

SCOTTISH EPISCOPAL CHURCH

PENSION FUND

Statement of Investment Principles

1. Introduction

This Investment Statement sets out the principles governing decisions about investments for the Scottish Episcopal Church Pension Fund (hereinafter referred to as “the Fund”) to meet the requirements of the Pensions Act 1995, as amended by the Pensions Act 2004 and subsequent regulations. Before preparing it the Trustees have consulted the Scottish Episcopal Church and obtained and considered written professional advice from their consultants, Mercer Ltd (“Mercer”).

The Trustees’ investment responsibilities are governed by the Fund's Trust Deed; a copy of the relevant clauses, of which this Statement takes full regard, is available.

2. Investment Objective & Investment Strategy

The Fund continues to be open to future accrual and new members and as such has a long term investment horizon. Its overall investment objective is to:

- (a) Achieve and maintain a fully funded scheme, on a low risk basis with reduced reliance on equity markets and sponsor funding

3. Investment Strategy

Overall investment policy falls into two parts. The strategic management of the assets is fundamentally the responsibility of the Trustees acting on advice from their investment consultant, and is driven by their investment objective as set out above. The remaining elements of policy are part of the day to day management of the assets which is delegated to a professional investment manager.

The Trustees have appointed Schroders Investment Management (“Schroders”) as the Fund’s investment manager. Further details of their appointment are set out in the Appendix.

4. Trustees Policy on Risk

The fundamental risk associated with pension fund investments is the possibility that the resources of the Fund will be insufficient to pay benefits as they fall due.

The day to day routine management of the investments also involves a number of risks. The Trustees seek to control these risks in the following ways:

- (a) **Diversification.** The Pension Fund’s growth assets are invested in a broad portfolio of securities in a range of different asset categories. The Trustees will check periodically with the investment manager that they have had due regard to the requirement for diversification and the suitability of investments within each asset class.

- (b) Liability risks. The Trustees have put an LDI portfolio in place to reduce the risks associated with falls in long term interest rates and/or rising inflation expectations, both of which place a higher value on the Fund's liabilities. This portfolio is reviewed regularly by the Trustees.
- (c) Investment Manager. The performance of the investment manager is regularly monitored against specified benchmarks. These are set out in the Appendix.
- (d) Custodian. The safe custody of the Fund's assets is delegated to professional custodians (via the use of pooled vehicles).
- (e) Realisation of Investments. From time to time, outgoings may exceed contributions. In such circumstances, the Trustees consider it reasonable to disinvest the required level of funds. The Trustees instruct the investment manager to disinvest. The policy is to disinvest from the most overweight fund relative to the benchmark asset allocation, based on the most up to date information readily available. The manager is responsible for implementation of this policy.
- (f) Liquidity to meet benefit payments and collateral calls from the leveraged LDI funds. The Trustees invested in daily dealing funds to ensure liquidity with the portfolio.

5. Policy on ESG (Environmental, Social and Governance), Stewardship and Climate Change

ESG, Stewardship, and Climate Change

The Trustees believe that environmental, social and corporate governance ("ESG") issues will have an impact on investment risk and returns and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, including climate change, present risks and opportunities that increasingly may require explicit consideration. The Trustees have taken into account the expected time horizon of the Fund when considering how to integrate these issues into the investment decision making process.

As the assets are held in pooled funds, the Trustees have given their investment manager full discretion when evaluating ESG issues, including climate change considerations, and in exercising any voting rights and stewardship obligations attached to the Fund's investments. This includes undertaking engagement activities, in accordance with their own corporate governance policies and current best practice including the UK Corporate Governance Code and UK Stewardship Code.

The investment manager is expected to report on their adherence to current best practice codes from time to time.

The Trustees have not set any investment restrictions for the investment manager. In June 2023 the Trustees established an Ethical Investment Policy Statement for the Fund which endorses the principles outlined in the Ethical Investment policy developed by the Church. The current policy is to avoid *direct* investment in armaments, fossil fuel extraction, tobacco, gambling and

pornography and the Trustees wish to work towards fully divesting the Fund of such investments as and when suitable pooled fund vehicles become available. In the meantime the Trustees have switched the Fund's Diversified Growth mandate to a more sustainable fund in order to better align with their overall beliefs and in attempt to reduce (but not exclude) overall exposure to exclusionary sectors within the Church's ethical policy. The Trustees will consider, amongst other factors, how ESG is integrated within investment processes when appointing, monitoring and withdrawing from investment managers.

Member views on non-financial matters such as ESG are not explicitly taken into account in the selection, retention and realisation of investments, but members have a variety of methods by which they can make views known to the Trustees.

Engagement priorities and significant votes

Over 2023 the Trustees identified three key stewardship themes that they will focus their engagement priorities on:

- a) Climate change
- b) Biodiversity
- c) Modern Slavery

In preparing their annual Engagement Policy Implementation Statement, the Trustees ask the investment manager for engagement examples which cover the Trustees engagement priorities. For its vote reporting, the Trustees ask the investment manager for their significant votes covering the Trustees engagement priority themes. From this information, the Trustees select the most significant votes as those that are best aligned with its engagement priorities and based on the company weights in the total portfolio.

The Trustees have not set their own voting policy, however the Trustees will monitor the investment managers' voting policy annually when preparing the Fund's Engagement Policy Implementation Statement. The Trustees have communicated these themes to the Fund's Investment Managers.

Engagement with the Investment Manager

- a) Aligning manager appointments with investment strategy:

The investment manager is appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset classes selected for.

The Trustees look to their investment consultant for their forward-looking assessment of a manager's ability to outperform over a full market cycle. This view will be based on the consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the Fund invests in. The consultant's manager research ratings assist with due diligence and questioning

managers during presentations to the Trustees and are used in decisions around selection, retention and realisation of manager appointments.

If the investment objective of a particular fund changes, the Trustees will review the fund appointment to ensure it remains appropriate and consistent with the Trustees' wider investment objectives.

The Fund's investment mandates with Schroders' are reviewed following periods of sustained underperformance from their respective targets. The Trustees will review the appropriateness of using active and passive managed funds (on an asset class basis) on an ad-hoc basis.

As the Trustees invest all of the Fund's assets in pooled investment vehicles, they accept that they have no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy.

b) Encouraging long-termism and consideration of ESG issues:

The Trustees will consider the investment consultant's assessment of how the investment manager embeds ESG into its investment process and how the manager's responsible investment philosophy aligns with the Trustee's responsible investment policy. This includes the investment managers' policy on voting and engagement.

The Trustees meet with the investment manager at Trustee meetings as required and may challenge decisions made including engagement activity.

The Investment manager is aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustees are dissatisfied, then they will look to replace the manager.

c) Monitoring manager appointments:

The Trustees receive investment manager performance reports on a 6 monthly basis, which presents performance information over 6 months, 1 year and, 3 year periods. The Trustees review the absolute performance, relative performance against a suitable index used as the benchmark, and against the manager's stated tracking error (over the relevant time period).

If the manager is not meeting their investment objectives for the mandate have changed, the Trustees may review the mandate including the annual management charge levied by the manager.

d) Monitoring portfolio turnover costs:

The Trustees do not currently monitor portfolio turnover costs.

The Trustees receive MiFID II reporting from their investment manager but do not analyse the information. However, the Trustees will continue to monitor industry improvements concerning the reporting of portfolio turnover costs. In future, the Trustees may ask the investment manager to report on portfolio turnover cost. They may assess this by comparing portfolio turnover across the same asset class, on a year-on-year basis for the same manager fund, or relative

to the manager's specific portfolio turnover range in the investment guidelines or prospectus.

e) Duration of manager appointments:

The Trustees are long term investors and are not looking to change the investment arrangements on a frequent basis.

The funds invested in are open-ended funds and therefore there is no set duration for the manager appointments. The Trustees will retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;
- The manager appointment has been reviewed and the Trustees have decided to terminate.

6. Additional Voluntary Contributions

Serving members of the Fund are entitled to pay voluntary contributions in order to secure additional benefits. Voluntary contributions are invested by the Trustees on the members' behalf in an insurance policy arranged with the Standard Life Assurance Company. The Trustees periodically review the Standard Life contract to ensure its continued suitability.

7. Review of this Statement

The Trustees will review this Statement at least once every three years and after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered written advice from someone whom 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.

September 2012

First Amendment: October 2012

Second Amendment: August 2013

Third Amendment: June 2016

Fourth Amendment: April 2017

Fifth Amendment: February 2019

Sixth Amendment: August 2019

Seventh Amendment: August 2020

Eighth Amendment: October 2022

Ninth Amendment: June 2023

Tenth Amendment: March 2024

Eleventh Amendment: May 2025

Twelfth Amendment: September 2025

For and behalf of the Trustees of the Scottish Episcopal Church Pension Fund

Trustee

Trustee

Appendix A – Investment Arrangements

A.1 Asset Allocation and Rebalancing

Asset Class	Allocation
Multi-Asset Fund	30%
Corporate Bond (long maturity)	25%
Securitised Credit Fund	10%
LDI*	35%

**The aim of the LDI portfolio (along with the corporate bonds) is to hedge 70% of the Fund's sensitivity to changes in interest rates and inflation expectations (with liabilities measured on a gilts-flat basis). Schroders may utilise both leveraged / unleveraged gilt funds within their LDI portfolio.*

The Funds are held through the Schroders' Life LDI Platform. Schroders review the Fund's asset allocation on a daily basis and rebalance the portfolio should these allocations move outside the specific tolerance ranges as set out in the Direct Contract with Schroders.

Schroders will look to rebalance as soon as practicable if the balance between the Multi-Asset Fund and the Matching Assets (defined as the LDI, cash and corporate bond fund) is more than 5% away from the target allocation.

It should be noted however that, following the introduction of leveraged LDI funds in March 2024, in a scenario where Schroders require additional collateral for the LDI mandate, the growth/matching split may move outside the +/- 5% range from time to time (and for an extended period of time). Schroders will look to rectify this as soon as it is appropriate to do so, however in a rising rate environment, retaining the hedge (and holding sufficient collateral) will be the priority.

A.2 Performance Benchmarks and Targets

The return expected on the Fund's investments is defined by the current investment strategy set out above. The performance of the investment manager in respect of each asset category will be measured by reference to the indices and targets specified below:

Asset Class	Benchmark	Target
Multi Asset Fund	Cash +3.5% p.a.	-
Corporate Bond	BoA Merrill Lynch Non-Gilts All Stocks Over 15 Year Index	Outperform benchmark by 0.75% p.a.
Securitized Credit Fund	ICE BofA AA-BBB US Asset Backed Securities Index	Outperform benchmark
LDI Funds	Exact benchmark will be fund dependent*	-

Note that targets are gross of fees.

**Each of the LDI Funds (both leveraged and unleveraged) has a specific target based on the underlying holdings. Overall, the corporate bonds and LDI Funds assets aim to achieve a hedge ratio of c70% of liabilities (on a gilts flat basis).*