Introduction

The Trustees of the Commonwealth War Graves Commission Superannuation Scheme (the “Scheme”) have drawn up this Statement of Investment Principles (the “Statement”) to comply with the requirements of the Pensions Act 1995, the Pensions Act 2004, the Occupational Pension Schemes (Investment) Regulations 2005, and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2018 and 2019. The Statement is intended to affirm the investment principles that govern decisions about the Scheme’s investments. In preparing this Statement the Trustees have consulted the Commonwealth War Graves Commission (the “Commission”) on the Trustees’ investment principles.

Governance

The Trustees make all major strategic decisions including, but not limited to, the Scheme’s asset allocation and the appointment and termination of investment managers. The process for making investment decisions is as follows:

- Identify appropriate investment objectives;
- Agree the level of risk consistent with meeting the objectives; and
- Implement an investment strategy and investment manager structure in line with the level of risk and objectives agreed.

When making such decisions, and when appropriate, the Trustees take advice. The Trustees’ investment consultants, Capita Pension Solutions, are qualified by their ability in and practical experience of financial matters and have the appropriate knowledge and experience to provide such advice. Capita Pension Solutions is authorised under the Financial Services and Markets Act 2000 to provide regulated investment advice to the Trustees.

Investment Objectives

The Trustees are required to invest the Scheme’s assets in the best interests of members, and their main objectives with regard to investment policy are:

- To achieve, over the long term, a return on the Scheme’s assets which is sufficient (in conjunction with the Scheme’s existing assets, and contributions) to pay all members’ benefits in full;
• To ensure that sufficiently liquid assets are available to meet benefit payments as they fall due; and

• To consider the interests of the Commission in relation to the size and volatility of the Commission’s contribution requirements.

The Trustees understand, following discussions with the Commission, that the Commission is willing to accept a degree of volatility in the triennial valuation outcomes to aim to reduce the long-term cost of providing the Scheme’s benefits.

Risk Management and Measurement

The Trustees are aware of and pay close attention to a range of risks inherent in investing the assets of the Scheme and monitor investment performance on a quarterly basis. The Trustees believe that the investment strategy provides for adequate diversification both within and across different asset classes. The Trustees further believe that the current investment strategy is appropriate given the Scheme’s liability profile. The Trustees’ policy on risk management is as follows:

• The primary investment risk faced by the Scheme arises as a result of a mismatch between the Scheme’s assets and its liabilities. The Trustees’ principal focus in setting investment strategy is therefore taking into account the nature and duration of the Scheme’s liabilities.

• The Trustees recognise that whilst increasing risk can potentially increase long-term returns, it can also increase the short-term volatility of the Scheme’s funding position. The Trustees have taken advice on the matter and (in light of the objectives noted previously) considered the implications of adopting different levels of risk.

• The Trustees recognise the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustees aim to ensure the asset allocation strategy in place results in an adequately diversified portfolio. Due to the size of the Scheme’s assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles.

• The documents governing the managers’ appointment include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme.

• The Trustees recognise that, where appropriate, the use of active management involves a risk that the assets do not achieve the expected return. However, they believe this risk can be outweighed by the potential gains from successful active management, in particular in regions or asset classes where this potential is greater than others.

• The safe custody of the Scheme’s assets is delegated to professional custodians via the use of pooled vehicles.

Should there be a material change in the Scheme’s circumstances, the Trustees will review whether the current risk profile remains appropriate.
Investment Strategy

Given their investment objectives the Trustees have agreed to the asset allocation detailed in the table below. The Trustees believe that the investment risk arising from the investment strategy is consistent with the overall agreed level of risk.

<table>
<thead>
<tr>
<th>Asset class</th>
<th>Strategic asset allocation (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Equities</td>
<td>20.5</td>
</tr>
<tr>
<td>Synthetic Equities</td>
<td>4.5</td>
</tr>
<tr>
<td>Absolute Return Credit</td>
<td>5.0</td>
</tr>
<tr>
<td>Property</td>
<td>6.5</td>
</tr>
<tr>
<td>Diversified Growth Funds</td>
<td>36.0</td>
</tr>
<tr>
<td><strong>Total Growth Assets</strong></td>
<td><strong>72.5</strong></td>
</tr>
<tr>
<td>Liability Driven Investments ('LDI')</td>
<td>27.5</td>
</tr>
<tr>
<td><strong>Total Risk-reducing Assets</strong></td>
<td>27.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

LDI Strategy

Legal and General Investment Management (LGIM) aim to maintain a liability hedge of 100% of the funded liabilities calculated on a gilts + 0.5% discount rate basis. As the liabilities are inflation related, implementation is predominantly carried out via leveraged index-linked gilt funds.

Collateral calls and distributions for the liability hedge would be made from / to the Sterling Liquidity Fund (a cash fund), which is managed by LGIM. The TwentyFour Absolute Return Credit Fund has been identified as the preferred cash source / destination for these de/re-leveraging events, but a manual instruction is required to move money between this fund and the Sterling Liquidity Fund. When cash is required to de-leverage, this instruction is time sensitive, to ensure that sufficient cash is available within the Sterling Liquidity Fund when it is called.

Cash Flow Management

The Trustees require investments to be liquidated regularly to meet benefit payments. To meet monthly needs, the Trustees have set up standing orders with the fund managers to meet their ongoing liquidity requirements. The requirements for liquidity may also be met by receiving income from the investments where it is efficient or necessary.

The Trustees may decide to change any part of this cash flow policy from time-to-time, subject to receiving the necessary advice from their investment consultant.
The Trustees will regularly monitor the Scheme’s actual asset allocation and will decide on a course of action. This may involve redirecting cash flows, a switch of assets or taking no action. The Trustees will take into account advice from their investment consultant prior to making any decision.

**Expected Return**

The Trustees expect the return on assets to be consistent with the investment objectives and investment strategy outlined above.

The Trustees expect the Scheme’s assets to generate a return, over the long term, of circa 2.6% per annum, net of expenses, above a portfolio of long-dated UK Government bonds – which are considered to change in value in a similar way to the Scheme’s liability value. This return is a “best estimate” of future returns that has been arrived at given the Scheme’s current strategic asset allocation and in the light of advice from the investment consultant.

The Trustees recognise that, over the short term, actual performance may deviate significantly from this long-term expectation. This “best estimate” will also generally be higher than the assumption used for funding purposes for the actuarial valuation of the Scheme’s liabilities on the on-going technical provisions basis. For funding purposes, a prudent estimate of returns is used, as agreed by the Trustees based on advice from the Scheme Actuary.

**Platform Provider**

The Trustee has appointed Legal and General Investment Management Limited (‘the Platform Provider’) to manage all of the assets of the Scheme (except for the Threadneedle Property Unit Trust Fund which amounts to circa 6.5% of the Scheme’s assets). The Platform Provider is regulated under the Financial Services and Markets Act 2000. All decisions about the day-to-day management of the assets have been delegated to the Platform Provider via a written agreement, including the realisation of investments.

**Investment Mandates**

The Trustees have selected Schroder Investment Management Limited (‘Schroders’), Insight Investment (‘Insight’), Columbia Threadneedle Investments (‘Threadneedle’), BNY Mellon Investment Management (‘BNY Mellon’), TwentyFour Investment Management (‘TwentyFour’) and Legal and General Investment Management (‘LGIM’) as the appointed investment managers (‘the Investment Managers’) to manage the assets of the Scheme. The Investment Managers are regulated under the Financial Services and Markets Act 2000.

The Trustees have rolling contracts with their investment managers.

The Trustees monitor the performance of their investment managers on a quarterly basis. This monitoring is contained in a report provided by their advisors.

The Trustees have set performance objectives, including time periods, consistent with the investment strategy set out in this statement.
Investment Manager Remuneration

The Trustees monitor the remuneration, including incentives, that is paid to its investment managers and how they reward their key staff who manage client funds, along with how the pay and incentives motivate employees who manage client funds.

As part of the monitoring that the Trustees carry out on a regular basis, they should ensure that this policy is in line with their investment strategy.

Investment Manager Philosophy and Engagement

The Trustees monitor the investment managers’ process for assessing the businesses they invest in, and whether business performance over the medium to long-term involves a holistic look beyond purely accountancy measures. The Trustees consider if the fund manager is incentivised to make decisions on a short-term basis or on a medium to long-term basis and whether this coincides with the business assessments. The Trustees are conscious of whether the investment manager is incentivised by the agreement with the Trustees to engage with the investee business and to what extent any engagement focuses on improving medium to long-term performance.

Investment Manager Portfolio Costs

The Trustees will monitor costs of buying, selling, lending and borrowing investments and they will look to monitor the costs breakdown annually, as long as the investment managers provide these costs using the Cost Transparency Initiative template. They will also ensure that, where appropriate, their investment managers monitor the frequency of transactions and portfolio turnover. If there are any targets, then they will monitor compliance with these targets.

Environmental, Social and Governance (“ESG”) Considerations

The Trustees believe that their main duty, reflected in their investment objectives, is to protect the financial interests of the Plan’s members. The Trustees believe that ESG considerations (including but not limited to climate change) and stewardship in the selection, retention and realisation of their investments is an integral part of this duty and can contribute to the generation of good investment returns. Legislation requires that the Trustees form a view of the length of time that they consider is needed for the funding of future benefits by the investments of the Plan. The Trustees recognise that this is a DB scheme closed to new entrants with an ageing membership. Nevertheless, the Trustees believe that an appropriate time horizon for the Plan could still be over 15 years, which gives plenty of scope for ESG considerations to be financially material.

The Trustees have elected to invest predominantly in pooled funds, and it is difficult to, therefore, directly influence the ESG policies, including the day-to-day application of voting rights, of the funds in which they invest (especially where assets are managed passively). However, the Trustees will consider the manager policies in all future selections and will deepen their understanding of their existing manager policies by reviewing these at least annually. The Trustees will also seek to understand what other options might be available at their managers and in the wider market. In cases where they are dissatisfied with a managers’
approach, they will take this into account when reviewing them. They are also keen that all their managers are signatories of the UN Principles of Responsible Investment.

The Trustees believe that stewardship is important, through the exercising of rights (including voting rights) attaching to investments. The Trustees are keen that their managers can explain when, and by what practical methods, the managers monitor and engage with relevant persons about relevant matters in this area. They will be liaising with their managers (including their passive managers) to obtain details of the voting behaviour (including the most significant votes cast on the Trustees’ behalf). The Trustees are also keen that their managers are signatories of the UK Stewardship Code.

The Trustees are aware that ESG and stewardship considerations involve an ongoing process of education for themselves and engagement with their investment managers. To that end they dedicate time regularly to the discussion of this topic and intend to review and renew their approach periodically with the help of their investment consultants, where required. Consequently, the Trustees expect the Plan’s Investment Managers to have effective ESG policies (including the application of voting rights) in place and look to discuss the investment managers’ ESG policies with them when the managers attend Trustee meetings.

Non-financial matters, including members’ views are currently not taken into account.

**Corporate Governance**

The Trustees wish to encourage best practice in terms of activism. The Trustees accept that by using pooled investment vehicles the day-to-day application of voting rights will be carried out by the investment managers. Consequently, the Trustees expect the Scheme’s Investment Managers to adopt a voting policy that is in accordance with best industry practice.

The Trustees will monitor the voting being carried out by investment managers and custodians on their behalf. They will do this by receiving reports from their investment managers which should include details of any significant votes cast and proxy services that have been used.

**Compliance with Myners’ Principles**

In October 2008 the Government published the results of its consultation on revisions to the Myners’ principles in response to recommendations made by the National Association of Pension Funds (NAPF) in 2007. This takes the form of six higher-level principles, supported by best practice guidance and trustee tools that can be used to assess compliance.

The Trustees believe that they comply with the spirit of the Myners’ Principles. There may be some instances of deviation from the published ‘Best Practice Guidance’ on the Principles where the Trustees believe this to be justified.
Commission-Related Investments


Fee Structures

The Investment Managers are paid a management fee on the basis of assets under management. The investment consultant is paid on a fixed fee basis for providing ‘core services’. The Trustees can also request that Capita undertake ‘out-of-scope’ projects, which may be undertaken on a fixed fee, time-cost or assets under management basis - as agreed between the Trustees and Capita.

Review of this Statement

The Trustees will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement 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.

Statement approved and signed on behalf of the Trustees of the Commonwealth War Graves Commission Superannuation Scheme on 1 October 2021. The signed copy is held separately on the Scheme’s files.
Appendix – Summary of Investment Mandates

The Trustees have appointed the Investment Managers and the Platform Provider to manage the Scheme’s assets. The Investment Managers and the Platform Provider are regulated under the Financial Services and Markets Act 2000. The Investment Managers’ mandates are set out below:

<table>
<thead>
<tr>
<th>Asset class</th>
<th>Investment Manager</th>
<th>Fund</th>
<th>Management style</th>
<th>Strategic Asset Allocation (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Equity</td>
<td>LGIM</td>
<td>All World Equity Fund</td>
<td>Passive</td>
<td>20.5</td>
</tr>
<tr>
<td>Synthetic Equity</td>
<td>LGIM</td>
<td>Synthetic Leveraged Equity Fund</td>
<td>Passive</td>
<td>4.5</td>
</tr>
<tr>
<td>Absolute Return Credit</td>
<td>TwentyFour</td>
<td>Absolute Return Bond Fund</td>
<td>Active</td>
<td>5.0</td>
</tr>
<tr>
<td>Property</td>
<td>Threadneedle</td>
<td>Property Unit Trust</td>
<td>Active</td>
<td>6.5</td>
</tr>
<tr>
<td>Diversified Growth Funds</td>
<td>Schroders</td>
<td>Diversified Growth Fund</td>
<td>Active</td>
<td>12.0</td>
</tr>
<tr>
<td></td>
<td>BNY Mellon</td>
<td>Real Return Fund</td>
<td>Active</td>
<td>12.0</td>
</tr>
<tr>
<td></td>
<td>Insight</td>
<td>Broad Opportunities Fund</td>
<td>Active</td>
<td>12.0</td>
</tr>
<tr>
<td>Total Growth Assets</td>
<td></td>
<td></td>
<td></td>
<td>72.5</td>
</tr>
<tr>
<td>LDI</td>
<td>LGIM</td>
<td>LDI Portfolio*</td>
<td>Passive</td>
<td>27.5</td>
</tr>
<tr>
<td>Total Risk-Reducing Assets</td>
<td></td>
<td></td>
<td></td>
<td>27.5</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td>100.0</td>
</tr>
</tbody>
</table>

*LGIM LDI Portfolio involves holding a range of funds from the LGIM Matching Core Range to create a suitable liability matching profile.*