Statement of Investment Principles (SIP)

Scottish Parliamentary Pension Scheme

The Scottish Parliamentary Pension Scheme

1 Introduction

1.1 Section 35 of the Pensions Act 1995, as amended, requires that the Trustees of pension funds prepare and maintain a 'Statement of Investment Principles'. Whilst the Scottish Parliamentary Pension Scheme ('the Scheme') is not subject to this requirement, the Trustees have decided to produce this document in order to comply with best practice of other funded pension schemes. This document will be made available on request to all members of the Scheme.

1.2 The Statement is required to cover:

- the Trustees' policies on choosing investments and the need for diversification of the portfolio and the suitability of the investments to meet the needs of the Scheme;
- the kind of investments to be held;
- the balance between different types of investments;
- the risks of the investment strategy and the way in which they are measured and managed;
- the expected return on the investments;
- the process for realisation of the investments;
- how financially material considerations (including environmental, social and governance considerations) are taken into account and the extent to which non-financial matters (such as those of members' views) are taken into account.
- the Trustees' policies in relation to the exercise of the rights (including voting rights) attaching to the investments and engagement activities.

1.3 This Statement has been designed to cover the fundamental aspects of investment policy, which are not expected to differ greatly from one year to the next. The Trustees have obtained advice on the content of this Statement from the Government Actuary's Department and will share it with the Scottish Parliamentary Corporate Body on request.

1.4 Annual Reports by the Trustees of the Scheme will include a review of the investment performance for the year in question. The annual accounts will also be published and are available to Scheme members.

1.5 The investment powers of the Trustees are set out in the Scottish Parliamentary Pensions Act 2009.

2 Objectives

2.1 The Trustees are responsible for ensuring that the assets are likely to be sufficient to meet the Scheme's liabilities as they fall due. The Scheme Actuary advises the Trustees on the adequacy of the Scheme assets, by carrying out a full actuarial review (a valuation) every three years.

2.2 The Scheme is relatively new having been established in 1999. It is anticipated that contribution income will continue to exceed benefit outgo for some years. This feature, together with the support provided by the Scheme sponsor, enables the investment strategy to be predominantly based on growth-seeking investments in order to increase the likelihood of achieving high investment returns on the Scheme assets over the long term.

2.3 The Trustees' objectives are:

- "funding objective" - to ensure that the likelihood of failing to meet the Scheme's liabilities remains within an appropriate level of risk
- "cost objective" - whilst control the risk of failing to meet the Scheme's liabilities the Trustee aims to minimise the cost to the Scottish Parliamentary Corporate Body of providing the Scheme benefits
- "stability objective" - to ensure that the cost borne by the Scottish Parliamentary Corporate Body for accruing benefits are reasonably stable over time.

2.4 The Trustees recognise that these objectives may conflict. For instance, greater certainty about meeting the liabilities can be achieved by investing in assets that match the expected Scheme benefit cashflows. However, such assets are expected to provide lower returns over the longer term than some other asset classes. Although growth assets are unlikely to match the expected cashflows from the Scheme, the relative immaturity of the Scheme means the Trustees are comfortable to experience some funding volatility in the short term in the expectation of improved returns in the long term.

3 Risk measurement and management

3.1 There are a range of risks associated with investments in a pension scheme. The Trustees will consider the following main risks on an ongoing basis:

- Cashflow risk – this is the risk of a shortfall in liquid assets relative to immediate liabilities. In the short-term contributions to the Scheme are greater than benefit payments meaning the Scheme is cashflow positive. However, the Trustees will monitor this risk over time and adjust the investment strategy as necessary to ensure sufficient liquidity exists.
- Mismatching risk – this is the risk that the asset and liability values change in significantly different ways. The Trustees are aware that significant investment in growth assets involves a mismatching risk but will look to diversify the growth assets to reduce the downside risk. This risk will be assessed at each actuarial valuation and as the Scheme matures the Trustees will consider whether to reduce the mismatching.
- Manager risk – this is the risk that the investment managers do not achieve the returns expected by the Trustees. This risk will be monitored by the Trustees regularly reviewing manager performance against their benchmark and peers. Extended underperformance will usually lead to a re-tender of the investment mandate.
- Concentration risk – this is the risk that a large proportion of the Scheme assets are invested in a single asset class or investment. The Scheme is then at risk if that single class or investment underperforms or fails. The Trustees reduce this risk by adopting a strategy that involves investment in a range of different asset classes and funds.

- Credit risk – this is the risk that a counterparty defaults and fails to meet its obligations to the Scheme. The Trustees minimise this risk by investing in funds that ring fence investor assets and by only retaining cash deposits with recognised banks authorised to conduct banking business within the United Kingdom. There is a further credit risk in relation to default of the issuers of any debt investments the Scheme holds. This risk is mitigated by holding a diverse strategy that is not reliant on any single asset.
- Inflation risk – this is the risk that the investment returns do not outstrip the rate of inflation, leading to insufficient funds at retirement. The Trustees reduce this risk by investing in assets that are expected to provide a long term real rate of return
- Climate risk – the physical and transition risks of climate change may be detrimental to the return on assets. The Trustees will consider the governance arrangements of the providers to ensure that climate change is a consideration.

3.2 The investments of the Scheme will be managed to contain these risks to a level acceptable to the Trustees. However, the Trustees are aware that a totally risk-averse investment strategy is likely to give lower returns over the longer term than investments with an element of uncertainty over the return. The Scheme is funded from public funds and therefore the Trustees wish to provide the benefits at a cost that is not prohibitive, in accordance with the cost objective.

3.3 When considering risk, the Trustees will have regard to the advice of their professional advisers and to the general consensus of accepted practice of occupational pension schemes in the United Kingdom. This will not prevent the Trustees from accepting risk in their investment strategy where they believe it is expected to provide a worthwhile reward for the Scheme.

3.4 The Trustees regularly monitor the performance of the Scheme's investment portfolio and assess the impact on the funding position at regular intervals.

4 Investment policy

4.1 The Trustees set the investment policy after seeking advice from the Government Actuary's Department on the suitability of certain asset classes having regard to the nature, timing and currency of the Scheme's liabilities, the funding level of the Scheme and the Trustees' appetite for risk. From time to time the Trustees may also seek advice from other appropriately qualified experts.

4.2 The size of the Scheme's assets is currently insufficient to allow a widely diversified portfolio of investment were the assets to be invested directly at a reasonable fee. Therefore, until the assets have become sufficiently large, the Trustees believe that the most cost-effective way of investing to achieve suitable diversification is to use pooled investment products.

4.3 The investment criteria of pooled investment products are set by the documents governing those products. The Trustees of an individual pension scheme investing in such a pooled product cannot decide or amend these criteria. However, the Trustees of the Scheme can take full account of the stated investment objectives and ranges of permitted investments of the pooled product when deciding how to invest the Scheme's assets. The Trustees therefore remain responsible for the strategic allocation of the investments between asset classes but have delegated individual investment decisions within the asset classes to their investment managers.

4.4 In order to meet the objective of diversifying the Scheme assets and allowing the use of growth asset classes to provide higher expected returns, the Trustees invest in a range of asset classes that predominantly seek to provide equity-type returns.

4.5 The strategic asset allocation is set out in the table below.

Fund	Baillie Gifford Managed Fund	Baillie Gifford Monthly Income fund	Legal & General Future World Global Equity Index Fund	Legal & General All Stocks Index-Linked Gilts
Strategic Asset Allocation	50%	20%	25%	5%
Principal asset classes included in fund (non-exhaustive)	• Listed equity • Corporate and government bonds • Cash	• Listed equity • Private equity • Corporate and government bonds • Other debt including loans and structured finance • Insurance linked securities • Infrastructure • Property • Commodities • Cash • Derivatives	• Listed equity	• Index-linked gilts

Fund proportions will be reviewed regularly, and if the proportions are judged materially out of line, the funds should be rebalanced by the purchase and sale of units.

4.6 The Trustees, or their investment managers, may hold cash on deposit if it is awaiting investment, reinvestment, payment to members or as part of the investment strategy from time to time. All cash deposits must be with a recognised bank or banks authorised to conduct banking business within the United Kingdom.

4.7 The Scheme is a registered pension scheme under Chapter 2 of Part 4 of the Finance Act 2004. In order to take advantage of the tax reliefs granted to registered pension schemes, the Trustees will only invest in pooled investment products that can claim similar tax advantages by only allowing investment by other tax-approved pension schemes or registered charities.

4.8 Investments and disinvestments are made from time to time. In general, these shall be made to/from the Baillie Gifford Managed Fund unless otherwise advised by GAD during the quarterly investment monitoring process. GAD will also advise on the funds to invest in/disinvest from for significant investments (greater than £250k).

5 Day-to-day management

5.1 The Trustees have delegated the day-to-day management of the investments to their investment managers, Baillie Gifford and Legal & General Asset Management (L&G), who take decisions regarding the investments to buy and sell. However, the strategic decision regarding which funds to invest in remains with the Trustees.

5.2 In making their decisions regarding investments Baillie Gifford and L&G are expected to:

- exercise their investment powers in a way that is consistent with the governing documentation of their collective investment vehicles and the stated objectives of their funds. Where appropriate, this will include having regard to the suitability and diversification of the investments chosen;
- allocate the assets, where appropriate, in a suitable balance between different categories of investment and between individual investments within each category;
- carry out all the day-to-day functions relating to the management of the fund;
- have regard to the liquidity of an investment before deciding to make an investment of that kind. In particular considering the liquidity in the context of the fund's likely need for cash in the short and longer term, the income generated from such an investment and the prospects for liquidity in the future;
- decide whether it is appropriate to retain or realise individual investments under their management; and
- exercise rights (including voting rights), attached to the investments, in the best interests of the Trustees and in accordance with their stated socially responsible and ethical investment policies.

5.3 Before investing in a pooled product the Trustees will consider the frequency with which units or shares in the product can be traded and any rights the fund manager reserves to restrict the realisation of units or shares. The Trustees should consider these issues in conjunction with the likely cashflow requirements of the Scheme.

5.4 The investments of the Scheme are units in Baillie Gifford and L&G pooled funds held in the name of the Trustees of the Scheme. The Trustees will appoint a responsible official, normally the Scheme Secretary, to keep safe the documents of title for the investments.

5.5 The Trustees will receive regular written reports as required from the fund managers and advisers. These reports will summarise the recent performance of each fund and advise on future market expectations and investment prospects.

5.6 The Trustees will consider each fund's investment policy and review performance at regular intervals with the support of their investment consultant, GAD. Review of each fund will include:

- comparing the investment return to the benchmark return set out in the fund's explanatory documentation;
- reviewing at agreed intervals the investment policy and any specific policies agreed by the Trustees to meet particular needs; and
- reviewing the reports of the fund managers on their management of the funds.
- Consider portfolio turnover costs, as it will impact on the performance of investments.

5.7 Review of the investment performance will consider both longer term returns and short term returns for example the return over the quarter, one year, three years and potentially longer periods. Decisions will not usually be made to change the fund or investment manager on the basis of one period of underperformance, unless there are other additional reasons for the change to occur.

5.8 The reviews can also include comparison of the fund performance against peer group funds to establish the performance of the individual fund manager. However, this will not necessarily be taken as a reason to change the investment manager or fund as each fund within a peer group is likely to have different risk and return characteristics and therefore a direct comparison will not always be appropriate.

5.9 Any material diversion from a fund's benchmark or stated objective should be questioned by the Trustees at the earliest available opportunity. The Trustees will also review the appropriateness of the funds after any significant change in objective or if its investments deviate materially from its stated benchmark or objective.

6 Responsible and Environmental Social and Governance (ESG) investment policy

6.1 The Trustees' main duty is to act in the financial interests of the Scheme's beneficiaries. The Trustees believe that environmental, social and governance (ESG) factors can have a material impact on investment returns. In order to carry out their fiduciary duty, including consideration of ESG factors on individual investments, the Trustees believe that their investment managers are best placed to carry out the selection of individual securities and stewardship of underlying investee companies (including engagement and the exercise of voting rights) on the Trustees' behalf. The Trustees have therefore delegated these responsibilities to their investment managers. The Trustees expect that, to the extent that ESG issues have an impact on returns, the managers will take these into account when exercising their duties.

6.2 When appointing new investment manager and selecting new investment mandates, the Trustees consider the ESG credentials alongside the other investment factors included in their decision making (corporate governance, investment philosophy, research capabilities, client service etc).

6.3 The Trustees meet with their investment managers on a regular basis and discuss their ESG capabilities, developments and decisions and how they are engaging with investee companies on the Trustees' behalf. The Trustees' investment consultant, GAD, also flags any material changes in the ESG practices of the investment managers in their quarterly investment performance reporting and at quarterly Trustee meetings.

6.4 In assessing companies' performance on ESG matters, the Trustees expect the managers to take into account widely endorsed benchmarks including UN Principles for Responsible Investment and the United Nations Global Compact. The Trustees expect that when a company's performance on such issues is significantly below expectation and is thereby a material risk to the long-term performance of their business, the managers will engage with management in the first instance before considering taking appropriate voting action or consider reducing or selling holdings.

6.5 The Trustees expect the managers to ensure that companies held in the portfolio undertake steps to understand environmental risks confronting their business and to manage the environmental impacts relating to their business, with a particular focus on climate change. The Trustees expect the managers to ensure that companies take appropriate steps to reduce direct and indirect greenhouse gas emissions, integrate climate change policies into business strategies, and enhance disclosure on climate change and other significant environmental risks.

6.6 The Trustees are also willing to consider non-financial factors in asset selection. For example, the Trustees could consider using funds with social impact objectives such as improving health or preventing climate change. The Trustees are mindful of their fiduciary duty in not exercising their powers in setting the investment strategy for the Scheme in their own or third parties' interests.

6.7 The Trustees' approach to incorporating ESG and/or non-financial factors into their investment strategy must be pragmatic as to what can be implemented and then monitored so as to provide good value for money with respect to contributions from members and the Scottish Parliamentary Corporate Body.

7 Controls and review

7.1 The Trustees are responsible for ensuring that appropriate systems of control are in place to safeguard the Scheme's assets and to prevent and detect fraud and other irregularities. Suitable systems have been set in place in consultation with the investment managers and the Scheme bankers and the Financial Controller for the Scottish Parliamentary Corporate Body. The internal controls have been subject to an Internal Audit, which concluded that the established controls are adequate for the intended objectives.

7.2 The Trustees will review this Statement and their investment policy at least every three years. The Statement should also be reviewed as soon as possible after any change in investment policy or process.

Agreed by the Trustees on 2 June 2026