The Honourable Society of the Inner Temple Pension and Life Assurance Scheme

Statement of Investment Principles

June 2022

Contents

1. Introduction

1.1. What is the purpose of this Statement of Investment Principles ("SIP")?

This SIP sets out the policy of the Trustees on matters governing decisions about the investments of The Honourable Society of the Inner Temple Pension and Life Assurance Scheme (the "Scheme").

The Scheme is a Registered Pension Scheme with Her Majesty's Revenue & Customs ("HMRC") for the purpose of the Finance Act 2004. It is classed as a Defined Benefit ("DB") Pension Scheme.

1.2. What is the legal and statutory background to the SIP?

The SIP is designed to meet the requirements of Section 35 of the Pensions Act 1995 (the "Act") and all subsequent legislation, Regulations and guidance from the Pensions Regulator applying to UK pension schemes.

1.3. Who has had input to the SIP?

This SIP has been formulated after obtaining and considering written professional advice from Quantum Advisory ("Quantum"), the Trustees' investment adviser, and consulting The Honourable Society of the Inner Temple (the "Sponsoring Employer") as required by the Act and subsequently by the Regulations. Quantum has the knowledge and experience required under the Regulations to provide professional advice on the management of the Scheme's investments.

2. Investment policy, objectives and strategy

2.1. Investment policy

The Scheme's assets are held in trust by the Trustees. The investment powers of the Trustees are set out in the Scheme's Trust Deed.

The Trustees are aware of the need to invest assets in the best and sole interest of the members and that the powers of investment must be exercised in a manner which supports the security, quality, liquidity and profitability of the Scheme as a whole.

The Trustees recognise that the assets of the Scheme must consist predominantly of investments admitted to trading on regulated markets and investment in assets which are not admitted to trading on such markets must, in any event, be kept to a prudent level.

2.2. Investment objective

The Trustees, with the help of their advisers and in consultation with the Sponsoring Employer, set an investment strategy following a consideration of their objectives and other related matters during 2020. The investment strategy has been set so as to target an expected level of return that supports the Scheme's current Recovery Plan, whilst not unduly impacting the level of risk the Scheme can afford to take, taking into consideration the Trustees' view on the strength of the Sponsoring Employer's Covenant.

The Trustees' primary concern is to act in the best financial interests of the Scheme's beneficiaries. This requires that a rate of investment return is achieved, which supports the long-term funding plan (which has been discussed with the Sponsoring Employer), that is consistent with a prudent and appropriate level of risk.

2.3. What did the Trustees consider in setting the Scheme's investment strategy?

In setting the strategy, the Trustees considered:

- The strength of the Sponsoring Employer's covenant to support the Scheme;
- The investment objective;
- The Scheme's characteristics;
- The Annual Management Charges ("AMC");
- The fact that currently contributions receivable are likely to exceed benefit payments, resulting in surplus cash flow, but that this will change over time as the Scheme matures and when the Recovery Plan ends;
- The risks and rewards of alternative asset classes and investment strategies;
- The expectation that, over the long term, equities are likely to produce higher returns than bonds, but at the risk of short-term volatility or liquidity constraints;
- The need for appropriate diversification between different asset classes in so far as appropriate to the circumstances of the Scheme;

- For each asset class, the appropriateness of either active or passive management, given the efficiency, liquidity and level of transaction costs in the asset class concerned;
- The financial strength and reputation of each investment manager; and
- The financial strength of the investment managers' custodians.

2.4. What risks were considered and how are they managed?

The Trustees' primary concern is to act in the financial interests of the Scheme's members. As such, the primary risk is the inability of the Scheme to meet member benefit payments as they fall due.

In order to achieve their objectives, the Trustees recognise the need to invest in both "liability matching" and "return seeking" assets (see 2.5). The Trustees identified the following investment risks:

- the risk that investment returns in general will not achieve expectations;
- the risk that an investment manager will not meet its targets;
- the risk that the value of liabilities may increase due to changes in actual and expected inflation and interest rates;
- the risk of mis-match between the value and timing of the Scheme's income and outgoings;
- the risk of a shortfall in the liquid assets held by the Scheme relative to its immediate liabilities;
- the risk that the performance of any single investment within the Scheme assets may disproportionately affect the ability of the Scheme to meet its overall investment objectives;
- the risk of misappropriation, unauthorised use or mis-delivery of Scheme assets; and
- the risk that Environmental, Social and Governance ("ESG") factors, including climate change, could adversely impact the value of the Scheme's assets if this is not given due consideration and/ or misunderstood.

The Trustees recognise these different types of risk and seek to minimise them as far as possible by the use of regular monitoring of investment performance; by a deliberate policy of diversification; by taking into account the timing of future payments; and by regularly reviewing the appropriateness of the prevailing strategy against the Scheme's objectives.

2.5. Financially material considerations, non-financial matters and stewardship policies

2.5.1. Financially material considerations

The Trustees acknowledge the potential impact upon the Scheme's investments (both in terms of risk and return) arising from financially material matters. The Trustees define these as including, but not limited to, ESG factors (including climate change).

With specific regard to ESG factors, the Trustees consider how these are integrated into the investment processes when: (i) appointing new investment managers; and (ii) reviewing existing investment managers. The Trustees have provided the appointed investment managers with full discretion concerning the evaluation of ESG factors. The Trustees also periodically consider publicly available ESG related publications pertaining to the incumbent investment managers.

The Trustees acknowledge that a significant proportion of the Scheme's investments are implemented on a passive basis. This restricts the ability of the investment managers to take active decisions on whether to hold securities based on their consideration of ESG factors. The Trustees do however expect the incumbent investment managers, where relevant, to utilise their position to engage with investee companies on these matters.

The Trustees also consider ESG factors when determining future investment strategy decisions. To date, the Trustees have not established any restrictions on the appointed investment managers but may consider this in future.

2.5.2. Stewardship

The Trustees acknowledge the constraints that they face in terms of influencing change due to the size and nature of the Scheme's investments. They do, however, acknowledge the need to be responsible stewards and exercise the rights associated with their investments in a responsible manner.

The Trustees consider how stewardship factors are integrated into the investment processes when: (i) appointing new investment managers; and (ii) monitoring existing investment managers. The Trustees have provided the appointed investment managers with full discretion concerning the stewardship of their investments. The Trustees will periodically review published reports from each of their investment managers.

2.5.3. Non-financial matters

The Trustees do not consider non-financial factors and do not employ a formal policy in relation to this when selecting, retaining and realising investments. However, where members have been forthcoming with their views, the Trustees may consider these when setting investment strategy.

2.6. What is the investment strategy?

The investment strategy uses two key types of assets:

- "Matching assets": these exhibit characteristics similar to those of the Scheme's liabilities. Typically, matching assets are low risk fixed income investments and the return from them is similar to the return on UK government bonds (referred to as the 'minimum risk' return).
- "Return seeking assets": these target a rate of return in excess of the minimum risk return. Typically, these are equities or a diversified pool of other non-matching assets.

The strategy aims to deliver an appropriate mix of investments, both across and within the two broad asset classes, which support the Scheme's investment objectives. Details of this are set out in Appendix 1.

The Trustees monitor the performance of the Scheme's investments on a quarterly basis. Written advice is received as required from their investment adviser.

2.7. Fund managers, style and target returns

The funds in which the Scheme invests are pooled funds, which the Trustees believe are appropriate given the size and nature of the Scheme. Details of the fund managers, styles, benchmarks and target returns used can be found in Appendix 1.

The relationship with each investment manager is open ended and is reviewed on a periodic basis.

2.8. Re-balancing and cash flow management

The allocation of the Scheme's assets will be reviewed periodically and will be rebalanced according to the central benchmark on an ad hoc basis, and when investing and disinvesting for cashflow purposes.

Where practicable, cash flows into and out of the Scheme will be used to rebalance allocations across the main asset classes. Details of this are set out in Appendix 1.

3. Additional Voluntary Contributions ("AVCs")

AVCs are available to members on a defined contribution basis.

The Trustees have a responsibility to provide a range of investment vehicles suitable for the investment of members' defined contribution AVCs. The Trustees have had regard to the long-term performance characteristics of various asset classes, in terms of their expected returns and the variability of those returns, in deciding on the range of funds to make available to members.

In deciding upon the funds to offer, the Trustees considered:

- the need to offer a diverse range of asset classes; and
- the risk and rewards of different asset classes.

On receipt of advice, the Trustees decided to use the services of Prudential Assurance Company Limited as the defined contribution AVC investment managers. Each member is responsible for specifying one or more of the available funds for investment of their account, having regard to their attitude to the risks involved.

The relationship with the AVC provider is open ended and is reviewed on a periodic basis.

4. Appointment of Investment Managers

4.1. How many investment managers are there?

Details of the appointed investment managers, together with fund objectives and characteristics are outlined in Appendix 1.

4.2. What formal agreements are there with the investment managers?

The Trustees select investment managers and funds which are appropriate to implement the investment strategy.

The Trustees have signed the appropriate policy documents, agreements and application forms with the investment managers and AVC provider, setting out in detail the terms on which the portfolio is managed, including the need for suitable and appropriately diversified investments.

The Trustees keep the appointment of all investment managers under review and will seek to replace any managers, or funds, which no longer remain appropriate to implement the Scheme's investment strategy.

4.3. What are the investment managers' responsibilities?

The investment managers are responsible for the day-to-day management of the Scheme's investments and are responsible for appointing custodians, if required.

The investment managers are authorised under the Financial Services and Markets Act 2000 to carry out such activities.

Any performance requirements for the investment managers are detailed in Appendix 1.

4.4. Custodians and administrators

The Scheme's investments are through pooled investment vehicles. There is no need for the Trustees to formally appoint a custodian as the investments comprise of units held in listed investment vehicles rather than the underlying stocks and shares. However, the investment managers have themselves appointed custodians for the safe custody of assets.

5. Other matters

5.1. What is the Trustees' policy on the realisation of investments?

The investment managers have discretion over the timing of realisation of investments within the pooled vehicles held by the Scheme and in considerations relating to the liquidity of investments.

Under the circumstances where the Scheme experiences negative cash flow, the Trustees and their advisers will decide on the amount of cash required for benefit payments and other outgoings and will inform the investment managers of any liquidity requirements.

In the absence of any strong conviction concerning the future movement of markets, assets will be disinvested to rebalance the Scheme's assets taking into account the asset allocation outlined in Appendix 1; and the costs and risks associated with any rebalancing.

5.2. How are various parties who are involved in the investment of the Scheme's assets remunerated?

Quantum Advisory is remunerated on a fixed fee or time-cost fee basis, with budgets agreed in advance for ad hoc project work whenever possible.

The Scheme invests in pooled funds. The Trustees note that the investment strategy and decisions of the fund managers cannot be tailored to the Trustees' policies and the managers are not remunerated directly on this basis. However, the Trustees, with the help of Quantum, set the investment strategy for the Scheme and select appropriate managers and funds to implement the strategy.

The Trustees do not directly incentivise the investment managers to engage with the issuers of debt or equity to improve their performance. The Trustees do, however, expect the investment managers to participate in such activities as appropriate and necessary to meet the investment objectives of the respective fund. The funds utilised typically include an objective that is expected to result in a positive return over the medium-to-longer term and, as such, the investment managers engagement with the issuers of debt or equity is expected to be undertaken so as to target medium-to-long term value creation.

The Trustees consider the fees and charges associated with each investment before investing.

The investment managers are remunerated on an ad valorem fee basis, which is calculated as a fixed percentage of the total value of the Scheme's funds they hold under management. This structure has been chosen to align the fund managers' interests with those of the Scheme.

In addition, the fund managers pay commissions to third parties on many trades they undertake in the management of the assets. The Trustees obtain an annual statement from the investment managers setting out all the costs of the investments of the Scheme.

5.3. Direct Investments

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.

The Trustees' policy is to review their direct investments (if any) and to obtain written advice about them at regular intervals. When deciding whether to make any new direct investments or terminate any direct investments, the Trustees will obtain written advice from the Scheme's investment adviser. If the Trustees believe that an investment is no longer suitable for the Scheme, it will withdraw the assets from the arrangement deemed to be unsuitable and select a suitable alternative.

The written advice from the Scheme's investment adviser will consider the suitability of the investments, the need for diversification and the principles contained in this SIP. The adviser will have the knowledge and experience required under Section 36(6) of the Pensions Act to provide this advice.

5.4. Do the Trustees take any investment decisions of their own?

The Trustees are responsible for the investment of the Scheme's assets. The Trustees take some decisions and delegate others.

When deciding which decisions to take, and which to delegate, the Trustees take into account whether they have the appropriate training and expertise in order to make an informed decision.

The Trustees have established the following decision making structure:

Trustees

- Set structures and processes for carrying out their role.
- Agree structure for implementing investment strategy.
- Select and monitor planned asset allocation.
- Select and monitor investment advisors and fund managers.
- Select and monitor direct investments.
- Prepare and maintain the SIP.

Investment adviser

- Advises on the Scheme's assets, including implementation.
- Advises on this SIP.
- Provides required training.

Investment managers/Implementation solution

- Operate within the written contracts and agreements.
- Select individual investments with regard to their suitability and diversification for the individual pooled vehicles.
- Ensure the suitability of the chosen benchmark for the respective investment vehicle.

5.5. Conflicts of interest

The Trustees consider any potential and actual conflicts of interest (subject to reasonable levels of materiality) at the start of each Trustees' meeting and document these in the minutes.

5.6. Capital structure of investee companies

The responsibility for monitoring the capital structure of investee companies (including any relevant developments) is delegated to the investment managers. Investment managers are expected to partake in a sufficient level of monitoring and action that is appropriate to the nature of the mandate.

6. Review

6.1. How often are investments reviewed?

Strategy reviews for the Scheme are undertaken periodically. Typically, a review of the Scheme will occur alongside triennial actuarial valuations; but more frequent reviews can occur in light of a material change of circumstances. Any change in investment strategy may necessitate a change in investment managers, regardless of the underlying performance of the funds.

Investment return experience and the performance of individual funds is reviewed with assistance from Quantum each quarter. Managers are reviewed against their agreed performance benchmarks and targets over both short-term and long-term time periods, to ensure they remain appropriate to implement the investment strategy for the Scheme.

6.2. How do the Trustees monitor portfolio turnover and costs?

The Trustees have delegated the selection of holdings to the appointed investment managers. The Trustees receive an annual report from the investment managers setting out portfolio turnover and the associated costs.

The Trustees have not set a specific portfolio turnover target for each investment manager and recognise that portfolio turnover and costs may vary with market conditions. Each manager has ultimate responsibility for the underlying holdings within their funds and they are expected to change these underlying holdings to the extent required to achieve their investment objectives.

The Trustees will compare the annual turnover and associated costs for each fund with previous years to ensure each investment manager's process and philosophy remain consistent.

6.3. How often is this SIP reviewed?

The Trustees will review this SIP periodically and without delay after any significant change in investment policy. Any change to this SIP will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believe to be qualified by their ability in, and practical experience of, financial matters, and to have the appropriate knowledge and experience of the management of pension scheme investments; and consulting with the Sponsoring Employer.

Signature: .... Trustee

Date: ....

For and on behalf of the Trustees of the Honourable Society of the Inner Temple Pension and Life Assurance Scheme

Appendix 1 – Managers, asset allocation & fund details

Managers and asset allocation

The following table details the strategic asset allocation for the Scheme which was agreed in the strategy review that took place in 2020. The allocation of equity assets was amended in 2022, following the sale of one fund. Where the allocation to any asset class moves outside the respective tolerance ranges, the Trustees will, with the help of their investment adviser, assess the appropriateness of undertaking the necessary switches to bring the relevant funds back toward the central benchmark (giving due consideration to any expected cash flows).

Performance is reviewed quarterly, with assistance from the Scheme's investment adviser as required.

Asset class	Recommended Manager	Recommended Fund	Strategic Asset Allocation (%)
Equities	Morgan Stanley	Global Brands	12.5
	BlackRock	Aquila Life Overseas Consensus Equity	13.75
	BlackRock	Aquila Life Overseas Fixed Benchmark Equity	13.75
	BlackRock	Aquila Life UK Equity Index	10.0
DGF	Baillie Gifford	Multi-Asset Growth	7.5
	LGIM	Dynamic Diversified	7.5
Gilts	BlackRock	Aquila Life Over 25 Years UK Gilt Index	8.5
	BlackRock	Aquila Life Over 5 Years UK Index-Linked Gilt Index	14.0
Corporate Bonds	BlackRock	Aquila Life 5-15 Year Corporate Bond Index	12.5

Managers and fund details

The table below shows the benchmark and outperformance targets for each fund the Scheme is invested in.

Recommended Manager	Recommended Fund	Benchmark	Objective/ Outperformance Target
Equities			
Morgan Stanley	Global Brands	MSCI World (Net) Index	Outperformance versus the benchmark.
BlackRock	Aquila Life Overseas Consensus Equity	Composite benchmark	To track the performance of a global aggregate of regional equity indexes.
BlackRock	Aquila Life Overseas Fixed Benchmark Equity	Composite benchmark	To track the performance of a global aggregate of regional equity indexes.
BlackRock	Aquila Life UK Equity Index	FTSE All-Share Index	Track the performance of the benchmark.
Diversified Growth Funds			
Baillie Gifford	Multi-Asset Growth	Bank of England Base Rate	Outperform the benchmark by 3.5% per annum.
LGIM	Dynamic Diversified	Bank of England Base Rate	Outperform the benchmark by 4.5% per annum.
Gilts			
BlackRock	Aquila Life Over 25 Years UK Gilt Index	FTSE Actuaries Conventional Gilts over 25 Years Index.	Track the performance of the benchmark.
BlackRock	Aquila Life Over 5 Years UK Index-Linked Gilt Index	FTSE Actuaries UK Index-Links over 5 Years Index.	Track the performance of the benchmark.
Corporate Bonds			
BlackRock	Aquila Life 5-15 Year Corporate Bond Index	iBoxx Sterling non-Gilts 5-15 Years Index	Track the performance of the benchmark.

Source: underlying managers. The relationship with each investment manager is open ended and is reviewed on a periodic basis as detailed previously in this SIP.

Tolerance ranges

The following tolerance ranges have been agreed by the Trustees for the strategic investment strategy.

Asset class	Allocation (%)	Tolerance (+/-%)
Equity	50.0	2.5
Diversified Growth Funds	15.0	1.5
Corporate Bonds	12.5	1.0
Gilts/Index-Linked Gilts	22.5	1.5