

The Honourable Society of Gray's Inn Pension & Life Assurance Scheme

Statement of Investment Principles – September 2020

Background

The Trustees of the Honourable Society of Gray's Inn Pension & Life Assurance Scheme ("the Scheme") have drawn up this Statement of Investment Principles ("the SIP") to comply with Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and regulations made under it). The Statement is intended to affirm the investment principles that govern decisions about the Scheme's investments. The Trustees believe that the investment policies and their implementation are in keeping with best practice, including the principles underlying the (Myners) Code of Best Practice for pension fund investment published in 2001 (as amended).

The Scheme operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries.

Governance

The Trustees make the key strategic decisions relating to the Scheme's investments. To support the objectives of the Scheme's investment strategy, they appointed Legal & General Investment Management Ltd ("LGIM") as a Fiduciary Manager as of 16 September 2020, giving LGIM discretion over the implementation and day-to-day management of the Scheme's investments.

When making investment decisions, and when appropriate, the Trustees take proper advice from LGIM, in their role as Fiduciary Manager. LGIM are qualified by their ability in and practical experience of financial matters, and have the appropriate knowledge and experience to provide such advice. The Trustees review LGIM's performance and the Scheme's risk profile on a regular basis. When deciding on the long term investment strategy and in preparing this Statement, the Trustees have consulted with the Honourable Society of Gray's Inn, the Scheme's sponsor (the "Sponsor"). The ultimate power and responsibility for deciding investment policy lies solely with the Trustees.

Investment Objectives

The Trustees are required to invest the Scheme's assets in the best interest of the members. Their main objectives with regard to investment policy are:

- The acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet the cost of current and future benefits which the Scheme provides.
- To limit the risk of assets failing to meet the liabilities, both over the long term and on a medium-term basis.

In addition, the following secondary objectives have been adopted:

- To pay due regard to the interests of the size and incidence of the principal employers' contribution payments.

Investment Strategy

Trustees have set a return target for the portfolio of 2.5% pa above gilts, net of investment management fees. The Trustees have considered the risks associated with a return target of this level. The Fiduciary Manager is tasked with reducing risk to the extent possible for the specified return target.

The asset mix will vary from time to time within the discretion of the Fiduciary Manager. The constraints in which the portfolio is managed are:

Asset allocation constraints	Minimum Allocation (% of Portfolio)	Maximum Allocation (% of Portfolio)
Overall allocation to growth assets	60%	80%
Equities & Listed Alternatives	-	60%
Equities	-	50%
Listed Alternatives	-	25%
Developed market sovereign and corporate bonds (excluding LDI)	-	60%
High Yield bonds & EM Debt	-	30%
Commodities	-	10%
Non-public markets funds (e.g. Direct Property)	-	20%
Liability-matching corporate bonds	-	100%
Liability-matching pooled LDI funds & cash/liquidity funds	-	100%
Non-GBP sterling currency exposure	-	60%
Other	-	25%
Liability hedge constraints for matching assets	Minimum	Maximum
Interest rate exposure (PV01 as % of funded liabilities)	75%	110%
Inflation exposure (IE01 as % of funded liabilities)	75%	110%

Management of the Assets

The assets are managed under a fiduciary management agreement by Legal & General Investment Management Ltd. ("LGIM"), an investment manager regulated by the Financial Conduct Authority ("FCA"). Fiduciary management means the Fiduciary Manager has discretion to invest the assets of the Scheme across its range of investment products in order to meet the strategic objectives. In doing so it is tasked with maintaining the diversification, liability hedging and liquidity of the portfolio as a whole.

The safe custody of the Scheme's assets is delegated to professional custodians via the use of pooled vehicles. These appointments are reviewed at regular intervals by LGIM.

The Trustees monitor the Scheme's asset allocation on a regular basis and review LGIM's performance.

The Trustees' policy is to evaluate its Fiduciary Manager by reference to the manager's performance (over short, medium and longer-term periods), the role it plays in helping to meet the objectives of the Scheme as set out in this statement, and the fees paid to the manager.

Investment Risks

The Trustees recognise a number of risks involved in investment of the assets of the Scheme and also understand that this does not constitute an exhaustive list of the risks the Scheme faces.

Solvency risk and mismatching risk - The Trustees regularly review the asset allocation of the Scheme to ensure mismatching risk is considered and managed suitably. Solvency levels are monitored through ongoing triennial actuarial valuations.

Liquidity risk - The Trustees have adopted a strategy that makes due allowance for the need for liquidity of the Scheme's assets.

Concentration risk - The Trustees have delegated to the Fiduciary Manager the task of ensuring that the risk of an adverse influence on investment values from the poor performance of a small number of individual investments is reduced by diversification across asset classes, regions and securities.

Sponsor risk - The Trustees review the Sponsor covenant at each actuarial valuation or when there is an event that might lead to material changes in the Sponsor's covenant. The Trustees have considered the risk that the principal employer may be unwilling or unable to maintain the necessary level of contributions in future, as measured by a number of factors including the creditworthiness of the Sponsor and the size of the pension liability relative to the financial strength of the Sponsor.

Leverage (derivatives) risk – In order to manage liability risk the Trustees permit the use of derivative strategies by the Fiduciary Manager, to facilitate efficient portfolio management and to contribute to risk reduction. The Trustees delegate the management of derivative instruments to the Fiduciary Manager to ensure they are managed so as to avoid excessive risk exposure to a single counterparty and to other derivative operations.

Manager risk – The Trustees monitor the Fiduciary Manager's performance on a regular basis, and compare the investment returns with appropriate performance objectives.

Realisation of Investments

The Trustees' policy is that there will be sufficient investments in liquid or readily realisable assets to meet cashflow requirements in foreseeable circumstances so that the realisation of assets will not disrupt the Scheme's overall investments where possible. The responsibility for buying and selling investments has been delegated to the Fiduciary Manager.

Responsible Investment and Corporate Governance

The Trustees believe that good stewardship and environmental (including climate change), social and governance ("ESG") issues may have a financially material impact on meeting the investment objective. The Trustees have given the Fiduciary Manager full discretion when evaluating the impact of ESG issues on the investment objective, and in exercising rights and stewardship obligations attached to the Scheme's investments.

The Trustee expects its investment managers, where appropriate, to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity in order to improve their performance in the medium to long-term.

Similarly, the Scheme's voting rights are exercised by its Fiduciary Manager in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code.

The Trustee expects the Fiduciary Manager to demonstrate good stewardship practices, and will review how its investment managers are performing in this area by considering investment managers' disclosures on stewardship as provided to the Trustee, and discussing stewardship with investment managers at regular Trustee meetings.

Fees and costs

LGIM are paid a management fee on the basis of assets under management. This fee includes the provision of both asset management and investment consulting services for the Fiduciary Management service.

The Trustee considers the fees agreed with its Fiduciary Manager incentivise the Manager to provide a high quality service that meets the objectives of the Scheme. The Trustee monitors its Fiduciary Manager and would consider terminating any appointment that appears to be acting contrary to this SIP.

The Trustee recognises that investment management generates portfolio turnover costs (the unavoidable costs of buying and selling securities in order to meet the investment objectives) which are reflected in performance of the Scheme's assets. The Trustee expects its investment adviser to include the consideration of portfolio turnover costs as appropriate when providing advice on the Scheme's investments.

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.