Care UK LG Pension Scheme

Statement of Investment Principles

This Statement of Investment Principles (SIP) sets out the policy of the trustees of the Care UK LG Pension Scheme (the "Trustees") on issues governing decisions on the investments of the Care UK LG Pension Scheme (the "Scheme").

1. Consultation

The Trustees have consulted with the employer prior to writing this Statement. The Trustees are responsible for the investment strategy of the Scheme.

The day-to-day management of the Scheme's assets has been delegated to investment managers authorised and regulated by the Financial Conduct Authority.

2. Scheme objectives

The Trustees' primary objectives are:-

* funding - to ensure that the Scheme maintains and builds on its current funding level. At the April 2018 funding valuation the Scheme's funding level was 93% on an ongoing basis and the 2019 change in investment strategy aims to reduce volatility in the funding level.

* security – to ensure that the scheme's funding position should remain at an appropriate level; and

* stability - to give due regard to the employer's ability to meet the contribution payments taking into account their size and incidence.

The Trustees' investment strategy has been chosen with the aim of meeting these objectives.

The Trustees receive regular monitoring reports on the performance of the investment funds and regularly review the performance against agreed benchmarks. In addition, the fee structure for the investment managers and advisers is reviewed regularly.

The Trustees have appointed investment advisers, Wentworth Employee Benefit Limited, to provide investment advice. Wentworth Employee Benefits Limited is authorised and regulated by the Financial Conduct Authority.

3. Choosing investments

The types of investments held and the balance between them is deemed appropriate given the liability profile of the Scheme, its cash-flow requirements, the funding level of the Scheme and the Trustees' objectives.

In order to avoid an undue concentration of risk a spread of assets is held. The diversification is both within and across the major asset classes. The issue of asset allocation has been delegated to the investment managers appointed by the Trustees.

Active members were able to obtain further benefits by paying additional voluntary contributions (AVCs) to the Scheme. The liabilities in respect of these AVCs are equal to the value of the investments bought by the contributions.

4. Risk

The Trustees have identified a number of risks which have the potential to cause a deterioration in the Scheme's funding level and therefore contribute to funding risk. These are as follows:

- The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors, known as "mismatching" risk. The Trustees and their advisers considered this mismatching risk when setting the investment strategy and an allocation to liability-driven investment (LDI) has been included to reduce the potential mismatching risk..
- The risk of a shortfall of liquid assets relative to the Scheme's immediate liabilities; the Trustees will manage the Scheme's cash flows taking into account the timing of future payments in order to minimise the probability that this occurs.
- The failure by the fund managers to achieve the rate of investment return assumed by the Trustees. This manager risk is considered by the Trustees on an ongoing basis.
- The failure to spread investment risk.
- The possibility of failure of the Scheme's sponsoring employer. The Trustees considered this risk when setting investment strategy and consulted with the sponsoring employer as to the suitability of the proposed strategy.
- The risk of fraud, poor advice or acts of negligence. The Trustees have sought to minimise such operational risks by ensuring that all advisers and third party service providers are suitably qualified and experienced.

5. Realisation of investments

The Trustees recognise that there is a risk in holding assets that cannot be easily realised should the need arise. All of the Scheme's investments are held in pooled funds which are realisable at short notice with the exception of holdings in property on which the fund manager can impose a temporary deferment on redemption.

6. Environmental, Social, and Governance (“ESG”) considerations

The Trustees consider investment risk to include ESG factors and climate change. These risks could negatively impact the Scheme’s investments. The Trustees consider these risks by taking advice from their investment adviser.

7. Members' views and non-financial factors

In setting and implementing the Scheme’s investment strategy the Trustees do not explicitly take into account the views of individual Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors"[1]).

8. Stewardship Policy

The Trustees recognise the importance of their role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Scheme invests, as ultimately this creates long-term financial value for the Scheme and its beneficiaries.

The Trustees receive annual reports on stewardship activity carried out by their investment managers, these reports include detailed voting and engagement information.

As part of the investment management of the Scheme’s assets, the Trustees expect the investment managers to:

- Ensure that (where appropriate) the Trustees’ voting rights in relation to the Scheme’s assets are exercised; and
- Report to the Trustees on stewardship activity as required.

Where possible, the transparency for voting should include voting actions and rationale in particular where: votes were cast against management; votes against management generally were significant; or votes were abstained.

Where voting is concerned the Trustees would expect the investment managers to recall stock lending procedures, as necessary, in order to carry out voting actions.

An annual report will be made available to Scheme members.

[1] The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018

8.1 Arrangements with asset managers

The Trustees recognise that the arrangements with their investment managers are important to ensure that interests are aligned. In particular, the Trustees seek to ensure that their investment managers are incentivised to operate in a manner that generates the best long-term results for the Scheme and its beneficiaries.

The investment managers provide quarterly reports on performance. The Trustees focus on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Scheme objectives.

The Trustees also receive annual stewardship reports on the monitoring and engagement activities carried out by the investment managers.

There is typically no set duration for arrangements with the investment managers although the continued appointment will be reviewed periodically as part of a manager research and portfolio management process.

8.2 Cost monitoring

The Trustees are aware of the importance of monitoring the total costs and the impact these costs can have on the overall value of the Scheme's assets. The Trustees recognise that in addition to annual management charges there are other costs incurred by asset managers that can increase the overall cost incurred by their investments.

The Trustees will receive annual cost transparency reports from the fund managers. These reports will present information in line with prevailing regulatory requirements:

- the charges incurred through the use of pooled funds (custody, admin, audit fees etc);
- the impact of costs on the investment return achieved by the Scheme.

The Trustees acknowledge that portfolio turnover-costs are a necessary cost to generate investment returns and that the level of these costs varies across asset classes and manager.

8.3 Evaluation of performance and remuneration

The Trustees will undertake periodic reviews of the performance of the investment managers, their charges and their costs.

In setting the Scheme’s investment strategy, the Trustee's primary concern is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk.

9. Timing of periodic reviews

The Trustees will review this statement triennially and additionally whenever there is a significant change in the Scheme's circumstances.

Keith Lewis............................	28 September 2020........................
Name (Print)	Date

For and on behalf of
Trustees of the Care UK LG Pension Scheme

Schedule

Investment strategy for the Care UK LG Pension Scheme

Trustees' investment objectives

The Trustees' investment strategy has been established in order to maximise the likelihood of achieving the primary objectives set out in this Statement.

The last scheme funding valuation was undertaken as at 1 April 2018. This showed that on an ongoing basis the Scheme was 93% funded. On a buy-out basis the scheme was 56% funded. A recovery plan has been established to make good the deficit by 31 August 2026. In addition to the deficit recovery plan contributions the employer and Trustees agreed in March 2018 that the employer would pay additional contributions of £505,200 per annum until 2021/22 and £279,000 in 2022/23. These additional contributions will cease if the scheme becomes fully funded on a technical provisions basis.

The Trustees, after consultation with the employer, agreed to introduce liability-driven investment (LDI) from Q4 2019. The LDI hedges 70% of the scheme's interest rate risk and inflation rate risk.

The investment allocation is kept under review by the Trustees.

Professional advisers who assist the Trustees

Investment advisers

The Trustees have appointed Wentworth Employee Benefits Limited to provide investment advice to the Trustees. Wentworth are authorised and regulated by the Financial Conduct Authority.

Investment managers

The Trustees have appointed Insight, Hermes and LGIM to be responsible for the day-to-day investment of the Scheme's assets:-

> **Insight** manage the LDI fund which is gilts-based and also the absolute-return bond fund. Following advice from Insight a fixed allocation was made to the LDI fund with the balance to the absolute-return bond fund. The absolute-return bond fund also acts as the collateral fund should there be a cash call from Insight to reduce the gearing on the LDI fund.

LGIM have been appointed as passive investment managers for both UK and overseas equity.

Hermes have been appointed as property investment managers and c10% of the scheme's assets are held with Hermes. The Trustees are aware of the illiquid nature of property fund investment.

The balance held in the trustee bank account, operated by the Scheme administrators XPS, is reviewed regularly to ensure that it is sufficient to meet the benefits payable.

The initial investment allocation following the implementation of LDI and the new investment strategy is as follows:

	Allocation	**Manager**	**Active/passive**
LDI: 70% hedging	18%	Insight	Active
Absolute return bonds	24%	Insight	Active
Property	10%	Hermes	Active
UK equity	24%	LGIM	Passive
Overseas equity hedged	12%	LGIM	Passive
Overseas equity unhedged	12%	LGIM	Passive

The investment managers prepare regular reports to the Trustees which include:-

* a valuation of all investments held for the Scheme;
* a record of all transactions together with a cash reconciliation;

In addition, the Trustees may from time to time hold insurance policies or other assets ear-marked for the benefit of certain members. These may include for example:-

* Assets secured by additional voluntary contributions (AVCs) or other individual arrangements made by the Trustees;
* Deferred or immediate annuity policies purchased to match part or all of the Scheme's liabilities. Since 2013 it has been the practice of the Trustees not to purchase annuities for members when they take retirement benefits from the Scheme; this view was maintained during the discussions on the 2018 scheme funding valuation and will be reviewed at the time of future funding valuations.

The AVC scheme provider is Aviva. The investment objective of the AVC funds is to provide members with competitive returns.

June 2020