

## **Welsh National Opera Limited Pension Scheme (“The Scheme”)**

### **Statement of Investment Principles (“SIP”)**

#### **Purpose of this Statement**

This SIP has been prepared by the Trustees of the Welsh National Opera Limited Pension Scheme (the “Scheme”). This statement sets out the principles governing the Trustees’ decisions to invest the assets of the Scheme. It has been prepared on behalf of the Trustee (the “Trustee”) to comply with section 35 of the Pensions Act 1995 (the “Act”) as amended by the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005.

The Scheme’s investment strategy is derived from the Trustees’ investment objectives. The objectives have been taken into account at all stages of planning, implementation and monitoring of the investment strategy.

As required under the Act, the Trustees have consulted a suitably qualified person in obtaining written advice from Isio Group Limited (“Isio” or the “Investment Advisor”) on the suitability of the investments, the need for diversification and the principles contained in this Statement. Isio is authorised and regulated by the Financial Conduct Authority (“FCA”).

The Trustees, in preparing this Statement, has also consulted Welsh National Opera Ltd, the Principal Employer (the “Sponsoring Employer”), in particular on the Trustee’s objectives and investment strategy.

#### **Governance**

The Trustees of the Scheme make all major strategic decisions including, but not limited to, the Scheme’s asset allocation and the appointment and termination of investment managers.

When making such decisions, and when appropriate, the Trustees take proper written advice. The Trustees believe that their investment advisers, Isio, are qualified by their ability in, and practical experience, of financial matters, and have the appropriate knowledge and experience. The investment advisers’ remuneration may be a fixed fee or based on time worked, as negotiated by the Trustees in the interests of obtaining best value for the Scheme.

The Trustees are responsible for the investment of the Scheme’s assets. The Trustees take some decisions themselves and delegate others. When deciding which decisions to take themselves and which to delegate, the Trustees have taken into account whether they have the appropriate training and expert advice in order to take an informed decision. The Trustees have established the following decision-making structure:

#### Trustees

- Set structures and processes for carrying out their roles.
- Select and monitor planned asset allocation strategy, including ESG considerations and implementation.
- Monitor actual returns versus the Scheme's investment objective.
- Select and review direct investments (see below).

## Investment Adviser

- Advise on all aspects of the investment of the Scheme's assets, including ESG and implementation.
- Advise on this statement.
- Provide required training.

## Investment Manager

- Operate within the terms of this statement and its written contracts.
- Select individual investments with regard to their suitability and diversification.
- Comment, where applicable, on the suitability of the indices in their benchmark.
- Is responsible for the stewardship of underlying investments.

The Trustees will review this SIP at least every three years and immediately following any significant change in investment policy. The Trustees will take investment advice and consult with the Sponsoring Employer over any changes to the SIP.

## **Investment objectives**

The Trustees invest the assets of the Scheme with the aim of ensuring that all members' current and future benefits can be paid. The Scheme's funding position will be reviewed on an ongoing basis to assess the position relative to the funding target and whether the investment arrangements remain appropriate to the Scheme's circumstances. The Scheme's funding target is specified in the Statement of Funding Principles.

The Trustees aim to invest the assets of the Scheme prudently with the intention that the benefits promised to members are provided. In setting an investment strategy, the Trustees first considered the lowest risk asset allocation that they could adopt in relation to the Scheme's liabilities. The asset allocation strategy they have selected is designed to achieve a higher return than the lowest risk strategy while maintaining a prudent approach to meeting the Scheme's liabilities.

## **Investment strategy**

The Trustees take a holistic approach to considering and managing risks when formulating the Scheme's investment strategy.

The Scheme's investment strategy was derived following careful consideration of the factors set out in Appendix B. The considerations include the nature and duration of the Scheme's liabilities, the risks of investing in the various asset classes, the implications of the strategy (under various scenarios) for the level of employer contributions required to fund the Scheme, and also the strength of the sponsoring company's covenant. The Trustees considered the merits of a range of asset classes.

The current planned asset allocation strategy chosen to meet the objective above is set out in the table below. The Trustees will monitor the actual asset allocation versus the target weight and the ranges set out in the table below.

Asset Class	Mandate	Strategic Allocation
Corporate Bonds	Buy and Maintain Credit	55%
Government Bonds ("Gilts")	Over 15 Year Gilts	45%
Index-linked Government Bonds ("Index-linked Gilts")	Over 15 Year Index-Linked Gilts	

When choosing the Scheme's planned asset allocation strategy the Trustees considered written advice from their investment advisers and, in doing so, addressed the following:

- The need to consider a full range of asset classes including property.
- The risks and rewards of a range of alternative asset allocation strategies.
- The suitability of each asset class.
- The need for appropriate diversification.

In addition, the Trustees also consulted with the sponsoring employer when setting this strategy.

The Trustees recognise that the investment strategy is subject to risks, in particular the risk of a mismatch between the performance of the assets and the calculated value of the liabilities. This risk is monitored by regularly assessing the funding position and the characteristics of the assets and liabilities. This risk is managed by investing in assets which are expected to perform in excess of the liabilities over the long term, and also by investing in a suitably diversified portfolio of assets with the aim of minimising (as far as possible) volatility relative to the liabilities.

The assets of the Scheme consist wholly of investments which are traded on regulated markets.

### Investment Management Arrangements

The Trustees have chosen Legal and General Investment Management ("LGIM") to be the Scheme's Investment Manager. LGIM is authorised and regulated by the Financial Conduct Authority.

The Trustees have chosen the following funds offered by LGIM to meet the asset allocation listed above:

Asset Class	Fund	Benchmark	Strategic Allocation
Corporate Bonds	LGIM Buy and Maintain Credit Fund	None provided by LGIM, so iBoxx All Stock Sterling Non-Gilt Index used as Comparator.	55%
Government Bonds ("Gilts")	LGIM Over 15 Year Gilts Fund	FTSE Actuaries UK Conventional Gilts Over 15 Years Index	45%
Index-linked Government Bonds ("Index-linked Gilts")	LGIM Over 15 Year Index-Linked Gilts Fund	FTSE Actuaries UK Index Linked Gilts Over 15 Years Index	

The objective of the Gilts and Index-linked Gilts allocations are to hedge a significant proportion of the interest rate and inflation risk associated with the Scheme's liabilities. The objective of the Buy and Maintain Credit mandate is to deliver investment growth and partially hedge the interest rate risk associated with the Scheme's liabilities.

All decisions about the day-to-day management of the assets have been delegated to the investment managers via a written agreement. The delegation includes decisions about:

- Selection, retention and realisation of investments including taking into account all financially material considerations in making these decisions;
- The exercise of rights (including voting rights) attaching to the investments, although the Trustees may in advance explain to their investment managers what they consider to be most significant votes in line with the Scheme's stewardship priorities;
- Undertaking engagement activities with investee companies and other stakeholders, where appropriate.

The Trustees take investment managers' policies into account when selecting and monitoring managers. The Trustees also take into account the performance targets the investment managers are evaluated on. The investment managers are expected to exercise powers of investment delegated to them, with a view to following the principles contained within this statement, so far as is reasonably practicable.

As the Scheme's assets are invested in pooled vehicles, the custody of the holdings is arranged by the investment manager.

### **Investment Manager Monitoring and Engagement**

The Trustees monitor and engage with the Scheme's investment managers and other stakeholders on a variety of issues. Below is a summary of the areas covered and how the Trustees seek to engage on these matters with investment managers.

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Performance, Strategy and Risk	<ul style="list-style-type: none"> <li>• The Trustees receive a quarterly performance report which details information on the underlying investments' performance, strategy and overall risks, which are considered at the relevant Trustee meeting.</li> </ul>	<ul style="list-style-type: none"> <li>• There are significant changes made to the investment strategy.</li> <li>• The risk levels within the assets managed by the investment managers have increased to a level above and beyond the Trustees' expectations.</li> <li>• Underperformance vs the performance objective over the</li> </ul>

		period that this objective applies.
Environmental, Social, Corporate Governance factors and the exercising of rights	<ul style="list-style-type: none"> <li>• The Trustees' investment managers provide annual reports on how they have engaged with issuers regarding social, environmental and corporate governance issues.</li> <li>• The Trustees receive information from their investment advisers on the investment managers' approaches to engagement.</li> <li>• The Trustees will engage, via their investment adviser, with investment managers if required.</li> </ul>	<ul style="list-style-type: none"> <li>• The manager has not acted in accordance with their policies and frameworks (including stewardship priorities).</li> <li>• The manager's stewardship policies and priorities are not in line with the Trustees' policies and any priorities in this area.</li> </ul>

Through the engagement described above, the Trustees will work with the investment managers to improve their alignment with the above policies. Where sufficient improvement is not observed, the Trustees will review the relevant investment manager's appointment and will consider terminating the arrangement.

### **Employer-related investments**

The policy of the Trustees is not to hold any employer-related investments as defined in the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005 except where the Scheme invests in collective investment schemes that may hold employer-related investments. In this case, the total exposure to employer-related investments will not exceed 5% of the Scheme's total asset value. The Trustees will monitor this on an ongoing basis to ensure compliance.

### **Direct investments**

Direct investments, as defined by the Pensions Act 1995, are products purchased without delegation to an investment manager through a written contract. When selecting and reviewing any direct investments, the Trustees will obtain appropriate written advice from their investment advisers.

### **Compliance**

This Statement has been prepared in compliance with the Pensions Act 1995, the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005. Before preparing or subsequently revising this Statement, the Trustees consulted the sponsoring company and took appropriate written advice. The Statement is reviewed at least every three years, and without delay after any significant change in the investment arrangements.

**As agreed at the January 2024 Trustee Meeting**

## **Appendix A – Investment Beliefs**

### **1. Investment strategy is the most important decision and should be based on clear objectives**

The Scheme's long-term goal is to generate returns required to fund the members' current and future pensions.

Clear objectives are at the heart of our investment strategy. Risk tolerance, return requirement and time frame are central considerations.

The strategy should aim to achieve the objectives with a high degree of confidence across a range of possible economic scenarios.

### **2 There is more to robust portfolio construction than diversification alone**

Excessive diversification can introduce inefficiency, cost, and fail to protect the portfolio in a downturn.

***Pay-off profile of assets:*** We tailor the expected pay-off profile of the Scheme's investments around our required objectives.

### **3 We aim to select the most appropriate opportunities in the market**

A strategy that buys the right asset, at a fair price, will serve the Scheme better than buying the wrong asset at a cheap price.

The Trustees consider the most appropriate potential market opportunities in order to help the Scheme achieve its long-term objectives.

### **4 A long-term mind-set can be used to enhance returns**

As a long-term investor, the Trustees pursue incremental growth that rewards adherence to our strategic plan, rather than pursuing short term opportunities rewarding speculation.

The Trustees will mitigate or manage risks that are not rewarded for.

Returns are more predictable over a longer time period, as risk is diversified across different economic cycles.

### **5 Excessive costs will erode performance**

An appealing investment opportunity can be wholly undermined by too high a cost base.

Passive management, where viable, is considered the default approach.

Active management is employed where value-add can be expected with confidence.

### **6 Good governance improves our decision making**

The Trustees continuously strive to enhance their knowledge of the investment opportunities and risks facing the Scheme.

The Trustees monitor the performance of our strategy and investment managers to improve their decision making.

## **7 Our investment process reflects our beliefs on responsible investing and Stewardship**

The Trustees consider environmental, social and corporate governance factors when selecting, monitoring and engaging in the investments we make.

The Trustees acknowledge that certain ESG factors, including climate change, are financially material and may therefore influence the risk and return characteristics of the Scheme's investments and the likelihood that the Scheme's objectives will be achieved. To confirm, no consideration has been given to non-financial considerations, nor has the Scheme's membership been consulted on such issues.

## Appendix B – Risks, Financially Material Considerations (including ESG and climate change) and Non-Financial matters

A non-exhaustive list of risks and financially material considerations that the Trustees have considered and sought to manage is shown below.

The Trustees adopt an integrated risk management approach. The three key risks associated within this framework and how they are managed are stated below:

Risks	Definition	Policy
Investment	The risk that the Scheme's position deteriorates due to the assets underperforming.	<ul style="list-style-type: none"> <li>Selecting an investment objective that is achievable and is consistent with the Scheme's funding basis and the sponsoring company's covenant strength.</li> <li>Investing in a diversified portfolio of assets.</li> </ul>
Funding	The extent to which there are insufficient Scheme assets available to cover ongoing and future liability cash flows.	<ul style="list-style-type: none"> <li>Funding risk is considered as part of the investment strategy review and the actuarial valuation.</li> <li>The Trustees will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time.</li> </ul>
Covenant	The risk that the sponsoring company becomes unable to continue providing the required financial support to the Scheme.	<ul style="list-style-type: none"> <li>When developing the Scheme's investment and funding objectives, the Trustees take account of the strength of the covenant ensuring the level of risk the Scheme is exposed to is at an appropriate level for the covenant to support.</li> </ul>

The Scheme is exposed to a number of underlying risks relating to the Scheme's investment strategy, these are summarised below:

Risk	Definition	Policy
Interest rates and inflation	The risk of mismatch between the value of the Scheme assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge as high as 100% of the liabilities on a low-risk basis (currently Gilts+0.5% p.a.) of these risks using physical gilts and index-linked gilts.

Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they fall due (including transfer values).
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away any unrewarded risks, where practicable.
Credit	Default on payments due as part of a financial security contract.	To diversify this risk by investing in a range of credit markets across different geographies and sectors.
Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Scheme's investments.	To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria: 1. The Investment Managers have clear views on ESG factors and stewardship which are clearly articulated in formal policies on these issues. 2. Stewardship is of primary importance in ensuring that financially material ESG factors are given appropriate consideration including a track record of using engagement and any voting rights to manage ESG factors  The Trustees monitor the managers on an ongoing basis.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	Hedge all currency risk on all assets that deliver a return through contractual income.
Non-financial	Any factor that is not expected to have a financial impact on the Scheme's investments.	Non-financial matters are not taken into account in the selection, retention or realisation of investments.

## Appendix C

The Trustees have the following policies in relation to the investment management arrangements for the Scheme:

<p><b>How the investment managers are incentivised to align their investment strategy and decisions with the Trustees' policies.</b></p>	<ul style="list-style-type: none"> <li>As the Scheme is invested in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustees policies. However, the Trustees invest in a portfolio of pooled funds that are aligned to the strategic objective.</li> </ul>
<p><b>How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.</b></p>	<ul style="list-style-type: none"> <li>The Trustees review the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements.</li> <li>The Trustees monitor the investment managers' engagement and voting activity on an annual basis as part of their Implementation Statement reporting process.</li> </ul>
<p><b>How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustees' policies.</b></p>	<ul style="list-style-type: none"> <li>The Trustees have chosen to invest in open-ended pooled funds. For these funds, the Trustees' policy is to enter arrangements with no fixed end date. However, the Trustees will seek to enter arrangements where it has the power to terminate these in line with the liquidity of the underlying assets and as agreed in the mandate.</li> <li>The remuneration of the investment manager is not directly linked to performance, given the absence of performance related fees, or to ESG practices. However, the Trustees will review and replace the investment manager if net of fees investment performance, risk characteristics and ESG practices are not in line with the Trustees' expectations and views.</li> </ul>
<p><b>The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.</b></p>	<ul style="list-style-type: none"> <li>The Trustees do not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.</li> </ul>
<p><b>The duration of the Scheme's arrangements with the investment managers</b></p>	<ul style="list-style-type: none"> <li>The duration of the arrangements is considered in the context of the type of fund the Scheme invests in.</li> </ul>

	<ul style="list-style-type: none"> <li>○ For closed ended funds or funds with a lock-in period the Trustees ensure the timeframe of the investment or lock-in is in line with the Trustees' objectives and Scheme's liquidity requirements.</li> <li>○ For open ended funds, the duration is flexible and the Trustees will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.</li> </ul>
<p><b>Voting Policy - How the Trustees expect investment managers to vote on their behalf</b></p>	<ul style="list-style-type: none"> <li>● The Trustees have acknowledged the voting policies that are implemented by the Scheme's investment managers on their behalf.</li> <li>● The Trustees' policy is to invest in pooled investment vehicles. It is the Investment Manager that is responsible for the exercise of rights (including voting rights) attaching to these investments.</li> <li>● The Trustees' policy in relation to any rights (including voting rights) attaching to its investments is to exercise those rights to protect the value of the Scheme's interests in the investments, having regard to appropriate advice.</li> </ul>
<p><b>Engagement Policy - How the Trustees will engage with investment managers, direct assets and others about 'relevant matters'</b></p>	<ul style="list-style-type: none"> <li>● The Trustees have engagement policies that are implemented by the Scheme's investment managers on their behalf.</li> <li>● The Trustees, via their investment advisers, will engage with managers about 'relevant matters' where required on an ad-hoc basis.</li> <li>● The Trustees expect the Investment Manager to engage with investee companies (and other relevant persons including, but not limited to, investment managers, issuers/other holders of debt and equity and other stakeholders) on aspects such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, corporate governance, social and environmental issues concerning the Trustee's investments.</li> <li>● Example stewardship activities that the Trustees have considered are listed below.</li> </ul>

	<ul style="list-style-type: none"><li>○ Selecting and appointing asset managers – the Trustees will consider potential managers’ stewardship policies and activities.</li><li>○ Asset manager engagement and monitoring – on an annual basis, the Trustees assess the voting and engagement activity of their asset managers. The results of this analysis feeds into the Trustees’ investment decision making.</li></ul>
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