Welcome Break Pension Plan

Details of our Pension Plan can be accessed from this page, using the links presented below.

Welcome Break Pension Plan – Transaction Costs

Welcome Break Pension Plan ("the Plan")
Chair's Statement
Annual statement regarding governance of the Defined Contribution ("DC") Section for the year ended 30 September 2020

I am pleased to present the Trustees' annual statement of governance, covering the period 1 October 2019 to 30 September 2020. This statement describes how the Trustees seek to ensure that the Plan is well-managed and delivers excellent services to members. In doing so, we provide the various statutory disclosures required by the Occupational Pension Schemes (Charges and Governance)

Regulation 2015 (the 'Regulations'). This statement covers five key areas:

– The investment strategy relating to the Plan's default DC arrangement;
– The processing of the DC Section's financial transactions;
– Charges and transaction costs within the DC Section, including the disclosures for the impact of costs and charges;
– Value for Members' assessment; and
– The Trustees' compliance with the statutory knowledge and understanding requirements.

The Trustees oversee the governance of the Plan with support from their advisers and investment consultants (Mercer), administrators (Mercer), and Legal & General ("LGIM"), who provide the platform on which the Plan's investments are held. The Plan holds DC and AVC assets in LGIM funds, as well as some AVC assets across two Standard Life with-profits funds.

The Plan is operated by the Trustees in accordance with the rules of the Plan, and the legal & regulatory regime applicable to pension plans. This statement and the Plan's most recent Statement of Investment Principles ("SIP") will be published on a publicly available website.

The default investment arrangement

The Trustees are responsible for establishing a default investment arrangement for members who do not select their own investment options from the fund range that is available.

The Trustees, with advice from the Plan's investment consultants, undertook a review of the investment strategy on 4 September 2018; this review took into account the characteristics and profile of the Plan membership to establish an appropriate strategy. The recommendation arising from the review was that, based on the quality and the appropriateness of the investment options for the

Plan's membership, the existing investment strategy should mostly be maintained.

The only exception was a recommendation to consider replacing the Over 5 Year Index-Linked Gilts Index Fund in the de-risking phase with a fund more focused towards protecting against changes in inflation linked annuity prices (specifically the LGIM Inflation Linked Pre-Retirement Fund, a fund provided by LGIM which is highly rated by Mercer, the Trustees' investment consultant). However, due to relative underperformance of the proposed Fund and the significant implementation costs compared with the value of invested assets, no changes were made following the review. The next review of the investment strategy is planned to take place in July 2021.

The current default investment arrangement for the DC Section of the Plan is the Lifestyle Investment option, which is managed by LGIM. Under this arrangement, a member's contributions are invested into the Multi Asset (formerly Consensus) Fund until 16 years before the member's target retirement date, otherwise known as the growth phase. The aim of this fund is to provide long term investment growth for the member. The default strategy then gradually moves assets to lower-risk funds – the Blended Fund, Over 5 Year Index-Linked Gilt Index Fund and the Sterling Liquidity Fund – in the de-risking phase. The Blended Fund consists of 12 different passively managed funds which are invested in equities and bonds – in effect, this is a multi-asset fund too.

At the member's target retirement date, 75% of the member's retirement savings are invested in the Over 5 Year Index-Linked Gilt Index Fund and 25% in the Sterling Liquidity Fund. This is intended to suit members withdrawing 25% of their retirement savings as a lump sum and purchasing an annuity with the remainder or receiving a pension directly from the Plan. This has been chosen because approximately two-thirds of members are required to have a pension set up within the Plan since their DC funds are less than the value of the Plan's DB underpin. The underpin arises because DC members were contracted-out of the State Second Pension using the Reference Scheme Test.

In accordance with the Regulations, the Trustees of the Plan have appended the latest copy of the Statement of Investment Principles (the "SIP") prepared for the Plan in compliance with Section 35 of the Pensions Act 1995 and Regulation 2/Regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005.

The Trustees and their professional advisers (Mercer) review how the funds within the Plan's default investment arrangement (and the wider self-select fund options) have performed against the investment managers' objectives and benchmarks at least every six months. Within this review process, the Trustees also assessed the extent to which performance is consistent with the aims and objectives of the default arrangement and whether the strategy and returns are consistent with these aims and objectives. The review process took place within the Trustee meetings using performance information from the investment managers and with advice from Mercer.

Requirements for processing financial transactions

As required by the Regulations, the Trustees must ensure that core financial transactions are processed promptly and accurately. This includes:

– Investment of contributions paid to the DC Section (noting that this Plan only has deferred members);
– Transfer of members' assets into and out of the DC Section;
– Transfers of members' assets between different investment options available in the DC Section; and
– Payments from the DC Section to, or in respect of, members.

The Trustees monitor the extent to which the DC Section's core financial transactions are processed promptly and accurately through information which is detailed within the administration reports produced by the Plan's administrator (Mercer) which are reviewed by the Trustees at each of their quarterly meetings. The Trustees require that administration reports include a specific confirmation that core transactions have been processed promptly and accurately. The administrator would also alert the Trustees between meetings if this failed to happen.

As part of their checking process, Mercer carry out monthly checks, in addition to daily reconciliation of the Trustee bank account. All investments and banking transactions are also checked and verified before being processed. All work processes are documented and subject to a peer review process, with work being calculated and independently checked by another member of the team.

The Trustees have service level agreements (SLAs) in place with the Plan's administrators. These cover the accuracy and timeliness of a wider range of administration services including interaction with members. Mercer have provided the following information on the completed SLAs (relating to investments in the LGIM fund range) across the Scheme year:

Period	SLA achieved in respect of completed cases in the period	SLAs achieved for Core Financial Transactions in the period
1 August-31 October 2019	69%	N/A (no core financial transactions in this period)
1 November 2019-29 February 2020	92%	100%
1 March-31 May 2020	79%	80%
1 June-31 August 2020	90%	87%
1 September-30 November 2020	80%	60%

The figures above for SLAs for all completed cases relate to both the DB and DC sections of the Plan; the figures for Core Financial Transactions refer only to the DC section.

As shown above, the administrator's performance against SLAs is mixed. The administrator failed to achieve above 90% SLAs in some periods, in both total actions and Core Financial Transactions. Whilst overall performance against SLAs has improved compared to the previous Plan year, the periods of poor performance are considered to be unsatisfactory to the Trustees, and further actions are being taken to improve service levels. However, the Trustees confirm that no material issues arose over the year in relation to the Plan’s core financial transactions.

Benchmarking against the performance and cost of other administrators has been undertaken during the year and this confirms the Trustees’ view that current SLAs are unsatisfactory. Improvements have been promised and a further review of the administrators will take place in 2021.

Administration services were monitored at Trustees’ meetings throughout the year.

Charges and transaction costs

The Trustees are required to report on the charges and transaction costs for the investments used in the default arrangement as well as the wider fund choice available and their assessment on the extent to which the charges and costs represent good value for members.

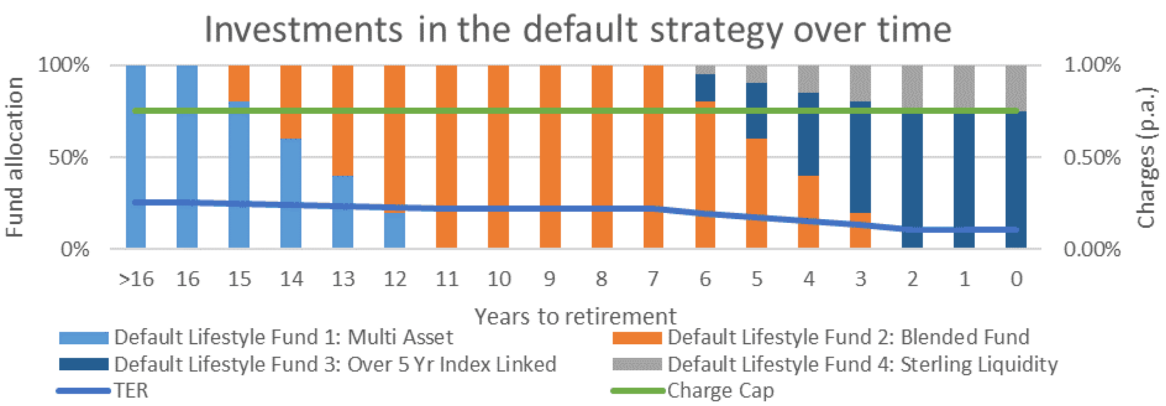
The table that follows shows the Total Expense Ratios (the “TER”) applicable for each of the funds underlying the Plan’s default investment arrangement and those available through self-select options. The TER is a measure of the total charges deducted within a fund for investment management, platform services and administration. The costs for the general administration of the Plan are met by the Plan and not the member. The overall charge being deducted from a member’s fund will reflect the member’s allocation in each of the underlying funds. The TER figures do not include transaction costs; these are the expenses associated with a member trading in and out of a fund as well as the investment manager trading a fund’s underlying securities, including commissions and stamp duty. These transaction costs are listed separately in the table.

Fund Name

	TER (% p.a.)	Transaction costs (% p.a.)
Multi Asset Fund*	0.26	0.04
Blended Fund*	0.22	0.03
Over 5 Year Index-Linked Gilt Index Fund*	0.10	0.10
Sterling Liquidity Fund*	0.14	-0.02
Global Equity Fixed Weights (50:50) Index Fund	0.19	0.01
Pre-Retirement Fund	0.15	0.00

Figures as at 30 September 2020, provided by LGIM. The transaction costs are calculated using the slippage methodology; consequently, some funds are listed as having negative transaction costs.
*Used in the Plan's default investment option

The charge cap is a limit as to the annual amount that can be charged to savers in a pension plan. It is currently set at 0.75% p.a. of the fund held in the saver's pension account. This cap applies solely to the default investment option. As demonstrated above, whilst this Plan is not used for automatic enrolment purposes, all funds within the Plan, including the default investment strategy, have charges that fall well below the charge cap. This is further shown in the below chart:



On 20 September 2017 the FCA published 'PS17/20 – Transaction cost disclosure in workplace pensions', having sought feedback and comments on CP16/30 earlier in the year. The policy statement sets

out the rules that came into force on 3 January 2018 to standardise the calculation of the transaction costs incurred by plan members when investing in a pension fund. LGIM have provided all the transaction costs for the relevant funds for this Plan year, as shown in the above table.

There are several members of the Scheme who hold AVC assets in With-Profits funds with Standard Life. With respect to these policies, payouts on surrender and maturity will reflect all charges incurred, though they are not separately identified. Moreover, the actual performance received by members, net of charges, is only known upon maturity/surrender, after any augmentation for guaranteed terms and after the effect of any 'smoothing'. This places limitations on what can be shown in the member illustrations and any value that might be derived from these illustrations.

For each fund, Standard Life have been able to disclose the current yearly 'cost of guarantees', which is one component of the cost of investment. These are shown in the below table. Standard Life have also been able to provide transaction costs for the funds for the Plan year, which are included below.

Fund Name	**Cost of guarantees (% p.a.)**	**Transaction costs (% p.a.)**
Pension With Profits One Fund	0.15	0.08
Pension With Profits One 2006 Fund	0.20	0.08

Costs of deductions accurate as at 30 September 2020, transaction costs accurate for the year to 30 September 2020, provided by Standard Life. The transaction costs are calculated using the slippage methodology.

Reporting Costs and Charges

In accordance with regulation 23(1)(ca) of the Regulations, as inserted by the 2018 Regulations, the Trustees have prepared an illustration detailing the impact of the costs and charges typically paid by a member of the Plan on their retirement savings pot. The statutory guidance provided has been considered when providing these examples.

In order to represent the range of unit-linked funds available to members we are required show the effect on a member's pot of investment in the following:

– The fund or strategy with the most members invested (in this case the Default strategy)
– The most expensive fund (the Multi Asset Fund)
– The least expensive fund (the Sterling Liquidity Fund)
– The fund with the highest expected return (the Global Equity Fixed Weights (50:50) Index Fund)
– The fund with the lowest expected return (the Pre-Retirement Fund)

The below illustration has taken into account the following elements:

- Savings pot size;
- Real terms investment return gross of costs and charges;
- Adjustment for the effect of costs and charges; and
- Time

The Plan only has deferred members; consequently, the illustration below represents a member making no further contributions to the Plan.

Default Strategy Multi Asset Fund Sterling Liquidity Fund Global Equity Fixed Weights (50:50) Index Fund Pre-Retirement Fund
Age
Pot Size with no Charges Incurred
Pot Size with Charges Incurred
Pot Size with no Charges Incurred
Pot Size with Charges Incurred
Pot Size with no Charges Incurred
Pot Size with Charges Incurred
Pot Size with no Charges Incurred
Pot Size with Charges Incurred
Pot Size with no Charges Incurred
Pot Size with Charges Incurred
35
£6,000
£6,000
£6,000

£6,000
£6,000
£6,000
£6,000
£6,000
£6,000
£6,000
36
£6,242
£6,224
£6,242
£6,224
£6,030
£6,022
£6,271
£6,258
£6,030
£6,021
37
£6,495
£6,456
£6,495
£6,456
£6,060
£6,044
£6,554
£6,528
£6,061
£6,042
38
£6,757
£6,697
£6,757
£6,697
£6,090
£6,066
£6,849
£6,809
£6,091
£6,063
39
£7,030
£6,947
£7,030
£6,947
£6,121
£6,088
£7,158
£7,102
£6,122
£6,084
40
£7,314
£7,207
£7,314
£7,207
£6,152
£6,110
£7,481
£7,408
£6,153
£6,105
: : :
45
£8,917
£8,656

£8,917
£8,656
£6,307
£6,221
£9,328
£9,146
£6,309
£6,212
: : :
50
£10,849
£10,378
£10,870
£10,397
£6,466
£6,335
£11,632
£11,293
£6,469
£6,321
: : :
55
£12,744
£12,033
£13,252
£12,488
£6,629
£6,451
£14,503
£13,943
£6,634
£6,432
: : :
60
£14,584
£13,606
£16,155
£14,999
£6,797
£6,569
£18,084
£17,215
£6,803
£6,545
61
£14,811
£13,788
£16,808
£15,559
£6,831
£6,593
£18,900
£17,956
£6,837
£6,567
62
£14,969
£13,908
£17,487
£16,140
£6,865
£6,616
£19,753
£18,730
£6,871
£6,590

63
£15,054
£13,962
£18,194
£16,743
£6,899
£6,640
£20,644
£19,536
£6,906
£6,613
64
£15,140
£14,017
£18,929
£17,368
£6,934
£6,665
£21,576
£20,377
£6,941
£6,636
65
£15,227
£14,072
£19,694
£18,016
£6,968
£6,689
£22,549
£21,255
£6,976
£6,659

Notes

1. Values shown are estimates at end of each year and are not guaranteed.
2. Projected pension pot values are shown in today's terms.
3. Age and pot size assumptions are based on full membership data as at September 2020.
4. The starting pot size is assumed to be £6,000, and this person joined as a deferred member at age 35.
5. Charges assumed for each individual fund are as provided by LGIM as at 30 September 2020, shown earlier in this document.
6. From LGIM's figures, the default strategy has an assumed TER of 0.26% p.a. further than 16 years from retirement, moving to 0.22% p.a. between 11 and 7 years from retirement, moving to 0.11% p.a. at retirement
7. The Regulations require that, where possible, the transaction costs used in these illustrations are based on an average of those for the five years to Scheme Year End. LGIM have been unable to provide

historic transaction costs for these funds; consequently, the assumed transaction costs used in this illustration are based on an average of those provided for the Plan for the year to 30 September 2019 (provided for last year's Statement) and the year to 30 September 2020 (as disclosed in this year's Statement), and are as follows:

Default Strategy
0.04% p.a. further than 16 years from retirement, falling to 0.03% p.a. for members between 11 and 7 years from retirement, rising to 0.07% p.a. for members less than 2 years from retirement
Most expensive fund: Multi-Asset Fund
0.04% p.a.
Cheapest fund: Sterling Liquidity Fund
Nil
Greatest expected investment return: Global Equity Fixed Weights (50:50) Index Fund
0.01% p.a.
Lowest expected investment return: Pre-Retirement Fund
0.00% p.a.

Where disclosed transaction costs are negative these have been assumed to be nil, as negative transaction costs are not expected to continue year on year.

8. Inflation is assumed to be 2.5% per annum.
9. The projected gross growth rates for each fund are based on the 2020 SMPI assumptions, as provided by Mercer, as follows:

Default Strategy
4.0% p.a. after inflation for members further than 16 years from retirement, falling to 0.5% p.a. after inflation for members less than 2 years from retirement
Most expensive fund: Multi-Asset Fund
4.0% p.a. after inflation
Cheapest fund: Sterling Liquidity Fund
0.5% p.a. after inflation
Greatest expected investment return: Global Equity Fixed Weights (50:50) Index Fund
4.5% p.a. after inflation
Lowest expected investment return: Pre-Retirement Fund
0.5% p.a. after inflation

In addition to the unit-linked funds made available to members through LGIM, several members are invested in Standard Life With-Profits funds. By the nature of With-Profits funds, the charging structure of these policies are not transparent; because of this, and the smaller, distinct membership for these funds, we have illustrated these funds separately below.

Standard Life With-Profits One Fund Standard Life With-Profits One 2006 Fund				
Age	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred
56	£1,500	£1,500	£1,500	£1,500
57	£1,539	£1,535	£1,539	£1,535
58	£1,575	£1,571	£1,574	£1,570
59	£1,612	£1,608	£1,610	£1,606
60	£1,650	£1,646	£1,647	£1,643
61	£1,689	£1,685	£1,685	£1,681
62	£1,728	£1,724	£1,724	£1,719
63	£1,769	£1,765	£1,764	£1,759
64	£1,810	£1,806	£1,804	£1,799
65	£1,853	£1,849	£1,846	£1,841

Notes

1. Values shown are estimates at end of each year and are not guaranteed.
2. Projected pension pot values are shown in today's terms.

3. Pot size assumptions and estimated time to retirement are based on full membership data as at September 2020 as provided by Standard Life.
4. The starting pot size is assumed to be £1500, this member is 56 years old, and is expected to retire at 65. The member is not expected to make any further contributions.
5. Growth rate for both funds is assumed to be 5% p.a. (the mid-growth rate assumption provided by Standard Life prior to inflation).
6. Deductions for the One Fund are assumed to be 0.15% p.a., and the deductions for the One 2006 Fund are assumed to be 0.20% p.a. (as provided by Standard Life), based on the 'cost of guarantees' for the With-Profits funds, as disclosed by Standard Life. These represent only a portion of the total expected costs; however, Standard Life have not been able to provide a more complete estimate of the cost of investment in these funds, as deductions will vary depending on a number of factors including fund performance, size of investment, and the date of the initial investment.
7. Standard Life have not provided historic transaction costs for the With-Profit Funds; therefore the assumed transaction costs for both funds are as described earlier in this Statement for the one-year period to 30 September 2020.
8. Inflation is assumed to be 2.5% p.a..
When preparing these illustrations, the Trustees have taken into account specific guidance from the Department for Work & Pensions and have followed the approach set out in that guidance.

Value for Members
There is no legal definition of "good value" and so the process of determining good value for members is a subjective one. The Trustees have received advice on how to assess good value from its advisers and considered regulatory guidance. A report from Mercer was received in January 2021.

In undertaking the assessment, the Trustees considered:

- The benefits of membership (administration / member support, governance and member communications);
- Investment arrangements (including the performance of the default investment arrangement);
- Charges applied to members (with the exception of transaction costs, which have been reported on but not assessed; this is because there is currently no "industry standard" or universe of consistently reported transaction costs to compare these against); and
- How the charges compare to other pension arrangements.

The assessment determined that performance has been in line with expectations, and the charges met by Plan members are competitive and have provided value for money, based on an assessment comparing fees within the context of a wider market fee survey, with the exception of the Welcome Break Blended Fund, which has a fee between the median and upper quartile of the comparator universe and is therefore considered reasonable value. Mercer's rating of LGIM's passively managed funds remains high, having not changed over the year. Transaction costs for each fund have also been acknowledged, although there is currently no 'industry standard' or universe to compare these to, and it is far from clear whether all fund managers have taken a consistent approach when preparing cost reporting. All additional benefits to members which are not paid for by member-borne charges are considered good value, with the exception of administration performance against SLAs, which has improved compared to the previous year, however, is still below desired levels.

Based on the assessment the Trustees concluded that the Plan represents good value for money for members. The Trustees' focus, therefore, is on maintaining this position and identifying if further developments can be made.

Trustee Knowledge and Understanding

In accordance with sections 247 and 248 of the Pensions Act 2004, the Trustees are required to maintain an appropriate level of knowledge and understanding which, together with the professional advice which is available to them, enables them to properly exercise their functions and duties in relation to the Plan. The Trustees maintain a working knowledge of the trust deed and rules, the SIP and all documents setting out trustee policies. This is demonstrated by inclusion of governance document reviews in meeting agendas, referral to rules and other documents in meeting minutes and in regular correspondence with actuarial, investment and legal advisers throughout the year.

Through their own experience and training, alongside the support of advisers, the Trustees have sufficient knowledge and understanding of the law relating to pensions and trusts and of the relevant principles relating to the funding and investment of occupational schemes. The Trustees' combined knowledge and understanding, together with available advice, enables them to properly exercise their functions.

During the course of the year, there have been no changes to the Trustees.

The names of the current Trustees are listed below:

Independent: Chris Maggs (Chair) representing CM Pensions Limited
Independent: Ian Fellows representing Fellows Pension and Training Services
Member-Nominated: Richard King
Effectiveness of Trustee meetings is reviewed at the end of each meeting and the Trustees monitor actions against their Business Plan each quarter.

The Trustees have undertaken the following training during the year.

– The Trustees undertake ongoing training within their regular meetings to keep abreast of relevant developments, including the following this year;

- GMP equalisation options (16/10/19)
- Integrated risk management (16/10/19)
- ESG investment issues (30/1/20)
- tPR Annual Funding Statement (3/6/20)
- ESG and climate change SIP implementation (3/6/20)
- SIP disclosure requirements (30/7/20)
- Corporate Insolvency & Governance Act implications (30/7/20)

– The Trustees regularly review their training needs and respond to any gaps identified (an example being the need for a GDPR refresher identified in July 2020 and delivered in October 2020).
– The Trustees also receive advice from professional advisors and the relevant skills and experience of those advisors is a key criterion when evaluating advisor performance or selecting new advisors. The Trustees have complied with the CMA order and have set objectives for their investment advisors during the Plan Year.
– The Trustees will also, on an ongoing basis, review and assess whether the systems, processes and control across key governance functions are consistent with those set out in The Pensions Regulator's Code of Practice No.13.
– The Trustees have completed The Pensions Regulator's Trustee Toolkit and will maintain their knowledge of the Toolkit as it is updated from time to time.
– The Trustees have reviewed the Plan's Statement of Investment Principles during the Plan Year, this demonstrates their knowledge of the Plan SIP.
– The Trustees have produced an Implementation Statement for the Plan Year, this demonstrates their knowledge of the Plan's adherence to the policies in the Plan SIP.
– In addition, the two independent trustees are members of

professional bodies (the Institute of Actuaries and the Pensions Management Institute respectively) and continue to meet their own professional bodies’ continuing professional development requirements. Ian Fellows has been accepted by the PMI as an Accredited Professional Trustee.

– The professional trustees use their skills and experience to lead the Trustees’ discussion as required on DC matters, building on the work done in previous years.

I confirm that the above Statement has been produced by the Trustees to the best of their knowledge.

Signature: 

Name: Chris Maggs

Position: Chairman of the Trustees

Date: 26 March 2021

Appendix: Statement of Investment Principles dated July 2020

The Welcome Break Pension Plan (“The Plan”)

Statement of Investment Principles – July 2020

1. Introduction

The Trustees of the Welcome Break Pension Plan (the “Plan”) have drawn up this Statement of Investment Principles (the “Statement”) to comply with the requirements of the Pensions Act 1995 (the “Act”) and associated legislation including the Occupational Pension Schemes (Investment) Regulations 2005 (as amended). The Statement is intended to affirm the investment principles that govern decisions about the Plan’s investments. The Trustees’ investment responsibilities are governed by the Plan’s Trust Deed and Rules, of which this Statement takes full regard.

In preparing this Statement the Trustees have consulted a suitably qualified person by obtaining written advice from Mercer Limited (“the Investment Consultant”). In addition, consultation has been undertaken with the Sponsoring Company (the “Sponsor”) to ascertain whether there are any material issues of which the Trustees should be aware when setting their objectives and agreeing the Plan’s investment arrangements.

Defined Benefit Section

2. Process For Choosing Investments

The Trustees have appointed Mercer to act as discretionary investment manager, by way of Mercer’s Dynamic De-risking Solution, to implement the Trustees’ strategy whereby the level of investment risk reduces as the Plan’s funding level improves. In this capacity, and subject to agreed restrictions, the Plan’s assets are invested in multi- client collective investment schemes (“Mercer Funds”) managed by a management company (Mercer Global Investments Management Limited (“MGIM”)). MGIM has appointed Mercer Global Investments Europe Limited (“MGIE”)) as investment manager of the Mercer Funds. In practice, MGIE delegates the discretionary investment management for the Mercer Funds to third party investment managers based in countries such as Ireland, UK and USA and those sub-investment managers will manage either a sub-fund or certain segments of a sub-fund. Mercer has expertise in identifying, selecting and combining highly rated fund managers who are best placed and resourced to manage the Plan’s assets on a day to day basis.

In considering appropriate investments for the Plan, the Trustees have obtained and considered the written advice of Mercer, whom the Trustees believe to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustees’ opinion, consistent with the requirements of Section 36 of the Act (as amended).

3. Investment Objectives

The Trustees understand that taking some investment risk, with the support of the Sponsor, is necessary to improve the Plan’s ongoing and solvency funding positions. The Trustees recognise that growth asset investment will bring increased volatility of the funding level, but invest in the expectation of improvements in the Plan's funding level through outperformance of the liabilities over the long term.

The Trustees' primary objective is to act in the best interest of the members. The main objective of the Trustees is therefore to improve the funding position of the DB Section to firstly achieve 100% funding on the Technical Provisions assumptions and thereafter target being fully funded on actuarial assumptions for the liabilities which allow a relatively low risk investment strategy to be adopted.

The Trustees recognise this ultimately means investing in a portfolio of bonds but believe that at the current time some investment in equities and other growth assets ("Growth Portfolio") is justified to target enhanced return expectations and thereby target funding level improvements. The Trustees recognise that this introduces investment risk and these risks are discussed below.

The Trustees will seek to avoid significant volatility in the contribution rate.

The objectives set out above and the risks and other factors referenced in this Statement are those that the Trustees determine to be financially material considerations. Non-financial considerations are discussed in section 14.

4. Risk Management and Measurement

There are various risks to which any pension scheme is exposed. The Trustees' policy
on risk management over the Plan's anticipated lifetime is as follows:

- The primary risk upon which the Trustees focus is that arising through a mismatch between the Plan's assets and its liabilities and the Sponsor's ability to support this mismatch risk.
- The Trustees recognise that whilst increasing investment risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that

required to cover the Plan's liabilities as well as producing more volatility in the Plan's funding position.

- The Trustees' willingness to take on investment risk is dependent on the continuing financial strength of the Sponsor and its ability to contribute to the Plan. The strength of the Sponsor and its perceived commitment to the Plan is monitored by the Trustees and the level of investment risk taken may increase/decrease should either of these change
- To control the risk outlined above, the Trustees, having taken advice, set the split between the Plan's Growth and Matching Portfolios such that the expected return on the overall portfolio is sufficient to meet the objectives outlined in Section 3. As the funding level improves, investments will be switched from the Growth Portfolio into the Matching portfolio with the aim of reducing investment risk.
- Whilst moving towards the target funding level, the Trustees recognise that even if the Plan's assets are invested entirely in the Matching Portfolio there may still be a mismatch between the interest-rate and inflation sensitivity of the Plan's assets and the Plan's liabilities due to the mismatch in duration between assets in the Matching Portfolio and actuarial liabilities and longevity risk (the risk that the assumptions made about members' life-expectancy are not borne out).
- The Trustees recognise the risks that may arise from the lack of diversification of investments. To control this risk, the Trustees have delegated the asset allocation decisions within the Growth and Matching Portfolios to Mercer (subject to certain restrictions). Subject to managing the risk from a mismatch of assets and liabilities,

Mercer aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. Investment exposure is obtained via pooled vehicles. Mercer provides the Trustees with regular monitoring reports regarding the level of diversification within the portfolio.

- To help the Trustees ensure the continuing suitability of the current investments, the Trustees delegate responsibility for the hiring, firing and ongoing monitoring of the Plan's investment managers to Mercer. Mercer provides the Trustees with regular reports regarding the appointed investment managers to monitor consistency between the expected and experienced levels of risk and return.
- There is a risk that the day-to-day management of the assets will not achieve the rate of investment return expected by the Trustees. The Trustees recognise that the use of active investment managers involves such a risk. However, for specific asset classes they believe that this risk is outweighed by the potential gains from successful active management. Likewise, passive management will be used for one of a number of reasons, namely to diversify and reduce risk and when investing in certain asset classes where, due to relatively efficient markets, the scope for added value is limited.
- To help diversify manager-specific risk, within the context of each of the Growth and Matching Portfolios, the Trustees expect that the Plan's assets are managed by appropriate underlying asset managers.
- Investment may be made in securities that are not traded on regulated markets. Recognising the risks (in particular liquidity and counterparty exposure) such investments will normally only be made with the purpose of reducing the Plan's mismatch risk relative to its liabilities or to facilitate efficient portfolio management. In any event the Trustees will ensure that the assets of the Plan are predominantly invested on regulated markets
- The Trustees recognise the risks inherent in holding illiquid assets. The Trustees have carefully considered the Plan's liquidity requirements and time horizon when setting the investment strategy and manage liquidity risk by ensuring

illiquid asset classes represent an appropriate proportion of the overall investment strategy.

- The Plan is subject to currency risk because some of the investment vehicles in which the Plan invests are denominated or priced in a foreign currency. To limit currency risk, the Trustees (with Mercer's advice) set a target non-sterling currency exposure and Mercer manages the level of non-sterling exposure using currency hedging derivatives such as forwards and swaps.
- The Trustees recognise that environmental, social and corporate governance concerns, including climate change, have a financially material impact on return. Section 14 sets out how these risks are managed.
- Should there be a material change in the Plan's circumstances, the Trustees will advise Mercer who, together with the Trustees, will review whether and to what extent the investment arrangements should be altered; in particular, whether the current de- risking strategy remains appropriate

5. Investment Strategy

The Trustees, with advice from the Plan's Investment Consultant and the Scheme Actuary, review the Plan's investment strategy regularly. These reviews consider the Trustees' investment objectives, their ability and willingness to take risk (the risk budget) and how this risk budget should be allocated and implemented (including de- risking strategies).

The Trustees engage Mercer to implement their de-risking strategy by way of its Dynamic De-risking Solution. The approach undertaken relates the asset allocation to the Plan's funding level (on an actuarial basis using a single discount rate of 0.5% p.a. in excess of the appropriate gilt yields i.e. "gilts + 0.5% basis"). The de-risking rules mandate the following practices:

- To hold sufficient growth assets to target full funding on a "gilts +0.5%" basis when a suitably strong funding level is achieved;
- To reduce the volatility in the funding level by reducing un-hedged liability exposures;
- To monitor the progress in the funding level and to capture improvements in the funding level promptly, if and when they arise.

The de-risking triggers which form the basis of the Plan's dynamic investment strategy are set out in a separate document – the Statement of Investment Arrangements ("SIA").

The de-risking strategy is formally reviewed on an approximately annual basis to ensure that it remains appropriate.

For the avoidance of doubt, once the funding level has moved through a trigger point and investment risk has been reduced in accordance with the de-risking strategy, the asset allocation will not be automatically "re-risked" should the funding level subsequently deteriorate.

The Trustees have delegated the allocation of assets within the growth and matching portfolios to Mercer, subject to the restrictions set out in the SIA.

Rebalancing ranges have been set within the growth and matching portfolios to ensure the Plan's assets remain invested in a manner which is consistent with the de-risking strategy. The ranges have been designed to ensure that unnecessary transaction costs are not incurred by frequent rebalancing. Rebalancing ranges around the target allocation are detailed in the SIA.Responsibility for monitoring the Plan's asset allocation and undertaking any rebalancing activity, is delegated to Mercer. Mercer reports quarterly to the Trustees on any breaches to the range restrictions.

6. Realisation of Investments

The Trustees on behalf of the Plan hold shares in the Mercer Funds. In its capacity as investment manager to the Mercer Funds, MGIE, and the underlying third party asset managers appointed by MGIE, within parameters stipulated in the relevant appointment documentation, have discretion in the timing of the realisation of investments and in considerations relating to the liquidity of those investments.

7. Cash flow and cash flow management

Cash flows, whether positive or negative, are used to move the Plan's asset allocation and allocation to the individual underlying investment managers back towards the strategic allocation appropriate at that point in time given the level of de- risking that may have occurred.

8. Rebalancing

As noted, responsibility for monitoring the Plan's asset allocation and any rebalancing activity is delegated to Mercer. Mercer reviews the balance between the Growth and Matching portfolios on an ongoing basis. If at any time the actual balance between the Growth and Matching portfolios is deemed to be outside an agreed tolerance range, Mercer will seek to rebalance these allocations back towards the target allocations. Although Mercer has discretion to vary the tolerance range, it is the intention that the Growth Portfolio allocation will not drift by more than 5%, in absolute terms, away from the relevant target allocation.

The ranges have been designed to ensure that unnecessary transaction costs are not incurred by frequent rebalancing.

In the event of a funding level trigger being breached, the assets will be rebalanced to bring them in line with the reduced growth portfolio weight, under the new de- risking band, as defined in the SIA.

9. Sponsor Related Investment

The Trustees note the legislation in relation to limits in sponsor related investment. Given the size of the Sponsor, in the context of the global markets in which the Plan invests, and the diversified investment strategy, the Trustees consider it very unlikely that their investments could be in breach of the legislative constraints.

10. Additional Assets

Assets in respect of the Plan's Defined Contribution Section are held with Legal & General Investment Management. Members' additional voluntary contributions ("AVCs") are held with Legal & General Investment Management and Standard Life.

Defined Contribution Section and AVCs

11. Investment Objectives

The Trustees recognise that members have different investment goals and that these may change during the course of their working lives. They also recognise that members have different attitudes to risk. The Trustees' objective is to make available to members a range of investment options which seek to allow members to set an investment strategy that meets their needs and risk tolerances. The Trustees also recognise that members may not believe themselves qualified to take investment decisions. As such the Trustees make available a Default Lifestyle Option (in respect of the DC Section only).

These objectives translate to the following principles:

- Offering members of the DC Section a 'Lifestyle' approach for the default investment strategy and ensuring that the other investment strategy options allow members to plan for their specific retirement objectives;
- Making available a range of pooled investment funds which serve to meet the varying investment needs and risk

tolerances of Plan members. This includes offering both passively and actively managed investment funds;

- Providing general guidance as to the purpose of each investment option;
- Encouraging members to seek independent financial advice from an appropriate
party in determining the most suitable option for their individual circumstances;
- In determining an appropriate balance between providing flexibility and choice, as well as simplicity and cost control, the Trustees aim to make available a range of options which satisfy the needs of the majority of members.
- The Trustees periodically review the suitability of the options provided and from time to time will change or introduce additional investment funds as appropriate.

12. Default Lifestyle Strategy

With regards to the default lifestyle investment strategy:

- The growth phase structure invests in equities and other growth-seeking assets, and is intended to provide growth with some downside protection and some protection against inflation erosion.
- As a member's pot grows, investment risk will have a greater impact on member outcomes. Therefore, the default lifestyle investment strategy seeks to reduce investment risk as the member approaches retirement.
- Based on their understanding of the Plan's membership and the requirements of legislation and the Plan's Rules about how members of the DC Section can take their benefits, the Trustees have implemented a default lifestyle investment strategy that targets an investment portfolio suitable for a member wishing to take 75% of their DC fund as an inflation

linked pension and 25% of their fund as a tax free cash lump sum.

- The Trustees will review the default lifestyle strategy over time, at least triennially, or after significant changes to the Plan's demographics, if sooner

The Trustees have produced a statement of investment principles in respect of the default lifestyle strategy.

13. Risk

The Trustees have considered risks from a number of perspectives. The list below is not exhaustive but covers the main risks that the Trustees consider and how they are managed.

Risk
How it is managed
How it is measured

Inflation Risk

The real value (i.e. post inflation) value of members' accounts decreases.

The Trustees provide members with a range of funds, across various asset classes, with the majority expected to keep pace with inflation (with the exception of the money market and fixed interest bond funds).

Members are able to set their own investment allocations, in line with their risk tolerances.

The Trustees consider the real returns (i.e. return above inflation) of the funds, with positive values indicating returns that have kept pace with inflation.

Pension Conversion Risk

Members' investments do not match how they would like to use their pots in retirement.

The Trustees make available a lifestyle strategy for DC members, targeting members taking their DC assets 75% as a pension increasing in payment with inflation and 25% as a tax-free cash lump sum.

The Trustees believe that this is the most appropriate target for the default investment strategy given the majority of members are subject to a DB underpin requiring the majority of DC benefits to be taken as a pension increasing in payment in line with inflation.

The Trustees consider the returns of the funds used within the switching phase of the lifestyle strategy relative to changes in annuity prices.

The Trustees consider whether the target investment strategy for the default remains appropriate as part of their regular reviews of the DC Section's investment arrangements.

Market Risk

The value of securities, including equities and interest bearing assets, can go down as well as up.

The Trustees provide members with a range of funds, across various asset classes. Members are able to set their own investment strategy in line with their risk tolerances.

The Trustees monitor the performance of external investment funds on a quarterly basis.

Counterparty Risk

A counterparty, either an underlying holding or pooled arrangement, cannot meet its obligation.

Delegated to external investment manager.

Members are able to set their own investment allocations, in line with their risk tolerances.

The Trustees monitor the performance of external investment funds on a quarterly basis.

Currency Risk

The value of an investment in the members' base currency may change as a result of fluctuating foreign exchange rates.

The Trustees provide diversified investment options that invest in local as well as overseas markets and currencies.

Delegated to investment managers.

Members are able to set their own investment allocations, in line with their risk tolerances.

The Trustees monitor the performance of external investment funds on a quarterly basis.

The Trustees consider the movements in foreign currencies relative to pound sterling.

Operational Risk

A lack of robust internal processes, people and systems.

Outsourced to the Investment Consultant.

Members are able to set their own investment allocations, in line with their risk tolerances.

The Trustees consider the ratings of investment strategies from their Investment Consultant and monitor these on a quarterly basis.

Liquidity Risk

Assets may not be readily marketable when required.

The Trustees access daily dealt and daily priced pooled funds through a unit-linked insurance contract from LGIM.

The Trustees consider the pricing and dealing terms of the funds underlying the unit-linked insurance contract.

Valuation Risk

The value of an illiquid asset is based on a valuer's opinion, realised value upon sale may differ from this valuation.

The multi-asset fund may hold illiquid assets. In such cases, the management of valuation risk is delegated to the external investment manager.

The majority of the DC Section's assets are invested solely in liquid quoted assets.

The Trustees monitor the performance of funds on a quarterly basis, and where relevant delegate the monitoring of valuation risk to the Investment Consultant.

Environmental, Social and Governance Risk

ESG factors can have a significant effect on the performance of the investments held by the Plan e.g. extreme weather events, poor governance.

Delegated to external investment managers.

The Trustees' policy on ESG risks is set out in Section 16 of this Statement.

The Trustees review their external investment managers' policies and actions in relation to this on a regular basis.

Manager Skill / Alpha Risk

Returns from active investment management may not meet expectations, leading to lower than expected returns to members.

The Trustees make available some actively managed funds to DC members where they deem it appropriate; for example, multi- asset funds.

The actively managed funds made available are highly rated by their Investment Consultant, based on forward-looking expectations of meeting objectives.

The Trustees consider the ratings of investment strategies from their Investment Consultant during the selection process.

The Trustees monitor performance and rating of funds on an ongoing basis relative to the fund's benchmark and stated targets/objective

In selecting assets, the Trustees consider the liquidity of the investments in the context of the likely needs of members. All assets are daily dealing and therefore should be realisable based on member demand.

The items listed above are in relation to what the Trustees consider 'financially material considerations'. The Trustees believe the appropriate time horizon over which to assess these considerations should be viewed at a member level. This will be dependent on the member's age and their Selected Retirement Age. Non-financial considerations are discussed in section 14.

Assets in respect of members' AVCs are invested in a range of investment funds. The AVC arrangements are reviewed periodically to ensure that the investment profile of the funds available remains consistent with the objectives of the Trustees and the needs of the members. More information on the AVC providers is detailed in the SIA.

Arrangements are in place to monitor the DC and AVC investments to help the Trustees check that nothing has occurred that would bring into question the continuing suitability of the current investments.

The Trustees look to ensure members of all risk profiles are catered for within the DC and AVC investment arrangements. The Trustees also offer members a lifestyle investment strategy for DC benefits in order to reduce the volatility of investment returns relative to the benefits expected to be taken for members that are approaching retirement.

14. DB and DC Sections and AVCs

Environmental, Social and Corporate Governance (ESG), Stewardship, and Climate Change

The Trustees believe that ESGfactors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration. The Sponsor's views on ESG matters will be accounted for, noting that they may not necessarily result in a change in the Trustees' investment decisions.

DB Section

As noted above, the Trustees have appointed Mercer to act as discretionary investment manager in respect of the Plan's assets and such assets are invested in a range of Mercer Funds managed by MGIE. Asset managers appointed to manage the Mercer Funds are expected to evaluate ESG factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustees consider how ESG, climate change and stewardship is integrated within Mercer's investment processes and those of the underlying managers in the monitoring process. Mercer is expected to provide reporting on a regular basis, at least annually, on ESG integration progress, stewardship monitoring results, and climate-related metrics such as carbon foot printing for equities and/or climate scenario analysis for diversified portfolios.

Member views

Member views are not taken into account in the selection, retention and realisation of investments.

Investment Restrictions

The Trustees have not set any investment restrictions in relation to particular Mercer Funds.

Trustees' policies with respect to arrangements with, and evaluation of the performance and remuneration of, asset managers and portfolio turnover costs

When engaging Mercer as discretionary investment manager to implement the Trustees' investment strategy outlined in section 5, the Trustees are concerned that, as appropriate and to the extent applicable, Mercer is incentivised to align its strategy and decisions with the profile and duration of the liabilities of the Plan, in particular, long-term liabilities.

As Mercer manages the Plan's assets by way of investment in Mercer Funds, which are multi-client collective investment schemes, the Trustees accept that they do not have the ability to determine the risk profile and return targets of specific Mercer Funds but the Trustees expect Mercer to manage the assets in a manner that is consistent with the Trustees' overall investment strategy as outlined in section 5. The Trustees have taken steps to satisfy themselves that Mercer has the appropriate knowledge and experience to do so and keeps Mercer's performance under ongoing review.

Should Mercer fail to align its investment strategies and decisions with the Trustees' policies, it is open to the Trustees to disinvest some or all of the assets invested managed by Mercer, to seek to renegotiate commercial terms or to terminate Mercer's appointment.

To evaluate performance, the Trustees receive, and consider, investment performance reports produced on a quarterly basis, which present performance information and commentary in respect of the Plan's funding level and the Mercer Funds in which the Plan is invested. Such reports have information covering fund performance for the previous three months, one-year, three years and since inception. The Trustees review the absolute performance and relative performance against a portfolio's and underlying investment manager's benchmark (over the relevant time period) on a net of fees basis. The Trustees' focus is on the medium to long-term financial and non-financial performance of Mercer and the Mercer Funds.

Neither Mercer or MGIE make investment decisions based on their assessment about the performance of an issuer of debt or equity. Instead, assessments of the medium to long-term financial and non-financial performance of an issuer are made by the underlying third party asset managers appointed by MGIE to manage assets within the Mercer Funds. Those managers are in a position to engage directly with such issuers in order to improve their performance in the medium to long term. The Trustees are, however, able to consider Mercer's and MGIE's assessment of how each underlying third party asset manager embeds ESG into their investment process and how the manager's responsible investment philosophy aligns with the Trustees' own responsible investment policy. This includes the asset managers' policies on voting and engagement.

Section 14 provides further details of the steps taken, and information available, to review the decisions made by managers, including voting history and the engagement activities of managers to identify decisions that appear out of line with a Mercer Fund's investment objectives or the objectives/policies of the Plan.

The asset managers are incentivised as they will be aware that their continued appointment by MGIE will be based on their success in meeting MGIE's expectations. If MGIE is dissatisfied then it will, where appropriate, seek to replace the manager.

The Trustees are long-term investors and are not looking to change their investment arrangements on an unduly frequent basis. However, the Trustees do keep those arrangements under review, including the continued engagement of Mercer using, among other things, the reporting described above.

The Trustees monitor, and evaluate, the fees it pays for asset management services on an ongoing basis taking into account the progress made in achieving its investment strategy objectives as outlined in section 3. Mercer's, and MGIE's, fees are based on a percentage of the value of the Plan's assets under management which covers the design and annual review of the de-risking strategy, and investment management of the assets. In addition, the underlying third party asset managers of the Mercer Funds also charge fees based on a percentage of the value of the assets under management. In some instances, some of the underlying managers may also be entitled to charge fees based on their performance.

MGIE reviews the fees payable to third party asset managers managing assets invested in the Mercer Funds on a regular basis with any negotiated fee savings passed directly to the Plan. Mercer's, MGIE's, and the third party asset managers', fees are outlined in a quarterly investment strategy report prepared for the Trustees, excluding performance-related fees and other expenses involved in the Mercer Funds not directly related with the management fee.

Details of all costs and expenses are included in the Mercer Funds' Supplements, the Report & Accounts and within the Plan's annualized, MiFID II compliant Personalised Cost & Charges statement. The Plan's Personalised Cost & Charges statement also include details of the transaction costs associated with investment in the Mercer Funds.

The Trustees do not have an explicit targeted portfolio turnover range, given the de- risking mandate, but rebalancing ranges have been designed to avoid unnecessary transaction costs being incurred by unduly frequent rebalancing. Performance is reviewed net of portfolio turnover costs, with the review of portfolio turnover of the underlying investment managers undertaken by MGIE.

DC Section and AVCs
As the DC assets are invested in pooled funds, the Trustees have given the appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments. The Trustees accept that by using pooled investment vehicles for its investments, the Plan's voting rights are exercised by its investment managers in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code.

The Trustees will consider ESG and climate change in manager selection and strategy decisions based on the ratings provided by their consultant, however, the prominent weighting on decisions will be expectations of future performance and the impact on member outcomes.

The Trustees will review their consultant's ESG ratings for the investment managers on an annual basis. A change in ESG rating does not mean that the fund will be removed or replaced automatically.

The Trustees have not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in the future. Member views are not explicitly taken into account in the selection, retention and realisation of investment funds but the Trustees will consider how to cater for members who might engage on ESG matters.

The below table sets out the Trustee's approach to implementation and engagement. The list below is not exhaustive, but covers the main areas considered by the Trustees.

Policy Statement
The Trustees' Position

How the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with the trustees' policies

The underlying investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected.

The underlying investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustees are dissatisfied, then they will look to replace the manager.

If the investment objective for a particular manager's fund changes, the Trustees may review the fund appointment to ensure it remains appropriate and consistent with the Trustees' wider investment objectives.

How the arrangement incentivises the asset manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term

The Trustees considers their investment consultant's assessment of how each underlying investment manager embeds ESG into its investment process and how the manager's responsible investment philosophy aligns with the Trustees' responsible investment policy. This includes the underlying investment managers' policy on voting and engagement. The Trustees will use this assessment in decisions around selection, retention and realisation of manager appointments.

In addition, on an annual basis, it is the Trustees' policy to review the ESG policies of each of the underlying managers along with their voting and engagement records.

How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the trustees' policies

The Trustees receive investment manager performance reports on a quarterly basis, which present performance information over multiple time periods. The Trustees review the absolute performance against a suitable index used as the benchmark on a net of fees basis.

Whilst the Trustees’ focus is on long-term performance, they also take shorter-term performance into account.

If an underlying manager is not meeting performance objectives, or their investment objectives for the fund have changed, the Trustees may review the suitability of the manager, and change managers where required.

How the trustees monitor portfolio turnover costs incurred by the asset manager.

The Trustees consider portfolio turnover costs as part of the annual value for money assessment.

How the trustees define and monitor targeted portfolio turnover or turnover range.

As the Plan invests through pooled funds, the Trustees are unable to define target portfolio turnover ranges for funds. The Trustees will seek to compare turnover costs over time and against other managers where possible.

How the trustees define and monitor the duration of the arrangement with the asset manager.

All the funds are open-ended with no set end date for the arrangement. The Trustees, if decided following review, can terminate the arrangements.

15. Review of this Statement

The Trustees will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believe to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension plan investments.

The Welcome Break Pension Plan ("DC Section")

Statement of investment principles in respect of the default investment strategy for the DC section – September 2019

1. Introduction

1.1 The Trustees of the Plan have drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Occupational Pension Schemes (Investment) Regulations 2005 and subsequent legislation, relating to provision of information specific to default investments, referred to as the "Default Arrangement". This should be read in conjunction with the main Statement.

1.2 The Default Arrangement covered by this Statement is as follows:

- the Lifestyle Investment Programming Option

2. Principles

2.1 The Trustees recognise that many members do not consider themselves competent to take investment decisions. As such, the Trustees have made available a default arrangement. Unless members make a specific request for their accounts to be invested in a different manner, the Trustees implement the default arrangement.

2.2 The default investment arrangement, which is the Lifestyle Investment Programming option (the "Lifestyle Strategy"), adopts a pre-set investment strategy. This strategy has two phases: the accumulation phase and the consolidation phase. When a member is younger, their account is invested in funds that aim for long-term growth (accumulation phase) in excess of inflation. As the member approaches retirement, their account is switched automatically into lower-risk, lower-growth funds (consolidation phase) that aim to provide greater stability by targeting the purchase of an inflation-linked annuity and the withdrawal of tax free cash.

3. Default Arrangement

Objectives

3.1 The aims of the default arrangement and the ways in which the Trustees seek to achieve these aims are detailed below:

– To generate returns in excess of inflation during the accumulation phase of the strategy whilst managing downside risk.

The default arrangement's accumulation phase invests 100% of members' accounts in a fund comprised mainly of global equities, but which also has a small allocation to bonds and cash. This fund is expected to provide long term growth in excess of inflation but with greater downside protection than investing purely in equities.

– To provide a strategy that reduces investment risk for members as they approach retirement.

As a member's account grows, investment risk will have a greater impact on outcomes at retirement. Therefore, the Trustees believe that a strategy that seeks to reduce investment risk as the member approaches retirement is appropriate. Moreover, as members approach retirement, the Trustees believe the primary aim should be *to provide protection against a mismatch between asset values and the expected costs of retirement benefits.*

The Lifestyle Strategy therefore aims to reduce volatility near retirement via automated switches over a 16 year period to a member's selected retirement date. Investments are gradually switched from a growth oriented fund (the Multi-Asset Fund), initially into a lower risk / return fund (the Blended Fund) and finally into a combination of an Index-Linked Gilt Fund (to broadly match short-term changes in the price of Inflation-linked annuities) and to a cash fund for capital preservation purposes.

– To provide exposure at retirement to assets that are broadly appropriate for an individual planning to use their savings in the Plan to buy an inflation-linked annuity and to take a 25% tax-free cash lump sum at retirement.

At the member's selected retirement date, 75% of the member's assets will be invested in an index-linked gilt fund and 25% in a cash fund.

Policies in relation to the default arrangement

3.2 The Trustees' policies in relation to the default arrangement are:

– The default arrangement manages investment risks through a diversified strategic asset allocation consisting of traditional assets i.e. equities, bonds and cash. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. Section 4 provides further information on the Trustees' risk policies in relation to the default arrangement.

– In designing the default arrangement, the Trustees have explicitly considered the trade-off between expected risk and return.

– The Trustees have also taken into account the needs of members with regards to security, quality, liquidity and profitability of a member's portfolio as a whole. The Trustees have designed the default arrangement taking account of the assets in the default.

– If members wish to, they can opt to choose their own investment options at any time. Members are supported by clear communications in the form of a members' booklet regarding the aims of the default arrangement and the access to alternative funds, albeit the Trustees will not provide advice to members on their individual choice of investment options.

– Assets in the default arrangement are invested in daily traded pooled funds which hold highly liquid assets. The pooled funds are commingled investment vehicles, which are managed by Legal & General Investment Management ("LGIM"). The selection, retention and realisation of assets within the pooled funds are delegated to LGIM in line with the mandates of the funds. Likewise, LGIM have full discretion (within the constraints of their mandates) on the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments.

– Within the default arrangement, units across the underlying pooled funds are bought and sold according to the table below:

Time to Retirement (years)

LGIM Multi-Asset Fund (%)

LGIM Blended Fund (%)

LGIM Over 5 Year Index Linked Gilts Index Fund

LGIM Sterling Liquidity Fund (%)

>16

100

0

15

80

20

14

60

40

13

40

60

12

20

80

11

0

100

10

0

100

9

100

8

100

7

100

6

80

15

5

5

60

30

10

4

40

45

15

3

20

60

20

2

75

25

1

75

25
0
75
25

4. Risk

Taking into account the demographics of the Plan's membership and the Trustees' views of how the membership will behave at retirement, the Trustees believe that the balance between asset classes within the default option is appropriate and will continue to review this over time, at least triennially, or after significant changes to the Plan's demographics, if sooner.

In selecting assets, the Trustees consider the liquidity of the investments in the context of the likely needs of members. All assets are daily dealing and therefore should be realisable based on member demand.

The Trustees have considered risks from a number of perspectives. The list below is not exhaustive but covers the main risks that the Trustees consider and how they are managed.

Risk
How it is managed
How it is measured

Inflation Risk
The real value (i.e. post inflation) value of members' accounts decreases.

The Trustees provide members with a range of funds, across various asset classes, with the majority expected to keep pace with inflation (with the exception of the money market and fixed interest bond funds).

Members are able to set their own investment allocations, in line with their risk tolerances.

The Trustees consider the real returns (i.e. return above inflation) of the funds, with positive values indicating returns that have kept pace with inflation.

Pension Conversion Risk
Members' investments do not match how they would like to use their pots in retirement.

The Trustees make available a lifestyle strategy for DC members, targeting members taking their DC assets 75% as a pension increasing in payment with inflation and 25% as a tax-free cash lump sum.

The lifestyle strategy automatically switches member assets as they approach retirement into investments that are expected to be less volatile relative to how they wish to access their pension savings. The lifestyle strategy increases the proportion of assets that more closely match the chosen retirement destination as members approach retirement. This aims to reduce the risk of a substantial fall in the purchasing power of their accumulated savings near retirement.

The Trustees considering the returns of the funds used within the switching phase of the lifestyle strategy relative to changes in annuity prices.

Market Risk

The value of securities, including equities and interest bearing assets, can go down as well as up.

The default investment strategy is set with the intention of diversifying this risk to reach a level of risk deemed appropriate for the relevant members by the Trustees.

The Trustees monitors the performance of external investment funds on a quarterly basis.

Counterparty Risk
A counterparty, either an underlying holding or pooled arrangement, cannot meet its obligation.

Delegated to external investment manager.

The Trustees monitor the performance of external investment funds on a quarterly basis.

Currency Risk
The value of an investment in members' base currency may change as a result of fluctuating foreign exchange rates.

The main sources of currency risk within the default investment strategy are the allocations to the Multi-Asset and Blended Funds.

The management of currency risk within the Multi-Asset Fund is delegated to the investment manager. Within the Blended Fund, currency risk is managed by hedging 50% of the developed market overseas equity exposure back to Sterling.

The Trustees monitor the performance of external investment funds on a quarterly basis.

The Trustees consider the movements in foreign currencies relative to pound sterling.

Operational Risk
A lack of robust internal proceses, people and systems.

In line with the main DC assets.

The Trustees consider the ratings of investment strategies from their Investment Consultant and monitor these on a quarterly basis.

Liquidity Risk
Assets may not be readily marketable when required.

The Trustees access daily dealt and daily priced pooled funds through a unit-linked insurance contract from LGIM.

The Trustees consider the pricing and dealing terms of the funds underlying the unit-linked insurance contract.

Valuation Risk
The value of an illiquid asset is based on a valuer's opinion, realised value upon sale may differ from this valuation.

The multi-asset fund may hold illiquid assets. In such cases, the management of valuation risk is delegated to the external investment manager.

The majority of the default lifestyle strategy's assets are invested solely in liquid quoted assets.

The Trustees monitor the performance of funds on a quarterly basis, and where relevant delegate the monitoring of valuation risk to the Investment Consultant.

Environmental, Social and Governance Risk
ESG factors can have a significant effect on the performance of the investments held by the Plan e.g. extreme weather events, poor governance.

In line with the main DC assets as set out in the main Statement of Investment Principles.

The Trustees review their external investment managers’ policies and actions in relation to this on a regular basis.

Manager Skill / Alpha Risk
Returns from active investment management may not meet expectations, leading to lower than expected returns to members.

The only exposure to active management within the default lifestyle investment stratregy is within the Multi-Asset Fund.The Fund is highly rated by the Trustees’ Investment Consultant, based on forward-looking expectations of meeting objectives.

The Trustees consider the ratings of investment strategies from their Investment Consultant during the selection process.

The Trustees monitor performance and rating of funds on an ongoing basis relative to the fund’s benchmark and stated targets/objective.

The items listed above are in relation to what the Trustees consider ‘financially material considerations’. The Trustees believe the appropriate time horizon over which to assess these considerations should be viewed at a member level. This will be dependent on the member’s age and their Selected Retirement Age.

5. Suitability of Default Investment Strategy

5.1 Based on their understanding of the Plan’s membership, the Trustees believe that the above objectives and policies reflect members’ best interests. The rationale underpinning this belief is as follows:

- A defined benefit underpin applies to many members. The underpin requires that the majority of members’ benefits should be taken as a pension which increases in payment in line with inflation.

- In addition, the Trustees believe that most members save into a pension plan to achieve a stable income in retirement that is protected at least partially from inflation. The targeting of an annuity purchase at retirement during the consolidation phase is aligned with that objective.

- The default arrangement is aimed largely at members who do not feel capable of taking investment decisions. Again, the Trustees believe that an annuity purchase which provides a secure income at retirement is likely to be the preferred course for many such members, as opposed to say income drawdown which requires more intensive investment governance during retirement.

- Almost all members withdraw tax free cash at retirement. The use of the Sterling Liquidity Fund within the default addresses that requirement.

- Members seeking an adequate income in retirement will likely need to achieve real investment returns for most of their period as pension savers. The use of a fund with significant weightings in global equities during the accumulation phase addresses that requirement.

5.2 The Trustees are aware that fund sizes for members approaching retirement are often small and this may disincline members towards annuity purchase at retirement. However, members will likely have other savings that can be consolidated with their Plan savings.

5.3 The Trustees intend to monitor members' decisions and other inputs from time to time to ensure that the default arrangement remains suited to their needs. They will also review the investment choices available to members to ensure that those who regard the default arrangement as unsuited to their needs have suitable alternative investment funds to select from.

6. Review of this Statement

6.1 The Trustees will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believe to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

Annual Implementation Statement to 30 September 2020

Annual Implementation Statement to 30 September 2020 – DB Section and DC Section

Introduction

This statement sets out how, and the extent to which, the Statement of Investment Principles ('SIP') produced by the Trustees has been followed during the year to 30 September 2020. This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the guidance published by the Pensions Regulator. The table later in the document sets out how, and the extent to which, the policies in both the DB Section and DC Section of the SIP have been followed.

Investment Objective of the Plan

The Trustees believe it is important to consider the asset managers' policies in the context of the investment objectives the Trustees have set. The objectives of the Plan, included in the SIP, are as follows:

DB Section

The Trustees understand that taking some investment risk, with the support of the Sponsor, is necessary to improve the Plan's ongoing and solvency funding positions. The Trustees recognise that growth asset investment will bring increased volatility of the funding level, but invest in the expectation of improvements in the Plan's funding level through outperformance of the liabilities over the long term.

The Trustees' primary objective is to act in the best interest of the members. The main objective of the Trustees is therefore to improve the funding position of the DB Section to firstly achieve 100% funding on the Technical Provisions assumptions and thereafter target being fully funded on actuarial assumptions for the liabilities which allow a relatively low risk investment strategy to be adopted.

The Trustees recognise this ultimately means investing in a portfolio of bonds but believe that at the current time some growth asset investment is justified to target enhanced return expectations and thereby target funding level improvements. The Trustees recognise that this introduces investment risk and have taken measures to manage and mitigate these risks as far as is appropriate (please refer to the Plan's SIP for further detail).

DC Section and AVCs

The Trustees recognise that members have different investment goals and that these may change during the course of their working lives. They also recognise that members have different attitudes to risk. The Trustees' objective is to make available to members a range of investment options which seek to allow members to set an investment strategy that meets their needs and risk tolerances. The Trustees also recognise that members may not believe themselves qualified to take investment decisions. As such, the Trustees make available a Default Lifestyle Option (in respect of the DC Section only).

Review of the SIP

During the year to 30 September 2020, the Trustees carried out a review of the Plan's SIP and a revised version dated July 2020 was agreed (and made publicly available) in order to reflect new requirements under The Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2019 relating to the following:

- How the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with the Trustees' policies in the SIP.

- How that arrangement incentivises the asset manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.
- How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the Trustees' policies mentioned in the SIP.
- How the Trustees monitor portfolio turnover costs incurred by the asset manager and how they define and monitor targeted portfolio turnover or turnover range.
- The duration of the arrangement with the asset manager.

Assessment of how the policies in the SIP have been followed for the year to 30 September 2020

The information provided in this section highlights the work undertaken by the Trustees during the year, and longer term where relevant, and sets out how this work followed the Trustees' policies in the SIP, relating to the Plan as a whole. The SIP is attached as an Appendix and sets out the policies referenced below.

Requirement
Policy
In the year to 30 September 2020
1
Securing compliance with the legal requirements about choosing investments
DB – Section 2 of SIP – Process for choosing investments

DC – Section 11 of SIP – Investment Objectives

DB Section
Trustees have appointed a Fiduciary Manager who provides expert advice and chooses investment vehicles that can fulfil the Plan's investment objectives. In the Trustees' opinion, this is consistent with the requirements of Section 36 of the Pensions Act 1995.
DC Section

In considering appropriate investments for the Plan, the Trustees have obtained and considered the written advice of their Investment Adviser, whom the Trustees believe to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustees' opinion, consistent with the requirements of Section 36 of the Pensions Act 1995.

DB
The Trustees’ appointed Fiduciary Manager (Mercer) had been delegated the authority to invest the Plan’s assets across various asset classes both with the aim of earning an investment return above the rate of growth in the Plan’s liabilities and managing the various risks to which the Plan is exposed.

The Plan’s assets are invested in multi-client collective investment schemes (“Mercer Funds”) managed by a management company (Mercer Global Investments Management Limited (“MGIM”)). MGIM has appointed Mercer Global Investments Europe Limited (“MGIE”)) as investment manager. In practice, MGIE delegates the discretionary investment management for the Mercer Funds to third party investment managers.

Investment performance and the actions taken by Mercer, MGIE and the sub-investment managers are reviewed by the Trustees on a monthly and quarterly basis.

DC

The Trustees have not made any changes to the DC investment options over the year to 30 September 2020 and have therefore not received any investment advice in relation to choosing investments.

2
Risks, including the ways in which risks are to be measured and managed
DB – Section 4 of SIP – Risk management and measurement

DC – Section 13 of SIP – Risk

DB Section
The Trustees recognise that there are various risks to which any pension scheme is exposed.
DC Section

The Trustees have considered risks from a number of perspectives.
As a member’s investment pot grows, investment risk will have a greater impact on member outcomes. Therefore, the default lifestyle investment strategies seek to reduce investment risk as the member approaches retirement. The default lifestyle strategies also aim to provide some protection against inflation erosion.
Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. In designing the default lifestyle options, the Trustee has explicitly considered the trade-off between risk and expected returns. The default options balance between different kinds of investments to ensure that the expected amount of risk (and commensurately the expected return) is appropriate given the age of the members and their expected retirement date.
DB
As detailed in Section 4 of the SIP, the Trustees consider both quantitative and qualitative measures for these risks when deciding investment policies and evaluating Mercer and

MGIE's actions relating to the strategic asset allocation, dynamic asset allocation and choice of sub-investment managers and asset classes.

The investment strategy report is reviewed by the Trustees on a quarterly basis – this includes the overall funding level risk and as appropriate comments on the other risks to which the Plan is exposed.

DC

The default investment option was subject to its formal triennial review on 4 September 2018. The next default investment review is planned for July 2021 and will include consideration of the trade-off between risk and expected returns.

The scheme maintains a risk register of the key risks, including the investment risks. This rates the impact and likelihood of the risks and summarises existing mitigations and additional actions.

3
Kinds of investments to be held
DB – Section 5 of SIP – Investment strategy and Statement of Investment Arrangements

DC – Section 11 of SIP – Investment Objectives

DB Section
A range of asset classes are included within the Plan's investment portfolio including: global developed and emerging market equities, emerging market debt, high yield bonds, multi-asset credit, absolute return bonds, property, bonds (gilts and corporate bonds), as well as Liability Driven Investment ("LDI") funds which invest in bond-like investments in order to provide interest rate and inflation exposure and reduce funding level risk.
DC Section

Members of the DC Section choose the funds in which to invest from a range of funds made available by the Trustees.
Members can combine the investment funds in any proportion in order to achieve the desired level of return and risk in line with their own attitude towards, and tolerance of risk.
Within the default option, the strategic asset allocation is set to achieve the expected return required to meet the objective of the default option.
DB
The Trustees have decided to delegate the implementation of the desired investment strategy to Mercer, with pre-agreed funding level de-risking triggers which prompt Mercer to transfer assets from the Plan's growth assets to matching assets. The Trustees will consider the way in which investment risk should be reduced and have delegated the monitoring of the de-risking triggers to Mercer who review the funding level on a daily basis. MGIE constructs portfolios of investments that are expected to maximise the return

(net of all costs) given the targeted level of risk and the investment objectives over the lifetime of the Plan.

The Trustees on behalf of the Plan hold shares in the Mercer Funds. In its capacity as investment manager to the Mercer Funds, MGIE, and the underlying third-party asset managers appointed by MGIE, within parameters stipulated in the relevant appointment documentation, have discretion in the timing of the realisation of investments and in considerations relating to the liquidity of those investments.

DC

The strategic asset allocations of the default investment options is reviewed on a triennial basis. The date of the last review was 4 September 2018. This confirmed that the strategic asset allocations were appropriate to meet the stated aims and objectives of the default options. Although this review was not undertaken during this year, it represents an important exercise for the Trustees that covers the majority of the investment policies the Trustees have in place. The next default investment review is planned for July 2021.

A review of self-select options also formed part of the triennial investment review – no changes were made to the self-select fund range. Member demand for self-select investments is monitored but there have been no strong drivers for changes during the year.

4
Expected return on investments
DB – Section 5 of SIP – Investment strategy

DC – Section 11 of SIP – Investment Objectives

DB Section
<="" em="" style="margin: 0px; padding: 0px; box-sizing: border-box;">

The Trustees expect to exceed this return over the longer term and have designed a de-risking framework with an objective to achieve full funding using a discount rate of 0.5% p.a. in excess of Gilts over the long term.
DC Section

The funds available are expected to provide an investment return commensurate with the level of risk being taken.
In designing the default, the Trustees have explicitly considered the trade-off between risk and expected returns. The investment strategy is designed to generate returns in excess of inflation during the growth phase and de-risk towards the retirement date, in order to provide members with greater certainty.
DB and DC
The investment strategy report is reviewed by the Trustees on a quarterly basis – this includes the risk and return characteristics of the Plan's investment portfolio. In addition,

quarterly reporting provided by LGIM is reviewed by the Trustees, covering both the DC and AVC fund ranges.

The investment performance report includes how each fund in which the Plan's assets are invested is delivering against their specific mandates.

DB

Over the 3 years to 30 September 2020, the Plan has returned c.7.5% p.a. (net of fees) relative to a liability return of 8.3%. Over the period since inception of the fiduciary management arrangements with Mercer to 30 September 2020, the Plan's assets returned 6.3% p.a. (net of fees) relative to a liability return of 6.4% p.a. The Trustees note that the deviation in performance against the rate of growth in the liabilities over the three-year period is primarily due to the market falls over Q1 2020 as a result of the COVID-19 crisis.

The investment strategy was reviewed by the Trustees, with advice and guidance provided by Mercer. However, no significant changes were made by the Trustees to the Plan's headline investment strategy (i.e. the target allocation to return seeking assets and risk reducing assets).

5
Realisation of investments
DB – Section 6 of SIP – Realisation of investments

DC – Section 13 of SIP – Risk

DB and DC Sections
The Trustees' administrators will request for disinvestments from the Plan's invested assets following member requests on retirement or earlier where required.
Mercer and the underlying investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation.
DC Section

The Trustees consider the liquidity of the investment in the context of the likely needs of members.
DB
Where disinvestments were requested during the year the policies stipulated within the relevant appointment documentation have been followed.

DC

The Trustees receive an administration report on a quarterly basis to confirm whether core financial transactions are processed within SLAs and regulatory timelines. As confirmed in the Chair Statement, whilst overall performance against SLAs has improved compared to the previous Plan year, the periods of poor performance are considered to be unsatisfactory to the Trustees, and further actions are being taken to improve service levels. However, the Trustees confirm that no material issues arose over the year in relation to the Plan's core financial transactions.

Benchmarking against the performance and cost of other administrators has been undertaken during the year and this confirms the Trustees' view that current SLAs are unsatisfactory.

Improvements have been promised and a further review of the administrators will take place in 2021.

All funds are daily dealt pooled investment vehicles, accessed by an insurance contract.

6
Financially material considerations over the appropriate time horizon of the investments, including how those considerations are taken into account in the selection, retention and realisation of investments
DB – Section 4 of SIP

DC – Section 13 of SIP

DB and DC – Section 14 of SIP – ESG, Stewardship and Climate Change

DB and DC Sections
The Trustees consider financially material considerations in the selection, retention and realisation of investments.
DB Section

The Trustees' consideration of such factors, including Environmental, Social and Governance ('ESG') factors, is delegated to Mercer who in turn delegate this to the appointed underlying investment managers.
Investment managers are expected to evaluate these factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments in line with their own corporate governance policies and current best practice.
DC Section

As the assets are invested in pooled funds, the Trustees have given the appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments.
DB and DC
The Trustees review the investment strategy regularly and in accordance with relevant legislation. The Plan's SIP details a number of financially material risks, which are considered by the Trustees in designing the investment strategy. Where appropriate, the Trustees will look to reduce the extent of these risks, whilst continuing to support the achievement of the respective objectives for the DB and DC Sections.

The Plan's SIP includes the Trustees' policy on Environmental, Social and Governance factors, stewardship and Climate Change. This policy sets out the Trustees' beliefs on ESG and climate change and the processes followed by the Trustees in relation to voting rights and stewardship.

In order to establish these beliefs and produce this policy, the Trustees undertook investment training provided by their investment consultant on responsible investment which covered ESG factors, stewardship, climate change and ethical investing. This training was provided on 30 January 2020 and 3 June 2020.

The Trustees keep their policies under regular review with the SIP subject to review at least triennially.

DB

Where sub-investment managers may not be highly rated from an ESG perspective the Trustees continue to monitor Mercer's efforts at working with the managers to improve their ESG rating, noting that when MGIE considers investing in a new sub-investment manager they would consider the ESG rating of the manager as part of the selection process.

The investment performance report includes how each investment manager is delivering against their specific mandates. This report is reviewed by the Trustees on a quarterly basis – this includes ratings (both general and specific ESG) for the underlying managers of the Mercer Funds.

DB and DC

The Trustees acknowledge that there is limited scope for engagement on ESG related matters in relation to the majority of the DC funds and the passively managed DB allocations within the Plan's growth portfolio and that sub investment managers in fixed income do not have a high ESG rating assigned by the Mercer Research team due to the nature of the asset class where it is harder to engage with the issuer of debt.

7
The extent (if at all) to which non-financial matters are taken into account in the selection, retention and realisation of investments
DB and DC – Section 14 of SIP – ESG, Stewardship and Climate Change

DB and DC Sections
Member views are not taken into account in the selection, retention and realisation of investments.
In relation to the DB Section, the Trustees believe that the delegation of portfolio construction to Mercer will lead to ESG considerations that are in the best interests of the Plan as a whole.
As the DC Section's assets are invested in pooled funds, the Trustees have given the appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments.

No proof required.
8
The exercise of the rights (including voting rights) attaching to the investments
DB and DC – Section 14 of SIP – ESG, Stewardship and Climate Change

DB and DC Sections
Investment managers are expected to evaluate these factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments in line with their own corporate governance policies and current best practice.
DB
The Plan's defined benefit assets are invested in pooled funds managed by MGIE who have delegated their voting rights (where applicable) to the underlying investment managers. Investment managers are expected to provide voting summary reporting on a regular basis, at least annually. This reporting is presented to the Trustees within Mercer's Stewardship Monitoring Review to ensure that they align with the Trustees' policy. Mercer's Stewardship Monitoring Report (which was reviewed by the Trustees in January 2020) covering the period 1 July 2018 to 30 June 2019 concluded the following:

Vote execution:
Vote execution continues to be good overall (i.e. >90% of available votes). Where votes have not been cast the vast majority of managers provide a rationale (typically this relates to market-specific barriers or restrictions).

Vote disclosure:
The level of disclosure continues to vary considerably across managers. While in some cases managers have improved in not only disclosing voting rationale at a resolution level, but including summary reporting across categories (e.g. board-related, compensation-related, environmental etc.) there are managers who have not disclosed rationale across all resolutions. It is likely that managers do have this information but have not proactively disclosed it and we will follow-up with these managers to confirm.

Engagement:
The results on engagement activities has been relatively consistent, however, Mercer note an improvement in the quality of engagement disclosure from a number of managers.

Some managers continue to provide market leading engagement reporting – typically those with an established approach to engagement and internal resources dedicated to stewardship. Mercer will follow up with all managers where improvements are expected in future.

DC

As the Plan invests solely in pooled funds, the Trustees require their investment managers to engage with the investee companies on their behalf. The Trustees have requested more information on engagement activity from the platform provider, with whom there is a direct legal relationship. At the time of writing, key voting information was only available for the fund listed below. Reporting in this area is expected to evolve as information becomes more readily available, in line with regulations.

LGIM – UK Equity Index – Passive (an underlying component of the Welcome Break Blended Fund)

LGIM uses the services of ISS to vote on its behalf.

– The voting policy of the manager has been considered by the Trustees and the Trustees deem it to be consistent with their investment beliefs.

– Key votes undertaken over the prior year are summarised below:

- Barclays – vote to approve Barclay's Commitment in Tackling Climate Change in May 2020.
- Pearson – voted against a motion to amend CEO remuneration policy in September 2020.
- Plus 500 – LGIM voted against a special bonus payment to Plus 500's CFO, Elad Even-Chen, in September 2020.
- SIG PLC – voted against a one-off payment to Steve Francis resolution in July 2020 shareholder meeting.
- International Consolidated Airlines Group voted against a resolution to approve Remuneration Report in September 2020.

– Over the prior 12 months, the Trustees have not actively challenged the manager on its voting activity. Going forwards, the Trustees will review voting activity annually and will be more active in challenging voting activity if required, particularly in respect of its beliefs on climate change.

9
Undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, trustees would monitor and engage with relevant persons about relevant matters)
DB and DC – Section 14 of SIP – ESG, Stewardship and Climate Change

DB and DC sections
Investment managers are expected to evaluate these factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments in line with their own corporate governance policies and current best practice. Outside of those exercised by investment managers on behalf of the Trustees, no other engagement activities are undertaken.
DB and DC
Investment managers are expected to provide reporting on a regular basis, at least annually including stewardship monitoring results. These are reviewed by the Trustees.

As the Plan invests solely in pooled funds managed by MGIE (DB Section) and LGIM (DC Section), the Trustees requires that sub-investment managers appointed by MGIE and LGIM engage with the investee companies on their behalf. The Trustees are looking to enhance their reporting on manager engagement by reviewing an annual voting and engagement report which will be produced by the Trustees' fiduciary manager.

10
How the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with the Trustees' policies
DB and DC – Section 14 of SIP – Trustees' policies with respect to arrangements with, and evaluation of the performance and remuneration of, asset managers and portfolio turnover costs

DB Section
As Mercer manages the Plan's assets by way of investment in Mercer Funds, which are multi-client collective investment schemes, the Trustees accept that they do not have the ability to determine the risk profile and return targets of specific Mercer Funds.
However, the Trustees expect Mercer to manage the assets in a manner that is consistent with the Trustees' overall investment strategy.
The Trustees keep Mercer's performance under ongoing review and should Mercer fail to align its investment strategies and decisions with the Trustees' policies, it is open to the Trustees to disinvest some or all of the assets managed by Mercer, to seek to renegotiate commercial terms or to terminate Mercer's appointment.
DC Section

The Trustees consider the suitability of investment managers at least triennially as part of the default arrangement review. The Trustees will replace investment managers if their approach does not align with the Trustees' objectives.
DB
In the year to 30 September 2020, the Trustees have discussed their continued appointment of Mercer and were happy that the contractual arrangement in place continues to incentivise Mercer to make decisions based on medium to long-term considerations. Additionally, the Trustees will be carrying out a competitive tender process for the Plan's investment manager over 2021.

The investment strategy report or a summarised version was reviewed by the Trustees on a quarterly basis – this includes a comparison of how the Plan's funding level is progressing versus the projections of the Plan's funding level from the latest investment strategy review in order to assess whether the Trustees are on track to meet their objective.

As at 30 September 2020 the Plan's funding level on a 'gilts + 0.5%' basis was 87.3% (excluding deficit contributions) versus an expected level of 85.9% following outperformance of the Plan's growth assets over Q2 and Q3 2020.

DC

The default investment option is reviewed on a triennial basis. The date of the last review was 4 September 2018. This confirmed that the manager appointments were appropriate to meet the stated aims and objectives of the default options. The next default investment review is planned for July 2021.

11

How the arrangement incentivises the asset manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.

DB and DC – Section 14 of SIP – Trustees' policies with respect to arrangements with, and evaluation of the performance and remuneration of, asset managers and portfolio turnover costs

DB Section

The Trustees have appointed Mercer as the discretionary investment manager who has invested the Plan's assets in a range of Mercer Funds managed by MGIE.

Neither Mercer nor MGIE make investment decisions based on their assessment about the performance of an issuer of debt or equity. Instead, assessments of the medium to long-term financial and non-financial performance of an issuer are made by the underlying third-party asset managers appointed by MGIE to manage assets within the Mercer Funds. Those managers are in a position to engage directly with such issuers in order to improve their performance in the medium to long term. In their respective roles, Mercer and MGIE assess how each underlying third-party asset managers' investment capabilities aligns with the relevant financial and non-financial considerations.

DC Section

The Trustees consider the suitability of investment managers at least triennially as part of the default arrangement review. The Trustees will replace investment managers if their approach does not align with the Trustees' objectives.

DB

The quarterly investment strategy report or a summarised version and the investment performance was reviewed by the Trustees on a quarterly basis which includes financial metrics and Mercer Manager Research Ratings for the underlying asset managers that comprise the Mercer Funds.

The Mercer Research Rating includes a Manager Rating which gives an indication of Mercer's view on the likelihood of a manager to achieve their performance objective and an ESG Rating which gives an indication of the extent to which ESG considerations are incorporated into the managers' investment process.

12

How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the Trustees' policies.

DB and DC – Section 14 of SIP – Trustees' policies with respect to arrangements with, and evaluation of the performance and remuneration of, asset managers and portfolio turnover costs

DB Section

The Trustees are long-term investors and are not looking to change their investment arrangements on an unduly frequent basis. However, the Trustees do keep those arrangements under review, including the continued engagement of Mercer using, monthly and quarterly reporting provided by Mercer.
The Trustees monitor, and evaluate, the fees they pay for asset management services on an ongoing basis taking into account the progress made in achieving their investment strategy objectives.
Mercer's, and MGIE's, fees are based on a percentage of the value of the Plan's DB assets under management which covers the design and annual review of the de-risking strategy, and investment management of the assets. In addition, the underlying third-party asset managers of the Mercer Funds also charge fees based on a percentage of the value of the assets under management. In some instances, some of the underlying managers may also be entitled to charge fees based on their performance.
MGIE reviews the fees payable to third party asset managers managing assets invested in the Mercer Funds on a regular basis with any negotiated fee savings passed directly to the Plan. Mercer's, MGIE's, and the third-party asset managers', fees are outlined in a quarterly investment strategy report prepared for the Trustees, excluding performance-related fees and other expenses involved in the Mercer Funds not directly related with the management fee.
DC Section

The Trustees consider the suitability of investment managers at least triennially as part of the default arrangement review. The Trustees will replace investment managers if their approach does not align with the Trustees' objectives.
DB
The quarterly investment strategy report or a summarised version and the investment performance which contains the long-term return for the Plan's overall investment portfolio and individual Mercer Funds and investment fees incurred over a quarter were reviewed by the Trustees on a quarterly basis.

The Trustees received and reviewed the Plan's Personalised Cost & Charges statement for the year 2019 in May 2020.

During the year, Mercer was able to utilise their increased buying power to negotiate a reduced fee for the leveraged gilt funds in which the Plan is invested reducing the fees for those funds from 0.07% p.a. to 0.045% p.a. (c.35% reduction) effective from 31 March 2020.

13
How the trustees monitor portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range.
DB and DC – Section 14 of SIP – Trustees' policies with respect to arrangements with, and evaluation of the performance and remuneration of, asset managers and portfolio turnover costs

DB Section
The Trustees do not have an explicit targeted portfolio turnover range, given the de-risking mandate, but rebalancing ranges have been designed to avoid unnecessary

transaction costs being incurred by unduly frequent rebalancing. Performance is reviewed net of portfolio turnover costs, with the review of portfolio turnover of the underlying investment managers undertaken by MGIE.
DC Section

The Trustees consider the suitability of investment managers at least triennially as part of the default arrangement review. The Trustees will replace investment managers if their approach does not align with the Trustees' objectives.
DB
The quarterly investment strategy report or a summarised version and the investment performance which contains the long-term return for the Plan's overall investment portfolio (noting that this is net of portfolio turnover costs) was reviewed by the Trustees on a quarterly basis.

Additionally, the Trustees received and reviewed the Plan's Personalised Cost & Charges statement for the year 2019 in May 2020, which details the transaction costs associated with investment in the Mercer Funds.

14
The duration of the arrangement with the asset manager
DB and DC – Section 14 of SIP – Trustees' policies with respect to arrangements with, and evaluation of the performance and remuneration of, asset managers and portfolio turnover costs

DB Section
There is no set duration for Mercer's appointment by the Trustees or an asset managers' appointment by MGIE.
Mercer's appointment is reviewed by the Trustees as to their continued suitability and could be terminated either because the Trustees are dissatisfied with Mercer's ongoing ability to deliver the mandate promised or because of a change of investment strategy by the Trustees.
Similarly, the continued appointment of the underlying asset managers is reviewed by MGIE.
DC Section

The Trustees consider the suitability of investment managers at least triennially as part of the default arrangement review. The Trustees will replace investment managers if their approach does not align with the Trustees' objectives.

Important notices

For Mercer’s conflict of interest disclosures, contact your Mercer representative or see www.mercer.com/conflictsofinterest