# Statement of Investment Principles for the Sedgemoor Group Pension Fund



## 1. Introduction

This Statement of Investment Principles ("SIP") sets out the policy of Sedgemoor Group Pension Trustees Limited ("the Trustee") on various matters governing decisions about the investments of the Sedgemoor Group Pension Fund ("the Fund"), a Defined Benefit ("DB") Scheme. This SIP replaces the previous SIP dated December 2021.

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 ("the Act") and the Occupational Pension Schemes (Investment) Regulations 2005 (as amended) and the Pension Regulator's guidance for defined benefit pension schemes (March 2017).

This SIP has been prepared after obtaining and considering written professional advice from LCP, the Fund's investment adviser, whom the Trustee believes to be suitably qualified and experienced to provide such advice. The advice takes into account the suitability of investments including the need for diversification, given the circumstances of the Fund, and the principles contained in this SIP. The Trustee has consulted with the relevant employers 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. 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 respective 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.

## 2. Investment objectives

The Trustee's primary objectives are that:

- the Fund should be able to meet benefit payments as they fall due; and
- the funding position (ie the value of its assets relative to the assessed value of its liabilities) should remain at an appropriate level. The Trustee are aware that there are various measures of funding and have given due weight to those considered most relevant to the Fund. In particular, the Trustee has taken into account the funding requirements detailed in the Occupational Pension Schemes (Scheme Funding) Regulations 2005.

The Trustee's investment objective is to maximise the return on the Fund's assets whilst managing and maintaining investment risk at an appropriate level, and taking into account the primary objective.

The Trustee's long-term funding target ("LTFT") is a self-sufficiency objective based on a "gilts flat" discount rate. The target expected investment return once the Fund reaches the LTFT is gilts +0.7% pa on a best estimate basis. The buffer of 0.7% pa above the discount rate assumption allows the Fund the scope to close the gap to buy-in with an acceptable level of risk.

## 3. Investment strategy

The Trustee, with the help of its advisers and in consultation with the employers, reviewed the investment strategy in July 2022, taking into account the objectives described in Section 2 above.

Following this review, the Trustee agreed that the investment strategy of the Fund should be based on the allocation below.

| Asset class | Strategic allocation |
|---|---|
| Equities (GBP-hedged) | 7.5% |
| Diversified Growth Fund ("DGF") | 12.5% |
| Infrastructure | 15.0% |
| Liability Driven Investment ("LDI"), Asset-Backed Securities ("ABS"), gilts and cash | 39.5% |
| Corporate bonds | 25.5% |
| **Total Fund assets** | **100.0%** |
| Interest rate hedge ratio (*) | 100.0% |
| Inflation hedge ratio (*) | 100.0% |

*(*) the hedge ratios are shown on a "gilts flat" funding level basis*

In addition to the strategic allocation above, the Trustee and the Company agreed to implement a de-risking trigger framework based on the required investment return to reach the agreed self-sufficiency objective (based on a "gilts flat" discount rate) by 31 December 2025. Hitting this trigger initiates a dialogue between the Trustee, Company advisors and LCP's Trustee advisors to decide whether to proceed with the pre-agreed asset transfer – after considering current market conditions and expected returns on assets. We set out below the pre-agreed de-risking actions for the agreed require return triggers.

| Asset class | Trigger 1 (Gilts +1.1% pa required return) | Trigger 2 (Gilts +0.7% pa required return) | Trigger 3 (Gilts +0.3% pa required return) |
|---|---|---|---|
| Equities (GBP-hedged) | 7.5% | 2.5% | 0.0% |
| DGF | 12.5% | 5.0% | 0.0% |
| Infrastructure | 0.0% | 0.0% | 0.0% |
| LDI, ABS, gilts and cash | 54.5% | 67.0% | 74.5% |
| Corporate bonds | 25.5% | 25.5% | 25.5% |
| **Total Fund assets** | **100.0%** | **100.0%** | **100.0%** |
| Interest rate hedge ratio | 100.0% | 100.0% | 100.0% |
| Inflation hedge ratio | 100.0% | 100.0% | 100.0% |

*Triggers 1 and 2 were hit in September 2022 and the Trustee proceeded to implement the pre-agreed asset transfer.

The Fund's assets are all invested in pooled investment funds. There is no formal rebalancing policy between investment managers. The Trustee monitors the position from time to time and considers with their advisers whether it is appropriate to rebalance the asset allocation, taking into account factors such as market conditions and anticipated future cash flows.

## 4. Considerations made in determining the investment arrangements

When deciding how to invest the Fund'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 and magnitude of each risk.

The Trustee considered a wide range of asset classes for investment, and the expected returns and risks associated with those asset classes. 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 4.4% pa. The other key assumptions underlying our investment adviser's model as at 30 June 2022, for expected returns above gilts, were as follows:

| Asset class | Expected excess return over gilts (% pa) |
|---|---|
| Global equities (GBP hedged) | 4.4 |
| Diversified growth | 2.8 |
| Corporate bonds (ex BBB) | 0.9 |
| Asset-backed securities | 1.5 |
| Dynamic LDI | 0.7 |
| Infrastructure | 4.1 |
| Money market cash | 0.0 |

The expected return assumptions for gilts and cash are updated daily based on observed market yields. The assumptions above are set to be best estimates; this means that for each assumption there is a 50/50 chance that the observed value will either be higher, or lower than assumed.

In setting the strategy the Trustee also took into account:

- the best interests of 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 employers' 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; and
- any other considerations which the Trustee considered to be financially material over the time horizon that the Trustee considered is needed for the funding of future benefits by the investments of the Fund; 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:

- strategic 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 that the Fund accepts it needs to be exposed to;
- risks that are typically unrewarded, such as interest rates, inflation and currency, 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. Also, some assets must by necessity be managed actively – such as infrastructure and absolute return;
- 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;
- responsible investment in well governed companies and engaging as long-term owners can reduce risk over time and may positively impact Fund returns;
- costs have a significant impact on long-term performance and therefore obtaining value for money from the investments is important;
- longevity risk is unrewarded but difficult/expensive to hedge for a small scheme. It will be addressed as and when all/part of the benefits are insured. In the meantime, the Trustee bears the longevity risk alongside investment market risk, in the belief that they are relatively uncorrelated;
- the Fund should look to reduce risk as the funding position improves and the Fund matures;
- 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; and
- long-term environmental, social and economic sustainability is one factor that trustees should consider when making investment decisions.

## 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 are set out in Appendix 3.

The Trustee has 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 managers are authorised under the Financial Services and Markets Act 2000 (as amended) to carry out such activities.

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'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 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 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 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 Trustee, on the administrators' recommendation, decides on the amount of cash required for benefit payments and other outgoings and inform the investment managers of any liquidity requirements.

The Trustee's 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 (eg infrastructure). In general, the Trustee's policy is to use cash flows to rebalance the Fund's assets towards the strategic asset allocation.

## 7. Consideration of financially material and non-financial matters

The Trustee has considered how environmental, social and 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. The Trustee considers that it is necessary in all circumstances to act in the best financial interests of the beneficiaries and, where this primary consideration is not prejudiced, understands that the investment managers generally take these issues into account.

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 review how its managers are taking account of these issues in practice.

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 consider 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. Stewardship

The Trustee recognises its responsibilities as owners of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments. The Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, risks and ESG considerations.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. It expects 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 Trustee from time to time, considering 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, and from time to time the Trustee reviews how these are implemented in practice.

**Approved by the Trustee of the Sedgemoor Group Pension Fund on 17 January 2023**

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



In broad terms the Trustee has decided on the following division of responsibilities and decision-making for the Fund. 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 of the Fund overall, with access to an appropriate level of expert advice and service. The Trustee's investment powers are set out within the Fund'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 employers;
- setting the investment strategy, in consultation with the employers;
- reviewing the investment policy as part of any review of the investment strategy;
- setting the policy for rebalancing between asset classes;
- 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 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 (and, when necessary, 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 Trustee's assessment of its effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employers when reviewing the SIP.

## 2. 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;

- providing the Trustee 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 safe keeping of the assets and facilitating all transactions within the portfolios.

## 3. Investment adviser

The investment adviser will be responsible, in respect of investment matters, as requested by the Trustee, 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; and
- participating with the Trustee in reviews of this SIP.

## 4. Fee structures

The Trustee recognises 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 Trustee has 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 and in some cases a performance related fee. 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.

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 Fund. However, the Trustee will consider revising any given structure if and when it is considered appropriate to do so.

## 5. 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 Fund's investments, investment providers and professional advisers from time to time. The Trustee will also carry out periodically an assessment of its own effectiveness as a decision-making body and will decide how this may then be reported to members.

## 6. Working with the Fund's employers

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

# *Policy towards risk, risk measurement and risk management*



## 1. Risk appetite and risk capacity

Risk appetite is a measure of how much risk the Trustee is willing to bear within the Fund 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 the position may worsen to a greater extent in significant downside scenarios, 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 is 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 employers' covenant and how this may change in the near/medium future;
- the agreed journey plan and employers' 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 ("VaR")), now and as the strategy evolves.

## 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 for the Fund. 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 Fund should have adequate assets to meet its liabilities as they fall due. The Trustee therefore invests 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 taken into account in setting the investment strategy and is monitored by the Trustee 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 Trustee believes that the Fund's assets are adequately diversified between different asset classes and within each asset class. This was key consideration when determining the Fund's investment arrangements.

### 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 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.

### 2.4. Liquidity/marketability risk

This is the risk that the Fund is unable to realise assets to meet benefit cash flows as they fall due. The Trustee is aware of the Fund's cash flow requirements and believes that this risk is managed by maintaining an appropriate degree of liquidity across the Fund's investments.

### 2.5. Collateral adequacy risk

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

### 2.6. Credit risk

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

The Fund invests in pooled funds and is therefore directly exposed to credit risk in relation to the solvency of the investment manager and custodian of those funds.

This risk is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the investment managers, the regulatory environment in which the investment managers operate and diversification of the Fund's investments amongst a number of pooled arrangements. The Trustee, with the help of their advisers, carry out due diligence checks on the appointment of any new investment manager or fund, and monitor for changes to the operating environment of the existing pooled funds.

The Fund is indirectly exposed to credit risks arising from the underlying investments, where they invest in bonds and other assets of a contractual nature. The indirect exposure to credit risk arises from the Fund's corporate bond fund, ABS and DGF investments.

The managers of the pooled funds typically manage credit risk by having a diversified exposure to bond issuers, by considering the probability of default of those issuers, and having only limited exposure to bonds rated below investment grade. The magnitude of credit risk within each fund will vary over time, as the manager changes the underlying investments in line with its views on markets, asset classes and specific bonds.

Within the LDI portfolio, there is exposure to credit risk as Insight uses derivatives instruments. The terms under which the LDI portfolio is 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. In addition, the derivative positions are collateralised daily, so as to limit credit risk to one day's market movements.

### 2.7. Currency risk

This is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates. As the Fund's liabilities are denominated in Sterling, any non-Sterling currency exposure within the assets presents additional 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. 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.

### 2.8. Interest rate and inflation risk

These are the risks that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates and inflation expectations.

The Fund's assets invested in the Insight LDI funds are subject to interest rate and inflation risk and the assets invested in L&G's corporate bond fund and Insight's ABS fund are subject to interest rate risk. However, the overall exposure hedges part of the corresponding risks associated with the Fund's liabilities. The net effect will be to reduce the volatility of the funding level, and therefore the Trustee believes that it is appropriate to have exposure to these risks in this manner.

### 2.9. Other price risk

This is the risk that the value of an asset will fluctuate due to changes in market prices (other than those arising from the risks above), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting similar financial instruments.

This risk will vary depending on the particular market / asset class invested in and the Trustee monitors it on a regular basis, looking at the performance of the Fund as a whole as well as each individual portfolio. The Trustee believes that the Fund's assets are adequately diversified between different asset classes and within each asset class to manage this risk.

### 2.10. Climate-related risks

Climate change is a source of risk, which could be financially material over both the short and longer term. This risk relates to the transition to a low carbon economy, and the physical risks associated with climate change (eg extreme weather). The Trustee seeks to appoint investment managers who will manage this risk appropriately, and from time to time review how this risk is being managed in practice.

### 2.11. Valuation risk

Some of the Fund's assets (such as listed equities) can be valued regularly based upon observable market prices. For other assets (such as infrastructure), 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. This risk is particularly relevant for assets such as infrastructure.

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

### 2.12. Other environmental, social and governance (ESG) risks

ESG factors are sources of risk to the Fund'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 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.

### 2.13. Other non-investment risks

The Trustee recognises 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.

- longevity risk (the risk that members live, on average, longer than expected); and
- sponsor covenant risk (the risk that, for whatever reason, the sponsoring employers are 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. By understanding and considering 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, investment guidelines and custody arrangements are set out below.

## 1. Legal & General Investment Management ("L&G") – passive equity and corporate bonds

The Trustee has selected L&G as the investment manager for the Fund's equity and corporate bond portfolios. The funds are managed on a passive basis. The benchmark index and performance objectives for the funds are as follows:

| Fund | Benchmark index | Performance target |
|---|---|---|
| Corporate bonds | Markit iBoxx £ Non-Gilts (ex-BBB) All Stocks Index | To perform in line with the benchmark |
| Low Carbon Transition Developed Market equities (GBP hedged) | Solactive L&G Low Carbon Transition Developed Markets Index | To perform in line with the benchmark |

The equity and corporate bonds funds are priced daily. The funds are open-ended and unlisted. L&G is responsible for the custody of the assets of the funds. The Trustee does not have a direct relationship with the custodian.

## 2. JP Morgan Asset Management ("JP Morgan") – infrastructure

The Fund invests in the JP Morgan Infrastructure Investments Fund. The fund is managed on an active basis. The benchmark index and performance objective for the fund is as follows:

| Fund | Benchmark index | Performance target |
|---|---|---|
| Infrastructure Investments Fund | N/A | To target a portfolio return of 8-12% pa (before any relevant taxes but after fees) in local currency terms, over a horizon of five to seven years. |

The fund is priced quarterly. The fund is open ended and is not listed on any stock exchange.

## 3. Baillie Gifford & Co ("Baillie Gifford") – diversified growth fund

The Fund invests in the Baillie Gifford Diversified Growth Fund. The fund is managed on an active basis. The benchmark index and performance objective for the fund is as follows:

| Fund | Benchmark index | Performance target |
|---|---|---|
| Diversified Growth Fund | UK Base Rate | To outperform the benchmark by 3.5% pa, net of fees, over rolling five-year periods with annualised volatility of less than 10%. |

Baillie Gifford is responsible for custody of the assets of the fund. Responsibility is delegated to the Bank of New York Mellon. Investments are held in the name of the custodian's nominee company, in line with common practice for pension scheme investments. The Trustee does not have a direct relationship with the custodian. The fund is priced daily. The fund is open ended and is not listed on any stock exchange.

## 4. Insight Investment Management (Global) Limited (“Insight”) – LDI, ABS and cash

The Trustee has selected Insight as an investment manager for the Fund’s LDI, ABS and cash portfolios.

### 4.1. LDI

The Fund invests in the following LDI funds managed by Insight:

- Insight LDI Enhanced Selection Longer Nominal Fund
- Insight LDI Enhanced Selection Shorter Nominal Fund
- Insight LDI Enhanced Selection Longer Real Fund
- Insight LDI Enhanced Selection Shorter Real Fund

These funds use a range of hedging instruments, including derivatives, to provide a hedge against interest rate and inflation risks. The general objective of the LDI portfolio is to hedge a proportion of the Fund’s liabilities against changes in interest rates and inflation expectations.

Each of these funds employs leverage, which means it operates in such a way that a relatively small amount of assets can be used in order to create a larger economic exposure to markets. The Insight Longer Nominal and Longer Real LDI funds typically operate with a target leverage of around 3 to 4 times leverage. The Insight Shorter Nominal and Shorter Real LDI funds operate with a target leverage of around 5 to 7 times leverage.

Insight’s formal investment objective is to deliver inflation-linked and nominal returns. Performance is measured against both swap-based and gilt-based benchmarks which are based upon a typical pension scheme liability cash flow profile. The Trustee expects Insight to outperform both benchmarks over a reasonable timeframe.

### 4.2. ABS

The Fund invests in the Insight High Grade ABS Fund. The benchmark index for the fund is SONIA.

The objective of this fund is to produce an interest rate based return, primarily through investment in a portfolio of asset-backed securities and corporate floating rate notes.

Insight is responsible for custody of the assets of the fund. Responsibility is delegated to Northern Trust. Investments are held in the name of the custodian’s nominee company, in line with common practice for pension scheme investments. The Trustee has a direct relationship with the custodian.

The fund is daily dealt. The fund is open ended and is not listed on any stock exchange.

### 4.3. Cash

The cash element consists of an investment in Insight’s Liquidity Fund and Liquidity Plus Fund. The benchmark index the both funds is SONIA.

The investment objective for the Liquidity and Liquidity Plus Funds is to provide stability of capital and income with daily liquidity through investment in short term and variable rate securities. The Trustee has appointed Northern Trust as custodian for the Fund’s investments with Insight. The Trustee therefore has a direct relationship with the custodian. The funds are daily dealt. The funds are open ended and are not listed on any stock exchange.

The Trustee has a process in place to manage the allocations between the individual cash funds. Insight manages the allocations to the various funds in line with specified guidelines as set out in a side letter to the IMA. The switching process aims to maximise investment returns (net of fees and costs) and ensure that the portfolio is sufficiently liquid to meet monthly net cash requirements.

### 4.4. Allocation to the Insight funds

The strategic benchmark allocation to the LDI, ABS and cash is 39.5% of the total Fund's assets. Given the nature of the investments, Insight does not have a fixed benchmark allocation and hence does not carry out any automatic rebalancing between the pooled funds, except when LDI deleveraging or releveraging events occur.

In a **deleveraging event** (when the value of the LDI fund falls to the extent that the capital required to support the hedge needs to be topped up) Insight will disinvest from the Sterling Liquidity fund to top up the LDI Fund.  If there are insufficient assets in the Sterling Liquidity fund, then Insight will disinvest from the ABS fund.

In a **releveraging event** (when the value of the LDI fund increases to the extent that there is too much capital supporting the hedge) Insight will invest cash proceeds from the LDI fund into the Sterling Liquidity fund.

At the time of writing, the Trustee has agreed to a liability hedge ratio aimed at matching movements in the value of 100% of the funding level on "gilts flat" basis due to changes in long-term interest rates and inflation expectations.

The Trustee will monitor the allocation to LDI, ABS and cash over time and will consider with its advisers whether it is appropriate to rebalance the portfolio, taking into account factors such as market conditions, the target hedging levels and any cash requirements.

## 5. Custodian

The role of a custodian is to ensure safe keeping of the assets and facilitate all transactions in respect of the portfolios for which it provides custody.  The Trustee has appointed Northern Trust to provide custody services for the Fund's LDI, ABS and cash portfolios managed by Insight.

The remaining assets of the Fund are invested in pooled funds where the investment manager is responsible for appointing a custodian. As such, the Trustee is not required to select a custodian for the assets invested in these funds.

## 6. Additional Voluntary Contributions

The Trustee has selected Prudential as the Fund's money purchase AVC provider.