Clara Pension Trust

Statement of Investment Principles

Clara Trustees Limited

07 | July | 2022

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1 Introduction

About Clara and the Clara Pension Trust

The Clara Pension Trust is a defined benefit occupational pension scheme. Like other pension schemes, the Clara Pension Trust is regulated by the Pensions Regulator and its members are protected by the Pension Protection Fund. The Clara Pension Trust is part of the Clara Group which is a consolidator (or superfund) for defined benefit pension schemes.

Clara brings pension schemes together to make them safer. Clara replaces the link (or "covenant") between a defined benefit pension scheme and its sponsoring employer with permanent ring-fenced capital, which comes both from Clara and, in most cases, a final contribution from the employer.

Clara's model of consolidation acts as a bridge to buy-out. Clara takes assets and liabilities of pension schemes from the company that originally backed them to an often otherwise unobtainable long-term future with an insurance company. In some cases, Clara makes this journey quicker; while for others, Clara makes the journey possible where previously it would not have been.

The interests of our scheme members, our capital providers, and Clara itself are aligned around a single objective – to deliver the most secure pension promise as efficiently as possible. Only after member benefits have been secured in accordance with the Scheme's trust deed and rules can Clara enjoy a return on the Risk Capital invested or a return of that Risk Capital. Expressed plainly, the Clara model of consolidation is member first.

At the heart of Clara is the Clara Pension Trust. The assets and liabilities of each transferring scheme become a Section of the Clara Pension Trust.

Clara Trustees Limited is the trustee of the Clara Pension Trust, and the Trustee board is made up of independent professional trustees[1].

[1] Either as an individual or corporate trustee firms, represented by individuals.

Our Statement of Investment Principles

This Statement of Investment Principles sets out the principles and policies of the Trustee on various matters governing decisions about the investments of the Clara Pension Trust.

The SIP has been prepared in accordance with Section 35 (as amended) of the Pensions Act 1995 and to meet the requirements of the Occupational Pension Schemes (Investment) Regulations 2005 (as amended) and TPR's Superfunds Guidance. The Trustee will also seek to draw on industry best practice.

This SIP has been prepared after obtaining and considering written professional advice from Lane Clark & Peacock LLP, one of the Scheme's investment advisers, who the Trustee believes to be suitably qualified and experienced to provide such advice. Their advice considers the appropriateness and the suitability of investments (including the need for diversification given the circumstances of the Scheme and the principles contained in this SIP). The Trustee has regularly engaged with, and formally consulted with Clara-Pensions Group Limited, the principal company in relation to the Scheme in producing this SIP.

In formulating the SIP, the Trustee has considered not only the investments of the Clara Pension Trust but also any assets that may be accepted as part of a consolidation transaction. Assets received by the Clara Pension Trust should be either consistent with the investments that the Trustee would ordinarily hold or be capable of being transitioned within in a reasonable period and as set out in the Guidance.

Review and Amendment

The Trustee will review this Statement annually, or when there is (or the Trustee anticipates that there might be) a significant change in relation to any matter related to this Statement. The Trustee will amend the SIP if appropriate and with the help of its advisers, if necessary.

Compliance with this Statement

The Trustee will monitor compliance with this Statement annually.

Publication

This Statement will be published. The Trustee will also publish an annual update on how the SIP and its related policies have been implemented.

Defined Terms

Appendix A explains the defined terms used in the SIP.

2 Consolidation

The context in which the Clara Pension Trust invests

This SIP has been prepared on the basis that the Trustee has sole responsibility for the assets of the Clara Pension Trust and has responsibility for ensuring that benefit payments are made as they fall due, out of the available assets.

The Trustee is, however, mindful of the context within which the Clara Pension Trust operates. New Sections will be created within the Clara Pension Trust through a transfer of assets and liabilities from other occupational pension schemes. Transferring members will become members of that Section of the Clara Pension Trust. The intention is that each Section will ultimately buy-out at which point the full benefits of members within that Section will be secured with an insurance company.

Each Section of the Clara Pension Trust will be supported by Buffer Assets, which will be held in a Buffer Company to support the Section. These Buffer Assets will essentially replace the covenant provided by a conventional employer. This shapes the relationship that the Trustee has with the Employer Companies, the Buffer Companies and the Principal Company.

Key features to highlight are:

- **Bridge to Buy-out** - The Clara Pension Trust is the pension scheme which forms part of a defined benefit pension scheme consolidator. The intention is that each Section will ultimately be bought out with an insurer – Clara acts as a 'bridge to buy-out'. The interests of members and Clara's investors are aligned in ensuring that each Section completes the journey to buy-out.

- **Sectionalisation** - Assets and liabilities of existing schemes are transferred by their existing employer(s) and trustee(s) to become Sections of the Clara Pension Trust. Each Section will be supported by a funded capital buffer, held within a specially created UK company, the Buffer Company.

- **Member-First** - Each Buffer Company will give a guarantee in respect of the liabilities of its associated Section. Surplus Buffer Assets can only be released to the Clara Group's investors after member benefits have been secured in accordance with the Scheme's trust deed and rules.

- **Customisation and Evolution** – Each Section will be created at a different point in time with different liabilities, timelines to buy-out and any assets transferred to the Section at inception (such as any buy-in insurance policies). The Trustee recognises that, within the context of this Statement, the Scheme's investment approach and the specific mix of assets within each Section may differ and will evolve over time.

- **Cooperation –** The Trustee is responsible for the assets of each Section within the Clara Pension Trust. Buffer Assets will be held separately, and the investment of the Buffer Assets will remain the responsibility of the relevant Clara Group entities, albeit subject to arrangements agreed with the Trustee. Given the alignment of interests and shared buy-out objective, the Trustee and Clara recognise that appropriate cooperation is in the interests of members. The Trustee may draw administrative support from the wider Clara Group, share advisers (subject to appropriate conflict management, as applicable) and will actively engage with the Clara Group to coordinate, align and share its investment approach with that of the Buffer Assets.

- **Joint Investment Working Group** – To foster alignment and cooperation, the Trustee has formed a working group with the relevant entities within the Clara Group. The Joint Investment Working Group is chaired by a representative of the Trustee and its purpose is to agree an appropriate investment strategy, to be recommended to both the Trustee (in respect of the assets held by the Scheme) and the relevant Clara Group entities (in respect of the Buffer Assets).

  This working group is a recommendation only body and has no formal decision-making powers that could bind the relevant parties. The Trustee and each Clara Group entity retains the right to depart from any agreed investment strategy, should they choose to do so. The Trustee retains responsibility and control of the investment strategy for each Section within the Clara Pension Trust. Should either the Trustee or the relevant Clara Group entity intend to depart from the agreed investment strategy, they must give notice to the others, except in the case where that is not reasonably possible.

- **The Pensions Regulator** – Like all occupational pension schemes, the Clara Pension Trust is regulated by TPR. In setting the investment strategy, the Trustee is mindful of the Regulator's oversight and, in particular, the investment principles set out in the Guidance.

3 Governance

Appendix B sets out details of the Scheme's investment governance structure, including the key responsibilities of the Trustee, the Fiduciary Manager, investment advisers and investment managers. It also contains a summary of the basis of remuneration of the Trustee's advisers and managers.

Investment powers and compliance with the Pensions Act 1995 and the Occupational Pension Schemes (Investments) Regulations 2005

The Trustee may invest for the purposes of the prudent management of its financial affairs. When exercising its power to invest the Trustee will consider the interests of current and potential beneficiaries of the Scheme.

The Trustee is responsible for the governance and investment of the Scheme's assets. The Trustee is satisfied that it has sufficient expertise, information and resources to carry out its role effectively.

In preparing the SIP, the Trustee has obtained and considered the written advice of specialists.

Role of the Joint Investment Working Group

The Scheme's funding objective and the appetite for investment risk are the responsibility of the Trustee.

The Trustee, in cooperation with Clara, has established the Joint Investment Working Group to make recommendations on an appropriate mix of assets consistent with the Trustee's funding objective and appetite for risk, and to provide oversight of its implementation (and the implementation of the Trustee's stewardship and engagement policy as contained in this SIP).

The Joint Investment Working Group is chaired by a representative of the Trustee and includes representatives from Clara. Meetings of the Joint Investment Working Group will be attended by the Fiduciary Manager, the investment adviser and any other professionals and experts, as and when required.

Day to day fund management

The Trustee has delegated investment management responsibilities for the Scheme to the Fiduciary Manager, which is authorised and regulated by the Financial Conduct Authority or a similar local regulatory authority as required, who will monitor and oversee all the day to day investment management decisions within the remit of the strategy and the implementation decisions agreed by the Trustee on the recommendation of the Joint Investment Working Group. The Trustee is satisfied that the Fiduciary Manager has the appropriate knowledge and experience to carry out its role in accordance with Sections 34 and 36 of the Pensions Act 2004 and that its arrangements are appropriate for the purpose of regulation 2(3)(d) of the Occupational Schemes (Investment) Regulations 2005.

The Fiduciary Manager will approve the framework for, and oversee the appointment, monitoring, funding, termination and performance of, the professional investment managers.

The Trustee will keep the Fiduciary Managers performance under regular review as described in Section 6 of this Statement.

4 Investment and Funding Objective

The Trustee's primary objective is to ensure that the Scheme should be able to meet benefit payments as they fall due. In addition to this primary objective, the Trustee has a number of additional objectives:

- **Returns** - that the expected returns on the Scheme's assets are optimised. In doing so, the Trustee remains mindful of the Scheme's liabilities and the need to manage and maintain investment risk at an appropriate level. The Trustee's risk policy is set out in Appendix C.
- **Bridge to Buy-out** - that the Scheme and the Clara Group will have a journey plan in place for each Section and its associated Buffer Company, which is designed to achieve a buy-out of the relevant liabilities in an efficient manner over the medium term.
- **Full Funding** - that each Section should be fully funded on the technical provisions basis, with a secondary objective of being fully funded on a buy-out basis in the medium term. The Trustee is aware that there are various measures of funding and has given due weight to those considered most relevant to the Scheme.
- **Matching** – that the assets will be invested with a suitable profile such that they have similar risk (and where appropriate, cashflow) characteristics to current estimates of the Trustee's liabilities. The asset profile may be adjusted as the pattern of liabilities evolves over time. The nature and timing of actual and potential liabilities are uncertain and will vary as new Sections are created, and as the liabilities of Sections are transferred to bulk annuity providers.
- **Cooperation** - that each Section should have an investment approach which aligns with and complements that of the associated Buffer Assets.

5 Investment Strategy

The Trustee, with the help of its advisers and in consultation with the Principal Company and the wider Clara Group (in respect of the investment of the Buffer Assets), will set the investment strategy for each Section.

Considerations in Setting the Investment Arrangements

When deciding how to invest the Scheme's assets, the Trustee will consider a range of risks including those set out in Appendix C. The Trustee will endeavour to allow for the relative importance and magnitude of each risk.

The Trustee regards the selection of asset classes as the decision which has most influence on its ability to achieve its investment objectives.

The Trustee has considered a range of asset classes for investment, taking account of the expected returns, the potential liabilities of the Scheme (and each Section) and key individual risks associated with those asset classes as well as how these risks can be mitigated where appropriate. The Trustee is (and will also remain) mindful of the Guidance. Investments will only be held in specified asset classes agreed by the Trustee, although the precise mix will be delegated to the Fiduciary Manager, subject to agreed constraints.

In setting the strategy for the Scheme and each Section, and in setting constraints for the Fiduciary Manager, the Trustee will consider:

- The best interests of all members and beneficiaries;
- The Scheme's (and each Section's) likely cash flow requirements in order to meet benefit payments in the near to medium term;
- The circumstances and context of each Section and including the overall liabilities, the likely profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the quantum and nature of the Buffer Assets;
- The Scheme's investment objectives, including the target return required to meet the Trustee's investment objectives;
- 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;
- The need for appropriate diversification between and within different asset classes to ensure that each Section's overall level of investment risk and the balance of individual asset risks are appropriate and consistent

with the Guidance;

- The Trustee's investment beliefs about how investment markets work, and which factors are most likely to impact investment outcomes; and

- The Trustee's policies in relation to financially material considerations over the appropriate time horizon of the investments.

Investment Beliefs

The Trustee's key investment beliefs, which will influence the setting of the investment arrangements, are as follows:

- The investment strategy should relate to the Total Asset Stack (that is, the aggregate of the Section Assets and the applicable Buffer Assets);

- The Buffer Assets represent the effective covenant for the Section. These need to be protected so the investment of the Buffer Assets should be low risk;

- The assets should be invested firstly to closely match the investment risk of the liabilities, including seeking to produce an appropriate cashflow profile commensurate with the liability cashflows of each Section where possible and appropriate;

- A modest level of outperformance relative to each Section's liabilities on a technical provisions basis is reasonable and appropriate;

- Risks that do not have an expected reward should largely be avoided, hedged or diversified;

- A material hedge of interest rate, inflation and other unrewarded risks should be maintained against the liabilities;

- A material hedge of longevity risk may also be considered;

- Investment strategy needs to pay due attention to liquidity and transferability of assets;

- Some assets benefit from an illiquidity premium over traditional markets, and may be suitable for the time horizons of the Scheme;

- Credit (default) risk should be the primary rewarded risk driving the investment strategy; and

- In order to deliver its investment objectives, it must act as a responsible and vigilant investor, mindful of ESG matters (including those in relation to climate change risk).

Strategic Asset Allocation

The high-level strategic asset allocation is set by the Trustee, by taking into account the nature and timing of both actual and potential future liabilities, which are sensitive to interest rates, inflation, mortality and other financial and demographic factors. It is also set having regard to the Trustee's funding objectives. To meet these objectives the Trustee has set a risk appetite consistent with the Trustee's low risk investment philosophy.

The high-level strategic asset allocation is broadly split into:

- **Liability and cashflow driven assets** – these are largely interest-bearing assets such as bonds and other forms of debt which have stable defined cash flows, which can be incorporated into the liability hedge but also have excess return characteristics which contribute to the investment return target. The Fiduciary Manager will use a combination of derivatives (interest rate swaps, inflation swaps and longevity swaps) and UK government bonds (conventional and inflation linked) to adjust the overall portfolio of liability and cashflow driven assets to better match the liability profile. This is to control the interest rate, inflation and longevity aspects of asset/liability mismatch risks within the tolerance levels set by the Trustee. The regular adjustment of assets to the sensitivities to real and nominal interest rates is undertaken by external specialist investment manager(s) appointed by the Fiduciary Manager using money market instruments, government bonds and derivatives.

- **Return-seeking assets** – a portfolio of assets which, over the long term, is expected to generate additional return relative to the liabilities, avoiding unrewarded risks where possible. The return seeking assets will vary over time depending on prevailing opportunities and may vary between Sections.

- **Cash assets** – cash and cash equivalents. Cash is held both as a strategic investment, for operational purposes to pay benefits, and for collateral purposes to cover derivative positions.

The strategic asset allocation will be reviewed annually by the Joint Investment Working Group. An earlier review may be conducted in the event of any significant change in capital markets or the liabilities of the Scheme.

Asset Classes

The Trustee considers a broad range of asset classes to provide an appropriate diversification of asset classes and appropriate diversification within asset classes. Given their investment objectives, those of the wider Clara Group and the shared risk appetite, the Trustee believes that the investment strategy of the Scheme should be primarily based on the following asset classes:

- Index-linked and conventional UK gilts
- Derivatives such as repos, swaps and exchange traded derivatives
- Global government bonds
- UK and global corporate bonds including high-yield debt
- Loans and other forms of direct lending to companies
- Asset-backed securities
- Property and property backed debt
- Mortgages and mortgage backed securities
- Infrastructure and conventional and inflation linked infrastructure debt
- Other alternatives (for example, alternative credit and absolute return strategies)
- Cash and cash instruments including holdings in cash funds

The list of asset classes is neither exclusive nor definitive. The Trustee may consider and deploy asset classes not listed where appropriate in setting investment guidelines for the Fiduciary Manager.

The Trustee may also hold contracts of insurance such as buy-in policies, where novated from a transferring scheme or where considered appropriate in the context of the investment objectives and subject to the Trustee's powers under the Scheme's governing documentation. The Trustee may also hold longevity swaps or other longevity hedges.

6 Investment Implementation

The Trustee will seek to align its investment approach with that of the Principal Company through regular ongoing coordination and cooperation, as described above. The investment strategy will be implemented through the Fiduciary Manager, who has been appointed by the Trustee and will also be appointed by each Buffer Company.

Fiduciary and Investment Management

The Trustee employs the services of the Fiduciary Manager to select investment experts as its external investment managers and has specified investment guidelines and instructions concerning various types or categories of investment decisions. The investment managers make their trading decisions independently of the Trustee. The Fiduciary Manager was selected by a competitive tender process.

The Fiduciary Manager will be set specific benchmark and performance objectives by the Trustee. Fiduciary Manager performance and risks will be monitored each quarter by the Joint Investment Working Group. Material or unexpected deviations may result in a more formal review.

Mandates for each investment manager will be agreed prior to their appointment by the Fiduciary Manager. Strategies relating to the control of transaction costs and soft commission will be specified in these mandates.

The Trustee will pay, from the Scheme, such fees and expenses as are negotiated with the Fiduciary Manager and any external investment managers.

Policy in relation to arrangements with Investment Managers

The Trustee has appointed the Fiduciary Manager to implement the Scheme's investment strategy. With the exception of currency risk, the Fiduciary Manager does not manage assets directly on behalf of the Trustee, but has the delegated authority to appoint, monitor and change the Trustee's external investment managers (including investing directly into funds managed and operated by those external managers).

No single investment manager will be responsible for delivering the Scheme's investment strategy. Rather the implementation of the investment strategy will be built from the individual mandates conferred on multiple investment managers. The Trustee expects the Fiduciary Manager to select appropriate investment managers, whose individual mandates are consistent with the Trustee's policies as outlined in the SIP. Each investment manager will only be delivering a component of the Scheme's investment strategy.

The Trustee will engage either directly, or indirectly through the Fiduciary Manager, with investment managers who do not deliver their mandate or perform in line with the Trustee's policies (including those in relation to medium- to long-term financial and non-financial performance of underlying issuers) in order to incentivise better performance. The Trustee expects that investment managers who are unable or unwilling to improve will be replaced by the Fiduciary Manager.

The ability (and willingness) to replace an individual investment manager where there is a change to the Scheme's investment strategy or where that manager is not meeting the required standard should both incentivise performance and alignment with the Scheme's investment strategy and the Trustee's policies.

The method and time horizon for evaluating and remunerating external investment managers is determined by policies set by the Fiduciary Manager rather than the Trustee. The Fiduciary Manager accepts these policies must align with the Trustee's strategy set out above.

The Trustee will delegate responsibility to the Fiduciary Manager for monitoring portfolio turnover cost of individual investment managers based on its policies and targets. The Fiduciary Manager will also determine and monitor the targeted portfolio turnover, or a range thereof.

The Trustee will delegate responsibility to the Fiduciary Manager for determining the duration of an arrangement with an investment manager.

The Joint Investment Working Group expects to engage with the Fiduciary Manager in relation to its management of external investment managers. The Trustee will consider the performance of the investment managers in delivering the Scheme's investment strategy as well as the compliance of individual managers with the Trustee's policies when reviewing the performance of the Fiduciary Manager. The Trustee believes that this engagement will appropriately incentivise the Fiduciary Manager to (i) align its decisions with the Trustee's policies; and (ii) to make decisions based on assessments about medium to long-term financial and non-financial performance, and thereby performance in the medium to long-term.

The Fiduciary Manager will provide monthly reporting to the Joint Investment Working Group and the Trustee. The Fiduciary Manager will attend the meetings of the Joint Investment Working Group, which usually convenes monthly, and will also engage directly with the Trustee.

If the Trustee directly, or acting on the recommendation of the Joint Investment Working Group, believes that the Fiduciary Manager is under-performing or deviating from the Trustee's policies, the Trustee will engage with the Fiduciary Manager to incentivise better performance. The Trustee would consider implementing escalating steps which could lead to the replacement of the Fiduciary Manager in the event of persistent and uncorrected under-performance.

Investment Performance Benchmarks

The Scheme will comprise a series of Sections, each of which will contain a portfolio of assets constructed in a manner consistent with the Investment Strategy as described in Section 5 of this Statement. Each Section's asset performance will be measured against its own liability benchmark.

The liability benchmark for each Section will be a notional combination of zero-coupon fixed interest instruments and zero-coupon inflation-linked instruments that is designed to replicate the expected liabilities within each Section and especially their sensitivity to real and nominal interest rates. The benchmark portfolio for each Section will change over time with future transfers of pension liabilities into and out of the Section.

Rebalancing

Each Section will be rebalanced regularly taking into account the need to minimise both transaction costs and risks associated with deviation from the target asset allocation for that Section. Tolerance ranges for deviations will be set by the Trustee to allow appropriate flexibility. In general, the Trustee's policy is to use each Section's cash flows to rebalance towards the strategic asset allocation for that Section.

Realisation of Investments

The investment managers will 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.

The Trustee will regularly review the amount of cash (or near-cash assets) required for liquidity purposes. In respect of benefit payments and other outgoings, the Trustee will be provided with guidance from the scheme administrator who will also inform the Fiduciary Manager of any liquidity requirements. In addition, at any given time a minimum level of assets of sufficient liquidity and quality will be held to ensure the Scheme is able to satisfy collateral or margin calls which may arise as a result of any derivative positions it holds.

Transition of Investments

The Trustee is mindful that the Clara model envisages the creation of new Sections (with their associated Buffer Companies holding Buffer Assets) on a regular basis. Over time there will then be a regular flow of liabilities being transferred to bulk annuity insurers, through buy-out transactions. As such, regular transitions of assets will be required.

While the Trustee and their advisers will work with the wider Clara Group and any transferring scheme to receive assets either as cash or as closely aligned to the Scheme's asset allocation as reasonably possible, it recognises that incoming assets may not reflect the Scheme's investment approach. The Trustee would therefore expect to manage the transition of assets so as to be consistent with the Scheme's investment objectives. This will be done at a time and in a manner it deems most appropriate, but having regard for the Guidance.

The Trustee recognises that the assets received into a new Section could, subject to the requirements of the Guidance, include legacy assets which may be either or both difficult to value or realise; and may not be capable of being transitioned efficiently. It may be appropriate for the relevant Section to hold such assets with a longer-term investment horizon. The Trustee is also aware that such legacy assets may fall outside the Fiduciary Manager's standard performance benchmark, which may need to be adjusted by agreement with the Trustee in respect of that Section.

Where the liabilities of a Section are transferring to an insurer, the Trustee and their advisers will work with the wider Clara Group and the insurer(s) to transition assets in a reasonable manner, mitigating costs and risks to the Scheme. The Trustee will be mindful of the transferability of assets in its ongoing investment approach. In order to achieve the objectives of the Scheme, and subject to receiving appropriate advice and guidance on the valuation of assets, the Trustee may decide to transition assets between Sections (or between Sections and Buffer Companies) to facilitate the transition of the liabilities of a Section to buy-out.

Custody of the Assets

The Trustee has appointed Northern Trust as the Custodian for the safekeeping of the Scheme's assets and other investment administrative requirements.

Securities lending will be permitted, within limits set by the Trustee.

7 Responsible Investment

The Trustee's primary concern, in setting its investment strategy, is to act in the best financial interests of the Scheme and its beneficiaries and stakeholders, seeking the best return that is consistent with a prudent and appropriate level of risk.

The Trustee believes that in order to fulfil this commitment and to protect and enhance the value of the Scheme's investments, it must act as a responsible and vigilant asset owner and market participant.

The Trustee has adopted a specific Responsible Investment Charter (the **"RI Charter"**) which provides the basis for the implementation of the responsible investment policy of the Clara Pension Trust. The RI Charter is published on Clara's website and can be accessed here. The RI Charter also contains more information on the Trustee's specific expectations for the Fiduciary Manager and how it is engaging to understand the Fiduciary Manager's practices and ensure these meet the Trustee's expectations.

Financially material considerations and non-financial matters

The Trustee has considered how environmental, social, governance and other ethical factors should be taken into account in the selection, retention and realisation of investments, given the context and time horizon of the Scheme and its members.

The Trustee defines ESG factors as the interaction of its investments with:

- The physical environment (environmental);
- Communities, workforces, wider society and economies (social); and
- The governance structures of the organisations and markets the Scheme invests in, as well as of their agents (governance, including corporate governance).

The Trustee is mindful that its primary objective of meeting benefit payments as they fall due therefore sits within a much broader context of acting as a reasonable and responsible investor. The Trustee recognises its responsibility for the Scheme's approach to ESG and other financially material considerations through its investment strategy and manager and adviser selection decisions (some of which will be delegated).

The Trustee is mindful that the Scheme is intended to act as a consolidator (or superfund) for defined benefit pension schemes, that Clara's model of consolidation acts as a bridge to buy-out, and the membership of the Scheme will change significantly over time as new Sections are added to the Scheme and existing Sections successfully complete their journey to buy-out. Consequently, in setting and implementing the Scheme's investment strategy, the Trustee does not explicitly take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as non-financial factors).

The Trustee believes that ESG and climate change factors within an investment context can be financially material, and that taking these financial factors into account within the investment strategy can yield different returns and/or risks. The Trustee also recognises that ESG factors, and particularly climate change factors, are more likely to influence risk adjusted returns over the long term.

Without prejudice to the Trustee's legal obligations, the Trustee delegates full discretion to the Fiduciary Manager around the evaluation of ESG and climate change factors within the investment process and assets. The Fiduciary Manager, who is responsible for the appointment and removal of the underlying investment managers, exercises discretion when evaluating ESG issues giving consideration to ESG related risks and making sure the investment strategy is aligned with the Trustee's investment policy and ESG beliefs.

ESG criteria were a specific consideration in the initial appointment of the Fiduciary Manager and will be among the factors that will guide the Trustee in its evaluation of the Fiduciary Manager's ongoing performance.

Climate Change

The Trustee also regularly reviews and reports upon the risks and opportunities of climate change to the Scheme and, importantly, its planned future actions. The Trustee has adopted a specific 'Net Zero' commitment and together with a supporting objective and ambition as part of the RI Charter.

These reports will be consistent with all applicable legal disclosure requirements – including, if and when applicable to the Scheme, the reporting obligations imposed by the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 once these Regulations are in force.

Voting and Engagement

The Trustee is mindful of its responsibilities as a controller of capital. It believes 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 its investments.

The Trustee does not, at present, monitor or engage directly with issuers or other holders of debt. The Trustee, acting through the Fiduciary Manager, seeks to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council. The Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations. It expects the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustee from time to time, considering the long-term financial interests of the members of the Scheme. The Trustee expects such rights to be appropriately exercised and monitors their activities through the reporting and engagement of the Fiduciary Manager.

The Trustee does not expect to invest meaningfully in publicly traded equity.

Regular review

The Trustee will review the Fiduciary Manager's policies, engagement and reporting on responsible investing (including ESG matters) at least annually, taking external advice where appropriate. The Trustee will engage with the Fiduciary Manager and/or its investment managers where it identifies a divergence between their policies and those of the Trustee as they evolve over time.

Appendix A
Defined Terms

Defined Terms

We have used the following defined terms in the Statement of Investment Principles.

"Buffer Assets" means, for each Buffer Company, the assets held in respect of a given Section.

"Buffer Company" means each company established for the purpose of holding Buffer Assets.

“Clara” means Clara-Pensions Group Limited and Clara-Pensions Limited.

“Clara Group” means the group of companies of which Clara-Pensions Group Limited is the holding company, with Clara-Pensions Limited and the Trustee being Clara-Pensions Group Limited’s wholly owned subsidiaries.

“Clara Pension Trust” or **“Scheme”** means the defined benefit pension scheme with that name, established by a Trust Deed and Rules dated 2 October 2019.

“CPGL” or “Principal Company” means Clara-Pensions Group Limited.

“CPL” means Clara-Pensions Limited.

“Custodian” or “Northern Trust” means The Northern Trust Company.

“Employer Company” means the statutory employer for each Section of the Clara Pension Trust.

“ESG” means environmental, social, governance and other financial and non-financial matters which may impact the Scheme’s investments.

“Fiduciary Manager” or “Kempen” means Kempen Capital Management (UK) Limited.

“**Guidance”** means the Superfunds Guidance[2] issued by the Regulator on 18 June 2020 and updated from time to time.

“Responsible Investment Charter” means the document which outlines the Trustee approach to Responsible Investment (“RI”) and how ESG and other criteria are integrated into the investment process.

[2] The Guidance is available on the Regulator’s website: TPR Guidance

"Risk Capital" means the capital to be invested by the Investor, via Clara-Pensions Group Limited, into a Buffer Company, in respect of a given Section.

"Section" means a section of the Clara Pension Trust. The assets and liabilities of each scheme that are transferred into the Clara Pension Trust will be transferred into a new Section. The assets and liabilities of each Section are legally separate from those of all other Sections. Each Section will have its own statutory employer and there will be a Buffer Company linked to each Section.

"Section Assets" means the assets held by the Trustee in respect of a given Section.

"Scheme" means the Clara Pension Trust.

"SIP" or this **"Statement"** means this Statement of Investment Principles which outlines the principles and policies governing decisions about investments made by or on behalf of the Trustee in the management of the Scheme's assets.

"Total Asset Stack" means, for any given Section, the aggregate of the Buffer Assets and the Section Assets.

"TPR" or the **"Regulator"** means The Pensions Regulator**.**

"**Trustee**" means Clara Trustees Limited[3] as trustee of the Clara Pension Trust.

[3] Details of the current trustee directors of Clara Trustees Limited are available on Clara's website: [The Clara Trustees]

Appendix B

Governance

Investment Governance, Responsibilities, Decision making and Fees

The Trustee has decided on the following division of responsibilities and decision-making for the Scheme. This division is based upon the Trustee's understanding of the various legal requirements placed upon it, and its view that the division of responsibility allows for efficient operation and governance of the consolidator overall. The Trustee's investment powers are set out within the Scheme's governing documentation.

1. Trustee

In broad terms, the Trustee is responsible in respect of investment matters for:

- Developing a mutual understanding of investment and risk issues with Clara-Pensions Group Limited as the Principal Company and the wider Clara Group;
- Setting the investment strategy, in cooperation with the Clara Group;
- Formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- Setting the policy for rebalancing between asset classes;
- Setting a policy on the exercise of rights (including voting rights) and undertaking engagement activities in respect of the investments;
- Putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- Appointing, monitoring, reviewing and dismissing fiduciary managers, investment managers (where not delegated to the Fiduciary Manager), investment advisers, the scheme actuary and other service providers;
- Monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Pensions Act 1995 (as amended);
- Communicating with members as appropriate on investment matters, such as the Trustee's assessment of its effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged;
- Reviewing the investment policy as part of any review of the investment strategy;

- Reviewing the content of this SIP at least annually and modifying it if deemed appropriate; and
- Consulting with Clara-Pensions Group Limited as the Principal Company and the wider Clara Group when reviewing the SIP.

The Trustee and Clara have formed the Joint Investment Working Group to consider the investment strategy (and certain related matters). That group does not have any formal decision-making powers, which (so far as they relate to the Scheme) remain with the Trustee.

2. Fiduciary Manager

The Trustee has delegated certain investment decisions and the implementation of these decisions to Kempen, as the Scheme's Fiduciary Manager. Under fiduciary management the Trustee remains responsible for the stewardship of the Scheme, including setting the overall investment objectives and monitoring the Fiduciary Manager. However, certain responsibilities are delegated to the Fiduciary Manager such as:

- Advising on how material changes within the Scheme's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;
- Advising on and participating with the Trustee in reviews of this SIP;
- Advising on asset allocation and fund mandates to meet the Trustee's objectives;
- Selecting investment managers;
- Making tactical asset class decisions and benchmark deviations based on market conditions;
- Portfolio management of each Section;
- Monitoring the implementation of the investment strategy and the SIP;
- Confirmation of the appointment, retirement and contractual review of the investment managers including the assessment of appropriate knowledge and experience under section 34(4) of the Pensions Act 1995;
- Reviewing on a monthly basis the investment managers' investment performance, compliance with investment mandates and short term strategies;
- Confirmation of the appointment, retirement and contractual review of the Custodian to the Scheme;
- Monitoring the performance of the Custodian to the Scheme;
- Monitoring the flows of cash and assets transferred to the Scheme making sure the asset allocation does not deviate significantly from the strategic asset allocation;
- Monitoring financial risks, including all investment risks relative to the liabilities, insurance risks and, where necessary, initiating remedial measures;
- Collaborating with the scheme actuary in the annual valuation of the Scheme, including choice of actuarial assumptions;
- Advising on all aspects of the investment of the Scheme's assets including implementation of strategy;
- Providing updates on the investment managers and their likelihood of achieving the performance objectives; and
- Providing training in investment matters to the Trustee.

When appointing the Fiduciary Manager, the Trustee considered the following:

- The range of fiduciary options available and the benefits, risks, costs and value that different approaches offer;
- The specific circumstances of the Clara Pension Trust as described in section 2;
- The manager's experience and track record in managing similar mandates;
- The manager's willingness and ability to consider investment options that give increased weight to ESG considerations when implementing the asset allocation policy in line with the Trustee's policy on financially material considerations;
- Potential conflicts of interest and how to manage them;
- The need for suitable oversight to monitor effectively the performance of the Fiduciary Manager and the underlying mandates;
- The cost implications for the Scheme; and
- The ease with which the mandate could be terminated.

3. Investment Adviser

In broad terms, the investment adviser will be responsible, in respect of investment matters, for:

- Advising on and monitoring the appointment of the Fiduciary Manager;
- Participating with the Trustee in reviews of this SIP; and
- Other matters as requested by the Trustee and/or Joint Investment Working Group from time to time.

4. Investment Managers

The investment managers will be responsible for:

- Discretionary management of the portfolio, including implementation (within guidelines given by the Fiduciary Manager) of changes in the asset mix and selecting securities within each asset class;
- Providing the Fiduciary Manager with regular statements of the assets together with reporting on actions and future intentions, and any changes to the processes applied to their portfolio;
- Informing the Fiduciary Manager of any changes in the internal objectives and guidelines of any pooled funds as soon as practicable;
- The safekeeping of the assets within the pooled funds in which the Scheme invests;
- Investing income paid to the Scheme in a timely manner; and
- Reconciling the manager's record of assets held with those of the Custodian.

5. The Custodian

The Custodian will be responsible for:

- The safekeeping of all the directly held assets of the Scheme;
- Undertaking all appropriate administration relating to the assets of the Scheme;
- Processing all income with respect to the Scheme in a timely manner;

- Processing all tax reclaims in a timely manner;
- Investing cash in a suitable low risk manner consistent with the provision set out in the investment management agreements as agreed by the Trustee; and
- Reconciling records of assets held with those of the investment managers and the Fiduciary Manager.

6. Fee Structures

The Trustee recognises that the provision of investment management and advisory services to the Scheme results in a range of charges to be met, directly or indirectly, by deduction from the Scheme's assets.

The Trustee has agreed terms of business with the Scheme's actuarial and investment advisers, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis.

The Fiduciary Manager and investment managers receive fees calculated by reference to the market value of assets under management and also in some cases a performance related fee. The fee rates are believed to be consistent with the managers' general terms for institutional clients and are considered by the Trustee to be reasonable when compared with those of other similar providers.

The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustee's view as to the most appropriate arrangements for the Scheme. The Trustee will, however, consider revising any given fee structure if and when it is considered appropriate to do so and having regard for the value for money requirements of the Guidance.

The Trustee is mindful of indirect cost that may arise, such as those from portfolio turnover. The Trustee and Joint Investment Working Group will work with the Fiduciary Manager to ensure such costs, where incurred by investment managers, are monitored and reasonable with reference to the strategy of the Trustee.

7. Performance Assessment

The Trustee is satisfied, taking into account the external expertise available, that it will have sufficient resources to support its investment responsibilities. The Trustee intends to undertake some additional activities once the Scheme grows in size, but this will not prevent the delivery of the Scheme's investment objectives. The Trustee believes that it has sufficient expertise and appropriate training to carry out its role effectively.

It is the Trustee's policy, supported by regular monitoring and reporting (with such monitoring and reporting taking place at least quarterly and more frequently, if required), to assess the performance of the Scheme's investments, investment providers and professional advisers from time to time. The Fiduciary Manager will be monitoring investment performance at least monthly and more frequently, if required. The Trustee will also periodically assess the effectiveness of decision-making and investment governance processes and will decide how this may then be reported to members.

8. Working with the Principal Company and the wider Clara Group

When reviewing matters regarding the Scheme's investment arrangements, such as the SIP, the Trustee seeks to give due consideration to the perspective of Clara-Pensions Group Limited and the broader Clara Group. While the requirement to consult does not mean that the Trustee needs to reach agreement with Clara, the Trustee believes that better outcomes will generally be achieved if the Trustee and Clara work together collaboratively.

Appendix C
Approach to Risk

1. Risk appetite and risk capacity

Risk appetite is a measure of how much risk the Trustee is willing to bear within the Scheme (and having regard to the nature and quantum of the Buffer Assets) in order to meet its investment objectives. Taking more risk is expected to mean that those objectives might be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action. Risk capacity is a measure of the extent to which the Trustee can tolerate deviation from its long-term objectives before attainment of those objectives is seriously impaired. The Trustee aims to strike the right balance between risk appetite and risk capacity, noting the context outlined in Section 2.

When assessing the risk appetite and risk capacity, the Trustee will consider a range of qualitative and quantitative factors, including:

- The funding level of each Section;
- The nature and quantum of the Buffer Assets and the investment strategy applicable to those assets;
- The agreed journey plan for each Section;
- The medium-term target of each Section to reach buy-out;
- The liability profile of each Section, its interest rate and inflation sensitivities, and the extent to which these are hedged;
- The cash flow and target return requirements of each Section; and
- The level of expected return and expected level of risk (as measured by Value at Risk ("VaR") for example), now and as the strategy evolves.

2. Approach to managing and monitoring investment risks

The Trustee considers that there are several different types of investment risk that are important to manage and monitor. These include, but are not limited to:

2.1. Risk of inadequate returns

For the Sections within the Scheme a key objective of the Trustee is that, over the long-term, the Scheme should generate its target return so that it has adequate assets to meet its liabilities as they fall due, and to hold sufficient assets to facilitate a buy-out of each Section's liabilities with an insurer at a target date in the future. The Trustee therefore invests the assets of the Scheme to produce a sufficient long-term return in excess of the liabilities. There is also a risk that the performance of the Scheme's assets and liabilities diverges in certain financial and economic conditions in the short term. This risk has been considered in setting the investment strategy and is monitored by the Trustee on a regular basis.

2.2. Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Scheme's assets. The Trustee believes that the Scheme's assets are adequately diversified between different asset classes and within each asset. This was a key consideration when determining the Scheme's investment arrangements and is monitored by the Trustee on a regular basis.

2.3. Basis risk

This risk arises where the Scheme's liabilities cannot be perfectly matched. The Trustee manages this risk by defining a liability matching benchmark portfolio for each Section, which is the portfolio of assets that most closely matches the expected liability cash flows. The Trustee then seeks to match assets closely against the liability matching benchmark, monitoring deviations and recalibrating where appropriate.

2.4. Fiduciary Manager and investment manager risk

This is the risk that the Fiduciary Manager or an underlying investment manager makes excessive or persistent losses; or does not perform in a way consistent with its return target. This risk is mitigated through a robust manager selection and monitoring process at both the Fiduciary Manager level and by the Fiduciary Manager in respect of underlying investment managers, and through manager diversification at the underlying investment manager level. Upon appointment, the Trustee will set a performance benchmark and risk expectations and limits for the Fiduciary Manager. The Trustee will also assess and monitor the Fiduciary Manager against a range of qualitative factors which it believes support successful fund management. These factors are monitored on a regular basis as part of the Fiduciary Manager oversight process.

2.5. Illiquidity/marketability risk

This is the risk that the Scheme is unable to realise assets to meet benefit cash flows as they fall due, or that the Scheme will become a forced seller of assets in order to meet benefit payments. The Trustee is aware of the Scheme's cash flow requirements and believe that this risk is managed by maintaining an appropriate degree of liquidity across the Scheme's investments and by investing in income generating assets, where appropriate.

2.6. Environmental, social and governance (ESG) risks

Environmental, social and corporate governance (ESG) factors are sources of risk to the Scheme's investments which could be financially material, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Trustee seeks investment options that address these risks and to appoint investment managers who will manage these risks appropriately on their behalf. They regularly review how these risks are being managed in practice.

2.7. Collateral adequacy risk

The Scheme is expected to invest in leveraged Liability Driven Investment ("LDI") arrangements to provide protection ("hedging") against adverse changes in interest rates and inflation expectations. The LDI manager may from time to time call for additional cash to be paid to the LDI portfolio in order to support a given level of leverage. Collateral adequacy risk is the risk that the Trustee when requested to do so will not be able to post additional cash to the LDI fund within the required timeframe A potential consequence of this risk is that the Scheme's interest rate and inflation hedging could be reduced and that the Scheme's funding level could suffer subsequently as a result. In order to manage this risk, the Trustee ensures that the Scheme has a sufficient allocation to cash and other highly liquid assets which can be readily realised, so that cash can be posted to the LDI manager at short notice.

2.8. Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Scheme is subject to credit risk because it invests in bonds and loans via pooled funds and segregated mandates. The Trustee manages its exposure to credit risk by investing with a diversified exposure to different credit issuers.

2.9. Currency risk

While the majority of the currency exposure of the Scheme's assets is to Sterling, the Scheme is subject to currency risk because some of the Scheme's investments may be held in overseas markets. The Trustee considers the overseas currency exposure in the context of the overall investment strategy and believe that the currency exposure that exists diversifies the strategy and is appropriate. The Trustee may also determine a target currency hedge ratio for assets or asset classes not already in Sterling.

2.10. Interest rate and inflation risk

The Scheme's assets are subject to interest rate and inflation risk because some of the assets are held in bonds or interest rate swaps, as segregated investments or via pooled funds. However, the interest rate and inflation exposure of the Scheme's assets hedges part of the corresponding risks associated with the Scheme's liabilities.

The Trustee considers interest rate, inflation and overseas currency risks to be unrewarded investment risks.

As a result, the Trustee aims to hedge broadly 100% of each section's exposure to interest rate risk and inflation risk, by investing in a mixture of bonds as well as leveraged LDI or other hedging arrangements.

The net effect of the Trustee's approach to interest and inflation risk will be to reduce the volatility of the funding level, and so the Trustee believes that it is appropriate to manage exposures to these risks in this manner and to review them on a regular basis.

2.11. Other non-investment risks

The Trustee recognises that there are other, non-investment, risks faced by the Scheme, and takes these into consideration as far as practical in setting the Scheme's investment arrangements as part of their assessment of the other aspects of the Scheme's Integrated Risk Management framework.

Examples include:

- longevity risk (the risk that members live, on average, longer than expected);
- covenant risk (the risk that, for whatever reason, the Buffer Assets prove insufficient);
- investment operational risk (the risk that, for whatever reason, systems, people or internal/external systems fail)
- valuation risk (the risk that assets are mis-valued)

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Scheme's funding position falls below what is considered an appropriate level. The Trustee regularly reviews progress towards the Scheme's funding target, both in the longer-term as well as against short-term milestones, comparing the actual versus the expected funding level.

By understanding, considering and monitoring the key risks that contribute to funding risk, the Trustee believes that they have appropriately addressed and are positioned to manage this general risk.

Disclaimer

We publish a number of our key Clara Pension Trust documents, like the Statement of Investment Principles to help our members better understand how the scheme is run. It may also be good practice and/or a legal requirement to publish a document. This document is therefore made available on that basis.

The Trustee may review these documents at any time. They may change to reflect changes in legislation, regulation and/or best practice or indeed a decision to take a different approach. We endeavour to publish updated documents on our website as soon as reasonably possible when they are revised. The date a document was updated is shown within it.

Those engaging with Clara in respect of transactions should refer to the document shared via that direct engagement alongside the document shared on our website.

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