BIG THINKING
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Statement of Investment Principles

Scholastic Limited Pension and Assurance Scheme

June 2024

BARKER TATHAM™
PENSION INVESTMENTS

1. Introduction

Under the Pensions Act 1995, trustees are required to prepare and review regularly a Statement of Investment Principles, dealing with certain specific matters.

This Statement sets out the principles governing decisions about the investment of the assets of Scholastic Limited Pension and Assurance Scheme (the Scheme). Before preparing it, the Trustees obtained and considered written professional advice from Barker Tatham Investment Consultants Limited as its investment consultants. Prior to finalising this document, they also consulted with the sponsoring employer. Barker Tatham Investment Consultants Limited are licensed by the Institute and Faculty of Actuaries to provide investment advice.

The Trustees review this Statement on a regular basis and will also do so in response to any material changes to the investment arrangements of the Scheme. Formal reviews will be undertaken no less frequently than every 3 years to coincide with the Actuarial Valuations. Any such review will again be based on written expert investment advice and will be in consultation with the Scheme's sponsoring employer, Scholastic Limited.

Adopted by the Trustees of the Scholastic Limited Pension and Assurance Scheme on 5 July 2024

2. Decision Making

The Trustees distinguish between two types of investment decision:

Strategic investment decisions

These decisions are long-term in nature, and driven by an understanding of the objectives, needs and liabilities of the Scheme.

The Trustees take all such decisions. Where appropriate this is after receiving written advice from their investment consultant, and consulting, as appropriate, with the employer.

Examples of such decisions include:

- setting investment objectives;
- setting strategic asset allocation;
- setting benchmarks;
- drafting the Statement of Investment Principles; and
- appointing and removing fund managers.

Work is charged for either by an agreed fee or on a time cost basis. In particular, the investment consultant does not receive commission or any other payments in respect of the Scheme that might affect the impartiality of their advice. The Trustees believe that this is the most appropriate fee structure for the Scheme.

Tactical investment decisions

Tactical investment decisions are based on views of future market movements.

The Trustees employ fund managers to make such judgements, and do not interfere with their decisions. Examples of such decisions include:

- selecting individual stocks;
- temporarily deviating from the strategic asset allocation to take advantage of better market opportunities; and
- timing of entry or exit from a market.

Each investment manager is paid a fixed percentage of the value of the assets that they manage for the Scheme. The Trustees believe that this is the most appropriate fee structure for the Scheme.

The investment consultant and fund managers used by the Trustees are authorised and regulated by the FCA or relevant designated professional bodies.

3. Investment Objectives

The Trustees' overall investment policy is guided by the following objectives:

What constitutes risk?

The Trustees appreciate that the most important aspect of the security of the members' benefits is the continued support of the Scheme sponsor. Events that reduce the Sponsor's willingness or ability to support the Scheme are the biggest potential threats from the members' perspective.

The most significant risk from the Trustees' perspective is that the deficit on the buy-out basis widens in monetary terms.

Appetite for risk

Risk should be minimised. Growth is far less important given the limited time horizon, and the focus on protecting the buy-out.

Other considerations

- **Net cashflows and liquidity**
  There is no need to take into account short-term cashflows.

- **Property**
  There is no direct exposure of the sponsor to commercial property prices, so property can be included in the investment strategy without exacerbating an existing risk. The Scheme has fully disinvested from the Standard Life Long Lease Property Fund in Q2 2024.

- **Flexibility**
  The assets need to be suitable for use to buy-out the Scheme's liabilities.

- **Environmental, social and governance issues**
  The Trustees have noted their views on these issues on page 12 of this Statement.

4. Myners' Investment Principles

The Trustees recognise the relevance to pension plans of the Myners' Investment Principles that were published by the Government in October 2001 and updated in March 2008. The Scheme's adherence to (or otherwise) the Myners' Investment Principles is set out below.

Principle 1: Effective Decision-Making

"Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.

Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest."

- The Trustees make investment decisions by consulting with professionals that it believes to be best equipped to give that advice. Long-term strategic investment decisions are made in consultation with the Scheme's investment consultant, whereas tactical decisions are made by the appropriate fund manager.

Principle 2: Clear Objectives

"Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers."

- The Trustees have formally reviewed their investment objectives with the assistance of their investment consultant.
- The investment objectives are explicitly stated in Section 3 of this document.
- The strength of the Sponsor's covenant is reviewed on a regular basis. This takes into account the support of the US parent, Scholastic Inc, and the formal guarantee of deficit recovery contributions provided.
- All the assets of the Scheme are invested via pooled funds. In each case, the fund manager has an explicit benchmark and, where relevant, an outperformance target, as well as clear constraints within which to operate.
- The Scheme's overall investment objective is supported by the Scheme's Asset Liability Model and the Scheme's employer covenant.

Principle 3: Risk and Liabilities

"In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk."

- In reviewing the investment strategy, the Trustees commissioned an Asset Liability Model (ALM) from their investment consultant. This explicitly took account of the form and structure of the liabilities, as well as longevity risk.

- This ALM was used to find a strategy which best met the Trustees' investment objectives. Those investment objectives were influenced by the strength of the sponsor covenant and the risk of sponsor default.

Principle 4: Performance Assessment

"Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisors. Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members."

- The Trustees currently receive:
  - quarterly monitoring reports from the investment consultant; and
  - annual audited accounts.

- The investment monitoring reports include an assessment of how successful the Trustees' investment strategy has been in improving the deficit of the Scheme. The Trustees will report on this in their annual report to members and the annual summary funding statement.

Principle 5: Responsible Ownership

"Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents. A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles. Trustees should report periodically to members on the discharge of such responsibilities."

- The fund managers confirm their adherence to the UK Stewardship Code (which replaced the 2005 ISC Statement of Principles).

- The Trustees' policy on responsible ownership is described in Section 6 of this Statement of Investment Principles.

- The Trustees will report on the Scheme's policy on responsible ownership in the annual report to members and the annual summary funding statement.

Principle 6: Transparency and Reporting

"Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.

Trustees should provide regular communication to members in the form they consider most appropriate."

- Members are provided with annual summary funding statements, and also information on this is provided in the Scheme's annual report to members.

- A copy of this Statement of Investment Principles is available to members on request.

- Other documents such as actuarial valuation reports, the Statement of Funding Principles, the schedule of contributions and the annual report and accounts are also available to members on request.

- A representative from the employer regularly attends Trustee meetings and this helps communication with the employer over investment matters.

5. Implementation

The Trustees set their strategy based on the objectives set out in Section 3 and written advice from the investment consultants. The Trustees last reviewed their strategy in February 2024 and this was implemented in April 2024.

The Trustees have decided to protect the Scheme's deficit (on the buy-out basis) from changes to long-term interest rates or inflation expectation. The target level of hedging for both risks is 100% (up to the value of the liabilities).

As investment markets (particularly interest rates and inflation expectations) move, the split between the assets below will vary. There is no automatic rebalancing as this could lead to the interest rate or inflation exposures of the Fund being over- or under-hedged. Instead, the hedges are monitored on a quarterly basis by the investment consultants. Remedial action is recommended when appropriate.

The table below gives the targeted allocation following the investment strategy review in February 2024:

Manager	Fund	Initial Allocation
Insight	UK Corporate Long Maturities Bond Fund	45.0%
Insight	LDI Enhanced Selection Longer Nominal Fund	14.0%
Insight	LDI Enhanced Selection Longer Real Fund	31.4%
Insight	Liquidity Plus Holding Fund	9.6%
Total		**100.0%**

The actual asset allocation will deviate from the initial allocation due to market movements, as described in the section on rebalancing below.

Insight – UK Corporate Long Maturities Bond Fund

- This fund aims to deliver attractive returns by investing in longer-dated sterling credit markets, either directly or via derivatives.

Insight –Enhanced Selection Funds

- These funds aim to protect the Fund from movements in either long-term interest rates or expected inflation.
- These funds use derivatives and gilts to hedge these risks.
- If long-term interest rates fall, or inflation expectations rise then the value of the Fund's liabilities will increase. These funds will mitigate the impact on the Fund's funding level by rising by a similar amount.
- However, the reverse is also true. If the liabilities fall in value, these funds will also fall. They are volatile.

Insight – Liquidity Plus Cash Fund

- This fund aims to provide income together with stability of capital by investing in money market instruments and short-term fixed income and variable rate bonds.

Meeting cash calls for the Pooled LDI funds

The Scheme is to have a standing instruction in place to make transactions automatically in the event of Cash Calls or Cash Distribution from the LDI funds (the "Insight – LDI Enhanced Selection Funds") to maintain the level of hedging. In the event of a cash call, monies will be taken from the Insight – Liquidity Plus Fund. In the event of a Cash Distribution, monies will pay equally to the Insight – Liquidity Plus Fund.

6. Prescribed Matters

Introduction

This section covers those matters prescribed in Sections 35 and 36 of The Pensions Act 1995, The Pensions Act 2004 and the 2005 Investment Regulations 2005/3378 (as amended from time to time).

Choosing Investments

The assets of the Scheme are invested in pooled vehicles. Selection of the individual underlying assets has been wholly delegated to the fund managers listed in the Appendix.

Kinds of Investments

The Trustees may invest in the following asset classes (via pooled funds) on behalf of the Scheme:

- UK equities
- Overseas equities
- Corporate bonds
- Gilts (conventional and index-linked)
- Cash
- Overseas bonds
- Property
- Derivatives

The presence of an asset class on the list does not imply that the Scheme is currently invested in such assets.

Securities Lending

The Trustees recognise that the fund managers may engage in securities lending in order to produce additional incremental returns, subject to supervision rules as detailed in the fund managers' prospectuses.

Balance between Investments

The Trustees recognise the advantages of diversifying across different asset classes in order to take advantage of different asset class characteristics.

- Reducing the risk that results from investment in any one particular market; and
- Enhancing return.

Risk

The Trustees pay close regard to the risks that may arise through a mismatch between the Scheme's assets and its liabilities, and to the risks that may arise from the lack of diversification of investments. They believe that the investment policies to be followed by their investment manager do have adequate regard for the need to diversify within each asset class as well as in terms of stock selection.

Under the Pensions Act 2004, trustees must now state their policy on the ways in which risks are to be measured and managed. These are set out below.

- **Solvency / funding risk:**
  - is managed through setting an investment strategy (primarily asset allocation) with an appropriate level of risk.
  - is measured using an Asset Liability Model from the investment consultant.
  - is monitored in quarterly reports from the investment consultant.

- **Manager risk:**
  - is managed through selecting funds with a suitable target level of risk, and that the investment consultant has deemed the manager's risk controls as acceptable.
  - is measured and monitored from quarterly reports from the investment consultant.

- **Liquidity risk:**
  - is managed by ensuring that the majority of the pooled funds used by the Scheme are liquid.

- **Political risk:**
  - is managed by investing globally.

- **Sponsor risk:**
  - is managed via the actuarial valuation process.
  - is measured and monitored by regular assessment of the Sponsor's covenant by the Trustees.

Expected Return on Investments

Gilts are the easiest asset class for which to predict the long-term returns. Providing that they are held to maturity, and ignoring reinvestment risk, the return on gilts over their lifetime will be the current Gross Redemption Yield (GRY).

The Trustees base expected investment returns for other asset classes on this GRY as a starting point. Over the long-term, they expect the following returns per year over and above that of gilts:

LDI Funds	-
Corporate Bonds	+1.0%
Cash	-0.2%

Realisation of Investments

The Scheme's assets are invested in the investment managers' pooled vehicles, which in turn invest in securities traded on recognised exchanges. The Trustees conclude that the majority of the Scheme's investments can be realised at short notice if necessary.

Environmental, Social and Governance Issues

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustees have elected to invest through pooled funds. It acknowledges that it cannot directly influence the environmental, social and governance ("ESG") policies and practices of the companies in which the pooled funds invest. The Trustee also acknowledges that where index tracking pooled vehicles are employed ESG considerations cannot be taken into account due to the nature of the investment.

In principle, the Trustees believe that ESG factors can have material impacts on both the investment risk and return of its investments and good stewardship of the Scheme's investments is an important factor in helping to create and preserve capital. In particular, long-term sustainability issues, particularly climate change, present both risks and opportunities and that these will require ongoing consideration.

The Trustees have delegated the day to day investment of Scheme assets to their fund manager, Insight. The Trustees have an expectation that their fund manager will evaluate ESG factors, where possible, including climate change considerations and exercising voting rights and stewardship obligations in line with the prevailing best practice.

The Trustees do not, at present, take into account the views of members.

Appropriate weight will be given to ESG factors in the appointment of fund managers.

The Trustees' views that the stewardship responsibilities attached to the ownership of shares is important but recognise that investment in pooled funds limits their ability to be fully involved. The Trustees expect their investment managers to report in detail on how they have exercised voting rights attached to shares (including across passive equity mandates). Managers are expected to be signatories to the FRC UK Stewardship Code.

On 6 June 2019, the Government published "*the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations"* which expand the requirements for Statements of Investment Principles such as this. To be compliant with these regulations by 1 October 2020, the Trustees have set further ESG policies.

The Trustees' policies are set out below:

- **How they incentivise their appointed investment managers to align investment strategy and decisions with the trustees' policies, including risk, return and ESG.**
  The Scheme invests solely in pooled funds where fees charged are a combination of fixed fees and a proportion of the assets under management. There are no performance-related components of the fees.
  The only influence that the Trustees can exert is through the decision to retain or to liquidate their holdings in each fund.

The investment strategies of the pooled funds are aligned to the Trustees' investment objectives by selecting funds with suitable characteristics:

- Benchmarks
- Risk budgets
- Constraints
- Approaches (this includes ESG where appropriate)

The Trustees maximise the probability of its investment objectives being met by selecting an appropriate and Scheme-specific combination of such funds with advice from their investment consultant.

- **How the asset manager is incentivised to make decisions on assessments about medium to long term financial and non-financial performance of an issuer of debt or equity. Also, how the managers are incentivised to engage with the issuers in order to improve their performance.**
  Active fund managers are retained subject to, amongst other criteria, achieving adequate medium- to long- term performance. In order to do so, they will need to make assessments about the medium to long term financial performance of debt and equity issuers. They will also need to assess non-financial performance in as much as it may be a source of risk.

  It also incentivises them to engage with issuers where this is in the financial interests of the Scheme (i.e. where it will make a material impact on the performance of the fund).

  Passive fund managers are not expected to make assessments about the financial or non-financial performance of the issuers of securities they invest in.

- **How the method and time horizon of the evaluation of managers' performance and remuneration are in line with the trustees' policies.**
  The Trustees receive quarterly reports from the fund managers and quarterly analysis from their investment consultant. The investment consultant takes into account the performance of the fund managers but does not restrict their analysis to performance alone. However, given these funds are passively managed, the performance is expected to be broadly in line with the benchmarks.

  Performance is compared to the benchmark and tracking error target of each fund, in order to ensure that this is in alignment to the objectives and policies of the Trustees.

  In selecting pooled funds, the Trustees and their investment consultant take into account the fees charged by the fund manager. These are judged in terms of value for money given the nature of the fund, particularly the asset class and outperformance target.

  Fund managers need to give the Trustees notice if they plan to change the level of the fees. If this occurs, the Trustee seeks advice from its investment consultant on whether to retain or replace the manager.

- **How the trustees monitor portfolio turnover costs incurred by the manager/s (and how they define and monitor targeted portfolio turnover or turnover range).**
  Given the size of the Scheme's investment it would not be cost effective to monitor the turnover or turnover costs directly. The performance figures that the Trustees and its

investment consultant analyse are net of transactions costs, so this is taken into account indirectly.
The Trustees do not believe that they should micro-manage the level of turnover provided that the net outcome to the Scheme is acceptable.

- **The duration of their arrangement with the asset manager**.
  In order to maintain an incentive for the fund manager to perform well, the Trustees do not enter any fixed term arrangements with their manager. Investments in each pooled fund are only retained for as long as the aim of the fund is consistent with the overall investment objectives of the Scheme, and the Trustees have confidence that the fund managers can credibly deliver that aim in a cost-effective manner.

Appendix: Third Party Arrangements

Advisors

The following advisors assist the Trustees:

Scheme Actuary
John Brogan
Mercer Limited
1 New Park Square
1 Airborne Place
Edinburgh,
EH12 9GR

Auditor
JW Hinks LLP
19 Highfield Road,
Edgbaston,
Birmingham,
B15 3BH

Investment Consultant
Barker Tatham Investment Consultants Ltd
12-16 Addiscombe Road,
Croydon,
CR0 0XT

Pension Administrators
Aptia Limited
1 New Park Square
1 Airborne Place
Edinburgh,
EH12 9GR

Fund Managers

The Trustees have appointed the following fund manager:

Insight Investment
Insight Investment,
160 Queen Victoria Street,
London,
EC4V 4LA