Knight Frank Staff Pension Fund

Statement of Investment Principles

January 2023

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Introduction

Fund background

- This Statement of Investment Principles (the "Statement") details the principles governing investment decisions for the Knight Frank Staff Pension Fund by the Trustee Directors (the "Directors") of Knight Frank Pension Trustees Limited.
- The Fund:
  - operates for the exclusive purpose of providing retirement and death benefits to eligible participants and beneficiaries,
  - provides benefits calculated on a defined benefit (DB) basis,
  - has been closed to future accrual since 31 December 2005.
- Buck are investment consultants to the Directors.

Regulatory requirements and considerations

- This statement covers the requirements of, and the Fund's compliance with, the provisions of the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005 as well as additional non-statutory information recommended to be included following the Myners review of "Institutional Investing in the UK", the results of which were first published in 2001 (referred to as the "Myners Principles").
- The Myners Principles require Trustee Boards to act in a transparent and responsible manner. The information set out in this document, and the accompanying 'Summary of Investment Arrangements' document, helps ensure that the Directors are complying with this requirement.
- In respect of the additional voluntary contributions provided on a money-purchase basis within the Fund, the Directors have taken into account the requirements and recommendations within the Pension Regulator's DC code and regulatory guidance.

Statement of Investment Principles

Introduction

- This section of the Statement covers the requirements of the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005.

- In accordance with section 35 of the Pensions Act 1995, the Directors have reviewed and considered written advice from the investment consultant prior to the preparation of this Statement and have consulted the Sponsoring Employer.

- The Directors will review this Statement, in consultation with the investment consultant and the Sponsoring Employer, at least once every three years, or more frequently if there are any significant changes in the Fund's circumstances. However, ultimate power and responsibility for deciding investment policy lies solely with the Directors.

Key investment principles

Kind of investments to be held

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

- The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities, fixed interest and index-linked bonds and cash or via pooled investment vehicles considered appropriate for tax-exempt registered occupational pension schemes. The Directors have considered the attributes of the various asset classes, these attributes being:

  – security (or quality) of the investment,

  – yield (expected long-term return),

  – spread (or volatility) of returns,

  – term (or duration) of the investment,

  – exchange rate risk,

  – marketability/liquidity (i.e., the tradability on regulated markets),

  – taxation.

- The Directors presently consider it suitable for the Fund to invest in fixed and index-linked government bonds, buy and maintain bond funds, liability-driven investments ('LDI') and infrastructure assets.

Investment decisions

- All investment decisions are taken by the Trustee Board as a whole. The Directors believe that collective responsibility is the appropriate structure, given the size of the board, except for specific projects when an investment sub-committee may be set up. The Directors will examine regularly whether additional investment training is desirable for any individual Director.

- All investment decisions relating to the Fund are under the Directors' control without constraint by the Sponsoring Employer. The Directors are obliged to consult with the Sponsoring Employer when changing this Statement.

- All day-to-day investment decisions are delegated to properly qualified and authorised investment managers of pension scheme portfolios. Investment management agreements or insurance contracts have been exchanged with the investment managers and are reviewed from time-to-time to ensure that the manner in which they make investments on the Directors' behalf is suitable for the Fund, and appropriately diversified.

Investment objectives and suitability of investments

- The Fund's investment strategy has been agreed by the Directors having taken advice from the investment consultant and takes due account of the Fund's liability profile along with the level of disclosed surplus or deficit.

- The Directors' agreed investment strategy is based on an analysis of the Fund's liability profile, the required investment return and the returns expected from the various asset classes over the long-term. Long-term returns from infrastructure are expected to exceed the returns from bonds and cash, although returns and capital values may demonstrate higher volatility. The Directors are prepared to accept this higher volatility in order to aim to achieve the overall investment objectives.

- The Directors' primary objectives are:

  – to provide appropriate security for all beneficiaries,

  – to achieve long-term growth sufficient to provide the benefit payments from the Fund, and

  – to achieve an appropriate balance between risk and return with regards to the cost of the Fund and the security of the benefits.

- The Directors have translated their objectives into a suitable strategic asset allocation benchmark for the Fund.

- In accordance with the Financial Services & Markets Act 2000, the Directors are responsible for setting the general investment policy, but the responsibility for all day-to-day investment management decisions has been delegated to investment managers authorised under the Act.

- The Directors are responsible for reviewing both the Fund's asset allocation and investment strategy as part of each actuarial valuation in consultation with the Fund's investment consultant. The Directors may also reconsider the asset allocation and the investment strategy outside the triennial valuation period where necessary.

- The Directors consider the Fund's current strategic asset allocation to be consistent with the current financial position of the Fund. This assessment was made with reference to the Technical Provisions set out in the Fund's Statement of Funding

Principles relating to the 31 December 2020 actuarial valuation. “Technical provisions” is the value of the Fund’s liabilities for funding purposes as at the latest available Fund-specific actuarial valuation date.

Diversification

- The Directors, after seeking appropriate investment advice, have selected a strategic asset allocation benchmark for the Fund. Full details are set out in the Fund’s Summary of Investment Arrangements.

- Subject to their respective benchmarks and guidelines the investment managers are given full discretion over the choice of underlying assets and are expected to maintain diversified portfolios.

- The Directors are satisfied that the investments selected are consistent with their investment objectives, particularly in relation to diversification, risk, expected return and liquidity.

- Given the size and nature of the Fund, the Directors have decided to invest the Fund’s assets on a pooled fund basis. Any such investment is effected through a direct agreement with the investment managers and/or through an insurance contract.

- The Directors are satisfied that the range of vehicles in which the Fund’s assets are invested provides adequate diversification.

Risk

- The Directors consider the main risk to be that of the assets being insufficient to meet the Fund’s liabilities as they fall due. The Directors have assessed the likelihood of undesirable financial outcomes arising in the future.

- Investment policies are set with the aim of having sufficient and appropriate assets to cover the Fund’s Technical Provisions, and with the need to avoid undue contribution rate volatility.

- In determining their investment strategy, the Directors received advice from the investment consultant on a suitable portfolio of assets to target buy-out in the short term and therefore run a low level of investment risk in the strategy relative to the Fund’s liability profile. Taking this into account, along with the expected returns underlying the most recent actuarial valuation, the strategy outlined in the Summary of Investment Arrangements has been adopted.

- Although the Directors acknowledge that the main risk is that the Fund will have insufficient assets to meet its liabilities, the Directors recognise other contributory risks, including the following. Namely the risk:

  – associated with the differences in the sensitivity of asset and liability values to changes in financial and demographic factors,

  – of the Fund having insufficient liquid assets to meet its immediate liabilities,

  – of the investment managers failing to achieve the required rate of return,

  – due to the lack of diversification of investments,

  – of failure of the Fund’s Sponsoring Employer to meet its obligations.

- The Directors manage and measure these risks on a regular basis via actuarial and investment reviews, and in the setting of investment objectives and strategy.

- The Directors undertake monitoring of the investment managers' performance against their targets and objectives on a regular basis.

- Each fund in which the Fund invests has a stated performance objective by which investment performance will be measured. Within each asset class, the investment managers are expected to maintain a portfolio of securities (or funds), which ensures that the risk being accepted in each market is broadly diversified.

- The divergence of the actual distribution of the investments from the benchmark weighting will be monitored by the Fund's investment consultant. Any deviation from the target asset allocation will be discussed periodically with the investment consultant.

Expected return on investments

- The investment strategy is believed to be capable of exceeding, in the long run, the overall required rate of return assumed in the Scheme Actuary's published actuarial valuation report in order to reach a fully funded status under the agreed assumptions.

Realisation of investments

- In the event of an unexpected need to realise all or part of the assets of the portfolio, the Directors require the investment manager(s) to be able to realise the Fund's investments in a reasonable timescale by reference to the market conditions existing at the time the disposal is required and subject to the best interests of the Fund. The majority of the assets are not expected to take an undue time to liquidate.

Investment manager monitoring

- The Directors will assess the performance, processes and cost effectiveness of the investment managers by means of regular, but not less than annual, reviews of the results and other information, in consultation with the investment consultant.

- All investment decisions, and the overall performance of the investment managers, are monitored by the Directors with the assistance of the investment consultant.

- The investment managers will provide the Directors with quarterly statements of the assets held along with a quarterly report on the results of the past investment policy and the intended future policy, and any changes to the investment processes applied to their portfolios. The investment managers will also report orally on request to the Directors.

- The investment managers will inform the Directors of any changes in the internal performance objective and guidelines of any pooled funds used by the Fund as and when they occur.

- The Directors will assess the quality of the performance and processes of the investment managers by means of a review at least once every three years in consultation with the investment consultant.

- Appropriate written advice will be taken from the investment consultant before the review, appointment or removal of the investment managers.

Investment manager policy

- In detailing below the policies on the investment manager arrangements, the over-riding approach of the Directors is to select investment managers that meet the primary objectives of the Directors. As part of the selection process and the ongoing review of the investment managers, the Directors consider how well each investment manager meets the Directors' policies and provides value for money over a suitable timeframe.

- The Directors have delegated the day to day management of the Fund's assets to investment managers. The Fund's assets are invested in pooled funds which have their own policies and objectives and charge a fee, agreed with the investment manager, for their services. Such fees incentivise the investment managers to adhere to their stated policies and objectives.

- The Directors, in conjunction with their investment consultant, appoint their investment managers and choose the specific pooled fund to use in order to meet specific Fund policies. They expect that their investment managers make decisions based on assessments about the financial performance of underlying investments, and that they engage with issuers of debt or equity to improve their performance (and thereby the Fund's performance) over an appropriate time horizon.

Evaluating manager performance

- The Directors expect their investment managers to invest the assets within their portfolio in a manner that is consistent with the guidelines and constraints set out in their appointment documentation. The Directors review the investment managers periodically. These reviews incorporate benchmarking of performance and fees. Reviews of performance focus on longer-term performance (to the extent that is relevant), e.g. looking at five years of performance.

- If the Directors determine that an investment manager is no longer managing the assets in line with the Directors' policies, they will make their concerns known to the investment manager and may ultimately disinvest.

- The Directors pay their non LDI investment managers a management fee which is a fixed percentage of assets under management (in addition, a performance fee is payable to the infrastructure manager), whilst the LDI manager's management fee is a fixed percentage of the liability value hedged.

- Prior to agreeing a fee structure, the Directors, in conjunction with their investment consultant, consider the appropriateness of this structure, both in terms of the fee level compared to that of other similar products and in terms of the degree to which it will incentivise the investment manager.

Turnover costs

- The Directors, in conjunction with their investment consultant, have processes in place to review investment turnover costs incurred by the Fund on an annual basis. The Directors receive a report which includes the turnover costs incurred by the investment managers used by the Fund.

- The Directors expect turnover costs of the investment managers to be in line with their peers, taking into account the style adopted by the investment manager, the asset class invested in and prevailing market conditions.

- The Directors do not explicitly monitor turnover, set target turnover or turnover ranges. The Directors believe that the investment managers should follow their stated approach with a focus on risk and net return, rather than on turnover. In addition, the individual mandates are unique in nature and there is the potential for markets to change significantly over a short period of time.

Duration of manager appointments

- The Directors do not in general enter into fixed long-term agreements with their investment managers and instead retain the ability to change investment manager should the performance and processes of the investment manager deviate from the Trustee's policies. However, the Directors expect their manager appointments to have a relatively long duration, subject to the manager adhering to its stated policies, and the continued positive assessment of its ability to meet its performance objective.

Performance monitoring

- Each of the funds in which the Fund invests has a stated performance objective against which the performance is measured.

- The Directors will review the performance of the investment managers from time to time, based on the results of their performance and investment process.

- The investment managers are expected to provide written reports on a quarterly basis.

- The Directors receive an independent investment performance monitoring report from their investment consultant on an annual basis.

Balance between different kinds of investments

- The appointed investment managers will hold a diversified mix of investments in line with their agreed benchmark. Within each major market each manager will maintain a diversified portfolio of stocks within the pooled vehicles.

Financially material considerations

- The Directors expect their investment managers, where appropriate, to have taken account of financially material considerations, including environmental, social and governance (ESG) factors as part of their investment analysis and decision-making process.

- The Directors review the investment managers' policies in respect of financially material considerations from time to time.

- Where appropriate, the Directors will take into account the approach to financially material considerations in deciding whether to retain or appoint investment managers.

Non-financial matters

- The financial interests of the Fund members are the Directors' first priority when choosing investments. The Trustee does not currently take non-financial factors into account.

Stewardship

- The Directors have a fiduciary duty to consider their approach to the stewardship of the investments, to maximise financial returns for the benefit of members and beneficiaries over the long term. The Directors can promote an investment's long-term success through monitoring, engagement and/or voting, either directly or through their investment managers.

- The Directors' policy is to delegate responsibility for engaging and monitoring investee companies to the investment managers. The Directors expect the investment managers to use their discretion to maximise financial returns for members and others over the long term.

- The Directors' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and to encourage the managers to exercise those rights. The investment managers are expected to provide regular reports to the Directors detailing their voting activity.

Additional Voluntary Contributions (AVCs)

- The Directors have full discretion as to the appropriate investment vehicles made available to members of the Fund for their voluntary contributions. Only investment vehicles normally considered suitable for voluntary contributions will be considered by the Directors, having taken appropriate written advice from properly qualified and authorised financial advisers.

- The Directors make available the following range of investment options for the members' AVCs:

AVC Provider	Investment Options
Zurich	Various Unit-Linked
Zurich	With-Profits
Utmost Life and Pensions	Various Unit Linked

- In selecting this range of funds offered the Directors have taken advice from their professional advisers on:

  - the risks faced by members in investing on a money purchase basis, and

  - the Directors' responsibilities in the selection and monitoring of the investment options offered.

- The Directors will continue to manage the AVC arrangements having taken professional advice on these matters.

- The Directors will monitor the performance of AVC providers periodically.

- Members are directed to seek independent financial advice when considering their AVC arrangements.

Appointments & Responsibilities

This section sets out the key appointments and responsibilities with respect to the investment aspects of the Fund.

Trustee Directors

The Directors' primary responsibilities include:

- preparation of this Statement, reviewing its contents and modifying it if deemed appropriate, in consultation with the Sponsoring Employer and the investment consultant, at least every three years. The Statement will also be reviewed following a change to investment strategy and/or the investment managers,
- appointing investment consultants and investment managers as necessary for the good stewardship of the Fund's assets,
- reviewing the investment strategy as part of each triennial actuarial valuation, and/or asset liability modelling exercise, and/or significant changes to the Fund's liabilities, taking advice from the investment consultant,
- assessing the processes (and therefore the performance) of the investment managers by means of regular, but not less than annual, reviews of information obtained (including investment performance),
- monitoring compliance of the investment arrangements with this Statement on a regular basis, and

Investment Consultant

The main responsibilities of the investment consultant include:

- assisting the Directors in the preparation and periodic review of this Statement in consultation with the Sponsoring Employer,
- undertaking project work including reviews of investment strategy, investment performance and manager structure as required by the Directors,
- advising the Directors on the selection and review of the investment manager(s),
- providing training or education on any investment related matter as and when the Directors see fit, and
- monitoring and advising upon where contributions should be invested or disinvested on a periodic basis.

Investment Managers

The investment managers' main responsibilities include:

- investing assets in a manner that is consistent with the objectives set,
- ensuring that investment of the Fund's assets is compliant with prevailing legislation and the constraints detailed in this Statement,
- providing the Directors with quarterly reports including any changes to their investment process and a review of the investment performance,
- attending meetings with the Directors as and when required,
- informing the Directors of any changes in the fee structure, internal performance objectives and guidelines of any pooled fund used by the Fund as and when they occur, and
- exercising voting rights on shareholdings in accordance with their general policy.

Custodian

The custodians used are responsible for the safe-keeping of the Fund's assets.

- The custodianship arrangements are those operated by the investment managers for all clients investing in their pooled funds.

Administrator

The administrator's primary responsibilities are the day to day administration of the Fund and the submission of specified statutory documentation, as delegated by the Directors.

- The Fund's administrator is Buck.

Scheme Actuary

The Scheme Actuary's main responsibilities in respect of investment policy include:

- commenting on the suitability of the Fund's investment strategy given the financial characteristics of the Fund; and
- performing the triennial (or more frequently as required) actuarial valuation and advising on the Fund's funding level and therefore the appropriate level of contributions in order to aid the Directors in balancing short-term and long-term investment objectives.

The Scheme Actuary is Gary Cameron of Buck.

Signed on behalf of the Trustee Directors of the Fund:

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Name Signature

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Date