Heart of England Co-operative Society Pension Scheme

Statement of Investment Principles

April 2024

Contents

01 **Introduction**

Purpose

This document constitutes the Statement of Investment Principles ('the SIP') required under Section 35 of the Pensions Act 1995 for the Heart of England Co-Operative Society Pension Scheme ('the Scheme'). It describes the investment policy being pursued by the Trustee of the Scheme and is in accordance with the Government's voluntary code of conduct for Institutional Investment in the UK ("the Myners Principles"). This SIP also reflects the requirements of Occupational Pension Schemes (Investment) Regulations 2005.

Scheme details

The exclusive purpose of the Scheme is to provide retirement benefits and death benefits to eligible participants and beneficiaries. It qualifies as a registered pension scheme, registered under Chapter 2 of Part 4 of the Finance Act 2004.

Advice and consultation

Before preparing this Statement, the Trustee has sought advice from the Scheme's Investment Consultant, XPS Investment Limited. The Trustee has also consulted the Society. The Trustee will consult the Society on any future changes in investment policy as set out in this Statement.

Investment powers

The Scheme's Trust Deed and Rules sets out the investment powers of the Trustee. This Statement is consistent with those powers. Neither this Statement nor the Trust Deed and Rules restrict the Trustee's investment powers by requiring the consent of the Society.

In accordance with the Financial Services and Markets Act 2000, the Trustee set general investment policy but delegate responsibility for the selection of the specific securities and any financial instruments in which the Scheme invests to the Investment Managers.

Review of the Statement

The Trustee will review this Statement and their investment policy at least every three years in conjunction with each triennial valuation or immediately following any significant changes in investment policy.

The Trustee will also review this Statement in response to any material changes to any aspect of the Scheme, its liabilities, finances and attitude to risk of either the Trustee or Society which they judge to have a bearing on the stated investment policy.

The Trustee will receive confirmation of the continued appropriateness of this Statement annually, or more frequently if appropriate.

Definitions

Capitalised terms in this document mean the following:

Act - The Pensions Act 1995 (as amended by section 244 of the Pensions Act 2004)

AVCs – Additional Voluntary Contributions

Custodian - organisation responsible for the safekeeping of assets

Investment Manager - The organisation(s) appointed by the Trustee to manage investments on behalf of the Trust

Investment Consultant – A person or organisation appointed to advise on investment issues for the Scheme

Principal Employer - Heart of England Co-operative Society Limited ('the Society')

Regulations - The Occupational Pension Schemes (Investment) Regulations 2005

Recovery Plan - The agreement between the Trustee and the Society to address the funding deficit

Scheme - Heart of England Co-operative Society Pension Scheme

Statement - This document, including any appendices, which is the Trustee's Statement of Investment Principles

Technical Provisions - The amount required, on an actuarial calculation, to make provision for the Scheme's liabilities

Trustee - the collective entity responsible for the investment of the Scheme's assets and managing the administration of the Scheme

Value at Risk - a technique which uses historical correlations of asset class returns and volatilities to illustrate a relatively extreme negative outcome for the Scheme.

02 **Division of responsibilities**

The Trustee is accountable for all aspects of the Scheme's investments. However, as permitted within the Trust Deed and Rules, the Trustee has delegated some of the decision making powers and other responsibilities as set out below.

Trustee

The Trustee has retained the following responsibilities and powers for themselves:

> The content and the reviewing of this Statement.

> Reviewing the investment policy.

> Appointing the Investment Managers.

> Consulting with the Society when reviewing investment policy issues.

> Monitoring compliance of the investment arrangements with this Statement on an ongoing basis.

In addition, the Trustee will make decisions relating to the Trust's investments, including issues such as:

> The kinds of investments to be held.

> The balance between different kinds of investments.

> The level of risk to which the Scheme is exposed.

> The Investment Manager arrangements.

> The performance target of the Investment Managers.

Investment Consultant

The Investment Consultant's responsibilities include:

> Participating with the Trustee in regular reviews of this Statement, and in the review of investment related issues as described in this Statement.

> Undertaking project work as required, including reviews of asset allocation policy and reviews or selection of Investment Managers.

> In consultation with the Scheme's Actuary, advising the Trustee how any changes in the Scheme's benefits, membership and funding position may affect the way in which the Scheme's assets should be invested.

Investment Managers

Each Investment Manager's responsibilities will include:

> Investing in diversified portfolios of assets suitable for pension schemes in accordance with any guidelines given by the Trustee.

> At their discretion, but in accordance with any guidelines given by the Trustee, implementing changes in the asset mix and selecting individual securities and financial instruments within each asset class.

> Exercising, where appropriate, the rights attached to the underlying shareholdings so as to protect and enhance the long-term value.

Custodian

Each Custodian's responsibilities include some or all of the following:

> The safekeeping of all of the assets of the Scheme.

> Providing the Investment Managers with statements as required of the assets, cashflows and schedules of transactions.

> Undertaking all appropriate administration relating to the Scheme's assets.

> Processing all dividends and tax reclaims in a timely manner.

> Dealing with corporate actions.

For pooled assets, the custodian is invariably appointed by the Investment Managers with the above functions undertaken on behalf of the pooled fund as a whole. Record keeping of the Scheme's entitlement within the pooled fund is the responsibility of the pooled fund administrator or registrar.

03 Strategic investment policy and objectives

Choosing investments

The Trustee relies on professional Investment Managers for the day-to-day management of the Scheme's assets. However, the Trustee retains control over some investments. In particular, the Trustee makes decisions about pooled investment vehicles in which the Scheme invests.

The Trustee's policy is to regularly review the investments over which it retains control and to obtain written advice about them when necessary. When deciding whether or not to make any new investments the Trustee will obtain written advice from the Investment Consultant and consider whether future decisions about those investments should be delegated to the Investment Managers. The written advice provided by the Investment Consultant will consider suitability of the investments, the need for diversification and the principles within this Statement. The Investment Consultant will have the knowledge and experience required under Section 36(6) of the Act.

Long-term objectives

The Trustee's long-term objectives are:

> The acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with contributions from the Society, the cost of the benefits which the Scheme provides, as set out in the Trust Deed and Rules.

> To limit the risk of the assets failing to meet the liabilities over the long term, in particular in relation to the Technical Provisions under Section 222 of the Pensions Act 2004, by considering the Scheme's liability profile when setting the asset allocation policy.

> To minimise the long-term costs of the Scheme by optimising the return on the assets whilst having regard to the objectives shown above.

> To adhere to the provisions contained within the Scheme's Statement of Funding Principles.

> To consider the interests of the Scheme in relation to the amount and volatility of the Scheme's required contributions.

> To hedge interest rate and inflation risk to a reasonable extent, as measured as a proportion of the Scheme's total liabilities.

Expected returns

By undertaking the investment policy described in this Statement, the Trustee expects that future investment returns will at least meet the rate of return underlying the Recovery Plan.

Investment Policy

Following advice from the Investment Consultant, the Trustee has set the investment policy and objectives with regard to the Scheme's liabilities and funding level.

The Trustee intends to achieve these objectives through investing in a diversified portfolio of return seeking assets (e.g. diversified growth funds) and liability matching assets (e.g. bonds and cash). The Trustee recognises that the return on return seeking assets, whilst expected to be greater over the long-term than that on liability matching assets, is likely to be more volatile. A mixture across asset classes should nevertheless provide the level of returns required by the Scheme to meet its liabilities at an acceptable level of risk (of underperforming the liabilities) for the Trustee, and an acceptable level of cost to the Society.

The investment policy the Trustee has adopted is detailed in Appendix I. The specific Investment Manager mandates against which performance of the assets will be assessed are specified in Appendix II.

Range of assets

The Trustee considers that the combination of the investment policy detailed in Appendix I and the specific manager mandates detailed in Appendix II will ensure that the assets of the Scheme include suitable investments that are appropriately diversified and provide a reasonable expectation of meeting the objectives. In setting out the mandates for the Investment Managers, the Trustee will ensure that the Scheme holds a suitably diversified range of securities in each category, avoiding an undue concentration of assets.

Based on the structure set out in Appendix I, the Trustee considers the arrangements with the Investment Managers to be aligned with the Scheme's overall strategic objectives. Details of each specific mandate are set out in agreements and pooled fund documentation with each Investment Manager. The amounts allocated to any individual category or security will be influenced by the overall benchmark and objectives varied through the Investment Managers' tactical asset allocation preferences at any time, within any scope given to them through asset allocation parameters set by the Trustee or governing the pooled funds in which the Scheme is invested. The Trustee will ensure that the Scheme's assets are predominantly invested in regulated markets to maximise their security.

Investment Managers are incentivised to perform in line with expectations for their specific mandate as their continued involvement as Investment Managers as part of the Scheme's investment strategy – and hence the fees they receive – are dependent upon them doing so. They are therefore subject to performance monitoring and reviews based on a number of factors linked to the Trustee's expectations, including the selection / deselection criteria set out in Section 7.

The Trustee encourages Investment Managers to make decisions in the long-term interests of the Scheme. The Trustee expects engagement with management of the underlying issuers of debt or equity and the exercising of voting rights. This expectation is based on the belief that such engagement can be expected to help Investment Managers to mitigate risk and improve long term returns. As covered in more detail in Section 4, the Trustee also requires the Investment Managers to take Environmental Social Governance ('ESG') factors and climate change risks into consideration within their decision-making as the Trustee believes these factors could have a material financial impact in the long-term. The Trustee therefore makes decisions about the retention of Investment Managers, accordingly.

04 Responsible investment

The Trustee has considered their approach to environmental, social and corporate governance ("ESG") factors for the long term time horizon of the Scheme and believe there can be financially material risks relating to them. The Trustee has delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Scheme's Investment Managers. The Trustee requires the Scheme's Investment Managers to take ESG and climate change risks into consideration within their decision-making, in relation to the selection, retention or realisation of investments, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest.

The Trustee will seek advice from the Investment Consultant on the extent to which their views on ESG and climate change risks may be taken into account in any future Investment Manager selection exercises. Furthermore, the Trustee, with the assistance of the Investment Consultant, will monitor the processes and operational behaviour of the Investment Managers from time to time, to ensure they remain appropriate and in line with the Trustee's requirements as set out in this Statement.

As the Scheme invests in pooled funds, the Trustee acknowledges that they cannot directly influence the policies and practices of the companies in which the pooled funds invest.

They have therefore delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the Investment Managers. The Trustee encourages them to engage with investee companies and vote whenever it is practical to do so on financially material matters such as strategy, capital structure, conflicts of interest policies, risks, social and environmental impact and corporate governance as part of their decision-making processes. The Trustee requires the Investment Managers to report on significant votes made on behalf of the Trustee.

If the Trustee becomes aware of an Investment Manager engaging with the underlying issuers of debt or equity in ways that they deem inadequate or that the results of such engagement are mis-aligned with the Trustee's expectation, then the Trustee may consider terminating the relationship with that Investment Manager.

When considering the selection, retention or realisation of investments, the Trustee has a fiduciary responsibility to act in the best interests of the beneficiaries of the Scheme, although they have neither sought nor taken into account the beneficiaries' views on risks including (but not limited to) ethical, social and environmental issues.

In order to ensure sufficient oversight of the engagement and voting practices of their managers, the Trustee may periodically meet with their Investment Managers to discuss engagement which has taken place. The Trustee will also expect their investment adviser to engage with the managers from time to time as needed and report back to the Trustee on the stewardship credentials of their managers. The Trustee will then discuss the findings with the investment adviser, in the context of their own preferences, where relevant. This will include considering whether the manager is a signatory to the UK Stewardship Code. The Trustee recognises the Code as an indication of a manager's compliance with best practice stewardship standards.

05 Risk measurement and management

The Trustee measures and manages the risks as follows:

Solvency risk and mismatching risk - The risk that the assets do not respond to market changes in the same way as the liabilities, resulting in volatility in the funding position, is addressed through the strategic asset allocation and through ongoing triennial actuarial valuations. In setting the investment strategy, the Trustee will consider (for example) the Value at Risk.

Strategy risk - The risk that the Investment Managers' asset allocation deviates from the Trustee's investment policy is addressed through regular review of the asset allocation and/or the imposition of investment ranges as described in Appendices I and II. In reviewing the investment strategy on a periodic basis, the Trustee will consider the current economic factors affecting the asset classes in which they are invested and the short to medium term outlook for performance by reference to e.g. current and historic yields, GDP growth forecasts and other relevant factors. The Trustee will also consider how far the actual asset allocation has drifted from the strategic asset allocation and take action to rebalance if necessary.

Liquidity risk - The risk that assets cannot be sold quickly enough to enable benefits to be paid or that the Trustee cannot exit a particular investment is addressed through the process by which the administrator estimates the monthly benefit outgo and ensures that sufficient cash balances are available, through the Trustee's policy on the realisation of assets (see below). This also includes the risk that additional liquidity is required to meet LDI recapitalisation events to maintain liability hedging, of which the Trustees have implemented a collateral waterfall framework to manage this risk.

Inappropriate investments - The risk that an Investment Manager invests in assets or instruments that are not considered to be appropriate by the Trustee is addressed through the Trustee's policy on the range of assets in which the Scheme can invest (see section 3).

Counterparty risk – The risk that a third party fails to deliver cash or other assets owed to the Scheme is addressed through the Investment Managers' guidelines with respect to cash and counterparty management.

Political risk - The risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across many countries.

Manager risk - The risk that an Investment Manager fails to meet their stated objective is addressed through the performance objectives set out in Appendix II and through the ongoing monitoring of the managers as

set out below and in Section 7. In monitoring the performance of the Investment Managers the Trustee measures the returns relative to benchmark and objective and the volatility of returns. In addition, the Trustee will regularly review each Investment Manager's approach to risk within each fund in order to highlight any unintended risk being taken. For example:

- For Liability Driven Investment (LDI) funds, the Trustee will review risk through the type of instruments held and the risks associated with these investments;
- For other bond investments, the Trustee will review the risks of the underlying assets comprising the bond portfolios. For example, the Trustee will consider weightings to specific stocks and sectors;
- For diversified growth funds the Trustee will consider the weightings within the fund to different asset classes, and will also consider the volatility of the fund both in absolute terms and in comparison to the volatility of traditional equity markets. The Trustee will also review how the fund operates within its own defined risk controls and limits.
- For secure income assets (illiquid), the Trustee will review the wider portfolio liquidity to ensure that the Scheme is able to meet its ongoing cashflow needs.

Custodian risk - The risk that the custodian fails to provide the services expected is addressed through the agreement with the third party custodian and ongoing monitoring of the custodial arrangements. In pooled arrangements this is invariably delegated to the Investment Managers.

Fraud/Dishonesty – the risk that the Scheme assets are reduced by illegal actions is addressed through restrictions applied as to who can authorise transfer of cash and the account to which transfers can be made.

Currency risk – The risk of losses through depreciation of non-sterling currencies is measured by reference to the exposure of the Scheme to pooled funds with unhedged currency risk and is managed by investing predominantly in sterling assets and only taking currency risk where it increases the level of diversification.

06 Realisation of assets and investment restrictions

Realisation of investments

In recognition of the fact that funds may need to be realised for a number of unanticipated reasons at any time, and the desirability of retaining as high a degree of flexibility as possible to cater for unexpected changes in circumstances, the Trustee will monitor closely the extent to which any assets not readily realisable are held by the Investment Managers and will limit such assets to a level where they are not expected to prejudice the proper operation of the Scheme.

The Trustee has considered how easily investments can be realised for the types of assets in which they are currently invested. As such, the Trustee believes that the Scheme currently holds an acceptable level of readily realisable assets. The Trustee will also take into account how easily investments can be realised for any new investment classes they consider investing in, to ensure that this position is maintained in the future.

The Trustee will hold cash to the extent that they consider necessary to meet impending anticipated liability outflows, or to meet liquidity requirements relative to the leveraged LDI assets. A bank account is used to facilitate the holding of cash awaiting investment or payment.

Investment Restrictions

The Trustee has established the following investment restrictions:

- The Trustee may not hold in excess of 5% of the Scheme's assets in investments related to the Society.
- Whilst the Trustee recognises that borrowing on a temporary basis is permitted, this option will only be utilised where it is deemed absolutely necessary or where the Trustee has received advice from the Investment Consultant that the Scheme's overall exposure to risk can be reduced through temporary borrowing, e.g. during an asset transfer or for short term liquidity purposes.
- Investment in derivative instruments may be made only insofar as they contribute to the reduction in risk or facilitate efficient portfolio management.
- The Investment Managers impose internal restrictions that are consistent with their house style. In some instances, the Trustee may impose additional restrictions and any such restrictions are specified in Appendix II.
- Stock lending is permitted at the discretion of the Scheme's Investment Managers in line with their overall investment objectives, policies and procedures.

07 Investment Manager arrangements and fee structure

Delegation to Investment Manager(s)

In accordance with the Act, the Trustee has appointed one or more Investment Managers and delegated to them the responsibility for investing the Scheme's assets in a manner consistent with this Statement.

The Investment Managers are authorised and regulated to provide investment management services to the Scheme. Within the UK, the authorisation and regulation of the Investment Managers falls under the Financial Conduct Authority (FCA). Specific products in which the Scheme invests may also be regulated by the Prudential Regulatory Authority (PRA). For non-UK Investment Managers, authorisation and regulation is undertaken by the home state regulator.

Where Investment Managers are delegated discretion under section 34 of the Pensions Act 1995, the Investment Managers will exercise their investment powers with a view to giving effect to the principles contained in this Statement so far as reasonably practicable. In particular, the Investment Managers must have regard to the suitability and diversification of the investments made on behalf of the Scheme.

The Investment Managers will ensure that suitable internal operating procedures are in place to control individuals making investments for the Scheme.

Performance objectives

The individual benchmarks and objectives against which each pooled fund is assessed are given in Appendix II.

Review process

Appointments of Investment Managers are expected to be long-term, but the Trustee will review the appointment of the Investment Managers in accordance with their responsibilities. Such reviews will include analysis of each Investment Manager's performance and processes and an assessment of the diversification of the assets held by the Investment Manager. The review will include consideration of the continued appropriateness of the mandate given to the Investment Manager within the framework of the Trustee's investment policy.

The Trustee receives quarterly performance monitoring reports from the Investment Consultant which consider performance over the quarter, one and three year periods.

In addition, any significant changes relating to the criteria below that the Investment Consultant is aware of will be highlighted, which may lead to a change in the Investment Consultant's rating for a particular mandate. These ratings help to determine an Investment Manager's ongoing role in implementing the investment strategy. If there are concerns, the Trustee may carry out a more in-depth review of a particular Investment Manager. Investment Managers will also attend Trustee meetings as requested.

The Investment Consultant has also carried out a review of how well ESG factors are incorporated into each Investment Manager's processes and the Trustee will re-assess progress on ESG issues periodically.

Fund manager remuneration is considered as part of the manager selection process. It is also monitored regularly with the help of the Investment Consultant to ensure it is in line with the Trustee's policies and with fee levels deemed by the Investment Consultant to be appropriate for the particular asset class and fund type.

Selection / De-selection Criteria

The criteria by which the Trustee will select (or deselect) the Investment Managers include:

- Parent - Ownership of the business;
- People - Leadership/team managing the strategy and client service;
- Product - Key features of the investment and the role it performs in a portfolio;
- Process - Philosophy and approach to selecting underlying investments including operational risk management and systems;
- Positioning - Current and historical asset allocation of the fund;
- Performance - Past performance and track record;
- Pricing - The underlying cost structure of the strategy;
- ESG - Consistency and extent to which ESG analysis is incorporated into the process of selecting underlying investments.

An Investment Manager may be replaced, for example (but not exclusively), for one or more of the following:

- The Investment Manager fails to meet the performance objectives set out in Appendix II.

- The Trustee believes that the Investment Manager is not capable of achieving the performance objectives in the future.
- The Investment Manager fails to comply with this Statement.

Investment Manager's fee structure

Each Investment Manager is remunerated by receiving a percentage of the Scheme's assets under management.

It is felt that this method of remuneration provides appropriate incentives for the Investment Managers to target the agreed level of outperformance whilst adhering to the level of risk specified by the Trustee.

Portfolio turnover

The Trustee requires the Investment Managers to report on actual portfolio turnover at least annually, including details of the costs associated with turnover, how turnover compares with the range that the Investment Manager expects and the reasons for any divergence.

Investment Consultant's fee structure

The Investment Consultant is remunerated by a combination of fixed fees and where requested by the Trustee, work may be completed on a project-fee or time-cost arrangement.

It is felt that this method of remuneration is appropriate because it enables the Investment Consultant to provide the necessary advice and information to facilitate the Trustee undertaking its responsibilities as described in Section 2 (Division of Responsibilities.)

08 Compliance statement

Section 35

The enclosed SIP has been prepared by the Trustees in accordance with S35 of the Pensions Act 1995 and will be reviewed at least every three years or immediately after any significant changes in investment policy. The Trustees have consulted with XPS Investment, acting in its capacity as the Scheme's Investment Consultant, and have acted upon written advice when deciding the suitability of the enclosed strategy.

Appendix I
Investment structure

The Scheme invests its assets with Legal and General Investment Management ("LGIM") and BlackRock. Both managers with which the Scheme invests are regulated under the Financial Services and Markets Act 2000.

The Trustee believes that the investment risk arising from the investment strategy appropriate and in-line with their long-term investment objectives. The Trustee has identified the following structure as appropriate to meet the objectives of the Scheme:

	Strategic Asset Allocation (%)
Matching Assets	
LGIM Liability Driven Investment (LDI) Fund Range (including Cash)	42
Return Seeking Assets	
LGIM Dynamic Diversified Fund (Diversified growth fund)	21
BlackRock Strategic Alternative Income Fund (Secure Income)	37
Total	100

The Trustee monitors the Scheme's asset allocation on an ongoing basis, and accept that the asset allocation will vary overtime with changes in the market prices of these funds.

However, after receiving investment advice, the Trustee may rebalance the asset allocation back in-line with the strategic asset allocation when they believe that the actual allocation may have deviated from target in way that may not achieve the Scheme's long term investment target.

For any cashflow investment / disinvestments the Trustee will seek advice from their investment consultant. This advice will consider the asset allocation deviation at the time of the recommendation.

The Trustee will review this policy regularly and monitor the actual asset allocation. They may decide to change it, subject to receiving the necessary advice.

The Trustee accepts there may be instances where the actual allocation cannot be rebalanced back to target efficiently and therefore may remain out of line with the strategic asset allocation for prolonged periods. For example, the secure income fund cannot be rebalanced until the lock-up period expires.

The Trustee has put in place automatic processes with the LDI manager to manage recapitalisation and releveraging events across the LDI funds. Where cash is released from the LDI assets, the Trustee will review these arrangements from time to time to ensure that they remain appropriate. Where the LDI allocation becomes significantly over / underweight relative to target, the Trustee may review the allocation and consider the wider strategic impact relative to the liability hedging target.

Expected Return

The Trustee expect the investment strategy to generate a return in excess of the expected progression of the Scheme liabilities. At the time of implementation, the strategic asset allocation was expected to generate a return of Gilts + 1.9% per annum.

The Trustee holds a view to eliminate the Scheme deficit over a recovery period under the target strategy with a view to also minimise volatility of the funding level.

Liability Matching assets

The Scheme is invested with LGIM 's 'Enhanced Service Lite'. Within this mandate, LGIM provide additional governance services for managing the Scheme's LDI portfolio. This includes actively monitoring and managing the portfolio relative to the target hedge ratio (within the parameters agreed with LGIM).

The Scheme invests in leveraged LDI 'bucket' funds and unleveraged single stock gilt funds as part of the LGIM 'Enhanced Service Lite', to provide a hedge against the Scheme's interest rate and inflation risks

The leveraged nature of some of these funds means that there is an expectation that additional collateral will be required to be paid into these funds from time to time (and any excess collateral repaid to the Trustee). Where any additional collateral payments are required, it is the Trustee's intention that these will be met through disinvestments from Scheme assets.

LGIM actively manage the overall leverage at a portfolio level through the use of leveraged and unleveraged gilts, effectively providing LGIM with discretion to use unlevered gilts as a collateral asset. LGIM Dynamic Diversified acts as a second source of collateral for the LDI portfolio where headroom under the ESA portfolio is exhausted.

The Scheme's target a 75% hedge against changes in interest rate and inflation expectations.

The BlackRock SAIF allocation is also expected to provide some exposure to changes in interest rates and inflation expectations, however, due to the illiquid nature of this fund, the mark to market movements may not be accurately reflected in the periodic asset statements provided by the investment manager. Therefore, it is not explicitly considered within the overall liability hedging strategy.

Return Seeking assets

In order to achieve the required rate of investment return, the Trustee has decided to invest in a range of return seeking asset classes (Diversified Growth and Secure Income):

Diversified Growth Fund – diversified growth funds are expected to provide a long term return similar to equities but with a lower degree of volatility. This is achieved by investing in a diversified range of underlying asset classes such as equities, bonds and listed alternatives (e.g. property).

Secure Income – the illiquid asset allocation held by the scheme is invested in 'secure income' assets. These primarily refer to private market bond investments that provide capital to mid-market companies in return for an attractive rate of interest. Due to the illiquid nature of these funds, the assets are expected to provide an illiquidity premium, generating additional returns relative to public market credit risk equivalent counterparts.

Appendix II
Investment Manager mandates

Legal & General Investment Management

LGIM Sterling Liquidity Fund

Benchmark GBP 7 Day LIBID

Objective The fund aims to offer access to liquidity whilst providing capital stability. The investment objective of the fund is to provide diversified exposure and a competitive return in relation to 7 Day LIBID.

Execution cost Bid/Offer spread 0.00%

LGIM Dynamic Diversified Fund

Benchmark Bank of England Base Rate + 4.5% p.a.

Objective To provide long-term investment growth through dynamic exposure to a diversified range of asset classes.

Execution costs: Bid offer spread (0.61%) (as of September 2023)

Leveraged Gilts (Matching Plus fund range)

Benchmark Fund specific leveraged liability benchmark

Objective The funds aim to reduce DB pension scheme risk exposure to changes in interest rate and inflation rates.

Execution cost Bid/Offer spread 0.00%

Leveraged Index-Linked Gilts (Matching Plus fund range)

Benchmark Fund specific leveraged liability benchmark

Objective The funds aim to reduce DB pension scheme risk exposure to changes in interest rate and inflation rates.

Execution cost Bid/Offer spread 0.00%

Single Stock Gilt Funds

Benchmark Fund specific treasury gilts

Objective The funds aim to reduce DB pension scheme risk exposure to changes in interest rate and inflation rates.

Execution cost Bid/Offer spread 0.00%

Single Stock Index Linked Gilt Funds

Benchmark Fund specific treasury index linked gilts

Objective The funds aim to reduce DB pension scheme risk exposure to changes in interest rate and inflation rates.

Execution cost Bid/Offer spread 0.00%

BlackRock

Benchmark 10 year Gilt yield + 2-3% (performance objective)

Objective The fund seeks to generate income on Investments whilst preserving capital over the long term through investing in assets typically backed by long term cashflows.

Execution cost Subject to 1.50% – 2.50% dealing charge. (as of September 2023)

Contact us
xpsgroup.com

Registration

XPS Pensions Consulting Limited, Registered No. 2459442.

XPS Investment Limited, Registered No. 6242672.

XPS Pensions Limited, Registered No. 3842603.

XPS Administration Limited, Registered No. 9428346.

XPS Pensions (RL) Limited, Registered No. 5817049.

XPS Pensions (Trigon) Limited, Registered No. 12085392.

Penfida Limited Registered No. 08020393.

All registered at: Phoenix House, 1 Station Hill, Reading, RG1 1NB.

Authorisation

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