

Statement of Investment Principles

Introduction

This Statement of Investment Principles has been prepared 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.

Governance

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 an investment committee which reports into RCN Business Committee* 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 investment committee can make decisions and issues on which it makes recommendations to the 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 Business Committee which will also have a presentation from the Investment Manager once a year. The Investment Committee may be asked to report on specific matters at Business Committee meetings as appropriate.

The Investment Committee will –

- 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 the RCN Business Committee and 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 Investment Committee will make recommendations for change to the RCN Business Committee.

-review the RCN's ethical investment policy and make recommendations to the RCN Business Committee and 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 thought fit by the RCN Business Committee;

-provide a report to each meeting of the RCN Business Committee on the work done by the Investment Committee in the period since its previous meeting.

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.

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 Investment Committee regards a segregated approach to be more appropriate for the funds, investing in fixed interest issues and individual shares rather than funds. In its considered opinion, 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 contract with the Investment Manager stipulates that the manager(s) will provide the 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.

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.

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 the Investment Committee 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, from time to time, 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 Business Committee and 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.

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 future members of the organisation. This 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 Business Committee, RCN 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 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 below and in the Investment Management Agreement seeks to restrict investment in these assets.

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. To meet this objective RCN Council sets an investment return target and risk appetite consistent with the Council's low to medium risk investment policy.

Ethical Policy

RCN Council require that the investments should be managed in a socially responsible manner in line with their corporate values and policies.

It is the wish that the RCN should avoid any investment in companies that manufacture tobacco products.

The RCN recognises a de minimis level of 5% of the value of any given company's revenue or profits in respect of its assessment of compliance with its ethical restrictions.

RCN Council supports positive action on the environment and sustainability and support companies investing in new technology, providing that this can be achieved without financial detriment to the funds.

How the Investment Committee makes its investment decisions

The Investment Committee meets quarterly 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.

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 following table sets out the portfolio's composite benchmark

The RCN Business Committee and Investment Committee recognise 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 Business Committee and Investment Committee.

The current ranges are as follows:

	Min %	Max
Cash	0	15
Bonds	20	60
Equities	40	70
Alternatives	0	10

When deciding how the fund should be balanced between asset classes, the investment managers and 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 (May 2015) our portfolio weightings are as follows:

	%
Cash	2
Bonds	30
Equities	64
Alternatives	4

Corporate Governance, Voting and Activism

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

The 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.

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.

Compliance with this Statement

The 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.

Agreed by the RCN Business Committee Investment Sub Group June 2015

*Note – Business Committee and Investment Committee became the Finance and Investment Committee from 2017