Schroders

STATEMENT OF INVESTMENT PRINCIPLES (SIP) – Hallé Concerts Society Retirement Benefits Scheme

September 2020

1. Introduction

This statement sets out the principles governing decisions about the investment of the assets of the Hallé Concerts Society Retirement Benefits Scheme ('the Scheme'). The Trustees of the Scheme ('the Trustees') issue this statement to comply with the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005.

This statement will be will be reviewed at least once every three years or after any significant change in investment policy.

Before preparing this statement, the Trustees have:

– obtained and considered the written advice of a person who is reasonably believed by the Trustees to have the appropriate knowledge and experience of financial matters and investment management; and
– consulted the employer in relation to the Scheme.

2. Investment objectives

The Trustees' main objectives with regard to investment policy are as follows:

– to hold sufficient assets to meet the liabilities of the [Scheme]; and
– to ensure that sufficient liquid assets are available to meet benefit payments as they fall due

The Trustees reviewed the Scheme's investment strategy in 2018 and decided to adopt a new strategy following the significant increase in the deficit between the 2014 and 2017 triennial actuarial valuations and the weakness of the employer (Halle Concerts Society) covenant. With the agreement of the Society the trustees decided to adopt a reduced risk strategy by increasing the use of hedging against future changes in interest and inflation rates. In addition, the trustees agreed to move to a fiduciary management approach to enable greater delegation of investment decisions, quicker decision making and a more comprehensive and effective integration of funding and investment strategies.

3. Investment Strategy

The strategic allocation of investments will be managed by the fiduciary manager in line with the latest advice provided by the fiduciary manager and agreed by the trustees. This advice is contained in a separate letter headed "Interim advice regarding the Scheme's Investment Strategy" with the current letter being appended to this SIP. The current letter is the letter dated 14 April 2020.

4. Policy on choosing investments

The policy on choosing investments is as follows:

– the nature of the liabilities of the Scheme are considered in setting the Scheme's strategic asset allocation. This includes consideration of interest rates, inflation, mortality and other financial and demographic factors.
– the Trustees' funding objectives are considered. To meet these objectives the Trustees have set an allocation to Growth and Matching assets and a target liability coverage, which in their opinion is consistent with their funding objectives and risk appetite.
– the Scheme's funding objective, Growth and Matching asset allocation, and target liability coverage form part of the Trustees' investment policy. The implementation of the investment policy is delegated to a fiduciary manager.
– the Scheme's strategic asset allocation is split into Matching Assets and Growth Assets.
    – **Matching Assets**: Comprise assets (including, but not limited to, UK government bond, corporate bond and derivative exposures) which are held with the aim of matching the interest rate and inflation exposures of the Scheme's expected liabilities.

- **Growth Assets**: The Trustees recognise the benefits of diversification across the Scheme's Growth Assets. Growth Assets comprise assets (including but not limited to, developed and emerging market equities, corporate bonds and alternative assets) that are held with the aim of outperforming the Scheme's liabilities over the medium term.
- in advising the Trustees on the Scheme's strategic asset allocation, the fiduciary manager makes use of a set of assumptions about the long-term expected return from the main permitted asset classes. These assumptions are developed by the fiduciary manager based on input from a range of experts including the fiduciary manager's in-house economics specialists. The assumptions are updated by the fiduciary manager periodically. These can be provided upon request.

5. Risk

The Trustees measure and monitor the ongoing appropriateness of the investment objectives and risks through a combination of:

- Quarterly investment monitoring reports
- Annual reporting on turnover and transaction costs
- Estimates of the progression of the funding level and the impact of market moves on the funding level of the [Scheme]
- Triannual actuarial valuations
- Strategy reviews undertaken following completion of the actuarial valuation
- Ad-hoc investigations in the event of significant market events or changes to the expected liabilities.

The Trustees have chosen an investment strategy that takes risks where necessary to achieve their funding objectives, that focuses on those risks that the trustees expected to be rewarded, and that manages individual risks and overall risk levels appropriately. The Trustees recognise a number of risks involved in the investment of the assets including:

- **Interest rate and inflation risk:** the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates and expected future inflation rates. The Trustees receive information about the estimated level of interest rate and inflation risk in the strategy on a regular basis. Interest rate and inflation risks are managed using Liability Driven Investment techniques within the Matching Assets.

- **Currency risk:** the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates. This risk is measured and actively managed on an ongoing basis by the Scheme's investment managers. The majority of the overseas currency exposure in the portfolio is hedged back to Sterling, unless there is expected to be a risk or return benefit to the Scheme from leaving exposures to one or more overseas currencies unhedged.

- **Credit risk:** the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. This risk is measured and actively managed on an ongoing basis by the Scheme's fiduciary manager. The fiduciary manager seeks to achieve a diversified exposure to a range of growth asset risks including credit risk so that no single risk in the portfolio dominates.

- **Other price risk:** the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). These are measured and managed on an ongoing basis by the Scheme's fiduciary manager. The Scheme's fiduciary manager seeks to achieve a diversified exposure to a range of growth asset risks so that no single risk in the portfolio dominates.

- **Liquidity risk:** the risk that the Scheme is unable to meet benefit payments as they fall due. This is managed by the fiduciary manager by holding an appropriate level of readily realisable investments.

6. Realisation of investments

The majority of the Scheme's assets are realisable at short notice. Therefore, the Trustees are satisfied that sufficient assets held will be readily realisable to provide cash to meet payments by the Scheme.

In addition, the Trustees are also satisfied that the spread of assets and the fiduciary manager's policies provide adequate diversification of investments.

7. Social, environmental or ethical considerations and climate change

Financially material considerations

The Trustees believe that Environmental, Social and Governance (ESG) related risks, including climate change risks, are financially material and an important component of investment risk. The Trustees believe that organisations that soundly manage ESG related risks are more likely to be financially sustainable over time, and therefore deliver better long-term risk-adjusted returns. The trustees have consulted with the Halle Concerts Society over the Society's attitude to ESG and are balancing their fiduciary duties with social responsibility.

Environmental factors include climate change, resource, especially water, scarcity, and waste treatment practices. The Trustees recognise that climate change is a key environmental challenge that poses both risks and opportunities. These may take the form of rising physical losses from extreme weather in the short term, the medium-term impacts from the implementation of climate change policy, and the longer-term impacts if global temperature rises are not limited.

Social factors include diversity, human capital management, health and safety, customer and supplier relationships, and interactions with local communities, regulators and governments. Organisations today must recognise that they operate under a social licence, and that relationships with stakeholders should reflect these obligations.

Governance factors include business ethics, transparency of company management and reporting, executive remuneration and board structure. Well-governed organisations typically face lower levels of ESG risk as a result of a strong governance culture and appropriate policies and procedures, enabling them to deliver sustainable long-term returns.

The Trustees require the fiduciary manager to integrate analysis of relevant ESG issues into their investment decision making processes. The Trustees monitor how the fiduciary manager takes ESG issues into account in practice on a regular basis.

Non-financial matters

The Trustees do not take into account non-financially material ESG considerations in the management of their investments.

8. Stewardship, voting and engagement activities

The Trustees have instructed the fiduciary manager to exercise their voting and other rights as shareholders in a manner the fiduciary manager believes to be consistent with best practice in relation to Corporate Governance and in accordance with the Institutional Shareholders' Committee's ("ISC") Statement of Principles on the Responsibilities of Institutional Shareholders and Agents.

The Trustees recognise the Scheme's responsibility as a long term institutional investor to support and encourage good corporate governance practices in the companies in which it invests, because this also protects the value of the Scheme's investments while they are held.

The Trustees therefore require their fiduciary manager in their stewardship of the Scheme's assets to pay appropriate regard to the investee companies' performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social, ethical and environmental impact and corporate governance when considering the purchase, retention or sale of investments. The Trustees oversee their fiduciary manager's voting and engagement activities to ensure compliance with this requirement. Reporting on the fiduciary manager's voting and engagement activities and how these activities have had a bearing on the purchase, retention and sale of investments is included in the quarterly investment monitoring reports.

The Trustees prepare an Implementation Statement along with their Report and Accounts which describes their voting and engagement policies and their voting behaviour.

9. Arrangements with asset managers

The Trustees incentivise the fiduciary manager's alignment with their policies relating to sections 4, 5, 6 and 7 using the reporting and activities listed under section 5 to oversee the fiduciary manager's execution of its mandate; should the Trustees believe that the fiduciary manager is not aligned with their policies they will consider making changes to the fiduciary manager's mandate as necessary.

The Trustees do not have any fee arrangements in place with the fiduciary manager that incentivise it to deviate from the Trustees' policies (such as performance fees that reward positions taken in the market without regard to the environmental, social and governance considerations referred to in section 6). Rather, the fee arrangements are consistent with, and therefore incentivise alignment with, those policies by encouraging the preservation of capital and risk-managed returns over an extended time horizon.

The Trustees review the annual portfolio turnover and the associated costs incurred by their fiduciary manager against its targeted portfolio turnover or expected turnover range. Targeted portfolio turnover is defined as the expected level of asset sales and purchases in the portfolio based on recent historical experience and expected turnover range is similarly defined as the minimum and maximum frequency of such transactions based on recent historical experience.

The fiduciary manager was appointed by the Trustees in March 2019.

10. AVCs and DC assets

AVCs are held by a separate fund manager in a with-profits fund and performance is monitored by the Trustees on a periodic basis. No new contributions have been made since 2006.

Dated 28 September 2020

Signed for and on behalf of the Trustees of the Scheme:

VALERIE A HAWKIN........... Name (Print)

...... Signature

28/09/2020.............................. Date

PETER MCDONALD............. Name (Print)

P. McDONALD.................................... Signature

28/09/2020.............................. Date