

# Horwath Clark Whitehill Staff Pension Plan

## Statement of Investment Principles

**Barnett Waddingham LLP**

September 2019

## Contents

1	Introduction .....	3
2	Sections.....	3
3	Choosing Investments .....	3
4	Investment Objectives.....	4
5	Kinds of investments to be held .....	4
6	The balance between different kinds of investments.....	5
7	Risks.....	5
8	Expected return on investments .....	8
9	Realisation of investments .....	8
10	Environmental, Social and Governance considerations and investment stewardship .....	8
11	Monitoring.....	11
12	Agreement.....	12
<b>Appendix 1</b> Note on investment policy of the Plan's DB Section as at September 2019 in relation to the current Statement of Investment Principles .....		13
<b>Appendix 2</b> Note on investment policy of the Plan's DC Section in relation to the current Statement of Investment Principles dated September 2019.....		17

## 1 Introduction

- 1.1 This is the Statement of Investment Principles prepared by the Trustees of the Horwath Clark Whitehill Staff Pension Plan ("the Plan"). This statement sets down the principles governing decisions about investments for the Plan to meet the requirements of the Pensions Act 1995, as amended by the Pensions Act 2004, and of the Occupational Pension Schemes (Investment) Regulations 2015 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2018.
- 1.2 In preparing this statement, the Trustees have consulted Crowe U.K. LLP, the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustees' investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority and licensed by the Institute and Faculty of Actuaries for a range of investment business activities.
- 1.3 This statement has been prepared with regard to the 2001 Myners' review of institutional investment (including subsequent updates), and Scheme Funding legislation.
- 1.4 The Trustees will review this statement at least every three years or if there is a significant change in the policy on any of the areas covered by the statement.
- 1.5 The investment powers of the Trustees are set out in Clause 27 of the Definitive Trust Deed & Rules, dated 17 September 2004. This statement is consistent with those powers.

## 2 Sections

- 2.1 The Plan consists of the Defined Benefits ("DB") Section and the Defined Contribution ("DC") Section.

## 3 Choosing Investments

- 3.1 The Trustees consider their Investment Objectives, shown in Section 4, when choosing appropriate investments for the DB Section and designing the range of investment options (Lifestyle and Self-Select Funds) to offer to its members on the DC Section. The Trustees also acknowledge that DC Section members will have different attitudes to risk and different aims for accessing their retirement savings – and therefore, whilst seeking good member outcomes net of fees, it also considers the level of risk that is appropriate based on the anticipated needs of the membership profile of the Plan.
- 3.2 The Trustees' policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustees consider the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.
- 3.3 The day-to-day management of the Plan's assets is delegated to one or more fund managers. The Plan's fund managers are detailed in the Appendices to this Statement. The fund managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights.
- 3.4 The Trustees review the appropriateness of the Plan's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the fund managers with respect to

performance within any guidelines set. The Trustees will also consult the Principal Employer before amending the investment strategy.

## 4 Investment Objectives

4.1 The Trustees' main investment objectives for the DB section are:

- to ensure that they can meet the members' entitlements under the Trust Deed and Rules as they fall due;
- to manage the expected volatility of the returns achieved in order to control the level of volatility in the Plan's required contribution levels;
- to invest in assets of appropriate liquidity which will generate income and capital growth to meet, together with contributions from the participating employer, the cost of benefits which the Plan provides;
- to reduce the risk of the assets failing to meet the liabilities over the long term;
- to minimise the long-term costs of the Plan by maximising the return on the assets whilst having regard to the above objectives.

4.2 The Trustees are aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Plan's liabilities at any time. The Trustees have obtained exposure to investments that they expect will meet the Plan's objectives.

4.3 The Trustees' main investment objectives for the DC section are:

- to provide a suitable default investment option that is likely to be suitable for a typical member;
- to offer an appropriate range of alternative investment options so that members who wish to make their own investment choices have the freedom to do so, recognising that members may have different needs, objectives and attitudes to risk;
- seek to achieve good member outcomes net of fees and subject to acceptable levels of risk.

## 5 Kinds of investments to be held

5.1 The Plan can invest in a wide range of asset classes including:

- Equities;
- Bonds;
- Cash;
- Property;
- Alternatives;
- Annuity policies.

5.2 Any investment in derivative instruments is only made to contribute to a reduction in the overall level of risks in the portfolio or for the purposes of efficient portfolio management.

- 5.3 The Trustees' policy is not to hold any direct employer-related investments as defined in the Pensions Act 1995, the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005.

## 6 The balance between different kinds of investments

- 6.1 The Plan invests for the DB section in assets that are expected to achieve the Plan's objectives. The allocation between different asset classes is contained within Appendix 1 to this Statement.
- 6.2 The Trustees consider the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Appendix to this Statement.
- 6.3 From time to time, the Plan may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate any short-term cashflows requirements or any other unexpected items.
- 6.4 The Trustees are aware that the appropriate balance between different kinds of investments will vary over time and therefore the Plan's asset allocation will be expected to change as the Plan's liability profile matures and to reflect changes in underlying economic conditions.

## 7 Risks

- 7.1 The Trustees have considered the following risks for the DB section of the Plan with regard to its investment policy and the Plan's liabilities:

#### Risk versus the liabilities

The Trustees will monitor and review the investment strategy with respect to the liabilities following each actuarial valuation. The investment strategy will be set with consideration of the appropriate level of risk required for the funding strategy as set out in the Plan's Statement of Funding Principles.

#### Asset allocation risk

The asset allocation is detailed in Appendix 1 to this Statement and is monitored on a regular basis by the Trustees.

#### Fund manager risk

The Trustees monitor each of the Plan's fund managers' performance on a regular basis in addition to having meetings with each manager from time to time as necessary, usually on an annual basis. The Trustees have a written agreement with each fund manager, which contains a number of restrictions on how each fund manager may operate.

#### Concentration risk

Each fund manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.

#### Loss of investment risk

The risk of loss of investment by each fund manager and custodian is assessed by the Trustees.

#### Liquidity risk

The Plan invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Plan's cash flow requirements. The Plan's administrators assess the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.

#### Covenant risk

The creditworthiness of the employers and the size of the pension liability relative to the employer's earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the employer covenant.

#### Solvency and mismatching risk

Risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustees are aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Plan's funding basis.

#### Currency risk

The Plan's liabilities are denominated in sterling. The Plan may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management. Where appropriate, the Plan may seek to reduce currency risk by implementing currency-hedging instruments or investing into currency-hedged assets.

- 7.2 Risk in a defined contribution scheme lies with the members themselves. The Trustees have considered a number of risks when designing and providing suitable investment choices to members. The main investment risks affecting all members in the DC Section are:

#### Inflation risk

The risk that the investments do not provide a return at least in line with inflation, thus eroding the purchasing power of the retirement savings. The Trustees make available investment options that are expected to provide a long-term real rate of return.

#### Conversion risk

The risk that fluctuations in the assets held, particularly in the period before retirement savings are accessed, lead to uncertainty over the benefit amount likely to be received. In the lifestyle arrangement made available through the Plan (see Appendix 2), the Administrators of the Plan act on behalf of the Trustees to change the proportion and type of investments so that in the run up to retirement the investments gradually start to more closely match how the Trustees expect members to access their retirement savings. The Trustees keep under review the appropriateness of the strategy.

#### Retirement income risk

The risk that a member's retirement income falls short of the amount expected. The Trustees periodically review the appropriateness of the investment options offered to ensure member outcomes can be maximised.

#### Investment manager risk

The Trustees monitor the performance of the Plan's investment manager on a regular basis in addition to having meetings with them from time to time as necessary. The Trustees have a written agreement with the investment manager, which contains a number of restrictions on how the investment manager may operate.

#### Concentration/ Market risk

Each investment manager is expected to manage properly diversified portfolios and to spread assets across a number of individual shares and securities.

#### Currency risk

The Plan may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management.

#### Loss of investment

The risk of loss of investment by the investment manager and custodian is assessed by the Trustees. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud). The Trustees also will undertake a review of the internal controls and processes of each of the investment managers where necessary.

## 8 Expected return on investments

- 8.1 The Trustees have regard to the relative investment return and risk that each asset class is expected to provide. The Trustees choose a range of funds in order to allow members of the DC section to achieve appropriate desired returns and risk. The Trustees are advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the fund managers.
- 8.2 The Trustees recognise the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.
- 8.3 In considering the expected return from investments, the Trustees recognise that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.
- 8.4 Having established the investment strategy, the Trustees monitor the performance of each fund manager against an agreed benchmark as frequently as appropriate according to market conditions and the Plan's funding position. In order to review performance, the Trustees meet the Plan's fund managers as frequently as is appropriate.

## 9 Realisation of investments

- 9.1 The Trustees have delegated the responsibility for buying and selling investments to the fund managers. The Trustees have considered the risk of liquidity as referred to above.
- 9.2 Ultimately, the investments will all have to be sold when the Plan's life of the DB section comes to an end. In this situation, the Trustees are aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Plan accounts.
- 9.3 The Trustees have considered the rights of members of the DC section to switch between funds and to disinvest on retirement, or for other permitted reasons. Members also have flexibility over what age they choose to retire. The Trustees have therefore predominantly selected investment vehicles which permit the realisation of holdings at relatively short notice. Where investment vehicles are included which have longer realisation periods, this will be made clear to members.

## 10 Environmental, Social and Governance considerations and investment stewardship

### Policy on financially material considerations

- 10.1 The Trustees invest in pooled investment vehicles. The Trustees are comfortable that the funds currently invested in by the Plan (for the DB Section and the default strategy in the DC Section) are managed in accordance with their views on financially material factors, as set out below. This position is monitored periodically.
- 10.2 The Trustees believe that Environmental, Social and Governance factors, including but not limited to climate change, (referred to together as "ESG issues"), be financially material for the Plan over the length of time until the Plan's life comes to an end. This is likely to be not less than 10 years from the date of this Statement in the case of the DB section. The Trustees' views were agreed

subsequent to a training session by their investment advisor and one of their investment managers. The Trustees appreciate that the method of incorporating ESG in the investment strategy and process will differ between asset classes and needs to be considered alongside other implementation factors. The process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

- 10.3 The Trustees are also cognisant of the different investment timeframes that members/investments will have. Further to this, the Trustees believe that ESG issues, and particularly climate change issues may be more important for members who are further from retirement, as the financial materiality of such issues will have a greater impact over a longer timeframe.
- 10.4 All managers are signatories to the UN Principles of Responsible Investment and the Financial Reporting Council's UK Stewardship Code (which aims to enhance the quality of engagement between investors and companies). The Trustees will consider ESG, voting and engagement issues when appointing and reviewing managers (and reviewing the investment strategy of either the DB or DC Section) to ensure that they are appropriately taken into account given the asset class involved.
- 10.5 A summary of the Trustees' views for each asset class in which the Plan invests is outlined below.

**Passive equities** The Trustees accept that the fund manager must invest in line with the specified index and, therefore, may not be able to select, retain or realise investments based on ESG related risks and opportunities. However, the Trustees believe that positive engagement on ESG factors can lead to improved risk-adjusted returns alongside better environmental, social or governance outcomes more generally. The Trustees therefore require that the fund manager takes into account ESG considerations when engaging with companies and by exercising voting rights. However, the process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

**Multi Asset Fund** The Trustees believe that ESG issues will be financially material to the risk-adjusted returns achieved by the Plan's multi-asset fund manager. The Trustees are satisfied that the manager has suitable processes to consider ESG factors and take them into account (where relevant) in the selection, retention and realisation of the underlying investments within the fund. The investment process for any multi-asset fund manager used by the Plan should take ESG issues into account. The Trustees also support engagement activities and (where relevant) the exercise of rights attaching the investments by the Plan's multi-asset fund managers. However, the incorporation of ESG issues, the exercise of rights and engagement activities should be consistent with, and proportionate to, the rest of the investment process.

**Credit** The Trustees believe that ESG issues will be financially material to the risk-adjusted returns achieved by the Plan's active corporate bond manager. The Trustees recognise that fixed income assets do not include voting rights, however, they support engagement with companies by the fund manager. The Trustees are satisfied that the manager has suitable processes to consider ESG factors and take them into account (where relevant) in the selection, retention and realisation of the underlying investments within the fund. However, the incorporation of ESG issues and engagement activities should be consistent with, and proportionate to, the rest of the investment process.

**LDI and passive gilts** The Trustees believe there is less scope for the consideration of ESG issues to improve risk-adjusted returns in these asset classes because of the nature of gilts and the

instruments used in the case of the LDI funds. It is worth noting that when transacting in LDI funds, the Trustees require due diligence is undertaken to assess the credit worthiness of the counterparty both at the start of and throughout any investment, whilst at the same time looking to achieve best execution. The Trustees believe this is more relevant for longer term trades compared to shorter term trades and should incorporate ESG factors where these assist with the credit worthiness assessment.

### Policy on assessment and monitoring

- 10.6 The Trustees delegate the consideration of all financially material factors in relation to determining the underlying holdings within the pooled funds, including ESG factors, to the Plan's investment managers as part of their day-to-day management.
- 10.7 For all pooled funds, the Trustees take into account how ESG factors are integrated into the Plan's managers' fund management processes when appointing, monitoring, engaging with and replacing funds and managers as follows.

**Appointing funds and managers** When selecting new investments, the Trustees will consider requesting information on ESG integration credentials as part of the proposals. However, an investment manager's excellence in this area will not necessarily take precedence over other factors, including (but not limited to) historical performance or fees.

**Monitoring and engagement with managers** Each of the Plan's investment managers has its own ESG policy, ESG integration process and ESG resources as part of its wider management process and capability. The Trustees will continue to monitor and assess these on an ongoing basis. From time to time, the Trustees may ask the Plan's investment managers to attend meetings and provide updates on the funds, which the Trustees may request to include an update on ESG considerations.

If, as part of this monitoring process or based on any ad-hoc updates provided by the investment consultant, any issues specifically related to the ESG factors are identified, the Trustees may request further information from the Plan's managers and engage with them in relation to these matters either directly or through their investment consultant.

**Replacing funds and managers** If any significant ESG integration related issues are identified for a fund or a manager, the Trustees may choose to replace them. However, as per the appointment of funds and managers, the investment manager's shortcomings in this area will not necessarily be seen as sufficient reason for replacement and will not necessarily take precedence over consideration of other factors.

- 10.8 The Trustees will also take ESG factors into account as part of determining the strategic asset allocation, and consider these factors as part of ongoing review of the Plan's investments.

### Policy on the exercise of voting rights and engagement activities

- 10.9 The Trustees believe that good stewardship and positive engagement can lead to improved governance and better risk-adjusted investor returns.
- 10.10 As an investor in pooled funds, the Trustees currently adopt a policy of delegating the exercising of the rights (including voting rights) attached to the Plan's investments to the investment managers.
- 10.11 The Trustees also delegate undertaking engagement activities, which include entering into discussions with the company management in an attempt to influence behaviour, to the investment managers.

10.12 The Trustees assessed the current stewardship approach of its investment managers based on information collated by the investment consultant and provided by the respective managers.

10.13 The Trustees will monitor and engage with the investment managers in relation to stewardship activities as follows.

The Trustees will, with support from the investment consultant, periodically request and review the stewardship policies, voting and engagement activities of the Plan's investment managers. In case of any specific issues or questions being identified through this monitoring process, the Trustees will engage with the Plan's investment managers for more information and discuss any remedial action taken.

The Trustees will also ask managers to attend meetings from time to time to present and discuss their stewardship activities, including details of any voting rights exercised.

10.14 When selecting investment managers, where appropriate and applicable, the Trustees will consider the investment managers' policies on stewardship and engagement, and how those policies have been implemented.

### Policy for taking into account non-financial matters

10.15 The Trustees do not take account of non-financial matters (such as member ethical views) within the default investment strategy of the DC Section or within the DB Section investment strategy.

10.16 The Trustees will review the policy on whether to take account of non-financial matters periodically.

## 11 Monitoring

11.1 Investment Performance: The Trustees review the performance of each fund/investment option against the stated performance objective and, in doing this, the Trustees receive a performance monitoring report on a regular basis. This monitoring takes into account both short-term and long-term performance. The investment managers' overall suitability for each mandate will be monitored as frequently as the Trustees consider appropriate in light of both its performance and other prevailing circumstances. The Trustees meet the Plan's fund managers as frequently as is appropriate, in order to review performance amongst other factors.

11.2 Objectives:

- DB Section: The Trustees monitor the overall strategy, taking into account aspects such as the Plan's funding position.
- DC Section: The Trustees monitor the suitability of the objectives for the Plan (as detailed in Appendix 2) and performance (net of fees) against these objectives at least every three years and also when there is any significant change in the investment policy, underlying economic conditions or the profile of the members.

## 12 Agreement

- 12.1 This statement was agreed by the Trustees, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the employer, the fund managers, the actuary and the Plan auditor upon request.

Signed: *h. porter* Date: 27-9-19

**On behalf of the Horwath Clark Whitehill Staff Pension Plan**

## **Appendix 1 Note on investment policy of the Plan's DB Section as at September 2019 in relation to the current Statement of Investment Principles**

### **1 Strategic asset allocation**

- 1.1 The Trustees have appointed the following investment managers to carry out the day-to-day investment of the Plan:

- Legal & General Investment Management Limited;
- Newton Investment Management Limited.

All managers are authorised and regulated by the Financial Conduct Authority. The Trustees have appointed Barnett Waddingham LLP to advise on investment matters in addition to advice received from the fund managers on suitability of investments. The Trustees also hold a small amount of annuity policies with Legal & General Assurance Society Limited.

- 1.2 The Trustees recognise that the allocation of investments in different asset classes will vary over time because of market movements. The Trustees seek a balance between the benefits of maintaining the asset allocation in line with its benchmark and the costs of rebalancing.
- 1.3 The Trustees will monitor the asset allocation periodically. If in their view these have deviated too far from their benchmark, the Trustees will rebalance the assets towards the benchmark.
- 1.4 The Trustees' benchmark allocation for the assets held is shown in the following table:

<b>Fund</b>	<b>Benchmark allocation*</b>
<b>UK Equities</b>	<b>5.0%</b>
LGIM UK Equity Index Fund	5.0 %
<b>Overseas Equities</b>	<b>31.0%</b>
LGIM World (ex UK) Equity Index Fund	5.0%
LGIM World (ex UK) Equity Index (GBP Hedged) Fund	20.0%
LGIM World Emerging Markets Equities Fund	6%
<b>Multi-Asset</b>	<b>12.0%</b>
Newton Real Return Fund	12.0%
<b>Credit</b>	<b>20.0%</b>
LGIM Active Corporate Bond Over 10 Year Fund	20.0%
<b>Index-Linked Gilts</b>	<b>0.0%**</b>
LGIM Over 5 Year Index-Linked Gilts Fund	0.0%
<b>Liability Driven Investment ("LDI") Portfolio</b>	<b>32.0%**</b>
LGIM Matching Core Real Short Fund	10.0%
LGIM Matching Core Real Long Fund	11.0%
LGIM Sterling Liquidity Fund	11.0%
<b>Total</b>	<b>100%</b>

\*This benchmark allocation is an interim position pending a review of the investment strategy as part of the 2019 Actuarial Valuation process.

\*\*As at September 2019, the LDI portfolio is in the process of being implemented which will be funded using capital held in the LGIM Over 5 Year Index-linked Gilts Funds. The allocation to the LDI portfolio is permitted to change in order to maintain its target hedge ratio of the Plan's interest rate and inflation risk.

- 1.5 The investment managers of the Plan invest in line with restrictions set out in the policy documents. Contributions received generally go towards paying benefits. However, if there is a surplus for investment, these will usually be invested in line with the Plan's benchmark asset allocation outlined above.
- 1.6 Disinvestments will usually be made to move the asset allocation back towards the benchmark.
- 1.7 The investment benchmarks and objectives for each fund are given below:

Fund manager	Benchmark	Objective
<b>Legal &amp; General Investment Management</b>		
LGIM UK Equity Index Fund	FTSE All Share Index	Track benchmark within +/- 0.25% pa for 2 out of 3 years
LGIM World (ex UK) Equity Index Fund	FTSE All-World ex UK Index	Track benchmark within +/- 0.5% pa for 2 out of 3 years
LGIM World (ex UK) Equity Index Fund (GBP Hedged)	FTSE All-World ex UK Index-Currency Hedged	Track benchmark within +/- 0.5% pa for 2 out of 3 years
LGIM World Emerging Markets Equities	FTSE All-World All Emerging Index	Track benchmark within +/- 0.5% pa for 2 out of 3 years
LGIM Active Corporate Bond Over 10 Year	Markit iBoxx GBP Non Gilts Over 10 Years Index	Outperform the benchmark by 0.75% pa over rolling 3 year periods (gross of fees)
LGIM Over 5 Year Index-Linked Gilts	FTSE A Index-Linked (Over 5 Year) Index	Track benchmark within +/- 0.5% pa for 2 out of 3 years
LGIM Matching Core Real Short Fund	Gilt and swap composite index	Provide leveraged exposure to changes in real interest rates
LGIM Matching Core Real Long Fund	Gilt and swap composite index	Provide leveraged exposure to changes in real interest rates
LGIM Sterling Liquidity Fund	7 Day LIBID	Provide capital stability, liquidity and diversification while providing a competitive level of return
<b>Newton Investment Management</b>		
Newton Real Return Fund	One Month GBP LIBOR	Outperform benchmark by 4.0% pa over rolling 5 year periods (gross of fees)

## 2 Fee agreements

2.1 The fee arrangements with the investment managers are summarised below:

Fund	Annual Management Charge (% p.a.)
<b>Legal &amp; General Investment Management</b>	
LGIM UK Equity Index Fund	0.100% per annum on first £10m, plus 0.075% per annum on next £10m
LGIM World (ex UK) Equity Index Fund	0.220% per annum on first £5m, plus 0.190% per annum on next £10m
LGIM World (ex UK) Equity Index Fund (GBP Hedged)	0.240% per annum on first £5m, plus 0.210% per annum on next £10m
LGIM World Emerging Markets Equities	0.450% per annum on first £5m, plus 0.350% per annum on next £10m
LGIM Active Corporate Bond Over 10 Year	0.200% per annum
LGIM Over 5 Year Index-Linked Gilts	0.100% per annum on first £5m, plus 0.075% per annum on next £5m
LGIM Matching Core Funds	0.240% per annum
LGIM Sterling Liquidity Fund	0.125% first £5m, 0.1% next £5m, 0.075% next £20m, 0.05% balance
<b>Newton Investment Management</b>	
Newton Real Return Fund	0.750% per annum

## **Appendix 2 Note on investment policy of the Plan's DC Section in relation to the current Statement of Investment Principles dated September 2019**

### **1. The balance between different kinds of investment**

- 1.1 The Trustees are responsible for the design of the default investment option and for choosing which investment options to make available to members. Members are responsible for their own choice of investment options (including where the default investment option is selected for them because they have not selected other funds).
- 1.2 The Trustees have made available a range of funds to suit the individual needs of the Plan's members ("Self-Select Funds") wanting to manage their own asset allocation decisions. The Trustees have considered potential asset classes and provided potential exposure to those detailed in Section 3. The default option is the Lifestyle Strategy, in which the member's contributions are invested on their behalf using the allocation shown below in section 2.
- 1.3 Under the Lifestyle strategy, their Retirement Account will be automatically moved between investment funds according to how long they have until they plan to retire, i.e. the period until their Selected Retirement Age. This is designed to help manage members' pension investments for the duration of their membership of the Plan for those who want their Retirement Account (the member's pot) to follow a pre-set investment approach with an asset allocation that is managed for them. As such, these arrangements may be more suitable for individuals who prefer not to take an active role in managing their own pension investments using the Self Select investment options.

### **2. Default option: Lifestyle Strategy**

- 2.1 The Trustees acknowledge that members will have different attitudes to risk and different aims for accessing their retirement savings, and so it is not possible to offer a default investment option that will be suitable for all. The Trustees have not undergone a review of the Lifestyle Strategy nor the Plan's membership profile due to the ongoing closure of the DC section. The possible options that could be available to members within the DC Section after its closure are currently in review by the Trustees. As such, it was deemed unfavourable to the Plan's members to review and potentially adjust the strategy incurring additional costs before Plan's upcoming closure.
- 2.2 The default option is the Lifestyle strategy, which invests a member's contribution entirely in equities until a member is within ten years of Normal Retirement Age (65). As members approach retirement, this strategy aims to retain a reasonable return expectation, dampen volatility of returns and make the option available to members to withdraw 25% in cash as a lump sum at retirement.

2.3 The underlying investment funds in the Lifestyle Strategy are the following:

- LGIM UK Equity Index Fund
- LGIM Global Equity Fixed Weights (50:50) Fund
- LGIM Over 5 Year Index-Linked Gilts Index Fund
- LGIM Cash Fund

2.4 Over time, the asset allocation will change to match the members' expectation at retirement. Please note that the switches take place automatically on a yearly basis, as shown in the graph below:



Note that the LGIM equities consists of net 75% allocation to UK equities and 25% allocation to World (ex-UK) equities.

### 3. Self-Select investment options

- 3.1 Acknowledging the challenge of identifying the best solution for different groups of members, the Trustees have concentrated on providing an appropriate Lifestyle option to members. They have also made available a range of individual investment funds available through the Plan that have been carefully selected by the Trustees. The funds offered give members the opportunity to be more involved in managing their pension investments and allow them to design and update their investment strategy over time to suit their needs.
- 3.2 Each of the investment funds available through the Plan has a different aim or target and as such can focus on different asset classes and geographical regions. Members should be aware that each asset class carries alternative risks, which will have an impact on the volatility of their Retirement Account. Members should ensure that they regularly review their investment options to ensure they continue to be appropriate for their needs.
- 3.3 The Trustees have appointed Legal and General Investment Management ("LGIM") to carry out the day-to-day investment of the Plan, with the following funds available to members:

- UK Equity Index Fund
- Global Equity Fixed Weights (50:50) Index Fund
- Over 5 Year Index-Linked Gilts Index Fund
- Cash Fund
- Multi-asset (formerly Consensus) Fund

- 3.4 LGIM are authorised and regulated by the Financial Conduct Authority. The Trustees have appointed Barnett Waddingham LLP to advise on investment matters. The investment benchmarks and objectives for each investment manager are given below. Members have flexibility to select their allocation to any of these funds.

Fund	Benchmark	Objective
LGIM UK Equity Index Fund	FTSE All Share Index	To track the sterling total return of the benchmark to within +/- 0.25% p.a. (gross of fees) for two years out of three
LGIM Global equity Fixed Weights (50:50) Index Fund	Composite Index of 50% FTSE All-Share Index and 50% FTSE All-World Indices	To provide a diversified exposure to the UK and overseas equity markets
LGIM Multi-Asset (formerly Consensus) Fund	ABI Mixed Investment 40-85% Shares Sector (for comparative purposes)	To provide long-term investment growth through exposure to a diversified range of asset classes excluding physical property
LGIM Cash Fund	7 Day LIBID	The Fund aims to perform in with 7 DAY LIBID, without incurring excessive risk
LGIM Over 5 Year Index-Linked Gilts Fund	FTSE A Index-Linked (Over 5 Year) Index	To track the sterling total return of the benchmark to within +/- 0.25% p.a. (gross of fees) for two years out of three

- 3.5 The performance of the investment managers will be monitored as frequently as the Trustees consider appropriate in light of the prevailing circumstances. The monitoring takes into account both short-term and long-term performance.

## 4. Fee agreements

- 4.1 The fee arrangements with the investment managers are summarised below:

Fund	Annual Management Charge (% p.a.)
LGIM UK Equity Index Fund	0.100% per annum
LGIM Global equity Fixed Weights (50:50) Index Fund	0.165% per annum
LGIM Multi-Asset (formerly Consensus) Fund	0.250% per annum
LGIM Cash Fund	0.125% per annum
LGIM Over 5 Year Index-Linked Gilts Fund	0.100% per annum

There are also additional fund expenses payable for some funds.

- 4.2 The Trustees review these charges periodically as part of the Value for Money assessments. Barnett Waddingham is remunerated on either a fixed fee or a time cost basis depending on the scope of the work being carried out.

## 5. Reference to the implementation report

- 5.1 The Trustees have instructed its investment advisors, Barnett Waddingham, to review how ESG issues are taken into account for each of the Plan's mandates, and to report back against their beliefs so that this can form part of the Trustees' implementation report that will be produced annually.