

**The Salvation Army Employees'
Defined Contribution Scheme**
Statement of Investment Principles

14 October 2021

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1. Introduction

1.1 Purpose of this Statement

This Statement sets out the principles governing decisions about investments of the assets of The Salvation Army Employees' Defined Contribution Scheme ("the Scheme"). It has been prepared to comply with section 35 of the Pensions Act 1995 (as modified by the Pensions Act 2004) and the Occupational Pension Schemes (Investment) Regulations 2005.

In preparing this statement the Trustees have taken into account the requirements of the Pension Regulator's Code of Practice 13, Governance and administration of occupational defined contribution trust-based schemes.

1.2 Description of the Scheme

The Scheme is a UK defined contribution arrangement, denominated in Sterling. The Scheme is open to new members. The monies are managed in unit funds by the investment manager and are used to provide money-purchase benefits.

1.3 Investment Powers

The investment powers of the Trustees of the Scheme are set out in rule 3 of the Scheme Rules. This statement is consistent with those powers. Neither the statement nor the Rules restrict the Trustees' investment powers by requiring the consent of The Salvation Army to any investment.

The Investment Advisory Committee of The Salvation Army ("the IAC") advises the Trustees which have ultimate responsibility for the Scheme.

1.4 Advice on this Statement

Written advice has been obtained from the IAC on the content of this Statement.

1.5 Consultation with the Employer

The Employer has been consulted on the content of this Statement.

1.6 Status of this Statement

The Statement was approved on 14 October 2021. The next planned review date is 14 October 2022.

It is reviewed by the Trustees and the IAC annually.

2. Strategy

2.1 Investment objective of the Scheme

The Trustees are required to invest the Scheme assets in the best interests of the Scheme's members and beneficiaries. This is achieved by the provision of a default investment solution and, for Scheme members who do not wish to invest in the default investment solution, a range of investment funds that are suitable for meeting members' needs. This includes consideration of issues such as level of member understanding and simplicity of overall design.

Further information on the default investment solution is included in section 3.

2.2 Range of investment funds

In addition to the default investment solution, the following investment funds have been selected by the Trustees in consultation with the IAC.

Fund option	Fund description
Aviva Pension	
BlackRock Emerging Markets Equity Index Tracker Fund	The portfolio of the fund is spread across a number of markets to benefit from the differences in each market economy. The aim is to achieve a return that is consistent with the return of the MSCI Emerging Markets Index.
BlackRock Pacific Rim Equity Index Tracker Fund	Investment is concentrated in companies in the Pacific Rim. The fund aim is to achieve a return that is consistent with the return of the FTSE Developed Asia Pacific ex-Japan Index.
Baillie Gifford International Fund	To achieve capital growth by investing principally in equities of companies worldwide, excluding the UK.
BlackRock World (ex UK) Equity Index Tracker Fund	To invest in the shares of overseas companies (Europe, Japan, Far East, US and Canadian markets) according to markets capitalization weightings. The aim is to achieve a return that is in line with the FTSE Developed (ex UK) Index.
BlackRock (50:50) Global Equity Index Tracker Fund	To provide returns consistent with the markets in which it invests (both in the UK and overseas) and provide broad exposure to countries around the world.
Stewardship International Fund	Investment is concentrated in companies in any market whose products and operations are considered to be making a positive contribution to society and will exclude non-ethical companies.
BlackRock UK Equity Fund	To maximize the total return to investors from a combination of capital growth and income by investing largely in the ordinary shares of UK companies in any and all economic sectors.
BlackRock UK Equity Index Tracker Fund	To invest in the shares of UK companies and aim to achieve a return that is consistent with the return of the FTSE All Share Index.
Stewardship UK Equity Income Fund	Investment is concentrated in UK companies whose products and operations are considered to be of long-term benefit to the community and will exclude non-ethical companies.
Property Fund	To achieve capital growth and income by investing mainly in UK commercial property.
BlackRock Over 15 Year Corporate Bond Index Tracker Fund	To invest in investment grade corporate bonds, denominated in Sterling, and aims for a return consistent with the Markit iBoxx £ Non-Gilts Over 15 Years Index.
BlackRock Sterling Liquidity Fund	To provide short-term liquidity by maintaining a portfolio of high quality short term money market instruments.
HSBC Islamic Global Equity Index Fund	The fund is specifically designed for investors who wish to invest in global equity markets in compliance with Shariah (Islamic law). The aim is to achieve a return that is consistent with the return of the Dow Jones Islamic Titans 100 Index.

2. Strategy (continued)

2.3 Policy for maintaining funding

By investing in funds in line with members' selections, the Scheme matches the assets to liabilities such that the Scheme will maintain 100% funding at all times.

2.4 Policy for choosing investments

The management of the Scheme's assets is performed by the investment manager which is regulated by the Financial Conduct Authority. The Trustees and the IAC are satisfied that the investment manager provides value for money to members, is reputable and reliable, with sufficient expertise and experience to carry out its role. The appointment, monitoring and, if required, dismissal of the investment manager are the responsibility of the Trustees.

The investment manager provides a range of pooled funds for investment which satisfy its criteria for value for money, security and liquidity. The Trustees have obtained advice from the IAC in the selection of the funds included in Section 2.2. These funds have been approved by the Trustees.

Individual investment choices are made in accordance with the wishes of members. If a member does not express their wishes, the lifetime investment strategy is implemented by default.

2.5 Risk and expected return

The long term returns on equities are expected to provide a return higher than inflation and salary growth; however the risk experienced will be far greater than that of cash. Equities can experience short term losses but they are expected to produce growth over the longer term. The long term returns on the bond and cash options are expected to be lower than returns of the equity options. However, short term price movements in bond funds are expected to broadly match movements in the price of annuities, giving some protection against annuity price movement. Money market funds provide protection against short-term changes in capital values, and would be appropriate for members wishing to protect part of their retirement benefits to provide a cash lump sum.

The investment manager has assessed the risk and return characteristics of the individual funds included in the Scheme. These are detailed in the Scheme's "Choosing your Own Investment Funds" document ("the explanatory booklet").

Each fund's benchmark is set out in section 5. The performance of each index-tracking fund is expected to match its benchmark while each active fund is expected to exceed its benchmark.

2.6 Financially material considerations

The Trustees expect the investment manager and the underlying managers (of individual funds in the fund range) to have integrated financially material considerations including Environmental, Social and Governance ("ESG") risk factors (which include but are not limited to consideration of climate change risk), as part of their investment analysis and decision-making processes. This includes upholding of rights and responsibilities by the investment manager to protect and enhance the value of their shareholdings on behalf of their clients. For index tracking funds, where investment is determined by the composition of the relevant index, the Trustees expect enhancement of shareholder value for these factors to be carried out via engagement and voting.

The Trustees incorporate the consideration of environmental, social and corporate governance factors into the selection process of investment managers. The Trustees also meet regularly with the investment manager as part of the review process. The Trustees have included within the fund range some funds that have positive ESG and/or ethical screening.

2. Strategy (continued)

2.7 Socially responsible investment

The Salvation Army maintains a Code of Ethical Practice, which is applied to the assets invested by The Army in connection with its charitable work and defined benefit pension arrangements. In these areas The Army bears the investment risk. For a defined contribution arrangement, such as the Scheme, it is appreciated that the investment risk is borne by the member. The Trustees have therefore provided a selection of mainstream funds with no ethical screen, together with ethical global equity and UK equity funds. The members therefore have access to ethical screening but do not have it imposed upon them.

2.8 Stewardship

The Trustees expect ownership rights (including voting rights and engagement activities with issuers of debt and equity and other relevant persons about matters including performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact, corporate governance and other relevant matters) to be exercised by the investment manager in order to safeguard sustainable returns in the long-term. Where external investment funds are used the investment manager is expected to engage with, and obtain details from these managers, to ensure a consistent approach to investment, voting and engagement. The Trustees monitor the engagement activity of the manager through regular reporting and an annual review.

The Trustees will seek to appoint managers and select funds that have strong stewardship and engagement policies.

2.9 Asset manager arrangements

The Trustees make a range of active and passive pooled funds available to members. The suitability of the range of pooled funds is reviewed annually to ensure each fund meets its investment objective.

As pooled funds are used, there is limited scope for the Trustees to incentivize the investment manager to align its investment strategy and decisions with the Trustees' policies. Instead, pooled funds with appropriate investment strategies are selected.

The investment manager is remunerated by the payment of annual management charges, which are quoted as a percentage of assets under management. Hence it is incentivized to make decisions based on assessments about the performance of an issuer of debt or equity, and to engage with third party funds, and issuers of debt or equity in order to improve their performance and increase the funds under management, so that the pooled funds are more likely to meet their performance objectives.

In addition a review of the Investment Manager is held triennially providing further incentive to deliver in line with the Trustees' policies.

2. Strategy (continued)

2.10 Monitoring

The Trustees monitor the pooled funds' performance against its benchmarks and performance objectives on a quarterly basis, to evaluate whether the performance has been in line with the Trustees' policies on risks and expected returns.

The Trustees monitor how financially material considerations including, but not limited to, environmental, social and governance considerations have been taken into account through the receipt of reports on the exercise of rights that have been delegated to the investment manager. These include how the investment manager has voted and engaged with the companies in which they invest. This information is included in the Scheme's engagement report and the conclusions included in the Scheme's annual Implementation Statement.

Having evaluated the Investment Manager's performance in this area the Trustees would seek to encourage the Investment Manager to improve their practices in any areas identified for improvement with any unresolved issues being taken into account in the triennial review of the Investment Manager.

The Trustees also annually review the investment manager's service and fee terms against those available in the market and consider if these represent value for members.

The Trustees recognize that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustees consider the impact of the transaction costs as part of its annual assessment of value for money for members.

The duration of the investment manager's appointment will depend on the level of service, stewardship activity, investment performance including the outlook for future performance. In addition individual pooled funds are reviewed annually with a process agreed for considering funds for replacement or removal. Generally, the Trustees would be unlikely to terminate a mandate or remove a fund on short-term performance grounds alone.

2.11 Liquidity and realization of investments

The funds included in the Scheme are unit funds which operate daily dealing to guarantee ease of access. As property can take longer to buy and sell this may result in delays in members being able to sell property units. The liquidity risks of the property fund are set out for members in the explanatory booklet.

2.12 Manager risk

The Trustees reduce manager risk by mainly using passive funds for the default option, and for about half of the fund range. They also diversify risk by using several different underlying fund managers.

2.13 Review of fund range

The Trustees consider the continued suitability of the fund range and lifestyle strategy on an annual basis. The review considers fund performance, expenses and the number of funds relative to members' reasonable needs.

3. Default arrangement

The default arrangement is referred to by the Trustees as the default investment solution.

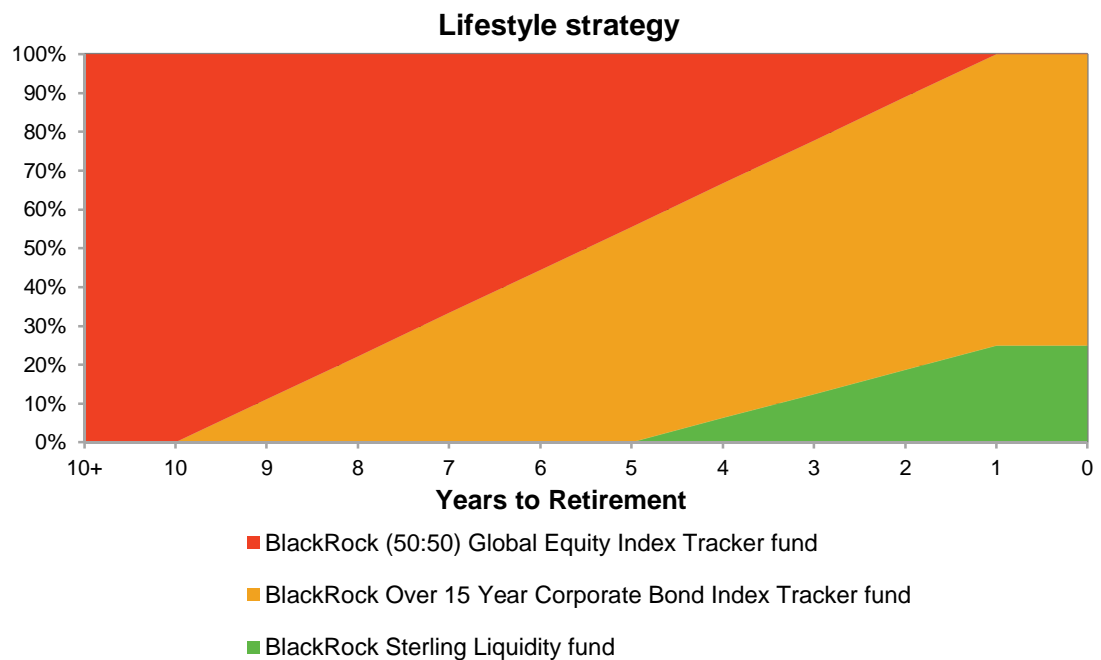
3.1 Objectives of the default investment solution

- To provide appropriate investment for members who do not make an investment choice.
- To provide inflation-beating growth with the aim of maximizing the value of retirement benefits.
- To gradually reduce capital risk and to invest in asset classes consistent with expected retirement benefits of lump sum and reliable regular income.

3.2 Default investment solution

The Trustees have selected the Balanced Lifetime Investment Programme as the default investment solution for all members regardless of the length of time to retirement.

This is shown in the chart below:



This solution provides a growth phase up until 10 years until retirement by investing solely in equities. In the 10 years up to retirement it moves investments into the appropriate lower risk assets of bonds and cash.

3.3 Risk and expected return

The default investment solution is important since many members are not willing or able to select their own investments. It adapts accordingly to a member's period to retirement, moving gradually from higher risk growth assets to those more suitable to provide for retirement benefits. Passive funds have been selected for the principal asset classes. These provide good diversification and generally have lower charges than corresponding active funds. Manager risk is reduced and the Trustees expect performance net of fees to be higher than that of the average comparable active fund.

3. Default arrangement (continued)

3.4 Review of default investment solution

The Trustees will review the strategy of the default investment solution and its performance at least every three years or without delay if there is significant change to the investment policy or membership profile.

The date of the last review was 11 March 2021.

3.5 Members' control of retirement date

Members are able to select a Target Retirement Date which then ensures that the lifestyle programme is set relative to this and not the retirement date for the standard retirement age of the Scheme (which would otherwise be used).

3.6 Liquidity

To ensure that the members' holdings remain accessible at each individual member's retirement date, the Trustees have selected a default investment solution with a high level of liquidity. The holdings are in unit funds which operate with daily dealing to guarantee ease of access. The Trustees also stipulate a minimum fund size, to ensure the cumulative member holdings do not make up too large a proportion of the total fund size.

3.7 Financially material considerations and stewardship

The default investment solution is subject to the policies regarding financially material considerations and stewardship as outlined in sections 2.6 and 2.8 of this Statement.

3.8 Investment manager arrangements and monitoring

The default investment solution is subject to the policies regarding arrangements with the investment manager as outlined in sections 2.9 and 2.10 of this Statement.

4. Governance

4.1 Allocation of responsibilities

The Trustees are responsible for the investment of the Scheme assets. The Trustees take some decisions and delegate others. When deciding which decisions to take and which to delegate, the Trustees have taken into account whether they have appropriate training and expertise. The Trustees have established the following structure.

4.2 Trustees

- Set structures and processes for carrying out their role
- Appoint the investment manager(s)
- Make ongoing decisions relevant to the operational principles of the Scheme
- Ensure compliance with legal requirements
- Assess the level of training they require and take appropriate action

4.3 Investment Advisor

- Monitors investment performance
- Monitors investment manager activity
- Advises on the suitability of the types of investments
- Every 12 months the IAC will consider whether or not the investment manager:
 - Has the appropriate knowledge and experience
 - Is carrying out its work competently
 - Has provided sufficient diversification
 - Has given regard to the suitability of investments
 - Has been exercising its powers of investment in accordance with this Statement
- Reviews independently produced quarterly reports to assist in monitoring the performance of the investment manager
- Arranges for suitable advice on this Statement

4. Governance (continued)

4.4 Investment manager

- Manages, day-to-day, the investments of the range of funds
- Operates within the terms of this Statement and written agreements
- Ensures that suitable internal operating procedures are in place
- Will supply performance information as requested each quarter
- Ensures it, as well as the selected external fund managers, act in investors' best interests with regards to voting and engagement with companies taking into account financially material considerations

4.5 Custodian

- Provides safekeeping for the Scheme's assets
- Provides administrative duties, such as the collection of dividends and dealing with corporate actions

5. Implementation

5.1 Trustees

The Trustees of The Salvation Army Employees' Defined Contribution Scheme are the following individuals, all of which are employer nominated, bar Sandeep Parmar and Richard Loach.

- Mr Sandeep Parmar
- Mr Colin Hepburn
- Mr Andrew Yates
- Mr Richard Loach
- Mr Kevin Dare
- Ms Edna Veal
- Ms Sam Kaler

5.2 Investment advisor

The investment advisor is the IAC.

5.3 Investment manager

The Trustees have appointed Aviva as the investment manager. It manages funds and uses its expertise to select third party funds. Aviva is regulated by the FCA.

5.4 Custodian

The custodian for the majority of the funds is HSBC Bank Plc. Some funds are held with the Bank of New York Mellon SA/NV London Branch, BNY Mellon International Limited, JP Morgan Bank (Ireland) plc and RBC Investor Services Bank SA.

5. Implementation (continued)

5.5 The investment funds

The funds selected for the Scheme together with the annual management charges and benchmark details are shown below. For some funds additional expenses may apply but these are variable. Further details are included in the explanatory booklet.

Asset class	Fund name	AMC (%)	Index
Emerging markets equities	BlackRock Emerging Markets Equity Index Tracker Fund	0.68	MSCI Emerging Markets Index
Asia (ex Japan) equities	BlackRock Pacific Rim Equity Index Tracker Fund	0.50	FTSE Developed Asia Pacific (ex Japan) Index
Global equities	Baillie Gifford International Fund	0.70	MSCI AC World (ex UK) Index
	BlackRock World (ex UK) Equity Index Tracker Fund	0.50	FTSE Developed (ex UK) Index
	BlackRock (50:50) Global Equity Index Tracker Fund	0.50	Composite Index*
Ethical global equities	Stewardship International Fund	0.50	MSCI World Index
	HSBC Islamic Global Equity Index Fund	0.80	Dow Jones Islamic Titans 100 Index
UK equities	BlackRock UK Equity Fund	0.70	FTSE All Share Index
	BlackRock UK Equity Index Tracker Fund	0.50	FTSE All Share Index
Ethical UK equities	Stewardship UK Equity Income Fund**	0.50	FTSE All Share Index
Property	Property Fund	0.50	MSCI UK Monthly Property Index
Long corporate bonds	BlackRock Over 15 Year Corporate Bond Index Tracker Fund	0.50	Markit iBoxx Sterling Non-Gilts Over 15 Years Index
Cash	BlackRock Sterling Liquidity Fund	0.50	LIBID 7 Day Notice Index

*50% FTSE All Share Index, 16.67% FTSE USA Index, 16.67% FTSE Developed Europe (ex UK) Index, 8.33% FTSE Japan Index and 8.33% FTSE Developed Asia Pacific (ex Japan) Index.

**Prior to February 2021, the fund name was the Stewardship Income Fund.