The Royal Shakespeare Theatre Pension Scheme

Statement of Investment Principles

September 2020

The Royal Shakespeare Theatre Pension Scheme

September 2020

Contents

1 Introduction

This document constitutes the Statement of Investment Principles ('the SIP') required under Section 35 of the Pensions Act 1995 (as amended) for the Royal Shakespeare Theatre Pension Scheme ('the Scheme'). It describes the investment policy being pursued by the Trustees of the Scheme and is in compliance with the Government's voluntary code of conduct for Institutional Investment in the UK ('the Myners Principles') and TPR's Investment Guidance for defined benefit pension schemes. This SIP also reflects the requirements of Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.

The Scheme Actuary is Helen Ross of XPS Pensions, the Investment Adviser is River and Mercantile Investments Limited and the Legal Adviser is Pinsent Masons (collectively termed 'the Advisers').

The Trustees confirm that, before preparing this SIP, they have consulted with The Royal Shakespeare Company ('the Sponsoring Employer') and the Scheme Actuary and have obtained and considered written advice from the Investment Adviser. The Trustees believe the Advisers to be qualified by their ability and practical experience of financial matters and to have appropriate knowledge of the investment arrangements that the Scheme requires.

The Trustees are responsible for the investment of the Scheme's assets and where they are required to make an investment decision, the Trustees always receive advice from the relevant Advisers first and they believe that this ensures that they are appropriately familiar with the issues concerned.

In accordance with the Financial Services & Markets Act 2000 ('FSMA'), the Trustees set general investment policy, but have delegated the day-to-day investment of the Scheme's assets to be undertaken through the fiduciary management service of River and Mercantile Investments Limited ('R&M Solutions') hereafter referred to as the 'DB Investment Manager'.

The DB Investment Manager is authorised under the FSMA and provides the expertise necessary to manage the investments of the Scheme.

Declaration

The Trustees confirm that this Statement of Investment Principles reflects the investment strategy they have implemented for the Scheme. The Trustees acknowledge that it is their responsibility, with guidance from the Advisers, to ensure the assets of the Scheme are invested in accordance with these Principles.

Signed ....G. S. Forrest.... Date ....12.09.2020....

For and on behalf of the Trustees of The Royal Shakespeare Theatre Pension Scheme.

2 Scheme Governance

The Trustees are responsible for the governance and investment of the Scheme's assets. The Trustees consider that the governance structure set out in this SIP is appropriate for the Scheme as it allows the Trustees to make the important decisions on investment policy, while delegating the day-to-day aspects to the Investment Manager or the Advisers as appropriate. The responsibilities of each of the parties involved in the Scheme's governance are detailed in Appendix A.

3 Investment Objectives

The overall objective of the Scheme is to meet the benefit payments promised as they fall due. The Trustees have set the following qualitative objectives:

1. The acquisition of suitable assets, having due regard to the risks set out in Section 8 of this statement, which will have sufficient liquidity, generate income and capital growth to pay, together with contributions from members and the Sponsoring Employer, the benefits which the Scheme provides as they fall due.
2. To limit the risk of the assets being assessed as failing to meet the liabilities over the long term having regard to any statutory funding requirement.
3. To achieve a return on investments which is expected to at least meet the Scheme Actuary's assumptions over the long term.

In quantitative terms, the Trustees long-term objective for the Scheme is to target an investment return objective of approximately 1.65% per annum (net of fees) in excess of the Liability Benchmark Portfolio ("LBP") where the LBP is defined as follows:

Liability Benchmark Portfolio (LBP)	Nominal gilt amounts (calculation date: 30 Sept 2017)
3/8% Index-linked Treasury Gilt 2062	100
0½% Index-linked Treasury Gilt 2050	224
0 5/8% Index-linked Treasury Gilt 2040	385
4 1/8% Index-linked Treasury Stock 2030	245
0 1/8% Index-linked Treasury Stock 2024	235
4% Treasury Gilt 2060	137
4¼% Treasury Gilt 2049	101
4¼% Treasury Gilt 2039	382
6% Treasury Stock 2028	442

The constituent members of the LBP are expressed in index terms based on the nominal values as at the calculation date based on cash flows from the Actuarial Valuation date 31/03/2017. The LBP is fixed at this date and therefore the split by market value will change over time due to market movements.

The objectives of the Scheme are not framed relative to the performance of any other pension funds.

4 Investment Strategy

4.1 General Policies

The Trustees approach to investment strategy is to allocate the assets into two pools – 'Off-risk' (defined as the 'Matching Fund') and 'On-risk' (defined as the 'Growth Assets'). The investment objective is then translated into the strategy and assets are allocated to these two components, together defined as 'Portfolio':

'Off-risk' assets, where the focus is risk management and protection relative to the liability target. Invested in, but not limited to, fixed interest gilts and index-linked gilts. Defined as the Matching Fund, this seeks to generate returns in line with the LBP (net of fees).

'On-risk' assets, where the focus is on return generation and taking risk in a controlled manner – such assets could include equities, corporate bonds, emerging market assets, property, commodities and other Alternatives. Liability hedging swaps are also used alongside to make the return seeking assets behave more like the liabilities and thereby reduce risk. Defined as the Growth Assets, this seeks to generate returns of at least LBP + 3% per annum (net of fees).

Each component has a specific liability-related objective that links back to the overall Scheme objective. The Trustees investment objective influences the split of assets between these two components.

The Trustees have agreed, following advice from their Advisers, to an Integrated Risk Management Plan that moves 10% of assets from the Growth Assets to the Matching Fund upon reaching a sufficiently high level of assets within the Portfolio relative to the Scheme's liabilities on the current liability basis. The Integrated Risk Management Plan is set out in a separate Trustee document. The DB Investment Manager shall not be deemed to have breached the restrictions set out in Appendix B if the price or value of any part of the portfolio changes solely as a result of market movements but in such circumstances the DB Investment Manager shall take reasonable steps to bring the portfolio back within the restrictions set out in Appendix B, unless otherwise agreed with the Trustees.

Following the 31 March 2017 actuarial funding valuation, it was deemed that the funding position was sufficiently strong as to satisfy the first two de-risking triggers. As such the allocation to the Growth Assets has been reduced from 75% to 55%, with 45% in Matching Assets, giving an overall target of LBP + 1.65%.

4.2 Asset Allocation

The Trustees recognise the importance of asset allocation to the overall investment returns achieved. However, given the approach to managing the investments set out in the previous Section, the Trustees also recognise that the asset allocation will change as a result of a range of factors, which include changes in market conditions changing the allocation to different asset types within the Growth Assets.

However, in recognition of the risks that asset allocation can imply, there are asset allocation control ranges in place. These are set out in Appendix B.

4.3 Rates of Return

The Trustees, having taken advice from the Investment Adviser, expect to achieve a rate of return on the Growth Assets of at least 3% per annum, net of investment management fees, in excess of the return on the LBP.

4.4 Diversification, Mandate Definition and Constraints

The Trustees are clear about the importance of diversification and as such the appointment of the DB Investment Manager includes a requirement to ensure assets are diversified. The choice of asset classes as set out in Appendix B is designed to ensure that the Scheme's investments are diversified. The Trustees monitor the strategy adopted by the DB Investment Manager to ensure that the arrangement remains diversified.

4.5 Suitability

The Trustees have established a mandate with the specific aim of defining the asset management objective to be directly consistent with the liability driven objectives. As such, they consider the mandate to be suitable.

The Trustees have taken advice from the Advisers to ensure that the assets held by the Scheme and the proposed strategy is suitable given its liability profile, the Trustees objectives, legislative requirements, regulatory guidance and specifications in the trust deed and rules governing the Scheme (the Trust Deed).

4.6 Financially material investment considerations

These considerations which include the below "Risks" can affect the long-term financial performance of investments and can (but do not have to) include environmental, social and governance factors (hereinafter referred to as "ESG") where relevant. The Trustees delegate consideration of financially material factors to the DB Investment Manager who considers these when constructing the portfolio, including looking at Underlying Managers. All references to ESG relate to financial factors only. All references to ESG also include climate change.

ESG factors and stewardship are considered, in the context of long term performance, by the DB Investment Manager as part of the manager selection criteria. This review occurs before they are approved for investment in the portfolio. Once an Underlying Manager is appointed, the DB Investment Manager monitors the ESG implementation and ongoing compliance with other factors, such as stewardship, as a part of overall engagement.

5 Strategy Implementation

The Trustees employ the DB Investment Manager to manage the assets of the Scheme. The DB Investment Manager is appointed to invest the Scheme's assets through:

- Determining the asset allocation of both the Growth Assets and the Matching Fund.
- Selecting underlying managers to manage elements of each Fund.
- Defining the allocations to each manager and the most appropriate form of access.
- Making changes where appropriate.

The performance expectation of this process is delivery of the investment objectives set for each Fund, as this is consistent with the overall investment objectives set out earlier in the SIP.

5.1 Mandates and Performance Targets

The Trustees have received advice on the appropriateness of the DB Investment Manager's targets, benchmarks and risk tolerances from the Advisers and believe them to be suitable to meet the Scheme's investment objectives. The DB Investment Manager has been mandated by the Trustees to manage the investments in a particular way, and details of these mandates are given in Appendix B.

5.2 Manager Agreements

The Trustees and the DB Investment Manager have agreed, and will maintain, formal Investment Manager Agreements setting out the scope of the Investment Manager's activities, their charging bases and other relevant matters. The DB Investment Manager has been provided with a copy of this SIP and is required to exercise its powers with a view to giving effect to the principles contained herein and in accordance with Section 36 of the Pensions Act 1995 and underlying regulations.

5.3 Diversification

The assets will be invested in a diverse portfolio of investments in order to reduce investment risk. The range of, and any limitation to the proportion of, the Scheme's assets held in any asset class will be agreed between the DB Investment Manager and the Trustees. These ranges and sets of limitations will be specified in the formal Investment Manager Agreement and in Appendix B and may be revised from time to time where considered appropriate as circumstances change. The Trustees also have regard to the investment powers of the Trustees as defined in the Trust Deed.

5.4 Derivatives

The Trustees may enter into contracts with counterparties, including investment banks, in order to execute derivative transactions. The Trustees have taken advice on the suitability of the nature of the derivative contracts and the choice of counterparties and have delegated responsibility to the DB Investment Manager to implement these instruments on their behalf. Derivative instruments are typically used for risk management purposes in the portfolio.

5.5 Suitability

The Trustees have taken advice from the Advisers to ensure that the DB Investment Manager is suitable for the Scheme given its objectives.

The Trustees are also aware in particular that the DB Investment Manager is regulated by the Financial Conduct Authority in pursuit of the functions provided, and that this is a means of establishing suitability under the Pensions Act 1995. The Trustees will continue to monitor the ongoing suitability of their providers through regular meetings and reports.

5.6 Non-financial matters

The Trustees do not at present take into account non-financial matters (such as members' ethical considerations, social and environmental impact matters or future quality of life considerations for members and beneficiaries) when making investment decisions as there is no likely common view on any ethical matters which members are likely to hold. At this time the Trustees have no plans to seek the views of the membership on ethical considerations.

6 Monitoring

6.1 Investment Manager

The Trustees, or Advisers on behalf of the Trustees, will monitor the performance of the DB Investment Manager against the agreed performance objectives.

The Trustees, or the Advisers on behalf of the Trustees, will regularly review the activities of the DB Investment Manager to satisfy themselves that the DB Investment Manager continues to carry out its work competently and have the appropriate knowledge and experience to manage the assets of the Scheme.

As part of this review, the Trustees will consider whether or not the DB Investment Manager:

- Is carrying out its function competently.
- Has regard to the need for diversification of investments.
- Has regard to the suitability of each investment and each category of investment.
- Has been exercising its powers of investment with a view to giving effect to the principles contained in this SIP, so far as is reasonably practical.

If the Trustees are not satisfied with the general performance of the DB Investment Manager they will ask the DB Investment Manager to take steps to rectify the situation. If the DB Investment Manager still does not meet the Trustees' requirements, the Trustees will remove the DB Investment Manager and appoint another.

6.2 Advisers

The Trustees will monitor the advice given by the Advisers on a regular basis.

6.3 SIP

The Trustees will review this SIP at least every three years, or following any changes to the investment strategy, and modify it with consultation from the Advisers and the Sponsoring Employer if deemed appropriate. There will be no obligation to change this SIP, the DB Investment Manager or Advisers as part of such a review.

6.4 Trustees

The Trustees will maintain a record of all decisions taken, together with the rationale in each case.

7 Fees

7.1 Investment Manager

The Trustees will ensure that the fees paid to the DB Investment Manager are consistent with levels typically available in the industry and the nature of services provided.

The current fee basis for the DB Investment Manager is set out in the Investment Management Agreement. The Trustees recognise that fees paid must be consistent with the value received to the Scheme. As such, the incentive fee payable to River and Mercantile Solutions as investment manager rewards the generation of value net of other investment management fees. The Trustees therefore expect River and Mercantile Solutions to weigh the potential benefits of using an external investment management firm against the fees involved and will reward the DB Investment Manager for success achieved overall. The Trustees also recognise that the Variable Element of the Management Fee is only payable to the DB Investment Manager when the Scheme's performance exceeds the performance objective and is offset by period when the objective has not been met due to the three year spreading of variable fees; all variable fees payable by the Scheme are spread equally over the subsequent three years smoothing payments. This means that the Variable Element of the Management Fee is only expected to be paid when the funding level of the Scheme is increasing. Consequently, the Trustees consider after advice of its Advisers that the approach properly aligns the interests of the Scheme and the DB Investment Manager.

7.2 Advisers

Fees paid to the Advisers are based on actual time spent and hourly rates for relevant individuals, unless the Trustees and the Advisers agree alternative arrangements in advance.

8 Risks

The Trustees recognise a number of risks involved in the investment of the assets of the Scheme. These risks, and how they are measured and managed, include:

i. **Funding and asset/liability mismatch risk** – the risk that the funding level is adversely affected due to a mismatch between the assets and liabilities. This risk is managed in the following ways:

- A liability benchmark portfolio or 'LBP' is used as a proxy for the liabilities (as described in Section 3) in order to measure the approximate changes in the liabilities (due to changes to the relevant gilt yields only). The Trustees monitor this change relative to the change in asset values on a quarterly basis. The LBP is reviewed following each actuarial review. The Trustees also recognise the risk of a negative impact on the funding level due to changes in the actuarial assumptions used to calculate the liabilities and variation in experience. This is managed through aiming for a higher overall investment return than implied by the liabilities.
- The Trustees have implemented an Integrated Risk Management Plan (See separate Trustee document for detail) to de-risk the Scheme's assets as the Scheme's funding level becomes sufficiently high on the Scheme Actuary's technical provisions basis. This basis is expected to become more prudent to reduce the funding risk following a de-risk of the Scheme's assets.
- When setting and reviewing investment strategy and the Integrated Risk Management Plan, the Trustees examine how the investment strategy impacts on downside risk as set out in Section 3. Downside risk of the investment strategy is also measured by reference to the LBP and can therefore be assessed as part of the quarterly review process.
- This risk is also monitored through regular actuarial and investment reviews.

ii. **Interest rate risk** – the risk that a change in gilt yields causes the valuation placed upon the liabilities to increase. This is reduced through the gilts in the Matching Fund and the liability hedge swaps in the Growth Assets.

iii. **Inflation risk** – the risk that a change in inflation expectations causes the value of the liabilities to increase. This risk exists as a portion of the liability benefit payments are linked to inflation. It is reduced through the index-linked gilts in the Matching Fund and liability hedge swaps in the Growth Assets.

iv. **Underperformance risk** – the risk of underperforming the benchmarks and objectives set by the Trustees. This risk is minimised using the following techniques:

- Appropriate diversification across asset classes, within sectors and between individual stocks to minimise the effect of a particular stock or sector performing badly.
- The use of instruments and strategies designed to control the extent of downside exposure.
- The use of passive management for asset classes where the downside risk of active management is considered too high.
- Regular monitoring of the active managers' performance, processes and capabilities with respect to their mandate, and by use of more than one manager to avoid over exposure to one organisation.

v. **Country risk** – the risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across many countries.

vi. **Concentration risk** – the risk of an adverse influence on investment values from the concentration of holdings is reduced by the diversification of the assets.

vii. **Mismanagement risk** – the risk of unsuitable investment activity by the DB Investment Manager. This is addressed in the agreements with the DB Investment Manager which contain a series of restrictions. The activity of the DB Investment Manager and its processes are monitored regularly by the Investment Advisers on behalf of the Trustees.

viii. **Default risk** – the risk of income from assets not being paid when promised. This is addressed through restrictions for the DB Investment Manager - e.g. a maximum allocation to bonds with a low credit rating and also ensuring that a high proportion of the bonds held are government bonds which have little default risk

ix. **Organisational risk** – the risk of inadequate internal processes leading to problems for the Scheme. This is addressed through regular monitoring of the DB Investment Manager and Advisers.

x. **Counterparty risk** – the risk of the counterparty to an agreement not carrying out his side of the deal. Where derivatives are used, the risk of counterparty default is reduced through the requirement in the relevant documentation that regular collateral or margin payments be made. It is also considered in the selection of counterparties and the incorporation of protection mechanisms in the documentation in the event of a downgrade in credit quality of an existing counterparty.

xi. **Cash flow risk** – addressed through the monitoring of the cash flow requirement of the Scheme to control the timing of any investment/disinvestment of assets.

xii. **Sponsor risk** – the risk of the Sponsoring Employer ceasing to exist which, for reasons of prudence, has been taken into account when setting the asset allocation strategy. The Trustees regularly review the covenant of the Sponsoring Employer.

xiii. **Currency risk** – the risk of overseas investments changing in value due to exchange rate movements. This risk is mitigated through the use of currency hedging.

xiv. **ESG risk** – the risk of adverse performance due to ESG related factors including climate change. This is addressed by the Investment Manager's ESG assessment at the point of investment with Underlying Managers. A summary of the overall ESG characteristics in the portfolio in the quarterly governance report.

The Trustees will keep these risks and how they are measured and managed under regular review.

9 Other Issues

9.1 Statutory Funding Requirement

The Trustees will obtain and consider proper advice on the question of whether the investments and investment strategy are satisfactory having regard to both the investment objectives and the obligation to meet any statutory funding requirements. The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation at least every three years.

The Trustees will consider with the Investment Adviser and the Scheme Actuary whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the statutory funding requirement.

9.2 Corporate Governance and Stewardship

The Trustees and Investment Manager have agreed, and will maintain, formal agreements setting out the scope of the Investment Manager's activities, charging basis and other relevant matters. The Investment Manager has been provided with a copy of this SIP and is required to exercise its powers with a view to giving effect to the principles contained herein and in accordance with subsection (2) of Section 36 of the Pensions Act 1995.

The Trustees have appointed the Investment Manager to implement the Scheme's investment strategy. The Investment Manager manages assets directly on behalf of the Trustees as well as having delegated authority to appoint, monitor and change the Underlying Managers.

The Investment Manager is appointed to carry out its role on an ongoing basis. The Trustees periodically review the overall value-for-money of using R&M Solutions, and information in relation to costs associated with investing is included in the quarterly monitoring report. The Trustees are satisfied that these arrangements incentivise the Investment Manager:

- to align its investment strategy and decisions with the Trustees' investment policies, such as their return target and the restrictions detailed in the Investment Management Agreement, and
- to assess and make decisions based on the medium- to long-term financial and non-financial performance of issuers of debt or equity, and to engage with such issuers to improve this medium- to long-term performance. The success of such engagement will contribute to the Scheme's performance, which is measured relative to the Trustees' long-term performance objectives.

The Scheme's investments are generally made via pooled investment funds, in which the Scheme's investments are pooled with those of other investors. As such, direct control of the process of engaging with the companies that issue these securities, whether for corporate governance purposes (such as capital structure) or other financially material considerations, is delegated to the Underlying Managers.

The Trustees have delegated responsibility for monitoring and voting on decisions relating to their Underlying Manager holdings to the Investment Manager. The Investment Manager has in place a voting policy which sets out how it will aim to vote at a general meeting of a pooled fund. For any special resolutions or extraordinary general meetings, the proposed votes of the Investment Manager are subject to additional sign-off by the appropriate representative from the Investment Manager.

The Investment Manager undertakes regular reviews of all Underlying Managers. These reviews incorporate benchmarking of performance and fees, with some managers on performance-related fees as well as performance reviews (including understanding key drivers of performance), investment due diligence meetings and operational due diligence reviews. The Investment Manager reviews the governance structures of Underlying Managers, as well as assessing whether their fees, expenses (and any other charges) are in line with industry peers at inception and from time to time whilst invested.

Where it can be determined, the Investment Manager assesses whether Underlying Manager remuneration arrangements are aligned with the Trustees' objectives The method and time horizon for evaluating and remunerating Underlying Managers is determined by criteria set by the Investment Manager, as detailed above.

The Trustees acknowledge the inherent potential for conflicts of interest which exist as part of ongoing Investment management business activities. As an FCA regulated firm, the Investment Manager is required to prevent or manage conflicts of interest. Where Underlying Managers are also regulated, they are likely to be subject to such requirements to manage conflicts of interest as are applicable in their jurisdiction of incorporation or operations. The Investment Manager directly monitors these as part of their regulatory filings (where available), the Investment Manager also monitors this as part of ongoing review. The Investment Manager's Conflict of Interest policy is available publicly here: https://riverandmercantile.com/AppUploadedFiles/file/Corporate_Governance/RMG_Conflicts_of_Interest_Policy.pdf

The Investment Manager oversees the turnover costs incurred by Underlying Managers as part of its ongoing monitoring process and evaluates such costs to determine if they are in line with peer groups and the Investment Manager's expectations. Where there are material deviations the Investment Manager engages with Underlying Managers to understand the rationale for such deviations and take appropriate action.

9.3 Additional Voluntary Contributions (AVCs)

With effect from 6 April 2006 the Scheme's AVC arrangements have been closed to new contributors. Existing contributors at that date continue to invest their AVC payments into a range of funds with Equitable Life and Scottish Equitable. Other members who wish to make additional savings for retirement are able to make contributions to the Royal Shakespeare Company Group Stakeholder Pension Scheme with Scottish Equitable.

9.4 Realisation of Assets

The majority of assets are held in pooled funds, most of which can be realised easily if the Trustees so require. Whilst the DB Investment Manager has discretion to invest in illiquid and non-readily realisable assets, limits are placed on the extent to which such assets can be used, as detailed in Appendix B.

9.5 Custody

Through the fiduciary management service, the Scheme's assets are held on behalf of the Trustees by a Custodian, currently KAS Bank N.V. Although the Trustees have a direct contractual relationship with the Custodian, the appointment and monitoring of the Custodian is delegated to the DB Investment Manager through the bespoke fiduciary management service.

Appendix A - Responsibilities

Trustees

The Trustees of the Scheme are responsible for, amongst other things:

i. Determining the investment objectives of the Scheme and reviewing these from time to time.

ii. Agreeing an investment strategy designed to meet the investment objectives of the Scheme.

iii. Reviewing regularly the content of this SIP and modifying it if deemed appropriate, in consultation with the Advisers and the Sponsoring Employer.

iv. Reviewing the suitability of the investment policy and integrated risk management policy following the results of each actuarial or investment review, in consultation with the Advisers.

v. Assessing the quality of the performance and process of the DB Investment Manager by means of regular reviews of the investment results and other information, by way of meetings and written reports, in consultation with the Advisers.

vi. Appointing and dismissing the DB Investment Manager and custodians in consultation with the Advisers.

vii. Assessing the ongoing effectiveness of the Advisers.

viii. Consulting with the Sponsoring Employer when reviewing investment policy issues.

ix. Monitoring compliance of the investment arrangements within this SIP on an ongoing basis.

x. Advising the Advisers of any changes to Scheme benefits and significant changes in membership.

Investment Manager

The DB Investment Manager will be responsible for, amongst other things:

i. At their discretion, but within any guidelines given by the Trustees, implementing changes in the asset mix and selecting and undertaking transactions in specific investments within each asset class to achieve the stated objective.

ii. Providing the Trustees with sufficient information each quarter to facilitate the review of its activities, including:

- A report of the strategy followed during the quarter.
- The rationale behind past and future strategy.
- A full valuation of the assets and a performance summary.
- A transaction report and a cash reconciliation (if requested).

iii. Informing the Trustees immediately of:

- Any breach of this SIP that has come to their attention.
- Any serious breach of internal operating procedures.
- Any material change in the knowledge and experience of those involved in managing the Scheme's investments.
- Any breach of investment restrictions agreed between the Trustees and the Investment Manager from time to time.

Investment Adviser

The Investment Adviser will be responsible for, amongst other things:

i. Participating with the Trustees in reviews of this SIP.

ii. Advising the Trustees how any changes within the Scheme's benefits, membership and funding position may affect the manner in which the assets should be invested.

iii. Advising the Trustees of any changes in the Scheme's DB Investment Manager that could affect the interests of the Scheme.

iv. Advising the Trustees of any changes in the investment environment that could either present opportunities or problems for the Scheme.

v. Undertaking reviews of the Scheme's investment arrangements including reviews of the asset allocation policy and the current DB Investment Manager, and selection of new managers, as appropriate.

Scheme Actuary

The Scheme Actuary will be responsible for, amongst other things:

i. Liaising with the Investment Adviser on the suitability of the Scheme's investment strategy.

ii. Performing the triennial (or more frequently as required) valuations and advising on the appropriate contribution levels.

iii. Commenting on the appropriateness of the investment strategy relative to the liabilities of the Scheme at the triennial valuations.

iv. Advising the Trustees and Investment Adviser of any changes to contribution levels and funding level.

Custodian

The Custodian will be responsible for, amongst other things:

i. Safe-keeping and administration of all the directly held assets.

ii. Collecting income from assets and transferring it to the Trustees.

iii. Processing all tax reclaims in a timely manner.

iv. Reconciling records of assets held with those of the Investment Manager.

Legal Adviser

The Legal Adviser will be responsible for, amongst other things:

i. Liaising with the Trustees to ensure legal compliance.

Appendix B - Investment Objectives, Guidelines & Restrictions

Overall Fund	
Benchmark	Portfolio of bonds, constructed from sterling index linked and fixed interest securities or indices to reflect the behaviour of the liabilities. This portfolio will be agreed in advance and reviewed regularly. Performance of this portfolio will form the benchmark for both the Matching Fund and the Growth Assets.
Time Horizon	Rolling three year periods
Investment Restrictions	Assets invested in the Matching Fund may not be disinvested for re-investment into the Growth Assets without prior agreement of the Trustees.

Matching Fund	
Return Objective	Deliver a return broadly consistent with the movement in the liabilities given the primary objective, aim to achieve additional performance.
Time Horizon	Rolling three year periods
Investment Restrictions	The DB Investment Manager shall adopt the following controls in the management of assets, reviewed by the Trustees quarterly:

Asset Class	Minimum (%)	Maximum (%)
Index linked UK government bonds	0	100
Fixed interest UK government bonds	0	100
Cash	0	100

Growth Assets	
Return Objective	Achieve a return, net of fees, of at least 3% per annum in excess of the benchmark.
Time Horizon	Rolling three year periods
Investment Restrictions	The DB Investment Manager shall adopt the following controls in the management of assets on an ongoing basis:

Asset Class	Minimum (%)	Maximum (%)
Equities	20	65
Property	0	20
Bonds	0	45
Commodities	0	15
Alternatives	0	30
Cash and Sovereign bonds	0	40
Additional Constraints:		
Equities plus Commodities	20	70
Sub Investment Grade Debt	0	30
Equities and Sub Investment Grade Debt	20	80
Illiquid Investments	0	20
Permissions		
Equivalent economic exposure permitted through derivatives?	Yes	
Illiquid Investments permitted?	Yes	
Portfolio currency hedging permitted?	Yes	

Utilisation of Hedging and Liquidity Restrictions

The Trustees have decided to allow the following risk management tools and investments within the portfolio: liability hedging and currency hedging. The Trustees have also decided to elect for the use of illiquid and non-readily realisable investments within the portfolio.

Investment in any one underlying manager (organisation) to be restricted to 25%, with the following exceptions:

i. Investment in the River and Mercantile Stable Growth Fund (a sub-fund of the PIL Umbrella Fund plc, an umbrella type open-ended investment company with variable capital and segregated liability between sub-funds, governed by the laws of Ireland and authorised by the Central Bank of Ireland (formerly Irish Financial Services Regulatory Authority)) shall not be restricted to a percentage of the reference portfolio.

ii. Investment in Passive Funds shall not be restricted to a percentage of the portfolio.

iii. Investment in UK Government and investment grade corporate bonds, or Funds which invest solely in such assets shall not be restricted to a percentage of the portfolio.

iv. Illiquid investments shall not exceed 15% of the portfolio.

v. Non-readily realisable investments shall not exceed 10% of the portfolio.

*The proportion of the Scheme's assets invested in illiquid investments and non-readily realisable investments in aggregate shall not exceed 20% of the value of the portfolio.

Use of underlying investment managers will be restricted to regulated organisations and regulated investment vehicles, with the exception of Absolute Return Fund strategies.

Risk Management

The Trustees and the DB Investment Manager agree that the DB Investment Manager will manage the investment process for the Scheme in accordance with the specified risk measurement parameters. These parameters are designed as a governance tool for the Trustees. A breach of these parameters would demonstrate an unusual market event or too much risk being taken by the DB Investment Manager.

The DB Investment Manager will inform the Scheme if these parameters are exceeded and provide explanation as to:

i. the circumstances that have given rise to the occurrence, and

ii. what steps have been taken, if required, to prevent the parameters continuing to be exceeded or exceeded again in the future.

The Trustees should monitor any breaches of these risk parameters and ensure that they are satisfied that (i) and (ii) have been complied with by the DB Investment Manager.

Growth Assets Parameters

Parameter (relative to LBP)	With Liability Hedging
Monthly underperformance	4%
Quarterly underperformance	7%
Annual underperformance	10%
Annualised monthly volatility	8%

Matching Fund Parameters

Parameter (relative to LBP)	With Liability Hedging
Tracking Error	1.5%