BE PENSION FUND TRUSTEES LIMITED

BANK OF ENGLAND STAFF PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

February 2021

Introduction

1.1 This Statement has been prepared to comply with the investment provisions of the Pensions Act 1995 as amended by the Pensions Act 2004 and codified in the Occupational Pension Schemes (Investment) Regulations 2005 (the Investment Regulations) and with the Government's Voluntary Code for Pension Fund Investment issued in 2001 following the Myners Review of institutional investment in the UK. It supersedes any previous Statement of Investment Principles (SIP) and reflects the investment policy agreed by the Trustee in respect of assets covering Defined Benefit liabilities.

1.2 Responsibility for the Fund's investment policy and investment management rests with the Trustee, which is under a general duty to comply with the Pensions Acts 1995 and 2004 and any other applicable legislative requirements. The Trustee has a primary responsibility to meet liabilities as they fall due and in the meantime to invest the assets in the best interests of members. In exercising any power of investment the Trustee will have regard to the suitability of the investment, to the need to limit risk, and to the overall security, quality and liquidity of the portfolio.

1.3 In preparing this statement the Trustee consulted the Bank of England, and considered written advice from the Fund's investment consultants. The Trustee will consult the Bank of England on any future changes in investment policy.

1.4 The Trustee will review this Statement and their investment policy at least every three years in conjunction with each triennial valuation or immediately following any significant changes in investment policy. The Trustee will also review this Statement in response to any material changes to any aspect of the Fund, its liabilities, regulatory requirements, finances and attitude to risk of either the Trustee or Bank of England which it judges to have a bearing on the stated investment policy.

Objectives

2.1 The long-term investment objectives of the Fund are:

(i) To hold a diversified portfolio of contractual based risk assets to pursue a return of Gilts + 0.5% pa that will be used to meet benefits accruing.

(ii) To invest to meet the cashflows of the Fund's accrued liabilities having regard for transaction costs, using a mix of high quality bond or bond like assets that pay out contractual income with a high degree of security.

(iii) To limit the risk of assets failing to meet the liabilities over the long term.

(iv) To ensure the Fund's assets have sufficient liquidity and meet benefit payments as they fall due.

The Trustee believes the investment objectives and the resultant investment strategy are consistent with the actuarial valuation methodology and assumptions used by the Fund Actuary.

<u>Asset Allocation</u>

3.1 The strategic objectives of the Fund and any benchmark for the allocation of the Fund's assets will be reviewed no less frequently than triennially and more frequently if the circumstances require. A review will be carried out not more than 18 months after each full actuarial valuation. Each review will be carried out after obtaining such advice as the Trustee considers necessary and after discussion with the Bank.

3.2 The strategic asset allocation will be driven by the financial characteristics of the Fund, in particular the Fund's liabilities, the security of the Bank's covenant and the risk tolerance of the Bank and the Trustee.

3.3 The Trustee seeks to achieve the Fund's objectives through investing in a mix of financial instruments, principally index-linked and fixed interest gilts, HM Government guaranteed sterling bonds, supra-nationals, sterling investment grade credit (corporate and sub-sovereigns), non-sterling investment grade corporate credit, hard currency emerging market debt and illiquid secure income assets, such as senior infrastructure debt, senior commercial real estate debt, private corporate debt and amortising long lease financings. The Fund will also use a derivative overlay, to maintain the Fund's interest rate and inflation hedging level. The current investment strategy is based on the Bank's stated preference to achieve a return target in excess of gilts whilst hedging the Fund's accrued liabilities.

3.4 Details of each specific mandate are set out in the agreements and fund documentation with each Investment Manager. The amounts allocated to any individual category or security will be influenced by the overall benchmark and objectives, varied through the

Investment Managers' tactical asset allocation preferences at any time, within any scope given to them through asset allocation parameters and investment guidelines set by the Trustee or governing the pooled funds in which the Fund is invested.

The actual strategy adopted for the Fund, including the allocation to different assets and expected returns is set out in the Appendix.

Realisation of Investments

4.1 The Trustee, together with the Fund's administrators, will ensure that it holds sufficient cash to meet the projected benefit commitments as they arise. The Trustee's policy is that there should be sufficient investments in liquid or readily realisable assets to meet cash flow requirements.

Investment Management

5.1 Day-to-day investment decisions will be delegated to such investment managers as the Trustee may select. The Trustee will ensure that any investment management agreement under which investment managers are appointed specifies the powers and limitations appropriate to the mandate being given. Ultimately, the Trustee retains control over all decisions made about the investments in which the Fund invests.

5.2 Investment management mandates will set clear objectives over agreed timescales, based on the Trustee's strategic investment objectives. Where Investment Managers are delegated discretion under Section 34 of the Act, the Investment Manager will exercise their investment powers in accordance with the Act, relevant and subsequent regulations, and this SIP.

5.3 Appointments of investment managers are expected to be long-term, but the Trustee will review the appointment of the investment managers in accordance with its responsibilities. Such reviews will include analysis of each Investment Manager's performance and processes and an assessment of the diversification of the assets held by the Investment Manager. The review will include consideration of the continued appropriateness of the mandate given to the Investment Manager within the framework of the Trustee's investment policies.

5.4 The criteria by which the Trustee will select (or deselect) the investment managers include:

- Ownership of the business including but not limited to stability of the organisation, alignment of business direction, autonomy and management of internal conflicts and access to financing;
- Leadership/team managing the strategy and client service;
- Key features of the investment and the role it performs in a portfolio;
- Philosophy and approach to selecting underlying investments including operational risk management and systems;
- Current and historical asset allocation of the fund;
- Past performance and track record;
- The underlying cost structure of the strategy;
- Consistency and extent to which the items detailed within the Fund's Responsible Investment policy are incorporated into the process of selecting underlying investments.

5.5 Investment managers are incentivised to perform in line with expectations for their specific mandate as their continued involvement as investment managers within the Fund's investment strategy – and hence the fees they receive – are dependent upon them doing so. They are therefore subject to performance monitoring and reviews based on a number of factors linked to the Trustee's expectations.

5.6 The Investment Sub-Committee of the Trustee will monitor the performance of the investment managers, at least quarterly, and identify investment-related issues to be considered by the Trustee.

5.7 Fund manager remuneration is considered as part of the manager selection process. It is also monitored regularly to ensure it is in line with the Trustee's policies and with fee levels deemed to be appropriate for the particular asset class and fund type.

5.8 The Trustee requires the investment managers to report on actual portfolio turnover at least annually, including details of the costs associated with turnover, how turnover compares with the range that the Investment Manager expects and the reasons for any divergence.

Custodian

6.1 The Trustee will appoint a Custodian and may permit the Custodian to lend stocks subject to market standard terms and conditions. The Trustee utilises custodian relationships to ensure the Fund assets are held securely.

6.2 The Trustee will ensure that any agreement appointing a Custodian specifies the Custodian's powers and limitations on those powers.

6.3 The Trustee will approve a Service Level Agreement (SLA) setting clear objectives over agreed timescales for the Custodian.

6.4 The Trustee may charge to the Fund the costs of investment and custodianship of the Fund's assets.

Responsible Investment

7.1 As a long term investor, the Trustee of the Fund believes that financially material environmental, social and governance ("ESG") issues can impact the value of financial assets and the ability to generate long term sustainable returns. The Trustee recognises that taking these issues into consideration is consistent with the Trustee's fiduciary duty and need to be integrated within the investment strategy and throughout the investment process. Further, the Trustee considers climate change to be a significant long-term financial and systemic risk that if not managed, has the potential to negatively impact the value of the Fund's investments.

7.2 The Trustee has a detailed responsible investment policy (documented and maintained separately) that sets out the Trustee's Responsible Investment approach.

7.3 The Fund's assets are managed by external managers. In taking a responsible approach to investing the Fund's assets, the Trustee requires its investment managers to consider the materiality and impact of ESG and climate change risks within the entire investment process including the selection, retention and realisation of investments.

7.4 The Trustee has delegated all stewardship activity to its managers as it believes the managers are best placed to conduct stewardship given their expertise and access to company management. The Trustee expects its managers to engage on financially material ESG and climate change related issues alongside other financially material matters such as performance, strategy, risks, capital structure, conflicts of interest policies.

7.5 The Trustee's views and Responsible Investment approach will be incorporated into any future investment manager selection exercises for the underlying investments that the Fund makes. Further to this, the Trustee, with the assistance of the Investment Adviser, will monitor the ESG integration practices of the managers they are invested in to ensure they remain appropriate and in line with the Trustee's requirements.

7.6 If the Trustee becomes aware of an investment manager engaging with the underlying issuers of debt or equity in ways that they deem inadequate or that the results of such engagement are misaligned with the Trustee's expectation, then the Trustee may consider terminating the relationship with that investment manager.

7.7 The Trustee's policy is that non-financial matters, including those relating to individual member specific ethical views, are not to be taken into account in the selection, retention and realisation of investments.

Risk Management

8.1 The Trustee recognises a number of financial risks involved in the investment of the Fund's assets. The Trustee measures these risks through actuarial valuations and using asset liability modelling to assess the actual change in value of the liabilities relative to expectations. These risks are managed by adopting the investment strategy set out in 4.3, whilst the protection of members' interests is additionally secured by the Bank's covenant.

8.2 The Trustee also recognises that operational risks arise in the management and administration of pension fund assets. Those risks are addressed through formal arrangements put in place with the relevant parties, including investment managers and custodians.

8.3 The Trustee operates a Risk Register, which is available to Trustee Directors online and is formally reviewed at each Board meeting.

8.4 The Trustee's policy towards managing financially material risks related to Environmental, Social and Governance (ESG) factors, including climate change, is outlined at a high level in the Responsible Investment section above and in detail within the separate Responsible Investment Policy.

Provision of Additional Voluntary Contributions (AVCs)

9.1 The Fund formerly provided a facility for members to pay additional voluntary contributions (AVCs) to external providers to enhance their benefits at retirement. This is now closed to new contributions in favour of alternative arrangements which are outside the Trustee's responsibility. The Trustee selected these vehicles as they were believed to meet the Trustee's objective of providing investment options that enabled AVC members to generate suitable long-term returns, consistent with their reasonable expectations. The AVC providers include:

- Utmost Life and Pensions
- Prudential
- Standard Life

9.2 The appointment of the AVC providers and the choice of AVC funds offered to members will be reviewed by the Trustee periodically in accordance with their responsibilities and performance.

Anne Glover
Chair
5 May 2021