Statement of Investment Principles

Assembly Members' Pension Scheme (Northern Ireland) 2016

1 Introduction

1.1 Section 35 of the Pensions Act 1995, as amended, requires that the Trustees of pension funds prepare and maintain a 'Statement of Investment Principles'. Whilst the Assembly Members' Pension Scheme (Northern Ireland) 2016 ('the Scheme') is statutorily exempt from this requirement, the Trustees have produced this document to reflect best practice in other funded schemes. This document will be made available on request to all members of the Scheme.

1.2 The Statement covers:

- The Trustees' policies on choosing investments and the need for diversification of the portfolio and the suitability of the investments to meet the needs of the Scheme.
- The kind of investments to be held.
- The balance between different types of investments.
- The risks of the investment strategy and the way in which they are measured and managed;
- The expected return on the investments.
- The process for realisation of the investments.
- How financially material considerations (including environmental, social and governance considerations) are taken into account and the extent to which non-financial matters (such as the views of members) are taken into account.
- The Trustees' policies in relation to the exercise of the rights (including voting rights) attaching to the investments and engagement activities.

1.3 This Statement has been designed to cover the fundamental aspects of investment policy, which are not expected to differ greatly from one year to the next. The Trustees have obtained advice on the content of this Statement from the Government Actuary's Department and have consulted the Northern Ireland Assembly Commission on its content.

1.4 Annual Reports by the Trustees of the Scheme will include a review of the investment performance and policy for the year in question. The annual accounts will also be published and are available to Scheme members.

1.5 The investment powers of the Trustees are set out in the Assembly Members' Pension Determination 2000. The Trustees have a fiduciary duty to invest the assets of the Scheme for the benefit of Scheme members.

2 Objectives

2.1 The Trustees are responsible for ensuring that the assets are likely to be sufficient to meet the Scheme's liabilities as they fall due. The Scheme Actuary advises the Trustees on the adequacy of the Scheme assets, by carrying out a full actuarial review (a valuation) every three years.

2.2 The Scheme was set up in 2000. In 2016 a new Career Average Revalued Earnings (CARE) scheme was introduced. It is anticipated that contribution income will continue to exceed benefit outgo for some years. This feature, together with the support provided by the Scheme sponsor, enables the investment strategy to be predominantly based on growth-seeking investments in order to increase the likelihood of achieving high investment returns on the Scheme assets over the long term.

2.3 An actuarial valuation of the Scheme was carried out as at 31 March 2020 with the next one being at 31 March 2023, with work underway as this document was prepared. The 2020 valuation revealed a funding deficit of £3.02 million. The Scheme Actuary recommended contributions by the Northern Ireland Assembly to the Scheme at the rate of 17.1% of Pensionable Pay from 1st April 2021.

2.4 The method used to project future benefits in the valuation allows for expected salary increases between the valuation date and the expected cessation of service. The valuation also makes assumptions about future investment returns and other actuarial factors. When experience does not match these assumptions the funding position of the Scheme will be improved or weakened.

2.5 The 2020 valuation results indicated that the active members accounted for around 34% of the liabilities, deferred pensioners account for 24% of the liabilities and pensions in payment for the remaining 42%.

2.6 The Trustees' investment objectives are:

- "funding objective" - to ensure that the likelihood of failing to meet the Scheme's liabilities remains within an appropriate level of risk
- "cost objective" - whilst control the risk of failing to meet the Scheme's liabilities the Trustee aims to minimise the cost to the Consolidated Fund of providing the Scheme benefits
- "stability objective" – to ensure that the charges borne by the Consolidated Fund for accruing benefits are reasonably stable over time.

2.7 The Trustees recognise that these objectives may conflict. For instance, greater certainty about meeting the liabilities can be achieved by investing in assets that match the expected Scheme benefit cashflows. However, such assets are expected to provide lower returns over the longer term than some other asset classes. Although growth assets are unlikely to match the expected cashflows from the Scheme, the relative immaturity of the Scheme means the Trustees are comfortable to experience some funding volatility in the short term in the expectation of improved returns in the long term.

3 Risk measurement and management

3.1 There are a range of risks associated with investments in a pension scheme. The Trustees will consider the following main risks on an ongoing basis:

> **Cashflow risk** – this is the risk of a shortfall in liquid assets relative to immediate liabilities. In the short-term contributions to the Scheme are significantly greater than benefit payments meaning the Scheme is cashflow positive. However, the Trustees will monitor this risk over time and adjust the investment strategy as necessary to ensure sufficient liquidity exists.

> **Mismatching risk** – this is the risk that the asset and liability values change in significantly different ways. The Trustees are aware that significant investment in growth assets involves a mismatching risk but will look to diversify the growth assets to reduce the downside risk. This risk will be assessed at each actuarial valuation and as the Scheme matures the Trustees will consider whether to reduce the mismatching.

> **Manager risk** – this is the risk that the investment managers do not achieve the returns expected by the Trustees. This risk will be monitored by the Trustees regularly reviewing manager performance against their benchmark and peers. Extended underperformance will usually lead to a re-tender of the investment mandate.

> **Concentration risk** – this is the risk that a large proportion of the Scheme assets are invested in a single asset class or investment. The Scheme is then at risk if that single asset class or investment underperforms or fails. The Trustees reduce this risk by adopting a strategy that involves investment in a range of different asset classes.

> **Credit risk** – this is the risk that a counterparty defaults and fails to meet its obligations to the Scheme. The Trustees minimise this risk by investing in funds that ring fence investor assets and by only retaining cash deposits with recognised banks authorised to conduct banking business within the United Kingdom. There is a further credit risk in relation to default of the issuers of any debt investments the Scheme holds. This risk is mitigated by holding a diverse strategy that is not reliant on any single asset.

> **Governance risk** – each investment manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustees will monitor these and consider if that governance has been in support of each fund's objectives.

> **Environmental, social and governance (ESG) risk** – The Trustees consider long term financial risks to the Scheme and consider ESG factors, including climate risk, to potentially be financially material and the Trustees will continue to develop their policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments.

> **Loss of investment** – The risk of loss of investment by each investment manager and custodian is assessed by the Trustees, with the support of their advisers. This includes losses beyond those caused by market movements e.g. default risk, operational errors or fraud.

3.2 The investments of the Scheme will be managed to contain these risks to a level acceptable to the Trustees. However, the Trustees are aware that a totally risk-averse investment strategy is likely to give lower returns over the longer term than investments with an element of uncertainty over the return. The Scheme is funded from public funds and therefore the Trustees wish to provide the benefits at a cost that is not prohibitive, in accordance with the cost objective.

3.3 When considering risk, the Trustees will have regard to the advice of their professional advisers and to the general consensus of accepted practice of occupational pension schemes in the United Kingdom. This will not prevent the Trustees from accepting risk in their investment strategy where they believe it provides a worthwhile reward for the Scheme.

4 Investment policy

4.1 The Trustees set the investment policy after seeking advice from the Government Actuary's Department on the suitability of certain asset classes having regard to the nature, timing and currency of the Scheme's liabilities, the funding level of the Scheme, and the Trustees and National Assembly's appetite for risk. From time to time the Trustees may also seek advice from other appropriately qualified experts.

4.2 The size of the Scheme's assets is currently insufficient to allow a widely diversified portfolio of investment were the assets to be invested directly. Therefore, until the assets have become sufficiently large, the Trustees believe that the most cost-effective way of investing to achieve suitable diversification is to use pooled investment products.

4.3 The investment criteria of pooled investment products are set by the documents governing those products. The Trustees of an individual pension scheme investing in such a pooled product cannot decide or amend these criteria. However, the Trustees of the Scheme can take full account of the stated investment objectives and ranges of permitted investments of the pooled product when deciding how to invest the Scheme's assets. The Trustees therefore remain responsible for the strategic allocation of the investments between asset classes but have delegated individual investment decisions within the asset classes to their investment managers.

4.4 In order to meet the objective of diversifying the Scheme assets and allowing the use of growth asset classes to provide higher expected returns, the Trustees will invest in a range of asset classes that predominantly seek to provide equity-type returns.

4.5 The Trustees have set the following strategic benchmark for the investment of the Scheme funds, which is intended to provide opportunities for growth and sufficient diversification:

Asset Class	Benchmark Allocation
Global Equity	57%
Multi-asset growth fund	15%
Corporate bonds	21%
Index-linked gilts	7%

4.6 This is managed by Abrdn as follows:

Abrdn fund	Strategic asset allocation
Global Equity 50:50 Tracker Pension Fund	52%
Emerging Markets Stock Index Pension Fund	5%
Diversified Growth Fund	15%
UK Investment Grade Bond Index Pension Fund	21%
UK Inflation Linked Gilt Index Pension Fund	7%

4.7 Abrdn has the authority to make tactical asset allocation decisions within the allocation ranges. The split between the main mandate and supplementary mandate is maintained by the Trustees largely through the investment of new contributions and disinvestments as required to meet benefit payments.

4.8 The Trustees, or their investment managers, may hold cash on deposit if it is awaiting investment, reinvestment, payment to members or as part of the investment strategy from time to time. All cash deposits must be with a recognised bank or banks authorised to conduct banking business within the United Kingdom.

4.9 The Scheme is a registered pension scheme under Chapter 2 of Part 4 of the Finance Act 2004. In order to take advantage of the tax reliefs granted to registered pension schemes, the Trustees will only invest in pooled investment products that can claim similar tax advantages by only allowing investment by other tax-approved pension schemes or registered charities.

4.10 The Trustees expect the funds to provide returns sufficiently in excess of price inflation such that the Scheme benefits can be provided in accordance with the most recent actuarial valuation of the Scheme. Where the Trustees no longer expect this to be the case, future actuarial valuations of the Scheme will establish the impact on the contributions required to continue funding the Scheme.

5 Day-to-day management

5.1 The Trustees have delegated the day-to-day management of the investments to their investment manager, Abrdn, who takes decisions regarding the investments to buy and sell. However, the strategic decision regarding which Abrdn funds to invest in remains with the Trustees.

5.2 In making their decisions regarding investments, Abrdn is expected to:

> exercise their investment powers in a way that is consistent with the governing documentation of their collective investment vehicles and the stated objectives of their funds. Where appropriate, this will include having regard to the suitability and diversification of the investments chosen;

> allocate the assets, where appropriate, in a suitable balance between different categories of investment and between individual investments within each category;

> carry out all the day-to-day functions relating to the management of the fund;

> have regard to the liquidity of an investment before deciding to make an investment of that kind. In particular considering the liquidity in the context of the fund's likely need for cash in the short and longer term, the income generated from such an investment and the prospects for liquidity in the future;

> decide whether it is appropriate to retain or realise individual investments under their management; and

> exercise rights (including voting rights), attached to the investments, in the best interests of the Trustees and in accordance with their stated socially responsible and ethical investment policies.

5.3 Before investing in a pooled product, the Trustees will consider the frequency with which units or shares in the product can be traded and any rights the fund manager reserves to restrict the realisation of units or shares. The Trustees should consider these issues in conjunction with the likely cashflow requirements of the Scheme.

5.4 All the investments of the Scheme will be held in the name of the Trustees of the Scheme. The Trustees will appoint a responsible official, normally the Scheme Secretary, to keep safe the documents of title for the investments, where applicable.

5.5 The Trustees will receive regular written reports as required from the fund managers and advisers. These reports will summarise the recent performance of each fund and advise on future market expectations and investment prospects.

5.6 The Trustees will consider each fund's investment policy and review performance at regular intervals. Review of each fund will include:

> comparing the investment return to the benchmark return set out in the fund's explanatory documentation;

> reviewing at agreed intervals the investment policy and any specific policies agreed by the Trustees to meet particular needs; and

> reviewing the reports of the fund managers on their management of the funds.

5.7 Review of the investment performance will consider both longer term returns and short term returns for example the return over the quarter, one year, three years and potentially longer periods. Decisions will not usually be made to change the fund or investment manager on the basis of one period of underperformance, unless there are other additional reasons for the change to occur.

5.8 The reviews can also include comparison of the fund performance against peer group funds to establish the performance of the individual fund manager. However, this will not necessarily be taken as a reason to change the investment manager or fund as each fund within a peer group is likely to have different risk and return characteristics and therefore a direct comparison will not always be appropriate.

5.9 Any material deviation from a fund's benchmark or stated objective should be questioned by the Trustees at the earliest available opportunity. The Trustees will also review the appropriateness of the funds after any significant change in objective or if its investments deviate materially from its stated benchmark or objective.

6 Environmental, social and governance considerations

6.1 The Trustees consider their main duty is to act in the financial interests of the Scheme's beneficiaries and believe that Environmental, Social and Governance (ESG) factors can have a material impact on return outcomes.

6.2 The Trustees have delegated responsibility for the selection of individual securities to Abrdn. The size of the Scheme, and the use of pooled funds, prevents the Trustees from setting specific objectives or policies. However, Abrdn is a signatory to both the FRC's Stewardship Code and the Principles of Responsible Investment and the Trustees expect Abrdn to take into account all financially material considerations when exercising their duties.

6.3 The Trustees delegate responsibility for the exercising of voting rights to Abrdn. The Trustees expect Abrdn to exercise these where they will add value or protect the interest of shareholders. The Trustees encourage their Abrdn to take a proactive approach to voting and engagement and challenge them on their record.

6.4 When appointing new investment managers, or when deciding whether to invest or divest from funds, the investment manager's approach to ESG issues will be an important consideration in their selection.

6.5 The Trustees have discussed how the Scheme might invest to reflect non-financial matters, such as the views of members. Although not formally surveyed, as elected members of the NI Assembly, the membership of Scheme is likely to have a broad spectrum of views broadly reflecting those of Northern Ireland as a whole. Currently no allowance is made for non-financial matters in the Scheme's investment strategy.

7 Controls and review

7.1 The Trustees are responsible for ensuring that appropriate systems of control are in place to safeguard the Scheme's assets and to prevent and detect fraud and other irregularities. Suitable systems have been set in place in consultation with the investment manager and the Scheme bankers.

7.2 The Trustees will review this Statement and their investment policy at least every three years. The Statement should also be reviewed as soon as possible after any change in investment policy or process.

Agreed by the Trustees in October 2024