

Guidance on preparing a statement of investment policy principles for defined benefit schemes

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Introduction

This guidance sets out the Pensions Authority's (the Authority) view of good practice for trustees of defined benefit (DB) schemes in preparing and maintaining a statement of investment policy principles (SIPP).

It is the Authority's view that preparing, operating and reviewing the SIPP is an important part of carrying out the duties of a trustee¹.

The trustees can use the SIPP as a reference document when making investment decisions and can check at any time that their current investment choices are aligned with their stated investment strategy.

The SIPP is also a useful information document to enable the membership and other stakeholders to understand the investment decisions that have been agreed.

The SIPP should be written in a clear and comprehensible manner, avoid the use of jargon or technical terms and be presented in a way that is easy to read.

There is no limit to what trustees can include in their SIPP. However, it is most useful if the SIPP concentrates on those issues that are dealt with only in the SIPP and not issues which are covered elsewhere, e.g., detailed asset breakdowns are more appropriately shown in the trustees' annual report.

A SIPP should be specific enough so that if a third party reads the SIPP and knows the liability profile of the scheme, the third party should be able to understand why the specific asset allocation has been chosen.

A SIPP must be specific – phrases such as 'acceptable levels of risk' or 'adequate rate of return' do not provide a basis for decision making unless the SIPP includes a definition of what comprises acceptable or adequate.

Having prepared a SIPP, the trustees should revisit its contents to reflect changing circumstances. There is, in any event, a requirement that the SIPP be reviewed at least every three years or at any time following any change in investment policy which is inconsistent with the SIPP. Furthermore, a SIPP can be temporary in nature, e.g., for the duration of a funding proposal.

¹ Section 59(1B) of the Pensions Act 1990, as amended, places a legal obligation on trustees of all schemes to prepare a SIPP. The minimum contents of the SIPP are set out in regulation 5 of the Occupational Pension Schemes (Investment) Regulations, 2021.



The Authority has prepared an illustrative sample SIPP. It should be noted that while publishing the sample SIPP, the Authority recognises that other approaches to preparing a SIPP may be equally valid.

The Authority has also prepared guidelines for trustees in relation to the process of setting the investment strategy of a DB scheme, which is available [here](#).

Illustrative sample statement of investment policy principles for the ABC defined benefit scheme

1. Introduction

This document contains the statement of investment policy principles (SIPP) drawn up by the trustees of the ABC defined benefit scheme (the scheme).

In preparing this SIPP, the trustees have consulted² ABC Ltd (the sponsoring employer). The trustees will consult the sponsoring employer on any significant changes to the scheme's investment arrangements; however, the trustees retain ultimate responsibility for investment decisions.

2. Investment objectives³

The investment objectives of the trustees can be summarised as follows:

- To maximise the return on invested assets subject to an acceptable level of risk of failing to meet the scheme's liabilities over the long term.
- To ensure that the scheme meets its funding obligations under the Pensions Act, 1990, as amended.
- To generate a return on assets that will help to stabilise and minimise the long-term cost of the scheme.

Specifically, over the period from [DATE] to [DATE], the trustees aim to achieve a rate of return on the scheme's asset portfolio of R% per annum in excess of the yield on the FixIntCo bond index.

The trustees consider that there should be a probability of not more than X% that the sponsoring employer's contribution rate exceeds €Y per annum over a Z year period.

3. Strategic Asset Allocation

The trustees have engaged the scheme actuary and the scheme's investment consultant to advise on the possible investment strategies that would be consistent with the investment objectives of the scheme.

² The details of such issues as the sponsoring employer's role will be specific to each scheme.

³ These investment objectives are examples for the purposes of illustration. Trustees must decide on the investment objectives appropriate to their own scheme.

The strategic asset allocation below was determined having regard to the funding position of the scheme and an analysis of the scheme's liability profile. The trustees have been advised that the allocation below is consistent with the target rate of investment return and the risk tolerance level.

Asset class	Allocation range
Euro-denominated bonds – less than 10 years to maturity	A-B%*
Euro-denominated bonds – more than 10 years to maturity	C-D%
Equities	E-F%
Property	G-H%
Cash	J-K%
Other	L-M%

**Actual allocations may vary from time to time, reflecting market movements and other related factors.*

The trustees ensure that the investment managers' mandates meet the requirements of section 59AB of the Pensions Act, 1990, as amended.

4. Investment risk measurement methods⁴

The risk in the context of investment is that the scheme's funding level will deteriorate as a result of the investment strategy being pursued which would increase the cost of funding and may ultimately threaten the ability of the scheme to pay the benefits promised. A 'Value at Risk' (VaR) measurement is used by the investment consultant to demonstrate how the funding level might deteriorate as a result of any given investment strategy. VaR is defined as the maximum expected loss with a given probability over a period of time. In the context of the scheme, loss is defined as the reduction in the funding level over a one-year period.

The calculation of VaR is based on an investment model and assumptions provided by the investment consultant and these assumptions are reviewed on a regular basis. The model and the underlying assumptions have been explained to the trustees and the trustees understand the limitations of the model.

⁴ The use of VaR as a risk measurement method is an example for illustrative purposes only. Trustees must decide on the appropriate quantitative risk measurement method(s) for their scheme.

VaR was calculated as €A based on an assessment of the scheme's investment strategy as at xx/xx/xxxx. The trustees interpret this to mean that there is a low likelihood that the fall in the funding level will exceed €A in a one year period based on the assumptions underlying the model. The trustees have discussed the results of the most recent assessment with their professional advisors and the sponsoring employer and consider that the investment strategy is consistent with the risk tolerance of the scheme.

5. Investment risk management processes

The trustees have established the following risk management processes:

- The trustees monitor the funding level risk by commissioning VaR calculations on a regular basis and no less frequently than annually. The trustees will review the investment strategy in the event that VaR exceeds €B at any point in the future.
- The trustees monitor the asset allocation of the scheme's investments to ensure that it is consistent with the scheme's strategic asset allocation.
- The trustees employ their investment consultant to report on the performance of the scheme's investments and the underlying investment managers on a quarterly basis, using both quantitative and qualitative measures. The trustees may replace an investment manager who fails to meet performance objectives and/or fails to comply with the written investment management agreements.
- The trustees have delegated to the investment consultant the task of monitoring the degree to which the investment managers invest in:
 - derivative products,
 - assets denominated in foreign currencies,
 - illiquid assets, and
 - any one security to such an extent that the diversity of the scheme's assets is materially reduced.

6. Environmental, social and governance factors⁵

The trustees believe that environmental, social and governance (ESG) factors will have a significant effect in the long term on asset returns and investment risks. The trustees also believe that they have a fiduciary duty to take account of ESG factors in

⁵ The economic, social and governance factors text is for illustrative purposes only.

the choice of the specific assets making up the strategic investment allocation shown in the table above.

The trustees' concerns about ESG factors have been reflected in the investment mandates agreed with the scheme's investment managers. The mandates require that the investment managers are to note the ESG rating of individual assets before adding the assets to the investment portfolio. Assets with low ESG ratings are generally to be avoided in favour of higher rated assets. The ESG ratings to be used may be generated by the investment manager themselves or by ESG rating agencies.

7. Oversight and review

The trustees will undertake a review of the investment strategy and resulting mandate no later than [DATE].

It is the intention of the trustees to review this document at least every three years or sooner following any change in investment policy which is inconsistent with this statement.

This statement has been agreed by the trustees on _____

Signed on behalf of the trustees by: _____

