Commonwealth War Graves Commission Superannuation Scheme

Statement of Investment Principles – May 2026

Introduction

The Trustee of the Commonwealth War Graves Commission Superannuation Scheme (the "Scheme") has drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of the Pensions Act 1995, the Pensions Act 2004, the Occupational Pension Schemes (Investment) Regulations 2005, and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2018 and 2019. The Statement is intended to affirm the investment principles that govern decisions about the Scheme's investments. In preparing this Statement the Trustee has consulted the sponsoring employer, the Commonwealth War Graves Commission (the "Commission"), on the Trustee's investment principles.

Governance

The Trustee makes all major strategic decisions including, but not limited to, the Scheme's asset allocation and the appointment and termination of investment managers. The process for making investment decisions is as follows:

- Identify appropriate investment objectives;
- Agree the level of risk consistent with meeting the objectives; and
- Implement an investment strategy and investment manager structure in line with the level of risk and objectives agreed.

When making such decisions, and when appropriate, the Trustee takes advice. The Trustee's investment consultants, Capita Pension Solutions, are qualified by their ability in and practical experience of financial matters and have the appropriate knowledge and experience to provide such advice. Capita Pension Solutions is authorised under the Financial Services and Markets Act 2000 to provide regulated investment advice to the Trustee.

Investment Objectives

The Trustee is required to invest the Scheme's assets in the best interests of members, and its' main objectives with regard to investment policy are summarised below:

- The traditional objective has been to achieve, over the long term, a return on the Scheme's assets which is sufficient (in conjunction with the Scheme's existing assets, and contributions) to pay all members' benefits in full.
- In practice, this means seeking to achieve full funding against a conservative "Low Dependency" measure of the Scheme's liabilities by the time the Scheme is "significantly mature" i.e. by the time that

almost all members have retired. Low Dependency status would be when the Scheme is no longer heavily dependent on financial support from the Commission in order to pay benefits.

- The Scheme is mature, which means that the benefits being paid out each year far exceed the contribution income from the Commission. Given this net cashflow requirement, a key objective is to ensure that sufficient liquid and stable assets are available to meet benefit payments as they fall due.

- Finally, the gap to reach Low Dependency funding is mainly met through a combination of investment returns and contributions from the Commission. The Trustee therefore considers the interests of the Commission in relation to the size and volatility of the Commission's contribution requirements.

The Trustee understands, following discussions with the Commission, that the Commission is willing to accept a degree of volatility in triennial Scheme Funding Assessments (i.e. contribution requirements) to aim to reduce the long-term cost of providing the Scheme's benefits. The Trustee believes that the covenant of the Commission supports this approach.

Risk Management and Measurement

The Trustee is aware of and pays close attention to a range of risks inherent in investing the assets of the Scheme and monitors funding and investment risk on a quarterly basis. The Trustee believes that the investment strategy provides for adequate diversification both within and across different asset classes.

The Trustee believes that the current investment strategy is appropriate in the short to medium term, however the Trustee is going to develop an Investment Journey Plan in order to further bring the level of investment risk down over time as the Scheme continues to mature. This Investment Journey Plan will be developed alongside the 31 March 2026 Scheme Funding Assessment, the deadline for the completion of which is 30 June 2027.

The Trustee's policy on risk management is as follows:

- The primary investment risk faced by the Scheme arises as a result of a mismatch between the Scheme's assets and its liabilities. The Trustee's principal focus in setting investment strategy is therefore taking into account the nature and duration of the Scheme's liabilities.

- The Trustee recognises that whilst increasing risk can potentially increase long-term returns, it can also increase the short-term volatility of the Scheme's funding position. The Trustee has taken advice on the matter and (in light of the objectives noted previously) considered the implications of adopting different levels of risk.

- The Trustee recognises the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustee aims to ensure the asset allocation strategy in place results in an adequately diversified portfolio. Due to the size of the Scheme's assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles.

- The documents governing the managers' appointment include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme.

- The Trustee recognises that, where appropriate, the use of active management involves a risk that the assets do not achieve the expected return. However, they believe this risk can be outweighed by the potential gains from successful active management, in particular in regions or asset classes where this potential is greater than others.

- The safe custody of the Scheme’s assets is delegated to professional custodians via the use of pooled vehicles.
- Collateral management is crucial in respect of any leveraged investments. The Trustee has set a target for the level of ‘prime collateral’ (Cash-equivalents and Low Volatility Credit) equivalent to 28% of the amount invested in leveraged products to reduce the chance of being a forced seller of more volatile assets at potentially depressed prices in the event of collateral calls. Furthermore, the Trustee has nominated Global Equities as a back-up collateral source, and has put an ‘automatic’ collateral waterfall in place with their Investment Platform Provider, in order to help ensure that collateral calls are not missed if there is a rapid rise in gilt yields which exhausts the Scheme’s main collateral pools.
- The Scheme is ‘cashflow negative’ i.e. it is reliant on deriving an income from the Scheme’s assets in order to pay Pensions and Pension Commencement Lump Sums to members. It is important that, where possible, this income is derived from contractual cashflow producing assets (i.e. physical credit assets) to reduce the chance of the Scheme being a ‘forced seller’ of more volatile capital assets (such as Global Equities) at potentially depressed prices. The Trustee has prioritised matching cashflows over the next six years (to 2032) with an expectation of further de-risking into contractual cashflow producing assets over time to cover later benefit payments.
- Environmental, Social and Governance (ESG) risks could have a material impact over the life of the Scheme and the Trustee will look to manage these risks where proportionate to do so.

Investment Strategy

Given their investment objectives, the Trustee has agreed to the initial asset allocation and exposures detailed in the table overleaf.

The Trustee believes that the investment risk arising from the investment strategy is supported by the Commission’s covenant. Should there be a material change in the Scheme’s circumstances, the Trustee will review whether the current risk profile remains appropriate.

Asset Class	Indicative initial asset allocation[1] (%)
Global Equities	18
Synthetic Equities (2.5 x leveraged)	5
Diversified Growth Funds	15
UK Property	5
Total Growth Assets	**43**
Low Volatility Credit	10
Maturing Buy & Maintain Credit	12
Leveraged Liability Driven Investments[2]	35
Total Matching Assets	**57**
Expected Return above Gilts	**1.9% pa**
Expected Return above Low Dependency liabilities	**1.4% pa**
Risk metrics:	
1-in-20 Value At Risk[3] on Low Dependency basis	£8.4 million
1-in-6 Value At Risk on Low Dependency basis	£4.8 million
Equity market exposure (% of assets)	38%
Interest rate hedge ratio (% of funded / total Low Dependency liabilities)	106% / 87%
Inflation hedge ratio (% of funded / total Low Dependency liabilities)	101% / 82%
Credit spread hedge ratio (% of funded / total Low Dependency liabilities)	22% / 18%
Estimated net annual cashflow shortfall to 2032 (% of assets)	3%
Prime collateral, % of leveraged products	31%

The Trustee will monitor the Scheme's actual asset allocation at least quarterly, through the provision of digital reporting via Moody's PFaroe enhanced dashboard, along with investment managers' performance reporting, and will decide on a course of action. This may involve redirecting cash flows, a switch of assets or taking no action.

Further detail on the investment products used can be found in the Appendix.

Expected Return

The Trustee expects the return on assets to be consistent with the investment objectives and investment strategy outlined above.

[1] All figures shown are based on market conditions as at 31 August 2024. Updated figures at a more recent date will be made available following the triennial actuarial valuation of the Scheme as at 31 March 2026, after the actuarial assumptions for the Low Dependency basis have been reviewed and agreed by the Trustee and the Commission.

[2] May include a small allocation to cash-equivalents to align the capital allocation against liability hedge and collateral targets.

[3] 1 Year Value at Risk (VaR) represents the minimum expected deterioration in the funding position in a bad year for markets (examples given are a 1-in-20 bad year and a 1-in-6 bad year). The assumed sensitivity to credit spreads is 50% of sensitivity to long term interest rates (i.e. liabilities proxied as 50:50 Credit:Gilts).

The Trustee expects the Scheme's assets to generate a return, over the long term, of circa 1.9% per annum, net of expenses, above a portfolio of long-dated UK Government bonds – which are considered to change in value in a similar way to the Scheme's liability value. This return is a "best estimate" of future returns that has been arrived at given the Scheme's current strategic asset allocation and in the light of advice from the investment consultant.

The Trustee recognises that, over the short term, actual performance may deviate significantly from this long-term expectation. This "best estimate" will also generally be higher than the assumption used for funding purposes for the actuarial valuation of the Scheme's liabilities on the ongoing Technical Provisions basis. For funding purposes, a prudent estimate of returns is used, as agreed by the Trustee and the Commission based on advice from the Scheme Actuary.

Platform Provider

The Trustee has appointed Legal and General Investment Management Limited ('the Platform Provider') to manage all of the assets of the Scheme. The Platform Provider is regulated under the Financial Services and Markets Act 2000. All decisions about the day-to-day management of the assets have been delegated to the Platform Provider via a written agreement, including the realisation of investments.

Investment Mandates

The Trustee has selected Legal and General Investment Management ('LGIM') as the appointed investment manager ('the Investment Manager') to manage the assets of the Scheme. The Investment Manager is regulated under the Financial Services and Markets Act 2000.

The Trustee has rolling contracts with their investment manager.

The Trustee monitors the performance of its investment manager on a quarterly basis. The data used for this monitoring is contained in a report provided by the investment manager.

The Trustee has set performance objectives, including time periods, consistent with the investment strategy set out in this statement.

Investment Manager Remuneration

The Trustee monitors the remuneration, including incentives, that is paid to its investment manager. The Trustee's investment advisors have confirmed, as part of their initial product selection advice, that the Annual Management Charges levied by the investment manager are reasonable.

Investment Manager Philosophy and Engagement

Based on product selection advice from its investment advisors, the Trustee has selected products which have a clear investment objective, investment philosophy and investment parameters which align with the Trustee's investment strategy. One of the benefits of this is that it helps ensure that investment managers make decisions based on medium to long-term, financial and non-financial, performance of the business in which shares or corporate bonds are invested.

The Trustee has selected products which have a clear voting and engagement policy, which aligns with the Trustee's investment strategy and incentivises the asset manager to engage with the businesses in which shares or corporate bonds are invested. The Trustee reviews and monitors voting activity annually as part of the drafting of its Implementation Statement.

Investment Manager Portfolio Costs

The Trustee recognises that portfolio turnover is necessary in the successful management of the Scheme's investments and that this results in costs of buying, selling, lending and borrowing investments. Based on product selection advice from its investment advisors, the Trustee has selected products which it understands to have a robust approach to portfolio management. Should the Trustee's regular monitoring of performance raise concerns then the Trustee will probe further. This may include requesting updated statistics from the investment manager regarding portfolio management costs and portfolio turnover (and reviewing the reasonableness of these).

Environmental, Social and Governance ("ESG") Considerations

The Trustee believes that its main duty, reflected in the investment objectives, is to protect the financial interests of the Scheme's members. The Trustee believes that ESG considerations (including but not limited to climate change) and stewardship in the selection, retention and realisation of their investments is an integral part of this duty and can contribute to the generation of good investment returns. Legislation requires that the Trustee forms a view of the length of time that it considers is needed for the funding of future benefits by the investments of the Scheme.

Depending on investment market developments and the available funding from the Commission, a full Scheme Buy-in could be achievable in as little as 5-10 years should the Trustee and Commission decide to target Buy-in/Buy-out as their objective. The Trustee would have negligible influence over how the Scheme's assets are invested after a Buy-in. The Trustee therefore believes that an appropriate time horizon for the Plan is 5-10 years, which gives some scope for ESG considerations to be financially material, however some ESG issues are a longer-term theme.

With this in mind, the Trustee takes a proportionate approach to ESG issues, for example it has elected to invest its Global Equity and Maturing Buy & Maintain Credit allocations in ESG-tilted products: This is more ESG-focussed than a pure 'market cap' approach but doesn't go as far as an 'impact investing' approach where stocks are primarily selected/ignored based ESG issues. The Trustee will look to gradually improve the ESG properties of the Scheme's portfolio over time, subject to balancing this with the Trustee's other objectives.

Given the size of the Scheme, the Trustee has elected to invest in pooled funds and cannot, therefore, directly influence the ESG policies, including the day-to-day application of voting rights, of the funds in which it invests. The Trustee will considers managers' ESG policies in all product selection exercises and will review existing managers' policies periodically. Where the Trustee is dissatisfied with a manager's approach it will take this into account when reviewing them. The Trustee is also keen that all the managers are signatories of the UN Principles of Responsible Investment, which is currently the case.

The Trustee believes that stewardship is important, through the exercising of rights (including voting rights) attaching to investments. The Trustee is keen that their managers can explain when, and by what practical methods, the managers monitor and engage with relevant persons about relevant matters in this area. The Trustee will monitor the voting being carried out by investment managers on its behalf as part of preparing the annual Implementation Statement, using reports from the investment managers which include details of any significant votes cast and proxy services that have been used.

The Trustee is also keen that its investment managers are signatories of the UK Stewardship Code, which is currently the case.

Non-financial matters, including members' views are currently not directly taken into account. However it is anticipated to be in members' wider (non-financial) interests for the Trustee to consider ESG matters (e.g. as part of the wider societal effort to combat climate change which should improve long-term quality of life for Scheme members).

Compliance with Myners' Principles and Pensions Regulator Guidance

The Trustee believes that it complies with the spirit of the Myners' Principles and Pensions Regulator Guidance. There may be some instances of deviation from the published 'Best Practice' where the Trustee believe this to be justified.

Employer-Related Investments

The Trustee's policy is not to hold any direct employer-related investments as defined in the Pensions Act 1995, the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005.

Fee Structures

The Investment Manager is paid a management fee on the basis of assets under management. The investment consultant is paid on a fixed fee basis for providing core regular services. The Trustee also sometimes requests that that investment consultant undertakes additional projects, which may be undertaken on a fixed fee, time-cost or assets under management basis - as agreed between the Trustee and Capita.

Review of this Statement

The Trustee will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustee reasonably believes 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 pension scheme investments.

On behalf of the Trustee of the Commonwealth War Graves Commission Superannuation Scheme

Appendix – Summary of Investment Mandates

The Trustee has appointed the Investment Manager and the Platform Provider to manage the Scheme's assets. The Investment Manager and the Platform Provider are regulated under the Financial Services and Markets Act 2000. The Investment Manager's mandates are set out below:

Asset class	Investment Manager	Product	Management style	Indicative initial asset allocation[4] (%)
Global Equity	LGIM	Future World Global Equity Index Fund	Passive	3
Global Equity	LGIM	Future World Global Equity Index Fund – GBP Hedged	Passive	6
Global Equity	LGIM	MSCI ACWI Thermal Coal Exclusions Adaptive Capped ESG Equity Index Fund	Passive	9
Synthetic Equities (2.5 x leveraged)	LGIM	Synthetic Leveraged Equity Fund	Passive	5
Diversified Growth Fund	Schroder	Diversified Growth Fund	Active	5
Diversified Growth Fund	BNY Mellon	Real Return Fund	Active	5
Diversified Growth Fund	Insight	Broad Opportunities Fund	Active	5
UK Property	Threadneedle	Property Unit Trust	Active	5
Low Volatility Credit	LGIM	US Securitised Plus Fund – GBP Hedged	Active	10
Maturing Buy & Maintain Credit	LGIM	Future World Net Zero Maturing Buy & Maintain 2023-2032 Fund	Active	12
Leveraged Liability Driven Investments	LGIM	Matching Core Fund Range	Passive	35
Cash Equivalents	LGIM	Sterling Liquidity Fund	Passive	

[4] All figures shown are based on market conditions as at 31 August 2024.