# *Statement of Investment Principles for the Harwich Haven Authority Pension Fund*

**4 May 2021**

## 1. Introduction

This Statement of Investment Principles ("SIP") sets out the policy of the Trustees of the Harwich Haven Pension Authority Fund ("the Trustees") on various matters governing decisions about the investments of the Harwich Haven Pension Authority Fund ("the Fund"), a Defined Benefit ("DB") Scheme. This SIP replaces the previous SIP dated September 2019.

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 (as amended) and the Pension Regulator's guidance for defined benefit pension schemes (March 2017). The SIP also reflects the Trustees' response to the Myners voluntary code of investment principles.

This SIP has been prepared after obtaining and considering written professional advice from LCP, the Fund's investment adviser, whom the Trustees believe to be suitably qualified and experienced to provide such advice. The advice considers the suitability of investments including the need for diversification given the circumstances of the Fund and the principles contained in this SIP. The Trustees have consulted with the relevant employer in producing this SIP.

The Trustees will review this SIP from time to time and, with the help of their advisers, will amend it 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.

- **Appendix 1** sets out details of the Fund's investment governance structure, including the key responsibilities of the Trustees, investment advisers and investment managers. It also contains a description of the basis of remuneration of the investment adviser and the investment managers.
- **Appendix 2** sets out the Trustees' policy towards risk appetite, capacity, measurement and management.
- **Appendix 3** sets out the Fund's investment manager arrangements.

## 2. Investment objectives

The primary objective is to ensure that the Fund should be able to meet benefit payments as they fall due. In addition to this primary objective, the Trustees have additional objectives. These are as follows:

- that the expected return on the Fund's assets is maximised whilst managing and maintaining investment risk at an appropriate level. What the Trustees determine to be an appropriate level of risk is set out in Appendix 2.
- that the Fund should be fully funded (ie the asset value should be at least that of its liabilities). The Trustees are aware that there are various measures of funding and have given due weight to those considered most relevant to the Fund.

## 3. Investment strategy

The last investment strategy review took place in September 2019. As a result of this review an allocation to a new fund, the L&G Diversified Growth Fund, was introduced and it was agreed that the level of interest rate and inflation hedging should be increased to around 65% of Technical Provisions.

The broad investment strategy is based on a split between growth assets and matching assets as per the allocations set out the following table:

| Asset type | Strategic allocation |
|---|---|
| Growth assets | 70% |
| Matching assets | 30% |

The Trustees have decided to allocate the Fund's growth assets to three diversified growth funds. The Trustees have made this allocation as they expect the diversified growth funds to deliver a long-term return similar to that of equities, but with considerably less volatility. They also believe that the diversified growth funds should hold up better than equities when investment markets are performing poorly. The Trustees are using three funds for this allocation to diversify investment manager risk.

The Fund's allocation to matching assets has a target allocation of a third to corporate bonds and two thirds to a leveraged gilts portfolio (including cash collateral). The Trustees' intention is that the matching assets protect against (hedge) around 65% of the risk associated with changes in interest rates (gilt yields) and inflation expectations on the Technical Provisions funding position.

In addition to the strategic allocation above, the Trustees have agreed to implement a de-risking trigger framework based on the required returns to reach full funding on a gilts + 0.5% pa basis by 2030. The objective of this framework is to lock in gains following better than expected investment experience, by disinvesting from the Fund's growth assets and investing the proceeds in the Fund's matching assets. If a trigger is hit, the Trustees, after receiving suitable advice from LCP, will decide whether to proceed with the pre-agreed strategy changes, after considering current market conditions and expected returns on assets. The following table shows the de-risking framework:

| | Current strategy | Trigger 1 | Trigger 2 | Trigger 3 |
|---|---|---|---|---|
| **Growth assets** (Diversified growth) | **70%** | **50%** | **35%** | **25%** |
| **Matching assets** | **30%** | **50%** | **65%** | **75%** |
| Corporate bonds | 10% | 17% | 25% | 25% |
| Leveraged gilts, gilts and cash | 20% | 33% | 40% | 50% |
| **Total** | **100%** | **100%** | **100%** | **100%** |
| **Return required (% pa above gilts)**[1] | **-** | **1.2%** | **0.8%** | **0.5%** |
| **Strategy expected return above gilts** | **2.2%** | **1.7%** | **1.3%** | **1.0%** |
| **Target liability hedge ratio**[2] | **65%** | **80%** | **90%** | **100%** |

[1] Required return is to reach full funding on a gilts + 0.5% pa basis by 1 January 2030.

[2] On a Technical Provisions basis.

The Trustees will use net cash flow as necessary to move the Fund's allocation toward the strategic allocation. The Trustees regularly monitor the asset allocation against the strategic allocation and will consider rebalancing if the deviation from the strategic allocation becomes material. There is no automatic rebalancing between growth assets and matching assets or between the investment managers.

Whilst the main Fund assets are invested in line with the above Additional Voluntary Contributions ("AVCs") are currently invested with Legal & General.

## 4. Considerations in setting the investment arrangements

When deciding how to invest the Fund's assets, the Trustees consider several risks, including, but not limited to, those set out in Appendix 2. Some of these risks are more quantifiable than others, but the Trustees have tried to allow for the relative importance and magnitude of each risk.

The Trustees considered a wide range of asset classes for investment, taking account of the expected returns and key individual risks associated with those asset classes as well as how these risks can be mitigated where appropriate. In undertaking reviews of the investment arrangements, the Trustees rely on the asset class assumptions of their investment advisor. The long-term expected return for gilts was 0.9% pa as at the time of the strategy review in September 2019. The other long-term expected return assumptions above gilts were as follows:

- average long-term return above gilts on corporate bonds 0.9%
- average long-term return above gilts on diversified growth 3.0%

For leveraged gilts, the long-term expected return and volatility is broadly similar to that of conventional gilts but about three times the magnitude, reflecting the leverage employed.

In setting the strategy the Trustees considered:

- the Fund's investment objectives, including the target return required to meet the Trustees' investment objectives;
- the Fund's cash flow requirements in order to meet benefit payments in the near to medium term;
- the best interests of all members and beneficiaries;
- the circumstances of the Fund, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the strength of the employer covenant;
- 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 Fund's overall level of investment risk and the balance of individual asset risks are appropriate;
- the views of the Employer;
- any other considerations which the Trustees consider financially material over the time horizon that the Trustees consider is needed for the funding of future benefits by the investments of the Fund; and
- the Trustees' investment beliefs about how investment markets work, and which factors are most likely to impact investment outcomes.

The Trustees' key investment beliefs, which influenced the setting of the investment arrangements, are as follows:

- asset allocation is the primary driver of long-term returns;
- risk-taking is necessary to achieve return, but not all risks are rewarded;
- equity, credit and illiquidity are the primary rewarded risks;
- risks that do not have an expected reward 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;
- environmental, social and governance (ESG) 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;
- investment managers who can consistently spot and profitably exploit market opportunities are difficult to find and therefore passive management, where available, is usually better value;
- long-term environmental, social and economic sustainability is one factor that the Trustees should consider when making investment decisions; and
- costs have a significant impact on long-term performance and therefore obtaining value for money from the investments is important.

## 5. Implementation of the investment arrangements

Before investing in any manner, the Trustees obtain and consider proper written advice from their investment adviser on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

Details of the investment managers are set out in Appendix 3.

The Trustees have signed agreements with the investment managers setting out in detail the terms on which the portfolios are to be managed.  The investment managers' primary role is the day-to-day investment management of the Fund's investments.

The Trustees and investment managers to whom discretion has been delegated exercise their powers to giving effect to the principles in this Statement of Investment Principles, so far as is reasonably practicable.

The Trustees have limited influence over managers' investment practices because all the Fund's assets are held in pooled funds, but they encourage their managers to improve their practices where appropriate.

The Trustees' 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 Trustees' responsibility to ensure that the managers' investment approaches are consistent with their 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 Trustees expect 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. The Trustees assess this when selecting and monitoring managers.

The Trustees evaluate investment manager performance by considering performance over both shorter and longer-term periods as available. Generally, the Trustees would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustees' policy is to evaluate each of their investment managers by reference to the manager's individual performance as well the role it plays in helping the Fund 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 Trustees recognise that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustees expect their investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Fund's investment mandates.

## 6. Realisation of investments

The investment managers have discretion over the timing of realisation of investments of the Fund within the portfolios that they manage, and in considerations relating to the liquidity of investments.

When appropriate, the Trustees, on the administrators' recommendation, decide on the amount of cash required for benefit payments and other outgoings and inform the investment managers of any liquidity requirements. The Trustees' preference is for investments that are readily realisable but recognise that achieving a well-diversified portfolio may mean holding some investments that are less liquid.

Overall, the Trustees believe that the Fund's assets are sufficiently liquid to meet the cashflow needs of the Fund. In general, the Trustees' policy is to use cash flows to rebalance the Fund's assets towards the strategic asset allocation.

## 7. Financially material considerations and non-financial matters

The Trustees have 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 Fund and its members.

All the Fund's assets are invested in pooled funds. The Trustees cannot usually influence investment managers' policies directly on ESG and ethical factors where assets are held in pooled funds; this is due to the nature of these investments.

The Trustees consider that it is necessary in all circumstances to act in the best financial interests of the Fund's members, and they expect their investment managers to take account of financially material considerations (including climate change and other ESG considerations) to the appropriate extent. However, from time to time the Trustees review how their managers are taking account of these issues in practice (for example as part of manager presentations at Trustees' meetings). The Trustees encourage their managers to improve their practices where appropriate.

The Trustees seek to appoint managers that have appropriate skills and processes to manage ESG risks appropriately. As part of any decision as to whether to invest with a manager, the Trustees will consider how ESG factors are addressed by the manager and ensure they are comfortable with this before investing.

The Trustees do not take into account any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

## 8. Voting and engagement

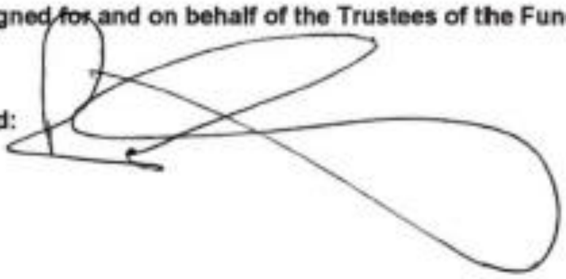
The Trustees recognise their responsibilities as owners of capital, and believe that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments. The Trustees have delegated to their investment managers the exercise of rights attaching to investments, including voting rights, and engagement with relevant persons such as issuers of debt and equity, stakeholders and other investors about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations.

The Trustees do not monitor or engage directly with issuers or other holders of debt or equity they do engage with current and prospective investment managers, including on ESG and stewardship matters. They expect the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustees from time to time, considering the long-term financial interests of the beneficiaries.

The Trustees seek 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 Trustees review how these are implemented in practice

**SIP signed for and on behalf of the Trustees of the Fund:**

**Signed:**



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# *Investment governance, responsibilities, decision-making and fees*

The Trustees have decided on the following division of responsibilities and decision-making for the Fund. This division is based upon the Trustees' understanding of the various legal requirements placed upon them, and their view that the division of responsibility allows for efficient operation and governance of the Fund overall. The Trustees' investment powers are set out within the Fund's governing documentation.

## 1. Trustees

In broad terms, the Trustees are responsible in respect of investment matters for:

- developing a mutual understanding of investment and risk issues with the employer;
- setting the investment strategy, in consultation with the employer;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- formulating a policy on taking account of non-financial matters in the selection, retention and realisation of investments;
- setting the policy for rebalancing between asset classes;
- setting a policy on the exercise of rights (including voting rights) and undertaking engagement activities in respect of the investments;
- putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- appointing, monitoring, reviewing and dismissing investment managers, investment advisers, actuary and other service providers;
- monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Act;
- communicating with members as appropriate on investment matters, such as the Trustees' assessment of its effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged;
- reviewing the investment policy as part of any review of the investment strategy;
- 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.

## 2. Investment managers

In broad terms, the investment managers will be responsible for:

- managing the portfolios of assets according to their stated objectives, and within the guidelines and restrictions set out in their respective investment manager agreements and/or other relevant governing documentation;

- 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) attaching to investments and undertaking engagement activities in respect of investments;
- providing the Trustees with regular information concerning the management and performance of their respective portfolios; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The custodians of the portfolios (whether there is a direct relationship between the custodian and the Trustees or not) are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

## 3. Investment adviser

In broad terms, the investment adviser will be responsible, in respect of investment matters, as requested by the Trustees, for:

- advising on how material changes within the Fund'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, incorporating its assessment of the nature and effectiveness of the managers' approaches to financially material considerations (including climate change and other ESG considerations); and
- participating with the Trustees in reviews of this SIP.

## 4. Fee structures

The Trustees recognise that the provision of investment management and advisory services to the Fund results in a range of charges to be met, directly or indirectly, by deduction from the Fund's assets.

The Trustees have agreed Terms of Business with the Fund's actuarial and investment advisers, under which work undertaken is charged for by an agreed fixed fee or on a "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 managers' general terms for institutional clients and are considered by the Trustees to be reasonable when compared with those of other similar providers. See also Section 5 of the SIP.

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

## 5. Performance assessment

The Trustees are satisfied, considering the external expertise available, that there are sufficient resources to support their investment responsibilities. The Trustees believe that they have sufficient expertise and appropriate training to carry out their role effectively.

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

## 6. Working with the Fund's employer

When reviewing matters regarding the Fund's investment arrangements the Trustees seek to give due consideration to the employer's perspective. While the requirement to consult does not mean that the Trustees need to reach agreement with the employer, the Trustees believe that better outcomes will generally be achieved if the Trustees and employer work together collaboratively.

# Policy towards risk



## 1. Risk appetite and risk capacity

Risk appetite is a measure of how much risk the Trustees are willing to bear within the Fund in order to meet their investment objectives. Taking more risk is expected to 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 Trustees can tolerate deviation from their long-term objectives before attainment of those objectives is seriously impaired. The Trustees' aim is to strike the right balance between risk appetite and risk capacity.

When assessing the risk appetite and risk capacity, the Trustees 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 agreed journey plan and employer contributions;
- the Fund's long-term and shorter-term funding targets;
- the Fund's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged;
- the Fund's cash flow and target return requirements; and
- the level of expected return and expected level of risk (as measured by "Value at Risk"), now and as the strategy evolves.

As at 30 September 2019 the Fund's 3-year 95% Value at Risk is around £11m. This means that there is estimated to be a 1 in 20 (5%) chance that the Fund's funding position will worsen by £11m or more, compared to the expected position, over a three-year period. When deciding on the current investment strategy, the Trustees believed this level of risk to be appropriate given the Trustees' and employer's risk appetite and capacity, given the Fund's objectives.

## 2. Approach to managing and monitoring investment risks

The Trustees consider that there are several different types of investment risk that are important to manage and monitor. These include, but are not limited to:

### 2.1. Risk of inadequate returns

A key objective of the Trustees is that, over the long-term, the Fund should generate its target return so that it has adequate assets to meet its liabilities as they fall due. The Trustees therefore invest the assets of the Fund to produce a sufficient long-term return in excess of the liabilities. There is also a risk that the performance of the Fund's assets and liabilities diverges in certain financial and economic conditions in the short term. This risk has been considered in setting the investment strategy and is monitored by the Trustees on a regular basis.

### 2.2. Risk from lack of diversification

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 Fund's assets. The Trustees believe that the Fund's assets are adequately diversified between different asset classes and within each asset class. This was a key consideration when determining the Fund's investment arrangements and is monitored by the Trustees on a regular basis.

### 2.3. Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, the Trustees receive written advice from a suitably qualified individual and will typically undertake an investment manager selection exercise. The Trustees monitor the investment managers on a regular basis to ensure they remain appropriate for their selected mandates.

### 2.4. Illiquidity / marketability risk

This is the risk that the Fund is unable to realise assets to meet benefit cash flows as they fall due, or that the Fund will become a forced seller of assets in order to meet benefit payments. The Trustees are aware of the Fund's cash flow requirements and believe that this risk is managed by maintaining an appropriate degree of liquidity across the Fund's investments.

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

ESG factors are sources of risk to the Fund's investments 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 Trustees seek to appoint investment managers who will manage these risks appropriately on their behalf and from time to time review how these risks are being managed in practice.

### 2.6. Collateral adequacy risk

The Fund is invested in leveraged gilts funds to provide protection ("hedging") against adverse changes in interest rates and inflation expectations (by broadly matching the impact of these factors on the assets with the impact on the liabilities).

The manager may from time to time call for additional cash to be paid to the leveraged gilts portfolio in order to support a given level of leverage. Collateral adequacy risk is the risk that the Trustees when requested to do so will not be able to post additional cash to the leveraged gilts portfolio within the required timeframe. A potential consequence of this risk is that the Fund's interest rate and inflation hedging could be reduced and that the Fund's funding level could suffer subsequently as a result. In order to manage this risk, the Trustees ensure that the Fund has a sufficient allocation to highly liquid assets which can be readily realised, so that cash can be posted to the manager at short notice.

## 2.7. Equity risk

Equity represents (part) ownership of a company.  Equity risk is the risk that the value of this holding falls in value.

The Trustees believe that equity risk is a rewarded investment risk, over the long term.

The Trustees consider exposure to equity risk in the context of the Fund's overall investment strategy and believe that the level of exposure to this risk is appropriate.

## 2.8. Counterparty risk

This is the risk that one party to a contract (such as a derivative instrument) causes a financial loss to the other party by failing to discharge a contractual obligation.  This risk applies in particular for those contracts that are traded directly between parties, rather than traded on a central exchange.

In particular, L&G makes use of derivative and gilt repos contracts within its leveraged gilt funds and this fund is used by the Trustees to match efficiently a portion of the Fund's liabilities.  Counterparty risk is managed within the fund through careful initial selection and ongoing monitoring of trading counterparties, counterparty diversification and a robust process of daily collateralisation of each contract, to ensure that counterparty risk is limited, as far as possible, to one day's market movements

## 2.9. Credit risk

This is the risk that a borrower will cause a financial loss for the other party by failing to meet required payments for a contractual obligation.

The Fund is subject to credit risk because it invests in bonds and derivatives via pooled funds.  The Trustees manage its exposure to credit risk by only investing in pooled funds that have a diversified exposure to different credit issuers and primarily invest in bonds that are classified as "investment grade".

Within the leveraged gilt portfolio, there is exposure to credit risk as the manager uses derivative instruments to match the reference gilt on a leveraged basis.  The terms under which the underlying funds of the portfolio are managed include provisions to manage the exposure to credit risk, such as limits on the exposure to any single counterparty and minimum credit ratings that all counterparties must meet.

## 2.10. Currency risk

Whilst the majority of the currency exposure of the Fund's assets is to Sterling, the Fund is subject to currency risk because some of the Fund's investments are held in overseas markets within the diversified growth funds.

The Trustees consider the overseas currency exposure in the context of the overall investment strategy and believe that the currency exposure that exists diversifies the strategy and is appropriate. Furthermore, the diversified growth funds' investment managers manage the amount of currency risk by implementing separate currency hedging arrangements depending on their view of currency markets.

### 2.11. Interest rate and inflation risk

The Fund's assets are subject to interest rate and inflation risk because some of the Fund's assets are held in corporate bonds and leveraged gilts. However, the interest rate and inflation exposure of the Fund's assets hedges part of the corresponding risks associated with the Fund's liabilities.

The Trustees consider interest rate and inflation risks to be generally unrewarded investment risks. As such, the Trustees aim to hedge around 65% of the Fund's exposure to interest rate risk and inflation risk, by investing in a mixture of bonds as well as leveraged gilt arrangements. The net effect of the Trustees' approach to interest and inflation risk will be to reduce the volatility of the funding level, and so the Trustees believe that it is appropriate to have exposures to these risks in this manner and review them on a regular basis.

### 2.12. Other non-investment risks

The Trustees recognise that there are other, non-investment, risks faced by the Fund, and takes these into consideration as far as practical in setting the Fund's investment arrangements as part of their assessment of the other aspects of the Fund's Integrated Risk Management framework.

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 sponsoring employer is unable to support the Fund as anticipated).

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Fund's funding position falls below what is considered an appropriate level. The Trustees regularly review progress towards the Fund'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, considering and monitoring the key risks that contribute to funding risk, the Trustees believe that they have appropriately addressed and are positioned to manage this general risk.

# Investment manager arrangements



Details of the investment managers, their objectives and investment guidelines are set out below.

## 1. Growth assets

The Trustees have appointed Pyrford, BlackRock and Legal & General ("L&G") to manage the Fund's growth assets, investing in three diversified growth funds. The Trustees' intention is to rebalance the allocation over time so that the split between all three is broadly equal.

### 1.1. Pyrford

The Fund invests in a diversified growth fund with Pyrford through a pooled fund called the Global Total Return (Sterling) Fund. The objective of Pyrford's fund is to "seek to provide a stable stream of real total returns over the long-term with low absolute volatility and significant downside protection." Pyrford has stated a reasonable long-term performance target for its fund is UK Retail Price Inflation plus 4% pa, after the deduction of fees. The fund is priced daily.

Pyrford is responsible for custody of the assets of its fund. Responsibility is delegated to State Street Ireland. The Trustees do not have a direct relationship with the custodian.

### 1.2. BlackRock

The Fund invests in a diversified growth fund with BlackRock through a pooled fund called the Dynamic Diversified Growth Fund. The objective of BlackRock's fund is to outperform 3-month £ LIBOR by 3% pa after the deduction of fees over rolling three-year periods. The fund is priced daily.

BlackRock is responsible for custody of the assets of its fund. Responsibility is delegated to JP Morgan Chase Bank N.A. Jersey Branch. The Trustees do not have a direct relationship with the custodian.

### 1.3. L&G

The Fund invests in a diversified growth fund with L&G through a pooled fund called the Diversified Fund. The objective of L&G's fund is to deliver returns similar to developed market equities over the long term with around two thirds of the volatility of equities. L&G defines this return objective as to outperform cash by 3.5% - 4.0% pa before fees. The fund is priced weekly.

The Diversified Fund invests in units of other L&G funds in order to create a diversified portfolio of assets across different asset classes and geographical regions. Therefore, it does not have a single direct custodian. In general L&G funds that invest in overseas assets have Citibank, N.A. (London Branch) as the appointed custodian whereas L&G funds that invest in UK assets have HSBC Bank Plc as the appointed custodian. The Trustees do not have a direct relationship with the custodians.



## 2. Matching assets

The Trustees have appointed L&G to manage the Fund's matching assets, by investing in its passively-managed pooled bond funds.

The Trustees have entered into an insurance policy with Legal & General Assurance (Pensions Management) Limited ("LGAPM") which acts as a "wrapper" for the Fund's assets. The insurance policy sets out details of the terms under which the Fund's assets are managed. LGAPM delegates the investment management responsibilities for the Fund's assets to Legal & General Investment Management.

The Trustees have invested the matching assets in order to hedge (match) around 65% of the interest rate and inflation risk associated with the Fund's Technical Provisions. This is achieved via investing in a range of leveraged gilt funds and a corporate bond fund. A cash fund has also been made available to help with the collateral management of the leveraged gilt funds. The corporate bond strategic allocation is set to be one-third of the matching assets allocation (ie 10% of the Fund's overall assets).

The Trustees have chosen the L&G Investment Grade Corporate Bond All Stocks Fund for the corporate bonds allocation. The objective of L&G's fund is to track the performance of its benchmark index (the iBoxx £ Non-Gilts All Stocks Index) to within +/- 0.5% pa for two years out of three. L&G is responsible for custody of the assets of its fund. Responsibility is delegated to HSBC Bank Plc. The Trustees do not have a direct relationship with the custodian.

The Trustees have chosen the L&G Matching Plus Fund range for the leveraged gilts allocation. The objective of L&G's fund range is to provide leveraged exposure to changes in interest rates and inflation expectations at various maturities. L&G is responsible for custody of the assets of these funds. Responsibility is delegated to Northern Trust. The Trustees do not have a direct relationship with the custodian.

The Trustees have chosen the L&G Sterling Liquidity Fund to act as the cash fund to help with managing the collateral for the leveraged gilts funds. The objective of L&G's fund is to provide capital stability and liquidity whilst providing a return through the investment in short-term debt securities. The benchmark of the Fund is 7-day LIBID. L&G is responsible for custody of assets of this Fund. Responsibility is delegated to HSBC Bank plc. The Trustees do not have a direct relationship with the custodian.

L&G's funds are priced weekly and are open-ended and unlisted.

## 3. Additional Voluntary Contributions

The Trustees have selected Legal & General as the Fund's money purchase AVC provider.