

## **Scottish Enterprise Pension & Life Assurance Scheme**

### **Statement of Investment Principles (“SIP”)**

#### **Preface**

*The Statement of Investment Principles (“SIP”) for the Scottish Enterprise Pension & Life Assurance Scheme (“the Scheme”), as prepared by the Trustees of the Scheme, is set out in detail below. This statement has been updated for various changes. Details of the Scheme’s leverage and collateral management policy have been added. The Scheme’s target for hedging interest rate and inflation risk has been updated to 50% (on a flat gilts basis). References to mandates which have been fully disinvested have been removed (i.e. ASI Diversified Growth). Voting and engagement policies have also been included reflecting the Trustees’ view on ESG and stewardship as well as aligning to new regulatory guidance.*

*The below SIP was reviewed by the Investment Committee in August 2023.*

#### **Purpose of this Statement**

This Statement of Investment Principles (“SIP”) has been prepared by the Trustees of the Scottish Enterprise Pension & Life Assurance Scheme (the “Scheme”). This statement sets out the principles governing the Trustees’ decisions to invest the assets of the Scheme.

The Scheme’s investment strategy is derived from the Trustees’ investment objectives. The objectives have been taken into account at all stages of planning, implementation and monitoring of the investment strategy.

The Trustees have consulted the sponsoring employer, Scottish Enterprise, on the content of this statement.

Details on the Scheme’s investment arrangements are set out in the Investment Implementation Document (“IID”).

#### **Governance**

The Trustees of the Scheme make all major strategic decisions including, but not limited to, the Scheme’s asset allocation and the appointment and termination of investment managers.

When making such decisions, and when appropriate, the Trustees take proper written advice. The Trustees’ investment advisers, Isio Group Limited (“Isio”), are qualified by their ability in, and practical experience, of financial matters, and have the appropriate knowledge and experience. The investment advisers’ remuneration may be a fixed fee or based on time worked, as negotiated by the Trustees in the interests of obtaining best value for the Scheme.

#### **Investment objectives**

The Trustees invest the assets of the Scheme with the aim of ensuring that all members’ current and future benefits can be paid. The Scheme’s funding position will be reviewed on an ongoing basis to assess the position relative to the funding target and whether the investment arrangements remain appropriate to the Scheme’s circumstances. The Scheme’s funding target is specified in the Statement of Funding Principles.

The current investment objective is to achieve an expected return of Gilts + 2.3% per annum. The target return was agreed in July 2023 following a review of the investment strategy. This review was completed following advice from the Scheme Actuary that the required return had reduced in order to achieve the long-term funding objective.

### **Investment strategy**

The Trustees take a holistic approach to considering and managing risks when formulating the Scheme's investment strategy.

The Scheme's investment strategy was derived following careful consideration of the factors set out in Appendix 1. The considerations include the nature and duration of the Scheme's liabilities, the risks of investing in the various asset classes, the implications of the strategy (under various scenarios) for the level of employer contributions required to fund the Scheme, and also the strength of the sponsoring company's covenant. The Trustees considered the merits of a range of asset classes.

The Trustees recognise that the investment strategy is subject to risks, in particular the risk of a mismatch between the performance of the assets and the calculated value of the liabilities. This risk is monitored by regularly assessing the funding position and the characteristics of the assets and liabilities at least annually. This risk is managed by investing in assets which are expected to perform in excess of the liabilities over the long term, and also by investing in a suitably diversified portfolio of assets with the aim of minimising (as far as possible) volatility relative to the liabilities.

The assets of the Scheme consist of investments which are traded on regulated markets.

### **Leverage and collateral management**

The Trustees will adhere to all relevant regulatory guidance and requirements in relation to leverage and collateral management within the Scheme's liability hedging (LDI) portfolio. Further details on this can be found in Appendix 3.

The Trustees have a stated collateral management policy / framework. The Trustees have agreed a process for meeting collateral calls should these be made by the Scheme's LDI investment manager. The Trustees will review and stress test this framework on a regular basis.

### **Investment Management Arrangements**

The Trustees have appointed several investment managers to manage the assets of the Scheme as listed in the IID. The investment managers are regulated under the Financial Services and Markets Act 2000.

All decisions about the day-to-day management of the assets have been delegated to the investment managers via a written agreement. The delegation includes decisions about:

- Selection, retention and realisation of investments including taking into account all financially material considerations in making these decisions;
- The exercise of rights (including voting rights) attaching to the investments;
- Undertaking engagement activities with investee companies and other stakeholders, where appropriate.

The Trustees take investment managers' policies into account when selecting and monitoring managers. The Trustees also take into account the performance targets the investment managers are evaluated on. The investment managers are expected to exercise powers of investment delegated to them, with a view to following the principles contained within this statement, so far as is reasonably practicable.

The investment manager's remuneration is based upon a percentage value of the assets under management. The fees have been negotiated to be competitive. The Scheme's mandates for Direct Lending, Infrastructure Equity and unlisted Private Equity are also subject to a performance related fee element.

As all of the Scheme's assets are invested in pooled vehicles, the custody of the holdings is arranged by the investment manager.

### **Investment Manager Monitoring and Engagement**

The Trustees monitor and engage with the Scheme's investment managers and other stakeholders on a variety of issues. Below is a summary of the areas covered and how the Trustees seek to engage on these matters with investment managers.

<b>Areas for engagement</b>	<b>Method for monitoring and engagement</b>	<b>Circumstances for additional monitoring and engagement</b>
Performance, Strategy and Risk	<ul style="list-style-type: none"> <li>The Trustees receive a quarterly performance report which details information on the underlying investments' performance, strategy and overall risks, which are considered at the relevant Trustees' meeting.</li> <li>The Scheme's investment managers are invited, in person, to present to the Trustees on their performance, strategy and risk exposures.</li> </ul>	<ul style="list-style-type: none"> <li>There are significant changes made to the investment strategy.</li> <li>The risk levels within the assets managed by the investment managers have increased to a level above and beyond the Trustees' expectations.</li> <li>Underperformance vs the performance objective over the period that this objective applies.</li> </ul>
Environmental, Social, Corporate Governance factors and the exercising of rights	<ul style="list-style-type: none"> <li>The Trustees' investment managers provide annual reports on how they have engaged with issuers regarding social, environmental and corporate governance issues.</li> <li>The Trustees receive information from their investment advisers on the investment managers' approaches to engagement.</li> </ul>	<ul style="list-style-type: none"> <li>The manager has not acted in accordance with their policies and frameworks.</li> <li>The manager's policies are not in line with the Trustees' policies in this area.</li> </ul>

	<ul style="list-style-type: none"> <li>• The Trustees will engage, via their investment adviser, with investment managers and/or other relevant persons about relevant matters at least annually.</li> </ul>	
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Through the engagement described above, the Trustees will work with the investment managers to improve their alignment with the above policies. Where sufficient improvement is not observed, the Trustees will review the relevant investment manager’s appointment and will consider terminating the arrangement.

**Direct investments**

Direct investments, as defined by the Pensions Act 1995, are products purchased without delegation to an investment manager through a written contract. When selecting and reviewing any direct investments, the Trustees will obtain appropriate written advice from their investment advisers.

**Additional Voluntary Contributions (“AVCs”)**

The Scheme offers a range of funds intended to be suitable for AVC investments. Performance of these funds is monitored and the range of funds reviewed from time to time.

**Compliance**

This Statement has been prepared in compliance with the Pensions Act 1995, the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005. Before preparing or subsequently revising this Statement, the Trustees consulted the sponsoring company and took appropriate written advice. The Statement is reviewed at least every three years, and without delay after any significant change in the investment arrangements.

**Signed for and on behalf of the Scottish Enterprise Pension & Life Assurance Scheme**

A Gray \_\_\_\_\_

Trustee

L Ellison \_\_\_\_\_

Trustee

Date: 28 September 2023

Date of Amendments:

February 2012

February 2013

May 2013

January 2014

January 2015

August 2019

September 2021

August 2023

## Appendix 1 – Risks, Financially Material Considerations and Non-Financial matters

A non-exhaustive list of risks and financially material considerations that the Trustees have considered and sought to manage is shown below.

The Trustees adopt an integrated risk management approach. The three key risks associated within this framework and how they are managed are stated below:

Risks	Definition	Policy
Investment	The risk that the Scheme's position deteriorates due to the assets underperforming.	<ul style="list-style-type: none"> <li>Selecting an investment objective that is achievable and is consistent with the Scheme's funding basis and the sponsoring company's covenant strength.</li> <li>Investing in a diversified portfolio of assets.</li> </ul>
Funding	The extent to which there are insufficient Scheme assets available to cover ongoing and future liability cash flows.	<ul style="list-style-type: none"> <li>Funding risk is considered as part of the investment strategy review and the actuarial valuation.</li> <li>The Trustees will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey Scheme is agreed to manage funding risk over time.</li> </ul>
Covenant	The risk that the sponsoring company becomes unable to continue providing the required financial support to the Scheme.	<ul style="list-style-type: none"> <li>When developing the Scheme's investment and funding objectives, the Trustees take account of the strength of the covenant ensuring the level of risk the Scheme is exposed to is at an appropriate level for the covenant to support.</li> </ul>

The Scheme is exposed to a number of underlying risks relating to the Scheme's investment strategy, these are summarised below:

Risk	Definition	Policy
Interest rates and inflation	<ul style="list-style-type: none"> <li>The risk of mismatch between the value of the Scheme assets and present value of liabilities from changes in interest rates and inflation expectations.</li> </ul>	<ul style="list-style-type: none"> <li>To hedge 50% of these risks (on a flat gilts basis) whilst ensuring compliance with all regulatory guidance in relation to leverage and collateral management.</li> </ul>
Liquidity	<ul style="list-style-type: none"> <li>Difficulties in raising sufficient cash when required</li> </ul>	<ul style="list-style-type: none"> <li>To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay</li> </ul>

	without adversely impacting the fair market value of the investment.	members' benefits as they fall due (including transfer values), and to meet regulatory guidance around providing collateral to the LDI manager.
Market	<ul style="list-style-type: none"> <li>Experiencing losses due to factors that affect the overall performance of the financial markets.</li> </ul>	<ul style="list-style-type: none"> <li>To remain appropriately diversified and hedge away any unrewarded risks, where practicable.</li> </ul>
Credit	<ul style="list-style-type: none"> <li>Default on payments due as part of a financial security contract.</li> </ul>	<ul style="list-style-type: none"> <li>To diversify this risk by investing in a range of credit markets across different geographies and sectors.</li> <li>To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Scheme for the risk of default.</li> </ul>
Environmental, Social and Governance	<ul style="list-style-type: none"> <li>Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Scheme's investments.</li> </ul>	<ul style="list-style-type: none"> <li>To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria: <ol style="list-style-type: none"> <li>Responsible Investment ('RI') Policy / Framework</li> <li>Implemented via Investment Process</li> <li>A track record of using engagement and any voting rights to manage ESG factors</li> <li>ESG specific reporting</li> <li>UN PRI Signatory</li> </ol> </li> <li>The Trustees monitor the managers on an ongoing basis.</li> </ul>
Currency	<ul style="list-style-type: none"> <li>The potential for adverse currency movements to have an impact on the Scheme's investments.</li> </ul>	<ul style="list-style-type: none"> <li>Hedge all currency risk on all assets that deliver a return through contractual income.</li> </ul>
Non-financial	<ul style="list-style-type: none"> <li>Any factor that is not expected to have a financial impact on</li> </ul>	<ul style="list-style-type: none"> <li>Non-financial matters are not taken into account in the selection, retention or realisation of investments.</li> </ul>

	the Scheme's investments.	
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## Appendix 2

The Trustees have the following policies in relation to the investment management arrangements for the Scheme:

<p>How the investment managers are incentivised to align their investment strategy and decisions with the Trustees policies.</p>	<ul style="list-style-type: none"> <li>• As the Scheme is invested in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustees’ policies. However, the Trustees invest in a portfolio of pooled funds that are aligned to the strategic objective.</li> <li>• The Scheme’s mandates for Direct Lending, Infrastructure Equity, and unlisted Private Equity are subject to a performance related fee.</li> </ul>
<p>How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.</p>	<ul style="list-style-type: none"> <li>• The Trustees review the investment managers’ performance relative to medium and long-term objectives as documented in the investment management agreements.</li> <li>• The Trustees monitor the investment managers’ engagement and voting activity on an annual basis as part of their ESG monitoring process.</li> <li>• The Trustees do not incentivise the investment managers to make decisions based on non-financial performance.</li> </ul>
<p>How the method (and time horizon) of the evaluation of investment managers’ performance and the remuneration for their services are in line with the Trustees’ policies.</p>	<ul style="list-style-type: none"> <li>• The Trustees review the performance of all of the Scheme’s investments on a net of cost basis to ensure a true measurement of performance versus investment objectives.</li> <li>• The Trustees evaluate performance over the time period stated in the investment managers’ performance objective, which is typically 3 to 5 years.</li> <li>• Investment manager fees are reviewed annually to make sure the correct amounts have been charged and that they remain competitive.</li> </ul>
<p>The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.</p>	<ul style="list-style-type: none"> <li>• The Trustees do not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.</li> </ul>
<p>The duration of the Scheme’s arrangements with the investment managers</p>	<ul style="list-style-type: none"> <li>• The duration of the arrangements is considered in the context of the type of fund the Scheme invests in. <ul style="list-style-type: none"> <li>○ For closed ended funds or funds with a lock-in period the Trustees ensure the timeframe of the investment or</li> </ul> </li> </ul>

	<p>lock-in is in line with the Trustees objectives and Scheme’s liquidity requirements.</p> <ul style="list-style-type: none"> <li>○ For open ended funds, the duration is flexible and the Trustees will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.</li> </ul>
<p>Voting Policy - How the Trustees expect investment managers to vote on their behalf</p>	<ul style="list-style-type: none"> <li>● The Trustees have acknowledged responsibility for the voting policies that are implemented by the Scheme’s investment managers on their behalf.</li> </ul>
<p>Engagement Policy - How the Trustees will engage with investment managers, direct assets and others about ‘relevant matters’</p>	<ul style="list-style-type: none"> <li>● The Trustees have acknowledged responsibility for the engagement policies that are implemented by the Scheme’s investment managers on their behalf.</li> <li>● The Trustees, via their investment advisers, will engage with managers about ‘relevant matters’ at least annually.</li> <li>● Example stewardship activities that the Trustees have considered are listed below. <ul style="list-style-type: none"> <li>○ Selecting and appointing asset managers – the Trustees will consider potential managers’ stewardship policies and activities</li> <li>○ Asset manager engagement and monitoring – on an annual basis, the Trustees assess the voting and engagement activity of their asset managers. The results of this analysis feeds into the Trustees’ investment decision making</li> <li>○ Collaborative investor initiatives – the Trustees will consider joining/ supporting collaborative investor initiatives</li> </ul> </li> </ul>

### Appendix 3

#### Collateral management policy

At the time of writing, the Trustees are targeting a level of collateral sufficient to withstand a yield rise of:

- 400bps held with the LDI manager

The Trustees will review this no less frequently than annually, or as soon as possible in the event of significant market movements.

The Trustees also adopt a framework for maintaining sufficient collateral levels.

Trigger	Action	Responsibility
LDI fund issues capital call	Assets sold from below collateral waterfall to meet capital call	LDI manager / Trustees
When collateral falls below 325 bps	Assets sold from below collateral waterfall to restore buffer to 375 bps	LDI manager responsible for monitoring trigger, Trustees responsible for implementation (within 5 business days)

The latest collateral waterfall is set out below. Assets held within the immediate collateral framework (Tier 2) with the same manager as the LDI mandate are shown in bold, reflecting the lower governance burden on the Trustees.

Manager	Asset Class	Dealing frequency
<b>LDI manager</b>	<b>Short Duration Credit</b>	<b>Daily frequency</b>
Non-LDI manager	Diversified Growth	Daily frequency
LDI manager	Equity	Daily frequency
Non-LDI manager	Equity	Daily frequency