

# Knight Frank Staff Pension Fund

## Statement of Investment Principles

September 2023

# Contents

Introduction .....	2
Fund background .....	2
Regulatory requirements and considerations .....	2
Statement of Investment Principles .....	3
Introduction .....	3
Key investment principles.....	3
Appointments & Responsibilities .....	9

# Introduction

## Fund background

- This Statement of Investment Principles (the “Statement”) details the principles governing investment decisions for the Knight Frank Staff Pension Fund (the “Fund”) by the Trustee Directors (the “Directors”) of Knight Frank Pension Trustees Limited (the “Trustee”) of the Fund.
- 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, and
  - has been closed to future accrual since 31 December 2005.
- In August 2023 the Trustee entered into a bulk annuity contract (the “buy-in policy”) in the name of the Trustee with Standard Life Assurance Limited (“Standard Life”) that will meet members’ benefits in full.
- Buck are investment consultants to the Trustee.

## 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 amended) and reflects The Pensions Regulator’s investment guidance for trustees running pension schemes that offer defined benefits issued in March 2017 and subsequently updated in September 2019.
- In respect of the additional voluntary contribution (AVC) arrangements provided on a money-purchase basis within the Fund, the Trustee has taken into account the requirements and recommendations within The Pensions Regulator’s current code of practice 13: Governance and administration of occupational trust-based schemes providing money purchase benefits, including 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 (as amended).
- In accordance with section 35 of the Pensions Act 1995, the Trustee has reviewed and considered written advice from the investment consultant prior to the preparation of this Statement and has consulted Knight Frank LLP (the “Sponsoring Employer”).
- The Trustee 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 Trustee.

## Key investment principles

### Investment decisions

- All investment decisions are taken by the Trustee Board as a whole. The Trustee believes 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 Trustee will examine regularly whether additional investment training is desirable for any individual Director.
- All investment decisions relating to the Fund are under the Trustee’s control without constraint by the Sponsoring Employer. The Trustee is 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 and the buy-in policy provider. Investment management agreements or insurance contracts have been exchanged with the investment managers or the buy-in policy provider, and are reviewed from time-to-time to ensure that the manner in which they make investments on the Trustee’s 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 Trustee having taken advice from the investment consultant and takes due account of the Fund’s liability profile.
- The Trustee’s primary objectives are:
  - to provide appropriate security for all beneficiaries,

- to achieve an appropriate balance between risk and return with regards to the cost of the Fund and the security of the benefits.
- In accordance with the Financial Services & Markets Act 2000, the Trustee is 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 Trustee is 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 Trustee may also reconsider the asset allocation and the investment strategy outside the triennial valuation period where necessary.
- The agreed investment strategy involves the pensioner and deferred member liabilities being secured by the buy-in policy.
- In addition, the Trustee holds the surplus amount left after the buy-in in a cash fund as it is a more secure way to hold a large amount of cash than the trustee bank account and at the same time earns more interest on the investment.

### Kind of investments to be held

- The Trustee has 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 insurance policies, equities, fixed interest and index-linked bonds and cash or via pooled investment vehicles considered appropriate for tax-exempt registered occupational pension schemes. The Trustee has 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 Trustee has invested in the buy-in policy to insure all economic and longevity risk associated with the liabilities of all members covered by the policy with an insurance company that is financially strong.
- The majority of the Fund's assets are invested in the buy-in policy, with any surplus to be held in the cash fund.

## Diversification

- Subject to their respective benchmarks and guidelines the investment managers of the assets are given full discretion over the choice of underlying assets and are expected to maintain diversified portfolios.
- The Trustee is satisfied that the investments selected are consistent with its investment objectives.
- Given the size and nature of the Fund, the Trustee has 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.

## Risk

- In determining its investment strategy, the Trustee received advice from the investment consultant to proceed with the buy-in policy and on the disinvestment of the Fund's residual assets.
- Although the buy-in policy removes many of the risks, the Trustee recognises some risks remain, namely the risk:
  - Of the buy-in policy provider failing to provide the desired benefit payments.
  - The potential for an additional premium to be paid to the buy-in policy provider in the event material changes are required to the data or benefits insured within 12 months of the policy inception date.
  - Of the residual cash held by the Fund being insufficient to meet residual obligations.
  - Of a failure of the Fund's Sponsoring Employer to meet its obligations.
- The Trustee manages and measures these risks on a regular basis via actuarial and investment reviews, and in the setting of investment objectives and strategy.
- The Trustee undertakes monitoring of the investment managers' performance against their targets and objectives on a regular basis.
- The fund in which the Fund invests has a stated performance objective by which investment performance will be measured.

## Expected return on investments

- The investment strategy is believed to be capable of meeting the Trustee's objectives.

## Realisation of investments

- The buy-in policy is an illiquid investment and cannot be surrendered, sold or "cashed-in" in the future. It is an asset that will be held in perpetuity until the last payment is made or such time as it is converted to individual buy-out policies for insured members on buy-out.
- The Fund's remaining investments are secure, of high-quality and of sufficient liquidity.

## Investment manager monitoring

- The Trustee will assess the performance, processes and cost effectiveness of the investment managers in consultation with the investment consultant.
- All investment decisions, and the overall performance of the investment managers, are monitored by the Trustee with the assistance of the investment consultant.
- The investment managers will provide the Trustee 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 Trustee.
- The investment managers will inform the Trustee of any changes in the internal performance objective and guidelines of any pooled funds used by the Fund as and when they occur.
- The Trustee 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 overriding approach of the Trustee is to select investment managers that meet the primary objectives of the Trustee. As part of the selection process and the ongoing review of the investment managers, the Trustee considers how well each investment manager meets the Trustee's policies and provides value for money over a suitable timeframe.
- The Trustee has 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 Trustee, in conjunction with its investment consultant, appoints its investment managers and chooses the specific pooled funds to use in order to meet specific Fund policies. The Trustee expects that its 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 Trustee expects its 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 Trustee reviews 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 Trustee determines that an investment manager is no longer managing the assets in line with the Trustee's policies, it will make its concerns known to the investment manager and may ultimately disinvest.

- The Trustee pays its investment managers a management fee which is a fixed percentage of assets under management.
- Prior to agreeing a fee structure, the Trustee, in conjunction with its 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 Trustee, in conjunction with its investment consultant, has processes in place to review investment turnover costs incurred by the Fund on an annual basis. The Trustee receives a report which includes the turnover costs incurred by the investment managers used by the Fund.
- The Trustee expects 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 Trustee does not explicitly monitor turnover, set target turnover or turnover ranges. The Trustee believes 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 Trustee does not in general enter into fixed long-term agreements with their investment managers and instead retains the ability to change investment manager should the performance and processes of the investment manager deviate from the Trustee's policies. However, the Trustee expects 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.
- The buy-in policy cannot be surrendered and is an asset that will be held until the last benefit payment is made or such time as it is converted to individual buy-out policies for insured members on buy-out.

### Performance monitoring

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

### Financially material considerations

- Given the Fund's assets are invested in the buy-in policy, the Trustee does not have an influence on the provider's investment decisions.

## Non-financial matters

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

## Stewardship

- The Trustee has 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 Trustee's policy is to delegate responsibility for engaging and monitoring investee companies to the buy-in policy provider.
- The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the buy-in policy provider and to encourage the buy in policy provider to exercise those rights.
- The Trustee recognises that the investment strategy provides only limited potential to influence engagement due to the nature of the assets held.

## Additional Voluntary Contributions (AVCs)

- The Trustee has 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 Trustee, having taken appropriate written advice from properly qualified and authorised financial advisers.
- The Trustee makes 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 Trustee has taken advice from their professional advisers on:
  - the risks faced by members in investing on a money purchase basis, and
  - the Trustee's responsibilities in the selection and monitoring of the investment options offered.
- The Trustee will continue to manage the AVC arrangements having taken professional advice on these matters.
- The Trustee 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

The Trustee's 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.

## Investment consultant

The main responsibilities of the investment consultant include:

- Assisting the Trustee 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 Trustee,
- Advising the Trustee on the selection and review of the investment manager(s),
- Providing training or education on any investment related matter as and when the Trustee sees fit, and
- Monitoring and advising upon where contributions should be invested or disinvested on a periodic basis.

## Buy-in policy provider

The buy-in policy provider's main responsibilities include:

- Updating Fund data and benefits as agreed with the Trustee under the terms of the policy, and
- Providing monthly payments to the Trustee of Specified Benefits in respect of Insured Beneficiaries and Dependants covered under the terms of the policy.

## 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 Trustee with quarterly reports including any changes to their investment process and a review of the investment performance,
- Attending meetings with the Trustee as and when required,
- Informing the Trustee 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.

## 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 Trustee.

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 Trustee in balancing short-term and long-term investment objectives.

The Scheme Actuary is Gary Cameron of Buck.

**Signed on behalf of Knight Frank Trustees Limited as Trustee of the Fund:**

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Name

Signature

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Date