Statement of Investment Principles for the Low & Bonar Group Retirement Benefit Scheme

1. Introduction

This Statement of Investment Principles ("SIP") sets out the policy of the Trustee of the Low & Bonar Group Retirement Benefit Scheme ("the Trustee") on various matters governing decisions about the investments of the Low & Bonar Group Retirement Benefit Scheme ("the Scheme"), a Defined Benefit ("DB") Scheme. This SIP replaces the previous SIP dated August 2019.

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 ("the Act"), the Occupational Pension Schemes (Investment) Regulations 2005 (as amended) and the Pension Regulator's guidance for defined benefit pension schemes (March 2017). The SIP also reflects the Trustee's response to the Myners voluntary code of investment principles.

This SIP 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 into account 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 the relevant 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. 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 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 appetite, capacity, measurement and management.
- **Appendix 3** sets out the Scheme's investment manager arrangements.

2. Investment objectives

The Trustee's primary objectives are that:

- the Scheme should be able to meet benefit payments as they fall due; and
- the Scheme's funding position (ie the value of its assets relative to the assessed value of its liabilities) should improve over time, with the aim of being fully funded on the Technical Provisions basis as quickly as the sponsoring employer can reasonably afford, taking into account the financial and business circumstances of the employer. The Trustee is aware that there are various measures of funding, and has given due weight to those considered most relevant to the Scheme.

3. Investment strategy

Over recent periods, the Trustee has taken material steps to de-risk the investment strategy as a result of an improved financial position and maturing membership profile. In particular, the Scheme has implemented two pensioner buy-ins with different insurers (in 2015 and 2019).

The Trustee, with the help of its advisers and in consultation with the employers at the time, reviewed the investment strategy in 2019, taking into account the objectives described in Section 2 above, and continues to make revisions to the strategy as and when it is appropriate following professional advice.

Further details of the resulting asset allocation can be found in Appendix 3.

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 and magnitude of each risk.

The Trustee considered a wide range of asset classes for investment, and the expected returns and key individual risks associated with those asset classes as well as how these risks can be mitigated where appropriate. Within the investment adviser's model, the expected return assumptions for gilts and cash are updated based on observed market yields. The key financial assumptions underlying the investment adviser's model (based on market conditions as at 31 March 2019, the date of the last investment strategy review) are as follows:

- average long-term gilt yield – 1.5% pa;
- average long-term return on global equities – gilts + 5.0% pa;
- average long-term return on private credit – gilts + 3.7% pa;
- average long-term return on DGF – gilts + 3.0% pa;
- average long-term return on short-dated credit – gilts + 0.9% pa; and
- average long-term return on (3x) leveraged dynamic LDI – gilts + 1.0% pa.

With the exception of gilts, all expected returns are expressed as an annual return in excess of the return on gilts.

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 in order 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 (and the ability to meet these in the near to medium term), the funding level, and the strength of the employer covenant;
- the risks, rewards and suitability of a number of possible asset classes and investment strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken;
- the need for appropriate diversification between different asset classes to ensure that both the 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 considers 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.

In relation to this final point, 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 required investment returns, 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;
- 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 is one factor that trustees should consider when making investment decisions;
- 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;
- 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, investment guidelines, and custody arrangements 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 Scheme's investments. The managers are authorised under the Financial Services and Markets Act 2000 (as amended) to carry out such activities.

The Trustee entered into buy-in agreements with insurers in 2015 and 2019. This involved the purchase of bulk annuity contracts covering a subset of the Scheme's deferred and pensioner members.

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 of 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. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, 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 as 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. In addition, the Trustee expects its managers to ensure portfolio turnover remains within any limits set out in portfolio guidelines, and to monitor portfolio turnover costs over time, seeking efficiencies where appropriate. 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 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 informs 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 private credit).

Given the Scheme's negative cash flow position, the following process is typically followed for managing disinvestments to meet cash flows:

- The income generated from the Scheme's assets will be paid to the Trustee's bank account to meet cash outflows. Any surplus income shall be re-invested in line with the Scheme's target asset allocation.

- Should asset income be insufficient, the Trustee will consider the Scheme's asset allocation from time to time and seek to disinvest in such a way as to maintain the appropriate target asset allocation in effect at the time.

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 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 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 attached 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, taking into account the long-term financial interests of the beneficiaries.

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.

SIP signed for and on behalf of the Trustee of the Scheme:

Signed:

Steve Good, Low & Bonar Pension Trustees Limited, Chairman

Investment governance, responsibilities, decision-making and fees

The Trustee has decided 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

In broad terms, the Trustee is responsible in respect of investment matters for:

- developing a mutual understanding of the investment and risk issues associated 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), the exercise of rights (including voting rights) and undertaking engagement activities in respect of investments;
- reviewing the investment policy as part of any review of the investment strategy;
- setting the policy for rebalancing between asset classes;
- putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- appointing, monitoring, reviewing and (when necessary) dismissing investment managers, custodians, investment advisers, actuary and other advisers;
- monitoring the exercise of the investment powers that it has 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 employer when reviewing the SIP.

2. Investment managers

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

- managing the portfolios of assets according to their stated objectives, and within the guidelines and restrictions set out in their respective investment manager agreements and/or other relevant governing documentation;
- taking account of financially material considerations (including climate change and other ESG considerations) as appropriate when managing the portfolio of assets;
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments;
- 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 and actuary

In broad terms, 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 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 the extent to which these practices are aligned with the Trustee's policies on such considerations; 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 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 receive fees calculated by reference to the market value of assets under management and also 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 custodians' fee rates are believed to be consistent with the custodians' 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 Scheme. 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 Scheme's investments, investment providers and professional advisers from time-to-time. The Trustee will also periodically assess the effectiveness of its decision-making and investment governance processes and will decide how this may then be reported to members.

6. Working with the Scheme's employer

When reviewing matters regarding 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, 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 Scheme 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.

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 Scheme. 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.

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 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.

2.3. 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 to ensure they remain appropriate for its selected mandates.

2.4. Liquidity/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 and by investing in income-generating assets, where appropriate.

2.5. Environment, 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 review how these risks are being managed in practice.

2.6. 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 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 Scheme's interest rate and inflation hedging could be reduced, and that the Scheme's funding level could suffer subsequently as a result. To manage this risk, the Trustee ensures that the Scheme has a sufficient allocation to cash and other highly liquid assets which can be readily realised so that cash can be posted to the LDI manager at short notice.

2.7. 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 meet required payments for a contractual obligation.

The Scheme invests in pooled funds and is therefore directly exposed to credit risk in relation to the solvency of the investment managers.

Direct credit risk in relation to pooled funds is mitigated by the underlying assets being ring-fenced from the managers and the regulatory environment in which they operate, and diversification of the Scheme's investments across a number of pooled funds. The Trustee, with the help of its advisors, carry out due diligence checks prior to the appointment of any new investment manager, and monitor for changes in the operating environment of the existing investments.

The Scheme is also exposed to direct credit risk through its buy-in contracts (ie the risk that the insurer defaults on the contract). This risk is mitigated by the regulatory environment within which the insurer operates whereby the insurer is required to make a reserve for each policy by holding prescribed amounts (and to hold those amounts in prescribed asset classes). This is consistent with regulations in force throughout the UK insurance industry.

The Scheme is indirectly exposed to credit risks arising from the underlying investments held by the pooled funds where they invest in bonds and other assets of a contractual nature.

The managers of these pooled funds manage credit risk by either having a diversified exposure to bond issuers or only investing in highly rated issuers (eg the UK government), conducting thorough research on the likelihood of default of those issuers, having only a limited exposure to bonds rated below investment grade, and / or arranging security against borrower default where appropriate. The magnitude of credit risk within each fund will vary over time as the managers change the underlying investments in line with their views on markets, asset classes and specific securities.

The Scheme is also indirectly exposed to credit risk arising from the managers' use of derivative instruments (eg within the LDI funds to hedge risks associated with the Scheme's liabilities). The terms under which such instruments are managed include provisions to manage the exposure to credit risk, such as limits on the exposure to any single counterparty and minimum credit ratings that all counterparties must meet. In addition, the derivative positions are generally collateralised daily, to aim to limit credit risk to one day's market movements. The introduction of central clearing is also expected to reduce credit risk associated with individual counterparties.

Cash is held (either directly or indirectly in pooled funds) with financial institutions that are at least investment grade credit rated.

2.8. Counterparty risk

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

In particular, the LDI manager makes use of derivative and gilt repos contracts within its LDI funds and these funds are 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.

2.9. 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.

2.10. 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.

2.11. Interest rate and inflation risk

The Scheme's LDI funds are subject to interest rate and inflation risk because they invest in bonds and swaps. In addition, the Scheme's buy-ins are also subject to these risks (which are expected to change in value consistently with the present value of the insured members).

However, the interest rate and inflation exposure of the Scheme's assets is intended to hedge part of the corresponding risks associated with the Scheme's liabilities.

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

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 have exposure to these risks in this manner and to review them on a regular basis.

Some of the Scheme's other assets will also have some sensitivity to changing interest rates, but this sensitivity will vary over time as the underlying investments change, and it is not expected to be a primary driver of returns due to the investment approach of the funds.

2.12. Other price risk

This is the risk that the fair value or future cashflows 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 traded in the market.

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

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).

The Scheme has purchased two insurance policies through buy-in exercises in 2015 and 2019 to reduce the Scheme's exposure to longevity risk.

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 strategy and manager arrangements

Following the Trustee's 2019 investment strategy review, the resulting approximate asset allocation was as follows (note this ignores the Scheme's buy-in contracts, and considers "invested assets" only):

Asset class	Initial allocation
Diversified growth	30%
Private credit	20%
Short dated credit	10%
LDI & cash	40%
Total	**100%**

There is no formal rebalancing policy. The Trustee monitors the asset allocation on a regular basis. If material deviations from the strategic allocation occur, the Trustee will consider with its advisers whether it is appropriate to rebalance the assets, taking into account factors such as market conditions and anticipated future cash flows.

As the Scheme matures over time, the Trustee will seek to further de-risk the investment strategy in line with the change in the liability profile of the Scheme. This means that the investment strategy will gradually target a higher allocation to lower risk assets (eg more buy-ins) as the Scheme matures.

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

1. BMO Global Asset Management plc ("BMO") – LDI, short dated credit and cash

The Trustee has selected BMO as an investment manager for the Scheme's LDI, short dated credit and cash portfolios.

The LDI element consists of investments in BMO's Real Dynamic LDI fund, BMO's Short Profile Real Dynamic LDI fund and BMO's Nominal Dynamic LDI fund.

The Trustee also invests in BMO's Global Low Duration Credit Fund and Sterling Liquidity Fund.

BMO does not have a central benchmark allocation. The performance benchmarks and objectives for the funds are as follows:

Fund	Benchmark index	Performance objective
BMO Nominal Dynamic LDI Fund	Custom leveraged liability benchmarks based on swaps and gilts	To provide a hedge against nominal rate liabilities
BMO Real Dynamic LDI Fund	Custom leveraged liability benchmarks based on swaps and gilts	To provide a hedge against real rate liabilities
BMO Short Profile Real Dynamic LDI Fund	Custom leveraged liability benchmarks based on swaps and gilts	To provide a hedge against short-dated real rate liabilities

BMO Global Low Duration Credit Fund	1-month Sterling LIBOR	No explicit objective (deliver a total return commensurate with low duration non-government bonds)
BMO Sterling Liquidity Fund	7-day Sterling LIBID	Maintain high levels of liquidity, preserve capital and generate a return in line with the benchmark

The LDI portfolio as a whole is designed to be approximately three-times leveraged so that each unit of investment in the portfolio has sensitivity to interest rates and inflations of around three units of technical provisions. The BMO funds are all priced daily. The funds are open-ended and are unlisted.

BMO is responsible for custody of assets of the funds. Responsibility is delegated to State Street Bank International GmbH, Luxembourg Branch. 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.

2. Aberdeen Standard Investments ("Aberdeen") – diversified growth

The Trustee has selected Aberdeen as the portfolio manager for the Scheme's diversified growth portfolio. The portfolio is invested in the Aberdeen Diversified Growth Fund. The fund's investment target is to outperform 1-month GBP LIBOR by 5.0% pa (gross of fees) over rolling 5-year periods.

The fund is priced daily, is open-ended and unlisted.

Aberdeen has delegated responsibility of the custody of assets within the fund to Citibank NA London Branch. 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.

3. Alcentra Limited ("Alcentra") – private credit

The Trustee has selected Alcentra as the portfolio manager for one of the Scheme's private credit portfolios. The portfolio is invested in the Clareant European Direct Lending Fund II. The fund's investment objective is to seek a net return of 8-10% pa (in Euro terms, but generally hedged against Sterling) by providing capital to middle-market corporate borrowers in Europe.

The fund is not priced on a regular basis. The fund is closed ended (minimum term of 6 years) and unlisted.

ING Luxembourg S.A. has been appointed as the fund's depositary, and is responsible for the custody of the assets of the pooled fund in which the Scheme invests. The Trustee does not have a direct relationship with ING Luxembourg S.A.

4. ICG Longbow (“Longbow”) – private credit

The Trustee has selected Longbow as the portfolio manager for one of the Scheme’s private

credit portfolios. The portfolio is invested in the ICG-Longbow UK Real Estate Debt Investments IV Fund. The dual target of the fund is to achieve: an annual cash yield of 7% pa following the Investment Period, over which Longbow will source / originate loan investment transactions and drawdown funds from investors, and an overall return, after the deduction of all fees and expenses, of 9-10% pa.

The fund is not priced on a regular basis. The fund is closed ended (maximum term of 9 years) and unlisted.

Apex Fund Services (Malta) Limited, Luxembourg Branch has been appointed as the Fund’s depositary and is responsible for the custody of the assets of the pooled fund in which the Scheme invests. The Trustee does not have a direct relationship with Apex Fund Services (Malta) Limited, Luxembourg Branch.

5. Bulk annuity providers – Just Group plc (“Just”) and Canada Life Limited (“Canada Life”)

The Trustee has selected Just and Canada Life as the insurance providers for two buy-in policies, both covering a subset of the Scheme’s pensioners. The objectives of the contracts are to reduce the Scheme’s exposure to investment, inflation and longevity risks, protect the long-term financial security of members’ benefits and to ensure the right benefit is paid to the right member at the right time.

6. Additional Voluntary Contributions (“AVCs”)

The Trustee has selected Clerical Medical Investment Group Limited as the Scheme’s money purchase AVC provider. For historical reasons AVCs are also held in various policies with Utmost Life and Pensions Limited (previously Equitable Life Assurance Society) and Prudential Assurance Company. No further contributions are paid to any of the policies with Utmost or Prudential.

The AVC arrangements are reviewed by the Trustee from time-to-time.