Statement of Investment Principles for the West of England Ship Owners Insurance Services Ltd Retirement Benefits Scheme

1. Introduction

This Statement of Investment Principles ("SIP") sets out the policy of the Trustees of the West of England Ship Owners Insurance Services Ltd Retirement Benefits Scheme ("the Trustees") on various matters governing decisions about the investments of the West of England Ship Owners Insurance Services Ltd Retirement Benefits Scheme ("the Scheme"), a Defined Benefit ("DB") Scheme. This SIP replaces the previous SIP dated 22 September 2016.

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

The Scheme's assets are held in trust by the Trustees. The investment powers of the Trustees are set out in the Scheme's Trust Deed dated 15th November 1968.

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

The Scheme's Investment Sub-Committee ("ISC") will review this SIP from time to time and, with the help of their advisers, will amend it as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy and at least once every three years.

- **Appendix 1** sets out details of the Scheme's investment governance structure, including the key responsibilities of the Trustees, investment advisers and investment managers. It also contains a description of the basis of remuneration of the investment adviser and the investment managers.
- **Appendix 2** sets out the Trustees' policy towards risk appetite, capacity, measurement and management.
- **Appendix 3** sets out the Scheme's investment manager arrangements.

2. Investment objectives

The primary objective is to ensure that the Scheme should be able to meet benefit payments as they fall due. A secondary objective is that the Scheme's funding position (ie the asset value relative to the assessed value of its liabilities) should remain at an appropriate level.

The Trustees are aware that there are various measures of funding, and have given due weight to those considered most relevant to the Scheme. In particular, the Trustees have taken into account the funding requirements detailed in the Occupational Pensions Scheme (Scheme Funding) Regulations 2005.

The Trustees' investment objective is to maximise the return on the Scheme's assets whilst managing and maintaining investment risk at an appropriate level, and taking into account the primary and secondary objectives. As such the Trustees aim to:

- maximise the expected return on the Scheme's assets whilst managing and maintaining investment risk at an appropriate level. What the Trustees determine to be an appropriate level of risk is set out in Appendix 2. This investment objective is split into the following two components:
    - to target an overall expected return of 1.8% pa in excess of gilts for the Scheme's non-insured assets, reducing to 1.4% pa over time as the private credit mandate runs off; and
    - to target a Value at Risk[1] ("VaR") of £4.5m or less for the Scheme's non-insured assets.

3. Investment strategy

The Trustees, with the help of their advisers and in consultation with the employer, reviewed the investment strategy for the Scheme in December 2018, taking into account the objectives described in Section 2 above.

The result of the review was that the Trustees agreed that the investment strategy of the Scheme should be based on the allocation below.

Asset class	Strategic allocation
Return seeking	
Global multi-factor equities	6.25%
Equity-linked bonds	6.25%
Infrastructure	12.50%
Private credit	10.00%
Liability matching	
LDI portfolio (including cash collateral)	65.00%
Total	**100.00%**

In addition, the Scheme also holds an insurance policy with Aviva Life and Pensions UK Limited ("Aviva") to back the pension payments for members who had pensions in payment in 2014.

[1] Value at Risk – this means that there is a 1 in 20 chance that the Scheme's funding position on a technical provisions basis will worsen by the stated pound-amounts or more, compared to the expected funding position, over a one-year period as a result of investment markets.

The Trustees are invested in private credit via Alcentra's closed ended fund. This fund has called capital from the Scheme over time and invested it in private credit. The investment period for the fund ended on 30 September 2019 and the fund will now distribute cash to the Trustees for the next 2-3 years. Whilst the Trustees will monitor this position from time to time, the current policy is for this cash to be invested in the LDI portfolio, reducing the Scheme's risk over time and gradually increasing the strategic allocation to Liability Matching to 75%.

The aim of the Scheme's combined LDI portfolio including cash and equity-linked bonds (which contain approximately 75% of gilts) is to hedge 100% of the Scheme's remaining liabilities excluding the insurance policy.

Over time, changes in the market values of assets within each asset class will move the asset allocation away from the benchmark allocation. It is the Trustees' policy that the ISC will review the position each quarter and that, where such movement exceeds 2% from the benchmark for any asset class, the ISC will effect rebalancing through the allocation of cash flows or the purchase and/or sale of investments. Such quarterly reviews shall consider both the allocation of assets between liability matching assets and return seeking assets (the Primary Allocation) and allocation of assets within the Primary Allocation (the Secondary Allocation).

Any decision not to rebalance shall be made by the Trustees.

4. Considerations in setting the investment arrangements

When deciding how to invest the Scheme's assets, the Trustees consider a number of risks, including, but not limited to, those set out in Appendix 2. Some of these risks are more quantifiable than others, but the Trustees have tried to allow for the relative importance and magnitude of each risk.

The Trustees considered a wide range of asset classes for investment, taking account of the expected returns and key individual risks associated with those asset classes as well as how these risks can be mitigated where appropriate. The key financial assumption made by the Trustees in determining the investment arrangements is that equity-type investments will, over the long term, outperform gilts by 5.0% pa. The other key assumptions for expected returns above gilts are as follows:

In setting the strategy the Trustees took into account:

- the Scheme's investment objectives, including the target return required to meet the Trustees' investment objectives;
- the Scheme's cash flow requirements in order to meet benefit payments in the near to medium term;
- the best interests of all members and beneficiaries;
- the circumstances of the Scheme, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the strength of the employer covenant;

- the risks, rewards and suitability of a number of possible asset classes and investment strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken;
- the need for appropriate diversification between different asset classes to ensure that both the Scheme's overall level of investment risk and the balance of individual asset risks are appropriate;
- any other considerations which the Trustees consider financially material over the time horizon that the Trustees consider is needed for the funding of future benefits by the investments of the Scheme; and
- the Trustees' investment beliefs about how investment markets work, and which factors are most likely to impact investment outcomes.

The Trustees' key investment beliefs, which influenced the setting of the investment arrangements, are as follows:

- asset allocation is the primary driver of long-term returns;
- risk-taking is necessary to achieve return, but not all risks are rewarded;
- equity, credit and illiquidity are the primary rewarded risks;
- risks that do not have an expected reward should generally be avoided, hedged or diversified;
- investment markets are not always efficient and there may be opportunities for good active managers to add value;
- costs have a significant impact on long-term performance and therefore obtaining value for money from the investments is important.

5. Implementation of the investment arrangements

Before investing in any manner, the Trustees obtain and consider proper written advice from their investment adviser on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

Details of the investment managers are set out in Appendix 3.

The Trustees have signed agreements with the investment managers setting out in detail the terms on which the portfolios are to be managed. The investment managers' primary role is the day-to-day investment management of the Scheme's investments. The managers are authorised under the Financial Services and Markets Act 2000 (as amended) to carry out such activities.

The Trustees and investment managers to whom discretion has been delegated exercise their powers to giving effect to the principles in this Statement of Investment Principles, so far as is reasonably practicable.

The Trustees have limited influence over managers' investment practices because all the Scheme's assets are held in pooled funds, but they encourage their managers to improve their practices where appropriate.

The Trustees' view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

It is the Trustees' responsibility to ensure that the managers' investment approaches are consistent with their policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustees expect investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. They assess this when selecting and monitoring managers.

The Trustees evaluate investment manager performance by considering performance over both shorter and longer-term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. Generally, the Trustees would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustees' policy is to evaluate each of their investment managers by reference to the manager's individual performance as well the role it plays in helping the Scheme meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustees recognise that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustees expect their investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates.

6. Realisation of investments

The investment managers have discretion over the timing of realisation of investments of the Scheme within the portfolios that they manage, and in considerations relating to the liquidity of investments.

When appropriate, the Trustees, on the administrators' recommendation, decide on the amount of cash required for benefit payments and other outgoings and inform the investment managers of any liquidity requirements. The Trustees' maintain an allocation to liquid assets that are readily redeemable to pay benefits, but recognise that achieving a well-diversified portfolio may mean holding some investments that are less liquid (eg infrastructure) which also offer an illiquidity premium. In general, the Trustees' policy is to use asset cash flows and disinvestments to meet benefit payments where required.

7. Consideration of financially material and non-financial matters

The Trustees have considered how environmental, social, governance ("ESG") and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Scheme and its members.

The Trustees expect their investment managers to take account of financially material considerations (including climate change and other ESG considerations).

The Trustees have limited influence over managers' investment practices where assets are held in pooled funds, but they encourage their managers to improve their practices where appropriate.

The Trustees do not consider that their obligations to the beneficiaries of the Scheme require them to take into account any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

8. Stewardship

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

The Trustees do not monitor or engage directly with issuers or other holders of debt or equity. They expect the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustees from time to time, taking into account the long-term financial interests of the beneficiaries. The Trustees seek to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and from time to time the Trustees review how these are implemented in practice. The Trustees have limited influence over managers' investment practices where assets are held in pooled funds, but they encourage their managers to improve their practices where appropriate.

9. Employer related investment

The Trustees are aware that pension schemes are allowed to invest no more than 5% of their assets in employer-related investments, including such investments held via a collective investment scheme.

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

Signed: ____

SIP signed for and on behalf of the Employer of The West of England Insurance Services (Luxembourg) SA:

Signed: ____

Investment governance, responsibilities, decision-making and fees

The Trustees have decided on the following division of responsibilities and decision-making for the Scheme. This division is based upon the Trustees' understanding of the various legal requirements placed upon them, and their view that the division of responsibility allows for efficient operation and governance of the Scheme overall. The Trustees' investment powers are set out within the Scheme's governing documentation.

1. Trustees

In broad terms, the Trustees are responsible in respect of investment matters for:

- developing a mutual understanding of investment and risk issues with the employer;
- setting the investment strategy, in consultation with the employer;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- setting the policy for rebalancing between asset classes;
- setting a policy on the exercise of rights (including voting rights) and undertaking engagement activities in respect of the investments;
- putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- appointing (and, when necessary, dismissing) investment managers, investment advisers, actuary and other service providers;
- monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Act;
- communicating with members as appropriate on investment matters, such as the Trustees' assessment of its effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged;
- reviewing the investment policy as part of any review of the investment strategy;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employer(s) when reviewing the SIP.

The Trustees have delegated consideration of certain investment matters to an investment sub-committee, although any decisions remain the responsibility of the Trustees.

2. Investment managers

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

- managing the portfolios of assets according to their stated objectives, and within the guidelines and restrictions set out in their respective investment manager agreements and/or other relevant governing documentation;
- taking account of financially material considerations as appropriate when managing the portfolios of assets;
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments;
- providing the Trustees / investment platform provider with regular information concerning the management and performance of their respective portfolios; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The custodians of the portfolios (whether there is a direct relationship between the custodian and the Trustees or not) are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

3. Investment adviser

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

- advising on how material changes within the Scheme's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;
- advising on the selection, and review, of the investment managers; and
- participating with the Trustees in reviews of this SIP.

4. Fee structures

The Trustees recognise that the provision of investment management and advisory services to the Scheme results in a range of charges to be met, directly or indirectly, by deduction from the Scheme's assets.

The Trustees have agreed Terms of Business with the Scheme's actuarial and investment advisers, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis.

The investment managers receive fees calculated by reference to the market value of assets under management and also in some cases a performance related fee. The fee rates are believed to be consistent with the managers' general terms for institutional clients and are considered by the Trustees to be reasonable when compared with those of other similar providers.

The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustees' view as to the most appropriate arrangements for the Scheme. However, the Trustees will consider revising any given structure if and when it is considered appropriate to do so.

5. Performance assessment

The Trustees are satisfied, taking into account the external expertise available, that there are sufficient resources to support their investment responsibilities. The Trustees believe that they have sufficient expertise and appropriate training to carry out their role effectively.

It is the Trustees' policy to assess the performance of the Scheme's investments, investment providers and professional advisers from time to time. The Trustees will also periodically assess the effectiveness of their decision-making and investment governance processes and will decide how this may then be reported to members.

6. Working with the Scheme's employer

When reviewing matters regarding the Scheme's investment arrangements, such as the SIP, the Trustees seek to give due consideration to the employer's perspective. While the requirement to consult does not mean that the Trustees need to reach agreement with the employer, the Trustees believe that better outcomes will generally be achieved if the Trustees and employer work together collaboratively.

Policy towards risk

1. Risk appetite and risk capacity

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

When assessing the risk appetite and risk capacity, the Trustees considered a range of qualitative and quantitative factors, including:

- the strength of the employer's covenant and how this may change in the near/medium future;
- the agreed journey plan and employer contributions;
- the Scheme's long-term and shorter-term funding targets;
- the Scheme's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged;
- the Scheme's cash flow and target return requirements; and
- the level of expected return and expected level of risk (as measured by Value at Risk ("VaR")), now and as the strategy evolves.

As at 31 December 2018, the Trustees' target for one-year 95% Value at Risk was £4.5m. This means that there is estimated to be a 1 in 20 chance that the Scheme's funding position will worsen by £4.5m or more, compared to the expected position, over a one-year period. When deciding on the current investment strategy, the Trustees believed this level of risk to be appropriate given the Trustee's and employer's risk appetite and capacity, given the Scheme's objectives.

2. Approach to managing and monitoring investment risks

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

2.1. Risk of inadequate returns

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

2.2. Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Scheme's assets. The Trustees believe that the Scheme's assets are adequately diversified between different asset classes and within each asset class. This was a key consideration when determining the Scheme's investment arrangements and is monitored by the Trustee on a regular basis.

2.3. Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, the Trustees receive written advice from a suitably qualified individual and will typically undertake an investment manager selection exercise. The Trustees monitor the investment managers on a regular basis to ensure they remain appropriate for their selected mandates.

2.4. Liquidity/marketability risk

This is the risk that the Scheme is unable to realise assets to meet benefit cash flows as they fall due, or that the Scheme will become a forced seller of assets in order to meet benefit payments. The Trustees are aware of the Scheme's cash flow requirements and believe that this risk is managed by maintaining an appropriate degree of liquidity across the Scheme's investments.

2.5. Collateral adequacy risk

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

2.6. Credit risk

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

The Scheme is subject to credit risk because it invests in equity-linked bonds, private credit and LDI via pooled funds. The Trustees manage the Scheme's exposure to credit risk by only investing in pooled funds that have a diversified exposure to different credit issuers, and only investing in bonds that are classified as "investment grade".

The Trustees have also entered into an insurance policy with Aviva, and the Trustees are aware that there is a risk that Aviva could default on its obligations. However, the Trustees are mindful that UK financial regulations require insurance companies to monitor their solvency positions and hold sufficient capital levels that demonstrably reduce the risk of default.

2.7. Currency risk

Whilst the majority of the currency exposure of the Scheme's assets is to Sterling, the Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets. The Trustees consider the overseas currency exposure in the context of the overall investment strategy, and believe that the currency exposure that exists diversifies the strategy and is appropriate. Furthermore, the Trustees manage the amount of currency risk by investing primarily in pooled funds that hedge currency exposure.

2.8. Interest rate and inflation risk

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

The Trustees consider interest rate, inflation and overseas currency risks to be generally unrewarded investment risks.

As a result, the Trustees aim to hedge around 100% of the Scheme's exposure to interest rate and inflation risk, by investing in equity-linked bonds and LDI via pooled funds with BMO.

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

2.9. Other non-investment risks

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

Examples include:

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

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

By understanding, considering and monitoring the key risks that contribute to funding risk, the Trustees believe that they have appropriately addressed and are positioned to manage this general risk.

Investment manager arrangements

Appendix 3

Details of the investment managers, their objectives, and investment guidelines are set out below. Each of the investment managers either acts as or has appointed its own custodian for the assets. In cases where the investment manager acts as custodian, the responsibilities are delegated to a depositary. The Trustees do not hold a direct relationship with any the custodians or depositaries.

1. Allianz Global Investors ("Allianz") – Global multi-factor equities

The Scheme invests in global multi-factor equities through a pooled fund called the Best Styles Global Equity Fund. The objective of this fund is to "achieve long term capital growth through investment in global equity markets", and Allianz have confirmed that the performance objective of the fund is to outperform its benchmark – the MSCI All Country World Index – by 1% to 2% pa (gross of fees). The fund is priced daily, is open ended and is unlisted. The Scheme is invested in a Sterling denominated share class on an unhedged basis.

2. BMO Global Asset Management ("BMO") – Equity-linked bonds

The Scheme invests in equity-linked bonds through two pooled funds called the Overseas Equity-Linked UK Inflation Fund and the Overseas Equity-Linked UK Gilt Fund. The target allocations and investment objectives are outlined in the table below.

Fund	Allocation %	Objective
Overseas Equity-Linked UK Inflation Fund	40.0	Provide a total return by investing predominantly in inflation-linked UK government securities together with an exposure to overseas equities. It will invest predominantly in over 5-year index-linked gilts and in deposits and cash-like instruments. The overseas equity exposure will be comprised of exchange traded futures on the following indices: 1/3 S&P 500, 1/3 EuroSTOXX 50, 1/6 Topix/Nikkei 225, 1/12 ASX200, 1/12 Hang Seng.
Overseas Equity-Linked UK Gilt Fund	60.0	Provide a total return by investing predominantly in UK government securities together with an exposure to overseas equities. It will invest predominantly in over 15-year gilts and in deposits and cash-like instruments. The overseas equity exposure will be comprised of exchange traded futures on the following indices: 1/3 S&P 500, 1/3 EuroSTOXX

50, 1/6 Topix/Nikkei 225, 1/12 ASX200, 1/12 Hang Seng.

The allocation to the BMO funds will not be managed against a benchmark or rebalanced but the total Scheme assets will be reviewed by the Trustees on a periodic basis. The funds are priced daily, are open ended and are unlisted. The Scheme is invested in a Sterling denominated share class on a hedged basis.

3. Industry Funds Management UK Ltd (“IFM”) – Infrastructure

The Scheme invests in infrastructure through a pooled fund called the Global Infrastructure fund. The fund’s target is to return 10% per annum (after fees) over the long-term, in local currency terms, by investing in assets with strong market positions, predictable regulatory environments, high barriers to entry, limited demand elasticity and long lives. The fund is priced quarterly, is open ended and is unlisted. The Scheme is invested in a Sterling denominated share class on an unhedged basis.

4. Alcentra Limited (“Alcentra”) – Private credit

The Scheme invests in private credit through a pooled fund called the Clareant European Direct Lending Fund II. The stated objective of the fund is to return 8-10% pa (net of fees) by providing capital to middle-market corporate borrowers in Europe. The fund is priced quarterly, is closed ended and is unlisted. The Trustees are committed for a minimum six-year period from the fund’s final closing date in September 2016. Alcentra can extend the life of the fund for an additional two years, subject to consent of more than 50% of investors. The Scheme is invested in a Sterling denominated share class on a fully hedged basis.

5. BMO – LDI portfolio

The Scheme’s LDI portfolio consists of a number of pooled LDI funds and a cash fund. The Scheme allocates assets between these funds in proportions which result in the desired hedge ratios whilst taking account of curve risk and leverage. The LDI fund names and investment objectives are outlined in the table below.

Fund	Objective
Real Dynamic LDI Fund	Provide a hedge against real rate liabilities by the use of a number of hedging assets. Its benchmark is a typical pension fund’s liability profile as determined by BMO.
Nominal Dynamic LDI Fund	Provide a hedge against nominal rate liabilities by the use of a number of hedging assets. Its benchmark is a typical pension fund’s liability profile as determined by

BMO.

Regular Profile Leveraged Real Gilt Fund	Provide a leveraged exposure to index-linked gilts and related instruments. Its benchmark is a typical pension fund's liability profile as determined by BMO.
Regular Profile Leveraged Nominal Gilt Fund	Provide a leveraged exposure to nominal gilts and related instruments. Its benchmark is a typical pension fund's liability profile as determined by BMO.

The LDI funds are priced daily, are open ended and are unlisted. The funds only invest in Sterling assets.

The Scheme invests in cash through a pooled fund called the Sterling Liquidity Fund. The objective of the fund is to maintain high levels of liquidity, preserve capital and generate a return in line with the GBP 7-Day LIBID. There is no specific performance objective for the Sterling Liquidity Fund. The fund is priced daily, is open ended and is unlisted.

3. Additional Voluntary Contributions

The Trustees have selected Royal Bank of Scotland PLC and National Provident Institution as the Scheme's money purchase AVC providers.