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.

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 but may consider doing so in future as they seek to better align their investments with the new Ethical Investment policy which is being developed by the Church. The current policy is to avoid direct investment in armaments, tobacco, gambling and pornography and the Trustees wish to work towards fully divesting the fund of such investments as and when suitable vehicles become available. 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 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

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

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diversified Growth Fund</td>
<td>30%</td>
</tr>
<tr>
<td>Corporate Bond (long maturity)</td>
<td>35%</td>
</tr>
<tr>
<td>LDI*</td>
<td>35%</td>
</tr>
</tbody>
</table>

*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).

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 any of the following occur:

- If the balance between the DGF and the Matching Assets (defined as the LDI, cash and corporate bond fund) is more than 5% away from the target allocation.
- If the hedge ratio is more than 5% away from the target hedge ratio.

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:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Benchmark</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diversified Growth</td>
<td>CPI + 5% p.a.</td>
<td>-</td>
</tr>
<tr>
<td>Corporate Bond</td>
<td>BoA Merill Lynch Non-Gilts All Stocks Over 15 Year Index</td>
<td>Outperform benchmark by 0.75% p.a.</td>
</tr>
<tr>
<td>LDI Funds</td>
<td>Exact benchmark will be fund dependent*</td>
<td>-</td>
</tr>
</tbody>
</table>

Note that all targets in the table above are gross of fees.

*Each of the LDI Funds has their 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 basis).

A.3 Fees

The investment manager levies fees based on a percentage value of the assets under management, as detailed below. The Fund’s Scheme Actuary and the investment consultant typically work on the basis of time cost, however in certain circumstances a fixed fee will be agreed.
<table>
<thead>
<tr>
<th>Fund</th>
<th>Annual Management Charge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schroder Life Diversified Growth Fund</td>
<td>0.60%*</td>
</tr>
<tr>
<td>Schroder Life Long Dated Corporate Bond Fund</td>
<td>0.25%</td>
</tr>
<tr>
<td>Schroder Life Sterling Liquidity Plus Fund</td>
<td>0.05%</td>
</tr>
<tr>
<td>Schroder Life Matching Gilt Fund range (fee charged on liabilities hedged as a percentage of assets)</td>
<td>0.10%</td>
</tr>
</tbody>
</table>

* The Annual Charge of the Schroder Life Diversified Growth Fund currently includes a longevity discount of 0.05%, which is applied at Schroders’ discretion.