

# *STATEMENT OF INVESTMENT PRINCIPLES*

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## *for the UBM Pension Scheme*

*September 2019*

### **1. Introduction**

#### **1.1. What is the purpose of this Statement of Investment Principles?**

This Statement of Investment Principles (“SIP”) sets out the policy of UBM Trustees Limited (“the Trustee”) on various matters governing decisions about the investments of the UBM Pension Scheme (“the Scheme”).

The UBM Pension Scheme was established under a Definitive Trust Deed on 9 September 2013 to provide benefits for and in respect of specified individuals. Assets and liabilities were transferred to the Trustee from United Trustees Limited, as Trustee of the United Group Pension Scheme, United Pension Plan and United Magazines Final Salary Scheme (together the “Old Schemes”). The transfer of assets and liabilities took place on and after 30 December 2013 on the terms specified in the Merger Deed dated 2 December 2013.

The Scheme is a mixed benefit scheme, with separate Defined Benefit (“DB”) and Defined Contribution (“DC”) sections. The majority of the Scheme’s DC section assets were transferred out of the Scheme shortly after the merger described in the paragraph above. The remaining DC assets of the Scheme relate to legacy policies and are closed to new contributions. The Trustee’s policies specific to the Scheme’s DC assets are set out in Section 7.

#### **1.2. Who has had input to the SIP?**

This SIP has been prepared after obtaining and considering written professional advice from Lane Clark & Peacock LLP (“LCP”), the Scheme’s investment adviser, whom the Trustee believes to be suitably qualified and experienced to provide such advice. The advice takes into account the suitability of investments and the need for diversification, given the circumstances of the Scheme and the overall investment objectives of the Trustee, which are set out in this SIP.

UBM plc, as the Principal Employer, has been consulted on the SIP. The current investment managers of the Scheme have been given the opportunity

to comment on a draft of the SIP and their comments have been incorporated into this final version.

### **1.3. What is the legal and statutory background to the SIP?**

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 (“the Act”), the Occupational Pension Schemes (Investment) Regulations 2005 (“the Regulations”), the Pension Regulator’s guidance for defined benefit pension schemes (March 2017) and the Occupational Pension Schemes (Charges and Governance) Regulations 2015 (specifically in relation to the DC section of the Scheme).

## **2. What are the Trustee’s overall investment objectives?**

The Trustee’s objectives are:

- that the Scheme should be able to meet benefit payments as they fall due; and
- that the Scheme’s funding position (ie the value of its assets relative to the assessed value of its liabilities) should be at an appropriate level. The Trustee is aware that there are various measures of funding, and have given due weight to those considered most relevant to the Scheme. After each actuarial valuation, the Trustee will take into account the results in setting its investment policy for the Scheme.

## **3. What risks does the Trustee consider and how are these measured and managed?**

When deciding how to invest the Scheme’s assets, the Trustee considers a wide range of risks, including, but not limited to, those set out in Appendix A. Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each risk.

## **4. Summary of the Scheme’s investment strategy**

### **4.1. How was the investment strategy determined?**

The Trustee, with the help of its advisers and in consultation with the Principal Employer, reviews the Scheme’s investment strategy from time to time, taking into account the objectives described in Section 2 above.

### **4.2. What is the investment strategy?**

Following a review in February 2017, the Trustee has agreed that the investment strategy of the Scheme should be based on the following strategic allocation:

| Asset class                     | Strategic allocation (%) | Control ranges (%) |
|---------------------------------|--------------------------|--------------------|
| UK equities                     | 12                       | 10 – 14            |
| Overseas equities               | 18                       | 15 – 21            |
| Diversified Growth Funds (DGFs) | 25                       | 20 – 30            |
| Property                        | 15                       | 5 – 20             |
| LDI and Absolute Return Bonds   | 20                       | 15 - 25            |
| Illiquid Credit                 | 10                       | 8 – 12             |
| <b>Total</b>                    | <b><u>100</u></b>        |                    |

The Scheme's actual asset allocation is reviewed against the above control ranges at regular Investment Sub-Committee meetings. If, when reviewed, the asset allocation is outside the above control ranges, consideration will be given to whether the Scheme's asset allocation should be rebalanced. The allocation to property will be underweight in relation to the strategic allocation until the additional commitments made in March 2017 are called by the property managers.

The Diversified Growth Funds will contain a variety of underlying asset classes, including equities, bonds and alternative assets.

#### 4.3. What did the Trustee consider in setting the Scheme's investment strategy?

In setting the investment strategy, the Trustee considered:

- the Scheme's investment objectives;
- the best interests of the members and beneficiaries;
- the circumstances of the Scheme, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level of the Scheme, and the strength of the covenant of the Principal Employer to the Scheme;
- the risks, rewards and suitability of a number of possible asset classes and investment strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken;
- the need for appropriate diversification between different asset classes to ensure that both the Scheme's overall level of investment risk and the balance of individual asset risks are appropriate; and
- the Trustee's investment beliefs about how investment markets work and which factors are most likely to impact investment outcomes.

Some of the Trustee's key investment beliefs are set out below.

- asset allocation is the primary driver of long-term returns;
- risk-taking is necessary to achieve return, but not all risks are rewarded;
- risks that are typically not rewarded should generally be avoided, hedged or diversified;
- investment markets are not always efficient and there may be opportunities for good active managers to add value;
- investment managers who can consistently spot and profitably exploit market opportunities are difficult to find and therefore passive management, where available, can be better value;
- environmental, social and governance (ESG) factors, including but not limited to climate-related factors, are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors;
- long-term environmental, social and economic sustainability, including the implications of climate change, is one factor that the Trustee should consider when making investment decisions; and
- costs have a significant impact on long-term performance.

#### **4.4. What assumptions were made about the returns on the Scheme's assets?**

As at 30 June 2019, the yield on long-dated gilt edged stocks was 1.4% pa. The Trustee expects that the returns on the Scheme's return-seeking assets (ie equities and other growth assets) will exceed the returns from gilt edged stocks by around 3% pa.

### **5. Appointment of investment managers**

#### **5.1. How many investment managers are there?**

The Trustee has appointed five investment managers to manage the Scheme's assets; Legal & General manages equities and bonds (including LDI and absolute return bonds), M&G actively manages an illiquid credit portfolio and a long-lease property portfolio, Aviva manages a long-lease property portfolio and Newton and Schroder manage DGF portfolios.

#### **5.2. What formal agreements are there with investment managers?**

The investment managers' primary role is the day-to-day investment management of the Scheme's investments. The managers are authorised under the Financial Services and Markets Act 2000 (as amended), or under similar regulation where not domiciled in the UK as noted below, to carry out such activities. Agreements with each investment manager are detailed below:

1. The Trustee has a Policy Document with Legal & General Assurance (Pensions Management) Limited which, together with subsequent amendments, sets out in detail the arrangements under which the Scheme's assets will be managed. Legal & General Assurance (Pensions Management) Limited have delegated their investment responsibilities to Legal & General Investment Management ("LGIM"). As such, LGIM is responsible for the day to day investment management of the pooled vehicles in which the Scheme invests. LGIM is responsible for the safekeeping of the Trustee's unit holdings in its pooled funds and the custody arrangements for the underlying assets of these funds.
2. The Trustee has signed an application form enabling it to invest in the M&G Illiquid Credit Opportunities Fund, a sub-fund of Specialist Investment Funds (3) plc, regulated by the Central Bank of Ireland. The Prospectus and Illiquid Credit Opportunities Fund Supplement to the Prospectus describe the basis on which the investment is managed. The investment manager is M&G Investment Management Limited.
3. The Trustee has also subscribed to the M&G Secured Property Income Fund and the Aviva Lime Property Fund. In both cases, the Information Memorandum and the Trust Instrument of each Fund describes the basis on which they are managed. The investment manager for the M&G Secured Property Fund is M&G (Guernsey) Limited, regulated by the Guernsey Financial Services Commission, a subsidiary of M&G Investment Management Limited. The investment manager for the Aviva Lime Property Fund is Aviva Investors Jersey Unit Trusts Management Limited, regulated by the Jersey Financial Services Commission, a subsidiary of Aviva Investors Global Services Limited.
4. The Trustee has signed an agreement with BNY Mellon in relation to the Scheme's investment in the Newton Real Return Fund, which is a sub-fund of the BNY Mellon Investment Funds. The investment manager is Newton Investment Management Limited, a subsidiary of BNY Mellon.
5. The Trustee has invested in Schroder's DGF through a long-term insurance contract with Schroder Pension Management Limited. The Direct Contract sets out the terms and conditions of the insurance contract granted by Schroder Pension Management Limited.

Details of the investment managers' investment benchmarks and guidelines are given in Appendix B.

### **5.3. What is the Trustee's policy in relation to monitoring and assessing the arrangements with the investment managers?**

The Trustee has limited influence over managers' investment practices because all the Scheme's assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

The Trustee's view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

It is the Trustee's responsibility to ensure that the managers' investment approaches are consistent with its policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustee expects investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. It assesses this when selecting and monitoring managers.

The Trustee evaluates investment manager performance by considering performance over both shorter and longer-term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. Generally, the Trustee would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustee's policy is to evaluate each of its investment managers by reference to the manager's individual performance as well the role it plays in helping the Scheme meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustee recognises 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 Trustee expects its investment adviser to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates.

## **6. Other matters**

### **6.1. What is the Trustee's policy on the realisation of investments?**

The Trustee regularly monitors the cash flow requirements for the Scheme and has agreed to draw regular income from its investments where necessary. It has also put in place procedures with the investment managers and their administrators for the realisation of any further investments to meet additional cash flow requirements.

### **6.2. What is the Trustee's policy on financially material and non-financial matters?**

The Trustee has considered how environmental, social, governance ("ESG") and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Scheme and its members.

The Trustee expects its investment managers (where appropriate) to take account of financially material considerations (including climate change and other ESG considerations) when making investment decisions. It seeks to appoint managers that have appropriate skills and processes to do this, and may consider investing in funds (where appropriate) that demonstrate the incorporation of ESG factors, including climate-related factors, into the investment process. The Trustee will, from time to time review how its managers are taking account of these issues in practice, for example by meeting with managers at regular ISC meetings.

The Trustee has limited influence over managers' investment practices where assets are held in pooled funds. However, it encourages its managers to improve their practices where appropriate.

The Trustee has considered whether to take into account any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries and the principal employer, rather than considerations of financial risk and return) in the selection, retention and realisation of investments, and has decided not to.

### **6.3. What is the Trustee's policy on the exercise of investment rights?**

The Trustee recognises its responsibilities as owners of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments.

The Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers

of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations. The Trustee does not monitor or engage directly with issuers or other holders of debt or equity.

The Trustee expects the investment managers to demonstrate good stewardship practices with regards exercising ownership rights and undertaking monitoring and engagement, considering the long-term financial interests of the beneficiaries.

The Trustee will review how its managers are performing with regards to this, for example by reviewing managers' general policies on stewardship, as provided to the Trustee from time to time, and discussing this subject with managers at regular ISC meetings.

The Trustee seeks to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and from time to time the Trustee reviews how these are implemented in practice.

#### **6.4. What are the responsibilities of the various parties in connection with the Scheme's investments?**

Appendix C contains brief details of the respective responsibilities of the Trustee, the investment adviser and the investment managers. Appendix C also contains a description of the basis of remuneration of the investment adviser and the investment managers.

#### **6.5. How does the Trustee make its investment decisions?**

Before making any investment decision, the Trustee obtains written advice from its investment adviser. The written advice considers the suitability of the investment and the need for diversification. It is also the Trustee's policy to review its own investment selection decisions on a regular basis, based on similar written advice.

### **7. DC assets**

The Trustee's objective for the DC assets of the Scheme is to provide members with access to an appropriate range of investment options, reflecting the membership profile and the variety of ways that members can draw their benefits in retirement.

The Trustee has made available a range of investment funds for members. Each member is responsible for specifying one or more funds for the investment of their account, having regard to their attitude to the risks involved. The DC policies are closed to new contributions and there is no default investment option.

In determining the investment arrangements for the DC assets the Trustee has taken into account:

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- the best interests of members and beneficiaries;
- the risks, rewards and suitability of a number of possible assets; and
- the need for appropriate diversification between the investment options offered to members.

Details of the DC investment arrangements are given in Appendix B.

#### 8. Review

The Trustee will, from time to time, review the appropriateness of this SIP with the help of its advisers, and will amend the SIP as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy, and at least once every three years.

For and on behalf of

UBM Trustees Limited as Trustee of the UBM Pension Scheme

Signed:

A handwritten signature in black ink, appearing to be 'N. Pa', written over a horizontal line.

Date: 30 September 2019

## *The Trustee's policy towards risk, risk measurement and risk management*

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The Trustee considers that there are a number of different types of investment risk that are important for the Scheme. These include, but are not limited to:

### **A.1. Risk appetite and risk capacity**

Risk appetite is a measure of how much risk the Trustee is willing to bear within the Scheme in order to meet its investment objectives. Taking more risk may mean that those objectives can be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action.

Risk capacity is a measure of the extent to which the Trustee can tolerate deviation from its long-term objectives before attainment of those objectives is seriously impaired. The Trustee aims to strike the right balance between risk appetite and risk capacity.

When assessing the risk appetite and risk capacity, the Trustee considered a range of qualitative and quantitative factors, including:

- the strength of the employer's covenant and how this may change in the near/medium future;
- the Scheme's funding target;
- the Scheme's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged;
- the Scheme's cash flow and target return requirements; and
- the level of expected return and expected level of risk, now and as the strategy evolves.

When deciding on the current investment strategy, the Trustee reviewed the expected level of risk and believed this level of risk to be appropriate given the Trustee's and employer's risk appetite and capacity, and the Scheme's objectives.

### **A.2. Approach to managing and monitoring investment risks**

The Trustee considers that there are a number of different types of investment risk that are important to manage and monitor. These include, but are not limited to:

#### **A.2.1. Risk of inadequate returns**

A key objective of the Trustee is that, over the long-term, the Scheme should have adequate assets to meet its liabilities as they fall due. The Scheme is invested in assets expected to produce sufficient long-term returns, but there is a risk that returns realised over the long term will be inadequate. There is also a risk that the value of the Scheme's assets and the assessed value of its liabilities may diverge in certain financial and economic conditions over the short term. This risk has been taken into account in setting the investment strategy and is monitored by the Trustee on a regular basis.

For the DC assets, as members' benefits are dependent on the investment returns achieved, it is important that investment options are available which can be expected to produce adequate real returns over the longer term. The Trustee took this into account when considering the fund range to make available to members.

#### **A.2.2. Investment manager risk**

This is the risk that an investment managers fail to meet its investment objectives. Prior to appointing any investment managers, the Trustee receives written advice from a suitably qualified individual, and carries out an investment manager selection exercise. The Trustee monitors its investment managers on a regular basis to ensure they remain appropriate for their selected mandates.

#### **A.2.3. Lack of diversification risk**

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Trustee's ability to meet its investment objectives. The Trustee believes that the need for the Scheme's assets to be adequately diversified between different asset classes and within each asset class has been met by the strategy outlined in Section 4.2 and by the guidelines agreed with the investment managers.

Furthermore, the Trustee believes that the Scheme's DC fund options provide a suitably diversified range for members to choose from.

#### **A.2.4. Liquidity/marketability risk**

This is the risk that the Scheme is unable to realise assets to meet benefit cash flows as they fall due. The Trustee is aware of the Scheme's cash flow requirements and believes that this risk is managed appropriately via the measures described in Section 6.1.

For the DC assets, this is the risk that core financial transactions, such as disinvesting members assets on retirement, are not processed promptly due to

lack of liquidity in the investments. The Trustee manages this risk by only making available pooled funds with daily / weekly dealing within the DC fund options.

#### **A.2.5. Environmental, social and governance (ESG) risks**

Environmental, social and corporate governance (ESG) factors are sources of risk to the Scheme's investments, some of which could be financially material, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Trustee seeks to appoint investment managers who will manage these risks appropriately on their behalf and from time to time reviews how these risks are being managed in practice.

#### **A.2.6. Collateral adequacy risk**

The Scheme is invested in leveraged Liability Driven Investment ("LDI") arrangements to provide protection ("hedging") against adverse changes in interest rates and inflation expectations. The LDI manager may from time to time call for additional cash to be paid to the LDI portfolio in order to support a given level of leverage. Collateral adequacy risk is the risk that the Trustee when requested to do so will not be able to post additional cash to the LDI fund within the required timeframe. A potential consequence of this risk is that the Scheme's interest rate and inflation hedging could be reduced and that the Scheme's funding level could suffer subsequently as a result. In order to manage this risk, the Trustee ensures that the Scheme has a sufficient allocation to cash and other highly liquid assets which can be readily realised, so that cash can be posted to the LDI manager at short notice.

#### **A.2.7. Risk from excessive charges**

Within the DC assets, if the investment management charges together with other charges levied on, for example, transfers or early retirement are excessive, then the value of a member's account will be reduced unnecessarily. The Trustee is comfortable that the charges applicable to the Scheme are in line with market practice and assess regularly whether these represent good value for members.

#### **A.2.8. Credit risk**

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Scheme is subject to credit risk because it invests in bonds via pooled funds. The Trustee manages its exposure to credit risk by investing in pooled funds that have a diversified exposure to different credit issuers.

### A.2.9. Currency risk

Whilst the majority of the currency exposure of the Scheme's assets is in sterling, the Scheme is subject to currency risk because some of the pooled funds in which Scheme's invests hold non-sterling assets. The Trustee considers the overseas currency exposure in the context of the overall investment strategy, as well as in the context of the employer covenant. The overseas developed market equity allocation is currency hedged back to Sterling. The Trustee believes that the remaining currency exposure that exists diversifies the strategy and is appropriate.

### A.2.10. Interest rate and inflation risk

The Scheme's assets are subject to interest rate and inflation risk because some of the Scheme's assets are held in bonds or interest rate swaps via pooled funds. The interest rate and inflation exposure of the Scheme's assets hedges part of the corresponding risks associated with the Scheme's liabilities. The net effect is to reduce the volatility of the funding level, and so the Trustee believes that it is appropriate to have exposures to these risks in this manner.

### A.2.11. Other non-investment risks

The Trustee recognises that there are other, non-investment, risks faced by the Scheme, and takes these into consideration as far as practical in setting the Scheme's investment arrangements.

Examples include:

- longevity risk (the risk that members live, on average, longer than expected); and
- sponsor covenant risk (the risk that, for whatever reason, the Principal Employer is unable to support the Scheme as anticipated).

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Scheme's funding position falls below what is considered an appropriate level. The Trustee regularly reviews progress towards the Scheme's funding target, both in the longer-term as well as against short-term milestones, comparing the actual versus the expected funding level.

By understanding and considering each of the risks that contribute to funding risk, the Trustee believes that it has addressed and is positioned to manage this general risk.

## Investment manager arrangements

## Appendix B

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### B.1. Manager and asset class allocations

The table below shows the strategic allocation to each manager and asset class.

|              | Equities<br>(%) | Bonds/LDI<br>(%) | Property<br>(%) | DGF<br>(%)  | Total<br>(%) |
|--------------|-----------------|------------------|-----------------|-------------|--------------|
| LGIM         | 30.0            | 20.0             | -               | -           | <b>50.0</b>  |
| Aviva        | -               | -                | 6.0             | -           | <b>6.0</b>   |
| M&G          | -               | 10.0             | 9.0             | -           | <b>19.0</b>  |
| Newton       | -               | -                | -               | 15.0        | <b>15.0</b>  |
| Schroder     | -               | -                | -               | 10.0        | <b>10.0</b>  |
| <b>Total</b> | <b>30.0</b>     | <b>30.0</b>      | <b>15.0</b>     | <b>25.0</b> | <b>100.0</b> |

The Trustee periodically monitors the Scheme's asset allocation by manager and asset class and, as required, will rebalance the assets.

In March 2017, the Trustee made additional commitments to the property funds managed by M&G and Aviva. The property commitments are expected to be funded by selling assets from the Bonds/LDI allocation managed by LGIM. Until these commitments are called by the managers, the Scheme is expected to be underweight in property and overweight to the bonds/LDI allocation.

### B.2. Legal & General Assurance (Pensions Management) Limited

The Trustee has a Policy Document with Legal & General Assurance (Pensions Management) Limited which, together with subsequent amendments, sets out in detail the arrangements under which the Scheme's passive equity and bond assets will be managed.

The strategic benchmark for the assets managed by LGIM is 60% equities and 40% bonds (currently 54.5% equities and 45.5% bonds until the additional property commitments, discussed in the previous section, are funded from the LGIM bonds/LDI portfolio). Investment / disinvestment of monies with LGIM is applied to move the overall allocation towards this strategic benchmark.

#### B.2.1 Equity portfolio

The strategic benchmark allocation of the equity assets managed by LGIM is as follows:

| Asset class             | Allocation (%)      | Benchmark index                                       |
|-------------------------|---------------------|---|
| UK equities             | 40.0                | FTSE All-Share  |
| North American equities | 20.0                | FTSE World North America – GBP Hedged                 |
| European equities       | 13.0                | FTSE World Europe (ex UK) – GBP Hedged                |
| Japanese equities       | 9.0                 | FTSE Japan – GBP Hedged                               |
| Pacific rim equities    | 9.0                 | FTSE Developed Asia Pacific (ex Japan) – GBP Hedged   |
| Emerging markets        | 9.0                 |   |
| Global emerging markets |                     | S&P/ IFC Investable Composite Global Emerging Markets |
| World emerging markets  |                     | FTSE AW – All Emerging Markets                        |
| <b>Total</b>            | <b><u>100.0</u></b> |   |

The returns (before fees) on the above funds are expected, within certain accepted tolerances, to be in line with the total returns (ie including both income and capital growth) of the benchmark indices, allowing for withholding tax and currency hedging where applicable.

Investment/disinvestment of monies in the equity portfolio is applied so as to maintain the Scheme's asset distribution as close as possible to the benchmark allocation.

### B.2.2 Bond portfolio

The Scheme invests in a bespoke leveraged LDI fund set up exclusively for use by the Scheme. The Scheme also invests in the LGIM Absolute Return Bond Fund. LGIM has discretion to disinvest from the Absolute Return Bond Fund to manage the leverage in the LDI Fund.

The stated investment objective of the LDI fund is to “seek to achieve a return that meets or exceeds the return on the Target Liability Benchmark (net of any funding or transaction costs) on a 3 year rolling basis.” The Target Liability Benchmark is a swap based benchmark calculated by LGIM based on the Scheme's projected liability cash flows and the target levels of interest rate and inflation hedging agreed between LGIM and the Trustee from time to time. LGIM will invest in a range of permitted assets including gilts and swap contracts to meet this objective. The Trustee will monitor the performance of the fund against appropriate swap and gilt benchmarks.

The objective of the Absolute Return Bond Fund is to achieve a total return of 3-month LIBOR + 1.5% pa (before the deduction of fees), over rolling 3 year periods.

The Trustee has also made an investment in the M&G Investments (“M&G”) Illiquid Credit Opportunities Fund V (“ICOF V”). The stated investment objective of the ICOF V is to achieve a total return of 3-month LIBOR + 5% pa (before the deduction of fees).

### **B.3. The property portfolio**

The Trustee has subscribed to two investment managers for the Scheme’s long-lease property portfolio, namely:

- Aviva Investors Pensions Limited (“Aviva”); and
- M&G Investments (“M&G”).

Long-lease property investment targets particular parts of the UK commercial property market which can provide a secure long-term (20 years plus) stream of rental payments, focussing on a financially strong, sometimes government-backed tenant base. Rental payments are often linked to inflation or have fixed up-lifts over the term of a lease.

#### **B.3.1. Aviva Lime Property Fund**

The Scheme’s assets are invested in the Lime Property Fund. The Fund’s benchmark is a UK gilt index constructed of an equally weighted combination of the FTSE 5-15 Years Gilt Index and the FTSE over 15 Years Gilt Index. The Lime Property Fund targets returns of the benchmark + 1.5% pa net of fees over the medium to long term.

#### **B.3.2. M&G Secured Property Income Fund**

The Scheme’s assets are invested in the Secured Property Income Fund. This has a performance objective to deliver a secure long-term income stream with inflation-linked or fixed uplifts, with the aim of providing a long-term positive real return of 3-4% pa net of fees.

### **B.4. The Diversified Growth Fund portfolio**

The Trustee has made an allocation with two investment managers for the Scheme’s Diversified Growth portfolio, namely:

- Newton Investment Management (“Newton”); and
- Schroder Investment Management (“Schroders”).

#### **B.4.1 Newton Real Return Fund**

The Scheme’s assets are invested in the Newton Real Return Fund. The stated investment objective of the RRF is to “achieve significant real rates of return in sterling terms, predominantly from a portfolio of UK and international

securities". To achieve this objective, Newton target returns of LIBOR + 4% pa (before the deduction of fees) over rolling 5 year periods. **Appendix B (cont)**

#### B.4.2. Schroder Diversified Growth Fund

The Scheme's assets are invested in the Schroder Diversified Growth Fund. The Fund targets returns of 5% above CPI (after the deduction of fees) over rolling five to seven year periods.

#### B.5. Additional Voluntary Contributions for DB members ("AVCs")

There are also AVC arrangements with the following providers:

- Legal & General
- Aviva (formerly Norwich Union Life Service Ltd)
- Equitable Life
- Prudential
- Scottish Widows

#### B.6. DC arrangements

The Trustee makes available a range of passively and actively managed self-select funds managed by L&G for DC members to choose between. The DC section is closed to new contributions; however members are able to switch between existing assets between funds upon request. Details of these options are set out below.

| Fund   | Benchmark   | AMC (% pa)        |
|--|---|-------------------|
| Multi-Asset (formerly Consensus) Fund          | The Fund aims to meet the criteria of the ABI Mixed Investment 40-85% Shares sector | 0.09 <sup>1</sup> |
| Global Equity (70:30) Index Fund               | Composite: 70% UK (FTSE All Share Index) 30% overseas (FTSE All-World ex UK Index)  | 0.08              |
| Global Equity Fixed Weights (50:50) Index Fund | Composite: 50% UK (FTSE All Share Index) 50% overseas (FTSE regional indices)       | 0.08              |
| UK Equity Index Fund                           | FTSE All-Share Index  | 0.045             |
| Ethical UK Equity Index Fund                   | FTSE 4 Good UK Equity Index   | 0.20              |
| North America Equity Index Fund                | FTSE World North America Index  | 0.10              |

<sup>1</sup> From 31 July 2017 the AMC for this fund will increase to 0.19% pa.

| Fund  | Benchmark  | AMC (% pa) | cont) |
|---|--|------------|-------|
| Europe (Ex UK) Equity Index Fund                          | FTSE Dev Europe ex UK Index  | 0.10       |       |
| Japan Equity Index Fund                                   | FTSE Japan Index   | 0.10       |       |
| Asia Pacific (Ex Japan) Developed Equity Index Fund       | FTSE Dev Asia Pac ex Japan Index   | 0.10       |       |
| World EM Equity Index Fund                                | FTSE Emerging Index  | 0.45       |       |
| Managed Property Index Fund                               | AREF / IPD UK Quarterly Property All Balanced Funds Index                  | 0.70       |       |
| AAA-AA Fixed Interest Over 15 Year Targeted Duration Fund | N/A  | 0.07       |       |
| Investment Grade Corporate Bond All Stocks Index Fund     | Markit iBoxx GBP Non-Gilts (All Stocks)                                    | 0.07       |       |
| Over 15 Year Gilts Index Fund                             | FTSE A UK Gilts > 15 Years Index   | 0.03       |       |
| Over 5 Year Index-Linked Gilts Index Fund                 | FTSE A Index-Linked > 5 Years Index  | 0.03       |       |
| Cash Fund   | 7 Day GBP Libid  | 0.07       |       |
| World (ex UK) Equity Index Fund                           | FTSE World ex UK Index   | 0.12       |       |
| Overseas Bond Index Fund                                  | J.P. Morgan Global (non UK) Traded Government Bond Sterling-Adjusted Index | 0.095      |       |
| All Stocks Gilts Index Fund                               | FTSE A UK Gilts (All Stocks) Index   | 0.03       |       |

In addition, the Scheme has legacy DC arrangements in respect of certain DC members with Clerical Medical.

#### B.7. Annuity policies

There are annuity policies held in respect of certain members with the following providers:

- Phoenix Life;
- Aviva;
- ReAssure;
- Prudential Annuities;
- Canada Life; and
- Legal & General.

### **C.1. Responsibilities and investment decision-making structure**

The Trustee has decided on the following division of responsibilities and decision-making for the Scheme. This division is based upon the Trustee's understanding of the various legal requirements placed upon it. The Trustee's view is that this division allows for efficient operation of the Scheme overall, with access to an appropriate level of expert advice and service.

### **C.2. Trustee**

In broad terms, the Trustee is responsible in respect of investment matters for:

- setting the investment strategy, in consultation with the employer and after receiving advice from its advisers;
- developing a mutual understanding of investment and risk issues with the employer;
- reviewing the investment policy following the results of each valuation, and / or after any review of investment strategy (eg any asset liability modelling exercise);
- appointing (and, when necessary, dismissing) the investment managers and the investment adviser;
- monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Act;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- setting a policy on the exercise of rights (including voting rights) and undertaking engagement activities in respect of the investments;
- communicating with members as appropriate on investment matters, such as the Trustee's assessment of its effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged;
- putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employer when reviewing the SIP.

### **C.3. Investment managers**

In broad terms, the investment managers are responsible for:

- managing their respective portfolios, within the guidelines agreed with the Trustee;
- taking account of financially material considerations (including climate change and other ESG considerations) as appropriate when managing the portfolios of assets;
- exercising rights (including voting rights) attached to investments and undertaking engagement activities in respect of investments; and
- providing the Trustee with regular information concerning the management and performance of their respective portfolios.

#### C.4. Investment adviser

In broad terms, the investment adviser is responsible, in respect of investment matters, as requested by the Trustee, for:

- advising on how material changes within the Scheme's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;
- advising on the selection, and review, of the investment managers. Such advice takes account of LCP's assessment of the nature and effectiveness of managers' approaches to financially material considerations (including climate change and other ESG considerations) and stewardship practices; and
- participating with the Trustee in reviews of this SIP.

#### C.5. Mandates given to advisers and investment managers

The Trustee has in place signed agreements with the Scheme's advisers and investment managers. These provide details of the specific arrangements agreed by the Trustee with each party. Copies of these mandates are available for inspection from the Pensions Manager.

#### C.6. Fee structures

The Trustee has agreed Terms of Business with the Scheme's investment adviser, under which charges are calculated on a "fixed fee" or "time-cost" basis.

The investment managers receive fees calculated by reference to the market value of assets under management. The fee rates are believed to be consistent with the manager's general terms for institutional clients and are considered by the Trustee to be reasonable when compared with those of other similar providers.

The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustee's view as to the most appropriate arrangements for the Scheme. However, the Trustee will consider revising any given structure if and when it is considered appropriate to do so.

**C.7. Performance assessment**

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The Trustee is satisfied, taking into account the external expertise available, that there are sufficient resources to support its investment responsibilities. The Trustee believes that it has sufficient expertise and appropriate training to carry out its role effectively.

It is the Trustee's policy to assess the performance of the Scheme's investments, investment manager and professional advisers from time to time. The Trustee will also periodically assess the effectiveness of its decision-making and investment governance processes and will decide how this may then be reported to members.

**C.8. Working with the Scheme's employer**

When reviewing matters regarding the Scheme's investment arrangements, such as the SIP, the Trustee gives due consideration to the employer's perspective. While the requirement to consult does not mean that the Trustee needs to reach agreement with the employer, the Trustee believes that better outcomes will generally be achieved if the Trustee and employer work together collaboratively.