Statement of Investment Principles

For the Methodist Ministers' Pension Scheme

Effective from: 26 September 2024 (approved at Trustee Board Meeting)

1. Introduction

This Statement of Investment Principles (“SIP”) has been produced by the Trustee of the Methodist Ministers’ Pension Scheme.

It sets out our policies on various matters governing investment decisions for the Methodist Ministers’ Pension Scheme (“the Scheme”), which is a Defined Benefit (“DB”) Scheme. This SIP also covers the Scheme’s Additional Voluntary Contribution arrangements ("AVCs").

This SIP replaces the previous SIP dated 25 July 2023.

This SIP has been prepared after obtaining and considering written advice from LCP, our investment adviser, whom we believe to be suitably qualified and experienced to provide such advice. The advice considered the suitability of investments including the need for diversification given the circumstances of the Scheme and the principles contained in this SIP.

We have consulted with the relevant employer in producing this SIP.

We will review this SIP from time to time and will amend it as appropriate. Reviews will take place without delay after any significant change in investment policy and at least once every three years.

This SIP contains the information required by legislation, and also considers the Pension Regulator’s guidance on investments.

We have produced a separate SIP addendum document, which details further background and other matters relevant to the Scheme’s investments, but which are not required to be included in the SIP.

2. Investment objectives

The primary objective for the Scheme is to ensure that the benefit payments are met as they fall due. A secondary objective for the Scheme is that the Scheme should be fully funded (ie the asset value should be at least equal to the value of its liabilities). The Trustee is aware that there are various measures of funding and has given due weight to those considered most relevant to the Scheme.

Our investment objective is to manage and maintain investment risk at an appropriate level while taking into account the investment returns required to achieve the above objectives.

Our investment objective for the AVCs is to make available a suitable range of investment options to meet members’ risk / return objectives.

3. Investment strategy

With input from our advisers and in consultation with the employer, we reviewed the investment strategy in May 2024, considering the objectives described in Section 2.

The investment strategy is shown in the following table. **Please note that this excludes the Scheme's allocation to Liability Driven Investment ("LDI") and Cash,** which can be particularly sensitive to small changes in gilt yields. The allocation to LDI and Cash is intended to maintain a sufficient level to support the Scheme's hedging strategy (allowing for the risk that additional capital to support the hedge may be required).

Asset class	Approximate strategic allocation
Impact investing	15%
Total growth	**15%**
Corporate bonds	55%
Asset-backed securities ("ABS")	15%
Short dated credit	15%
Total defensive	**85%**
Total	**100%**

Our policy is to target the maximum expected return level subject to ensuring the level of investment risk is appropriate to reflect the Scheme's circumstances. We believe that the strategy above meets this objective.

For the impact investing mandate, the illiquid nature of the fund means it cannot easily be rebalanced and thus actual exposure to the asset class may not align with the above strategic target.

There is no formal rebalancing policy. We monitor the asset allocation from time to time. If material unexpected deviations from the strategic allocation occur, we will consider with our advisers whether it is appropriate to rebalance the assets, considering factors such as market conditions, anticipated future cash flows, LDI collateral resilience, and the liquidity constraints of some asset classes.

We have de-risked the investment strategy (ie switching from growth to matching assets) over time as the Scheme's funding position has improved. We may de-risk the strategy further to reflect further changes in the liability profile as the Scheme continues to mature, should the Scheme's funding position mean this is a viable option.

We have a leverage management plan based on the assets directly available to support the Scheme's LDI arrangements and the approach that is expected to be taken with regards to selling down any other assets to support the LDI arrangements.

The Trustee currently targets interest rate and inflation hedging levels of circa 100% (measured on a Gilts + 0.25% pa liability basis).

4. Considerations in setting the investment arrangements

When deciding how to invest the Scheme's assets, it is our policy to consider a range of asset classes, taking account of the expected returns and risks associated with those asset classes, as well as our beliefs about investment markets and which factors are most likely to impact investment outcomes. Some of the risks the Scheme faces are more quantifiable than others, but we have tried to allow for the relative importance and magnitude of each risk.

We take an integrated approach when assessing risk and reviewing the investment strategy. In particular we take account of: the employer covenant, contributions, funding targets, liability profile (including interest rate and inflation sensitivities and the extent to which they are hedged) and the level of expected return and risk now and as the strategy evolves.

The primary way that we manage investment risks is via diversification, ensuring that we receive professional written advice prior to making any material investment decision, and our ongoing monitoring and oversight of the investments. For the Scheme, investment risk is primarily measured using "Value at Risk" though we are aware that other risk measures can also provide useful insight into risk levels. Further detail on specific risks (for example equity risk, credit risk and currency risk) and how we measure and manage those risks is set out in Part 2 of the SIP addendum.

In setting the strategy it is our policy to consider:

- That the assets of the Scheme must be invested in the best interests of its members and beneficiaries and, in the case of potential conflict of interests, in the sole interests of members and beneficiaries
- our investment objectives, including the target return required to meet these

- the circumstances of the Scheme, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the strength of the employer covenant
- the risks, rewards and suitability of a number of possible asset classes and investment strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken
- any other considerations which we consider financially material over the time horizon that we consider is needed for the funding of future benefits by the investments of the Scheme
- our investment beliefs about how investment markets work, and which factors are most likely to impact investment outcomes
- the need for appropriate diversification between different asset classes to manage investment risk and ensure that both the overall level of investment risk and the balance of individual asset risks are appropriate.

We also consider other factors that we believe to be financially material over time horizons relevant to the funding of the benefits, including environmental, social and governance ("ESG") factors and the risks and opportunities relating to climate change.

Our **key investment beliefs**, which influence the setting of the investment arrangements, are as follows:

- asset allocation is the primary driver of long-term returns
- costs have a significant impact on long-term performance, and therefore, obtaining value for money from the investments is important
- investment markets are not always efficient and there may be opportunities for good active managers to add value
- risk-taking is necessary to achieve return, but not all risks are rewarded. Equity, credit and illiquidity are the primary rewarded risks. Risks that do not have an expected reward should generally be avoided, hedged, or diversified
- our beliefs about ESG factors (including climate change) are covered in more depth in its Responsible Investment policy document. ESG factors should be considered when making investment decisions, and managers may be able to improve risk-adjusted returns by doing this
- long-term environmental, social and economic sustainability is one factor that we should consider when making investment decisions
- climate change is a financially material systemic issue that presents risks and opportunities for the Scheme over the short, medium and long term
- voting and engagement are important and can create long term value which is in the best interest of Scheme members and therefore we encourage managers to improve their voting and engagement practices
- collaborative investor action can help address systemic risks, for example we believe net zero alignment, if implemented well, could be an effective approach to addressing climate risk.

5. Implementation of the investment arrangements

Before investing in any manner, we obtain and consider proper written advice from our investment adviser as to whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

During the retention of any investment, we regularly consider at what intervals the circumstances and nature of the investment make it desirable to obtain such advice from our investment adviser and obtain and consider such advice accordingly.

Details of the investment managers are set out in the separate SIP addendum.

We have signed agreements with the investment managers setting out in detail the terms on which the portfolios are to be managed and investment powers delegated. The investment managers' primary role is the day-to-day investment management of the Scheme's investments.

We have limited influence over managers' investment practices where the Scheme's assets are held in pooled funds with multiple investors, but we encourage our managers to improve their practices within the parameters of the fund they are managing.

Our view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines, and restrictions of their fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement, and portfolio turnover.

It is our responsibility to ensure that the managers' investment approaches are consistent with our policies before any new appointment, and to monitor and to consider terminating any arrangements that appear to be investing contrary to those policies. We expect investment managers to make decisions based on assessments of the longer-term performance of debt /equity issuers, and to engage with issuers to improve their performance (or where this is not appropriate to explain why). We assess this when selecting and monitoring managers.

We evaluate investment manager performance over both shorter and longer term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. Our policy is not to fix the duration of any mandate in advance, instead it aims to monitor managers on an ongoing basis based on performance and other key indicators (including but not limited to the views of our advisers). If serious concerns arise termination of the mandate will be considered. Generally, we would be unlikely to terminate a mandate on short-term performance grounds alone. If a manager is not meeting its performance objectives, we will consider alternative arrangements.

Our policy is to evaluate each of our investment managers by considering performance, the role it plays in helping to meet our overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

We recognise that portfolio turnover and associated transaction costs are a necessary part of investment management. Since the impact of these costs is reflected in performance figures used in our assessment of the investment managers, we do not explicitly monitor portfolio turnover. We expect our investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates, to enable us to factor such costs into our decisions.

6. Realisation of investments

The investment managers have discretion over the timing of realisation of investments of the Scheme within the portfolios that they manage, and in considerations relating to the liquidity of investments. When appropriate, we, on the administrators' recommendation, decide on the amount of cash required for benefit payments and other outgoings and inform the investment managers of any liquidity requirements.

Our preference is for investments that are readily realisable but recognise that achieving a well-diversified portfolio may mean holding some investments that are less liquid.

7. Financially material considerations and non-financial matters

We consider how environmental, social, governance ("ESG") and ethical factors should be addressed in the selection, retention, and realisation of investments, given the time horizon of the Scheme and its members. We recognise that we have an important influence on the Scheme's approach to ESG, ethics and other financially material factors through our investment strategy and manager selection decisions. We have formulated a Responsible Investment Policy which describes our approach in this area in more detail. We believe that this Policy is consistent with the views of members and will not be financially detrimental to the Scheme. This will be reviewed annually by the Scheme's ESG Sub-Committee, with changes, if necessary, being recommended to the Joint Investment Committee.

We expect all of our investment managers to take account of financially material factors (including climate change and other ESG factors) as an integral part of their investment processes. We seek to appoint managers that have the skills and processes to do this, and regularly review how the managers are taking account of these issues in practice.

We encourage our managers to improve their ESG practices, although acknowledge that we have limited influence over managers' investment practices where assets are held in pooled funds and that the parameters of some pooled funds may limit the scope for significant incorporation of ESG factors.

Our ambition is to align our assets with net zero greenhouse gas emissions through selecting managers, and investing in funds, with credible net zero targets.

We also do consider matters that are purely non-financial in nature (eg matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention, and realisation of investments.

We believe that Scheme members would support action in respect of these non-financial factors and do not expect taking account of these factors to pose a risk of material financial detriment to the assets of the Scheme.

We maintain a list of non-financial factors and tolerance levels defined in terms of percentage revenue exposures: Where revenue exposure for a non-financial factor is above the tolerance level and the parameters of the investment manager

mandate allow for such an approach, assets exposed to these non-financial factors are excluded. For pooled funds the revenue exposures to these non-financial factors are monitored from time to time. If the proportion of the net asset value of a pooled fund invested in companies which fail the defined revenue thresholds exceeds an agreed level (the "Pooled Fund Breach Tolerance Level"), then this is considered grounds for engagement with the investment manager and possible disinvestment.

The specific non-financial factors, revenue tolerance levels and Pooled Fund Breach Tolerance Level are listed in our Responsible Investment Policy that is reviewed and updated from time to time.

However, responsibility for the selection of individual assets is delegated to the Scheme's investment managers and we accept that it may not be possible to find investment funds for all asset classes which take into account all factors which we consider important, or which exclude all investments which we would prefer to avoid. In this situation we adopt a pragmatic approach, seeking to find investment funds in which the allocations to such holdings are not material – with analysis being conducted before any new investment. We have limited influence over managers' investment practices in this area but we encourage our managers to improve their practices where appropriate.

8. Voting and engagement

We recognise our responsibilities as owners of capital, and believe that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments and is in the best interests of our members.

Before deciding which manager to appoint, we review the manager's voting/stewardship activities and outcomes to determine how well they align with the Scheme's stewardship themes and priorities. We also express our preferences regarding ESG and stewardship approaches with prospective managers, to check alignment.

As all of our investments are held through managers, we do not monitor or engage directly with issuers or other holders of debt or equity. We have delegated to the investment managers the exercise of rights attaching to investments, including voting rights, and engagement with relevant persons such as issuers of debt and equity, stakeholders and other investors about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG factors. We expect the managers to undertake voting and engagement in line with their stewardship policies, considering the long-term financial interests of investors.

We will consider such policies, from which we will determine whether circumstances require us to monitor or engage with investment managers or other holders of debt or equity. We are supportive of the recommendations made by the UK Stewardship Code and expect our investment managers to comply with the principles of the UK Stewardship Code (or to explain any non-compliance).

We monitor managers' activities in relation to ESG factors, voting and engagement on a regular basis. We seek to understand how they are implementing their stewardship policies in practice to check that their stewardship is effective and aligned with our expectations. The factors we consider in monitoring our investment managers are listed in the Addendum to the SIP.

We have selected some priority ESG themes and Stewardship Priorities, to provide a focus for our monitoring of investment managers' voting and engagement activities. The Scheme's ESG Sub-Committee reviews the Stewardship Priorities on an annual basis having received advice from its ESG advisor to ensure consistency with Methodist beliefs and priorities. Changes, if necessary, will be recommended to the Joint Investment Committee for approval by the Trustee Boards. We communicate our stewardship priorities to our managers, and outline our more general expectations in relation to ESG factors, voting and engagement.

If our monitoring identifies areas of concern, we will engage with the relevant manager to encourage improvements. We will set objectives and target dates for each formal engagement, review progress, and have an escalation process which we will follow if progress is unsatisfactory.