Statement of Investment Principles

1. Introduction

This Statement has been prepared by the Trustees of the London Business School Pension and Assurance Scheme in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended), and Regulation 2 of the Occupational Pension Schemes (Investment) Regulations 2005, and any subsequent additional regulations.

In preparing this Statement, the Trustees have taken appropriate written advice from a suitably qualified individual, Simon Jagger FIA, Director of Jagger & Associates Limited. The Trustees have also consulted with the sponsoring employer. This Statement is consistent with the Scheme’s governing documents. It replaces the previous edition signed in November 2018.

The Scheme is registered with HM Revenue and Customs. The Scheme provides final-salary related benefits. There is no formal employer-related investment, and the Trustees intend none. The sponsoring employer intends to remit all relevant contributions to the Trustees within the relevant timescales.

2. Delegation of Investment Management

The Trustees use a range of pooled funds provided by Legal & General Investment Management (L&G). A cash account is also maintained for managing short-term cash flow. The Trustees may also use the L&G Cash Fund for this purpose.

The details of the investment manager’s appointment, covering the roles of the organisation and its various subsidiaries and associated companies, are covered by an agreement with effective date 1 August 2007 (the date of the first pooled fund investment with L&G), and in any legally valid amendments thereof. In addition to these agreements, the full details of the restrictions placed on the manager (including restrictions in relation to the allocation of assets, credit limits, and the use of asset classes such as derivatives and foreign currency) are contained within the documentation produced by the investment manager for the individual products used. The Trustees have placed no additional constraints on the investment manager.

The provider, where relevant, is suitably authorised under the Financial Services and Markets Act 2000.

3. Investment Strategy

The broad split of the assets is 30% Global Equity, 30% Diversified Growth, 20% Property, 20% High Yield. Net cash flows will be used to maintain this split, and one-off rebalancing may be employed where necessary. Details of each fund are provided below.

The Global Equity (50:50) Fixed Weights Fund is a passively managed fund-of-funds that is comprised of 50% UK Equities and 50% Overseas Equities. Each equity asset class tracks its own relevant index (for example the UK Equity portion tracks the FTSE All Share Index). The Overseas Equity distribution represents 1/3 in North America, 1/3 in Europe (ex-UK) and 1/3 in Asia (split between Japan and Asia Pacific).

The Dynamic Diversified Fund is a fund-of-funds arrangement that aims to provide exposure to a wide range of asset classes, and targets an annualised rate of return of the Bank of England Base Rate +4.5% per annum, over a full market cycle.
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The Property Fund has the discretion to invest in UK commercial property. The Trustees expect that the proportion of the Scheme’s assets held in the property fund will be around 20%, although any rebalancing may be done on an infrequent basis due to the higher investment costs associated with property.

The High Yield Fund is an actively managed fund that invests in sub-investment grade US dollar, euro and sterling denominated corporate bonds. Its benchmark is the Merrill Lynch Global High Yield BB-B Rated 2% Constrained Ex-Financials (Currency Hedged) Index.

The Trustees consider the investment strategy in place, and the investment products used, to be appropriate for the Scheme. In formulating the strategy and deciding on the suitability of the products, the Trustees sought advice from their professional advisers. The Trustees will review their decisions from time to time with their advisers.

4. Expected Return on Investments

Equity-biased and Property products are designed to produce a return in excess of both general salary and price inflation over the long term. The Global Equity, Dynamic Diversified and Property products used are therefore expected to enhance the real value of the Scheme’s assets over the long-term, which is a fundamental element of the Trustees’ investment policy. These products may produce volatile absolute returns over short-term periods, but are expected to produce higher returns over the long-term.

The Global Equity Index Fund is a fund-of-funds product and so therefore does not aim to track a single index. The aim of each of the underlying funds is to match the performance of a corresponding index whilst aiming to remain within certain tracking error parameters in two out of every three years. The details of the main indices and the current corresponding tracking errors are as follows:

<table>
<thead>
<tr>
<th>Equity Fund</th>
<th>Index</th>
<th>Tracking error</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>FTSE All-Share</td>
<td>+/- 0.25% p.a.</td>
</tr>
<tr>
<td>North America</td>
<td>FT World North American</td>
<td>+/- 0.50% p.a.</td>
</tr>
<tr>
<td>Europe (excluding-UK)</td>
<td>FT World Europe (ex-UK)</td>
<td>+/- 0.50% p.a.</td>
</tr>
<tr>
<td>Japan</td>
<td>FT World Japan</td>
<td>+/- 0.50% p.a.</td>
</tr>
<tr>
<td>Asia Pacific (excluding Japan)</td>
<td>FT World Asia Pacific (ex-Japan)</td>
<td>+/- 0.75% p.a.</td>
</tr>
</tbody>
</table>

The Dynamic Diversified Fund aims to produce an annualised rate of return of the Bank of England Base Rate +4.5% per annum, over a full market cycle.

The High Yield Bond Fund aims to outperform the Merrill Lynch Global High Yield BB-B Rated 2% Constrained Ex-Financials (Currency Hedged) Index by 1% p.a. (before fees) over a rolling three-year period.

The Property Fund aims to exceed the AREF/IPD Quarterly All Balanced Funds Index over rolling three and five-year periods.

The investment performance of the Scheme’s assets is reported on a quarterly basis by the investment manager, and will be independently monitored on a periodic basis by the Trustees’ advisors.
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5. Risk Management and Risk Measurement

The Trustees are satisfied that their investment manager is prudent and professional in their general approach to investment. The investment products used involve holding units in pooled funds that maintain diversified portfolios of underlying assets (e.g. shares, bonds, units in property funds, and other financial instruments). This reduces the risk to the Scheme and members of investing in any specific individual asset. The partial use of passive funds also removes some of the risk involved in a purely active investment strategy.

The Trustees will keep the asset allocation under review, and risk measurement forms part of the performance monitoring process.

6. Realisation of Investments

The Trustees’ policy is to ensure that the assets invested are sufficiently realisable to enable the Trustees to meet their obligations to provide benefits as they fall due. The Trustees are satisfied that the arrangements in place conform to this policy. The Trustees monitor their net cashflow position, the likely need to realise capital, and hence any effect on asset allocation and the choice of investment funds.

7. Additional Voluntary Contributions

The Scheme made available facilities with Legal & General Assurance Society Ltd for members who wished to contribute to enhance their retirement benefits when the Scheme was open to accrual. The Trustees believe these to be appropriate facilities for this purpose, but note that the decisions on the funds used rest entirely with the members.

8. Environmental, Social and Governance (ESG) Considerations including Voting and Engagement

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustees have elected to invest in pooled funds and cannot therefore directly influence the environmental, social, and governance policies and practices of the companies in which the pooled funds invest. The Trustees have excluded non-financial matters in the selection, retention and realisation of investments in the past but will incorporate non-financial factors in future investment selection to the extent they feel appropriate.

The Trustees have no formal policy on either ESG (including climate change) or delegation of voting rights. Instead, they have delegated the responsibility for these matters to their investment manager, who will from time to time report on their current and future actions in these areas.

The Trustees will consider a manager’s ESG credentials during their appointment and ongoing review process, and will ask for a written update at least annually on the manager’s approach and activity in relation to responsible investing for the products used by the Trustees.

Neither the property fund nor the bond funds should normally involve any voting rights.

As the Trustees use pooled funds, their asset managers are not incentivised to align their investment strategy and decisions with the Trustees’ policies, nor are they incentivised to make decisions based on assessments about medium to long-term performance of an issuer of debt or equity, nor to engage with those issuers in order to improve their performance. However, the managers may make such decisions and/or engage of their own accord.
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Performance monitoring, manager remuneration and duration of manager appointments are covered elsewhere in this Statement. As the Trustees use pooled funds, there is no targeted portfolio turnover or turnover range.

As the Trustees use pooled funds, they do not need to have an engagement policy in relation to monitoring the capital structure of companies they invest in, or any associated potential conflicts of interest.

From 1 October 2020 the Trustees will publish their SIP online for general public access.

In addition, from 1 October 2021, the Trustees will publish annually online an engagement policy implementation statement that outlines how the various requirements (set out above) have been followed during the year, and describes the voting behaviours of the asset managers on their behalf.

9. Compliance

The Trustees will formally review this statement as and when required, and at least every three years, with the assistance of their advisers. A copy of this statement is available for inspection by Scheme members.

This statement has been agreed by the Trustees on 30 September 2020.

Signed on behalf of the Trustees by

Name .....Gerald Wellesley.......... Signature .....GERALD WELLESLEY.....