversee the asset transfer. There will be circumstances where a transition coordinator may not be needed, however – for example if the transfer takes place within an investment manager or out of market risk cannot be avoided.

### *9 Custodian*

9.1 The Trustee has a direct relationship with the Custodian for a portion of the assets, in particular those assets invested with Royal London Asset Management (RLAM).

9.2 To date, the appointed Custodian has been aligned with the custodian appointed by the Company, with the aim of ensuring efficiency of on-going reporting, given the detailed and regular reporting requirements of the Company.

9.3 Broadly, the process for appointing the custodian comprises a review of the proposed custodian, including legal due-diligence and confirmation of the proposed custodian's ability to provide the required services. The Trustee may consider any review completed by the Company as part of the appointment process.

9.4 All other (non RLAM) assets of the Fund are held within pooled investment vehicles and the Trustee does not directly appoint custodians on those funds.

### *10 Reporting to the Trustee by Investment Consultant*

10.1 The Trustee receives quarterly reporting directly from some investment managers appointed to the Fund and also receive aggregate (i.e. Fund level) quarterly performance reports from their Investment Consultant.

10.2 Intra-quarter performance updates may also be provided at Trustee meetings.

10.3 With the aid of their Investment Consultant, the Trustee aims to keep up to date on developments within each investment manager and consider Mercer Manager Researchers' ratings in relation to their investment managers (note: this is on a best efforts basis).

### *11 Reviewing investment performance*

11.1 The Trustee will review the general investment performance of the assets against the Fund's investment objectives, in particular any expected return targets or benchmark/target on a quarterly basis.

11.2 Given the long term nature of the Fund, the Trustee's focus will primarily be on longer term performance relative both to benchmark and taking account of the development of the liabilities of the Fund.

11.3 As noted in the table in paragraph 2, some or all of the Fund's assets will be invested in multi-client pooled funds. This will mean that investment objectives, performance benchmarks, investment return targets, and pre-specified levels of risk tolerance of a given fund may not be specific to this Fund alone. The Trustee will choose a fund based on strategic evaluation of its characteristics, relative to the needs of the Fund.

11.4 Taking account of this, at outset of an investment manager's appointment / investment in a fund, the Trustee will specify how they will define satisfactory performance. The Trustee will note the performance targets / fund benchmarks as set out in each relevant fund's / managers documentation. Performance against those targets/benchmarks will be assessed in the quarterly reports.

11.5 Performance will be assessed on a gross or net of fees basis as is provided in the standard reporting provided on the funds which comprise the investment strategy; the overall investment fee arrangements will be considered in the critical review of investment performance.

*Annual review of investment performance*

11.6 The Trustee will formally review the performance of each investment manager at least on an annual basis taking account of previously agreed:

(a) investment objectives for that investment manager;

(b) Investment performance relative to performance benchmark(s);

(c) investment return targets for the investment manager; and

(d) levels of risk tolerance where applicable.

(e) It should be noted that these characteristics may be set out in factsheets, fund supplements or other documentation provided by the investment manager

*Critical reviews of investment managers*

11.7 A critical review is carried out once every three years. This is an in-depth review of the investment performance and services delivered as well as any criteria that were agreed when the Investment Manager(s) were appointed / the fund was selected. Investment manager fees will also be assessed as part of the critical review process.

11.8 Should the Trustee be dissatisfied with the performance of any of their chosen Investment Managers following a critical review, they will seek to understand the reason for this (they may ask the Investment Manager to present at a Trustee meeting). If the reason is not satisfactory (e.g. the Trustee is not comfortable with the explanations received, the Trustee will consider whether the Investment Manager should be replaced and note their conclusions in meeting minutes.

11.9 The Trustee will also note the reasoning behind a decision to retain an investment manager in meeting minutes, following the conclusion of the critical review process.

## ***12 Dealing with investment performance issues.***

12.1 It is to be expected that performance issues will be identified from time to time through either the annual or critical review processes. The significance of underperformance will be assessed by considering:

(a) the period over which the underperformance is experienced,

(b) views on crystallising potential loss given prevailing market conditions and the performance of the asset class in general,

(c) the managers' investment positioning relative to the benchmark and / or its peers and any manager explanation,

(d) Mercer's manager research views on the prospects of the investment manager,

(e) The purpose and magnitude of the given asset class or fund in the wider investment strategy, and

(f) The ease or difficulty of moving to an alternative fund or manager in terms of asset class characteristics, cost, governance, prevailing market conditions or other factors.

(g) Taking account of the above, it should be noted that fund or manager termination will not necessarily result from the identification of underperformance in the annual or critical review processes. Continued monitoring, further review or other such action may be deemed appropriate, if it is felt that fund/manager termination is not warranted. The Trustee will note their chosen course of action in the minutes of the relevant meeting.

## *13 Statement review*

13.1 This Statement will be reviewed at least every three years, or whenever any amendment to the investment governance process outlined in this Statement is planned.

13.2 The Statement review will be coordinated by the Investment Consultant.

13.3 Any changes which are recommended to the Statement by the Investment Consultant must be agreed in advance by the Trustee prior to their adoption.

13.4 As required, this Statement will be made available to members on request.