SQUIRE PATTON BOGGS

Pensions Quick Guide

How to... Prepare a Statement of Investment Principles and an Implementation Statement

What Is a Statement of Investment Principles?

The legal definition of a pension scheme's statement of investment principles (SIP) is "a written statement of the investment principles governing decisions about investments". The purpose of a SIP, according to The Pensions Regulator's (TPR's) investment governance guidance, is to set out trustees' investment strategy, including the investment objectives and investment policies they adopt.

Do I Need to Prepare a SIP?

Every trustee board of a trust-based occupational pension scheme (whether defined benefit (DB), defined contribution (DC) or hybrid) with 100 or more members must prepare a SIP. However:

- The SIP requirements do not apply to a "statutory" scheme set up under legislation or a scheme that is guaranteed by a public authority
- If your scheme is "wholly insured" (i.e. invested solely through insurance policies), the content of the SIP is simplified
- If your scheme is being wound up, some investment requirements are relaxed where they would otherwise conflict with trustees' duties during a windup

When and How Do I Prepare and Review My SIP?

Trustees who are required to have a SIP must meet that requirement at all times. Once a SIP has been prepared, it must be reviewed at least every three years and without delay after any significant change in investment policy.

You must obtain and consider written advice before preparing or revising your SIP. The advice must be obtained from "a person who is reasonably believed by the trustees to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of the investments of such schemes". Typically, this advice is provided by your investment consultant, but may also be provided by a fiduciary or investment manager. You must also consult the relevant employers.

How Many SIPs Do I Need?

Your legal obligation is to have one SIP for your scheme. If your scheme provides DC benefits (and the DC benefits are not solely related to additional voluntary contributions), your SIP must include statements governing decisions about investments for the purposes of the default arrangement for DC members.

TPR has stated it has no expectation that trustees will have more than one SIP (e.g. a hybrid scheme need not have one for DB and one for DC), but also that "those that find it easier to prepare separate SIPs may do so." If a scheme has multiple employers and is sectionalised such that the assets of each section are fully segregated, there is no requirement to produce a separate SIP in respect of each section, although some investment restrictions apply differently to employers under their respective sections.

What Do I Need to Include in My SIP?

Your SIP must cover your policy for complying with the legislation on choosing investments and your policies on:

- Kinds of investments to be held
- Balance between different kinds of investments
- Risks and how they are measured and managed
- Expected return on investments
- Realisation of investments
- Financially material considerations, which include (but are not limited to) environmental, social and governance (ESG) considerations (including, but not limited to, climate change), which the trustees consider to be financially material
- The extent (if at all) to which non-financial matters are taken into account (i.e. the views of members and beneficiaries, including their ethical views and their views on social and environmental impact)
- Exercise of the rights (including voting rights) attaching to the investments
- Undertaking engagement activities with the management of companies in which a fund has invested on issues, including performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance

- Arrangements with asset managers, including:
  - How the arrangements incentivise asset managers to align their investment strategy and decisions with the trustees' investment policy
  - How the arrangements incentivise asset managers to evaluate the performance of investments in the medium to long term
  - How the method of evaluation of asset managers' performance and remuneration is in line with the trustees' investment policy
  - How trustees monitor portfolio turnover costs incurred by asset managers
  - Duration of arrangements with asset managers
- In relation to DC default funds, trustees are required to disclose and explain their policies on illiquid asset investments in the scheme's default SIP (to be included in the first default SIP published after 1 October 2023 and by 1 October 2024 at the latest)

Trustees of occupational schemes with 100 or more members must publish their SIP online in a publicly available format.

What Else Is Required?

From 1 October 2020, trustees must produce an implementation statement. More information is set out in the table below.

Summary of New Requirement	Type of Arrangement
Prepare and publish an implementation statement, describing how the SIP has been implemented. **Include a description of the voting behaviour by, or on behalf of, trustees (including the most significant votes cast by trustees or on their behalf) during the year and a statement on any use of the services of a proxy voter during the year.**	DC and hybrid.
Produce a summary implementation statement (and include it in the annual report) on: • How the policy in relation to exercise of voting rights has been followed • Voting behaviour by, or on behalf of, trustees (including the most significant votes cast by trustees or on their behalf) during the year and state any use of the services of a proxy voter during that year	DB.

Note – Although exempt from the SIP requirements, local authority pension funds in England and Wales are required to formulate an investment strategy and, since 1 April 2017, must publish their investment strategy statement.

Some Practical Points

Do	Do Not
Do review TPR's updated guidance on DC investment governance, which includes recent changes to the SIP. It also includes practical examples of how trustees might consider financial and non-financial factors and members' views.	**Do not** forget to consult the employer(s) in relation to the contents of the SIP whenever it is revised – allow plenty of time for this.
Do discuss with fund managers their existing voting policies and practices, which will enable you to build on these when developing your stewardship policy.	**Do not** treat the preparation of a SIP as a tick box exercise – remember that it will become a publicly available document.
Do consider the extent to which you take account of members' views in relation to non-financial factors – and how you might do so.	**Do not** forget that you will need a publicly available website on which to publish your SIP. If your scheme does not have its own freely accessible website, consider whether you can use the employer's website or one hosted by one of your advisers – making sure you have contractual terms in place stating who is responsible for the content and maintenance of the website.
Do take account of guidance published by the Department for Work and Pensions, which contains both statutory guidance in relation to the preparation of an implementation statement and non-statutory guidance in relation to the preparation of a SIP.	

What Are the Consequences of Failing to Comply?

Failure to take all reasonable steps to ensure compliance with the requirements to prepare a SIP and/or implementation statement can result in a fine of up to £5,000 for an individual trustee and up to £50,000 for a corporate trustee.

Trustees should also bear in mind the potential reputational damage for the scheme and the employer if the SIP does not properly address ESG issues and at least meet the minimum statutory requirements.

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