



Statement of Investment Principles

For the Trustees of The Law Society of Scotland Staff Retirement Benefits Scheme

February 2024

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01 Introduction

Purpose

This document constitutes the Statement of Investment Principles ('the SIP') required under Section 35 of the Pensions Act 1995 for the Law Society of Scotland Staff Retirement Benefits Scheme ('the Scheme'). It describes the investment policy being pursued by the Trustees of the Scheme and is in accordance with the Government's voluntary code of conduct for Institutional Investment in the UK ("the Myners Principles"). This SIP also reflects the requirements of Occupational Pension Schemes (Investment) Regulations 2005.

Scheme details

The exclusive purpose of the Scheme is to provide retirement and death benefits to eligible participants and beneficiaries. It qualifies as a registered pension scheme, registered under Chapter 2 of Part 4 of the Finance Act 2004.

The Scheme Actuary is Gerry Devenney and the Investment Advisor is XPS Investment Limited (collectively termed 'the Advisers').

Advice and consultation

Before preparing this Statement, the Trustees have sought advice from the Scheme's Investment Consultant, XPS Investment Limited. The Trustees have also consulted the Principal Employer. The Trustees will consult the Principal Employer on any future changes in investment policy as set out in this Statement.

Investment powers

The Scheme's Trust Deed and Rules set out the investment powers of the Trustees. This Statement is consistent with those powers. Neither this Statement nor the Trust Deed and Rules restricts the Trustees' investment powers by requiring the consent of the Principal Employer.

In accordance with the Financial Services and Markets Act 2000, the Trustees set general investment policy but delegate responsibility for the selection of the specific securities and any financial instruments in which the Scheme invests to the Investment Manager.

Review of the Statement

The Trustees will review this Statement and their investment policy at least every three years in conjunction with each triennial valuation or immediately following any significant changes in investment policy.

The Trustees will also review this Statement in response to any material changes to any aspect of the Scheme, its liabilities, finances and attitude to risk of either the Trustees or Principal Employer which it judges to have a bearing on the stated investment policy.

The Trustees will receive confirmation of the continued appropriateness of this Statement annually, or more frequently, if appropriate.

Definitions

Capitalised terms in this document mean the following:

Act - The Pensions Act 1995 (as amended by section 244 of the Pensions Act 2004);

AVCs - Additional Voluntary Contributions;

Investment Manager – An organisation appointed by the Trustees to manage investments on behalf of the Scheme;

Principal Employer – Law Society of Scotland;

Recovery Plan - The agreement between the Trustees and the Principal Employer to address the funding deficit;

Scheme – The Law Society of Scotland Staff Retirement Benefits Scheme (Defined Benefit section);

Statement - This document, including any appendices, which is the Trustees' Statement of Investment Principles;

Technical Provisions - The amount required, on an actuarial calculation, to make provision for the Scheme's liabilities;

Trust Deed and Rules - the Scheme's Trust Deed and Rules dated 13 September 2004, as subsequently amended;

Trustees – the collective entity responsible for the investment of the Scheme's assets and managing the administration of the Scheme;

Value at Risk - a technique which uses historical correlations of asset class returns and volatilities to estimate the likely worst-case scenario loss for a given portfolio of assets.

02 Strategic investment policy and objectives

Choosing investments

The Trustees rely on a professional Investment Manager for the day-to-day management of the Scheme's assets.

However, the Trustees retain control over some investments. In particular, the Trustees make decisions about pooled investment vehicles in which the Scheme invests.

The Trustees have decided not to appoint an Investment Sub-Committee to deal with investment matters.

The Trustees will seek advice on how to stabilise the Scheme's funding level over time and appoint Investment Managers that will help ascertain this objective. The Trustees' policy is to regularly review the investments over which they retain control and to obtain written advice about them when necessary. The Trustees will also seek to review their investment strategy every three years to ensure suitability for the Scheme and its members. When deciding whether or not to make any new investments the Trustees will obtain written advice and consider whether future decisions about those investments should be delegated to the Investment Managers. The written advice will consider suitability of the investments, the need for diversification and the principles within this Statement. The adviser will have the knowledge and experience required under Section 36(6) of the Act.

Long-term objectives

The primary investment objective of the Trustees is to seek ensure the Scheme is able to meet the benefit payments promised as they fall due from a combination of investment returns and planned contributions. Given the size of the Scheme, it is the Trustees' current practice to insure pensions at retirement.

Having regard to the primary investment objective and subject to the strength of the employer covenant, the Trustees will seek to achieve a level of investment return which is consistent with that assumed in the Recovery Plan from the most recent Actuarial Valuation.

Expected returns

By undertaking the investment policy described in this Statement, the Trustees expect future investment returns will at least meet the rate of return underlying the Recovery Plan.

Investment Policy

Following advice from the Investment Consultant, the Trustees have set the investment policy and objectives with regard to the Scheme's liabilities and with a view to stabilising the funding level as far as possible.

The Trustees intend to achieve these objectives through investing in a diversified portfolio of return-seeking assets combined with liability matching assets (e.g. gilts and bonds), to provide some degree of matching with the Scheme's liability value against interest rate and inflation changes prior to annuitisation of member liabilities at the point of individual members' retirement. The Trustees recognise that the return on return-seeking assets, whilst expected to be greater over the long-term than that on liability matching assets, is likely to be more volatile. A mixture across asset classes should nevertheless provide the level of returns required by the Scheme to meet its liabilities at an acceptable level of risk (of underperforming the liabilities) for the Trustees, and an acceptable level of cost to the Principal Employer.

The investment policy the Trustees have adopted is detailed in Appendix I. The specific Investment Manager mandates against which performance of the assets will be assessed are specified in Appendix II.

Strategic investment policy and objectives (continued)

Range of assets

The Trustees consider that the combination of the investment policy detailed in Appendix I and the specific manager mandates detailed in Appendix II will ensure that the assets of the Scheme include suitable investments that are appropriately diversified and provide a reasonable expectation of meeting the objectives. In setting out the mandates for the Investment Manager, the Trustees will ensure that the Scheme holds a suitably diversified range of securities in each category, avoiding an undue concentration of assets.

Based on the structure set out in Appendix I, the Trustees consider the arrangements with the Investment Manager to be aligned with the Scheme's overall strategic objectives. Details of each specific mandate are set out in agreements and pooled fund documentation with each Investment Manager. The amounts allocated to any individual category or security will be influenced by the overall benchmark and objectives, varied through the Investment Managers' tactical asset allocation preferences at any time, within any scope given to them through set by the Trustees or governing the pooled funds in which the Scheme is invested.

The Trustees will ensure that the Scheme's assets are invested in regulated markets to maximise their security.

The Investment Manager is incentivised to perform in line with expectations for their specific mandate as their continued involvement as an Investment Manager for the Scheme's assets – and hence the fees they receive – are dependent upon them doing so. They are therefore subject to performance monitoring and reviews based on a number of factors linked to the Trustees' expectations, including the selection / deselection criteria set out in Section 6.

The Trustees encourage the Investment Manager to make decisions in the long-term interests of the Scheme. The Trustees expect engagement with management of the underlying issuers of debt or equity and the exercising of voting rights.

This expectation is based on the belief that such engagement can be expected to help Investment Managers to mitigate risk and improve long term returns. As covered in more detail in Section 3, the Trustees also require the Investment Manager to take ESG factors and climate change risks into consideration within their decision-making as the Trustees believe these factors could have a material financial impact in the long-term. The Trustees therefore make decisions about the retention of Investment Managers, accordingly.

03 Responsible investment

The Trustees have considered their approach to environmental, social and corporate governance (“ESG”) factors for the long-term time horizon of the Scheme and believe there can be financially material risks relating to them. The Trustees have delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Scheme’s Investment Manager. The Trustees require the Scheme’s Investment Manager to take ESG and climate change risks into consideration within their decision-making, in relation to the selection, retention or realisation of investments, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest.

Furthermore, the Trustees, with the assistance of the investment adviser, will monitor the processes and operational behaviour of the Investment Manager from time to time, to ensure they remain appropriate and in line with the Trustees’ requirements as set out in this Statement.

As the Scheme invests in pooled funds, the Trustees acknowledge that they cannot directly influence the policies and practices of the companies in which the pooled funds invest. They have therefore delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme’s investments to the Investment Manager. The Trustees encourage them to engage with investee companies and vote whenever it is practical to do so on financially material matters such as strategy, capital structure, conflicts of interest policies, risks, social and environmental impact and corporate governance as part of their decision-making processes. The Trustees require the Investment Manager to report on significant votes made on behalf of the Trustees.

If the Trustees become aware of the Investment Manager engaging with the underlying issuers of debt or equity in ways that they deem inadequate or that the results of such engagement are mis-aligned with the Trustees’ expectation then the Trustees may consider terminating the relationship with that Investment Manager.

When considering the selection, retention or realisation of investments, the Trustees have a fiduciary responsibility to act in the best interests of the beneficiaries of the Scheme, although they have neither sought, nor taken into account, the beneficiaries’ views on matters including (but not limited to) ethical issues and social and environmental impact. The Trustees will review this policy if any beneficiary views are raised in future.

In order to ensure sufficient oversight of the engagement and voting practices of the Investment Manager, the Trustees may periodically meet with the Investment Manager to discuss engagement which has taken place. The Trustees will also expect their investment adviser to engage with the managers from time to time as needed and report back to the Trustees on the stewardship credentials of their managers. The Trustees will then discuss the findings with the investment adviser, in the context of their own preferences, where relevant. This will include considering whether the manager is a signatory to the UK Stewardship Code. The Trustees recognise the Code as an indication of a manager’s compliance with best practice stewardship standards.

04 Risk measurement and management

The Trustees recognise a number of risks involved in the investment of the assets of the Scheme. The Trustees measure and manage these risks as follows:

Solvency risk and mismatching risk - The risk that the assets do not respond to market changes in the same way as the liabilities, resulting in volatility in the funding position, is addressed through the strategic asset allocation and through ongoing triennial actuarial valuations. In setting the investment strategy, the Trustees will consider (for example) the Value at Risk.

Strategy risk - The risk that the actual asset allocation deviates from the Trustees' investment policy is addressed through regular review of the asset allocation. In reviewing the investment strategy on a periodic basis, the Trustees will consider the current economic factors affecting the asset classes in which they have invested and the short to medium term outlook for performance by reference to e.g. current and historic yields, GDP growth forecasts and other relevant factors. The Trustees will also consider how far the actual asset allocation has drifted from the strategic asset allocation and take action to rebalance if necessary.

Liquidity risk - The risk that assets cannot be sold quickly enough to enable benefits to be paid or that the Trustees cannot exit a particular investment is addressed through the process by which the administrator estimates the benefit outgo and ensures that sufficient cash balances are available, and through the Trustees' policy on realisation of assets (see below).

Inappropriate investments - The risk that an Investment Manager invests in assets or instruments that are not considered to be appropriate by the Trustees is addressed through the Trustees' policy on the range of assets in which the Scheme can invest (see section 2).

Counterparty risk - The risk that a third party fails to deliver cash or other assets owed to the Scheme is addressed through the Investment Managers' guidelines with respect to cash and counterparty management.

Political risk - The risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across many countries.

Custodian risk - The risk that the custodian fails to provide the services expected is addressed through the agreement with the third party custodian and ongoing

monitoring of the custodial arrangements. In pooled arrangements this is invariably delegated to the Investment Managers.

Manager risk - The risk that an Investment Manager fails to meet their stated objective is addressed through the performance objectives set out in Appendix II and through the monitoring of the Investment Managers as set out in section 6. In monitoring the performance of the Investment Managers, the Trustees measure the returns relative to the benchmark, objective and the volatility of returns. In addition, the Trustees will regularly review each Investment Manager's approach to risk within each fund in order to highlight any unintended risk being taken. For example:

- > for multi-asset funds such as diversified growth funds (DGFs) and private markets, the Trustees will consider the weightings within each fund to different asset classes;
- > for liability matching asset funds, the Trustees will review risk through the type of instruments held and the risks associated with these investments.

Fraud/Dishonesty - The risk that the Scheme assets are reduced by illegal actions is addressed through restrictions applied as to who can authorise transfer of cash and the account to which transfers can be made.

Currency risk - The risk of losses through depreciation of non-sterling currencies is measured by reference to the exposure of the Scheme to pooled funds with unhedged currency risk and is managed by investing predominantly in sterling assets and only taking currency risk where it increases the level of diversification.

05 Realisation of assets and investment restrictions

Realisation of investments

In recognition of the fact that pooled funds may need to be realised for a number of reasons at any time, and the desirability of retaining as high a degree of flexibility as possible to cater for unexpected changes in circumstances, the Trustees will monitor closely the extent to which any assets not readily realisable are held by the Investment Manager and will limit such assets to a level where they are not expected to prejudice the proper operation of the Scheme.

The Trustees have considered how easily investments can be realised for the types of assets in which the Scheme is currently invested. As such, the Trustees believe that the Scheme currently holds an acceptable level of readily realisable assets. The Trustees will also take into account how easily investments can be realised for any new investment classes it considers investing in, to ensure that this position is maintained in the future.

The Trustees will hold cash to the extent that it considers necessary to meet impending anticipated liability outflows, and all non-cash assets are held in pooled funds with weekly dealing dates. A bank account is used to facilitate the holding of cash awaiting investment or payment.

Investment restrictions

The Trustees have established the following investment restrictions:

- > The Trustees or the investment managers may not hold in excess of 5% of the Scheme's assets in investments related to the Principal Employer;
- > Whilst the Trustees recognise that borrowing on a temporary basis is permitted, this option will only be utilised where it is deemed absolutely necessary or where the Trustees have received advice from the Investment Consultant that the Scheme's overall exposure to risk can be reduced through temporary borrowing, e.g. during an asset transfer;
- > Investment in derivative instruments may be made only insofar as they contribute to the reduction in risk or facilitate efficient portfolio management.

The Investment Manager imposes internal restrictions that are consistent with their house style. In some instances, the Trustees may impose additional restrictions and any such restrictions are specified in Appendix II.

06 Investment Manager Arrangements and fee structure

Delegation to Investment Manager

In accordance with the Act, the Trustees have appointed a single Investment Manager (Legal and General Investment Management) and delegated to them the responsibility for investing the Scheme's assets in a manner consistent with this Statement.

The Investment Manager is authorised and regulated to provide investment management services to the Scheme. Within the UK, the authorisation and regulation of the Investment Managers falls under the Financial Conduct Authority (FCA). Specific products in which the Scheme invests may also be regulated by the Prudential Regulatory Authority (PRA).

Where the Investment Manager is delegated discretion under section 34 of the Pensions Act 1995, the Investment Manager will exercise their investment powers with a view to giving effect to the principles contained in this Statement so far as reasonably practicable. In particular, the Investment Manager must have regard to the suitability and diversification of the investments made on behalf of the Scheme.

The Investment Manager will ensure that suitable internal operating procedures are in place to control individuals making investments for the Scheme.

Performance objectives

The individual benchmarks and objectives against which each investment mandate is assessed are given in Appendix II.

Review process

Appointments of the Investment Manager is expected to be long-term, but the Trustees will review the appointment of the Investment Manager at least every 5 years. Such reviews will include analysis of the Investment Manager's performance and processes and an assessment of the diversification of the assets held by the Investment Manager. The review will include consideration of the continued appropriateness of the mandate given to the Investment Manager within the framework of the Trustees' investment policies.

The Trustees receive annual performance monitoring reports from the Investment Consultant which consider

performance over one and three year periods. In addition, any significant changes relating to the criteria below that the Investment Consultant is aware of will be highlighted, which may lead to a change in the Investment Consultant's rating for a particular mandate. These ratings help to determine the Investment Manager's ongoing role in implementing the investment strategy. If there are concerns, the Trustees may carry out a more in-depth review of the Investment Manager. The Investment Manager will also attend Trustees meetings as requested.

Fund manager remuneration is considered as part of the manager selection process. It is also monitored regularly with the help of the Investment Consultant to ensure it is in line with the Trustees' policies and with fee levels deemed by the Investment Consultant to be appropriate for the particular asset class and fund type.

Selection / Deselection Criteria

The criteria by which the Trustees will select (or deselect) the Investment Managers include:

- > Parent - Ownership of the business;
- > People - Leadership/team managing the strategy and client service;
- > Product - Key features of the investment and the role it performs in a portfolio;
- > Process - Philosophy and approach to selecting underlying investments including operational risk management and systems;
- > Positioning - Current and historical asset allocation of the fund;
- > Performance - Past performance and track record;
- > Pricing - The underlying cost structure of the strategy;
- > ESG – Consistency and extent to which ESG analysis is incorporated into the process of selecting underlying investments.

An Investment Manager may be replaced, for example (but not exclusively), for one or more of the following:

- > The Investment Manager fails to meet the performance objectives set out in Appendix II;
- > The Trustees believe that the Investment Manager is not capable of achieving the performance objectives in the future;
- > The Investment Manager fails to comply with this Statement.

Investment Manager Arrangements and fee structure continued

Investment Managers' fee structure

The Investment Manager is remunerated by receiving a percentage of the Scheme's assets under management and plus the application of a modest flat fee. No performance related fees are payable. Details of the fee arrangements are set out in Appendix II. It is felt that this method of remuneration provides appropriate incentives for the Investment Manager to target the agreed level of outperformance whilst adhering to the level of risk specified by the Trustees.

Portfolio turnover

The Trustees require the Investment Manager to report on actual portfolio turnover at least annually, including details of the costs associated with turnover, how turnover compares with the range that the Investment Manager expects and the reasons for any divergence. The Trustees do not believe it appropriate to set a specific limit on the level of turnover, but would expect the investment manager to aim to minimise turnover where possible and justify any material increase in turnover in any specific reporting period.

Investment Consultant's fee structure

The Investment Consultant is remunerated for work completed on a fixed fee basis, a time-cost basis or via a project fee. It is felt that this method of remuneration is appropriate because it enables the Investment Consultant to provide the necessary advice and information to facilitate the Trustees in undertaking their responsibilities.

Advisers fee structure

Fees paid to the Advisers are based either on actual time spent and hourly rates for relevant individuals, or on fixed fees agreed in advance for specifically defined projects.

07 Compliance Statement

Confirmation of advice

Before a Statement of Investment Principles, as required by the Pensions Act 1995, is prepared or revised by the trustees of a pension scheme, they must have consulted with the principal employer and obtained and considered the written advice of a person who is reasonably believed by it to be qualified by his 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.

The Investment Consultant hereby confirms to the Trustees that they have the appropriate knowledge and experience to give the advice required by the Act.

Trustees' declaration

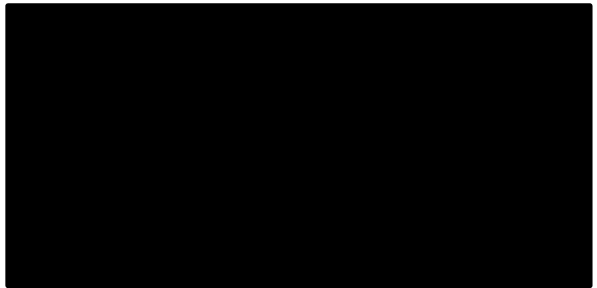
The Trustees confirm that this Statement of Investment Principles reflects the Investment Strategy they have decided to implement. The Trustees acknowledge that it is their responsibility, with guidance from the Advisers, to ensure the assets of the Scheme are invested in accordance with these Principles.

Signatures

On behalf of XPS Investment Limited:



On behalf of the Trustees:



Appendix I

Investment Strategy & Structure

Overall strategy

The Trustees have adopted a strategy where assets are invested in liability matching assets along with growth assets (through a pooled diversified fund). The Trustees last updated the investment strategy in December 2023

The Trustees have identified the following long-term structure as appropriate to meet the objectives of the Scheme (noting that insurance policies are purchased as members retire from the Scheme).

Asset Class	Strategic Target Allocation
<u>Liability Matching Assets</u>	80%
LGIM Buy and Maintain Credit Fund	30%
LGIM gilt funds and cash	50%
<u>Growth Assets</u>	20%
LGIM Diversified Fund	20%
Total	100%

Liability matching assets

The Scheme invests in liability matching funds to provide a partial hedge against the Scheme's liability interest rate and inflation sensitivities. The liability matching assets include a selection of un-levered single stock gilt pooled funds along with the LGIM Buy and Maintain Credit Fund (which invests in investment grade corporate bonds).

The Trustee estimates that the liability matching assets will achieve an interest rate hedge level of c. 80% and an inflation hedge level of c. 80% of the un-insured portion of the Scheme's Technical Provisions liabilities.

Growth assets

In order to achieve the required rate of investment return in accordance with the Scheme's Technical Provisions funding basis, the Trustees have decided to invest in the LGIM Diversified Fund, which invests in a diversified range of return seeking assets comprising both traditional (e.g. equities) and alternative asset classes (e.g. infrastructure).

The LGIM Diversified Fund is expected to provide a long-term return which is slightly less than that delivered by equity markets, but with a lower degree of volatility than equity markets.

Investment monitoring

The Trustees will monitor the performance of the investment funds held against their stated performance objectives.

The Trustees, or the Advisers on behalf of the Trustees, will regularly review the performance of the funds held to satisfy themselves that the funds remain suitable. If the Trustees are not satisfied with the performance of any of the funds they will ask managers of those funds what steps they intend to take to rectify the situation. If the funds still do not meet the Trustees' requirements, they will look to purchase other funds – potentially with a different manager – after consultation with the investment adviser.

Rebalancing and cashflow

The Trustees review the asset allocation on a periodic basis to ensure that the Scheme assets are allocated in a manner that is consistent with the objectives as detailed in this Statement.

There is no automatic rebalancing back to the target, however the Trustees will periodically review the position and take action to rebalance if considered appropriate.

Appendix II

Fund benchmarks, objectives & fees

Legal and General Investment Management ('LGIM')



Diversified Fund

Benchmark FTSE Developed World Equity Index - 50% GBP Hedged

Objective To generate growth with reduced volatility.

Fees

Buy and Maintain Credit Fund

Benchmark iBoxx Sterling Non-Gilts Index

Objective The fund will invest in a portfolio of investment grade corporate bonds with the aim of holding until maturity unless there is a significant deterioration in credit quality.

Fees

Single Stock Gilt and Index-Linked Gilt Funds

Benchmark Fund-specific benchmark in line with respective Treasury Gilt.

Objective To track the benchmark index within +/- 0.25% p.a. for 2 years out of 3.

Fees

Sterling Liquidity Fund

Benchmark SONIA

Objective Provide diversified exposure and a competitive return in relation to SONIA

Fees

Note: AMC: Annual Management Charge

OCF: Ongoing Charges Figure

Any execution costs and OCFs stated above are the latest available at the time of writing and are subject to change



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