

**The Methodist Church in Ireland Retirement Benefits
Scheme (“the Scheme”)
Statement of Investment Principles**

Investment Objective

The Trustees aim to invest the assets of the Scheme prudently to ensure that the benefits promised to members are provided. In setting investment strategy, the Trustees first considered the lowest risk asset allocation that they could adopt in relation to the Scheme's liabilities. The asset allocation strategy they have selected is designed to achieve a higher return than the lowest risk strategy while maintaining a prudent approach to meeting the Scheme's liabilities.

STRATEGY

The current **planned asset allocation strategy** chosen to meet the objective above is set out in the table below. The Trustees will monitor the actual asset allocation versus the target weightings as a result of their investment strategy review set out in the table below.

Asset Class	Target Weighting %
Equities	65
LDI	25
Property	10

For the LDI allocation, monitoring the level of hedging i.e. protection against adverse moves in long term interest rates and inflation, rather than just the asset weighting, is more suitable and the trustees should put monitoring in place for this.

The planned asset allocation strategy was determined with regard to the actuarial characteristics of the Scheme, in particular the strength of the funding position and the liability profile. The Trustees' policy is to make the assumption that equities will outperform gilts over the long term. However, the Trustees recognise the potential volatility in equity returns, particularly relative to the Scheme's liabilities, and the risk that the fund managers do not achieve the targets set. When choosing the Scheme's planned asset allocation strategy the Trustees considered advice from their investment advisers and, in doing so, addressed the following:

- The need to consider a full range of asset classes.
- The risks and rewards of a range of alternative asset allocation strategies.
- The suitability of each asset class.

- The need for appropriate diversification.

In addition, the Trustees also consulted with the sponsoring employer when setting this strategy.

This Statement of Investment Principles is produced to meet the requirements of the Pensions Acts 1995 & 2004, the Occupational Pension Schemes (Investment) Regulations 2005 (and all subsequent changes and amendments to these regulations) and to reflect the Government's Voluntary Code of Conduct for Institutional Investment in the UK. The Trustees also comply with the requirements to maintain and take advice on the

RISK

The Trustees recognise that the key risk to the Scheme is that it has insufficient assets to make provisions for 100% of its liabilities ("funding risk"). The Trustees have identified a number of risks which have the potential to cause 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 ("mismatching risk"). The Trustees considered this mismatching risk when setting the investment strategy.
- The risk of a shortfall of liquid assets relative to the Scheme's immediate liabilities ("cash flow risk"). 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 expected by the Trustees ("manager risk"). This risk is considered by the Trustees both upon the initial appointment of the fund managers and on an ongoing basis thereafter.
- The failure to spread investment risk ("risk of lack of diversification"). The Trustees considered this risk when setting the Scheme's investment strategy.
- The possibility of failure of the Scheme's sponsoring employer ("covenant risk"). 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 ("operational risk"). The Trustees have sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.

Due to the complex and interrelated nature of these risks, the Trustees consider the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review (normally triennially). Some of these risks may also be modelled explicitly during the course of such reviews.

The Trustees' policy is to monitor these risks periodically, where possible. The Trustees receive periodic reports showing performance of individual fund managers versus their respective targets.

IMPLEMENTATION

Kerr Henderson (Consultants and Actuaries) Limited has been selected as investment adviser to the Trustees to provide advice as requested by the Trustees. The fund manager structure and investment objectives for each fund manager ("mandates") are as follows:

<p><u>Legal & General Ethical Global Equity Index fund</u></p> <p>The fund aims to track the sterling total return of the FTSE4Good Global Equity Index to within +/-0.5% p.a. for two years in three.</p>
<p><u>Legal & General Matching Core Real Long Fund</u></p> <p>The fund aims to use a dynamic methodology to get the best yield from long-dated gilts and swaps in order to provide a hedge against real interest rate changes for the profile of a typical UK Pension Scheme.</p>
<p><u>Legal & General Matching Core Fixed Long Fund</u></p> <p>The fund aims to use a dynamic methodology to get the best yield from long-dated gilts and swaps in order to provide a hedge against fixed interest rate changes for the profile of a typical UK pension scheme.</p>
<p><u>Legal & General Managed Property fund</u></p> <p>The Fund aims to outperform the AREF/IPD UK Quarterly All Balanced Property Funds Index over three and five year periods.</p>
<p><u>Legal & General Sterling Liquidity fund</u></p> <p>The principle investment objective of the Fund is to provide capital stability, liquidity and income through investment in a diversified portfolio of high credit quality short term fixed income and variable rate securities.</p>

The Trustees have delegated all day-to-day decisions about the investments that fall within each mandate, including the realisation of investments, to the relevant fund manager through a written contract. When choosing investments, the Trustees and the fund managers (to the extent delegated) are required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 (regulation 4).

GOVERNANCE

The Trustees are responsible for the investment of the Scheme's assets. The Trustees take some decisions themselves and delegates others. When deciding which decisions to take themselves and which to delegate, the Trustees have taken into account whether they have the appropriate training and expert advice in order to take an informed decision. The Trustees have established the following decision-making structure:

<p>Trustees</p> <ul style="list-style-type: none">• Set structures and processes for carrying out their role.• Select, implement and monitor planned asset allocation strategy.• Select and monitor investment advisers and fund managers.
<p>Investment Adviser</p> <ul style="list-style-type: none">• Advise on aspects of the investment of the Scheme assets as requested by the Trustees.• Advise on this statement.• Provide required training as requested.• Provide ongoing monitoring as requested.
<p>Fund Managers</p> <ul style="list-style-type: none">• Operate within the terms of this statement and their written contracts.• Select individual investments with regard to their suitability and diversification.

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager with a written contract and those where a product is purchased directly, e.g. the purchase of an insurance policy. The latter are known as **direct investments**.

The Trustees' policy is to review their direct investments and to obtain written advice about them at regular intervals. These include vehicles available for members' AVCs. When deciding whether or not to make any new direct investments the Trustees will obtain written advice and consider whether future decisions about those investments should be delegated to the fund manager(s).

The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005, and subsequent amendments, and the principles contained in this statement. The regulations require all investments to be considered by the Trustees (or, to the extent delegated, by the fund manager) against the following criteria:

- The best interests of the members and beneficiaries
- Security
- Quality
- Liquidity
- Profitability
- Nature and duration of liabilities
- Tradability on regulated markets
- Diversification
- Use of derivatives

On 11 September 2018, the DWP published a response to its consultation on changes to the Occupational Pension Schemes (Investment) Regulations 2005, together with a final version of the amended regulations (the Investment Regulations).

Under the Investment Regulations, trustees will have to update or prepare their SIP, before 1 October 2019, to set out their policies in relation to:

- “financially material considerations” over the “appropriate time horizon” of the investments including how those considerations are taken into account in the selection, retention and realisation of investments
- the extent (if at all) to which “non-financial matters” are taken into account in the selection, retention and realisation of investments
- undertaking engagement activities in respect of investments (stewardship).

In response to the 2019 requirements the Trustees have determined that:

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustees have elected to invest through pooled funds. They acknowledge that they cannot directly influence the environmental, social and governance (“ESG”) policies and practices of the companies in which the pooled funds invest.

In principle, the Trustees believe that ESG factors can have an impact on the performance of its investments and that the management of ESG risks and the exploitation of ESG opportunities, especially in relation to climate change, can add value to the portfolio. To that effect, the Trustees expect its fund managers, where appropriate, to have integrated ESG factors as part of their investment analysis and decision- making process. The Trustee will expect the fund managers to account for their policies and actions in relation to ESG considerations.

Appropriate weight will be given to ESG factors in the appointment of fund managers.

For equity investments the trustees have decided to invest in the LGIM Global Equity Ethical Index Fund, which tracks the FTSE4 Good Developed Index. The index is market capitalisation weighted, where the components are weighted according to the total market value of their outstanding shares, and is comprised of the companies

within the FTSE World Equity Index which meet a variety of environmental, social and governance criteria as defined by the index provider.

Trustees view that the stewardship responsibilities attached to the ownership of shares is important but recognise that investment in pooled funds limits their ability to be fully involved. The Trustees expect their investment managers to report in detail on how they have exercised voting rights attached to shares (including across passive equity mandates). Managers are expected to be signatories to the FRC UK Stewardship Code.

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations which expand the requirements for Statements of Investment Principles such as this. SIPs must be updated before 1 October 2020.

Trustees must set out their policies on:

- How they incentivise their appointed investment managers to align investment strategy and decisions with the trustees' policies, including risk, return and ESG.
- How the asset manager is incentivised to make decisions on assessments about medium to long term financial and non-financial performance of an issuer of debt or equity. Also, how the managers are incentivised to engage with the issuers in order to improve their performance.
- How the method and time horizon of the evaluation of managers' performance and remuneration are in line with the trustees' policies.
- How the trustees monitor portfolio turnover costs incurred by the manager/s (and how they define and monitor targeted portfolio turnover or turnover range).
- The duration of their arrangement with the asset manager/s

The Trustees have responded with the following:

The Scheme invests solely in pooled funds where fees charged are a combination of fixed fees and proportion to the assets under management. There are no performance-related components of the fees.

The only incentivisation that the Trustees can exert is through the decision to retain or to liquidate their holdings in each fund.

The investment strategies of the pooled funds are aligned to the Trustees' investment objectives by selecting funds with suitable characteristics:

- Benchmarks
- Risk budgets
- Constraints
- Approaches (this includes ESG where appropriate)

The Trustees maximise the probability of their investment objectives being met by selecting an appropriate and scheme-specific combination of such funds with advice from their investment consultant.

Active fund managers are retained subject to, amongst other criteria, achieving adequate medium- to long- term performance. In order to do so, they will need to make assessments about the medium to long term financial performance of debt and equity issuers. They will also need to assess non-financial performance in as much as it may be a source of risk.

The Trustees also incentivise them to engage with issuers where this is in the financial interests of the Scheme (i.e. where it will make a material impact on the performance of the fund).

Passive fund managers are not expected to make assessments about the financial or non-financial performance of the issuers of securities they invest in.

The Trustees receive quarterly reports from the fund managers. The investment consultant looks at the performance of the fund managers but does not restrict their view on the manager and fund to performance alone. More weight is given to longer-term performance than short-term. Performance is compared to the benchmark and outperformance target of each fund, in order to ensure that this is in alignment to the objectives and policies of the Trustees.

In selecting pooled funds, the Trustees and their investment consultant take into account the fees charged by the fund manager. These are judged in terms of value for money given the nature of the fund, particularly the asset class and outperformance target.

Fund managers need to give the trustees notice if they plan to change the level of the fees. If this occurs, the Trustees seek advice from their investment consultant on whether to retain or replace the manager.

Given the size of the Scheme's investment it would not be cost effective to monitor the turnover or turnover costs directly. These are taken into account indirectly by looking at performance figures net of costs.

The Trustees do not believe that they should micro-manage the level of turnover provided that the net outcome to the scheme is acceptable.

In order to maintain an incentive for the fund managers to performance well, the trustees do not enter any fixed term arrangements with their managers. Investments in each pooled fund are only retained for as long as the aim of the fund is consistent with the overall investment objectives of the scheme, and the trustees have confidence that the fund managers can credibly deliver that aim in a cost-effective manner.

The Trustees' investment adviser has the knowledge and experience required under the Pensions Act 1995.

The Trustees expect the fund managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this statement so far as is reasonably practicable.

The fund managers are remunerated on an ad valorem basis. The level of remuneration paid to fund managers is reviewed regularly by the Trustees against market rates to ensure the fund managers' interests are aligned with those of the Scheme.

The custodians for the manager's collective investment vehicles are responsible for the safekeeping of the assets held by these vehicles and perform the administrative duties attached, such as the collection of interest and dividends and dealing with corporate actions.

The Trustees will review this SIP at least every three years and immediately following any significant change in investment policy. The Trustees will take investment advice and consult with the Sponsoring Employer over any changes to the SIP.

Signed on behalf of the Trustees of the Methodist Church in Ireland Retirement Benefits Scheme:

Signed *Mark Egan*

Dated *5/10/19*