Statement of Investment Principles for the Lincoln's Inn Staff Pension Scheme

14 May 2024

1. Introduction

This Statement of Investment Principles ("SIP") sets out the policy of the Trustees of the Lincoln's Inn Staff Pension Scheme ("the Scheme"), a Defined Benefit ("DB") Scheme. This SIP replaces the previous SIP dated March 2023.

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 ("the Act"), the Occupational Pension Schemes (Investment) Regulations 2005 (as amended) and the Pension Regulator's guidance for defined benefit pension schemes (March 2017).

This SIP has been prepared after obtaining and considering written professional advice from LCP, the Trustees' investment adviser, whom the Trustees believe to be suitably qualified and experienced to provide such advice. The advice takes into account the suitability of investments including the need for diversification given the circumstances of the Scheme and the principles contained in this SIP. The Trustees have consulted with the relevant employer in producing this SIP.

The Trustees will review this SIP from time to time and, with the help of their advisers, will amend it as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy and at least once every three years.

- **Appendix 1** sets out details of the Scheme's investment governance structure, including the key responsibilities of the Trustees, investment advisers and investment manager. It also contains a description of the basis of remuneration of the investment adviser and the investment manager.
- **Appendix 2** sets out the Trustees' policy towards risk appetite, capacity, measurement and management.
- **Appendix 3** sets out the Scheme's investment manager arrangements.

2. Investment objectives

The primary objective is to ensure that the Scheme should be able to meet benefit payments as they fall due.

3. Investment strategy

The Trustees, with the help of their advisers and in consultation with the employer, review the investment strategy on a regular basis, as necessary, taking into account the objectives described in Section 2 above.

The Trustees purchased a buy-in policy with Just Retirement Ltd ("Just") in November 2023 to cover members' pension benefits. As such, the majority of the Scheme's assets are held in this buy-in policy.

There is a small residual holding invested in the Sterling Liquidity Fund, with Legal & General ("residual assets").

4. Considerations in setting the investment arrangements

When deciding how to invest the Scheme's assets, the Trustees consider the expected return of the relevant asset class, and a number of risks, including, but not limited to, those set out in Appendix 2. Some of these risks are more quantifiable than others, but the Trustees have tried to allow for the relative importance and magnitude of each risk.

In setting the strategy the Trustees took into account:

- the Scheme's cash flow requirements in order to meet benefit payments in the near to medium term;
- the best interests of all members and beneficiaries;
- the circumstances of the Scheme, 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;
- any other considerations which the Trustees consider financially material over the time horizon that the Trustees consider is needed for the funding of future benefits by the investments of the Scheme; and
- the Trustees' investment beliefs about how investment markets work, and which factors are most likely to impact investment outcomes.

5. Implementation of the investment arrangements

Before investing in any manner, the Trustees obtain and consider proper written advice from their investment adviser on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

Details of the investment manager are set out in Appendix 3.

The Trustees have a signed agreement with the investment manager setting out in detail the terms on which the portfolio is to be managed. The investment manager's primary role is the day-to-day investment management of the Scheme's residual assets.

The Trustees and investment manager to whom discretion has been delegated (ie for the residual assets only), exercise their powers to giving effect to the principles in this Statement of Investment Principles, so far as is reasonably practicable.

The Trustees have limited influence over the manager's investment practices because all the Scheme's residual assets are held in a pooled fund, but they encourage their manager to improve their practices where appropriate.

The Trustees' view is that the fees paid to their investment manager, 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 the fund. However, in practice the manager 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.

The Trustees evaluate investment manager performance on a regular basis, as appropriate. The duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. Generally, the Trustees would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustees' policy is to evaluate their investment manager by reference to the manager's individual performance as well the role it plays in helping the Scheme meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. The manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustees recognise that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is typically reflected in performance figures provided by investment managers.

6. Realisation of investments

When appropriate, the Trustees, on the administrators' recommendation, decide on the amount of cash required for benefit payments and other outgoings and inform the investment manager of any liquidity requirements. The Trustees' preference is for investments that are readily realisable.

7. Consideration of financially material and non-financial matters

The Trustees have considered how environmental, social, governance ("ESG") and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Scheme and its members.

The Trustees believe that ESG factors will be financially material over the time horizon of the Scheme but will have varying levels of importance for different types of assets invested in by the Scheme.

The Trustees do not take into account any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

8. Voting and engagement

The Trustees recognise their 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.

The Trustees recognise the opportunities to engage (via their investment providers) are limited given the majority of assets are invested in a bulk annuity policy with Just, and remaining assets are invested in a money market fund.

Effective date of SIP: [ ]

Investment governance, responsibilities, decision-making and fees

The Trustees have decided on the following division of responsibilities and decision-making for the Scheme. This division is based upon the Trustees' understanding of the various legal requirements placed upon them, and their view that the division of responsibility allows for efficient operation and governance of the Scheme overall. The Trustees' investment powers are set out within the Scheme's governing documentation.

1. Trustees

In broad terms, the Trustees are responsible in respect of investment matters for:

- developing a mutual understanding of investment and risk issues with the employer;
- setting the investment strategy, in consultation with the employer;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- setting the policy for rebalancing between asset classes;
- setting a policy on the exercise of rights (including voting rights) and undertaking engagement activities in respect of the investments;
- putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- appointing (and, when necessary, dismissing) investment managers, investment advisers, actuary and other service providers;
- monitoring the exercise of the investment powers that they have delegated to the investment manager and monitoring compliance with Section 36 of the Act;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employer when reviewing the SIP.

2. Investment managers

In broad terms, the investment manager will be responsible for:

- managing the portfolio of assets according to their stated objectives, and within the guidelines and restrictions set out in their respective investment manager agreements and/or other relevant governing documentation;
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

3. Investment adviser

In broad terms, the investment adviser will be responsible, in respect of investment matters, as requested by the Trustees, for:

- advising on how material changes within the Scheme's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;
- advising on the selection, and review, of the investment manager. Such advice takes account of LCP's assessment of the nature and effectiveness of manager's approaches to financially material considerations (including climate change and other ESG considerations); and
- participating with the Trustees in reviews of this SIP.

4. Fee structures

The Trustees recognise that the provision of investment management and advisory services to the Scheme results in a range of charges to be met, directly or indirectly, by deduction from the Scheme's assets.

The Trustees have agreed Terms of Business with the Scheme's actuarial and investment advisers, under which work undertaken is charged for on a "time-cost" basis.

The investment manager receives fees calculated by reference to the market value of assets under management. The fee rates are believed to be consistent with the manager's general terms for institutional clients and are considered by the Trustees to be reasonable when compared with those of other similar providers.

The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustees' view as to the most appropriate arrangements for the Scheme. However, the Trustees will consider revising any given structure if and when it is considered appropriate to do so.

5. Performance assessment

The Trustees are satisfied, taking into account the external expertise available, that there are sufficient resources to support their investment responsibilities. The Trustees believe that they have sufficient expertise and appropriate training to carry out their role effectively.

It is the Trustees' policy to assess the performance of the Scheme's investments, investment providers and professional advisers from time to time. The Trustees will also periodically assess the effectiveness of their decision-making and investment governance processes and will decide how this may then be reported to members.

6. Working with the Scheme's employer

When reviewing matters regarding the Scheme's investment arrangements, such as the SIP, the Trustees seek to give due consideration to the employer's perspective. While the requirement to consult does not mean that the Trustees need to reach agreement with the employer, the Trustees believe that better outcomes will generally be achieved if the Trustees and employer work together collaboratively.

Policy towards risk

1. Risk appetite and risk capacity

Risk appetite is a measure of how much risk the Trustees' are willing to bear within the Scheme in order to meet their investment objectives. The Trustees aim is to strike the right balance between risk appetite and risk capacity.

When assessing the risk appetite and risk capacity, the Trustees considered a range of qualitative and quantitative factors, including:

- the strength of the employer's covenant and how this may change in the near/medium future;
- the Scheme's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged;
- the Scheme's cash flow and target return requirements; and
- the level of expected return and expected level of risk.

2. Approach to managing and monitoring investment risks

The Trustees consider that there are a number of different types of investment risk that are important to manage and monitor. These include, but are not limited to:

2.1. Risk of inadequate returns

The Scheme's buy-in policy provide a series of cashflows to meet the Scheme's liabilities and substantially protect against the risk of inadequate returns.

2.2. Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Scheme's assets. The Trustees believe that the Scheme's residual assets are adequately diversified within the Sterling Liquidity Fund.

2.3. Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing the investment manager, the Trustees received written advice from a suitably qualified individual. The Trustees monitor the investment manager on a regular basis to ensure it remains appropriate for its selected mandate.

2.4. Illiquidity/marketability risk

This is the risk that the Scheme is unable to realise assets to meet benefit cash flows as they fall due, or that the Scheme will become a forced seller of assets in order to meet benefit payments. The Trustees are aware of the Scheme's cash flow requirements and believe that this risk is managed by investing in the buy-in policy which matches the benefit outgo.

2.5. Environmental, social and governance (ESG) risks

Environmental, social and corporate governance (ESG) factors are sources of risk to the Scheme's investments, some of which could be financially material, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Trustees seek to appoint investment managers and buy-in providers who will manage these risks appropriately on their behalf and from time to time review how these risks are being managed in practice.

2.6. Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Scheme is subject to credit risk because it invests in the Sterling Liquidity Fund.

The Scheme's buy-in policy is directly exposed to the solvency of the insurer. The Trustee is comfortable that this risk is mitigated by the strict UK regulatory regime of insurance companies, and the protections provided by the Financial Services Compensation Scheme.

2.7. Currency risk

The currency exposure of the Scheme's assets is hedged back to Sterling.

2.8. Other non-investment risks

The Trustees recognise that there are other, non-investment, risks faced by the Scheme, and takes these into consideration as far as practical in setting the Scheme's investment arrangements as part of their assessment of the other aspects of the Scheme's Integrated Risk Management framework.

Examples include:

- longevity risk (the risk that members live, on average, longer than expected); and
- sponsor covenant risk (the risk that, for whatever reason, the sponsoring employer is unable to support the Scheme as anticipated).

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Scheme's funding position falls below what is considered an appropriate level. The Trustees mitigate this risk by holding the buy-in policy, which meet the liabilities of the Scheme.

Investment manager arrangements

1. Legal & General ("L&G")

The Trustees have selected L&G as investment manager of the Scheme to manage the Sterling Liquidity Fund.

2. Just– buy-in policy

The Scheme transferred the majority of its assets to a buy-in policy with Just in November 2023. This policy meets pension payments to members as they fall due.

3. Additional Voluntary Contributions

While the main Scheme assets are invested in line with the above, additional voluntary contributions ("AVCs") can currently be invested with L&G. A number of investment vehicles are available at each participating member's choice.