

Scottish Branch, British Red Cross Society Retirement Benefits Scheme

Statement of Investment Principles

1 Introduction

- 1.1 This is the Statement of Investment Principles prepared by the Trustees of The Scottish Branch British Red Cross Society Retirement Benefits Scheme (the Scheme). This statement sets down the principles governing decisions about investments that enable the Scheme to meet the requirements of:
 - the Pensions Act 1995, as amended by the Pensions Act 2004 and the Pensions Scheme Act 2021;
 - the Occupational Pension Schemes (Investment) Regulations 2005, as amended by the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2010;
 - the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018; and
 - the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.
- 1.2 In preparing this statement the Trustees have consulted British Red Cross Society (the "Society"), the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustees' investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.
- 1.3 This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.
- 1.4 The Trustees will review this statement at least every three years or if there is a significant change in the policy on any of the areas covered by the statement.
- 1.5 The investment powers of the Trustees are set out in the Definitive Trust Deed & Rules. This statement is consistent with those powers.
- 1.6 The Trustees are given assistance in respect of investment matters by the Pension Fund Investment Advisory Panel (PFIAP). The Trustees approve the composition of the PFIAP and, in turn, the PFIAP carries out its responsibilities in accordance with the Terms of Reference. The PFIAP makes recommendations to the Trustees regarding investment matters relevant to the Scheme.

2 Choosing Investments

- 2.1 The Trustees agreed a transaction with Aviva Life & Pensions UK Ltd ("the insurer") in March 2023, under which the insurer has assumed liability to pay the Scheme's benefits as set out in the bulk annuity purchase contract. The contract therefore is intended to provide an exact match to the Scheme's experience.
- 2.2 The Scheme also has some residual assets invested (the "non-insured assets").
- 2.3 The Trustees' policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustees consider the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.
- 2.4 The day-to-day management of the Scheme's non-insured assets is delegated to one or more fund managers. The Scheme's fund managers are detailed in Appendix 1 to this Statement. The fund managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights.
- 2.5 The Trustees review the appropriateness of the Scheme's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the fund managers with respect to

performance within any guidelines set. The Trustees will also consult the Society before amending the investment strategy.

3 Investment Objectives

- 3.1 The Trustees' main objective is to ensure that they can meet the members' entitlements under the Trust Deed and Rules as they fall due.
- 3.2 The Trustees have obtained exposure to an investment (the "bulk annuity policy") that they expect will meet the Scheme's objectives as best as possible.

4 Kinds of investments to be held

- 4.1 The Fund can invest in a wide range of asset classes including:
 - Equities;
 - Bonds;
 - Cash;
 - Property;
 - Alternatives, including private equity, commodities, hedge funds, infrastructure, currency, high yield debt and derivatives;
 - Annuity policies.
- 4.2 Any investment in derivative instruments is only made to contribute to a reduction in the overall level of risks in the portfolio or for the purposes of efficient portfolio management.

5 The balance between different kinds of investments

- 5.1 The Scheme invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained in the Appendix to this statement.
- 5.2 The Trustees consider the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Appendix to this statement.
- 5.3 From time to time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate any short term cashflow requirements or any other unexpected items.

6 Risks

- 6.1 Given the nature of the insurance contract (intended to match the Scheme's liabilities) the main remaining risk for the Scheme's investments is the solvency of the insurer. The Trustees assessed this prior to investing in the contract. The ongoing solvency and prudent management of the insurer is monitored within the regulatory regime for UK insurance companies. The residual assets are surplus to funding benefits and are held in respect of potential discretionary benefits. The Trustees have considered

the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities, and considered ways of managing/monitoring these risks:

Risk versus the liabilities	The risk of the assets behaving differently from the Scheme's liabilities has been mitigated by purchasing a bulk annuity policy with Aviva that matches the benefit payments that will be paid to the members. The residual assets are held in respect of potential discretionary benefits.
Asset allocation risk	The asset allocation is detailed in the Appendix to this Statement and is monitored on a regular basis by the Trustees.
Investment manager risk	The Scheme's main asset is the bulk annuity policy with Aviva and there is no exposure to investment manager risk in relation to this asset. For the remaining holdings the Trustees monitor the performance of each of the Scheme's investment managers on a regular basis. The Trustees have a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate.
Governance risk	Each asset manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustees monitor these and will report on the managers' practices in their annual Implementation Statement.
ESG/Climate risk	The Trustees have considered long-term financial risks to the Scheme and ESG factors as well as climate risks that are potentially financially material. The Trustees will continue to develop their policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments in order to avoid unexpected losses.
Concentration risk	In relation to the bulk annuity policy, it is at Aviva's discretion how the underlying assets are invested and Aviva bear the risk in relation to the assets' performance. For the remaining assets, each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.
Liquidity risk	The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Scheme's cashflow requirements. Responsibility for providing the monies to pay member benefits lies with Aviva as the provider of the bulk annuity policy, which mitigates the majority of the potential liquidity risk.
Currency risk	The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management.
Loss of investment	<p>The biggest risk is in relation to the bulk annuity policy with Aviva. In the event of Aviva becoming insolvent, the Scheme could suffer losses (but would still retain the liability to pay members' benefits). This risk is mitigated by the regulatory regime and capital requirements in place for UK insurers. The Trustees carried out due diligence on Aviva before purchasing the bulk annuity policy.</p> <p>The risk of loss of investment by each investment manager and custodian is assessed by the Trustees. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud). The Trustees review the internal controls and processes of each of the investment managers from time to time.</p>

7 Environmental, Social and Governance factors, voting and engagement

7.1 The Trustees' policies in relation to these matters are set out in Appendix 2.

8 Expected return on investments

8.1 The Trustees have chosen to invest in a bulk annuity policy with the intention of achieving returns in line with movements in the value of the Scheme's liabilities. The expected income from the annuity contract is that required to meet benefit payments.

9 Realisation of investments

9.1 Benefit payments are met by the insurer. In the short term the Trustees retain additional cash within the Scheme bank account to meet any additional short term cashflow needs.

10 Investment arrangements

10.1 The majority of the Scheme's assets are held in a bulk annuity contract with an insurer and cash in the Scheme's bank account, and therefore are not invested with any asset managers. For this reason, there is no need for a policy in relation to the Trustees' arrangements with asset managers, as per the Occupational Pension Schemes (Investment and Disclosures) (Amendment) Regulations 2019.

10.2 In respect of the residual assets held for potential discretionary increases, the Trustees have set out their policies in Appendix 2 for these funds.

11 Agreement

11.1 This statement was agreed by the Trustees, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the Society, the insurer, the actuary and the Scheme auditor upon request.

Agreed by the Trustees of the Scottish Branch British Red Cross Society Retirement Benefits Scheme, after consultation with the British Red Cross Society

February 2024

Appendix 1 Note on investment policy of the Scheme in relation to the current Statement of Investment Principles

Choosing investments

The Trustees have secured an insurance contract in respect of the Scheme’s liabilities with Aviva. The insurer is supervised by the Prudential Regulatory Authority ("PRA") in co-ordination with the Financial Conduct Authority ("FCA") within the current regulatory context.

The Trustees have appointed Legal & General Investment Management Limited and Insight Investment to carry out the day-to-day investment of the non-insured assets.

Both managers are authorised and regulated by the Financial Conduct Authority.

The Trustees have appointed Barnett Waddingham LLP to advise on investment matters.

The balance between different kinds of investment

The Scheme’s main asset is a bulk annuity contract with Aviva. There is no formal benchmark asset allocation for the Scheme’s remaining assets, given their size, purpose and the timeframe until the expected winding up of the Scheme.

The Scheme’s non-insured assets are invested across cash, gilts and corporate bond funds in a manner which is broadly expected to match insurer pricing of benefits.

The asset allocation has been agreed after considering the Scheme’s liability profile, funding position, expected return of the various asset classes and the need for diversification.

Benchmarks and objectives

Each fund is set a benchmark and an objective based on this benchmark. The performance of fund managers will be monitored using these objectives as frequently as the Trustees consider appropriate in light of the prevailing circumstances. The monitoring takes into account both short term and long term performance.

The benchmarks and objectives for each fund are set out in the following table:

Fund Manager	Fund	Benchmark	Objective
Legal & General	Single Stock Gilt Funds and Index-Linked Gilt Funds	Respective fund benchmark (single stock or index)	Track the respective performance of the benchmark
	Sterling Liquidity Fund	Sterling Overnight Index Average	To track the performance of the benchmark whilst providing access to liquidity

Insight	Buy & Maintain Bond Fund	iBoxx GBP Corporate & Collateralised ex-T1 & UT2, 1.5% issuer cap, 25% level 3 sector cap Index.	The Fund seeks to generate a return for investors by investing primarily in a portfolio of debt securities
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Fee arrangements

There are no ongoing fees in respect of the Aviva Life & Pensions UK bulk annuity policy.

Barnett Waddingham are remunerated on a fixed fee and time cost basis depending on the work carried out.

The fee arrangements with the fund managers are summarised below:

Fund Manager	Fund	Fees
Legal & General	Passive gilt funds, including single stock treasury and/or indexed funds	For the first £5 million; 0.10% pa For the next £5 million; 0.075% pa
	Sterling Liquidity Fund	0.125% pa
Insight	Buy & Maintain Bond Fund	Annual Management Charge (AMC): 0.15% pa Fixed operating expenses: 0.05% pa

The Scheme also pays LGIM's flat charge of £1,500 per annum.

Realisation of investments

Benefit payments are met by the insurer. The Trustees expect any fees and other expenses to be met using the existing bank reserves and, where necessary, contributions by the Society.

Appendix 2 Note on financially material considerations, the exercise of rights and engagement activities, and non-financial matters.

Policy on financially material considerations

- The Trustees believe that environmental, social and governance factors are potentially financially material and therefore have a policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments. For the bulk annuity policy, incorporating Environmental, Social and Governance (ESG) factors is at Aviva's discretion.
- The Trustees acknowledge that the impact of environmental, social and governance factors is not expected to be hugely significant. In part, this is due to the fact that the time horizon for the investment strategy is not expected to be long and the Scheme invests predominately in passive gilts and corporate bonds (outside of the bulk annuity policy).
- Given the assets, excluding the bulk annuity policy, are predominately in passive gilts and some corporate bonds, the Trustees have not imposed any restrictions relating to ESG issues on their investment manager and have not imposed any exclusions on their investment arrangements based on ESG factors. The Scheme's investment managers do have ESG policies in place, and are also a signatory to the UN Principles of Responsible Investment.

Policy on the exercise of voting rights and engagement activities

The Trustees' policy on the exercise of rights attaching to investments, including voting rights, and in undertaking engagement activities in respect of the investments is that these rights should be exercised by the investment managers on the Trustees' behalf. In doing so, the Trustees expect that the investment managers will use their influence as major institutional investors to exercise the Trustees' rights and duties as shareholders, including where appropriate engaging with underlying investee companies to promote good corporate governance, accountability and to understand how those companies take account of ESG issues in their businesses.

Given the Scheme invests predominantly in passive gilts and some corporate bonds, and the time horizon of the Scheme, the Trustees do not actively monitor the managers' stewardship activities.

Policy for taking into account non-financial matters

When constructing the investment strategy and selecting investment managers, the Trustees do not prioritise non-financial matters. Based on the size and maturity of the Scheme, the Trustees have adopted a passive or buy and maintain approach to their investments, utilising pooled investment vehicles, which mean that it is less practical and efficient (from a return and cost perspective) to take account of such non-financial matters.