

Statement of Investment Principles

The Associated Board of the Royal Schools of Music

Pension Scheme

September 2021

1. Introduction

This Statement of Investment Principles ("SIP") sets out the policy of the Trustees of the Associated Board of the Royal Schools of Music Pension Scheme ("the Scheme") on various matters governing decisions about the investments of Scheme, a Defined Benefit ("DB") Scheme. This SIP replaces the previous SIP dated May 2020.

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 ("the Act"). The SIP also reflects the Trustees' response to the Myners voluntary code of investment principles and the Occupational Pension Schemes (Investment) Regulations 2005.

This SIP has been prepared after obtaining and considering written professional advice from LCP, the Scheme's investment adviser, whom the Trustees believe to be suitably qualified and experienced to provide such advice. The advice takes into account the suitability of investments including the need for diversification, given the circumstances of the Scheme, and the principles contained in this SIP. The Trustees have consulted with the relevant employer in producing this SIP.

The Trustees will review this SIP from time to time and, with the help of their advisers, will amend it as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy and at least once every three years.

Appendix 1 sets out details of the respective key responsibilities of the Trustees, investment advisers and investment managers. It also contains a description of the basis of remuneration of the investment adviser and the investment managers.

Appendix 2 sets out the Trustees' policy towards risk appetite, capacity, measurement and management.

Appendix 3 sets out the Scheme's investment manager arrangements.

2. Investment objectives

The Trustees' primary objectives are:

- To make sure that the obligations to the beneficiaries of the Scheme are met; and
- To ensure that the Scheme has sufficient assets to meet its technical provisions, calculated in accordance with the Scheme's statement of funding principles.

The Trustees are aware that there are various measures of funding, and have given due weight to those considered most relevant to the Scheme.

The Trustees' investment objective is to maximise the return on the Scheme's assets whilst managing and maintaining investment risk at an appropriate level, and taking into account the primary objectives.

3. Investment strategy

The Trustees, with the help of their advisers and in consultation with the employer, review the investment strategy from time to time, taking into account the objectives described in Section 2 above.

The result of the latest review was that the Trustees agreed that the investment strategy of the Scheme should be based on the target allocation below.

Asset class	Target strategic allocation
Diversified growth funds	60%
Corporate bond exposure (physical, and synthetic as part of LDI portfolio)	20%
Liability driven investment ("LDI")	20%
Total	100%

The Scheme's 40% corporate bond exposure is achieved through both physical investment in corporate bonds and also synthetically via the LDI portfolio

There is no formal rebalancing policy. The Trustees will instead review the asset allocation from time to time and if material deviations from the target strategic allocation occur, the Trustees will consider with its advisers whether it is appropriate to rebalance the assets (taking into account factors such as market conditions and anticipated future cash flows).

The Trustees consider a deviation from the target allocation of +/-5% as one where rebalancing should be seriously contemplated, though action may not be taken for various reasons (and the Trustees may take action for small deviations).

4. Considerations made in determining the investment arrangements

When deciding how to invest the Scheme's assets, the Trustees consider a number of risks, including, but not limited to, those set out in Appendix 2. Some of these risks are more quantifiable than others, but the Trustees have tried to allow for the relative importance and magnitude of each risk.

The Trustees considered a wide range of asset classes for investment, and the expected returns and risks associated with those asset classes. The key financial assumption made by the Trustees in determining the investment arrangements are as follows:

- average long-term return on diversified growth funds above gilts: 3.0%
- average long-term return on liability driven investment above gilts: 1.0%
- average long-term return on corporate bonds above gilts: 0.9%

In setting the strategy the Trustees also took into account:

- the best interests of members and beneficiaries;
- the circumstances of the Scheme, including the profile of the benefit cash flows, the funding level, and the strength of the employer covenant;
- the risks, rewards and suitability of a number of possible asset classes and investment strategies; and

- the need for appropriate diversification between different asset classes.

The Trustee's key investment beliefs, which influenced the setting of the investment arrangements, are as follows:

- asset allocation is the primary driver of long-term returns;
- risk-taking is necessary to achieve return, but not all risks are rewarded;
- equity, credit and illiquidity are the primary rewarded risks;
- risks that do not have an expected reward should generally be avoided, hedged or diversified;
- investment markets are not always efficient and there may be opportunities for good active managers to add value;
- environmental, social and governance (ESG) factors are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors;
- long-term environmental, social and economic sustainability is one factor that the Trustee should consider when making investment decisions; and
- costs have a significant impact on long-term performance and therefore obtaining value for money from the investments is important.

5. Implementation of the investment arrangements

The Trustees obtain and consider proper written advice from their investment adviser on the question of whether their investment are satisfactory, having regard to the need for suitable and appropriately diversified investments.

Details of the investment managers are set out in Appendix 3.

The Trustees have signed agreements with the investment managers, setting out in detail the terms on which the portfolios are to be managed. The investment managers' primary role is the day-to-day investment management of the Scheme's investments. The managers are authorised under the Financial Services and Markets Act 2000 (as amended) to carry out such activities.

The Trustees have limited influence over managers' investment practices because all the Scheme's assets are held in pooled funds, but they encourage their managers to improve their practices where appropriate.

The Trustees' view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

It is the Trustees' responsibility to ensure that the managers' investment approaches are consistent with their policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustees expect investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. They assess this when selecting and monitoring managers.

The Trustees evaluate investment manager performance by considering performance over both shorter and longer-term periods as available. Generally, the Trustees would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustees' policy is to evaluate each of its investment managers by reference to the manager's individual performance as well the role it plays in helping the Scheme meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustees recognise that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustees expect their investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates.

6. Realisation of investments

The investment managers have discretion over the timing of realisation of investments of the Scheme within the portfolios that they manage, and in considerations relating to the liquidity of investments. When appropriate, the Trustees, on the administrators' recommendation, decide on the amount of cash required for benefit payments and other outgoings and inform the investment managers of any liquidity requirements.

7. Consideration of financially material and non-financial matters

The Trustees have considered how social, environmental and ethical factors should be taken into account in the selection, retention and realisation of investments, given the horizon of the Scheme and its members.

The Trustees expects their investment managers to take account of financially material matters (including climate change and other ESG considerations). The Trustees seek to appoint managers that have appropriate skills and processes to do this, and from time to time reviews how their managers are taking account of these issues in practice.

The Trustees have limited influence over managers' investment practices where assets are held in pooled funds, but they encourage their managers to improve their practices where appropriate.

The Trustees do not take into account any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return).

8. Stewardship

The Trustees recognises their responsibilities as owners of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments.

The Trustees have delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, risks and ESG considerations.

The Trustees do not monitor or engage directly with issuers or other holders of debt or equity.

They expect the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustees from time to time, taking into account the long-term financial interests of the beneficiaries. The Trustees seek to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and from time to time the Trustees review how these are implemented in practice.

Agreed and adopted by the Trustees of the Associated Board of the Royal Schools of Music Pension Scheme at the Trustees meeting in September 2021.

The Trustees have decided on the following division of responsibilities and decision-making for the Scheme. This division is based upon the Trustees' understanding of the various legal requirements placed upon them, and their view that this division allows for efficient operation of the Scheme overall, with access to an appropriate level of expert advice and service. The Trustees' investment powers are set out within the Scheme's governing documentation.

1. Trustees

In broad terms, the Trustees are responsible in respect of investment matters for:

- setting the investment strategy, in consultation with the employer;
- reviewing the investment policy as part of any review of the investment strategy;
- setting the policy for rebalancing between asset classes;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- setting a policy on the exercise of rights (including voting rights) and undertaking engagement activities in respect of the investments;
- appointing (and, when necessary, dismissing) investment managers, investment advisers, actuary and other service providers;
- monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Act;
- communicating with members as appropriate on investment matters, such as the Trustees' assessment of its effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged;
- reviewing the investment policy as part of any review of the investment strategy;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employer when reviewing the SIP.

2. Investment managers

In broad terms, the investment managers will be responsible for:

- managing the portfolios of assets according to their stated objectives, and within the guidelines and restrictions set out in their respective investment manager agreements and/or other relevant governing documentation;
- taking account of financially material considerations (including climate change and other ESG considerations) as appropriate when managing the portfolios of assets;
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments;
- providing the Trustees with regular information concerning the management and performance of their respective portfolios; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The custodians of the portfolios (whether there is a direct relationship between the custodian and the Trustees or not) are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

3. Investment adviser

In broad terms, the investment adviser will be responsible, in respect of investment matters, as requested by the Trustees, for:

- advising on how material changes within the Scheme's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;
- advising on the selection, and review, of the investment managers. Such advice takes account of LCP's assessment of the nature and effectiveness of managers' approaches to financially material considerations (including climate change and other ESG considerations); and
- participating with the Trustees in reviews of this SIP.

4. Fee structures

The Trustees recognise that the provision of investment management and advisory services to the Scheme results in a range of charges to be met, directly or indirectly, by deduction from the Scheme's assets.

The Trustees have agreed Terms of Business with the Scheme's actuarial and investment advisers, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis.

The investment managers receive fees calculated by reference to the market value of assets under management. The fee rates are believed to be consistent with the managers' general terms for institutional clients and are considered by the Trustees to be reasonable when compared with those of other similar providers.

The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustees' view as to the most appropriate arrangements for the Scheme. However, the Trustees will consider revising any given structure if and when it is considered appropriate to do so.

5. Performance assessment

The Trustees have signed agreements with the investment managers setting out in detail the terms on which the portfolios are to be managed. The Trustees are satisfied, taking into account the external expertise available, that there are sufficient resources to support their investment responsibilities. The Trustees believe that they have sufficient expertise and appropriate training to carry out their role effectively.

It is the Trustees' policy to assess the performance of the Scheme's investments, investment providers and professional advisers from time to time. The Trustees will also carry out periodically an assessment of their own effectiveness as a decision-making body and will decide how this may then be reported to members.

Policy towards risk, risk measurement and risk management

The Trustees consider that there are a number of different types of investment risk that are important for the Scheme. These include, but are not limited to:

1. Risk of inadequate returns

A key objective of the Trustees is that, over the long-term, the Scheme should have adequate assets to meet its liabilities as they fall due. The Trustees therefore invest the assets of the Scheme to produce a sufficient long-term return in excess of the liabilities. There is also a risk that the performance of the Scheme's assets and liabilities diverges in certain financial and economic conditions in the short term. This risk has been taken into account in setting the investment strategy and is monitored by the Trustees on a regular basis.

2. Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Scheme's assets. The Trustees believe that the Scheme's assets are adequately diversified between different asset classes and within each asset class. This was key consideration when determining the Scheme's investment arrangements.

3. Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, the Trustees receive written advice from a suitably qualified individual, and will typically undertake an investment manager selection exercise. The Trustees monitor the investment managers on a regular basis.

4. Liquidity/marketability risk

This is the risk that the Scheme is unable to realise assets to meet benefit cash flows as they fall due. The Trustees are aware of the Scheme's cash flow requirements and believe that this risk is managed by maintaining an appropriate degree of liquidity across the Scheme's investments.

5. Environmental, social and governance (ESG) risks

Environmental, social and corporate governance (ESG) factors are sources of risk to the Scheme's investments, some of which could be financially material, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Trustees seeks to appoint investment managers who will manage these risks appropriately on their behalf and from time to time review how these risks are being managed in practice.

6. Collateral adequacy risk

The Scheme is invested in leveraged Liability Driven Investment ("LDI") arrangements to provide protection ("hedging") against adverse changes in interest rates and inflation expectations. The LDI manager may from time to time call for additional cash to be paid to the LDI portfolio in order to support a given level of leverage. Collateral adequacy risk is the risk that the Trustee when requested to do so will not be able to post additional cash to the LDI fund within the required timeframe. A potential

consequence of this risk is that the Scheme's interest rate and inflation hedging could be reduced and that the Scheme's funding level could suffer subsequently as a result. In order to manage this risk, the Trustees ensure that the Scheme has a sufficient allocation to cash and other highly liquid assets which can be readily realised, so that cash can be posted to the LDI manager at short notice.

7. Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Scheme is subject to credit risk because it invests in bonds via pooled funds. The Trustees manage their exposure to credit risk by only investing in pooled funds that have a diversified exposure to different credit issuers, and invests in bonds that are mostly classified as "investment grade".

8. Currency risk

Whilst the majority of the currency exposure of the Scheme's assets is to Sterling, the Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets. The Trustees considers the overseas currency exposure in the context of the overall investment strategy, and believe that the currency exposure that exists diversifies the strategy and is appropriate.

9. Interest rate and inflation risk

The Scheme's assets are subject to interest rate and inflation risk because some of the Scheme's assets are held in bonds/interest rate swaps via pooled funds. However, the interest rate and inflation exposure of the Scheme's assets hedges part of the corresponding risks associated with the Scheme's liabilities. The net effect will be to reduce the volatility of the funding level, and so the Trustees believe that it is appropriate to have exposures to these risks in this manner.

10. Other non-investment risks

The Trustees recognise that there are other, non-investment, risks faced by the Scheme, and takes these into consideration as far as practical in setting the Scheme's investment arrangements.

Examples include:

- longevity risk (the risk that members live, on average, longer than expected); and
- sponsor covenant risk (the risk that, for whatever reason, the sponsoring employer is unable to support the Scheme as anticipated).

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Scheme's funding position falls below what is considered an appropriate level. By understanding and considering the key risks that contribute to funding risk, the Trustees believe that they have appropriately addressed and are positioned to manage this general risk.

Page 10 of 11 Details of the investment managers, their objectives, investment guidelines and custody arrangements are set out below.

1. BMO Global Asset Management (“BMO”) – LDI portfolio

The Scheme’s LDI portfolio consists of a combination of pooled LDI funds and a cash fund.

The objective of the LDI funds is to provide liability hedging by offering interest rate and inflation protection which replicates the liability profile of a typical UK defined benefit pension scheme.

One of the LDI funds held, the Credit-linked Real Dynamic LDI Fund also has an objective to provide exposure to credit markets (ie corporate bonds) through derivative exposure.

There is no specific performance objective for the LDI funds. The LDI funds are priced weekly, are open ended and are unlisted

The Scheme invests in cash through a pooled fund called the Sterling Liquidity fund. The objective of the fund is to maintain high levels of liquidity, preserve capital and generate a return in line with the GBP 7-Day LIBID. There is no specific performance objective for the Sterling Liquidity fund. The Sterling Liquidity fund is priced weekly, is open ended and is unlisted.

BMO is responsible for custody of the assets of the fund. Responsibility is delegated to State Street Luxembourg. The Trustees do not have a direct relationship with the custodian.

2. Ruffer LLP (“Ruffer”) – Diversified Growth Fund

The Scheme fulfils part of its diversified growth mandate by investing in a pooled fund called the Absolute Return Fund. The stated objective of the fund is to preserve capital over rolling twelve month period and secondly, to grow the portfolio at a higher rate (after fees) than could reasonably be expected from the alternative of depositing the cash value of the fund in a reputable United Kingdom bank. The fund is priced weekly, is open ended and is unlisted.

Ruffer is responsible for custody of the assets of the fund. The Trustees do not have a direct relationship with the custodian.

3. Schroders Investment Management (“Schroders”) – Diversified Growth Fund and Corporate Bonds

The Scheme fulfils part its diversified growth mandate by investing in a pooled fund called the Diversified Growth Fund. The stated objective of the fund is to outperform CPI by 5% per annum, net of fees, over a five to seven year period. The fund is priced daily, is open ended and is unlisted.

The Scheme invests directly in corporate bonds through a pooled fund called the All Maturities Corporate Bond Fund. The stated objective of this fund is to outperform the Bank of America Merrill Lynch Non-Gilts All Stocks Index by 0.75% per annum, gross of fees, over a market cycle.

The fund is priced daily. The fund is open ended and unlisted. Schroders is responsible for custody of the assets of the diversified growth and bond funds. The Trustees do not have a direct relationship with the custodian.

Page 11 of 11

4. Additional Voluntary Contributions

Legal & General Assurance Society Limited are the Scheme's money purchase AVC provider. The Trustees review these arrangements from time to time to ensure they remain suitable.