

## Statement of Investment Principles

### 1. Introduction

The Finance & Investment Committee has prepared this Statement of Investment Principles, in accordance with all relevant legislation and best practice guidelines.

It outlines the principles and policies governing investment decisions made by or on behalf of RCN Council on the management of the RCN assets.

### 2. Governance

#### 2.1 The role of RCN Council in Investment

- RCN Council is responsible for the governance and investment of the RCN's assets.
- Setting the funding objective and the appetite for investment risk is Council's responsibility and it sets the range of acceptable exposure across asset classes.
- RCN Council reviews appropriateness of the current investment strategy on an annual basis and reviews the content of this Statement of Investment Principles from time to time.
- RCN Council has established a Finance & Investment Committee part of its remit is to oversee the management of the RCN's investment portfolio and set an appropriate mix of assets consistent with the RCN's funding objective and appetite for risk. The delegated powers provided by the RCN Council comprise both issues where the Finance & Investment Committee can make decisions and issues on which it makes recommendations to the RCN Council.
- RCN Council will receive a report on the investments in the management accounts each month. It will also receive a quarterly report from the RCN Finance & Investment Committee which will also have a presentation from the Investment Manager once a year.

#### 2.2 . The Finance & Investment Committee will

- Be supported by the in-house governance and finance teams, select an appropriate investment manager by a process of competitive tender and recommend the appointment of their choice(s) to RCN Council.
- set the guidelines and performance objective for the RCN's investment managers and manage their performance against agreed targets.
- manage the day-to-day relationship with the investment manager.

- direct cash deposits available for investment in the portfolio.
- monitor compliance with the RCN's statement of investment principles and asset allocation tolerances;
- keep the investment strategy under review and consult with the Investment Manager on changes to the asset allocation within the ranges set by RCN Council. When appropriate, the Finance & Investment Committee will make recommendations for change to RCN Council.
- review the RCN's ethical investment policy and make recommendations to RCN Council on this.
- receive regular reports on all transactions in investments, including cash deposits and the economic background and the conditions in financial markets against which they were made;
- take advice from independent advisers, recruited to the committee as appropriate.

### 3. Management of the Assets

The day-to-day management of the assets is performed by a professional investment manager.

The terms of the investment manager's appointment are contained in the Investment Management Agreement (IMA) agreed between the investment manager and RCN Council. This sets out in detail the terms on which the assets are managed and includes any investment restrictions which may be set by RCN Council. The investment manager's role in practice includes the responsibility to manage the portfolio of assets within those investment guidelines, objectives and restrictions, exercising discretion as appropriate.

### 4. Diversification

In order to maintain a level of risk appropriate to and consistent with the RCN's objectives and perpetual mandate, the assets should be well diversified at all times. Investments should be spread across asset classes, geographies, sectors and currencies and should retain an appropriate cash balance at all times.

The Finance & Investment Committee regards a segregated approach to investing in fixed interest issues and individual shares to be a transparent approach. This allows an efficient way of achieving the agreed asset allocation, whilst ensuring that the environmental, social and governance factors which the RCN espouses are considered within the investment management process. The fund manager(s) have discretion over the selection of stocks.

The Finance & Investment Committee do however consider that the use of pooled funds especially through global fund managers (best in class) who can meet the criteria of the RCN ethical investment policy and demonstrate robust stewardship management can be an efficient cost-effective alternative approach which can mitigate performance risk. The Committee therefore may consider placing a proportion of funds in a diversified pooled portfolio to drive diversification and

The contract with the Investment Manager stipulates that the manager(s) will provide the Finance & Investment Committee with a quarterly statement of the assets, investment performance, cash flows, a report on the results of past actions and any changes to the investment process and on corporate actions. In addition to the quarterly reporting, the manager(s) must be able to respond to ad hoc requests for information, valuations or updates whenever reasonably requested.

## 5. Statement of Investment Beliefs and Guiding Principles

The RCN has agreed a policy position which forms the backdrop against which all investment decisions related to the portfolio are made.

The purpose of the investment portfolio is to enable the RCN to meet its charter objectives.

To that end, the RCN's investments must balance the objective to make and maintain steady capital appreciation and income with its ethical outlook, which forms an integral part of the RCN's mission and the decisions of RCN Council.

## 6. Investment Beliefs

The primary aim of an investment policy is to secure the best realistic return over the long term, given the need to control risks.

The principal source of appropriate investment returns over the longer term is participation in economic growth, whether through primary or secondary investments, bonds, equities, cash, property or other asset classes.

The relative attraction of these different asset classes will vary with current valuations and consequently managers and trustees of the monies need to keep both valuations and asset mix under review at all times.

In our opinion, the most appropriate way to reduce risk is through the prudent diversification of the portfolio. Excessive reliance on any one particular asset, issuer or group of undertakings should be avoided.

Active management can add value, as indices necessarily represent companies and stocks which have already become large, and it allows managers to tailor investments more closely to the objectives and ethical beliefs of the RCN. However, passive investments may be considered useful, providing they can be shown to meet the constraints of the RCN's fiduciary and ethical requirements.

Investments are most appropriately managed by professional investment managers, appointed by RCN Council and overseen by the RCN Finance & Investment Committee with the assistance of the governance and finance teams.

Responsible investment must balance the need to achieve the objective of the RCN as a whole with it's the assets which it chooses to include or exclude from its mandate. Managers who integrate good governance with their daily management of the portfolios are more likely to meet this desired balance.

As responsible investors, we believe that managers should ensure that they engage with companies and exercise voting rights on our behalf.

Investment power should be exercised in a manner calculated to ensure the quality, liquidity and profitability of the portfolio as a whole.

## 7. Risk and Investment objective

The RCN's investment objective is to achieve a steady stream of income to support its objectives and to preserve its capital in a manner which allows it to grow at a rate which maintains the real value of that income stream, given the nature of its own cost inflation. The RCN accept that in achieving this objective the portfolio will be subject to short-term volatility but nevertheless they would like to achieve their goal with a low to medium level of risk.

The assets need to be invested with the best interests of the current and potential beneficiaries of the RCN. The primary consideration should not be materially prejudiced by the prohibition of investments in particular sectors or companies other than those which conflict with the objectives of the RCN

Not all risks can be quantified and so the investment managers, RCN Finance & Investment Committee, and RCN Council must from time to time exercise their best judgement in acting on behalf of the RCN.

The risk management of the RCN's assets is delegated to the investment managers and governed by formal agreement. Safe custody of the assets is further delegated to third party custodian banks.

Investment risks for organisations such as the RCN fall into three principal categories: the risk of investment loss; the risk of not making sufficient return to achieve the annual objectives of the RCN; failure to keep the capital value of the fund ahead of inflation in the costs which the RCN bears. The most effective method of ameliorating these risks is by diversification across asset classes, geographies, sectors and stocks.

The RCN is also aware of the risk of holding investments which might cause reputational risk, as well as those whose investment profile might be less desirable. The Ethical Policy, which is described in section 9 below and in the IMA seeks to restrict investment in these assets.

## 8. Funding Objective

The RCN's primary objective is to provide an appropriate level of funding each year to help keep membership subscriptions as low as possible. A second objective is to facilitate the RCN's principle of self-investment in buildings, other infrastructure and services to members. To meet these objectives RCN Council sets an investment return target and risk appetite consistent with the Council's low to medium risk investment policy.

## 9. Ethical Policy

RCN Council require that the investments should be managed in a socially responsible manner in line with their corporate values and policies. When making investment decisions, Council will consider whether the business carried out by investee companies would conflict with the RCN's aims and values or hamper the work of the RCN by alienating members, stakeholders, and other supporters.

### Ethical exclusions

Specifically, the RCN is mindful of the need to reduce, and ideally eliminate, within a realistic and acceptable tolerance, exposure to corporate involvement in the following areas:

- a) Cluster bombs and landmines – Prohibited under international treaties and not included in any portfolio managed by Sarasin
- b) Adult entertainment – proposed restriction: companies with 5% of revenues in activities connected to adult entertainment
- c) Alcohol – proposed restriction: 5% of revenues related to the production of alcohol or 10% of revenues from the sale of alcohol related products and services
- d) Armaments – zero exposure to manufacturers of whole weapon systems and 10% of revenues from sales connected to weapons systems including components, support systems and services designed for weapon use.
- e) Civilian firearms – proposed restriction: zero exposure to either the manufacture or sale of civilian firearms.
- f) Gambling – proposed restriction: 5% of revenues related to gambling operations or 10% of revenues from the sale of gambling related activity.
- g) Tobacco – zero exposure to tobacco producers, 10% of revenues derived from tobacco related products. Already applied to portfolio.
- h) Extraction of thermal coal – proposed restriction: 5% of revenues derived from the extraction of thermal coal.

- i) Production of oil tar sands - proposed restriction: 5% of revenues derived from the production of oil from tar sands.
- j) Predatory lending – proposed restriction: 5% of revenues for activities connected to predatory lending.

In addition to the specific exclusionary criteria, the investment manager is expected to avoid companies which are materially invested in ethically unacceptable practices.

Examples of these are:

- Corruption
- Environmental degradation
- Poor labour practices
- Breaches of human rights
- Companies which persistently, knowingly and materially breach international legal standards

The RCN will agree a program of specific restrictions to its investments to exclude practices and companies that are particularly at odds with its ethical approach as detailed above.

Wherever practicable, Council expects this policy to be adhered to in relation to both direct securities and indirect, pooled investment vehicles. These restrictions are approved by Finance & Investment Committee and reviewed on a regular basis.

## 10. Responsible Investment & Stewardship

The RCN takes its approach to responsible investment seriously and seeks to invest in line with its own ethos, values, and constitution. Investment decisions (including those made on its behalf) should be made responsibly and with integrity, considering environmental, social and governance (ESG) issues.

Council believes that responsible investment and good stewardship has the potential to enhance long-term performance and are therefore aligned with their fiduciary obligations. Further, mitigating risk and capturing investment opportunities driven by the proper integration of sustainability and ESG analysis may have a material impact on investment returns across all asset classes.

The following principles will inform the RCN's approach to responsible stewardship:

- A concern for the environment and the world we live in
- Human interdependence, including issues such as poverty, exploitation, inequality & oppression
- Equality and equity – working towards an equitable distribution of the earth's resources

The RCN, as well as any parties acting on its behalf, are expected to take seriously the voting rights conferred on them as shareholders and expect these rights to be exercised in the pursuit of the objectives listed above, whenever possible and appropriate. It is expected that any appointed managers will adhere to current best practice as outlined in the UK Corporate Governance Code and the UK Stewardship Code. Furthermore, the organisation expects its appointed investment manager(s) to engage actively with the companies in which they invest and undertake engagement (collaborative or other) in accordance with their own corporate governance policy, including escalation procedures, to protect and enhance investment returns.

Adopting this policy and the principles outlined therein may afford the opportunity to make positive investments that align with the RCN's values, objects, and ethos. This practice is encouraged, provided that financial returns are not sacrificed at the expense of positive social or environmental outcomes.

#### 11. How the Finance & Investment Committee makes its investment decisions

The Finance & Investment Committee meets three times a year and reviews a report from the investment managers alongside management accounts, which show both actual and projected expenditure for the RCN

The Committee reviews the performance achieved by its managers and checks that the asset allocation of the fund falls within the expected and permitted ranges. It also checks that the holdings of the fund meet the criteria set out in the Investment Management Agreement and these Statement of Investment Principles and ethical policy and do not breach any regulatory limits.

#### 12. Setting Investment Strategy

##### Asset Allocation

The mix of asset classes set for a portfolio can be one of the most influential factors in achieving and maintaining investment objectives. Consequently, the RCN has chosen to measure its investment managers' performance against a composite benchmark, which reflects its desire for stable returns and steady income generation.

The RCN Finance & Investment Committee recognises that the relative attraction of each of these asset classes varies over time and will shift between its meetings. Consequently, it sets out for its investment manager acceptable ranges for each of the

above assets within which its asset allocation must fall. These ranges are reviewed from time to time by both the RCN Finance & Investment Committee.

The following table sets out the portfolio's composite benchmark with current (2024) ranges for high level asset classes.

Asset Class	Low	Neutral	High	Benchmark Index
Government Bonds	-	10.0	-	ICE BofAML UK Gilts All Stocks
Corporate Bonds	-	10.0	-	ICE BofAML Sterling Corporate
<b>Total Fixed Interest</b>	<b>10.0</b>	<b>20.0</b>	<b>45.0</b>	
Global Equity	-	30.0	-	MSCI All Countries World
Global Equity (£ hedged)	-	35.0	-	MSCI All Countries World (GBP)
<b>Total Equities</b>	<b>45.0</b>	<b>65.0</b>	<b>75.0</b>	
<b>UK Commercial Property</b>	<b>0.0</b>	<b>5.0</b>	<b>10.0</b>	MSCI All Balanced Property Funds – 1Q Lagged
<b>Alternatives</b>	<b>5.0</b>	<b>10.0</b>	<b>15.0</b>	UK CPI +3%
Cash	0.0	0.0	10.0	
<b>Total</b>	<b>-</b>	<b>100.0</b>	<b>-</b>	

When deciding how the fund should be balanced between asset classes, the investment managers and Finance & Investment Committee consider a variety of different factors. These include, but are not restricted to: valuations, fund flows, economic outlook, interest rates, political risk, regulatory changes and volatility of returns.

At the current time (30 September 2024) our portfolio weightings are as follows:

	%
Bonds	16.9
Equities	68.8
Property	3.1
Alternatives	8.1
Liquid Assets	3.1
Total	100.0



### 13. Corporate Governance, Voting and Activism

The Finance & Investment committee has asked its investment manager to exercise voting rights in line with our statement of beliefs and guiding principles.

The Finance & Investment Committee receives regular reports from its investment managers on corporate governance issues and the use of voting rights attached to the shares it holds.

### 14. Fees

RCN Council recognises that the provision of investment management, dealing, custodial and advisory services results in a range of charges to be met. The fee structure is an important part of the tender process. The fees payable are set out in the Investment Management Agreement.

### 15. Compliance with this Statement

The Finance & Investment Committee will monitor compliance with this Statement of Investment Principles regularly, and in any event will review this SIP at least once every three years and without delay after any significant change in investment policy.

A copy of the Statement of Investment Principles is provided to the investment manager.

**Approved by Council - 27 November 2024**