Irish League of Credit Unions (Northern Ireland) Pension Scheme

Statement of Investment Principles

as Required by the Pensions Act 1995 and the Pension Act 2004

September 2021

The Trustees confirm that the following matters have been taken into account when preparing this Statement of Investment Principles:

The Trustees have considered written advice from the Investment Advisor prior to the preparation of this Statement and has consulted the Irish League of Credit Unions, the Sponsoring Employer, before agreeing this Statement and the investment strategy outlined in this document.

All day to day investment management decisions have been delegated to the Investment Manager, where the Investment Manager is authorised and regulated by the Financial Conduct Authority.

The Trustees have full regard to its investment powers under the Trust Deed and Rules and the suitability of types of investments, the need to diversify, the custodianship of assets and any self-investment.

The Investment Manager will prepare regular reports on their activities and the Trustee will meet with representatives of the Investment Managers as required.

This Statement of Investment Principles will be reviewed at least every three years, or whenever changes to the principles or strategy are necessary. Any changes to this Statement will be undertaken having taken advice, as appropriate, and following consultation with the Sponsoring Employer.

1. General

This statement sets out the principles governing decisions about the investment of the assets of the Irish League of Credit Unions (Northern Ireland) Pension Scheme (the "Scheme"). It has been prepared on behalf of the Scheme trustees (the "Trustees") to comply with section 35 of the Pensions Act 1995 (the "Act") as amended by the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005.

The Trustees review the Scheme's investment strategy every three years, following each formal actuarial valuation of the Scheme (or more frequently should the circumstances of the Scheme change in a material way).

2. Consulted Parties

As required under the Act, the Trustees have consulted a suitably qualified person in obtaining written advice from Deloitte Total Reward and Benefits Limited ("DTRB" or the "Investment Advisor") on the suitability of the investments, the need for diversification and the principles contained in this Statement. DTRB is authorised and regulated by the Financial Conduct Authority ("FCA").

The Trustees, in preparing this Statement, have also consulted the Irish League of Credit Unions, the Principal Employer (the "Company"), in particular on the Trustees' objectives and investment strategy.

3. Investment Powers

The Trustees recognise that the assets must be invested in the best interests of members and beneficiaries and, in the case of a potential conflict of interest, in the sole interest of members and beneficiaries. The Trustees have overall responsibility for the prudent management of the Scheme's assets. The strategic management of the Scheme's assets is fundamentally the responsibility of the Trustees, acting on advice from DTRB, and is driven by its investment objectives as set out in Point 4 below.

The remaining elements of policy relate to the day-to-day management of the assets which is delegated to Legal and General Investment Management ("LGIM") and Partners Group, collectively the "Investment Managers"). The Investment Managers are authorised and regulated by the Financial Conduct Authority.

4. Investment Objectives

The Trustees' primary objectives for setting the investment strategy of the Scheme are set out below:

- To achieve full funding on a technical provisions basis in the most efficient manner possible;
- To pay due regard to the amount and variation of the Employer's contribution payments; and
- To minimise the short term impact of downside risk on the Scheme's funding level as far as possible.

The investment arrangements outlined in Points 7 and 8 below have been designed with these considerations in mind.

5. Choosing investments

The Trustees recognise that the investment strategy should reflect the characteristics of the Scheme's liabilities, specifically:

- Firstly, the actuarial calculation of the Scheme's liabilities uses a discount rate linked to gilt yields. Therefore, investments in gilts of a similar profile ("matching assets") would result in asset values moving in a comparable pattern; and

- Secondly, a proportion of the Scheme's liabilities are increased annually for inflation. These individual liabilities have a direct link to inflation i.e. they are "real" liabilities as opposed to "nominal" liabilities.

Therefore, it is considered that the best "matching assets" for the liabilities are a mixture of nominal and index-linked gilts of appropriate durations to match the Scheme's liabilities. Such a portfolio of assets could be considered a "minimum risk" Liability Driven Investment (LDI) portfolio. In addition to using physical bonds, the Scheme could use interest rate swaps, inflation swaps, along with gilt/index-linked gilt repurchase agreements ('repo') and total return swaps to gain leveraged exposure to interest rate and inflation.

The Trustees feel that it is appropriate to deviate from a "minimum risk" portfolio and invest some of the Scheme's assets in equities, corporate bonds and private markets in an effort to improve the ongoing technical provisions and solvency funding positions and to reduce the reliance on the Company's contributions to fund liabilities. However, both the Trustees and the Company recognise that holding such assets will bring increased volatility of sponsor contribution requirements in anticipation of lower current contributions and reduced costs in the long term. The Trustees work with the Scheme Actuary and the Investment Advisor to decide what degree of risky assets are appropriate at each triennial actuarial valuation, or more frequently if required. The Trustees expect that over the long-term, the investment strategy will deliver a return that meets the return assumptions used by the Scheme Actuary in the Actuarial Valuation.

Finally, when choosing investments, the Trustees have considered risks, including Environmental, Social and Governance factors, which they believe to be financially material to the Scheme's investments over the period needed to fund its liabilities.

6. Investment Managers

The Trustees, with guidance from its Investment Advisor, have chosen LGIM and Partners Group to be the Scheme's Investment Managers. The Investment Managers are authorised and regulated by the Financial Conduct Authority.

The fee arrangements agreed with the Investment Managers are summarised in Point 14 of this document. These fees are based on assets under management and are not subject to any performance conditions. The Investment Managers may pay commissions to third parties on trades they undertake in the management of the assets. The Trustees review the fees charged and costs incurred by its Investment Managers on a regular basis as part of its monitoring framework to ensure fees/costs remain reasonable in the context of the Scheme's size and complexity.

The Trustees also review additional Investment Manager costs and charges (including portfolio turnover costs) on a regular basis, and on the selection of any mandate, to ensure that they are appropriate and competitive for the service being provided. The Trustees monitor portfolio turnover in the context of what the Trustees believe to be reasonable given the nature of each mandate. By also monitoring performance and associated costs, the Investment Managers are incentivised to consider the impact of portfolio turnover on investment performance.

Where the Trustees invest in passively managed funds, these funds replicate benchmark indices and therefore require assets to be bought and sold when the constituents of the underlying index change. To avoid being a forced buyer/seller of stocks and to reduce transaction costs when the index changes, LGIM gives itself some flexibility on exactly when to buy and sell and the allocation to each asset within the index, to minimise transaction costs.

The Trustees believe that along with the Investment Managers' stewardship policies, which are detailed in Point 11 of this document, the objectives of the funds are aligned with the medium and long term views of the Trustee.

If the Trustees believe that the Scheme's Investment Managers are no longer acting in accordance with the Trustees' stated approach and guidelines, as well as the Trustees' policies regarding ESG and engagement with investee organisations, the Trustees will take the following steps:

- engage with the Investment Managers in the first instance, in an attempt to influence their policies on ESG and stewardship; and
- if necessary, look to appoint a replacement investment manager or managers which are more closely aligned with the Trustees' policies and views.

The remuneration of the Investment Managers is not directly linked to performance, given the absence of performance related fees, or to ESG practices. However, the Trustees will review and replace the Investment Managers if medium and long term net of fees investment performance and ESG practices are not in line with the Trustees' expectations and views.

The Trustees believe that these steps will incentivise the Investment Managers to align their actions with the Trustees' policies and also for them to act responsibly.

The Trustees, with guidance from their Investment Advisor, have chosen to invest in open-ended pooled funds. For these funds, the Trustees' policy is to enter arrangements with no fixed end date. However, the Trustees will seek to enter arrangements where it has the power to terminate these in line with the liquidity of the underlying assets and as agreed in the mandate. The Scheme's open-ended investments are mainly weekly dealt. The investment in the Partners Group Generations Fund is in an open-ended, daily dealt fund, although gating conditions apply if there are large disinvestment requests across the fund. The Trustees will determine whether to terminate such arrangements on an ongoing basis through its regular monitoring of the Investment Managers' performance against agreed objectives. The Trustees may also elect to terminate the arrangements with the Investment Managers when performing ongoing reviews of the suitability of the Scheme's asset allocation.

7. Investment Strategy

In 2021 the Trustees put in place the following investment strategy.

Asset Class	Fund	%
Global Equities	LGIM All-World Equity Index Fund (GBP hedged)	40.0
Corporate Bonds	LGIM Buy and Maintain Credit Fund	30.0
Private Markets	Partners Group Generations Fund	10.0
Liability Driven Investments ('LDI')	Matching Core Leveraged LDI fund range	20.0
Cash	LGIM Sterling Liquidity Fund	0.0
Total		**100.0**

While there is no strategic asset allocation to cash, the Trustees can use the Legal & General Sterling Liquidity Fund to manage the cashflow requirements of the Scheme.

The Scheme's allocation to private markets is via the Partners Group Generations Fund and is accessed through Legal & General's platform.

The objective of the LDI allocation is to hedge a proportion of the interest rate risk and inflation risk associated with the Scheme's liabilities, through the allocation to a range of LGIM funds. To achieve this, the assets invested in these LDI funds may vary from the benchmark allocation over time. The allocation to the Buy and Maintain Credit Fund is designed to provide some interest rate hedging of the Scheme's liabilities at a yield in excess of equivalent gilts. Global equities and the Partners Group diversified private markets fund are included in the strategic asset allocation to provide additional expected returns in excess of gilts.

The Trustees are satisfied that the spread of assets by type, as detailed above, provides adequate diversification to the portfolio.

8. Performance Benchmarks

The Trustees expect the performance of the funds to match the benchmarks as detailed below:

Fund	Benchmark Index
Buy and Maintain Credit Fund	None provided by LGIM, so iBoxx All Stock Sterling Non-Gilt Index used as a comparator.
All-World Equity Index Fund (GBP hedged)	FTSE All-World Index (less withholding tax where applicable) – GBP hedged
Generations Fund	Custom Benchmark
Liability Driven Investment	Custom Benchmark
Sterling Liquidity Fund	7-day GBP LIBID

The LGIM Buy and Maintain Credit Fund aims to produce a positive return from capital growth and income, by investing in predominantly fixed but also floating rate securities and holding these for the long term. Due to the nature of the fund, there is no explicit performance benchmark. For performance monitoring purposes, the iBoxx All Stock Sterling Non-Gilt Index is used as a comparator.

LGIM's objective for the passive All-World Equity Index Fund and the Generations Fund are to achieve the performance of the relevant benchmarks within an appropriate tolerance range.

9. Realising investments and rebalancing

The Trustees will typically realise investments for cashflow purposes and to rebalance the Scheme's asset allocation back to its target strategy.

As the Scheme is currently cashflow negative, there is generally a need to realise fund investments for cashflow purposes. Where possible, income distributions received from the Scheme's assets are to be used as the primary source of cashflows. Additionally, the Trustees will disinvest (or invest) assets in order to hold an appropriate short-term cash reserve to fulfil its liquidity objective.

The Trustees will consider requesting specific advice from its Investment Advisor before undertaking any rebalancing. When rebalancing using cashflows or to move back towards the strategic benchmark, the LDI funds will generally not be rebalanced as this would alter the level of hedging that the Scheme is exposed to. The level of investment in the LDI portfolio will be considered as part of larger strategic reviews of the Scheme's investment strategy.

10. Risks

In determining its investment policy, the Trustees have considered the following risks:

- *funding and asset/liability mismatch risk* – the risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors. In particular, the risk that a fall in the level of interest rates or a rise in the level of inflation expectations could result in the value of the Scheme's liabilities to increase to a greater extent than the Scheme's assets increase. The Trustees address this through the asset allocation strategy, including the fact that the matching assets are spread across different maturities, and through regular actuarial and investment reviews;
- *underperformance risk* – the failure by the investment vehicles in which the Trustees invest the Scheme's assets, to achieve the rate of investment return assumed by the Trustees. This is addressed through monitoring the performance of the Investment Managers and taking necessary action when this is not satisfactory;
- *risk of inadequate diversification or inappropriate investment* – the failure to spread investment risk through diversification of assets. The Trustees address this by investing in a diversified portfolio of assets thereby avoiding concentration of assets in one particular stock or sector, as well as periodic reviews of the investment strategy to ensure it remains appropriate;
- *sponsor risk* – the possibility of failure of the Scheme's sponsoring employer. The Trustees and their investment adviser considered this risk when assessing the appropriate level of investment risk to have within the investment strategy and consulted with the employer as to the suitability of the proposed strategy. The Trustees seek to maximise overall investment returns subject to an acceptable level of risk and, as far as possible, is mindful of the impact of any volatility on the rate of sponsor contributions;

- *liquidity risk* – the risk of a shortfall of liquid assets relative to the Scheme's immediate cashflow liabilities. The Trustees are required to meet ongoing pension and lump sum benefits and, therefore, address this risk by investing an appropriate amount in assets that distribute regular income and/or are realisable at relatively short notice;
- *credit and market risks* – the credit risk on the Scheme's investment vehicles with investment managers. The investment manager credit risk is mitigated by the fact that the underlying assets are ring-fenced from the investment manager and the regulatory environment in which the investment managers operate. Regarding market risks, the Trustees accept a degree of each of these risks in the expectation of being rewarded by excess returns. The Trustees minimise the extent of credit and market risks, subject to expected return requirements and the affordability of the Sponsor;
- *leverage and collateral adequacy risk* - The Scheme's liability driven investments are leveraged, which means that the Scheme's exposure to interest rates and inflation expectations exceeds the value invested in these funds. These funds may incur transaction costs associated with re-balancing the level of collateral held within the funds. There is a risk that the Scheme will be required to pay additional collateral into these funds in order to maintain the level of interest rate and inflation hedging. Should such an event arise then the Trustees have instructed LGIM to take these additional assets from the Scheme's holding in the LGIM All World Equity Index Fund. Should this still be insufficient to meet the required top up amount, the Scheme's level of hedging will be reduced;
- *counterparty risk* - within the Scheme's pooled fund investments, derivatives may also be used for liability hedging, efficient portfolio management, and to hedge overseas exposure. The resulting counterparty risk is managed by the Investment Manager through the use of a range of counterparties and the collateralisation of the derivatives within the pooled funds;
- *environmental, social and governance (ESG) factors* – the Trustees acknowledge that ESG factors, including climate change, can have a financially material impact on the future returns on its investments and the Trustees' actions to mitigate these is detailed in the following section.
- *non-financial risks* – the Trustees have not taken these into account when deciding the choice of the Scheme's investments.

The Trustees will monitor these risks from time to time, particularly those deemed to have high likelihood or significant adverse impact, and will look to introduce further control measures as appropriate to contain the overall level and distribution of risks to within acceptable limits.

11. Environmental, social and governance (ESG) policies and stewardship

The Investment Managers are responsible for managing the Scheme's investments in accordance with the management agreements in place with the Trustees. The Trustees have delegated the responsibility for the exercise of all rights (including voting rights) attaching to the investments to the Investment Managers.

The Trustees are responsible for setting the Scheme's investment strategy and implementing that strategy through appointing investment managers and selecting investment funds. When setting investment strategy and selecting investments, the Trustees' first priority is the financial interests of its members. The Trustees regularly review the return objectives, risk characteristics, investment approach and investment guidelines of the Scheme's current investment mandates. The Trustees are satisfied that the existing mandates fulfil the needs of its target investment strategy and by extension, that the Scheme's Investment Managers are managing the Scheme's assets in a manner which is consistent with members' financial interests.

The core operating principles of Credit Unions are founded in the philosophy of cooperation and its central values of equality, equity and mutual self-help. In line with these operating principles, the Trustees acknowledge that certain ESG factors, including climate change and ethical consideratios, are financially material and may therefore influence the risk and return characteristics of the Scheme's investments and the likelihood that the Scheme's objectives will be achieved.

The Trustees recognise the importance of ESG factors on long term investment performance and both immediate and future downside risks. The Trustees have set an appropriate monitoring framework to ensure the Scheme's Investment Managers are regularly reviewed. This promotes greater transparency, improved understanding of the reasons behind performance trends, key risk exposures, the level of engagement activity and compliance with the Trustees' stated ESG policy. Regular monitoring, with specific reference to ESG factors should incentivise the Scheme's Investment Managers to assess and improve the medium to long-term performance of investee companies, both financial and non-financial. To confirm, no consideration has been given to non-financial considerations, nor has the Scheme's membership been consulted on such issues.

The Trustees also recognise the importance of regular monitoring of the Investment Managers' performance, remuneration and compliance against its ESG policy to ensure that the Scheme's assets are being managed appropriately. The Trustees believe that regular monitoring ensures that key risks to longer term performance, including those relating to ESG factors, are quickly identified and concerns communicated with the relevant investment manager.

In addition to performance measures, the Trustees will review the engagement activity of the Investment Managers to ensure that active engagement is taking place where possible to influence positive change in relation to ESG factors within investee companies. The Trustees also monitors the voting activity of the Investment Managers to ensure votes are being used and are aligned to its views on ESG.

As part of the selection, retention and realisation of the Scheme's investments, the Trustees, in consultation with its Investment Advisor, have reviewed the ESG and stewardship policies of the Investment Managers and are comfortable that these policies are consistent with its views. In particular, the Trustees note the following:

- The Investment Managers have clear views on ESG factors and stewardship which are clearly articulated in formal policies on these issues.
- The Scheme's investments include those which are passively managed where LGIM is restricted in the choice of underlying assets to invest in. As such, stewardship is of primary importance in ensuring that financially material ESG factors are given appropriate consideration.
- The Trustee's policy in relation to any rights (including voting rights) attaching to its investments is to exercise those rights to protect the value of the Scheme's interests in the investments, having regard to appropriate advice. The Trustees expect the Investment Managers to engage with investee companies (and other relevant persons including, but not limited to, investment managers, issuers/other holders of debt and equity and other stakeholders) on aspects such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, corporate governance, social and environmental issues concerning the Trustees' investments. The Trustees believe that such engagement will protect and enhance the long-term value of its investments.

- The Investment Managers regularly publish results of how its stewardship policies are enacted in practice and the Trustees expect the Investment Managers to provide regular updates on how it exercises voting rights and actively engages with the companies in which it invests, including how often it votes against company proposals. The Trustees will review this on a regular basis in line with its monitoring policy mentioned above.
- Regarding the Scheme's LDI assets, the nature of these assets dictate that the ESG factors are less likely to be financially material. The Trustees do however have confidence that the LGIM has adequate governance practices in place to capture key regulatory developments which might influence the future management/ performance of these assets.

The Trustees will keep its investments under review, and should they feel that the Investment Managers do not act in accordance with its views on ESG, the Trustees will take the following steps:

- Engage with the Investment Managers in the first instance, in an attempt to influence their policies on ESG and stewardship; and
- If necessary, look to appoint a replacement investment manager or managers that are more closely aligned with the Trustee's policies and views.

These statements are made noting that the Scheme's assets are invested in pooled funds and as such, the Trustees are restricted in their ability to directly influence the Investment Managers on the ESG policies and practices of the companies in which the pooled funds invest.

12. Governance

The Trustees of the Scheme are responsible for the investment of the Scheme's assets. The Trustees take some decisions and delegate others. When deciding which decisions to take itself and which to delegate, the Trustees have taken into account whether the Trustees have the appropriate training and expert advice in order to take an informed decision. The Trustees have established the following decision-making structure:

Trustees • Select and monitor planned asset allocation strategy; • Select and monitor investment advisors and investment managers; • Select and monitor any direct investments; • Responsible for all aspects of the investments of the Scheme's assets, including ESG considerations and implementation.
Investment Advisor • Advises on this statement; • Advises the Trustees on areas of strategy, manager selection, ESG and implementation as required; • Provides required training when engaged on a separate basis by the Trustees.
Investment Managers • Operate in line with the agreement with the Trustees, which the Trustees believe is consistent with the terms of the SIP; • Manage in accordance with the agreements, including decisions around the selection and retention of underlying investments; • Are responsible for the stewardship of underlying investments.

When deciding whether or not to allocate money to any new direct investments, the Trustees will obtain written advice from the Investment Advisor and consider whether future decisions about those investments should be delegated to the fund manager. The written advice will consider the suitability of the investments, the need for diversification and the principles contained in this statement. DTRB has been appointed to provide investment advisory services including the provision of this advice.

The Trustees recognise that, where the Scheme is invested in pooled funds, there is limited scope to influence the controls and restrictions used in the management of the underlying assets and acknowledge that derivatives may be used by the manager within the funds.

The Trustees have delegated all day-to-day decisions about the investments that fall within the mandate to the Investment Manager through a written contract. These duties include:

- Realisation of investments;
- Taking into account ESG factors;
- Voting and corporate governance in relation to the Scheme's assets.

The Trustees expect the Investment Manager to manage the assets delegated to them under the terms of their contract and to give effect to the principles in this statement so far as is reasonably practicable.

13. Custodian

The Scheme's investments are accessed via insurance policies. The investments in pooled pension funds are a share (measured in units) of larger pools of investments managed by the Investment Manager. The custodianship arrangements are those operated by the Investment Manager for all clients investing in the relevant pooled funds.

14. Fees

The Investment Manager levies the following annual management charges.

Fund	**Annual Management Charge (p.a.)**
All-World Equity Fund – GBP currency hedged	First £5m: 0.223% Next £10m: 0.198% Next £35m: 0.173% Balance over £50m: 0.148%
Buy and Maintain Credit Fund	0.15% of assets
Partners Group Generations Fund	1.99% of assets
Liability Driven Investment fund range	First £25m: 0.24% Balance over £25m: 0.17%
Sterling Liquidity Fund	First £5m: 0.125% Next £5m: 0.10% Next £20m: 0.075% Balance over £30m: 0.05%

September 2021

For and behalf of the Trustees of the Irish League of Credit Unions Northern Ireland Pension Scheme.