Presbyterian Church of Wales Pension Scheme

Statement of Investment Principles

Barnett Waddingham LLP

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1. Introduction

1.1. This is the Statement of Investment Principles prepared by the Trustees of the Presbyterian Church of Wales Pension Scheme ("the Scheme"). This statement sets down the principles which govern the decisions about investments.

1.2. In preparing this statement the Trustees have consulted The Properties Board of the Calvinistic Methodist Church of Wales Or The Presbyterian Church of Wales ("the Church"), the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustees' investment consultant. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.

1.3. The Trustees will review this statement at least every three years or if there is a significant change in any of the areas covered by the statement.

1.4. The Trustees completed a bulk annuity insurance transaction with Just Retirement (the "Insurer") in the contract dated 8 April 2024 to secure the benefits under the Scheme.

2. Choosing investments

2.1. The Trustees' policy is to set the overall investment target and then monitor the performance of the Scheme against that target. In doing so, the Trustees consider the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.

2.2. Effective from 8 April 2024, the Trustees entered into a bulk annuity insurance contract with the Insurer, which is expected to match all defined benefits due to members of the Scheme.

2.3. The Insurer is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

2.4. The Trustees hold no other investments beyond cash in the Scheme's bank account and a holding in the LGIM Sterling Liquidity Fund. The day-to-day management of the assets held in the LGIM Sterling Liquidity Fund is delegated to LGIM. The investment manager is authorised and regulated by the Financial Conduct Authority, and is responsible for Fund management.

2.5. The Trustees continue to review the appropriateness of the Scheme's investment strategy on an ongoing basis but would consider it unlikely that any material future changes will be made prior to the Just insurance policy potentially being assigned to individual members and the Scheme then being wound up.

2.6. The Trustees will consult the Church before amending the investment strategy.

3. Investment objectives

3.1. The Trustees have discussed key investment objectives in light of an analysis of the Scheme's liability profile as well as the constraints the Trustees face in achieving these objectives. As a result, the Trustees' main investment objectives are:

- to hold assets that provide a high likelihood that members' entitlements under the Trust Deed and Rules will be met in full as they fall due;
- to invest in assets of appropriate liquidity to meet potential remaining liabilities that are not covered by the bulk annuity policy; and

- to reduce the risk of the assets failing to meet the liabilities over the long term.

3.2. The Trustees are aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Scheme's liabilities. The Trustees have obtained exposure to investments that they expect will meet the Scheme's objectives as best as possible.

4. Kinds of investments to be held

4.1. The Scheme is permitted to invest in a wide range of assets including equities, bonds, cash, property alternatives and annuity policies. The Scheme's current investment strategy involves holding the majority of the Scheme's assets in a bulk annuity insurance contract, with a cash holding to meet ongoing cashflow requirements.

4.2. Given the Scheme's investment strategy, it is not expected that the Scheme will hold any Church-related investments. However, this is typically checked annually by the Scheme's auditors.

5. The balance between different kinds of investments

5.1. The Scheme invests in assets that are expected to achieve the Scheme's objectives.

5.2. The Scheme holds a bulk annuity policy expected to produce cashflows that exactly match the benefit entitlements of each of the Scheme's members. The remainder of the Scheme's assets are held in the Trustees bank account and LGIM Sterling Liquidity Fund.

6. Risks

6.1. The various types of investment risk which may affect the Scheme's liabilities are covered under the bulk annuity purchase with the Insurer. Therefore, the vast majority of the risks set out below are covered by the insurance policy, and are therefore judged to have minimal impact on the Scheme's ability to meet the liabilities of the Scheme as they fall due. However, the Trustees have considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities:

Risk versus the liabilities	The Trustees note that by securing the Scheme's benefits with an insurer, the risk of benefits not being met is now very low.
Covenant risk	The Scheme is less reliant on the strength of the Church's covenant as the Scheme's benefits have wholly been secured with an insurer. When converting the buy-in policy into a buy-out policy with the Insurer, the Scheme will be reliant on the Church to make good any shortfall in excess of the small amount of assets held outside of the insurance contract, should a shortfall arise.
Insurer counter party risk	The risk of the insurer defaulting has been managed through the selection of a reputable UK regulated insurer and potentially supported by the insurance compensation regime in place should an insurer fail.
Investment manager risk	The Trustees monitor the performance of the residual assets (i.e. those held in cash and the LGIM Sterling Liquidity Fund outside the bulk annuity policy) as necessary. The Trustees have a written agreement with the investment manager, which contains a number of restrictions on how each investment manager may operate.

Governance risk	The investment manager of the liquidity fund is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustees monitor these and will report on the practices in their annual Implementation Statement where possible.
ESG/Climate risk	The Trustees have considered long-term financial risks to the Scheme and ESG factors (as well as climate risk). While the Trustees consider these factors to be potentially financially material, management of these risks over the lifetime of the contract is primarily an issue for the Insurer to manage.
Concentration risk	The investment manager and the Insurer are expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.
Liquidity risk	The Scheme invests in assets, including cash, such that there is a sufficient allocation to liquid investments to meet the Scheme’s remaining cashflow requirements that are not covered by the bulk annuity insurance contract and wind-up expenses. The Scheme's administrators monitor the level of cash available in the Scheme’s bank account.
Currency risk	The Scheme’s liabilities and the income produced by the bulk annuity contract are both denominated in sterling.
Loss of investment	In the event of the Insurer becoming insolvent, the Scheme could suffer losses on the contract, but would still retain the liability to pay members’ benefits. This risk is mitigated by the regulatory regime and capital requirements in place for UK insurers. The risk of loss of investment by the investment manager is assessed by the Trustees. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud).

7. Expected return on investments

7.1. The Trustees have chosen to invest the vast majority of assets in a bulk annuity policy to match the Scheme's projected benefit payments with income from the policy. The remaining assets are held bearing in mind the nature of the potential additional liabilities that may fall due on the Scheme that are not covered by the policy, and ongoing expenses.

7.2. The Trustees have not set an expected return on the bulk annuity policy, given that its primary purpose is as an insurance contract rather than a return-seeking investment.

8. Realisation of investments

8.1. The annuity policy with the Insurer is not readily realisable and the Trustees do not expect to need to surrender or realise the contract given its nature and purpose. The income from the bulk annuity policy will be used to pay benefits covered by the policy.

8.2. The remaining assets of the Scheme are held in assets that can be realised at short notice.

9. Financially material considerations, non-financial matters, the exercise of voting rights and engagement activities, and policy on arrangements with investment managers

9.1. Since the majority of the Scheme's assets are held in an insurance policy, these matters are primarily an issue for the Insurer to manage. This is reflected in the Trustees' own policies, as summarised in Appendix 2.

10. Agreement

10.1. This statement was agreed by the Trustees, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the Church, the investment manager, the actuary and the Scheme auditor upon request.

Appendix 1 Note on investment policy of the Scheme as at April 2024 in relation to the current Statement of Investment Principles

1. Choosing investments

The Trustees have appointed the following investment manager/ insurer to carry out the day-to-day investment of the Scheme:

- Legal and General Investment Management ("LGIM")
- Annuity policy with Just Retirement

The Trustees have an AVC contract with Prudential for the receipt of members' Additional Voluntary Contributions (AVCs). The arrangement is reviewed from time to time.

The investment managers and AVC providers are authorised and regulated by the Financial Conduct Authority.

The Trustees have appointed Barnett Waddingham LLP to advise on investment matters.

2. The balance between different kinds of investment

Most of the Scheme's assets are held in a bulk annuity policy. The remaining assets are held in the Scheme's bank account and in the LGIM Sterling Liquidity Fund, bearing in mind the nature of the potential additional liabilities that may fall due on the Scheme that are not covered by the policy.

3. Investments and disinvestments

The Scheme's cashflow requirements are expected to be met by the Scheme's remaining cash holdings and the annuity policy.

Appendix 2 Benchmarks and objectives

Benchmarks and objectives for each of the fund managers are summarised below:

Fund	Benchmark	Objective	Annual charge
LGIM Sterling Liquidity Fund	Sterling Overnight Index Average	Performance in line with the benchmark	0.125% p.a. of the first £5 million, plus 0.100% p.a. of the next £5 million, plus 0.075% p.a. of the next £20 million, plus 0.050% p.a. of the balance above £30 million

AVC provider	Fund	Benchmark	Objective	Annual charge
Prudential	Deposit Fund	Bank of England base rate	Aims to protect capital values – members' savings are guaranteed not to fall in value. Earns a variable rate of monthly interest in line with the Bank of England base rate	Not explicit – included in calculation of interest