

# **BCF Pension Trust Statement of Investment Principles**

Date adopted 3 January 2023

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## 1 Introduction

- 1.1 The purpose of this Statement of Investment Principles (“**the Statement**”) is to document the principles and policies governing decisions about the investment of the assets of the BCF Pension Trust (“**the Scheme**”).
- 1.2 This statement has been prepared by BCF Pension Trustees Limited (“**the Trustee**”) after considering written advice from a suitably qualified adviser, Redington Ltd.
- 1.3 The Scheme is a registered pension scheme under Section 153 of the Finance Act 2004 that provides benefits for members on a defined contribution (money purchase) basis. Each member has an individual account within the Scheme that will provide their retirement benefits.
- 1.4 The Statement sets out the Trustee’s policy for complying with Section 35 of the Pensions Act 1995 (as amended by Section 244 of the Pensions Act 2004), the Occupational Pension Schemes (Investment) Regulations 2005 as amended by (amongst other regulations) the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010 and the Occupational Pension Schemes (Charges and Governance) Regulations 2015.
- 1.5 The Trustee confirms that, before finalising the Statement, it has consulted with the Scheme's Principal Employer.
- 1.6 The Scheme membership is open to members of the Plymouth Brethren Christian Church (“**the Brethren**”).

## 2 Scheme Governance

- 2.1 The Scheme is governed by its Trust Deed and Rules (“**the Deed**”) which sets out all of the benefits in detail and specifies the Trustee’s investment powers.
- 2.2 In accordance with the Deed, the Trustee is responsible for the investment and administration of the Scheme’s assets. The Trustee will refer to this Statement when exercising its investment powers in order to ensure that all decisions are made in accordance with the principles contained herein.
- 2.3 The Trustee takes and critically considers advice from appointed investment advisers in respect of investments, on the question as to whether any particular investment is satisfactory having regard to the requirements of regulations under sub-section (1) of Section 36 of the Pensions Act 1995 so far as relating to the suitability of investments and the principles contained in this Statement.
- 2.4 The Trustee monitors the Scheme’s investments each month and will hold formal review meetings once a quarter, as per the Trustee Annual Calendar.
- 2.5 The Trustee provides decumulation options for members in retirement by way of flexi-access drawdown or uncrystallised funds pension lump sums. Members are also able to purchase annuities via an Open Market Option.

### **3 Participating employers**

3.1 The Scheme's participating employers consist solely of Brethren employers.

### **4 Investment beliefs**

4.1 The Brethren abide by strong moral beliefs that include avoidance of certain investment classes such as equities and corporate fixed interest securities.

4.2 The Trustee acknowledges that such assets may normally be deemed appropriate for long term investment associated with retirement planning, but the Trustee will not hold investments within the Scheme that infringe the core beliefs of the Brethren.

4.3 Brethren beliefs do not countenance the pooling of investment funds.

### **5 Investment objectives**

5.1 The Trustee's main objectives are to:

- invest the Scheme's assets in a manner that is consistent with the religious, social and ethical considerations of the Brethren;
- enable Scheme members to maximise their income in retirement, subject to those considerations;
- hold sufficient cash to meet likely benefit outgoings from time to time; and
- maintain adequate readily realisable assets to meet unexpected cashflow requirements.

5.2 Due to the common beliefs of the Brethren, the Scheme does not provide any investment choice for the members.

### **6 Investment strategy**

6.1 The Deed does not specifically exclude any form of investment, although it specifies that the Trustee shall invest in accordance with investment principles as taught and generally accepted among the Brethren. See Appendix 1 for more detail.

6.2 Scheme investments will principally be selected from the following diversified asset classes:

- Cash deposits;
- Fixed interest Government securities;
- Property;
- Brethren community projects and other secured loans to unconnected parties that comply with limitations on employer-related investments; and
- Other asset classes that do not infringe the religious, social and religious beliefs of the Brethren whilst complying with prevailing investment regulations.

- 6.3 To protect Scheme members from the effect of fluctuations in value of the Scheme's real property assets, the Trustee has created a Property Reserve Fund, details of which are set out in Appendix 2.
- 6.4 For commercial property investments, the Trustee will principally select investment opportunities where the tenant holds the same community of interest (see Appendix 1) as the Brethren.
- 6.5 The balance between the different types of investment will be:

	Minimum holding	Maximum holding
Cash deposits	20%	80%
Fixed Interest Government Securities	5%	20%
Private Equity	0%	15%
Brethren community projects and other secured loans	10%	50%
Property	0%	10%

- 6.6 The Trustee will consider the financial standing of banking institutions with whom they will hold deposits and will take advice from its Investment Adviser on the appropriateness of those institutions from time to time.
- 6.7 Fixed Interest Government Securities will include conventional Gilts and index-linked Gilts.
- 6.8 Due to the restricted asset classes that the Trustee will consider for investments, the expected return on investments is likely to mirror returns on cash deposits plus a margin of 1% - 3% per annum.
- 6.9 The Trustee will diversify investments and ensure there is no undue concentration of assets in a single investment.
- 6.10 The Trustee is aware of its fiduciary duty in the case of a potential conflict of interest to act in the sole interest of Scheme members and beneficiaries.
- 6.11 The Trustee's Investment Adviser and Investment Manager will monitor the market on an ongoing basis and will advise the Trustee at the end of each quarter of any new investment opportunities which they consider suitable (and which would comply with the Investment Beliefs in paragraph 4 above).

## **7 Realisation of investments**

- 7.1 Investments in cash deposits and fixed interest Government securities are liquid assets that may be readily realised, although the Trustee may hold cash on Fixed Term Deposits.
- 7.2 Investments in Property and Brethren community projects are less liquid in nature and there will be delays in realising the value of such assets. The Trustee has, where

appropriate, obtained a signed declaration from the borrower confirming that, in appropriate circumstances the loan would be repaid within 12 months of the Trustee's written request.

## 8 Default investment

- 8.1 The Scheme provides a single investment strategy for all members, so the Scheme's investment strategy represents the default investment.
- 8.2 The Trustee therefore considers that all aspects considered within this Statement apply to the default investment.
- 8.3 The Trustee has regard to the Brethren's Investment Beliefs set out in paragraph 4 above which also reflect the beliefs of the members. In view of the limited types of investment open to the Trustee (which precludes investment in equities and "pooled" funds), the Trustee, after consultation with its advisers reasonably considers that the Default Investment is in the best interests of Scheme members and beneficiaries who share common Brethren beliefs.
- 8.4 The Trustee will review the default strategy and performance of the default investment fund at least once every three years and, in any event, without delay after a significant change in investment policy or Scheme demographics. The Trustee shall review the extent to which the investment performance (after deduction of any charges) is consistent with the aims and objectives of the Trustee in respect of the default investment arrangement.

## 9 Investment managers

- 9.1 The Trustee will not appoint investment managers to operate pooled investments on behalf of the Scheme due to the religious, social and ethical beliefs of the Brethren.
- 9.2 The Trustee has appointed Smith & Williamson Investment Management Limited (as the "**Investment Manager**") to conduct the direct acquisition of U.K. Government Gilts on the Trustee's behalf.

## 10 Investment advisers and valuers

- 10.1 The Trustee seeks written advice from a qualified property surveyor in respect of commercial property investments.
- 10.2 The Trustee seeks written advice from Redington Ltd (as the "**Investment Adviser**") in respect of the investments in the Scheme. Their policies are set out in more detail in Appendix 3.
- 10.3 The Trustee will monitor the development of other potentially suitable investments and will seek advice from time to time from a qualified person in respect of such investments.

## **11 Responsible investing – financially material considerations**

- 11.1 The Trustee recognises that environmental, social and governance (“ESG”) factors, such as climate change, may have a material impact on certain investments that may be held as assets of a pension scheme. The Trustee, with its Investment Adviser, seeks to identify, consider, understand, and then address all relevant financially material considerations when buying, selling or retaining investments. Such matters are assessed for materiality and impact within a broader risk-management framework. Day-to-day responsibility for ESG matters (including climate change) is conducted by the Trustee and the underlying asset's longer term financial sustainability is taken into account in the selection of the investment and will form a part of the Trustee's quarterly monitoring of the investment. Each investment shall be evaluated by reference to the extent to which its ESG factors complement or correspond with the Trustee's investment objectives.
- 11.2 The Trustee will not invest in equities or corporate bonds of any type due to the investment beliefs of the Brethren, nor will the Trustee invest in any pooled funds, but it will take ESG factors into account when considering the Scheme's investments.

## **12 Responsible investing – non-financial matters**

- 12.1 The Trustee considers that the religious, social and ethical beliefs of the Brethren and the Scheme's membership have priority in determining investment strategy and, as confirmed throughout this statement, the Trustee will seek to take those beliefs into account in the selection, retention and realisation of the Scheme's investments
- 12.2 Membership of the Scheme is intended for members of the Plymouth Brethren Christian Church and the Trustee considers that all Scheme members will share core Brethren beliefs for investment of the Scheme's assets.

## **13 Stewardship and Engagement policy**

- 13.1 The Trustee will not invest in equities due to the religious, social and ethical beliefs of the Brethren and the Scheme's members and, as a consequence, will not be in a position to exercise the voting rights normally attached to such investments.
- 13.2 The Trustee will take ESG factors into account when considering investment in Brethren community projects, new secured loans, or investing in other asset classes that do not infringe Brethren beliefs.
- 13.3 The Trustees do not have an active policy of soliciting members' views on non-financial investment matters, although they will consider any views made known to them.
- 13.4 The majority of the Scheme's assets are held across Fixed Interest Government Securities, Cash deposits, Property, Brethren community projects and other secured loans, whereby stewardship and engagement are less applicable.
- 13.5 The Trustee chooses Investment Managers who are able to provide investment solutions that are aligned with the Trustee's beliefs on stewardship and expects the Investment Managers to practice good stewardship.

## 14 Monitoring

- 14.1 The Scheme's Investment Advisers ensure the investment objective and guidelines of the manager are consistent with that of the Trustee.
- 14.2 Where the Trustee utilises the services of an Investment Manager, the terms of the long-term relationship between the Trustee and the manager are set out in a separate Investment Management Agreement (IMA). These document the Trustee's expectations of their managers; alongside the investment guidelines they are required to operate under.
- 14.3 Where relevant, the Trustee requires Investment Managers to invest with a medium to long-term time horizon, and to use any rights associated with the investment to drive better long-term outcomes. For some investments, the Trustee does not expect the respective Investment Managers to make decisions based on long-term performance. These may include investments that provide risk reduction through hedging, consistent with the Trustee's strategic asset allocation.
- 14.4 The Trustee appoints its Investment Managers with an expectation of a long-term partnerships, which encourages active ownership of the Scheme's assets. When assessing a manager's performance, the focus is on longer-term outcomes, and the manager is assessed over a medium to longer-term timeframe.
- 14.5 The Trustee would not expect to terminate a manager's appointment based purely on short-term performance. However, a manager's appointment could be terminated within a shorter timeframe than three years due to other factors, such as a significant change in business structure, the investment team, or changes in the strategic needs of the Scheme.
- 14.6 Managers paid a fee for a defined set of services based on the size of assets managed on behalf of the Scheme. The Trustee reviews the fees periodically to confirm they are in line with market prices.
- 14.7 The Trustee reviews the portfolio transaction costs and portfolio turnover range of managers periodically where the data is disclosed and available. The Trustee will then determine whether the costs incurred were within reasonable expectations, with assistance from the Investment Adviser.

## 15 Risks

- 15.1 The Scheme is a defined contribution scheme and the risk of investment underperformance lies with the individual members of the Scheme.
- 15.2 The Trustee recognises that the Scheme is exposed to investment risk and pursues appropriate investment strategies to address those risks within the boundaries of the Brethren's investment beliefs. Appendix 3 details the Investment Manager's approach on behalf of the Trustee to balancing, measuring and managing investment risk.
- 15.3 Property management risks apply but the Trustee will take advice from suitably qualified advisers and valuers.



- 15.4 The liquidity risk that the Scheme might be forced to sell investments in poor markets will be addressed by the Trustee measuring cashflow requirements and retaining appropriate levels of cash.
- 15.5 Inflation risk will be mitigated to some extent by (a) holding some real property assets that increase in value and; (b) by setting the terms for interest on secured loans at 3.5% above Bank of England Base Rate.
- 15.6 On retirement, members use their accumulated savings to provide an income in the form of periodic withdrawals from their individual account.
- 15.7 The Trustee recognises that the members are exposed to the risk of reductions in retirement income if the Scheme's net investment returns do not keep pace with the level of withdrawals.
- 15.8 The Trustee monitors these risks in the Scheme's Risk Register.

## **16 Review**

- 16.1 The Trustee will review the Statement at least annually and without delay upon a material change to relevant legislation, the Scheme or to the participating employers.

This Statement of Investment Principles was agreed by the Trustee on 8 November 2022 and replaces any previous statements.

*Laurence E. Buckley*

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**For and on behalf of BCF Pension Trustees Ltd**

## Appendix 1 The Brethren investment beliefs

The Brethren are a mainstream Christian church who believe all the usual central Christian doctrines. They believe in the scriptural doctrine of “*separation from evil in this world*” (see 2 Corinthians 6 verses 14 to 17) “*Be ye not unequally yoked together with unbelievers; for what fellowship hath righteousness with unrighteousness? And what communion hath light and darkness.... Wherefore come out from among them and be ye separate, saith the Lord, and touch not the unclean thing; and I will receive you*”. King James Bible.

More information about the Brethren and their beliefs and practices can be found at [www.plymouthbrethrenchristianchurch.org](http://www.plymouthbrethrenchristianchurch.org)

The Scheme was set up in 2007 specifically to meet the needs of members of the Plymouth Brethren Christian Church (the Brethren). Members of the Brethren had not been able to join any of the occupational schemes that were available on the market, as they all involved members’ funds being “pooled” in common funds or life insurance. Most schemes invest their funds in equities. These features did not accord with the Christian conscience of the Brethren.

The Deed contains the following sentence: “The Trustees shall invest... in accordance with investment principles as taught and generally accepted amongst the Brethren”.

The Deed includes provisions covering the situation where a Scheme Member ceases to be in fellowship with the Brethren – i.e. ceases to “break bread” (Holy Communion) – whereupon their investment is moved from the Main Fund to a Mirror Fund which is held subject to the same social, ethical and religious considerations, but is ring-fenced from the Main Fund.

It can therefore be seen that great care is taken to operate a Scheme that meets the consciences of Brethren members and in which only those in the fellowship can be members of the Main Fund

The same care governs the selection of investments. In line with the scriptural principles already mentioned, Brethren members are not free to be partners in a business partnership or shareholders in a corporate body unless all partners or shareholders are members of the Brethren. To meet these religious beliefs Brethren do not invest in equities or other investments involving voting rights.

Brethren members accept the fact that, in refraining from investing in equities, they may have to accept a lower return on investment than that often produced by equities. However, their religious beliefs are paramount. The Trustee adopts the same principles in order to meet the wishes and requirements of the Scheme's members.

Brethren do not normally own tenanted property (either residential or commercial) where the tenants do not have the same “community of interest” as the Brethren – meaning, in effect, that the tenants will also be members of the Brethren. This enables Brethren members as landlords to maintain a good conscience as to the activities carried on in premises owned by them.

As the Scheme is, we believe, the only occupational pension scheme which meets the needs of Brethren members insofar as relates to their consciences, beliefs and practices, the Trustee wishes to maintain a Scheme whose investment principles are wholly in line with those beliefs. This need has been further emphasised by the advent of “auto-enrolment” whereby enrolment in a pension scheme is mandatory.

## **Appendix 2      The Property Reserve Fund**

As part of its investment portfolio, the Scheme owns a large commercial property. Scheme members benefit from this in two ways:

1. The tenant pays a rent on the building which provides a steady stream of money into the Trust.
2. If the value of the building goes up, then this growth is notionally credited to the members' accounts.

Owning a building in the Trust provided the Trust with a tangible asset which, in the future, may be sold and converted into cash. One of the main challenges with having a building in the Trust arises when there are large changes in the property's value. The Trust values the property once a year, and whilst the members would be delighted if the property had doubled in value they might not be so pleased if it had halved in value. Of course all these changes in value are academic until the property is actually sold.

To protect members from the effect of these potential spikes in value, the Trustee has consulted with their advisers about how to 'smooth out' these ups and downs in the property market. Acting in the interests of the Trust's members as a whole, the Trustee has adopted the following policy:

- When the property is revalued each year, the change in value from the previous year will be placed in a 'property reserve fund; within the Trust.
- The notional value of that change (up or down) will be introduced into members' accounts over a rolling 90 month period.
- Each time that the property is given a new value, an adjustment will be made to the property reserve and the monthly amount notionally attributed to each member's account will be adjusted accordingly to reflect this.

The property reserve fund and policy was introduced with effect from 5 October 2016. The Trustee believes that the arrangement will help shield Scheme members from the immediate effect of large swings in the value of their pension pots as a result of any annual property fund fluctuations and allow them to plan for their future with a much greater degree of certainty.

## **Appendix 3      The Investment Manager's approach to investing**

### *Balance of risks*

The portfolio is restricted to investing in UK Government bonds and retaining cash.

The associated risk in absolute terms includes:

- Higher UK interest rates resulting in higher yields demanded by investors from bonds;
- Higher UK inflation – resulting in higher yields demanded by investors;
- Change in UK government – which could increase the perceived risk of a downgrade in the credit worthiness of the UK.

In addition, it could be argued that by restricting the fund to UK Government bonds there is an opportunity cost of not investing in other bond markets or indeed in other asset classes which have the potential to generate higher returns over time.

### *How risks are measured and managed*

In terms of how these risks are measured and managed. First, the trustees have agreed a benchmark, which consists of the following:

- 50% UK Government Index linked bonds;
- 40% UK Government conventional bonds;
- 10% 3 Month LIBOR.

Performance is reported quarterly for the portfolio and also for this benchmark.

As a result, although there is not a specific restriction in respect to how much we can hold in each, a significant deviation from this would potentially impact relative performance.

In terms of how we manage interest rate and inflation risk, the latter is addressed to a degree by holding the index linked bonds, which will to an extent benefit from higher inflation due to the RPI accrual even if higher inflation would also almost certainly result in investors demanding higher yields in aggregate.

Interest rate, and to an extent inflation risk, is also managed by ensuring that the overall mix of bonds held is relatively short dated and as a result should be less exposed to higher interest rates in the future. However, by managing this risk this does raise the risk of relative underperformance.

We select the banks/building societies on our Counterparty List depending on our Credit Review Committee's internal assessment of their credit standing and their Fitch and (where available) Moody's credit rating. Counterparties for inclusion on our list are recommended and endorsed by our Credit and Executive Committee before being approved by the main Board of the Bank. Counterparties are reviewed at least annually and monitored daily.

We are able to offer a fixed term deposit service in-house for deposits up to 1 year which can be tailor made to your liquidity requirements. The rate is dependent on the size of deposit and period. All deposits will be held on balance sheet.

### *The expected return on investments*

The expected return on investments is low, arguably commensurate with the lower risk nature of the portfolio. A UK 10-year conventional government bond will provide a return of just 1.1%pa if held until redemption. However, actual returns will vary as bond prices fluctuate in response to changing interest rate expectations and most bonds will not be held to redemption.

Index linked bonds do not provide a guaranteed return to redemption, if held that long. The best way to measure the likely return and to place this in context is to compare the return to an equivalent conventional bond and identify the rate of RPI required to generate the same return from the index linked bond as the conventional bond. We refer to this as the 'break-even' rate of inflation. As at April 2019, a 10-year index linked bond in the UK currently has a break-even rate (RPI) of 3.2%. RPI is currently running at 2.5% but is expected to rise as we go through the year.

### *The realisation of investments*

The risk associated with the realisation of investments is very low, with all of the investments held being extremely liquid. Any sales of investments will take just one day to settle.

The Trustee's Investment Managers monitor the market continuously and the Trustee has delegated the responsibility of the management of the trust's assets to its Investment Managers.

LIBOR denotes the London Interbank Offered Rate.

RPI denotes the Retail Prices Index.