Places for People

2020

Statement of Investment Principles

11 September 2020

Statement of Investment Principles for the Places for People Group Retirement Benefits Scheme (the "Scheme")

1. Introduction

This Statement of Investment Principles ("SIP") sets out the policy of the Places for People Pension Trustee Limited (the "Trustee") on various matters governing decisions about the investments of the Places for People 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).

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 primary objective is to ensure that the Scheme should be able to meet benefit payments as they fall due. In addition to this primary objective, the Trustee has a series of additional objectives. These are as follows:

- that the expected return on the Scheme's assets is maximised whilst managing and maintaining investment risk at an appropriate level. What the Trustee determines to be an appropriate level of risk is set out in Appendix 2.

- that the Scheme should be fully funded on a technical provisions basis (ie the asset value should be at least that of its liabilities on this basis). The Trustee is aware that there are various measures of funding, and has given due weight to those considered most relevant to the Scheme.
- that the Scheme has a long-term journey plan in place, including a secondary funding target (which has been agreed with the Company) which is designed to help it achieve full funding between 31 March 2028 and 31 March 2033 on a self-sufficiency basis. Progress against this long-term journey plan is assessed and reported on a regular basis with progress being measured against a set of short-term milestones.

3. Investment strategy

The Trustee, with the help of its advisers and in consultation with the employer, reviewed the investment strategy in May 2019, taking into account the objectives described in Section 2 above. The result of the strategy review was that the Trustee agreed that the investment strategy of the Scheme should ultimately be based on the allocation below:

Portfolio	Asset class	Strategic allocation (%)
Growth	Equities	13
Growth	Diversified Growth Funds	17
Income focus	Credit	18
Matching	Short dated credit/cash	17
Matching	LDI	35
	Total	**100**

There is no formal rebalancing policy. The Trustee monitors the asset allocation from time to time. 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 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 as the Scheme matures.

The Trustee has also put in place a mechanism to assess whether to de-risk the Scheme's investment strategy following improvements in the funding level. The objective of this mechanism is to lock in gains following better than expected investment experience, by first disinvesting from the Scheme's growth assets (ie equities and DGFs) and investing the proceeds in the Scheme's income focus assets (ie credit), and then by disinvesting from the Scheme's income focus assets and investing in matching assets (ie LDI and cash). The Trustee reviews the de-risking mechanism on a regular basis.

4. Considerations in setting 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, taking account of the expected returns and key individual risks associated with those asset classes as well as how these risks can be mitigated where appropriate. 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. This is reflected in the following assumptions for expected long-term returns above gilts (as at March 2019):

- equities: 5.0%
- diversified growth: 3.0%
- credit: 0.9%
- liability driven investment: 1.0%.

In setting the strategy the Trustee 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 all 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.

Some of the Trustee's key investment beliefs are set out below.

- asset allocation is the primary driver of long-term returns;
- risk-taking is necessary to achieve return, but not all risks are rewarded;
- equity, credit and illiquidity are the primary rewarded risks;
- risks that do not have an expected reward, such as interest rate, 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;
- environmental, social and governance (ESG) are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors;

- investment managers who can consistently spot and profitably exploit market opportunities are difficult to find and therefore passive[1] management, where available, is usually better value;
- long-term environmental, social and economic sustainability is one factor that should be considered when making investment decisions;
- responsible investment in well governed companies and engaging as long-term owners can reduce risk over time and may positively impact Scheme returns; and
- costs have a significant impact on long-term performance.

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 Scheme'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 has limited influence over managers' investment practices because all the Scheme's assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

The Trustee's view is that the fees paid to the investment managers, and the possibility of their mandates 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

[1] Passive management includes a range of rules-based portfolio construction strategies

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. 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 indirect property). In general, the Trustee's policy is to use cash flows to rebalance the Scheme's assets towards the strategic asset allocation, and also receive income from some of the portfolios where appropriate.

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, since it recognises that these factors can be relevant to investment performance.

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 take into account 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. For example, it will aim to align its views with those of the employer, if applicable.

The Trustee has chosen to invest the equity allocation in a passively managed fund that tracks a climate-tilted index that has reduced exposure to climate-related risks and increased exposure to climate-related opportunities. At this time, it does not believe there are any ESG-focused investment options available that meet its needs in other asset classes but will keep this under review.

The Trustee's investment adviser, LCP, formulates ESG-focussed views of asset managers and provides suitable fund recommendations in line with the Trustee's policies on climate change and ESG.

8. Voting and engagement

The Trustee recognises its responsibilities as an owner of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, 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 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.

SIP approved by the Trustee and sponsoring employer on 7 August 2020.

Investment governance, responsibilities, decision-making and fees

The Trustees 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 the division of responsibility allows for efficient operation and governance of the Scheme overall. 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 investment and risk issues with the employer;
- setting the investment strategy, in consultation with the employer;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- formulating a policy on taking account of non-financial matters in the selection, retention and realisation of investments;
- setting the policy for rebalancing between asset classes;
- setting a policy on the exercise of rights (including voting rights) and undertaking engagement activities in respect of the investments;
- putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- appointing (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 investment policy as part of any review of the investment strategy;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employer when reviewing the SIP.

2. Investment managers

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

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

- taking account of financially material considerations (including climate change and other ESG considerations) as appropriate when managing the portfolios of assets;
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments;
- providing the 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

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

- advising on how material changes within the Scheme's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;
- advising on the selection, and review, of the investment managers;
- advising on ESG related issues; 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 investment advisers, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis.

The investment managers receive fees calculated by reference to the market value of assets under management. The fee rates are believed to be consistent with the managers' general terms for institutional clients and are considered by the 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

1. Risk appetite and risk capacity

Risk appetite is a measure of how much risk the Trustee is willing to bear within the Scheme in order to meet its investment objectives. Taking more risk is expected to mean that those objectives can be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action. Risk capacity is a measure of the extent to which the Trustee can tolerate deviation from its long term objectives before attainment of those objectives is seriously impaired. The Trustee aims 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 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.

The Scheme's 1-year 95% Value at Risk figures, as at 31 December 2018 for asset allocations corresponding to the updated strategic target was £14m (the figure for the allocation in place at the time was £18m). This means that there is a 1 in 20 chance that the Scheme's funding position would worsen by more than the figures shown above, over a one year period, depending on the stage the strategy is at. When deciding on the current investment strategy, the Trustee believed these levels of risk to be appropriate given the Trustee's and employer's risk appetite and capacity, given the Scheme's objectives.

2. Approach to managing and monitoring investment risks

The Trustee considers that there are a number of different types of investment risk that are important to manage and monitor. These include, but are not limited to:

2.1. Risk of inadequate returns

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

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 their 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.

2.5. Environmental, social and governance (ESG) risks

Environmental, social and corporate governance (ESG) factors are sources of risk to the Scheme's investments, some of which could be financially material, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Trustee seeks to appoint investment managers who will manage these risks appropriately on their behalf and from time to time reviews how these risks are being managed in practice.

2.6. 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 in order to support a given level of leverage. Collateral adequacy risk is the risk that the Trustee, when requested to do so, will not be able to post additional cash to the LDI 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. In order 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 discharge an obligation.

The Scheme invests in pooled funds and is therefore directly exposed to credit risk in relation to the solvency of the investment managers of these funds. Direct credit risk is mitigated by the underlying assets of the pooled funds being ring-fenced from the managers and the regulatory environment in which the managers operate.

The Scheme is indirectly exposed to credit risk via pooled investments in diversified growth funds (that invest in a range of asset classes including non-government bonds), credit, property and LDI funds. The managers of these pooled funds manage credit risk by having a diversified exposure to bond issuers, tenants and derivative counterparties, conducting thorough research on the probability of default of those entities, and having a controlled and carefully considered exposure to counterparties 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 counterparties.

The Trustee believes that the level of credit risk present in the Scheme's investments is appropriate.

2.8. 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.

2.9. Interest rate and inflation risk

The Scheme's assets are subject to interest rate and inflation risk because some of the Scheme's assets are held in bonds / interest rate swaps, via pooled funds. However, the interest rate and inflation exposure of the Scheme's assets hedges part of the corresponding risks associated with the Scheme's liabilities.

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

As a result, the Trustee aims to hedge around 100% of the Scheme's funded exposure to interest rate risk and 100% of the Scheme's funded exposure to inflation risk, by investing in a mixture of bonds as well as leveraged LDI arrangements.

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

2.10. Other non-investment risks

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

Examples include:

- longevity risk (the risk that members live, on average, longer than expected); and
- sponsor covenant risk (the risk that, for whatever reason, the sponsoring employer is unable to support the Scheme as anticipated).

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Scheme's funding position falls below what is considered an appropriate level. The Trustee regularly reviews progress towards the Scheme's funding target, both in the longer-term as well as against short-term milestones, comparing the actual versus the expected funding level.

By understanding, considering and monitoring the key risks that contribute to funding risk, the Trustee believes that it has appropriately addressed and are 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. The Growth Portfolio

1.1. The Equity Portfolio

The Trustee has appointed Legal & General Investment Management ("L&G") as the investment manager for the Scheme's equity portfolio, on a passive basis.

The Scheme is invested in the pooled L&G MSCI World Low Carbon Target Index Fund. The objective of the fund is to reduce the carbon footprint of the investments versus the parent index, within a tracking error constraint of 30bps per annum.

The fund will be overweight to companies with low carbon emissions relative to sales and those with low potential carbon emissions per dollar of market capitalization. It will be underweight to companies with high carbon emissions and those exposed to high levels of fossil fuel reserves, which are at risk of becoming stranded.

Custodian services are provided by HSBC Securities Services and Citibank, N.A.

1.2. The Diversified Growth Portfolio

The Trustee has appointed Baillie Gifford & Co Limited ("Ballie Gifford") as the investment manager for the Scheme's Diversified Growth portfolio.

The Scheme is invested in the pooled Baillie Gifford Diversified Growth Fund. The objective of the fund is to achieve long-term capital growth at a level of risk lower than investment in shares by investing in a variety of asset classes, either directly or indirectly or through other funds. The asset classes include, but are not limited to shares of companies, bonds, property, infrastructure, commodities, and currencies.

The return target is at least 3.5% pa over UK base rates (after fees) while limiting volatility to less than 10% pa over rolling 5 year periods.

Baillie Gifford has appointed Bank of New York Mellon (BNYM) as the custodian bank for its direct holdings in securities.

2. The Income Focus Portfolio

The Trustee has appointed Legal & General Investment Management ("L&G") as the investment manager for the Scheme's Income Focus portfolio.

The Scheme is invested in the pooled L&G Maturing Buy and Maintain Credit Fund 2025-2029. The objective of the fund is to capture the credit risk premium within a globally diversified portfolio of predominantly investment grade credit, and to preserve value by avoiding defaults and securities experiencing a significant deterioration in credit quality.

3. The Matching Portfolio

3.1. The Short Credit Portfolio

The Trustee has appointed BMO Global Asset Management ("BMO") as the investment manager for the Short Credit portfolio.

The BMO Global Low Duration Credit Fund will provide a simple portfolio consisting of primarily investment grade global credit. It will have an average duration of around three years and will, therefore not provide any material interest rate or inflation hedging. It will be used alongside the assets in the Liquidity Fund to provide collateral for the Dynamic LDI funds. The Trustee agreed to invest a portion of the excess cash funds into a short credit fund in order to generate additional return for the Scheme.

3.2. The LDI and Cash Portfolio

The Trustee has appointed BMO Global Asset Management ("BMO") as the investment manager for the Scheme's LDI investments. The Scheme invests with BMO through a range of pooled funds as outlined below.

The Scheme's LDI investments are invested across the F&C Real Dynamic LDI Fund, F&C Nominal Dynamic LDI Fund and F&C Sterling Liquidity Fund.

The stated objective of each fund is below:

- The Real Dynamic LDI Fund aims to provide liability hedging by offering interest rate and inflation protection which replicates the liability profile of a typical UK defined benefit pension scheme.
- The Nominal Dynamic LDI Fund aims to provide liability hedging by offering interest rate protection which replicates the liability profile of a typical UK defined benefit pension scheme.
- The Sterling Liquidity Fund aims to maintain high levels of liquidity and generate a return in line with 7-day LIBID.

The Dynamic LDI funds invest in a combination of swaps and gilt based assets in order to generate return. The benchmark for these funds is the equivalent of the gilts only based return for the same liability profile.

The split between the two Dynamic LDI funds was determined to broadly match the liability profile of the Scheme.

BMO has appointed State Street Bank Luxembourg S.C.A. ("State Street") as the depository for the LDI Fund, which includes the LDI Funds and Cash Fund.

4. Additional Voluntary Contributions ("AVC")

The Trustee has selected Scottish Widows, Henderson Life and Friends Provident for the Scheme's money purchase AVCs.