The British Red Cross Pension Fund

Statement of Investment Principles

1 Introduction

1.1 This is the Statement of Investment Principles prepared by the Trustees of The British Red Cross Pension Fund (the Fund). This statement sets down the principles governing decisions about investments that enable the Fund to meet the requirements of:

- the Pensions Act 1995, as amended by the Pensions Act 2004 and the Pensions Scheme Act 2021;
- the Occupational Pension Schemes (Investment) Regulations 2005, as amended by the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2010;
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018; and
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

1.2 In preparing this statement the Trustees have consulted British Red Cross Society, the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustees' investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.

1.3 This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.

1.4 The Trustees will review this statement at least every three years or if there is a significant change in the policy on any of the areas covered by the statement.

1.5 The investment powers of the Trustees are set out in the Definitive Trust Deed & Rules. This statement is consistent with those powers.

1.6 The Trustees are given assistance in respect of investment matters by the Pension Fund Investment Advisory Panel (PFIAP). The Trustees approve the composition of the PFIAP and, in turn, the PFIAP carries out its responsibilities in accordance with the Terms of Reference. The PFIAP makes recommendations to the Trustees regarding investment matters relevant to the Fund.

2 Choosing Investments

2.1 The Trustees' policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustees consider the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.

2.2 The day-to-day management of the Fund's assets is delegated to one or more fund managers. The Fund's fund managers are detailed in Appendix 1 to this Statement. The fund managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights.

2.3 The Trustees review the appropriateness of the Fund's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the fund managers with respect to performance within any guidelines set. The Trustees will also consult the employer before amending the investment strategy.

3 Investment Objectives

3.1 The Trustees have discussed key investment objectives in light of an analysis of the Fund's liability profile as well as the constraints the Trustees face in achieving those objectives. The Trustees' main investment objectives are:

- to ensure that they can meet the members' entitlements under the Trust Deed and Rules as they fall due;
- to achieve a long term positive real return;
- to manage the expected volatility of the returns achieved in order to control the level of volatility in the Fund's required contribution levels;
- to invest in assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from the participating employer, the cost of benefits which the Fund provides;
- to reduce the risk of the assets failing to meet the liabilities over the long term; and,
- to minimise the long-term costs of the Fund by maximising the return on the assets whilst having regard to the above objectives.

3.2 The Trustees are aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Fund's liabilities at any time. The Trustees have obtained exposure to investments that they expect will meet the Fund's objectives as best as possible.

4 Kinds of investments to be held

4.1 The Fund can invest in a wide range of asset classes including:

- Equities;
- Bonds;
- Cash;
- Property;
- Alternatives, including private equity, commodities, hedge funds, infrastructure, currency, high yield debt and derivatives;
- Annuity policies.

4.2 Any investment in derivative instruments is only made to contribute to a reduction in the overall level of risks in the portfolio or for the purposes of efficient portfolio management.

5 The balance between different kinds of investments

5.1 The Fund invests in assets that are expected to achieve the Fund's objectives. The allocation between different asset classes is contained within the Appendix to this Statement.

5.2 The Trustees consider the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Appendix to this Statement.

5.3 From time to time the Fund may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate any short term cashflow requirements or any other unexpected items.

5.4 The Trustees are aware that the appropriate balance between different kinds of investments will vary over time and therefore the Fund's asset allocation will be expected to change as the Fund's liability profile matures.

6 Risks

6.1 The Trustees have considered the following risks for the Fund with regard to its investment policy and the Fund's liabilities, and considered ways of managing/monitoring these risks:

Risk versus the liabilities	The Trustees will monitor and review the investment strategy with respect to the liabilities in conjunction with each actuarial valuation. The investment strategy will be set with consideration to the appropriate level of risk required for the funding strategy as set out in the Fund's Statement of Funding Principles.
Covenant risk	The creditworthiness of the employer and the size of the pension liability relative to the employer's earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the employer covenant.
Solvency and mismatching	This risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustees are aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Fund's funding basis.
Asset allocation risk	The asset allocation is detailed in the Appendix to this Statement and is monitored on a regular basis by the Trustees.
Investment manager risk	The Trustees monitor the performance of each of the Fund's investment managers on a regular basis in addition to having meetings with each manager from time to time as necessary, usually on an annual basis. The Trustees have a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate.

Governance risk	Each asset manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustees monitor these and will report on the managers' practices in their annual Implementation Statement.
ESG/Climate risk	The Trustees have considered long-term financial risks to the Fund and ESG factors as well as climate risk are potentially financially material and will continue to develop their policy to consider these, alongside other factors, when selecting or reviewing the Fund's investments in order to avoid unexpected losses.
Concentration risk	Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.
Liquidity risk	The Fund invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Fund's cashflow requirements. The Fund's administrators assess the level of cash held in order to limit the impact of the cashflow requirements on the investment policy.
Currency risk	The Fund's liabilities are denominated in sterling. The Fund may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management.
Loss of investment	The risk of loss of investment by each investment manager and custodian is assessed by the Trustees. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud). The Trustees review the internal controls and processes of each of the investment managers from time to time.

7 Expected return on investments

7.1 The Trustees have regard to the relative investment return and risk that each asset class is expected to provide. The Trustees are advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the fund managers.

7.2 The Trustees recognise the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

7.3 In considering the expected return from investments, the Trustees recognise that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.

7.4 Having established the investment strategy, the Trustees monitor the performance of each fund manager against an agreed benchmark as frequently as appropriate according to market conditions and the

Fund's funding position. The Trustees meet the Fund's fund managers as frequently as is appropriate, normally on an annual basis, in order to review performance.

8 Realisation of investments

8.1 The Trustees have delegated the responsibility for buying and selling investments to the fund managers. The Trustees have considered the risk of liquidity as referred to above.

8.2 Ultimately, the investments will all have to be sold when the Fund's life comes to an end. In this situation, the Trustees are aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Fund accounts.

9 Financially material considerations, non-financial matters, the exercise of voting rights, and engagement activities

9.1 The Trustees have set policies in relation to these matters. These policies are set out in Appendix 2.

10 Policy on arrangements with asset managers

Incentivising alignment with the Trustees' investment polices

10.1 Prior to appointing an investment manager, the Trustees discuss the investment manager's approach to the management of ESG and climate related risks with the Fund's investment consultant, and how their policies are aligned with the Trustees' own investment beliefs.

10.2 When appointing an investment manager, in addition to considering the investment manager's investment philosophy, process and policies to establish how the manager intends to make the required investment returns, the Trustees also consider how ESG and climate risk are integrated into these. If the Trustees deem any aspect of these policies to be out of line with their own investment objectives for the part of the portfolio being considered, they will consider using another manager for the mandate.

10.3 The Trustees carry out a strategy review at least every three years where they assess the continuing relevance of the strategy in the context of the Fund's membership and their aims, beliefs and constraints. The Trustees monitor the investment managers' approach to ESG and climate related risks on an annual basis.

10.4 In the event that an investment manager ceases to meet the Trustees' desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment will be terminated. The investment managers have been informed of this by the Trustees.

10.5 Investment manager ESG policies are reviewed in the context of best industry practice and feedback will be provided to the investment manager.

Incentivising assessments based on medium to long term, financial and non-financial considerations

10.6 The Trustees are mindful that the impact of ESG and climate change has a long-term nature. However, the Trustees recognise that the potential for change in value as a result of ESG and climate risk may occur over a much shorter term than climate change itself. The Trustees acknowledge this in their investment management arrangements.

10.7 When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustees assess these over a rolling timeframe. The Trustees believe the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon. Where a fund may have an absolute return or shorter term target, this is generally supplementary to a longer term performance target. In the case of assets that are actively managed, the Trustees expect this longer term performance target to be sufficient to ensure an appropriate alignment of interests.

10.8 The Trustees expect investment managers to be voting and engaging on behalf of the Fund's holdings and the Fund monitors this activity within the Implementation Statement in the Fund's Annual Report and Accounts. The Trustees do not expect ESG considerations to be disregarded by the investment managers in an effort to achieve any short term targets.

Method and time horizon for assessing performance

10.9 The Trustees monitor the performance of their investment managers over medium to long term periods that are consistent with the Trustees' investment aims, beliefs and constraints.

10.10 The Fund invests exclusively in pooled funds. The investment manager is remunerated by the Trustees based on the assets they manage on behalf of the Trustees. As the funds grow, due to successful investment by the investment manager, they receive more and as values fall they receive less.

10.11 The Trustees believe that this fee structure, including the balance between any fixed and performance related element, enables the investment manager to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.

10.12 The Trustees ask the Fund's investment consultant to assess if the asset management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered regularly as part of the review of the Statement of Investment Principles.

Portfolio turnover costs

10.13 The Trustees acknowledge that portfolio turnover costs can impact on the performance of their investments. Overall performance is assessed as part of the quarterly investment monitoring process.

10.14 During the investment manager appointment process, the Trustees may consider both past and anticipated portfolio turnover levels. When underperformance is identified, deviations from the expected level of turnover may be investigated with the investment manager concerned if it is felt they may have been a significant contributor to the underperformance. Assessments reflect the market conditions and peer group practices. The Trustees acknowledge that for some asset classes, such as LDI, a higher turnover of contracts such as repurchase agreements, can be beneficial to the fund from both a risk and cost perspective.

Duration of arrangement with asset manager

10.15 For the open-ended pooled funds in which the Fund invests, there are no predetermined terms of agreement with the investment managers.

10.16 The suitability of the Fund's asset allocation and its ongoing alignment with the Trustees' investment beliefs is assessed every three years, or when changes deem it appropriate to do so more frequently. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.

11 Agreement

11.1 This statement was agreed by the Trustees, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the employer, the fund managers, the actuary and the Fund auditor upon request.

Signed:.. **Date:.....................**

Agreed by the Trustees of The British Red Cross Pension Fund, after consultation with the British Red Cross Society

Appendix 1 Note on investment policy of the Fund in relation to the current Statement of Investment Principles

Choosing investments

The Trustees have appointed Legal & General Investment Management Limited and Insight Investment to carry out the day-to-day investment of the Fund.

Both fund managers are authorised and regulated by the Financial Conduct Authority.

The Trustees have appointed Barnett Waddingham LLP to advise on investment matters.

Asset allocation

The asset allocation has been agreed after considering the Fund's liability profile and funding position.

The Fund has a strategic asset allocation as set out in the table below. The Trustees recognise that the asset allocation of investments in different asset classes will vary over time as a result of market movements. The Trustees seek to maintain a balance between maintaining the asset allocation in line with its benchmark and limiting the costs of rebalances. Assets will be invested in a combination of the below investments in order to hedge 100% of the interest rate and inflation risk of the Fund's liabilities on a solvency basis.

Fund Manager	Fund	Allocation
Protection portfolio		**100.0%**
Legal & General	**Liability Driven Investment/cash**	**60.0%**
	Passive and leveraged gilt funds, including single stock treasury and/or indexed funds.	The allocation within the LGIM LDI portfolio is intended to match the shape of the liabilities and will vary over time based on movements in nominal and real gilt yields.
	Sterling Liquidity Fund	
Insight	**Buy and Maintain Bonds**	**40.0%**
	Buy and Maintain Bond Fund	
Total		**100.0%**

Benchmarks and objectives

Each fund is set a benchmark and an objective based on this benchmark. The performance of fund managers will be monitored using these objectives as frequently as the Trustees consider appropriate in light of the prevailing circumstances. The monitoring takes into account both short term and long term performance.

The benchmarks and objectives for each fund are set out in the following table:

Fund Manager	Fund	Benchmark	Objective
Legal & General	Passive and leveraged gilt funds, including single stock treasury and/or indexed funds	Respective fund benchmark (single stock or index)	Track the performance of the benchmark
	Sterling Liquidity Fund	Sterling Overnight Index Average	To track the performance of the benchmark whilst providing access to liquidity
Insight	Buy & Maintain Bond Fund	iBoxx GBP Corporate & Collateralised ex-T1 & UT2, 1% issuer cap, 25%sector cap Index	The Fund seeks to generate a return for investors by investing primarily in a portfolio of debt securities

Fee arrangements

The fee arrangements with the fund managers are summarised below:

Fund Manager	Fund	Fees
Legal & General	Passive gilt funds, including single stock treasury and/or indexed funds	For the first £25 million; 0.24% pa For anything over £25m; 0.17% pa
	Sterling Liquidity Fund	0.125% pa
Insight	Buy & Maintain Bond Fund	Annual Management Charge (AMC): 0.15% pa Fixed operating expenses: 0.05% pa

The Fund also pays LGIM's flat charge of £1,500 per annum.

Barnett Waddingham is remunerated on a time-cost basis with some services offered within a fixed fee arrangement.

Investment of new money

Money will normally be invested in line with the allocation between the constituent funds at the date of investment.

Realisation of investments

The Fund's cashflow requirements are expected to be partly met by the principal employer's contributions; however, where this is insufficient the Trustees may disinvest some of its investments, in line of the current allocation. Disinvestment will be made in line with the allocation between the constituent funds at the time of the disinvestment.

Buying out the liabilities

The Trustees' investment strategy is consistent with the requirement to meet the Statutory Funding Objective, as set out in the Fund's most recent Statement of Funding Principles. However, the Trustees have also considered the possibility of securing the liabilities with an insurance company when determining the investment strategy. The Trustees will monitor the scope to buyout the liabilities over the medium-term and believe that this may become an appropriate course of action to meet their objectives.

Appendix 2 Note on financially material considerations, the exercise of rights and engagement activities, and non-financial matters.

Policy on financially material considerations

The Trustees believe that Environmental, Social and Governance ("ESG") factors are financially material – that is, they have the potential to impact the value of the Fund's investments from time-to-time over the Fund's investment horizon. This view includes an appreciation for the potential for climate risk to impact on the value of the Fund's investments. The Fund's investment horizon is considered to be long-term, noting the maturity of the liability profile and the Trustees' long-term objective to secure the benefits with an insurance company in the event that doing so becomes affordable.

The Trustees have elected to invest the Fund's assets through pooled funds. The choice of underlying funds is made by the Trustees after taking advice from their investment consultant. The Trustees, and the managers of the underlying funds, take into account ESG factors (including climate change risks) in their decisions in relation to the selection, retention and realisation of investments.

The Trustees appreciate that the method of incorporating ESG in the investment strategy and process will differ between asset classes. A summary of the Trustees' views for each asset class in which the Fund invests is outlined below.

The Trustees received training on financially material considerations from its investment advisor and considered the research presented during the training in order to form this policy.

Buy and maintain bonds

The Trustees believe that ESG issues will be financially material to the risk-adjusted returns achieved by the Fund's buy and maintain bonds holding. The Trustees therefore require the fund manager to consider ESG issues when selecting investments. The Trustees recognise that fixed income assets do not typically provide voting rights; they support engagement with companies by the fund manager. The process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

Passive gilts

The Trustees believe that ESG issues are not financially material to the risk-adjusted returns achieved by the Fund's passive gilts. This is because gilts are considered "least risk" when constructing the investment strategy.

The Trustees are comfortable that the funds currently invested in by the Fund are managed in accordance with their views on financially material factors, as set out below, in particular with regards to the selection, retention, and realisation of the underlying investments held.
This position is monitored periodically, at least annually. As part of the monitoring process, the Trustees have access to updates on governance and engagement activities by the managers and input from their investment advisors on ESG matters. In the future, the views set out below will be taken into account when appointing and reviewing managers.

Liability Driven Investment

The Trustees believe that ESG issues are not financially material to the risk-adjusted returns achieved by the Fund's Liability Driven Investment strategy, given its sole purpose is to provide a hedge against the Fund's exposure to movements in nominal interest rates and inflation.

The Trustees acknowledge that they are delegating the consideration of financially material factors in relation to determining the underlying holdings to their fund managers given that they are investing in pooled funds.

Policy on the exercise of voting rights and engagement activities

The Trustees' policy on the exercise of rights attaching to investments, including voting rights, and in undertaking engagement activities in respect of the investments is that these rights should be exercised by the investment managers on the Trustees' behalf. In doing so, the Trustees expect that the investment managers will use their influence as major institutional investors to exercise the Trustees' rights and duties as shareholders, including where appropriate engaging with underlying investee companies to promote good corporate governance, accountability and to understand how those companies take account of ESG issues in their businesses.

The Trustees will monitor and engage with the investment managers about relevant matters (including matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance), through the Fund's investment consultant.

Investment managers will be asked to provide details of their stewardship policy and engagement activities on at least an annual basis. The Trustees will, with input from their investment consultant, monitor and review the information provided by the investment managers. Where possible and appropriate, the Trustees will engage with their investment managers for more information and ask them to confirm that their policies comply with the principles set out in the Financial Reporting Council's UK Stewardship Code.

The Trustees acknowledge the importance of ESG and climate risk within their investment framework. When delegating investment decision making to their investment managers they provide their investment managers with a benchmark they expect the investment managers to either follow or outperform. The investment manager has discretion over where in an investee company's capital structure it invests (subject to the restrictions of the mandate), whether directly or as an asset within a pooled fund.

The Trustees are of the belief that ESG and climate risk considerations extend over the entirety of a company's corporate structure and activities, i.e. that they apply to equity, credit and property instruments or holdings. The Trustees also recognise that ESG and climate related issues are constantly evolving and along with them so too are the products available within the investment management industry to help manage these risks.

The Trustees consider it to be a part of their investment managers' roles to assess and monitor developments in the capital structure for each of the companies in which the managers invest on behalf of the Fund or as part of the pooled fund in which the Fund holds units.

The Trustees also considers it to be part of their investment managers' roles to assess and monitor how the companies in which they are investing are managing developments in ESG related issues, and in particular climate risk, across the relevant parts of the capital structure for each of the companies in which the managers invest on behalf of the Fund.

Should an investment manager be failing in these respects, this should be captured in the Fund's regular performance monitoring.

The Fund's investment managers are granted full discretion over whether or not to invest in the Principal Employer's business. Through their consultation with the Principal Employer when setting this Statement of Investment Principles, the Trustees have made the Principal Employer aware of their policy on ESG and climate related risks, how they intend to manage them and the importance that the pensions industry as a whole, and its regulators, place on them.

The Fund's investment consultant is independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes the Trustees confident that the investment manager recommendations they make are free from conflict of interest.

The Trustees expect all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so the Trustees believe they have managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustees/investment manager and the investee companies.

In selecting and reviewing their investment managers, where appropriate, the Trustees will consider investment managers' policies on engagement and how these policies have been implemented.

Policy for taking into account non-financial matters

When constructing the investment strategy and selecting investment managers the Trustees do not prioritise non-financial matters. Based on the size and maturity of the Fund, the Trustees have adopted a passive or buy and maintain approach to their investments, utilising pooled investment vehicles, which mean that it is less practical and efficient (from a return and cost perspective) to take account of such non-financial matters.