

Statement of Investment Principles agreed 07/10/2019

Addendum to the Statement of Investment Principles agreed 02/09/2020

Gleeds Retirement Benefits Scheme

Statement of Investment Principles

August 2019

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Glossary	
AVCs	Additional Voluntary Contribution
Allianz	Allianz Global Investors Limited
ESG	Environmental, Social and Governance (including, but not limited to, climate change)
LDI	Liability Driven Investment
LGIM	Legal & General Investment Management Limited
Newton	Newton Investment Management
Schroders	Schroder Real Estate Investment Management Limited
Scheme	Gleeds Retirement Benefits Scheme
Trustees	The Trustees of the Scheme
UNPRI	United Nations Principles for Responsible Investment

1. Introduction

This statement is made in accordance with the requirements of legislation¹ and, in determining a suitable investment strategy for the Scheme, the Trustees have considered the Pension Regulator's Investment Guidance for defined benefit pension schemes.

The main body of this statement sets out the principles and policies that govern investments made by the Trustees of the Scheme. Details of the specific investment arrangements in place are set out in the Appendices.

Upon request, a copy of this statement will be made available to members, the Scheme Actuary and any investment managers used by the Trustees.

¹ In particular, the Pensions Act 1995, the Occupational Pensions (Investment) Regulations 2005 and the Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.

2. Investment Governance Structure

Investment Advice

As required by legislation, in the preparation and maintenance of this statement and when considering the suitability of any investments, the Trustees will obtain and consider written advice from their investment adviser.

The Trustees are advised on investment matters by First Actuarial LLP. First Actuarial LLP is regulated by the Institute and Faculty of Actuaries and is qualified to provide the required advice through knowledge and practical experience of financial matters relating to pension schemes.

Legal Advice

Whenever deemed necessary, the Trustees will seek advice from their legal adviser on investment matters.

Employer Consultation

Under legislation, the ultimate responsibility for determining the investment strategy rests with the Trustees. However, the Trustees must consult with the sponsoring employer and consultation must comprise a sharing of views, not simply notification of intent.

Investment Managers

Day-to-day management of the Scheme's assets is delegated to one or more investment managers.

To ensure safekeeping of the assets, ownership and day to day control of the assets is undertaken by custodian organisations which are independent of the sponsoring employer and the investment managers. Where pooled investment vehicles are used, the custodians will typically be appointed by the investment manager.

Members' Views

The Trustees recognise that it is likely that members and beneficiaries will hold a broad range of views on ESG and other non-financial matters. Whilst the Trustees will seek to avoid investing in a way that is likely to be strongly opposed by those individuals, the Trustees do not directly take such views into account when determining the Scheme's investment strategy.

The Trustees believe that their duty to members and beneficiaries will be best served by ensuring that all benefits can be paid as they fall due and the Trustees' Investment Objectives are designed to ensure this duty is achieved.

3. Investment Beliefs

The investment beliefs stated below have been developed by the Trustees and are reflected in the Scheme's investment strategy.

Appropriate Time Horizon

In determining investment objectives and a suitable investment strategy for the Scheme, the Trustees take into account an appropriate time horizon. The appropriate time horizon will be reviewed periodically noting the inherent uncertainties in the length of time that benefits are expected to be paid from the Scheme.

Risk versus Reward

Targeting higher levels of investment return requires increased levels of investment risk which increases the volatility of the funding position.

Asset Allocation

Long-term performance of the Scheme's assets is attributable primarily to the strategic asset allocation rather than the choice of investment managers.

Diversification

Asset diversification helps to reduce risk.

Use of Pooled Funds

Taking into account the size of the Scheme's assets, it is expected that pooled funds will typically be a more practical way of implementing the Scheme's investment strategy than establishing segregated mandates with investment managers.

Use of Active Management

Active management has the potential to add value either through offering the prospect of enhanced returns or through the control of volatility. In addition, it is recognised that active management may help to mitigate the financial impact of ESG risks.

For each asset class, the Trustees will consider whether the higher fees associated with active management are justified.

ESG

The Trustees believe that ESG factors 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 may apply over the appropriate time horizon.

Assessment of how ESG risks are mitigated will be one of the factors considered by the Trustees when selecting and monitoring investment managers.

4. Investment Objectives – Final Salary Section

Defined Benefit Assets – Investment Objectives

The Trustees' primary investment objectives are:

- to ensure that the assets are sufficient and available to pay members' benefits as and when they fall due;
- to generate an appropriate level of investment returns – to improve the funding position and thereby improve security for members; and
- to protect the funding position – limiting the scope for adverse investment experience reducing security for members.

The Trustees' investment approach is designed to strike a balance between the above primary objectives but also considers:

- the nature and timing of benefit payments;
- expected levels of investment return on different asset classes;
- expected levels of investment return variability and, specifically, the expected level of short-term volatility of the funding position;
- the sponsoring employer's ability to withstand additional contribution requirements that may arise from volatility in the funding position; and
- the full range of available investments (within the bounds of practicality).

Defined Benefit Assets – Investment strategy

The Trustees have taken advice from their investment advisor to construct a portfolio of investments consistent with these objectives. In doing so, consideration is given to all matters which are believed to be financially material over the appropriate time horizon.

The Trustees do not take account of non-financial matters when determining the Scheme's investment strategy.

5. Investment Objectives – Money Purchase Section

Members' Investment Requirements

In determining their investment objectives, the Trustees consider the investment requirements of the membership.

It is expected that the investment strategy for an individual member is likely to change over time:

- For younger members the investment priority is likely to be to achieve long-term investment growth.
- As retirement approaches, members are likely to look to reduce investment risk. The way such risk can be controlled will vary depending on whether the member intends to take benefits as an annuity, as cash or via an income drawdown product.

Whilst some members might set their own investment strategy and adjust this themselves over time, others might prefer a lifestyle strategy under which the asset allocation is automatically adjusted as retirement approaches.

Investment Objectives

The Trustees set an investment strategy that reflects the following primary investment objectives:

- **Offering an appropriate range of investment options** – The range of funds that is offered is intended to offer sufficient investment flexibility for members of all ages.
- **Offering suitable lifestyle strategies** – The Trustees set a lifestyle investment option under which the allocation of a member's account is automatically adjusted before retirement.
- **Offering a default investment option** – The Trustees set a default investment option which will be used by those members who do not select their own investment strategy.

The range of funds selected by the Trustees, along with information on the default lifestyle investment option are detailed in Appendix 3.

6. Use of Investment Managers

Investment Manager Selection

The Trustees delegate the day to day management of the assets, including selection, retention and realisation, to professional investment managers.

When considering the suitability of an investment manager, the Trustees (in conjunction with their investment adviser), will take account of all matters which are deemed to be financially material. In particular, the Trustees will:

- ensure that the investment manager has the appropriate knowledge and experience;
- ensure that the investment manager's mandate is appropriate; and
- consider the investment manager's approach to ESG matters.

When selecting an investment manager, the Trustees may also take into account matters which are not financially material such as the investment manager's administrative capabilities and the liquidity of the investments.

Where pooled investment vehicles are used, it is recognised that the mandate cannot be tailored to the Trustees' particular requirements. However, the Trustees ensure that any pooled investment vehicles used are appropriate to the circumstances of the Scheme.

The Trustees will normally select investment managers who are signatories to the UNPRI and who publish the results of their annual UNPRI assessment. This principle may be waived if a fund offered by a non-signatory manager is deemed to have investment characteristics which are particularly important for meeting the Trustees' investment objectives.

Manager Implementation

Assets are invested predominantly on regulated markets, as so defined in legislation. Any investments that do not trade on regulated markets are kept to a prudent level.

Use of Derivatives

The investment managers are permitted to use derivative instruments to reduce risk or for efficient portfolio management. Risk reduction would include mitigating the impact of a potential fall in markets or the implementation of currency hedging whilst efficient portfolio management would include using derivatives as a cost-effective way of gaining access to a market or as a method for generating capital and/or income with an acceptable level of risk.

Leverage

The instruments used by the investment managers of the Liability Matching Assets may result in the Liability Matching Assets being leveraged. Since these assets are closely aligned to the liabilities, the allocation to Liability Matching Assets (and any associated leverage) reduces the volatility of the Scheme's funding position and therefore reduces risk.

7. Stewardship

The Trustees invest in pooled investment vehicles and accept that ongoing engagement with the underlying companies (including the exercise of voting rights) will be determined by the investment managers' own policies on such matters.

When considering the suitability of investment managers, the Trustees (in conjunction with their investment adviser) will take account of any particular characteristics of that manager's engagement policy that are deemed to be financially material.

The Trustees recognise that the membership might wish the Trustees to engage with the underlying companies in which the Scheme invests with the objective of improving corporate behaviour to benefit the environment and society. However, the Trustees' priority is to select investment managers which are best suited to help meet the Trustees' investment objectives. In making this assessment, the Trustees will receive advice from their investment adviser. The Trustees recognise that the investment managers' engagement policies are likely to be focussed on maximising financial returns and minimising financial risks rather than targeting an environmental or societal benefit.

8. Risk Mitigation

When determining suitable investment objectives and when designing the Scheme's investment strategy, the Trustees (in conjunction with their investment adviser), will take into account all risks that are assessed to be financially material. The principal investment risks are listed in the Trustees' Investment Risk Policy. That Policy also provides an explanation of how the investment risks are managed.

Risk Capacity and Risk Appetite

In determining a suitable investment strategy, the Trustees consider how the volatility of the funding position is likely to be affected by changes to the asset allocation. An important consideration for the Trustees is whether a potential investment strategy is consistent with the ability of the sponsoring employer to address any future increase in deficit that may arise due to market movements.

Self-Investment Risk

Legislation imposes a restriction that no more than 5% of a pension scheme's assets may be related to the sponsoring employer. The Trustees do not hold any direct employer-related assets and any indirect exposure is expected to be less than 5% of total assets.

ESG Risks

The Trustees (in conjunction with their investment adviser) have considered the likely impact of the financially material ESG risks associated with all of the Scheme's investments and have assessed the mitigation of such risks implemented by each of the investment managers. In making this assessment, the Trustees recognise that, where pooled investment vehicles are held, the extent to which ESG factors will be used in the selection of suitable underlying investments will be determined by the investment managers' own policies on such matters.

Liquidity Risk

The majority of the Scheme's investments will be liquid and will be realisable for cash at relatively short notice without incurring high costs. However, the Trustees recognise that the liabilities are long-term in nature and that a modest allocation to less-liquid investments may be appropriate.

Details of the liquidity characteristics of the funds held are provided in Appendix 2.

9. Monitoring

The Trustees regularly review the Scheme's investments for all matters considered to be financially material over the appropriate time horizon. This includes reviewing that the assets continue to be managed in accordance with each manager's mandate and that the choice of managers remains appropriate.

Furthermore, the Trustees regularly monitor the position of the investment managers with regards to ESG matters.

To assist with the monitoring of the investment managers, the Trustees receive regular information from their investment adviser providing details of investment manager performance and asset allocation decisions. This analysis includes comparisons with benchmarks and relevant peer-group data.

The analysis assesses whether performance has been in line with expectations given market conditions and whether the level of risk has been as expected.

The investment adviser also provides regular updates on the investment managers' actions regarding ESG factors and shareholder engagement.

The investment adviser regularly meets with the managers of pooled funds on its approved list.

10. Future Amendments

This statement will be reviewed at least every three years and without delay after any significant change in circumstances or investment strategy.

The Trustees have consulted with the sponsoring employer as part of the work preparing this statement.

Agreed by the Trustees on 7 October 2019

..... Date:

For and on behalf of the Trustees of the Gleeds Retirement Benefits Scheme.

Appendix 1: The Trustees' Investment Strategy – Final Salary Section

Strategic Asset Allocation

In determining the strategic asset allocation, the Trustees view the investments as falling into two broad categories:

1. **Growth Assets** – Assets that are expected to deliver long-term returns in excess of liability growth. The use of Growth Assets is expected to deliver a level of investment returns deemed appropriate by the Trustees given the risk involved.
2. **Liability Matching Assets** – Assets that are expected to react to changes in market conditions in a similar way to the liabilities. The use of Liability Matching Assets is expected to protect the funding position of the Scheme.

At the time of preparing this statement, the split of the Scheme's assets between the above categories was approximately 87% Growth and 13% Liability Matching. This split is not regularly rebalanced and will vary over time as market conditions change.

The Trustees will review the strategic asset allocation periodically, and at least every three years, to ensure that the investment strategy remains consistent with the Trustees' funding objectives. As part of such a review, the Trustees will consider the risks associated with the investment strategy.

Investment Strategy Implementation

The Trustees have selected funds managed by Allianz, LGIM, Newton and Schroder to implement the Scheme's investment strategy. Further details of the investment strategy and the funds used are provided below.

Design of the Growth Asset Portfolio

The structure of the Scheme's Growth Assets has been designed to offer diversification across a range of underlying asset classes and the strategic allocation for this part of the Scheme's investment strategy is as follows:

Pooled Fund	Strategic Growth Asset Allocation
Allianz Global Multi-Sector Credit Fund	19.0%
LGIM Diversified Fund	35.0%
Newton Real Return Fund	18.0%
LGIM World Equity Index Fund	8.5%
LGIM World Equity Index Fund - GBP Hedged	8.0%
Schroder UK Real Estate Fund	11.5%
Total Growth Assets	100.0%

The allocation of the Growth Assets is not automatically rebalanced but will be monitored and rebalanced at the discretion of the Trustees.

Appendix 1: The Trustees' Investment Strategy – Final Salary Section (continued)

Design of the Liability Matching Portfolio

At present, the Scheme's Liability Matching Assets are invested in the LGIM Matching Core Real Long Fund which is a leveraged LDI fund.

Additional LGIM Funds

The policy with LGIM permits investment in additional Liability Matching Asset funds which are not currently being used by the Trustees. These funds are:

- LGIM Matching Core Real Short Fund
- LGIM Matching Core Fixed Short Fund
- LGIM Matching Core Fixed Long Fund

LDI Leverage Management Policy

In the event of a large increase in yields, a contribution may need to be paid into the LGIM LDI Fund. This will recapitalise the LGIM LDI Fund and keep leverage within a permissible range. The Trustees have agreed that any such contributions will be taken from the LGIM Diversified Fund.

If the leverage of the LGIM LDI Fund falls below a minimum threshold, LGIM will make a cash payment from the relevant fund to raise the leverage. The Trustees have agreed that any such payments will be invested in the LGIM Diversified Fund.

Cashflow Management Policy

Any investments or disinvestments will be made at the discretion of the Trustees, but the Trustees will maintain a *Cashflow Management Policy* which will record how such payments should be structured. The *Cashflow Management Policy* will be designed to ensure the allocation of the Scheme's assets remains closely aligned with the strategy described in this statement.

To ensure the Scheme operates efficiently, the Trustees may share the *Cashflow Management Policy* with the individual(s) responsible for processing payments from the Scheme.

The *Cashflow Management Policy* will be reviewed from time-to-time by the Trustees and, as a minimum, at least every three years in line with a review of this statement. Given that the *Cashflow Management Policy* is designed to keep the Scheme's asset allocation aligned with the investment strategy and investment principles described in this statement, the sponsoring employer is satisfied that the *Cashflow Management Policy* can be amended by the Trustees without consulting the sponsoring employer.

Appendix 1: The Trustees' Investment Strategy – Final Salary Section (continued)

Insured Pensioners

The Trustees' policy is to pay pensions directly from the Scheme assets; however the Trustees hold a small number of annuities in respect of historic Final Salary Section benefits currently in payment.

These annuities are held with the following insurers:

- AXA Sun Life
- Winsdor Life

These insurance policies will provide a stream of income in respect of named individuals for as long as those individuals remain alive. The income received offsets pension payments made from the Scheme.

Additional Voluntary Contributions

Members can no longer pay AVCs but legacy AVC investments remain. The AVCs are either invested alongside the Scheme's Money Purchase Section assets or in the following funds held separately from the main Scheme assets:

- Friends Life UK Equity Fund
- Friends Life With-Profits Fund

Appendix 2: Fund Details

This Appendix provides a summary of the funds selected by the Trustees' to implement the Scheme's investment strategy. The details provided below were correct as at August 2019.

The following points should be noted:

- **AMC:** the Annual Management Charge applicable to each fund represents the fee payable to the fund manager.
- **Additional expenses:** these are third party costs associated with the operation of a fund such as fees paid to the administrator, the custodian and the auditor and the costs associated with the use of third-party funds where these are used. The level of the additional expenses may vary over time.
- **Legal Structure:** an explanation of the different types of fund legal structures is provided in the Trustees' *Investment Risk Policy* document.
- **T:** Trade Date

Allianz Global Multi-Sector Credit Fund	
Objective	To perform in line with LIBOR + 3% p.a. over 3 years (gross of fees)
Legal Structure	Open-Ended Investment Company
Trading Frequency	Daily
Fee	AMC: 0.42% per annum
	Additional Expenses: Nil

LGIM Diversified Fund	
Objective	To provide long-term investment growth through exposure to a diversified range of asset classes. The long-term rate of return is expected to be broadly similar to developed market equities, as represented by the FTSE Developed World Index (50% hedged to GBP)
Legal Structure	Unit-linked insurance policy
Trading Frequency	Weekly
Fee	AMC: 0.30% per annum
	Additional Expenses (approx.): 0.01% per annum

Appendix 2: Fund Details (continued)

Newton Real Return Fund	
Objective	To outperform 1-month LIBOR by 4% p.a. (gross of fees) over three to five years
Legal Structure	Open-Ended Investment Company
Trading Frequency	Daily
Fee	AMC: 0.75% per annum
	Additional Expenses (approx.): 0.06% per annum

LGIM World Equity Index Fund	
Objective	The LGIM World Equity Index Fund employs an index-tracking strategy aiming to replicate the performance of the FTSE World Index (less withholding tax if applicable) to within +/-0.5% p.a. for two years out of three.
Legal Structure	Unit-linked insurance policy
Trading Frequency	Weekly
Fee	AMC: 0.20% per annum
	Additional Expenses (approx.): Nil

LGIM World Equity Index Fund - GBP Hedged	
Objective	To replicate the performance of the FTSE World Index (less withholding tax where applicable) - GBP Hedged (with the exception of advanced emerging markets), which is a customised index, to within +/-0.5% p.a. for two years out of three.
Legal Structure	Unit-linked insurance policy
Trading Frequency	Weekly
Fee	AMC: 0.223% per annum
	Additional Expenses (approx.): Nil

Appendix 2: Fund Details (continued)

Schroder UK Real Estate Fund	
Objective	To outperform the IPD UK Pooled Property Fund Indices - All Balanced Funds Median by 0.5% p.a. (net of fees) over rolling three-year periods.
Legal Structure	Open-Ended Investment Company
Trading Frequency	Monthly
Fee	AMC: 0.70% per annum
	Additional Expenses (approx.): 0.71% per annum

LGIM Matching Core Funds	
Objective	To provide liability hedging based on the liability cashflows of a typical UK pension scheme.
Legal Structure	Unit-linked insurance policy
Trading Frequency	Weekly
Fee	AMC: 0.24% per annum
	Additional Expenses (approx.): 0.05% per annum

Appendix 3: The Trustees' Investment Strategy – Money Purchase Section

Fund Manager

The Trustees have appointed LGIM to manage the assets of the Money Purchase Section.

Funds available to members

The Trustees have made the following funds available for members to invest in. Members can choose to invest in the funds in any proportion.

Pooled investment fund	Fund objective	AMC
LGIM Diversified Fund	To provide long-term investment growth through exposure to a diversified range of asset classes. The long-term rate of return is expected to be broadly similar to developed market equities, as represented by the FTSE Developed World Index (50% hedged to GBP)	0.30% per annum
LGIM Global Equity Fixed Weights (60:40) Index Fund	To replicate the performance of its benchmark. The benchmark return is calculated as the weighted average of global equity indices with the weightings being 60% UK, 14% North America, 14% Europe (ex UK), 7% Japan and 5% Asia Pacific (ex-Japan).	0.16% per annum
LGIM Over 15 Year Gilts Index Fund	To replicate the performance of the FTSE A Government (Over 15 Year) Index to within +/- 0.25% p.a. for two years out of three.	0.10% per annum
LGIM Over 5 Year Index-Linked Gilts Index Fund	To replicate the performance of the FTSE A Index-Linked (Over 5 Year) Index to within +/- 0.25% p.a. for two years out of three.	0.10% per annum
LGIM Sterling Liquidity Fund	To provide capital stability, liquidity and income through investment in a diversified portfolio of high credit quality short term fixed income and variable rate securities including but not limited to certificates of deposit, fixed and floating rate notes, fixed rate commercial paper and bonds listed or traded on one or more Recognised Exchanges.	0.125% per annum
LGIM UK Equity Index Fund	To replicate the performance of the FTSE All-Share Index to within +/-0.25% p.a. for two years out of three.	0.10% per annum

Appendix 3: The Trustees' Investment Strategy – Money Purchase Section (continued)

Default Lifestyle Strategy

Unless a member chooses otherwise, their pension pot is invested in line with the Trustees' default lifestyle strategy set out below.

LGIM Fund:	Years from Target Retirement Date					
	5+	4	3	2	1	0
Global Equity Fixed Weights (60:40) Index	50%	40%	30%	20%	10%	0%
Diversified	50%	50%	50%	50%	50%	50%
Sterling Liquidity Fund	0	10%	20%	30%	40%	50%

Deferring benefits past target retirement age

Where members are invested in the default lifestyle strategy above and defer benefits past Target Retirement Date (TRD), unless members choose otherwise, their existing benefits and any future contributions will remain invested in line with the final allocation of the lifestyle strategy.

Insured pensions / annuity policies

The Trustees' policy is that annuities purchased using Money Purchase Section assets will be established in the relevant member's name. However, due to recently concluded legal issues, member options were restricted at retirement and annuities have been purchased in the Trustees' name to date.

At the time of writing, the Trustees held annuities with the following providers:

- Aviva
- Canada Life
- Just Retirement
- Legal & General
- LV
- Partnership
- Retirement Advantage

Following the conclusion of the legal issues, the Trustees intend to assign these annuities into the relevant members' names.

Gleeds Retirement Benefits Scheme
Addendum to the Statement of Investment Principles

Original Statement dated: August 2019

Date of Addendum: August 2020

Purpose of the Addendum

This Addendum is made in accordance with the requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 and it updates the Statement of Investment Principles to record how the Scheme complies with the EU Shareholder Rights Directive (SRD II) which comes into effect on 1 October 2020.

Investment Manager Arrangements

As the Scheme's assets are held in pooled funds, the Trustees have limited influence over the investment managers' investment decisions. In practice, investment 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 therefore the Trustees' responsibility to ensure that the approaches adopted by investment managers are consistent with the Trustees' 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. The Trustees assess this when selecting and monitoring managers.

The Trustees' policy on selecting, monitoring, evaluating and (where necessary) terminating these arrangements is set out in further detail below.

Compatibility of Pooled Funds with the Trustees' Investment Strategy

When selecting a pooled fund, the Trustees consider various factors, including:

- the assets that will be held within that fund and whether the asset allocation of the fund is expected to change over time;
- the risks associated with the fund along with the return that is expected;
- the fund's objective (as stated by the fund's investment manager) and whether the objective is consistent with the performance that the Trustees expect from that fund;
- the fund's fee structure to ensure that this is reasonable and that it does not provide an incentive for the investment manager to manage the fund in a way that differs from the expectations of the Trustees;
- how frequently underlying investments within the fund are expected to be traded by the investment manager;
- how financially material considerations (including ESG factors) over the appropriate time horizon are taken into account by the investment manager;
- the investment manager's policy in relation to the exercise of the rights (including voting rights) attaching to the investments held within the pooled fund; and
- the investment manager's policy in relation to undertaking engagement activities in respect of the investments held within the pooled fund*.

Investment Manager Arrangements (continued)

**This includes engaging with an issuer of debt or equity regarding matters including (but not limited to) performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, and ESG matters. It also includes engaging on these matters with other investment managers, other holders of debt or equity and persons or groups of persons who have an interest in the issuer of debt or equity.*

After analysing the above characteristics for a fund, the Trustees identify how that fund would fit within their overall investment strategy for the Scheme and how the fund is expected to help the Trustees meet their investment objectives.

Stewardship

The Trustees' policy in relation to the exercise of rights attaching to investments, and undertaking engagement activities in respect of investments, is that they wish to encourage best practice in terms of stewardship.

The Trustees expect that each investment manager will discharge its responsibilities in respect of investee companies in accordance with that investment manager's own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustees also expect that each investment manager will take ESG factors into account when exercising the rights attaching to investments and in taking decisions relating to the selection, retention and realisation of investments.

Duration of Investment Manager Arrangements

The Trustees normally expect that pooled funds will be held for several years.

However, as part of the periodic strategic asset allocation reviews (which take place at least every three years), the Trustees will review whether the ongoing use of each fund remains consistent with their investment strategy.

The Trustees regularly monitor the financial and non-financial performance of the pooled funds held and details of this monitoring process is set out below. If the Trustees become concerned about the ongoing suitability of a pooled fund, they may reduce exposure to it or disinvest entirely. Such action is expected to be infrequent.

Investment Manager Arrangements (continued)

Monitoring Pooled Funds

The Trustees regularly assess the performance of each fund held and this monitoring includes an assessment of whether the investment manager continues to operate the fund in a manner that is consistent with the factors used by the Trustees to select the fund (as listed above).

When assessing the performance of a fund, the Trustees do not usually place too much emphasis on short-term performance although they will seek to ensure that reasons for short-term performance (whether favourable or unfavourable) are understood.

The Trustees expect the investment managers of pooled funds to invest for the medium to long term and they expect investment managers to engage with issuers of debt or equity with a view to improving performance over this time frame.

If it is identified that a fund is not being operated in a manner consistent with the factors used by the Trustees to select the fund, or that the investment manager is not engaging with issuers of debt or equity, the Trustees may look to replace that fund. However, in the first instance, the Trustees would normally expect their investment adviser to raise the Trustees' concerns with the investment manager. Thereafter, the Trustees, in conjunction with their investment adviser, would monitor the performance of the fund to assess whether the situation improves.

Portfolio Turnover

The Trustees are aware of the requirement to monitor portfolio turnover costs (the costs incurred as a result of the buying, selling, lending or borrowing of investments).

When selecting a pooled fund, the Trustees will consider how the investment manager defines and measures:

- the targeted portfolio turnover (the frequency within which the assets of the fund are expected to be bought or sold); and
- turnover range (the minimum and maximum frequency within which the assets of the fund are expected to be bought or sold).

At least annually, the Trustees, in conjunction with their investment adviser, will consider the transaction costs incurred on each pooled fund. As part of this analysis, the Trustees will consider whether the incurred turnover costs have been in line with expectations.

The Trustees will take the above information on portfolio turnover into account when assessing the ongoing suitability of each pooled fund.