Statement of Investment Principles ("SIP") for the Hoare's Bank Pension Scheme (the "Scheme")

1. Introduction

This SIP sets out the policy of Hoare's Bank Pension Trustees Limited ("the Trustee") on various matters governing decisions about the investments of the Scheme, a Defined Benefit ("DB") Scheme. This SIP replaces the previous version dated February 2020.

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.

It has been prepared after obtaining and considering written professional advice from LCP, the Scheme's investment adviser, whom the Trustee believes to be suitably qualified and experienced to provide such advice. The advice takes account of the suitability of investments, including the need for diversification, given the circumstances of the Scheme, and the principles contained in this SIP. The Trustee has consulted with C Hoare & Co (the "employer") in producing this SIP.

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

- **Appendix 1** describes the Scheme's investment governance structure, including the key responsibilities of the Trustee, 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 Trustee's policy towards risk.
- **Appendix 3** lays out the Scheme's investment manager arrangements.

2. Investment objectives

The Trustee's primary objective is to ensure that the Scheme should be able to meet benefit payments as they fall due. The Trustee also has the following additional objectives:

- the expected return on the Scheme's assets is maximised while managing and maintaining investment risk at an appropriate level (as defined in Appendix 2). The Trustee is aware that there are various measures of funding risk, and has given due weight to those considered most relevant;
- the Scheme should be fully funded on a technical provisions basis (ie the value of its assets should be at least the assessed value of its liabilities);
- the Scheme has a medium-term journey plan in place (which has been agreed with the employer), which is designed to help it achieve full funding by 31 March 2030 on the agreed gilts-flat basis. Progress against this is reviewed on a regular basis; and
- in the longer term the Scheme has an objective of being fully funded on a buyout basis.

3. Investment strategy

The Trustee, with the help of its advisers and in consultation with the employer, reviewed the investment strategy in February 2021, taking account of the objectives described in Section 2 above.

The Trustee agreed that the investment strategy of the invested assets, ie excluding the buy-in policy completed in July 2018, should be based on the allocation shown below.

Asset class	Strategic Allocation
LDI / Gilts / Cash	39%
Performance assets	
Global equities	12%
Diversified growth	12%
Property	7%
Short dated credit	30%
Total	**100%**

The invested assets of the Scheme are split between a Liability Driven Investment ("LDI") portfolio (which includes unleveraged gilt funds), performance assets and short dated credit. The LDI allocation aims to hedge the interest rate and inflation risk of the Scheme's uninsured liabilities at a target hedge ratio that is in line with the Scheme's funding level. The Trustee monitors the hedge ratios on a regular basis and considers with its investment advisors whether it is appropriate to rebalance. Rebalancing of the LDI portfolio may also take place during a leveraging exercise, which in all instances will be carried out by the LDI manager.

There is no formal rebalancing policy. Given the likelihood of differing asset class performance, the Scheme's performance asset allocation may in future diverge from the proportions shown above. The Trustee, with the help of its investment consultant, will periodically review the ongoing appropriateness of the asset allocation. The Trustee will consider rebalancing the asset allocation from time to time by (amongst other potential measures) directing any cash flows into or out of the Scheme and between the managers. The property allocation is less likely to be rebalanced given the higher transaction costs.

The Trustee invests / disinvests net cashflows (ie contributions less benefits and expenses) taking into account the allocations as outlined above.

The Trustee has put in place a trigger-based mechanism to de-risk the Scheme's investment strategy following improvements in the required investment return to reach full funding on a gilts-flat basis by 31 March 2030. The de-risking mechanism seeks to protect any better-than-expected investment performance / experience, by reducing investment risk relative to the long-term target. This will primarily take place through the sale of equities and other performance assets in favour of short dated credit, and an increase in the hedging exposure provided by the LDI portfolio.

4. Considerations made in determining the investment arrangements

When deciding how to invest the Scheme's assets, the Trustee considers a number of risks, including, but not limited to, those set out in Appendix 2. Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance of each one.

The Trustee considered a wide range of asset classes for investment, taking account of their expected returns and risks, as well as how these risks can be mitigated where appropriate. The key financial assumption made by the Trustee in determining the investment arrangements is that equity-type investments will, over the long term, outperform gilts by 5.0% pa. The key average long-term financial annualised assumptions underlying the investment consultant's model as at 31 December 2020 were as follows:

- return on global equities: 5.7%
- return on UK property: 4.5%
- return on diversified growth: 3.7%
- return on short dated credit 1.6%
- breakeven RPI inflation: 3.1%
- return on gilts: 0.7%

Thus, the model assumes that there is a 50/50 chance that, over the long term, equity-type investment will outperform gilts by at least 5.0% pa.

In setting the strategy the Trustee also took into account:

- the Scheme's investment objectives, including the target return required to meet the Trustee's investment objectives;
- the Scheme's cash flow requirements to meet benefit payments in the near to medium term;
- the best interests of members and beneficiaries;
- the circumstances of the Scheme, including the profile of the benefit cash flows, 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 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;
- any other considerations which the Trustee considers financially material over the time horizon that the Trustee considered is needed for the funding of future benefits by the investments of the Scheme; and
- the Trustee's investment beliefs about how investment markets work and which factors are most likely to impact investment outcomes.

The Trustee's 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 in some areas, for example in illiquid or niche assets;
- in more efficient markets, such as developed market equities, it is difficult to find investment managers who can consistently exploit market opportunities and therefore passive management, where available, is usually better 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;
- long-term environmental, social and economic sustainability are factors that 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 Trustee obtains and considers proper written advice from its 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, their objectives and investment guidelines are set out in Appendix 3.

The Trustee has signed agreements with the investment managers and a platform provider 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 Scheme's investments.

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

6. Realisation of investments

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

When appropriate, the Trustee, on the administrators' recommendation, decides on the amount of cash required for benefit payments and other outgoings and informs the investment managers of any liquidity requirements. The Trustee's preference is for investments that are readily realisable, but recognises that achieving a well-diversified portfolio may mean holding some investments that are less liquid (eg property). In general, the Trustee's policy is to use cash flows to rebalance the Scheme's assets towards the strategic asset allocation.

7. Consideration of 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 to take account of financially material considerations (including climate change and other ESG considerations). The Trustee seeks to appoint managers that have appropriate skills and processes to do this, and from time to time reviews how its managers are taking account of these issues in practice.

The Trustee has chosen to invest part of its equity allocation in a passively managed fund that tracks a climate-tilted index, which has reduced exposure to climate-related risks and increased exposure to climate-related opportunities.

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

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

8. Voting and engagement

The Trustee recognises its responsibilities as an owner of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protects and enhances 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. It expects its investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, taking into account the long-term financial interests of the beneficiaries. 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. The Trustee has limited influence over managers' stewardship practices where assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

Approved by the Trustee of the Hoare's Bank Pension Scheme on 5 August 2021

Investment governance, responsibilities, decision-making and fees

The Trustee has decided, in broad terms, 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 and its view that this division allows for efficient operation and governance of the Scheme overall, with access to an appropriate level of expert advice and service. The Trustee's investment powers are set out within the Scheme's governing documentation.

1. Trustee

The Trustee is 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;
- reviewing the investment policy as part of any review of the investment strategy;
- 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 these investments;
- putting effective governance arrangements in place, and documenting these arrangements in a suitable form;
- appointing, monitoring (and, when necessary, dismissing) investment managers, custodians, investment advisers, actuary and other advisers;
- 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;
- 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. Platform provider

The investment platform provider will be responsible for:

- providing access to a range of funds managed by various investment managers; and
- providing the Trustee with regular information concerning the management and performance of the assets.

3. Investment managers

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) attached to investments and undertaking engagement activities in respect of investments;
- providing the investment platform provider 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 Trustee or not) are responsible for safekeeping the assets and facilitating all transactions within the portfolios.

4. Investment adviser and actuary

The investment adviser and actuary will be 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, 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 Trustee in reviews of this SIP.

5. Fee structures

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

The Trustee has agreed Terms of Business with the Scheme'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, and platform provider, 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 Trustee 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 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.

6. Performance assessment

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 providers and professional advisers from time-to-time. See Section 5 of the SIP. The Trustee will also periodically assess the effectiveness of its decision-making and investment governance processes and will decide how this may be reported to members.

In 2019 the Trustee agreed objectives with the adviser LCP – in adherence to the order issued by the Competition and Markets Authority (CMA) following its industry review. The Trustee will assess LCP against these objectives in 2020 and annually thereafter.

7. Working with the Scheme's employer

When reviewing matters relating to the Scheme's investment arrangements, such as the SIP, the Trustee seeks to give 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.

Policy towards risk

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 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 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 agreed journey plan and employer contributions;
- the Scheme's long-term and shorter-term funding targets;
- 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 (as measured by Value at Risk ("VaR") now and as the strategy evolves.

Following implementation of the Scheme's current investment strategy, the Scheme's 1 year 90% Value at Risk relative to a gilts-flat basis was estimated to be £3.1m[1] as at 30 April 2021. This means that there is estimated to be a 1-in-10 chance that the Scheme's funding position will worsen by £3.1m or more, compared to the expected position, over a one year period. When deciding on the current investment strategy, the Trustee believed this level of risk to be appropriate given the Trustee's and employer's risk appetite and capacity, given the Scheme's objectives.

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:

2.1. Risk of inadequate returns

A key objective of the Trustee is that, over the long-term, the Scheme should generate its target return so that it has adequate assets to meet its liabilities as they fall due. The Trustee therefore invests the assets of the Scheme to produce a sufficient long-term return in excess of the liabilities. There is also a risk that the performance of the Scheme's assets and liabilities diverges in certain financial and economic conditions in 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.

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[1] More details, including the underlying assumptions, available on request.

2.2. 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 Scheme is subject to credit risk because it invests in bonds via a short dated credit mandate and a pooled diversified growth fund. The Trustee manages its exposure to credit risk by only investing in pooled funds that have a diversified exposure to different credit issuers.

2.3. Equity risk

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

The Trustee believes that equity risk is a rewarded investment risk, over the long term.

The Trustee considers exposure to equity risk in the context of the Scheme's overall investment strategy and believes that the level of exposure to this risk is appropriate.

2.4. Currency risk

Whilst the majority of the currency exposure of the Scheme's assets is to Sterling, the Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets. The Trustee considers the overseas currency exposure in the context of the overall investment strategy, and believes that the currency exposure that exists diversifies the strategy and is appropriate. Furthermore, the Trustee manages the amount of currency risk by investing in pooled funds that hedge currency exposure or implement separate currency hedging arrangements.

2.5. 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 / interest rate swaps via pooled funds. However, the interest rate and inflation exposure of the Scheme's assets hedges part of the corresponding risks associated with the Scheme's liabilities.

The Trustee considers interest rate, inflation and overseas currency risks to be generally unrewarded investment risks.

As a result, the Trustee aims to hedge the Scheme' exposure to interest rate risk and inflation risk at a target level that is in line with the Scheme's funding level on a technical provisions basis, by investing in gilts and leveraged LDI arrangements managed by LGIM.

The net effect of the Trustee's approach to interest and inflation risk will be to reduce the volatility of the funding level, and so the Trustee believes that it is appropriate to manage exposures to these risks in this manner and to review then on a regular basis.

2.6. 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.

2.7. Illiquidity/marketability risk

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

2.8. Valuation risk

Some of the Scheme's assets (such as listed equities) can be valued regularly based upon observable market prices. For other Scheme assets (such as property), prices may only be estimated relatively infrequently using one or more of a range of approximate methods – eg mathematical models or recent sales prices achieved for equivalents.

At times of market stress, there is a risk for all assets that the valuations provided by investment managers do not reflect the actual sale proceeds which could be achieved if the assets were liquidated at short notice. However, this risk is particularly relevant for assets such as property.

The Trustee considers exposure to valuation risk in the context of the Scheme's overall investment strategy and believes that the level of exposure to this risk is appropriate.

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

2.10. Investment manager risk

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

2.11. 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, LGIM makes use within its LDI fund of derivative and gilt repos contracts and this fund is used by the Trustee to match efficiently a portion of the Scheme'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.

2.12. 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 into 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 funds 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 as a result. In order to manage this risk, the Trustee ensures that the Scheme can automatically draw on liquid assets that can be readily realised, so that cash can be posted to the LDI manager at short notice.

2.13. 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 as part of its assessment of the other aspects of the Scheme'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 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, considering and monitoring the key risks that contribute to funding risk, the Trustee believes that it has appropriately addressed and is positioned to manage this general risk.

Investment manager arrangements

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

The Trustee has appointed Legal & General Assurance (Pensions Management) Limited to act as platform provider for the Scheme's invested assets (ie excluding the buy-in policy), with the exception of the Aegon property mandate.

1. Legal & General Investment Management ("LGIM")

All of the Scheme's investments with LGIM are held in unit-linked life policy funds.

1.1. Equities

The Scheme invests in equities through two pooled funds with LGIM. There is no formal target proportion at which to hold the two respective allocations, but the Trustee will keep this under review from time to time.

1.1.1. All World Equity Index Fund

The Scheme invests in equities through the pooled All World Equity Index GBP Hedged fund. The objective of this fund is to track returns of the FTSE All-World Index – GBP Hedged, before the deduction of fees. The index is market-cap weighted, so is not rebalanced according to any set benchmark. The fund is priced weekly. The fund is open-ended and is unlisted. All overseas equity currency exposure, with the exception of emerging market exposure, is currency hedged to Sterling.

1.1.2. Future World Fund

The Scheme also invests in equities through the pooled Future World GBP Currency Hedged fund. The objective of this fund is to track returns of the FTSE All-World ex CW[2] Climate Balanced Factor Index – GBP Hedged, before the deduction of fees. The index constituents are selected by the index provider to include those which exhibit characteristics that have historically led to higher returns or lower risk than the market as a whole, and companies which are less carbon-intensive or earn green revenues. The fund is priced weekly. The fund is open-ended and is unlisted. All overseas equity currency exposure, with the exception of emerging market exposure, is currency hedged to Sterling.

1.2. Short Dated Credit

The Scheme invests in short dated credit through the pooled Short Dated Sterling Corporate Bond Index fund. The objective of this fund is to track the total return of the Markit iBoxx Sterling Corporates 1-5 Index, before the deduction of fees. The index constituents are short dated corporate bonds, ie debt issued by UK or overseas companies issued in Sterling with between 1 and 5 years until they mature and the debt is paid back. The fund is priced daily. The fund is open-ended and is unlisted.

[2] CW = Controversial Weapons

1.3. LDI

The Scheme invests in LDI through a range of pooled funds called the Matching Core fund range. The objective of these funds is to provide leveraged exposure to interest rates and inflation. The funds can then be combined to hedge the Scheme's liability exposure to interest rates and inflation. The funds are priced weekly. The funds are open-ended and are unlisted.

1.4. Gilts

The Scheme invests in gilts through a range of pooled gilt funds. The objective of these funds is to track returns of individual gilts / gilt indices[3], before the deduction of fees. The funds can then be combined (with the LDI investments) to hedge the Scheme's liability exposure to interest rates and inflation. The funds are priced weekly. The funds are open-ended and are unlisted.

2. BlackRock Investment Management (UK) Limited – short dated credit

The Scheme invests in short dated credit through a pooled fund called the BlackRock Sterling Short Duration Credit Fund. The objective of this fund is to outperform UK 3-month LIBOR by 1.5% pa, before the deduction of fees, over a period of one to three years. The fund is priced daily. The fund is open-ended and is unlisted.

3. Baillie Gifford & Co – diversified growth

The Scheme invests in diversified growth through a pooled fund called the Baillie Gifford Diversified Growth Fund. The objective of this fund is to outperform the return of the Bank of England Base Rate by 3.5% pa, after the deduction of fees, over rolling five-year periods. The fund is priced daily. The fund is open-ended and is unlisted.

4. Aegon Asset Management ("Aegon") – property

The Scheme invests in UK property through the pooled Aegon Active Beta Property Fund. The objective of this fund is to track the All Balanced Property Funds Index within the MSCI/AREF UK Quarterly Property Funds Index, after the deduction of fees.

The legal structure of the investment in the fund is through an insurance policy issued by Mobius Life Limited, where this policy acts as a "wrapper" for the assets invested. Aegon acts as the investment adviser for the fund, and is responsible for all of the day-to-day investment decisions. The fund is monthly dealt on the last business day of each calendar month. The fund is open-ended and is unlisted.

5. Canada Life – buy-in

The Trustee has selected Canada Life as the insurance provider for the buy-in contract covering the Scheme's pensioners (as at July 2018). The objectives of the contract are to pay the relevant members' benefits, and reduce the Scheme's exposure to interest rate, inflation and longevity risks thereby protecting the long-term financial security of members' benefits.

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[3] For example, the FTSE Actuaries UK Index Linked Gilts 5-15 Years Index.