



Statement of Investment Principles

City and Guilds (1966) Pension Scheme

Date reviewed: September 2019

Date adopted by Trustee: 30 September 2019

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Disclaimer

It is a legal requirement for the Trustee to prepare a Statement of Investment Principles. The information it contains should not be regarded as an offer or solicitation for Scheme members to take any investment action or decisions. Whilst the Trustee believes the information contained within the Statement to be an accurate representation of the Scheme's investment arrangements, they accept no responsibility for any decision made by any person based solely on the information it contains. The Trustee encourages all members to seek independent financial advice prior to taking decisions about their pension benefits.

Introduction

Pensions Act

- 1.1 The Pensions Act 1995 (as amended by the Pensions Act 2004) requires the Trustee to prepare a statement of the principles governing investment decisions for the purposes of the Scheme (the “Statement”). This document fulfills that requirement.
- 1.2 In preparing this Statement the Trustee has consulted the City and Guilds of London Institute (‘The Institute’) and will do so whenever the Trustee intends to revise the Statement. Responsibility for maintaining the Statement and deciding investment policy rests solely with the Trustee.
- 1.3 In preparing this Statement and for the purposes of the Pensions Act the Trustee has obtained written advice from the Scheme’s investment consultant, Willis Towers Watson and they also received input from the Scheme Actuary, Bridget Hall of Willis Towers Watson. The Trustee will similarly obtain such advice as appropriate whenever the Statement is reviewed or revised. The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this Statement.
- 1.4 Before adopting this document the Trustee has had regard to the requirements of the Pensions Act concerning diversification of investments and suitability of investments taking into consideration the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005. The Trustee will consider those requirements on any review of this document or any change in their investment policy.
- 1.5 The Trustee will review this Statement annually or without delay following any significant change in the investment policy and on such other occasions as may appear to them to be appropriate.

Financial Services and Markets Act 2000

- 1.6 In accordance with the Financial Services and Markets Act 2000, the Trustee sets general investment policy, but delegates the responsibility for selection of specific investments to appointed Investment Managers, which may include an insurance company or companies. The Investment Managers provide the skill and expertise necessary to manage the investments of the Scheme competently.

Scheme details

1.7 The Scheme operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries (“Members”). The Scheme includes:

- Defined Benefit sections that closed to future accrual on 30 June 2018, where the benefits at retirement are determined by the member’s earnings history, tenure of service and age
- a Defined Contribution section, which closed to new employees on 1 April 2019, where the benefits are determined by the accumulated assets invested on the members' behalf.

In addition the Scheme has a number of pensions in payment.

Section 2: Division of responsibilities

2.1 The Trustee has ultimate responsibility for decision-making on investment matters. In order to ensure that investment decisions are taken only by persons or organisations with the skills, information and resources necessary to take them effectively, the Trustee delegates some of these responsibilities.

Trustee

2.2 The Trustee's responsibilities include:

- Reviewing regularly the content of this Statement in conjunction with the Investment Consultants and the Scheme Actuary, and modifying it if deemed appropriate.
- Reviewing the investment policy following the results of each actuarial review and/or asset liability modelling exercise.
- Appointing (and dismissing) Investment Managers.
- Consulting with the Institute when considering any amendment to this Statement.
- Monitoring compliance of the investment arrangements with this Statement on an ongoing basis.

Investment Managers

2.3 Each Investment Manager's responsibilities include:

- Discretionary management of the portfolio, including implementation (within guidelines given by the Trustee) of changes in the asset mix and selecting securities within each asset class.
- Providing the Trustee with quarterly statements of the assets together with a quarterly report on actions and future intentions, and any changes to the processes applied to the portfolio.
- Informing the Trustee of any changes in the internal objectives and guidelines of any pooled funds used by the Scheme as soon as practicable.
- The independent safekeeping of the assets and appropriate administration (including income collection and corporate actions) within any pooled funds used by the Scheme.

Professional Advisors

2.4 The Trustee recognizes the importance of managing and contracting with external advisers (including advice on strategic asset allocation, investment management and actuarial issues). However, the Trustee believes that the current arrangement (using a single advisory firm for both actuarial and investment advice) has certain advantages for the Scheme. The Trustee will continue with the current arrangement until this ceases to be appropriate.

Investment Consultant

2.5 The role of the Investment Consultants is to give advice to the Trustee in the following areas:

- The development of a clear investment strategy for the Scheme
- Any asset-liability modelling process
- The construction of a strategic asset allocation policy for the Defined Benefit section having regard to the liabilities of the Scheme and the risk and return objectives of the Trustee
- The construction of an overall investment management structure that meets the objectives of the Trustee
- The construction of an overall range of funds for the Defined Contribution section of the Scheme that meets the objectives of the Trustee
- The regular updating of the Statement of Investment Principles
- The selection and appointment of appropriate investment management organisations
- Their evaluation of the Investment Managers employed by the Scheme
- Potential new areas or methods of investment
- Commentary on investment performance and risk taken by the Investment Managers
- General advice in respect of the Scheme's investment activities.

Scheme Actuary

2.6 The Scheme Actuary's responsibilities, as they relate to investment matters, include:

- Liaising with the Investment Consultants on the suitability of the Scheme's investment strategy given the financial characteristics of the Scheme.
- Assessing the solvency position of the Scheme and advising on the appropriate response to any shortfall
- Performing the triennial (or more frequently, as required) valuations of the Scheme and advising on the appropriate contribution levels.

Section 3: Objectives and long term policy for the Defined Benefit section

Objectives

- 3.1 The Trustee’s longer term goal is to significantly reduce the Scheme’s reliance on the Institute in order to meet its liabilities. This will be achieved by building up sufficient assets within the Scheme to enable a very low risk investment strategy to be implemented, while retaining a high probability that the liabilities can be met without further recourse to the Institute. The Trustee anticipates that it will take between 10 years and 20 years to reach this position.
- 3.2 In seeking to achieve the longer term goal, the Trustee has agreed the following investment objectives:
- The acquisition of suitable assets of appropriate liquidity intended to generate income and capital growth appropriate to meet, together with contributions from the Institute, the cost of current and future benefits which the Scheme undertakes to provide as set out in the Trust Deed and Rules.
 - To limit the risk of the assets failing to meet the liabilities, both over the long term and of underfunding in relation to ongoing actuarial valuations.
 - To control the long-term costs of maintaining the Scheme by maximising the return on the assets whilst having regard to the above objectives.

Policy

- 3.3 The Trustee reviewed the Scheme’s asset allocation policy in 2018 and determined that a strategic benchmark with a 75% allocation to return-seeking assets remained appropriate. The Trustee has adopted the following asset allocation as the Scheme’s strategic benchmark:

Asset Class	Target % of total assets	Ranges % of total assets	Performance benchmark index
UK equities	1.1	0 – 2	FTSE All-Share
Overseas Developed Markets equities	14.8	10 – 20	
GBP Hedged	7.4	5 – 10	FTSE All World Developed ex UK 95% GBP Hedged
Unhedged	7.4	5 – 10	FTSE All World Developed ex UK
Emerging Markets	1.6	0 – 3	MSCI Emerging Markets Index
Total equities	17.5	12.5 – 22.5	
Property	7.5	5 – 10	IPD UK– All Balanced Property Funds Weighted Average
Diversification funds	50.0	45 – 55	50% UK CPI + 2%; 50% UK RPI + 3%
Total Return Seeking	75.0	65 – 85	
LDI Portfolio	25.0	15 – 35	Blended portfolio
Total bonds	25.0	15 – 35	
	100.0		

- 3.4 The Trustee's policy is to hedge a proportion of the interest rate and inflation risk of the liabilities using a pooled LDI strategy. The Trustee has set a target hedge ratio of 40% for both interest rates and inflation, measured as a % of liabilities. The actual hedge ratio will vary with market conditions, but would generally be expected to be in the range of 35% to 45%.
- 3.5 The Trustee's policy is to have overseas currency exposure of between 15% and 20% of total assets. This is implemented through hedging 50% of the currency exposure associated with the overseas equity investments, with the exception of the Emerging Markets allocation. This range allows for the typical non-sterling currency exposure with the diversified growth funds allocation, which is determined by the investment managers.
- 3.6 In light of the Investment Consultant's advice, the Trustee considers that this target asset allocation represents suitable investment classes, is appropriately diversified and provides a reasonable expectation of meeting the above objectives.
- 3.7 Divergence from the asset allocation benchmark is expected as a result of market and manager performance. In the majority of circumstances, the Scheme's asset allocation would be expected to lie within the ranges set out in 3.3 above. The Trustee will review such divergence on a regular basis to ensure that the asset allocation remains suitable for the Scheme.
- 3.8 The Trustee's policy is to employ leverage within the LDI portfolio (using pooled LDI funds) to increase the proportion of interest rate and inflation risk that is managed by the LDI allocation. Some short-term borrowing for settlement is also allowed, but is strictly limited and for the purpose of trade settlement only (which is standard practice in investment management).

Dynamic de-risking framework

- 3.9 The Trustee, having consulted with the Employer, has agreed to implement a process for dynamically de-risking the Scheme's investment strategy using a journey planning framework following the review in 2018. The framework has been designed to enable the Scheme to capitalise on higher than expected outperformance of the assets relative to the liabilities, by switching from return-seeking to matching assets if certain trigger points are breached. A separate protocol document has been agreed which sets out details of the funding level triggers, the asset allocation change that will be made if a trigger is hit and the roles of responsibilities of the Trustee, its agents and advisors in operating the framework.

Rates of return

- 3.10 In assessing the asset allocation, the Trustee took into account the historical rates of return earned on the various asset classes available for investment and the expected prospective rates of return of the Scheme's assets as advised by the Scheme's Investment Consultant and the Scheme Actuary.
- 3.11 The central asset class return assumptions used for the purposes of the investment strategy review (carried out by the Investment Consultant, Willis Towers Watson in 2018) are shown in the following table. The central 10 year inflation (CPI) assumption used for the purposes of the investment strategy review was 1.9% pa.
- 3.12 The specific return assumptions from 30 September 2017 used in the investment strategy review are detailed below:

	10 year median real return % pa	1 year standard deviation % pa
UK equities	1.7	18.5
Overseas equities (unhedged)	2.9	18.9
Overseas equities (hedged)	2.5	17.2
Fixed interest gilts (long-dated)	-0.4	10.5
Index-linked gilts (long-dated)	-1.3	8.5
Cash	-0.6	1.6
Property (UK)	1.6	10.0
Diversified funds	2.4	9.7

Note: the above assumptions are as advised by the Investment Consultant and do not represent a forecast or guarantee of the return that will be achieved. Returns are expressed relative to CPI inflation, and are based on the Lower for longer calibration of the Investment Consultant's asset model.

Section 4: Objectives and investment options for the Defined Contribution section

Objectives

- 4.1 The overall long-term objective for the Scheme is the acquisition, on behalf of members, of secure assets of appropriate liquidity which are intended to generate income and capital growth. These assets, together with new contributions from the member and the Institute, where applicable, provide a fund at retirement which the member will use to provide pension benefits in a flexible way, depending on member needs.
- 4.2 The Trustee's long-term investment objectives are:
- to provide members with a range of reasonably diversified investment options to meet their individual risk/return requirements and to accumulate a fund at retirement to convert to a pension income. The options include:
 - active and index-tracking equity funds for members willing to accept a greater level of volatility with the aim of achieving higher investment returns over the longer term
 - bond, property and cash funds for members who prefer the risk profiles offered by these funds.
 - a range of lifestyle strategies designed to reflect the choices available to members in accessing their defined contribution investments
 - to provide an appropriate default investment option to invest the assets of members who have not provided investment instructions to the provider.
 - to seek to ensure that the individual fund options are appropriately invested in line with their remit and for the appointed Investment Managers to ensure that funds are managed to maximise the return commensurate with an acceptable level of risk.

Investment options

- 4.3 Members have access to a range of funds managed by various Investment Managers through a policy with Aviva. All the funds available have appropriate benchmarks and investment objectives and the Trustee expects the Investment Managers to achieve those objectives. The Trustee expects the Investment Managers to demonstrate that the skills they exercise on the funds are consistent with the stated objectives and the level of risk is appropriate.
- 4.4 The range of funds offered includes equity, bond, property and cash funds, each having distinct risk and return characteristics. The Trustee expects this range of funds to provide sufficient flexibility to allow the members to invest in a way which is consistent with their individual risk tolerance. The full range of funds offered and their objectives are listed in Appendix B.

- 4.5 As members can choose how to invest their accumulated funds, the balance between different kinds of investment within the Scheme will be a function of the members' investment choices.

Lifestyle investment programme

- 4.6 The Trustee offers members access to a historic Lifestyle Programme over three, five or ten years. Under these options a member's funds are automatically moved to lower risk investments as they approach their selected retirement date in order to protect the buying power of their investment fund.

- 4.7 These options work as follows:

Three, five or ten years respectively before the member's selected retirement date, future contributions and the existing account value are gradually switched on an automatic monthly basis so that on reaching retirement 45% of the fund will be invested in the BlackRock UK Corporate Bond Index Fund, 30% in the BlackRock Over 15 Years UK Gilts Index Fund and 25% in the Aviva Cash Fund.

- 4.8 The Trustee also introduced three new lifestyle options in 2015. These are:

'My Future Target Annuity' option (this was the Scheme's default prior to September 2019), which is structured as follows in its Growth and Consolidation phases:

- Growth Phase – 15 years prior to the member's selected retirement age, the My Future 'Growth Fund' aims to help pension savings grow by investing in a fund with medium investment risk. The My Future Growth Fund is made up of a variety of passively managed funds investing in shares, Government and Corporate Bonds, and commodities amongst others.
- Consolidation Phase – 15 years prior to the member's retirement age, investment risk is reduced by gradually moving the member's fund and contributions from a medium risk fund, to lower risk funds. Savings initially switch into the My Future Consolidation Fund, which is designed to keep pace with inflation with risk controlled growth. Five years prior to a member's selected retirement age, the My Future 'Annuity Fund' is introduced. This fund consists of passively managed corporate bonds and gilts.

'My Future Target Cash Lump Sum' option which is structured as follows in its Growth and Consolidation phases:

- Growth Phase – Up to 15 years prior to the member's selected retirement age this invests in the My Future Growth Fund.
- Consolidation Phase – As with the 'Target Annuity' option, 15 years prior to retirement age, the member's funds are initially switch into the My Future Consolidation Fund, which is designed to keep pace with inflation with risk controlled growth. At five years prior to the member's retirement, the My Future 'Cash Lump Sum Fund' is phased in. This fund invests in money market investments, along with gilts and bonds.

'My Future Target Drawdown' option which is structured as follows in its Growth and Consolidation phases:

- Growth Phase – Up to 15 years prior to the member’s selected retirement age this invests in the My Future Growth Fund.
- Consolidation Phase – 15 years prior to retirement age the My Future Drawdown Fund is introduced, which contains a mix of equity funds (both UK and overseas) with a larger allocation in gilts and bonds.

4.9 In 2019 the Trustee reviewed the range of investment funds and in particular introduced a new default investment strategy for members:

‘My Future Target Lifetime Investment’ option, which is structured as follows in its Growth and Consolidation phases:

- Growth Phase – Up to 15 years prior to the member’s selected retirement age this invests in the My Future Growth Fund.
- Consolidation Phase – Like the other lifestyle options available, 15 years prior to the member’s retirement age, member’s savings switch into the My Future Consolidation Fund,

4.10 Further information on the underlying investment options within the My Future lifestyle strategies is shown below:

- My Future Growth Fund
 - This Fund aims to achieve a total overall return from capital growth and reinvested income by investing in a diversified portfolio of predominantly passively managed underlying funds. The fund will predominantly invest in UK and overseas equities (including emerging markets), with some investment in UK Government (including index-linked) and corporate bonds. It may also invest in overseas government and corporate bonds, money market instruments and cash. The benchmark of the fund is 75% FTSE Developed Index, and 25% BofAML Sterling Broad Market IndexMy Future Consolidation Fund
 - This Fund seeks to achieve a total overall return from capital growth and reinvested income by investing in a diversified portfolio of predominantly passively managed underlying funds. A significant proportion of the Fund's assets invest in UK government (including index-linked) and corporate bonds. It may also invest in UK and overseas equities (including emerging markets), property, money market instruments and cash. Derivatives may be used by the underlying fund(s) for investment purposes. The fund factsheet shows the underlying fund(s) and associated weightings. The benchmark of the fund is 25% FTSE Developed Index, and 75% BofAML Sterling Broad Market IndexMy Future Annuity Fund
 - This is designed for members approaching retirement and considering buying a fixed (or level) annuity. The fund will predominantly invest in UK Government (including index-linked) gilts and corporate bonds, mainly through passively managed funds. Derivatives may be used by the underlying fund(s) for investment purposes. The Fund factsheet shows the underlying fund(s) and weightings. The benchmark of the fund is 15% iBoxx Sterling Non-Gilts 1-5 Year Index, 15% iBoxx Sterling Non Gilt Index 5-15 Year Index, 20% iBoxx Sterling Non-Gilts Over 15 Years Index, 20% FTSE UK Gilts 5-15 Years Index, 30% FTSE UK Gilts Over 15 Year Index.

- My Future Cash Lump Sum Fund

- This Fund seeks to achieve a positive real return over a full market cycle (which includes one complete uptrend and one complete downtrend) from capital growth and reinvested income by investing in a diversified portfolio of predominantly passively managed underlying funds. A significant proportion of the Fund's assets invest in UK and overseas Government and corporate bonds, money market instruments and cash. Its benchmark is LIBID 7 Day GBP.

- My Future Drawdown Fund

- This Fund seeks to achieve a total overall return from capital growth and reinvested income by investing in a diversified portfolio of predominantly passively managed underlying funds. A significant proportion of the Fund's assets invest in UK and overseas equities including emerging markets. Additionally, investments in the underlying funds may include UK and overseas Government and corporate bonds, property, money market instruments and cash. The fund factsheet shows the underlying fund(s) and weightings. . The benchmark of the fund is 50% FTSE Developed Index, and 50% BofAML Sterling Broad Market Index

Default option

4.11 The Scheme's default investment strategy for automatic enrolment purposes is the My Future Lifetime Investment strategy. However it should be noted that the Scheme is now classified as a qualifying scheme for automatic enrolment purposes rather than an automatic enrolment scheme, as it is now closed to new entrants. Following a change in the Department for Work and Pensions' (DWP's) definition of what constitutes a default investment arrangement a number of other funds offered with the Scheme are now classified as defaults as a result of:

- Having received new contributions after 1 April 2015 and
- Containing rights for workers where one or more of those workers have not expressed a choice to invest in that fund.

4.12 The Trustee is required to ensure that the charges fall within the charge cap (0.75%) and to provide information on the relevant funds objectives in the statement of investment principles. Those funds that are classified as defaults are shown in Appendix B. Appendix B also provides details of the objectives for all of the Scheme's defined contribution investment options.

Section 5: Investment manager arrangements

- 5.1 The Trustee considered the use of both passive and active investment management when reviewing the Scheme's strategy, in each of the sections of the Scheme. The resultant use of active and passive management is formed following consideration of the efficiency, liquidity and level of transaction costs likely to prevail within each market as well as the impact of the investment manager fees on future expected returns net of fees.

Investment manager structure

- 5.2 The assets of the Defined Benefit section are divided between a number of investment managers to reduce the risks associated with one investment manager having responsibility for all of the Scheme's assets.
- 5.3 The Trustee delegates day to day management of the Scheme's assets to the following Investment Managers:
- BlackRock Investment Management (UK) Limited – Passive Equity mandate; Pooled LDI portfolio
 - Schroder Property Investment Management Limited – Property mandate
 - Hermes Investment Management Limited – Property mandate
 - Towers Watson Investment Management – Diversification fund mandate
 - Fulcrum Asset Management LLP – Diversification fund mandate.
- 5.4 The individual managers, along with their benchmarks and objectives, are set out in Appendix A.
- 5.5 The Defined Contribution section of the Scheme employs a number of managers to ensure adequate choice of fund management organisation and investment style. A list of the funds available to members is included in Appendix B.
- 5.6 The Trustee has considered the guidelines and restrictions of each of the mandates in which the Scheme invests and is comfortable with them.

Manager monitoring

- 5.7 Whilst the Trustee is not involved in the investment managers' day to day method of operation and so cannot directly influence attainment of the performance target, they will assess performance and review appointments. Measurable objectives have been developed for each investment manager, consistent with the Scheme's longer term objectives and an acceptable level of risk.

- 5.8 These investment objectives will be treated as a target only and will not be considered as an assurance or guarantee of the performance or risk of the Scheme or any part of it.
- 5.9 The Trustee recognises that the active managers' performance will be volatile and that they will not always achieve their target. Nonetheless, the managers should demonstrate that the skill exercised in managing the portfolios is consistent with the target given the levels of risks adopted.
- 5.10 The Trustee has appointed State Street Investment Analytics (SSIA) to independently measure the performance of the assets of the Scheme's Defined Benefit section. The Trustee receives performance monitoring reports from SSIA on a quarterly basis. In addition, the Trustee meets the Investment Managers periodically to review performance and to discuss any other developments of relevance to the Scheme's mandates.
- 5.11 The appointment of the Investment Managers will be reviewed annually by the Trustee based on the results of their monitoring of performance and investment process and of the managers' compliance with the requirements of the Pensions Act 1995 concerning diversification and suitability where relevant. The Trustee will monitor the extent to which they give effect to the investment principles set out in it. The Trustee will provide the investment managers with any material amendment to or replacement of this Statement.
- 5.12 The Trustee monitors the performance of the DC fund range using investment research information provided by Morningstar. Should an Investment Manager or fund within the Defined Contribution section appear to the Trustee to underperform the performance objectives or be considered by the Trustee to be unlikely to deliver on the policies and objectives of the Scheme, it may be closed to future contributions and/or be disinvested of the accumulated value of past contributions.

Fee structures

- 5.13 The Trustee has agreed fees with each manager based on the value of assets in their respective portfolios. These fees are consistent with each manager's stated fee scale. Details of the fee structures are included in the Investment Management Agreements for Defined Benefit investments, and are shown in Appendix B for Defined Contribution investments

Delegation of investment discretion

- 5.14 The Investment Managers are aware of the need for appropriate and suitably diversified investments which recognise the nature of the Scheme's liabilities. The Investment Managers have a statutory duty under the Pensions Act to exercise the investment powers delegated to them with a view to giving effect to the principles contained in this Statement, so far as is reasonably practicable.

Section 6: Other investment policies

The Trustee also faces other requirements relating to investment, be they legislative or considered best practice.

Choosing investments

- 6.1 The Trustee has appointed Investment Managers who are authorised under the Financial Services and Markets Act 2000 to undertake investment business. After gaining (and, at most, annually reconfirming) appropriate investment advice, the Trustee has specified the asset allocation of every manager. Investment choice has been delegated to the managers subject to defined tolerances relative to their respective benchmarks.
- 6.2 In this context, investment advice is defined by Section 36 of Pensions Act 1995 (as amended).

Financially material considerations

- 6.3 The Trustee takes account of all financially material risks and opportunities in consultation with its advisers. All risks and opportunities are considered for materiality and impact within a risk management framework, which takes account of members' investment time horizons and objectives. The Trustee considers sustainable investment factors, such as (but not limited to) those arising from Environmental, Social and Governance (ESG) considerations, including climate change, in the context of this broader risk management framework.
- 6.4 The Trustee's policy is that day-to-day decisions relating to the investment of Scheme assets are left to the discretion of its investment managers. This includes consideration of all financially materially factors, including ESG-related issues where relevant. The Trustee explores these issues with its managers to understand how they exercise these duties in practice and receives reports on how these issues are addressed.
- 6.5 When considering the appointment of new managers, and reviewing existing managers, the Trustee, together with its investment consultant, looks to take account of the approach taken by managers with respect to sustainable investing including voting policies and engagement where relevant.
- 6.6 The Trustee's policy is to delegate responsibility for the exercising of ownership rights (including voting rights) attaching to investments to the investment managers. The Trustee recognises the UK Stewardship Code as best practice and encourages their investment managers to comply with the UK Stewardship Code or explain where they do not adhere to this policy.
- 6.7 Responsibility for engagement in respect of investments held by the Scheme is, in effect, delegated to the investment managers. The Trustee's expectation is that engagement will take place, either directly or as part of a collective multi-investor initiative as appropriate, with the aim of protecting or enhancing the value of the Scheme's investments. The Trustee is satisfied that, where appropriate, the investment managers have an explicit strategy elucidating the circumstances in which they will intervene in a company, the approach they will use in doing so and how they will measure the effectiveness of this strategy. The Trustee will monitor how the

investment managers fulfil their responsibilities with regards voting and engagement through the regular reporting provided by the managers.

Non-financial matters

- 6.8 The Trustee recognises that members and beneficiaries may have views on ethical investing or matters such as the social and environmental impact of the Fund's investments. In conjunction with there being practical challenges of capturing and maintaining a consensus view on multiple issues across a varied membership population, it is the Trustee's view that financial matters should take precedence in seeking to maximise the security of member benefits. As such, it is the Trustee's policy not to take into account the non-financial matters when taking investment decisions related to the Defined Benefit or Defined Contribution sections of the Scheme.

Realisation of investments

- 6.9 The Trustee, in conjunction with the Scheme's administrator, Willis Towers Watson, holds sufficient cash to meet the likely expenditure on benefits and expenses from time to time. The Trustee's policy is that there should be sufficient assets in liquid or readily realisable investments to meet cashflow requirements in the majority of foreseeable circumstances, so that as far as possible realisation of assets will not disrupt the Scheme's overall investment policy.

Additional Voluntary Contributions ("AVC's")

- 6.10 Members wishing to pay additional contributions to enhance their benefits at retirement can do so into the main Defined Contribution section of the Scheme. Some members have AVC investments with Clerical Medical and Equitable Life, but these are not available for future contributions.

Advisory Fees

- 6.11 Fees charged by Towers Watson Limited for investment consulting and actuarial advice are calculated in a number of ways:
- In some circumstances, with reference to the time spent on any particular assignment and the relevant charge-out rates applying to the staff who provided the services in question
 - For some larger pieces of work, according to an agreed project-based fee.
- 6.12 These fee structures have been selected as the Trustee believes they are consistent with best market practice, while allowing the Trustee control over costs.

Section 7: Risk management

Defined Benefit section

7.1 The Trustee recognises a number of risks involved in the investment of the assets of the Scheme:

- Solvency risk and mismatching risk
 - are measured through a qualitative and quantitative assessment of the expected development of the assets relative to the selected investment policies
 - are managed through assessing the progress of the actual growth of the liabilities relative to the investment policy.
- Manager risk
 - is measured by the expected deviation of the prospective return, relative to the investment policy
 - is managed through diversification across investment managers, investing the majority of the Scheme's assets with index-tracking managers and by the ongoing monitoring of the performance of the investment manager as well as a number of qualitative factors supporting the manager's investment process.
- Liquidity risk
 - is measured by the level of cashflow required by the Scheme over a specified period
 - is managed by the Scheme's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy and through holding assets of appropriate liquidity.
- Currency risk
 - is measured by the level of overseas investment and the translation effect of currencies leading to the risk of an adverse influence on investment values.
 - is managed by reducing the translation risk of investing overseas by hedging 50% of the overseas equity investments' currency translation risk for all regions with the exception of the Emerging Markets allocation.
- Political risk
 - is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention

- is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.

- Sponsor risk

- is measured by the level of ability and willingness of the sponsor to support the continuation of the Scheme and to make good any current or future deficit
- is managed by assessing the interaction between the Scheme and the sponsor's business, as measured by the number of factors, including the size of the pension liability relative to the financial strength of the sponsor.

7.2 These measures do not render the investment policy free of risk. Rather, the measures endeavour to balance the need for risk control and the need for assets which are likely to achieve the required performance target.

Defined contribution section

7.3 The Trustee recognises a number of risks involved in the investment of the assets of the Scheme:

- Asset underperformance relative to inflation (inflation risk)
- Volatility in stock markets (capital risk)
- Investment manager underperformance (capital risk)
- Inadequate diversification:
 - across all the asset classes
 - by holding excessive amounts in any one investment.
- Being forced to realise equity fund holdings to pay benefits in unfavourable equity and bond market conditions (pension conversion risk)
- Volatile annuity rates at retirement (pension conversion risk)
- Investment of assets not aligned to the way in which members wish to access them at retirement (mismatching risk)
- Pensions are payable in pounds sterling (currency risk).

7.4 The Trustee seeks to manage the uncertainty inherent in the inflation, capital pension conversion and mismatching risk by making available (and keeping under review) a reasonable range of investment options which enables members to choose funds that suit their view of those risks.

Risks	Definition	Objective
Inflation risk	The risk that investments do not provide a return at least in line with inflation, such that the 'purchasing power' of the ultimate fund available to provide the benefits is not maintained	To provide an investment option which is expected to provide a long-term rate of return that matches or exceeds inflation.
Capital risk	The risk that the monetary value of a member's account falls	To provide an investment option which offers a degree of capital protection. A cash deposit fund is an example of such an option.
Pension conversion risk	The risk that assets held do not match fluctuations in annuity rates as a member approaches retirement	To provide an investment option which generally reflects changes in long term interest rates in the belief that the cost of many annuities in the future will be based, at least in part, on these rates.
Mismatching risk	The risk that investment holdings are not aligned to the way that members wish to access benefits at retirement.	To provide alternative investment options, enabling members to align their investment approach to the way in which they wish to access their pension rights on retirement.

Appendix A: Current Investment Managers and mandate details – Defined Benefit section

The benchmarks and performance objectives for the managers are detailed as follows:

BlackRock Investment Management (UK) Limited – passive equity portfolio		
Fund	% of total assets	Performance benchmark index
Total Equities	100.0	
UK equities	6.5%	FTSE All Share
Overseas Equities (Unhedged)	42.25%	FTSE All World Developed ex UK
Overseas Equities (GBP Hedged)	42.25%	FTSE All World Developed ex UK 95% GBP Hedged
Emerging Market Equities	9.0%	MSCI Emerging Markets Index
Performance objective: to track the return of the market index for each of the underlying asset classes.		
BlackRock Investment Management (UK) Limited – Liability Hedging portfolio		
Fund	% of total assets	Performance benchmark index
Pooled LDI portfolio	100.0	Blended benchmark
Performance objective: to track the return of the liability proxy.		

Schroder Investment Management Ltd – property fund		
Fund	% of total assets	Performance benchmark index
Schroder UK Property Fund	100.0	IPD UK– All Balanced Property Funds Weighted Average
Performance objective: to outperform the benchmark over rolling 3 year periods.		

Hermes Investment Management Ltd – property fund		
Fund	% of total assets	Performance benchmark index
Hermes Property Unit Trust	100.0	IPD UK– All Balanced Property Funds Weighted Average
Performance objective: to outperform the benchmark over rolling 3 year periods.		

Towers Watson Investment Management – diversification fund		
Fund	% of total assets	Performance benchmark index
Towers Watson Partners Fund	100.0	CPI + 2%
Performance objective: to exceed CPI +5% over rolling 5 year periods		

The performance benchmark index above represents the long term target for the Fund. Over short time periods, the Fund's performance will be measured against other comparators, including equity market indices such as the MSCI AC World (60% GBP Hedged) Index

Fulcrum Asset Management LLP – diversification fund		
Fund	% of total assets	Performance benchmark index
TM Fulcrum Diversified Absolute Return Fund	100.0	RPI + 3%
Performance objective: to achieve long-term absolute returns of RPI + 3% to 5% in all market conditions over rolling five year annualized periods.		

The performance benchmark index above represents the long term target for the Fund. Over short time periods, the Fund's performance will be measured against other comparators, including equity market indices such as the MSCI AC World (60% GBP Hedged) Index

Appendix B: Current Investment Managers and mandate details – Defined Contribution section

Funds

For each fund their objectives and fees are shown below. Funds and investment options marked* are classified as default funds:

Fund name	Objective	Annual Fees (Total Expense Ratio)	Benchmark
BlackRock Emerging Markets Equity Fund*	This fund aims to achieve a return consistent with the return of the MSCI Emerging Markets Index	0.61%	MSCI Emerging Markets
BlackRock (30:70) Global Equity Currency Hedged Index Fund	This fund aims to invest approximately 30% in shares of UK companies and 60% into developed overseas equities with currency exposure hedged back to sterling. The remaining 10% is invested in emerging market equities	0.36%	60% FTSE Developed ex UK, Canada, Israel and S Korea (95% Hedged) Index, 30% FTSE All-Share Index and 10% MSCI Emerging Markets Index
BlackRock (40:60) Global Equity Index Fund*	This fund aims to invest approximately 40% in UK equities and 60% in overseas companies.	0.36%	40% FTSE All Share, 60% FTSE Developed (ex UK) Index
BlackRock UK Equity Index Fund*	This fund invests in shares of UK companies and aims to achieve a return in line with the FTSE All Share Index	0.36%	FTSE All Share
BlackRock World (ex-UK) Equity Index Fund*	This fund aims to achieve returns in line with global equity markets, excluding the UK	0.36%	FTSE Developed (ex UK) Index
HSBC Amanah Global Equity Index Fund	This funds objective is to grow money in line with the performance of the 100 largest companies engaged in Shariah compliant activities.	0.66%	Dow Jones Titans 100

Stewardship Fund*	This fund aims to provide exposure to an ethically screened portfolio of assets in order to produce capital growth. The fund will mainly be invested in equities	0.38%	FTSE All Share
BlackRock Over 15 year Corporate Bond Index Fund*	This fund aims to achieve a return consistent with the iBoxx £ Non Gilt Over 15 years Index	0.36%	iBoxx £ Non-Gilts Over 15 Years Index
BlackRock Over 15 year Gilt index Fund*	This fund aims to invest in UK Government fixed income securities that have a maturity period of 15 years or longer	0.36%	FTSE Gilts Over 15 Year Index
Property Fund*	This fund aims to generate capital growth and income by reinvesting mainly in UK commercial property. The fund may also invest in listed property equities, money market instruments, short term bonds, derivatives or in other direct property funds	0.36%	IPD UK All Property Index
Aviva Cash Fund*	This fund aims to provide short term liquidity by investing in money market instruments, bonds and cash.	0.36%	7 Day LIBID

Lifestyle investment options

Option	Objective	Annual Fees (Total Expense Ratio)
My Future Lifetime Investment strategy*	This strategy aims to meet the needs of members regardless of the option they wish to take at their selected retirement date. It invests in a mix of fixed interest investments and stocks and shares in the run up to retirement. It is the Scheme's core default investment strategy.	0.36%
My Future Target Annuity strategy*	This strategy is designed to meet the needs of members who wish to purchase an annuity at retirement, by gradually moving to a portfolio of investments which target annuity purchase as they approach their selected retirement date.	0.36%
My Future Target Cash Lump Sum strategy	This strategy is designed to meet the needs of members who wish to take a cash lump sum at retirement, by gradually moving to a portfolio of investments which are predominantly investment in cash like investments as they approach their selected retirement date.	0.36%
My Future Target Drawdown strategy	This strategy is designed to meet the needs of investors who wish to draw an income from their funds after retirement, by gradually moving to a mixed portfolio of investments containing lower risk fixed income investment for security and higher risk equity and property investments to maintain an element of capital growth	0.36%
Aviva 3 year Lifestyle Investment Programme	This strategy invests initially in global equities moving to a portfolio of bonds (75%) and cash (25%) as a member approaches their selected retirement date, and is aligned to them taking tax free cash and purchasing an annuity. It starts switching out of equities in the three years prior to a member's selected retirement date, and so carries the highest risk of the legacy lifestyle investment programmes.	0.36%
Aviva 5 year Lifestyle Investment Programme*	This strategy invests initially in global equities moving to a portfolio of bonds (75%) and cash (25%) as a member approaches their selected retirement date, and is aligned to them taking tax free cash and purchasing an annuity. It starts switching out of equities in the five years prior to a member's selected retirement date, and so carries medium investment risk relative to the other legacy lifestyle investment programmes.	0.36%
Aviva 10 year Life Investment Programme	This strategy invests initially in global equities moving to a portfolio of bonds (75%) and cash (25%) as a member approach their selected retirement date, and is aligned to members taking tax free cash and purchasing an annuity. It starts switching out of equities in the five years prior to a member's selected retirement date, and so carries medium investment risk relative to the other legacy lifestyle investment programmes.	0.36%

The My Future Lifetime Investment strategy is the default strategy for automatic enrolment purposes.