



GROSVENOR

Statement of Investment Principles

For the Grosvenor Pension Plan

Effective from: 6 July 2023



1. Introduction

This Statement of Investment Principles ("SIP") has been produced by the Trustees of the Grosvenor Pension Plan (the "Plan").

It sets out our policies on various matters governing investment decisions for the Plan, which is a Defined Benefit ("DB") scheme. This SIP also covers the Additional Voluntary Contribution arrangements ("AVCs").

This SIP replaces the previous SIP dated September 2020.

This SIP has been prepared after obtaining and considering written advice from LCP, our investment adviser, whom we believe to be suitably qualified and experienced to provide such advice. The advice considered the suitability of investments including the need for diversification given the circumstances of the Plan and the principles contained in this SIP.

We have consulted with the principal employer, which has been nominated for this purpose by each of the employers with active members in the Plan, in producing this SIP.

We will review this SIP from time to time and will amend it as appropriate. Reviews will take place without delay after any significant change in investment and at least once every three years.

This SIP contains the information required by legislation, and also considers the Pension Regulator's guidance on investments.

We have produced a separate SIP addendum document, which details further background and other matters relevant to the Plan's investments, but which are not required to be included in the SIP.

2. Investment objectives

The primary objective for the Plan is to ensure that the benefit payments are met as they fall due.

In order to achieve this primary objective, we aim to:

- maintain and improve the Plan's funding position on a Technical Provisions and low dependency basis over the long term; and
- obtain the maximum rate of return on a suitable mix of assets, so as to reduce the need for future contributions from the employer, consistent with an acceptable level of risk of the return being materially less than expected.

Our investment objective for the AVCs is to make available a suitable range of investment options to meet members' risk / return objectives.

3. Investment strategy

With input from our advisers and in consultation with the employer, we reviewed the investment strategy for the Plan in November 2022, considering the objectives described in Section 2, above.

An analysis of our overall investment objectives has led us to invest the Plan's assets in:

- a matching portfolio; and
- a growth portfolio.

The investment profile of the matching portfolio is designed to reduce, to an acceptable level, movements in the value of the Plan's assets relative to its liabilities caused by changes in interest rates and inflation expectations. This includes an allocation to LDI (Liability Driven Investment).

The growth portfolio is invested in more volatile assets, such as equities, which are expected to deliver a higher return (than bonds) in the longer term.

Our policy is to target the maximum expected return level subject to ensuring the level of investment risk is appropriate to reflect the Plan's circumstances. We believe that the strategy above meets this objective.

We have set target benchmark asset allocations within the matching and growth portfolios. We monitor the asset allocation against this benchmark regularly and will consider with our advisers whether it is appropriate to rebalance the assets taking into account factors such as market conditions and anticipated future cash flows.

We have a leverage management plan in place which sets out the assets directly available to support the Plan's LDI arrangements and the approach that is expected to be taken with regards to selling down these assets to support the LDI arrangements. We review and update the plan periodically.

We have also made available a range of AVC options for members.

4. Considerations in setting the investment arrangements

When deciding how to invest the Plan's assets, it is our policy to consider a range of asset classes, taking account of the expected returns and risks associated with those asset classes, as well as our beliefs about investment markets and which factors are most likely to impact investment outcomes.

We take an integrated approach when assessing risk and reviewing the investment strategy. In particular we take account of: the employer covenant, contributions, funding targets, liability profile (including interest rate and inflation sensitivities and the extent to which they are hedged) and the level of expected return and risk now and as the strategy evolves.

The primary ways that we manage investment risk is via diversification, ensuring we receive professional written advice prior to making any material investment decision, and our ongoing monitoring and oversight of the investments. Further details of specific risks (for example equity risk, credit risk and currency risk) and how we measure and manage those risks is set out in Part 2 of the SIP addendum.

In setting the strategy it is our policy to consider:

- our investment objectives, including the target return required to meet these;
- the circumstances of the Plan, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the strength of the employer covenant; and
- the need for appropriate diversification between different asset classes to manage investment risk and ensure that both the overall level of investment risk and the balance of individual asset risks are appropriate.

In determining the investment arrangements for the AVCs it is our policy to consider:

- the overall best interests of members and beneficiaries;
- the profile of the membership and what this is likely to mean for the choices members might make upon reaching retirement; and
- the need for appropriate diversification between and, where appropriate, within the investment options offered to members.

We also consider other factors that we believe to be financially material over time horizons relevant to the funding of the DB and AVC benefits, including environmental, social and governance ("ESG") factors and the risks and opportunities relating to climate change.

Our key investment beliefs, which influence the setting of the investment arrangements, are as follows:

- strategic asset allocation is the primary driver of long-term returns;
- costs may have a significant impact on long-term performance and therefore obtaining value for money from the investments is important;
- investment markets are not always efficient and there may be opportunities for good active managers to add value. In any case, some assets must, by necessity, be managed actively;
- risk-taking is necessary to achieve return, but not all risks are rewarded. Equity, credit, and illiquidity are the primary rewarded risks. Risks that do not have an expected reward should generally be avoided, hedged, or diversified;
- ESG factors should be considered when making investment decisions, and managers may be able to improve risk-adjusted returns by doing this;

- climate change is a financially material systemic issue that presents risks and opportunities for the Plan over the short, medium and long term;
- aligning our assets with net zero greenhouse gas emissions by 2050 where practicable is expected to help reduce the risks to the Plan from climate change;
- to be effective, a net zero program needs to be consistent with climate science, with both short-term and long-term targets and a focus on real world impacts;
- voting and engagement are important and can create long term value which is in the best interest of Plan members and therefore we encourage managers to improve their voting and engagement practices;
- collaborative investor action can help address systemic risks, for example we believe net zero alignment, if implemented well, could be an effective approach to addressing climate risk.

5. Implementation of the investment arrangements

Before investing in any manner, we obtain and consider proper written advice from our investment adviser as to whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

We have signed agreements with the investment managers setting out the terms on which the portfolios are to be managed. Details of the investment managers are set out in the separate SIP addendum.

We have limited influence over managers' investment practices because all the Plan's assets are held in pooled funds, but we encourage our managers to improve their practices within the parameters of the fund they are managing.

Our view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high-quality service that meets the stated objectives, guidelines, and restrictions of their fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement, and portfolio turnover.

It is our responsibility to ensure that the managers' investment approaches are consistent with our policies before any new appointment, and to monitor and to consider terminating any arrangements that appear to be investing contrary to those policies. We expect investment managers to make decisions based on assessments of the longer-term performance of debt/equity issuers, and to engage with issuers to improve their performance (or where this is not appropriate to explain why). We assess this when selecting and monitoring managers.

We evaluate investment manager performance over both shorter and longer term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. If a manager is not meeting its performance objectives, we will consider alternative arrangements.

Our policy is to evaluate each of our investment managers by considering performance, the role it plays in helping to meet our overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

We recognise that portfolio turnover and associated transaction costs are a necessary part of investment management. Since the impact of these costs is reflected in performance figures used in our assessment of the investment managers, we do not explicitly monitor portfolio turnover. We expect our investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Plan's investment mandates.

6. Realisation of investments

We instruct disinvestments as required for benefit payments and other outgoings. Our preference is for investments that are readily realisable but recognise that achieving a well-diversified portfolio may mean holding some investments that are less liquid. In general, our policy is to use cash flows to rebalance the assets towards the strategic asset allocation, and also receive income from some of the portfolios where appropriate.

7. Financially material considerations and non-financial matters

We consider how ESG and ethical considerations (including but not limited to climate change) should be addressed in the selection, retention, and realisation of investments, given the time horizon of the Plan and its members.

We influence the Plan's approach to ESG and other financially material factors through our investment strategy and manager selection decisions. We expect all of our investment managers to take account of financially material factors (including climate change and other ESG factors) within the parameters of the mandates they are set. We seek to appoint managers that have the skills and processes to do this, and review how the managers are taking account of these issues in practice.

We encourage our managers to improve their ESG practices, although acknowledge that we have limited influence over managers' investment practices where assets are held in pooled funds and that the parameters of some pooled funds may limit the scope for significant incorporation of ESG factors.

Our ambition is to align our assets with net zero greenhouse gas emissions by 2050 through selecting managers, and investing in funds, with credible net zero targets. Where funds do not have existing net zero targets, we encourage our managers to develop them within a reasonable timeframe.

Within each asset class, we considered investment options that give increased weight to ESG factors. For example, we have considered passive funds that explicitly include ESG factors, such as low carbon emissions, in the investment process.

We have sought to align the Plan's investment strategy with the employer's approach to ESG, which we believe to be a reasonable representation of members' views (and also a financially material consideration), rather than taking explicit account of any non-financial matters. However, the line between financial and non-financial factors is not always clear and some non-financial factors that may not immediately present as financially material may have the potential to become so in the future. We keep this under review as part of our overall consideration of ESG considerations.

8. Voting and engagement

We recognise our responsibilities as owners of capital, and believe that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments and is in the best interests of our members.

We seek to appoint investment managers that have strong stewardship policies and processes, reflecting the principles of the UK Stewardship Code 2020 issued by the Financial Reporting Council.

We have delegated to the investment managers the exercise of rights attaching to investments, including voting rights, and engagement with relevant persons such as issuers of debt and equity, stakeholders and other investors about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG factors. We expect the managers to undertake voting and engagement in line with their stewardship policies, considering the long-term financial interests of investors.

As all of our investments are held through managers or pooled funds we do not monitor or engage directly with issuers or other holders of debt or equity.

We do however monitor managers' activities in relation to ESG factors, voting and engagement on a regular basis. We seek to understand how they are implementing their stewardship policies in practice to check that their stewardship is effective and aligned with our expectations.

We have selected one or more priority ESG themes to provide a focus for our monitoring of investment managers' voting and engagement activities. We review the themes regularly and update them if appropriate. We communicate these stewardship priorities to our managers each year and also confirm our more general expectations in relation to ESG factors, voting and engagement.

If our monitoring identifies areas of concern, we will engage with the relevant manager to encourage improvements.