



# **John Heathcoat Pension Scheme**

## **Statement of Investment Principles**

September 2020

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# 01 Introduction

## 01.01 Scope of this document

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This document constitutes the Statement of Investment Principles (the "SIP") required under Section 35 of the Pensions Act 1995 for the John Heathcoat Pension Scheme (the "Scheme"). It describes the investment policy being pursued by the Trustees of the Scheme. This SIP reflects the requirements of the Occupational Pension Schemes (Investment) Regulations 2005.

## 01.02 Preparation

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The Trustees confirm that, before preparing this SIP, they have consulted with the employer, John Heathcoat and Company (Holdings) Limited (the "Employer") and the Investment Adviser (XPS Investment) and have obtained and considered written advice.

## 01.03 Responsibilities

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The Trustees are responsible for the investment of the Scheme's assets and the administration of the Scheme. Where they are required to make an investment decision, the Trustees always receive advice from the Investment Adviser first. The Trustees believe the Investment Adviser to be qualified by their ability and practical experience of financial matters and to have appropriate knowledge of the investment arrangements that the Scheme requires.

The Trustees review the SIP at least every three years, as well as immediately after any significant changes in the Scheme's Investment Strategy.

## 01.04 Declaration

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The Trustees confirm that this SIP reflects the Investment Strategy they have decided to implement. The Trustees acknowledge that it is their responsibility, with guidance from the Investment Adviser, to ensure the assets of the Scheme are invested in accordance with these Principles.

# 02 Scheme governance

The Trustees are responsible for the governance and investment of the Scheme's assets. The Trustees consider that the governance structure set out in this SIP is appropriate for the Scheme as it allows the Trustees to make the important decisions on investment policy, while delegating the day-to-day aspects to the managers of pooled funds. Appropriate advice is obtained before decisions are made about which pooled funds to invest in. The responsibilities of each of the parties involved in the Scheme's governance are detailed in Appendix A.

# 03 Investment objectives

The Trustees recognise that the investment performance of the Scheme's assets will not usually have a direct impact on the value or security of the members' benefits. The investments can have an indirect impact on the members' benefits if they alter the Employer's ability and/or willingness to continue to support the Scheme.

The Trustees' primary investment objective is to ensure that they hold suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with contributions from members and the Employer, the cost of current and future obligations to the beneficiaries both in the short and long term.

The Trustees take the nature of the Scheme's liabilities into account when making decisions about the Scheme's investments.

With that in mind, the Trustees have set the following specific objectives:

- > *To ensure the obligations to the beneficiaries of the Scheme are met.*
- > *To earn an investment return which, in combination with the funding strategy, is sufficient to achieve over an acceptable period of time a funding level of at least 100% against the technical provisions, and to maintain the funding at this level.*
- > *To pay due regard to the Employer's requirements with regards to the size and incidence of its contribution payments.*

*The Trustees' policy is to seek to achieve the objectives through investing in a diversified portfolio of assets.*

The Scheme's funding strategy is set out in the Scheme's Statement of Funding Principles.

The Statutory Funding Objectives (SFO) requirement is the main consideration for the investment strategy.

# 04 Asset allocation strategy

The Trustees choose an appropriate allocation of asset classes which they believe best meets the Scheme's investment objectives as set out in Section 3. The Trustees have not restricted the allocation, they can invest in a wide range of asset classes, but only to the extent such asset classes are consistent with the Trustees' attitude to risk.

The asset allocation is determined following advice from the Investment Adviser, and the Employer will be consulted in the event of any significant change.

The current benchmark and target allocation is set out in Appendix B and any significant changes will only be made after receiving written advice from the Investment Adviser that such allocation remains consistent with the investment objectives. The Trustees will consult with the Employer in the event of a significant change in the asset allocation.

Given the size of the Plan, the Trustees have decided the most cost effective way of investing the Plan's assets is to invest through a regulated life insurance company ("the platform provider"), rather than directly appointing individual investment managers. The Plan holds a single life policy with the platform provider, where the value of the Plan's assets is linked to the value of specific pools of assets ("funds") selected by the Trustees from time to time. Decisions about which funds to invest in are made after receiving investment advice from an FCA regulated firm.

## 04.01 Rebalancing policy

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The Trustees, with the help of the Investment Adviser, monitor the balance of the Scheme's assets versus the benchmark. If the asset allocation is considered to be materially out-of-line then the Trustees may decide to switch assets to bring it back towards the benchmarks.

## 04.02 Rates of return

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The target rates of return for each asset class are detailed in Appendix B.

## 04.03 Diversification

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The Trustees have sought to achieve diversification by:

- > Investing in more than one asset class. Generally speaking, each asset class would expect to have different issuers and therefore add to the diversification of the Scheme.
- > Investing in pooled funds which have investment restrictions (i.e. funds which impose concentration limits on individual positions and limits on the exposure to individual issuers).

The Trustees maintain one policy with the platform provider instead of holding shares or units in pooled funds. The Scheme is therefore subject to the risk of insolvency of the platform provider. Whilst the Trustees have not diversified against this risk, the likelihood of the platform provider becoming insolvent has been minimised as far as practical

## Asset allocation strategy continued

. For example, the platform provider is a regulated Life Insurance Company governed by UK Law and is therefore subject to regular scrutiny by the financial services regulators (Prudential Regulation Authority/Financial Conduct Authority) and is not exposed to any general insurance claims risk. Furthermore, the platform provider holds professional indemnity insurance to cover the risk of operational risks and fraud.

The Trustees will monitor the strategy regularly to ensure that they are comfortable with the level of diversification.

### 04.04 Suitability

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The Trustees have taken advice from the relevant Advisers to ensure that the asset allocation strategy is suitable for the Scheme, given its investment objectives. This advice included an assessment of the suitability of the life policy with the platform provider.

The Trustees have chosen to hold a portion of the Scheme's assets in 'matching' assets (e.g. corporate bonds but may also include in the future but not limited to government bonds and liability driven investment funds) to provide some degree of matching with the Scheme's liabilities.

The aim of the 'return-seeking' assets (e.g. equity and diversified growth funds) is to provide additional expected return above that achieved by the matching assets, consistent with the investment objectives.

### 04.05 Liquidity

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All of the non-cash assets are held with the platform provider in funds with frequent dealing dates.

The Trustees also hold a small amount of cash in a bank account to help meet short-term cash requirements.

### 04.06 Contingency plans

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The Trustees monitor the performance of the Scheme's investments and the funding position of the Scheme, with the assistance of the Investment Adviser and the Scheme Actuary. Whilst the Trustees have no contingency plans in place, they will review the investment strategy in the event that performance is out of line with expectations.

### 04.07 Defined Contribution benefits

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The vast majority of the Scheme's benefits are Defined Benefit ("DB") in nature, The Scheme has a small amount of benefits that are defined contribution ("DC"). The DC benefits exist in three different forms:

- > an underpin to the Scheme's DB benefits
- > DC protected rights funds
- > Additional Voluntary Contribution ("AVC") funds

More details of the DC benefits can be found in Appendix C (and AVC funds in 09.05).

# 05 Strategy implementation

The Trustee has decided to invest in a range of actively and passively managed funds (via the platform provider), as considered appropriate for the specific asset class.

Based on the structure set out in the Appendix, the Trustees consider the arrangements with the investment managers to be aligned with the Scheme's overall strategic objectives. Details of each specific mandate are set out in guidelines, agreements and pooled fund documentation with each investment manager.

The amounts allocated to any individual category or security will be influenced by the overall benchmark and objectives, varied through the investment managers' tactical asset allocation preferences at any time, within any scope given to them through any asset allocation parameters or guidelines set by the Trustees or governing the pooled funds in which the Scheme is invested.

The Trustees will ensure that the Scheme's assets are predominantly invested in regulated markets to maximise their security.

Investment managers are incentivised to perform in line with expectations for their specific mandate as their continued involvement as investment managers as part of the Scheme's investment strategy – and hence the fees they receive – are dependent upon them doing so. They are therefore subject to performance monitoring and reviews based on a number of factors linked to the Trustees' expectations, including their selection / deselection criteria.

The Trustees encourage investment managers to make decisions in the long-term interests of the Scheme. The Trustees expect engagement with management of the underlying issuers of debt or equity and the exercising of voting rights in line with the investment mandate guidelines provided.

This expectation is based on the belief that such engagement can be expected to help investment managers to mitigate risk and improve long term returns.

As covered in more detail in this document, the Trustees also require the investment managers to take ESG factors and climate change risks into consideration within their decision-making as the Trustees believe these factors could have a material financial impact in the long-term. The Trustees therefore make decisions about the retention of investment managers, accordingly.

## 05.01 Mandate and performance objectives

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The Trustees have received advice on the appropriateness of each pooled fund that the Scheme is invested in from the Investment Adviser and believe them to be suitable to meet the Scheme's investment objectives. The benchmark and objective for each fund currently held are set out in Appendix B.

## 05.02 Manager selection

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The Trustees do/does not have a formal policy on the appointment of investment managers. In the event that the Trustees consider appointing another manager, they will seek advice from the Investment Adviser as appropriate.



### **05.03 Investment platform**

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The Scheme is invested using an investment platform managed by a third party, Mobius Life Limited. The managers of the pooled funds are appointed by the platform provider. They invest the funds on the Scheme's behalf, in funds held on the platform. This reduces the governance requirements for the Trustees, who do not need to deal directly with their investment managers.

### **05.04 Manager agreements**

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The Scheme is invested in pooled funds and as such there is no formal agreement between the Trustees and an individual fund manager relating to investments in each asset class.

### **05.05 Diversification**

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The Trustees' policy is detailed in section 04.03. The Trustees will monitor the strategy regularly to ensure that they are comfortable with the level of diversification being achieved between the underlying funds.

### **05.06 Custody**

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Custody of the underlying assets is at the discretion of the platform provider; units in the funds are held in book form only. Cash is held securely in separate accounts with approved counterparties.

# 06 Monitoring

## 06.01 Pooled funds

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The Trustees will monitor the performance of the funds against their stated performance objectives.

The Trustees maintain one policy with the platform provider. The platform provider links the value of the policy to specific funds chosen by the Trustees from time to time, following receipt of advice from the Investment Advisers.

Appointments of investment managers are expected to be long-term, but the Trustees will review the appointment of the investment managers in accordance with their responsibilities.

The Trustees, or the Advisers when instructed on behalf of the Trustees, will regularly review the performance of the funds to satisfy themselves that the funds remain suitable.

The Trustees receive regular performance monitoring reports from the Investment Adviser which consider performance over the quarter, one and three year periods. In addition, any significant changes relating to the Trustees' selection and deselection criteria that the Investment Adviser is aware of will be highlighted, which may lead to a change in the Investment Adviser's rating for a particular mandate.

These ratings help to determine an investment manager's ongoing role in implementing the investment strategy. If there are concerns, the Trustees may carry out a more in-depth review of a particular investment manager. Investment managers will also attend Trustees' meetings as requested.

The Investment Adviser has also carried out a review of how well the Trustees' guidelines in relation to ESG factors are incorporated into each investment manager's processes and the Trustees will re-assess progress on ESG issues periodically.

Fund manager remuneration is considered as part of the manager selection process. It is also monitored regularly with the help of the Investment Adviser to ensure it is in line with the Trustees' policies and with fee levels deemed by the Investment Adviser to be appropriate for the particular asset class and fund type.

If the Trustees are not satisfied with the performance of the funds they will ask the manager of those funds what steps they intend to take to rectify the situation. If the funds still do not meet the Trustees' requirements, they will look to purchase other funds - potentially with a different manager - after consultation with the Advisers.

## 06.02 Adviser

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The Trustees will monitor the advice given by the Investment Adviser on a regular basis.

## 06.03 Other

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The Trustees are required to review this SIP on a triennial basis, or, without undue delay, following any changes to the investment strategy.

# 07 Fees

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## 07.01 Funds

The Trustees will regularly review the fees charged by the platform provider and the current expense ratios of the funds to ensure that they are consistent with levels typically available in the industry for equivalent funds. The current fee basis is set out in Appendix B.

The fees charged by the platform provider comprise a fee for the policy and related services together with a fee that the platform provider has negotiated with the managers of the funds.

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## 07.02 Portfolio turnover costs

The Trustees require the investment managers to report on actual portfolio turnover at least annually, including details of the costs associated with turnover, how turnover compares with the range that the investment manager expects and the reasons for any divergence.

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## 07.03 Adviser

Fees paid to the Investment Adviser are based either on actual time spent and hourly rates for relevant individuals, or on fixed fees agreed in advance for specifically defined projects.

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## 07.04 Custodian

There is no custodian appointed directly by the Trustees and the costs of the platform provider's custodians are monitored as part of the total expense ratio.

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## 07.05 Trustees

Trustees may be paid directly for their duties. Their expenses are met and, if applicable, they are given time off from their other employment duties to attend the periodic Trustees' meetings.

# 08 Risks

The Trustees recognise a number of risks involved in the investment of assets of the Scheme:

**Sponsor risk:**

- > Will be measured by the level of ability and willingness of the Employer to support the continuation of the Scheme and to make good any current or future deficit.
- > Will be managed by assessing the interaction between the Scheme and the Employer's business, as measured by a number of factors, including the creditworthiness of the Employer and the size of the pension liability relative to a number of metrics reflecting the financial strength of the Employer.

**Solvency risk and mismatching risk:**

- > Will be measured through asset liability modelling, as necessary, and ongoing actuarial valuations to assess the expected development of the liabilities relative to the current and alternative investment policies.
- > Will be managed through the strategic asset allocation strategy.

**Manager risk:**

- > Will be measured by the expected deviation of the prospective return, as set out in the investment managers' objectives, relative to the investment policy.
- > Will be managed through the Trustees monitoring the investment managers' actual deviation of returns relative to the objectives, changes of personnel within the organisation, alterations to investment processes and other factors (such as financial strength) supporting the investment managers' ongoing appointments.

**Liquidity risk:**

- > Will be measured by the level of cash-flow required by the Scheme over a specified period.
- > Together with the Scheme's administrators, the Trustees will ensure that sufficient cash is held to meet anticipated benefit payments and expenses from time to time. The Trustees will ensure that there should be sufficient investments in liquid or readily realisable assets to meet unexpected cash-flow requirements in the majority of foreseeable circumstances so that the realisation of assets will not disrupt the Scheme's overall investment policy where possible.
- > The Trustees have an investment strategy consisting of pooled investment vehicles managed by a large and experienced investment management house. The Trustees believe that the Scheme holds sufficient assets with a good degree of liquidity so that any disinvestment could be achieved quickly and cost effectively should any short term cash-flow requirements arise.

**Platform provider Insolvency Risk**

- > The Trustees maintain one policy with the Platform provider instead of holding shares or units in pooled funds and therefore the Plan is subject to the risk of insolvency of the Platform provider.

## Risks continued

> Whilst the Trustee has not diversified against this risk, the likelihood of the Platform provider becoming insolvent has been minimised as far as practical. For example, the Platform provider is a regulated Life Insurance Company governed by UK Law and is therefore subject to regular scrutiny by the Financial Services Regulators (PRA/FCA) and is not exposed to any general insurance claims risk. Furthermore, the Platform provider holds Professional Indemnity Insurance to cover the risk of operational risks and fraud.

### **Concentration risk:**

- > Will be measured by the level of concentration in any one market leading to the risk of an adverse influence on investment values arising from for example political intervention.
- > The risks associated with any potential overdependence due to utilising only a very limited number of managers will be regularly reviewed by the Trustees.
- > Will be managed by regular reviews of the actual investments relative to the policy and through regular assessments of the levels of diversification within the existing policy.
- > The Benchmark Asset Allocation (and the existing asset allocation), and the guidelines given to the investment managers, are designed to ensure that the Scheme's investments are adequately diversified.

### **Counterparty risk:**

- > The Trustees recognise that the Scheme may be exposed to counterparty risk and has reviewed and accepted the policies implemented by the investment managers.

### **Currency risk:**

- > The Trustees recognise that the Scheme will be exposed to currency risk via the Scheme's investments in overseas equities.
- > This has been managed by investing a proportion of the Scheme's assets in currency hedged overseas equities.

The Trustees will keep these risks under regular review.

# 09 Other issues

## 09.01 Statutory Funding Requirement

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The Trustees will obtain and consider proper advice on the question of whether the investments are satisfactory having regard to both the investment objectives and the requirement to meet statutory funding requirements. The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation every three years.

The Trustees will consider with the Advisers whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the statutory funding requirement.

## 09.02 Environmental, Social and Governance

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The Trustees have considered their approach to environmental, social and corporate governance (“ESG”) risks and they believe there can be financially material risks relating to ESG. The Trustees have delegated the ongoing monitoring and management of ESG risks to the Scheme’s investment managers. The Trustees expect the Scheme’s investment managers to take into consideration ESG risks, as with other material factors, within their decision-making, recognising that how they do this will be dependent on the characteristics of the asset classes in which they invest.

The Investment Adviser will assist the Trustees with monitoring the processes and operational behaviour of the investment managers to ensure they remain appropriate and in line with the Trustees’ requirements. The Trustees have delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme’s investments to the investment managers and encourages them to vote whenever it is practical to do so.

Whilst the Trustees acknowledge it is their fiduciary duty to act in the best interests of the members, given the practical issues of seeking a wide number of member views and then reaching a consensus they do not take into account the views of specific individuals in the selection and retention of investments. As a result the Trustees’ policy is that “non-financial matters” should not be taken into account in the selection, retention and realisation of investments. Where non-financial matters means the views of the members and beneficiaries including their ethical views; their views in relation to social and environmental impact; and their views on present and future quality of life of the members and beneficiaries of the Scheme.

As part of regular reviews of the policy, the Trustees will liaise with the Employer regarding their approach to ESG and check for any potential for similar positioning of approaches.

As the Scheme invests in pooled funds, the Trustees acknowledge that they cannot directly influence the policies and practices of the companies in which the pooled funds invest. They have therefore delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme’s investments to the investment managers.

The Trustees encourage them to engage with investee companies and vote whenever it is practical to do so on financially material matters such as strategy, capital structure, conflicts of interest policies, risks, social and environmental impact and corporate governance as part of their decision-making processes. The Trustees require the investment managers to report on significant votes made on behalf of the Trustees.

If the Trustees become aware of an investment manager engaging with the underlying issuers of debt or equity in ways that they deem inappropriate or that the results of such engagement are mis-aligned with the Trustees' expectation and the investment mandate guidelines provided, then the Trustees may consider terminating the relationship with that investment manager.

### **09.03 Myners Principles**

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The Trustees believe that they comply with the spirit of the Myners Principles. There may be some instances of deviation from the published 'Best Practice Guidance' on the Principles where the Trustees believe this to be justified. Details of the Myners Principles can be found at this link: [https://webarchive.nationalarchives.gov.uk/+/http://www.hm-treasury.gov.uk/d/consult\\_myners\\_response\\_pu632.pdf](https://webarchive.nationalarchives.gov.uk/+/http://www.hm-treasury.gov.uk/d/consult_myners_response_pu632.pdf)

## Other issues continued

### 09.04 Employer related investments

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

### 09.05 Additional Voluntary Contributions

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The Scheme has a number of historic AVCs held in policies of insurance with Equitable Life and Clerical Medical, in order to enhance members' benefits at retirement.

There is no default option for member's AVC funds, which are held separately from the Scheme's DB assets. As a result members are required to choose their AVC funds .

The Scheme's arrangements will be reviewed from time to time to ensure that the investment performance achieved is acceptable and that the investment profile of the funds remains consistent with the objectives of the Trustees and needs of the members.



# Appendix A

## Responsibilities

### Trustees

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The Trustees of the Scheme are responsible for, amongst other things:

- i) Determining the investment objectives of the Scheme and reviewing these from time to time.
- ii) Agreeing an investment strategy designed to meet the investment objectives of the Scheme.
- iii) Reviewing triennially the content of this SIP and modifying it if deemed appropriate, in consultation with the Investment Adviser.
- iv) Reviewing the suitability of the investment policy alongside each actuarial or investment review, in consultation with the Investment Adviser.
- v) Assessing the performance of the pooled funds and the processes they use by means of regular reviews of the investment results and other information, by way of meetings and written reports, in consultation with the Investment Adviser.
- vi) Selecting pooled funds which are consistent with the investment strategy after consultation with the Investment Adviser.
- vii) Assessing the ongoing effectiveness of the Investment Adviser.
- viii) Consulting with the Employer when reviewing investment policy issues.
- ix) Monitoring compliance of the investment arrangements with this SIP on an ongoing basis.
- x) Informing the Investment Adviser of any changes to Scheme benefits or significant changes in membership.
- xi) Assessing the extent to which the investment managers take into account ESG factors where relevant.

### Investment Adviser

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The Investment Adviser will be responsible for, amongst other things:

- i) Participating with the Trustees in reviews of this SIP.
- ii) Advising the Trustees how any changes within the Scheme's benefits, membership, strength of employer covenant and funding position may affect the manner in which the assets should be invested.
- iii) Advising the Trustees of any changes in the funds held that could affect the interests of the Scheme.
- iv) Undertaking reviews of the Scheme's investment arrangements including reviews of the asset allocation policy and current pooled funds and advising on the selection of new funds where appropriate.
- v) Informing the Trustees of any concerns they may have in respect of the treatment of ESG risks by the investment manager.
- vi) Will help the Trustees understand their obligations in relation to the legislative and regulatory environment.

# Appendix A - responsibilities

## Scheme Actuary

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The Scheme Actuary will be responsible for, amongst other things:

- i) Performing the triennial (or more frequently as required) valuations and advising on the appropriate contribution levels.
- ii) Commenting on the appropriateness of the investment strategy relative to the liabilities of the Scheme at the triennial valuations.
- iii) Advising the Trustees of any changes to contribution levels and funding level.
- iv) Will help the Trustees understand their obligations in relation to the legislative and regulatory environment.

## Platform Provider

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The Platform Provider will be responsible for, amongst other things:

- i) Performing due diligence on the funds such that they do not create undue risks to the solvency of the insurer or the integrity of the Platform Provider.
- ii) Maintaining adequate solvency ratios so as to minimise the risk of insolvency.
- iii) Ensuring funds are managed in line with the mandate and investment restrictions are adhered to.

## Legal Adviser

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The Legal Adviser will be responsible for, amongst other things:

- i) Liaising with the Trustees to ensure legal compliance including those in respect of investment matters.

# Appendix B

## Current asset strategy

### High-level asset allocation

The Trustees have purchased a life policy from the platform provider. The platform provider creates pools of assets with the life policy which are managed by the managers set out below.

Having considered advice from the Advisers, and also having due regard for the objectives, the current liabilities of the Scheme together with their expected timing, the risks of and to the Scheme, and the covenant of the Employer, the Trustees have decided upon the following benchmark allocation as being the basis for measuring investment performance.

| Asset Class                  | Investment style | Fund name  | Benchmark allocation (%) | Target investment return <sup>1</sup> |
|------------------------------|------------------|--|--------------------------|---------------------------------------|
| <b>Return-seeking assets</b> |                  |  |                          |                                       |
| Global Equity                | Passive          | <i>LGIM Global Equity Fixed Weights (50:50) Index Fund</i> | 45.00                    | 5.75% p.a.                            |
| Emerging Market Equity       | Passive          | <i>LGIM HN World Emerging Markets Equity Index Fund</i>    | 5.00                     |                                       |
| Diversified Growth Fund      | Active           | <i>LGIM Dynamic Diversified Fund</i>                       | 25.00                    |                                       |
|                              | Active           | <i>Newton Real Return Fund</i>                             |                          |                                       |
| <b>Subtotal</b>              |                  |  | <b>75.00</b>             |                                       |
| <b>Matching assets</b>       |                  |  |                          |                                       |
| Government Bonds             | Passive          | <i>LGIM Under 15 yrs Index-linked Gilts Index Fund</i>     | 9.25                     | 1.35% p.a.                            |
|                              |                  | <i>LGIM All Stocks Index-linked Gilts Index Fund</i>       | 13.25                    |                                       |
|                              |                  | <i>LGIM All Stocks Gilts Index Fund</i>                    | 1.00                     |                                       |
|                              |                  | <i>LGIM Over 15 Year Gilts Index Fund</i>                  | 1.50                     |                                       |
| <b>Subtotal</b>              |                  |  | <b>25.00</b>             |                                       |

1. The expected returns are the best estimate assumptions proposed for the actuarial valuation as at 31 March 2019. The assumption for the return-seeking assets has been determined using an asset model and with particular reference to the dividend yield.

Recognising that non-sterling investments carry an element of currency risk the Trustees have a policy of holding the majority of the assets in sterling-denominated investments, to match the Scheme's liabilities.

## Fund performance targets

The Trustees have agreed the following performance targets with the investment manager:

| Fund   | Benchmark  | Objective   |
|--|--|---|
| <i>LGIM Global Equity Fixed Weights (50:50) Index Fund</i> | Composite of 50:50 distribution between UK and overseas  | To provide diversified exposure to UK and overseas equity markets                             |
| <i>LGIM World Emerging Markets Equity Index Fund</i>       | FTSE AW – All Emerging Markets Index                     | To track the performance of the benchmark to within +/- 1.5% p.a. for two years out of three  |
| <i>LGIM Dynamic Diversified Growth Fund</i>                | BOE Base Rate + 4.5% p.a. over a market cycle            | Outperform the Bank of England Base Rate by 4.5% p.a. over a full market cycle before fees    |
| <i>Newton Real Return Fund</i>                             | 1 Month LIBOR +4%  | Outperform cash (1 month GBP LIBOR) by 4% p.a. five years before fees                         |
| <i>LGIM Under 15 Year Index-Linked Gilts Index</i>         | FTSE A Index Linked (Under 15 Year) Index                | To track the performance of the benchmark to within +/- 0.25% p.a. for two years out of three |
| <i>LGIM All Stocks Index-Linked Gilts Index</i>            | FTSE A Index Linked (All Stocks) Index                   | To track the performance of the benchmark to within +/- 0.25% p.a. for two years out of three |
| <i>LGIM All Stocks Gilts Index Fund</i>                    | FTSE Actuaries UK Conventional Gilts All Stocks Index    | To track the performance of the benchmark to within +/- 0.25% p.a. for two years out of three |
| <i>LGIM Over 15 Year Gilts Index Fund</i>                  | FTSE Actuaries UK Conventional Gilts Over 15 Years Index | To track the performance of the benchmark to within +/- 0.25% p.a. for two years out of three |

# Appendix C

## DC benefits

The Scheme has a small number of benefits which are DC in nature. The benefits exist in the form of either an underpin to the Scheme's DB benefits, protected rights only funds and AVC funds. (AVC funds are covered in section 09.05).

### Investment objectives

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The Trustees' primary investment objective is to ensure that they hold suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with contributions from members and the Employer, the cost of current and future obligations to the beneficiaries both in the short and long term.

The Trustees take the nature of the Scheme's liabilities into account when making decisions about the Scheme's investments.

With that in mind, the Trustees have set the following specific objectives:

- > *To ensure the obligations to the beneficiaries of the Scheme are met.*
- > *To earn an investment return which, in combination with the funding strategy, is sufficient to achieve over an acceptable period of time a funding level of at least 100% against the technical provisions, and to maintain the funding at this level.*
- > *To pay due regard to the Employer's requirements with regards to the size and incidence of its contribution payments.*

*The Trustees' policy is to seek to achieve the objectives through investing in a diversified portfolio of assets.*

### Investment strategy and default fund

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Given the nature of the Scheme's DC protected rights, there are no separate assets held in respect of them. The funds are instead notionally invested alongside the Scheme's DB assets and details of this are set out in Appendix B. This in effect, therefore, constitutes the "default" fund for the DC protected rights assets. There is no life-styling strategy in place.

### Fund charges

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The individual fund charges are set out in Appendix B. The Ongoing Charges Figure is approximately 0.23% p.a. under the 0.75% p.a. charge cap.

### Expected returns

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The expected return on the individual funds is set out in Appendix B. As at 30 June 2019 the expected return on assets was approximately 2.85% p.a. above the yield on 10 year government bonds. This is equivalent to an absolute expected return of 3.75% p.a.

### Life-styling

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Given the nature of the DC benefits and the underlying assets there is therefore no life-styling in place.



**Contact us**  
**xpsgroup.com**

**Registration**

XPS Pensions Consulting Limited, Registered No. 2459442. XPS Investment Limited, Registered No. 6242672. XPS Pensions Limited, Registered No. 3842603. XPS Administration Limited, Registered No. 9428346. XPS Pensions (RL) Limited, Registered No. 5817049, Trigon Professional Services Limited, Registered No. 12085392.

All registered at: Phoenix House, 1 Station Hill, Reading, RG1 1NB.

**Authorisation**

XPS Investment Limited is authorised and regulated by the Financial Conduct Authority for investment and general insurance business (FCA Register No. 528774).