AMERICAN EMBASSY

PRIVATE PENSION SCHEME

Statement of Investment Principles

Scope of Statement

This Statement has been prepared in accordance with section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004, the Occupational Pension Schemes (Investment) Regulations 2005) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 (the Amending Regulations).

The effective date of this Statement 22 September 2020. The Trustees will review this Statement annually and additionally whenever there is a significant change in the Scheme's circumstances.

Consultations Made

The Trustees have consulted with the employer prior to writing this Statement and will take the employer's comments into account when they believe it is appropriate to do so.

The Trustees are responsible for the investment strategy of the Scheme. They have obtained written advice on the investment strategy appropriate for the Scheme and on the preparation of this Statement. This advice was provided by PFM Associates Ltd who are authorised and regulated by the Financial Conduct Authority.

The day to day management of the Scheme's assets has been delegated to investment managers who are authorised and regulated by the Financial Conduct Authority. A copy of this Statement is available to the members of the Scheme.

Scheme Objectives

The primary objectives of the Trustees are:

- "funding" – to ensure that sufficient assets are available to pay members' benefits as and when they arise;
- "security" – to ensure that the solvency position of the Scheme is expected to improve. The Trustees will take account of the strength of the employer's covenant when determining the investment strategy;
- "stability" – to have due regard to the employer's ability in meeting its contribution payments given the size and incidence.

The investment strategy chosen by the Trustees has the aim of maximising the likelihood of achieving these objectives.

Trustees' Investment Objectives

The Scheme's investment strategy has been established in order to maximise the likelihood of achieving the primary objectives set out in the Statement.

The actuarial valuation at the 5th of April 2019, showed that on a current ongoing basis, the funding level was 90%.

The liability profile of the Scheme and the mix of the Scheme assets were considered by the Scheme Actuary and investment consultant when making recommendations to the Trustees regarding the long-term investment strategy. The Trustees decided on a long- term investment strategy with about 70% exposure to equity markets and 30% exposure to non-equity markets.

Within the overall asset allocation, Schroders have been appointed to manage a Liability Driven Investment (LDI) programme, designed to match 40% of the fixed and inflation linked cashflows of the Scheme. The programme aims to reduce the volatility of the scheme deficit. In order to implement the programme Schroder will invest in pooled LDI funds (cash, Physical Gilts and Synthetic Gilts) and retain some equity funds as part of the Scheme's growth assets.

The Trustees, in consultation with their investment advisers, review their investment strategy following each formal actuarial valuation of the Scheme (or more frequently should the circumstances of the Scheme change in a material way).

The Trustees considered that these investment objectives were best met by appointing the following managers to run specific portfolios.

Manager	**Mandate**	**Benchmark**	**Objective***
BlackRock	UK Focus Fund	FTSE All-Share	4.0%
	UK Equity Fund	FTSE All-Share	1.5-2.0%
M&G	Optimal Income Fund	IA Strategic Bond	N/A
	All Stocks Corp. Bond Fund	iBoxx Sterling Non-gilt	+0.8% pa
Schroder	Global Equity Fund	MSCI World (Net TR)	Exceed
	Responsible Value UK Equity	FTSE All-Share Custom	Exceed
	QEP Global Core Fund (US)	MSCI World (Net TR)	Exceed
	LDI Hedging Funds	Custom Liability Hedge	
UBS	Global Allocation	GSMUI	N/A
	US Growth	Russell 1000 Growth	N/A

*Objectives, where applicable, are gross of fees over rolling 3 year periods

Choosing Investments

The types of investments held and the balance between them is deemed appropriate given the liability profile of the Scheme, its cash-flow requirements, the funding level of the Scheme and the Trustees' objectives.

The Trustees exercise their powers of investment in a manner calculated to ensure the security, quality, liquidity and profitability of the portfolio as a whole. In order to avoid undue concentration of risk, a spread of assets is held. The diversification is both within and across the major asset classes.

Risk

The Trustees view risk as the probability that their chosen investment policy will result in their primary objectives being met. The policy is designed to enhance the likelihood of meeting the Scheme objectives. The Trustees have considered the following:

Strategy Risk (meeting the conflicting objectives set out in Scheme Objectives above) – The Trustees aim to control the Strategy Risk by reviewing the appropriateness of the asset profile given the liability profile and funding position of the Scheme and the size and incidence of employer contributions. In order to ensure an appropriate strategy is in place, a review of the assets and liabilities is undertaken after the triennial actuarial valuations.

Manager Risk (actions by the investment managers) – In aiming to control Manager Risk, the focus of the Trustees attention is on the following:

- the risk of the manager under-performing the objectives set;
- the risk inherent in a particular manager's philosophy.

These issues are considered on the initial appointment of the managers and will continue to be considered as part of the regular on-going investment review procedures that the Trustees have in place.

Cash Flow Risk (the need to realise assets in the short term) - if realisation of investments in order to meet the benefit outgoing were to be made at a time when prices are depressed, this could reduce the likelihood of meeting the primary objectives. To mitigate this, the Trustees and their advisers manage the Scheme's cash flow requirements over the short-term.

Expected Returns

Over the long-term the expectations of the Trustees are:

- for the real assets (equity, property etc) to achieve a rate of return which is at least in line with wage inflation;
- for the financial assets (bonds, cash etc) to achieve a rate of return which is at least in line with changes in the cost of purchasing annuities.

Returns over shorter periods achieved by the fund managers are assessed against performance benchmarks (where applicable), set by the Trustees.

Realisation of Investments/Liquidity

The Trustees recognise that there is a risk in holding assets that cannot be easily realised should the need arise.

The vast majority of the assets held are realisable at short notice, with all the pooled funds currently used offering daily liquidity (subject to any force majeure provisions).

Investment Managers

Given the pooled nature of the scheme investments, the trustees have limited power in: incentivising the managers to align their investment strategy and decisions with the trustees investment policies set out in the SIP, make decisions based on the assessments of medium to long term financial and non-financial performance of an issuer of debt or equity, and to engage with such issuers of debt or equity to improve their performance in the medium to long term. However, the trustees will engage with the investment managers on these issues, following review of the managers' reports and also has the ultimate sanction of disinvesting.

The asset managers are performance is evaluated over a rolling 3 year time horizon and remuneration reviewed on an annual basis.

Portfolio turnover costs are monitored by reviewing annual reports provided by the investment manager.

The arrangement with the asset manager is open ended, but reviewed annually with the investment adviser.

Financially Material Considerations

The Trustees primary focus with regard to the objectives of the scheme investments is to deliver the required level of growth/or liability matching. The Trustees also recognise that Environmental, Social and Governance (ESG) factors, including climate change, can impact the returns of scheme investments. The Trustees further recognise that these considerations could become more significant over the lifetime of the scheme which is anticipated to be many decades.

The managers of the investments are expected to have a policy in place on these considerations, but as the investments are in pooled funds, the Trustees are unable to control these policies. These matters are however kept under review by the Trustees, in consultation with their investment consultant and investment managers and will be included when selecting, reviewing and changing investment managers.

Non-financial Matters

The Trustees do not have an active policy on how non-financial matters are taken into account in the selection, retention and realisation of investments.

Stewardship

Exercise of the Rights Attaching to Investments

As the Scheme assets are invested in pooled funds, the Trustees do not have the ability to control the specific policy in relation to the exercise of the rights (including voting rights) attaching to investments. These matters however, are kept under review and the Trustees are aware of the policy towards corporate governance adopted by their investment managers and will require annual reports on their activity. These reports will be required to include details of the investment manager's proxy voting adviser, details of where the manager has disagreed with their adviser's recommendations and areas of consistent disagreement, times when votes were not cast and voting records.

Engagement

Given the pooled nature of the investments, the Trustees are unable to directly engage with the underlying companies that comprise the Scheme investments. They do however believe that engagement can improve the long-term success of the underlying investments and as above are aware of the investment managers policies and will require annual reports on the managers' activity. These reports will also be required to include information on how and when the investment manager has engaged with an issuer of debt or equity about their capital structure and management of actual or potential conflicts of interest. Further the manager is also required to highlight to the trustees any major conflicts of interest as they become aware of them.

Implementation statement

In the opinion of the trustees the commitments of the SIP have been followed. However, because of the mismatch in timing between the implementation of the SIP changes in September 2019 and the review cycle committed to, some of the activities have taken place after the end of the accounting year.

The SIP was reviewed in September 2019 and updated to reflect two changes: the introduction of a Liability Driven Investment (LDI), mandate for Schroders and the new disclosure requirements concerning financially material considerations, non-financial matters and stewardship.

The objective of the Schroders mandate is to hedge 40% of the scheme's liabilities and reduce the volatility of the scheme deficit.

The new disclosure requirements were a regulatory requirement.

The trustees do not employ proxy voting and have delegated voting to the managers of the underlying pooled funds they invest in. The voting records of the managers are reviewed annually, but the first such detailed review was after the scheme year end.

Voting, engagement and stewardship policies have similarly been delegated to the underlying fund managers, with the first review in this area taking place after the scheme year end.