YMCA Pension & Assurance Plan

Statement of Investment Principles – September 2019

1. Introduction

The YMCA Pension Plan Trustee Limited, the Trustee of the YMCA Pension & Assurance Plan (the "Plan"), has drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of the Pensions Act 1995 (the "Act") and subsequent legislation. The Statement is intended to affirm the investment principles that govern decisions about the Plan's investments. The Trustee's investment responsibilities are governed by the Plan's Trust Deed and Rules, of which this Statement takes full regard.

In preparing this Statement the Trustee has consulted a suitably qualified person by obtaining written advice from Mercer Limited ("Mercer") in its role as Investment Adviser to the Trustee ("Investment Adviser"). In addition, consultation has been undertaken with The National Council of YMCAs (the "Principal Employer") to ascertain whether there are any material issues of which the Trustee should be aware in agreeing the Plan's investment arrangements and, in particular on the investment objectives of the Trustee. Details of these discussions and arrangements are available to the other Participating Employers ("Participating Employers") of the Plan.

As this Statement covers broad principles, the Trustee does not expect to revise it frequently. The Trustee will review it following any significant change in the Plan's investment arrangements and, in any event, at least once every three years. The Investment Implementation Policy Document ("IIPD") records the current investment arrangements and is updated as and when required. The Plan's Trust Deed and Rules govern the responsibilities of the Trustee.

The Trustee has delegated certain authorities to an Investment Sub-Committee ("ISC"); these are set out in the ISC Terms of Reference.

2. Process For Choosing Investments

The Trustee has decided to implement a de-risking strategy whereby the level of investment risk reduces as the Plan's funding level improves. The Trustee has agreed the way in which investment risk should be reduced and has delegated the implementation of the de-risking strategy to Mercer, in its role as Delegated Investment Manager ("Delegated Manager") through the use of the Mercer Dynamic De-risking Solution ("MDDS") for the majority portion of the Plan assets. The Delegated Manager constructs portfolios of investments that are expected to maximise the return (net of all costs) given the targeted level of risk.

In considering appropriate investments for the Plan, the Trustee has obtained and considered the written advice from its Investment Adviser, whom the Trustee believes to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3. Investment Objectives

The primary objective of the Trustee is to act in the best interests of all members to deliver securely to members the benefits set out in the Trust Deed and Rules. As a result, the Trustee has an aim to reach a position such that the assets would be sufficient to meet the liabilities without recourse to ongoing contributions.

The Trustee understands that taking some investment risk, with the support of the Principal and Participating Employers, is necessary to improve the Plan's ongoing and solvency funding positions. For example, the Trustee recognises that equity investment will bring increased volatility of the funding level, but in the expectation of improvements in the Plan's funding level through equity (and other growth asset) outperformance of the liabilities over the long term.

The Trustee recognises that the least risk investment portfolio would be made up of a portfolio of bonds to better match the Plan liabilities but believes that at the current time some investment in equities and other growth assets is justified to target enhanced return expectations and thereby target funding level improvements. The Trustee recognises that this introduces investment risk and these risks are discussed below.

The Trustee has agreed a target of moving to an entirely bond based investment strategy when a suitably strong funding level is achieved. The Trustee and ISC will monitor progress against this target.

The objectives set out above and the risks and other factors referenced in this Statement are those that the Trustee determines to be financially material considerations. Non-financial considerations are discussed in section 10.

4. Risk Management and Measurement

There are various risks to which any pension scheme is exposed. The Trustee's policy on risk management over the Plan's anticipated lifetime is as follows:

- The primary risk upon which the Trustee focuses is that arising through a mismatch between the Plan's assets and its liabilities.
- The Trustee recognises that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Plan's accruing liabilities as well as producing more volatility in the Plan's funding position.
- The Trustee has delegated asset allocation of the delegated portfolio to its Delegated Manager. The asset allocation has initially been set so that the expected return on the portfolio is sufficient to meet the objectives outlined in Section 3. As the funding level improves, investments will be switched from growth assets into matching assets with the aim of reducing investment risk. The Delegated Manager provides the Trustee with regular reports regarding the Plan's asset allocation.
- The Trustee recognises that even if the Plan's assets are invested in matching assets there may still be a mismatch between the interest-rate and inflation sensitivity of the Plan's assets and the Plan's liabilities due to the mismatch in duration between matching assets and actuarial liabilities.
- The Trustee recognises 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 Delegated Manager aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. Investment exposure is obtained via pooled vehicles.

- To help the Trustee ensure the continuing suitability of the current investments the Trustee delegates responsibility for the hiring, firing and ongoing monitoring of the Plan's investment managers to its Delegated Manager. The Trustee and ISC are provided with regular reports regarding the appointed investment managers to monitor consistency between the expected and experienced levels of risk and return.
- There is a risk that the management of the assets will not achieve the rate of investment return expected by the Trustee. The Trustee recognises that the use of active investment managers involves such a risk. However, for specific asset classes it believes that this risk is outweighed by the potential gains from successful active management. Likewise, passive management will be used for one of a number of reasons, namely to diversify and reduce risk and when investing in markets deemed efficient where the scope for added value from active management is limited.
- To help diversify manager specific risk, the Trustee has effectively made multiple manager appointments within each asset class by investing in multi-manager pooled funds managed by the Delegated Manager.
- Investment may be made in securities that are not traded on regulated markets. Recognising the risks (in particular liquidity and counterparty exposure) such investments will normally only be made with the purpose of reducing the Plan's mismatch risk relative to its liabilities or to facilitate efficient portfolio management. In any event the Trustee will ensure that the assets of the Plan are predominantly invested on regulated markets.
- The Trustee recognises that environmental, social and corporate governance concerns, including climate change, have a financially material impact on return. Section 10 sets out how these risks are managed.
- Responsibility for the safe custody of the Plan's assets is delegated to the Delegated Manager who has appointed State Street Bank and Trust Company ("State Street") as custodian of the assets invested in pooled vehicles. The Delegated Manager is responsible for keeping the suitability of State Street under ongoing review.
- The Trustee is aware of the potential for regulatory and political risks. *Regulatory risk* arises from investing in a market environment where the regulatory regime may change. This may be compounded by *political risk* in those environments subject to unstable regimes. The Delegated Manager will seek to minimise the impact of any such *regulatory or political* changes if they should arise.
- The Trustee is aware of the risk that assets are not readily realisable if required - this is known as Liquidity risk. The Trustee, its Investment Adviser and the Delegated Manager have taken into account the liability cashflow requirements of the Plan in the adoption of the Plans investment strategy and have adopted a strategy that makes due allowance of the need for liquidity of the Plan's assets. The majority of funds through which the Delegated Manager invests provide daily liquidity. Some investments are not always liquid (e.g. private debt), the Trustee believes these risks are acceptable to long term investors.
- The Trustee has considered the link between the Investment Strategy and future contribution rate requirements from the Principal and Participating Employers. The Trustee with the help of its Investment Adviser has considered a number of investment strategies with varying degrees of risk relative to the Plan's liabilities. In determining an appropriate level of risk (or expected volatility) the Trustee has considered the strength of the Principal and Participating Employer's covenant and attitude to risk along with the impact of future contribution rate requirements.

  There is the risk that the Principal and Participating Employers may not have the ability to meet its financial commitments to the Plan. The Trustee has assessed the

Principal and Participating Employers ability to underwrite investment risk in this regard and adopted an investment strategy taking these factors into account.

- Should there be a material change in the Plan's circumstances, the Trustee will advise its Investment Adviser, who will review whether and to what extent the investment arrangements should be altered; in particular whether the current de-risking strategy remains appropriate.

5. **Investment Strategy**

The ISC, with advice from the Plan's Investment Adviser and the Plan Actuary, reviewed the Plan's investment strategy in 2012; the outcome of this review was communicated to and agreed by the Trustee.

This review considered the investment objectives of the Trustee, its ability and willingness to take risk (the risk budget) and how this risk budget should be allocated and implemented (including de-risking strategies).

Following the review, the key decision was to seek a long term solution to 'de-risk' the Plan's assets relative to its liabilities over time using a dynamic trigger based de-risking framework. An annual review of progress relative to the de-risking framework was undertaken in 2017, recalibration revisions to the de-risking triggers were implemented in March 2017. The de-risking triggers which form the basis of the Plan's dynamic investment strategy are set out in a separate document – the Investment Implementation Policy Document ("IIPD"). MDDS relates the asset allocation to the Plan's funding level (on an actuarial basis using a single discount rate of 0.5% pa in excess of appropriate gilt yields). The de-risking rule mandates the following practices:

- To hold sufficient growth assets to target full funding on a "gilts +0. 5%" basis by 2027;
- To reduce the volatility in the funding level by reducing un-matched liability exposures;
- To monitor the progress in the funding level and to capture improvements in the funding level promptly, if they arise.

The de-risking strategy takes account of the Plan's initial funding level on a gilts +0. 5% basis and is based on a model of the progression of the Plan's funding level over the period to 2027.

For the avoidance of doubt, once the funding level has moved through a band, the asset allocation will not be automatically "re-risked" should the funding level deteriorate. The investment strategy will be reviewed on an annual basis to ensure that the triggers set remain appropriate and amended if required.

The Trustee has delegated the allocation of assets within the growth and matching portfolios to the Delegated Manager.

Responsibility for monitoring the Plan's asset allocation and undertaking any rebalancing activity when the range restrictions are breached is delegated to the Delegated Manager. The Delegated Manager reports quarterly to the ISC on any breaches to the range restrictions.

In addition to the MDDS portfolio, the Trustee retains a separate holding in the Schroder Property Fund. Details of these assets are set out in the IIPD. The Trustee regularly

meets the manager of these assets, and receives advice from Mercer, in its role as Investment Adviser, relating to the continued appropriateness of this holding.

For the avoidance of doubt, the Schroder Property Fund is held independently of the MDDS portfolio and Mercer has no delegated powers over this investment.

6. Day–to-Day Management of the Assets

The Trustee has delegated day-to-day management of the majority of assets to the Delegated Manager who in turn delegates' responsibility for the investment of the assets to a range of underlying specialist investment managers subject to constraints agreed with the Delegated Manager. The Delegated Manager is responsible for the selection, appointment, removal and monitoring of the underlying investment managers. The underlying investment managers have full discretion to buy and sell investments on behalf of the Plan subject to agreed constraints.

The Trustee has taken steps to become satisfied that the Delegated Manager has the appropriate knowledge and experience to choose and combine the underlying investment managers and ensure that they are fit to manage the Plan's investments.

The Trustee and ISC regularly reviews the continuing suitability of the Plan's investments, in relation to both Schroder and the Delegated Manager. This includes the Delegated Manager's continued ability to select, appoint, remove and monitor the appointed managers.

Mercer and Schroder are regulated by the Financial Conduct Authority.

7. Realisation of Investments

The Delegated Manager and the underlying investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation.

8. Cash Flow Management

Cash flows, whether positive or negative, are used to move the Plan's asset allocation and allocation to the individual underlying investment managers back towards the strategic allocation appropriate at that point in time given the level of de-risking that may have occurred.

9. Rebalancing

Rebalancing ranges have been set within the growth and matching portfolios to ensure the Plan's assets remain invested in a manner which is consistent with that investment strategy agreed by the Trustee and communicated to the Principal Employer. The ranges have been designed to ensure that unnecessary transaction costs are not incurred by frequent rebalancing. Investments held with Schroders are excluded from this process.

In the event of a funding level trigger being breached, the assets will be rebalanced to bring them in line with the reduced growth portfolio weight, under the new de-risking band, as defined in the IIPD.

10. ESG, Stewardship, and Climate

The Trustee believes that environmental, social, and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole.

The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustee has given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code. The Trustee believes considering the widest set of ESG information can help potentially identify and mitigate material financial issues. The Trustee believes the underlying managers are best placed to consider this information, but will monitor how they apply this information.

Although delegated, the Trustee understands how Mercer takes ESG factors into account in its decision-making processes. The Trustee considers and will monitor how ESG, climate change and stewardship is integrated within Mercer's investment processes and those of the underlying managers in the monitoring process.

Mercer is expected to provide reporting on a regular basis, on ESG integration progress, stewardship monitoring results, and climate-related metrics such as carbon foot-printing for equities and/or climate scenario analysis for diversified portfolios.

Member views

Individual member views are not taken into account in the selection, retention and realisation of investments, although the views of member nominated Trustees have been considered.

Investment Restrictions

Whilst the Trustee believes investment restrictions and screening can have a positive impact on portfolios it has not set any investment restrictions (outside of those implemented by Mercer, as delegated manager) on the appointed investment managers in relation to particular products or activities, but may consider this in future.

11. Additional Voluntary Contributions ("AVCs")

Assets in respect of members' AVCs are invested in a range of investment options. The Trustee will review the AVC arrangements periodically to ensure that the investment profile of the funds available remains consistent with the objectives of the Trustee and the needs of the members. More information on the AVC providers is detailed in the IIPD.

12. Fee Structures

The Delegated Manager levies a fee based on a percentage of the value of the assets under management which covers the design and annual review of the de-risking strategy, and investment management of the assets. In addition the underlying managers also levy fees based on a percentage of the value of the assets under management.

Schroder levies a fee based on a percentage of the value of the assets under management.

13. Review of this Statement

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

made after having consulted the Principal Employer and having obtained and considered the written advice of someone who the Trustee reasonably believes 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.

The Trustee of the YMCA Pension & Assurance Plan

September 2019

Appendix - Plan Governance

The Trustee is responsible for the investment of the Plan's assets.

The Trustee takes some decisions and delegates the balance, within the framework documented in the Statement.

The Trustee has delegated certain authorities to an Investment Sub-Committee ("ISC"), these are set out in the ISC Terms of Reference.

The Trustee remains responsible for the following duties, although some responsibility has been delegated to the ISC which will report back to the Trustee:

- Overall responsibility for the Plan's investments.
- Comply with Legislation and Regulation.
- Appoint the Plan Actuary.
- Appoint the Investment Adviser.
- Appoint the Legal Advisor.
- Appoint the Administration Provider.
- Appoint the Delegated Investment Manager
- Decide on investment strategy, in consultation with the Investment Adviser and the Plan Actuary.
- Consider proposed changes, and agree final changes, to the Statement. Consult with the Principal Employer before amending the Statement.
- Monitor the Investment Adviser, and Delegated Manager.

An Investment Adviser has also been appointed by the Trustee. ***The Investment Adviser's duties and responsibilities are to:***

- Advise the Trustee and ISC on the preparation, annual review and any amendments to the Statement.
- Advise the Trustee and ISC on investment policy as required.
- Advise the Trustee and ISC on performance measurement.
- Aid and advise the Trustee and ISC in reviewing

  - the performance of the Plans assets;

  - progress of the de-risking strategy; and,

  - how changes to the investment portfolio have impacted the Plan.
- Advise the ISC on how changes in the investment environment could either present opportunities or problems for the Plan.
- Undertake project work as requested.

The details of the Investment Adviser's appointment, including the scope of its remit and its fees are set out in a contract entered into between the Trustee and the Investment Adviser.

The Trustee has chosen to delegate the appointment and day-to-day management of the Plan's investments to the Delegated Investment Manager, in accordance with Section 34 of the Pensions Act 1995.

The terms of this appointment are contained in the Investment Management Agreement ("IMA") agreed between the Trustee and Delegated Manager.

The Delegated Manager's responsibilities are also governed by applicable law.

The Delegated Managers role in practice includes:

- Appointment of investment managers and construction of the investment portfolios.
- Progress of the funding level of the Plan, relative to the De-risking trigger levels and the ability to switch from the Growth to Matching Portfolios in the event of a funding level trigger being hit.
- Manage the portfolios of assets within the investment guidelines, objectives and restrictions set out in the respective IMAs but, subject to that, exercising discretion as appropriate when investing the portfolio.
- Have regard to the need for diversification of investments so far as appropriate and to the suitability of investments.
- Exercise the powers of investment with a view to giving effect to the content of the Statement, so far as reasonably practicable.
- Provide the Trustee with a quarterly statement of the assets and cash flows and a quarterly report on the results of past actions and any changes to the investment process and, where possible, on corporate actions and their future policies in that regard.
- Inform the Trustee of any changes in the internal performance objective guidelines of any pooled fund used by the Plan as soon as practicable.

The Plan Actuary assesses the financial position of the Plan at least every three years, in accordance with regulatory requirements.

The Plan Actuary's role with regard to investments is as follows:

- Perform the triennial (or more frequently as required) valuations and advise the Trustee on the appropriate contribution levels.
- Provide the Investment Adviser with information regarding the financial characteristics of the Plan, to enable the Investment Consultant to review the suitability of the Plan's investment strategy.
- Advise the Trustee, in conjunction with the Investment Adviser, on how changes in the Plan's benefits, membership, and funding position may affect the manner in which the assets should be invested.