Gates UK Pension Scheme

Statement of Investment Principles

December 2021

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1. Introduction

1.1 Scheme background

- This Statement of Investment Principles (the "Statement") details the principles governing investment decisions for the Gates UK Pension Scheme (the "Scheme") by the Trustee ("Trustees"). Capital Cranfield Pension Trustees Limited has been appointed as the Trustees of the Scheme.
- The Scheme operates for the exclusive purpose of providing retirement and death benefits to eligible participants and beneficiaries.
- The Scheme provides benefits calculated on both a defined benefit basis and a defined contribution basis.
- Buck is the "Investment Consultant" to the Trustees.

1.2 Statement structure

This Statement is divided into three main sections as follows:

- **Defined Benefit Section**: This section covers the requirements of the Scheme's Defined Benefit ("DB") Section and the Scheme's compliance with the provisions of the Pensions Act 1995 and subsequent legislation.
- **Defined Contribution Section**: This section covers the requirements of the Scheme's Defined Contribution ("DC") Section.
- **Myners Principles**: This section includes additional non-statutory information that was recommended by the Myners Principles and is now included in Statements of Investment Principles.

2. Defined Benefit Section

2.1 Introduction

- The Trustees have reviewed and considered written advice from the Investment Consultant prior to the preparation of this Statement and have consulted the sponsoring employer.
- The Trustees have full regard to their investment powers under the Trust Deed and Rules and the suitability of types of investments, the need to diversify, the custodianship of assets and any self-investment.
- The investment managers will prepare detailed quarterly reports on their activities and the Trustees may meet with them periodically.
- This Statement will be reviewed at least every three years or whenever changes to the principles or strategy are necessary. Any changes to this Statement will be undertaken on the advice of the Investment Consultant, as will any appointment or review of the investment managers.
- All investment decisions of the Scheme are under the control of the Trustees, with no constraint by the sponsoring employer.

2.2 Statutory requirements

- This part of the Statement details the Trustees' policy to secure compliance with the requirements of the Pensions Act 1995 and subsequent legislation.

2.2.1 Investment objectives and suitability of investments

- The Trustees' agreed investment strategy is based on an analysis of the liability profile of the Scheme, the required investment return and the returns expected from the various asset classes over the long-term. Long-term returns from equities are expected to exceed the returns from bonds and cash, although returns and capital values demonstrate higher volatility. The Trustees are prepared to accept this higher volatility in order to aim to achieve the overall investment objective.
- The primary objective of the Trustees is to operate an investment strategy that provides sound long term growth and appropriate security for all beneficiaries.
- The Trustees have translated their objective into a suitable strategic asset allocation benchmark for the Scheme, details of which are included in the appendices.
- In accordance with the Financial Services & Markets Act 2000, the Trustees are responsible for setting the general investment policy, but the responsibility for all day-to-

day investment management decisions has been delegated to investment managers authorised under the Act. Details are included in the appendices.

- The Trustees are responsible for reviewing the investment strategy of the Scheme following each actuarial valuation in consultation with the Scheme's investment consultant. The Trustees may also reconsider the investment strategy outside the triennial valuation period where necessary.

2.2.2 Diversification

- The Trustees, after seeking appropriate investment advice, have selected a strategic asset allocation benchmark (see Appendix 1).
- Subject to their respective benchmarks and guidelines the managers are given full discretion over the choice of stocks and are expected to maintain diversified portfolios.
- The Trustees are satisfied that the investments selected are consistent with their investment objectives, particularly in relation to diversification, risk, expected return and liquidity.
- Given the size and nature of the Scheme, the Trustees have decided to invest on a pooled fund basis; any such investment is effected through a direct agreement with an investment manager and/or through an insurance contract.
- The Trustees are satisfied that the range of pooled vehicles in which the Scheme's assets are invested provides adequate diversification.

2.2.3 Balance between different kinds of investments

- The appointed investment managers will hold a diversified mix of investments in line with their agreed benchmark and discretion to move away from the benchmark. Within each major market each manager will maintain a diversified portfolio of stocks within pooled vehicles.

2.2.4 Risk

- The Trustees consider the main risk to be that of the assets being insufficient to meet the Scheme's liabilities. In determining their investment strategy, the Trustees received advice from the investment consultant as to the likely range of funding levels for strategies with differing levels of investment risk relative to the Scheme's liability profile. Taking this into account, along with the expected returns underlying the most recent actuarial valuation, the strategy outlined in Appendix 1 of this SIP has been adopted.
- Although the Trustees acknowledge that the main risk is that the Scheme will have insufficient assets to meet its liabilities, the Trustees recognise other contributory risks, including the following. Namely the risk:

- Associated with the differences in the sensitivity of asset and liability values to changes in financial and demographic factors.
- Of the Scheme having insufficient liquid assets to meet its immediate liabilities.
- Of the investment managers failing to achieve the required rate of return.
- Due to the lack of diversification of investments.
- Of failure of the Scheme's sponsoring employer to meet its obligations.

The Trustees manage and measure these risks on a regular basis via actuarial and investment reviews, and in the setting of investment objectives and strategy.

- The divergence of the actual distribution of the investments from the benchmark weightings is controlled via a re-balancing arrangement with the investment manager.

2.2.5 Expected return on investments

- Over the long term, the current investment strategy is considered to be consistent with the actuarial basis used by the Scheme Actuary at triennial actuarial valuations.

2.2.6 Kind of investments to be held

- The Scheme may invest in quoted and unquoted securities of UK and overseas markets including equities, fixed interest and index linked bonds and cash or via pooled investment vehicles considered appropriate for tax-exempt registered occupational pension schemes. The Trustees consider all of the stated classes of investment to be suitable to the circumstances of the Scheme.

2.2.7 Realisation of investments

- In the event of an unexpected need to realise all or part of the assets of the portfolio, the Trustees require the investment managers to be able to realise the Scheme's investments in a reasonable timescale by reference to the market conditions existing at the time the disposal is required and subject to the best interests of the Scheme. The majority of assets are not expected to take an undue time to liquidate.

2.2.8 The Trustees' policy in relation to financially material considerations

- The Trustees expect their investment managers, where appropriate, to have taken account of financially material considerations, including environmental, social and governance (ESG) factors as part of their investment analysis and decision-making process.

- The Trustees review the policies of their investment managers in respect of financially material considerations.

2.2.9 The Trustees' policy in relation to the extent to which non-financial matters are taken into account

- The Trustees' objective is to ensure that the investment managers have the financial interests of the Scheme members as their first priority when choosing investments. They may take social, environmental or ethical considerations into account only when these factors do not contradict this objective.

2.2.10 The Trustees' policy in relation to engagement and monitoring

- The Trustees' policy is to delegate responsibility for engaging with and monitoring investee companies to the investment managers and they expect the investment managers to use their discretion to maximise financial returns for members and others over the long term.

2.2.11 Voting rights attaching to investments

- The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and to encourage the managers to exercise those rights. The investment managers are expected to provide regular reports for the Trustees detailing their voting activity. The Trustees will take corporate governance policies into account when appointing and reviewing investment managers.

2.2.12 Additional Voluntary Contributions (AVCs)

- The Trustees also have full discretion as to the appropriate investment vehicles made available for members' AVCs. As with the main Scheme, only investment vehicles normally considered suitable for AVC investment will be considered by the Trustees with advice taken from properly qualified and authorised investment consultants. Members are expected to take independent financial advice when choosing AVC investments.

2.2.13 The Trustees' policy in relation to their investment manager

- In detailing below the policies on the investment manager arrangements, the over-riding approach of the Trustees is to select investment managers that meet the primary objectives of the Trustees. As part of the selection process and the ongoing review of the investment managers, the Trustees consider how well each investment manager meets the Trustees' policies and provides value for money over a suitable timeframe.

2.2.14 How the arrangement incentivises the investment manager to align its investment strategy and decisions with the Trustees' policies

- The Trustees have delegated the day to day management of the Scheme's assets to an investment manager. The Scheme's assets are invested in pooled funds which have their own policies and objectives and charge a fee, agreed with the investment manager, for their services. Such fees incentivise the investment manager to adhere to their stated policies and objectives.

2.2.15 How the arrangement incentivises the investment manager to engage and take into account financial and non-financial matters over the medium to long-term

- The Trustees, in conjunction with their investment consultant, appoint their investment manager and choose the specific pooled funds to use in order to meet specific Scheme policies. They expect that their investment manager makes decisions based on assessments about the financial performance of underlying investments, and that it engages with issuers of debt or equity to improve its performance (and thereby the Scheme's performance) over an appropriate time horizon.

- The Trustees have decided not to take non-financial matters into account when considering their policy objectives.

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

- The Trustees expect their investment manager to invest the assets within their portfolio in a manner that is consistent with the guidelines and constraints set out in its appointment documentation. The Trustees review the investment manager periodically. These reviews incorporate benchmarking of performance and fees. Reviews of performance focus on longer-term performance (to the extent that is relevant), e.g. looking at five years of performance.

- If the Trustees determine that the investment manager is no longer managing the assets in line with the Trustees' policies they will make their concerns known to the investment manager and may ultimately disinvest.

- The Trustees pay their investment managers a management fee which is a fixed percentage of assets under management.

- Prior to agreeing a fee structure, the Trustees, in conjunction with their investment consultant, consider the appropriateness of this structure, both in terms of the fee level compared to that of other similar products and in terms of the degree to which it will incentivise the investment manager.

2.2.17 How the Trustees monitor portfolio turnover costs incurred by the investment manager, and how they define and monitor targeted portfolio turnover or turnover range

- The Trustees, in conjunction with their investment consultant, have processes in place to review investment turnover costs incurred by the Scheme on an annual basis. The Trustees receive a report which includes the turnover costs incurred by the investment manager used by the Scheme.

- The Trustees expect turnover costs of the investment manager to be in line with its peers, taking into account the style adopted by the investment manager, the asset class invested in and prevailing market conditions.

- The Trustees do not explicitly monitor turnover, set target turnover or turnover ranges. The Trustees believe that the investment manager should follow its stated approach with a focus on risk and net return, rather than on turnover. In addition, the individual mandates are unique and bespoke in nature and there is the potential for markets to change significantly over a short period of time.

2.2.18 The duration of arrangements with investment managers

- The Trustees do not in general enter into fixed long-term agreements with their investment manager and instead retain the ability to change investment manager should the performance and processes of the investment manager deviate from the Trustees' policies. However, the Trustees expect their manager appointments to have a relatively long duration, subject to the manager adhering to its stated policies, and the continued positive assessment of its ability to meet its performance objective.

3. Defined Contribution Section

3.1 Investment objectives and investment decisions

- The Trustees recognise that members have differing investment needs and that these may change during the course of members' working lives. They also recognise that members have different attitudes to risk. The Trustees believe that members should make their own investment decisions based on their individual circumstances. The Trustees' objective is therefore to make a range of investment options available which, while avoiding over complexity, should assist members in achieving the following:
  - Maximising the value of retirement benefits so as to enable a reasonable standard of living in retirement.
  - Protecting the value of those benefits in the years approaching retirement against equity market falls and fluctuations in the cost of annuities (for those members that wish to purchase an annuity).
  - Tailoring their investments to meet their own needs.
- All day to day investment decisions are delegated to a properly qualified and authorised fund manager of pooled pension funds, being currently Legal & General Investment Management. An investment management agreement has been exchanged with this investment manager.

3.2 Requirement to seek advice

- Appropriate written advice will be taken from properly qualified and authorised investment consultants before the appointment or review of any such investment manager.

3.3 The kinds of investment to be held

- The Trustees select investment managers of pooled funds which hold only the kinds of investments which are deemed to be suitable for the Scheme. A pooled fund is one where the Trustees, along with the trustees of other schemes, buy units in a larger pool of investments run by the above manager. The Trustees believe investment via pooled funds is appropriate for the Scheme, and have taken the advice of the Investment Consultant in this regard.

3.4 AVC provision

- The Trustees also have full discretion as to the appropriate vehicles made available for members' AVCs. As with the main Scheme, only investment vehicles normally considered suitable for AVC investment will be considered by the Trustees with advice taken from properly qualified and authorised investment consultants. Members are expected to take independent financial advice before choosing AVC investments.

3.5 The balance between different kinds of investment

- Three lifestyle programmes are made available to members. All of the programmes entail younger members investing entirely in a multi-asset fund, with the objective of maximising long term real returns. In 2021, the default option for the Scheme changed to a lifestyle programme which, at seven years from a member's expected retirement age, gradually switches from an allocation of 100% multi-asset fund to an allocation of 50% multi-asset fund, 25% bond fund and 25% cash fund at the member's selected retirement date. This has the aim of reducing the volatility of returns and protecting some part of the capital value, whilst keeping options open for members who will likely not know until very close to retirement how they intend to take their benefits. Alternative lifestyle programmes are also available for members to choose from which operate in similar fashions to the default option, one of which targets cash only at retirement, whilst the other targets the purchase of an annuity at retirement.
- The default option has been designed having taken due regard to the membership profile of the Scheme, including consideration of:

  – the size of members' retirement savings within the Scheme,

  – members' current level of income and hence their likely expectations for income levels post retirement,

  – the fact that members may have other retirement savings invested outside of the Scheme, and

  – the ways members may choose to use their savings to fund their retirement.

  These factors have also been considered when setting the range of alternative investment options from which members can choose.

- In addition to the three lifestyle programmes, the Trustees have decided to permit a limited choice of investment vehicles to members and have prescribed a range of funds considered broadly suitable for the majority of members. To aid their decisions, information about the funds offered is provided to members. However, members are advised to take independent financial advice before choosing between these funds.

- The Trustees make available a property fund which members can choose to invest in. If dealing in this fund is suspended for any reason, the Trustees will temporarily divert member contributions from the property fund to a cash fund. Once the suspension ceases the associated cash fund holding will be switched into the property fund unless the member actively chooses an alternative approach. The objective of the cash fund is to provide capital stability and this fund would not generally be expected to be used for long-term investment.

- Advice is taken from the Investment Consultant to ensure that this approach remains suitable for the Scheme.

- The investment manager has discretion to vary the balance of the investments within each fund held by the Scheme in the light of changing investment conditions.

3.6 Risk

- The Trustees have considered risk from a number of perspectives. These are:
  - The risk that the investment return over members' working lives will not keep pace with inflation and does not, therefore, secure an adequate pension.
  - The risk that investment market movements in the period prior to retirement lead to a substantial reduction in the anticipated level of pension.
  - The risk that relative market movements in the period just prior to retirement lead to a substantial reduction in the anticipated cash lump sum benefit.
- The investment strategy for the default option has been chosen with the aim of reducing these risks. The self-select funds available have been chosen to provide members with the flexibility to address these risks for themselves. To help address these risks, the Trustees also review the default option used and the fund range offered at least every three years, taking into account changes to the membership profile, developments within DC markets (including both product development and trends in member behaviour) and changes to legislation.

3.7 Expected return on investments

- The default option is expected to provide an appropriate return on members' investments, based on the Trustees' understanding of the Scheme's membership and having taken into account the risk considerations set out above.

3.8 The realisation of investments

- Investments may be realised from the investment portfolios as required to make payment of benefits under the Scheme, or to give effect to fund switches as agreed with individual members or to switch investments in accordance with the prescribed lifestyle matrix. The investment manager has discretion to realise investments within their portfolios for the purpose of making new investments. The selection of individual stocks within the pooled funds to be realised is at the discretion of the investment manager.

3.9 The Trustees' policy in relation to financially material considerations

- The Trustees expect their investment managers, where appropriate, to have taken account of financially material considerations, including environmental, social and governance (ESG) factors as part of their investment analysis and decision-making process.
- The Trustees review the policies of their investment managers in respect of financially material considerations.

3.10 The Trustees’ policy in relation to the extent to which non-financial matters are taken into account

- The Trustees’ objective is that the financial interests of the Scheme members is their first priority when choosing investments. They have decided not to take members’ preferences into account when considering these objectives.

3.11 The Trustees’ policy in relation to engagement and monitoring

The Trustees’ policy is to delegate responsibility for engaging and monitoring investee companies to the investment managers and they expect the investment managers to use their discretion to maximise financial returns for members and others over the long term.

3.12 The Trustees’ policy in relation to voting rights

- The Trustees’ policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and to encourage the managers to exercise those rights. The investment managers are expected to provide regular reports for the Trustees detailing their voting activity.

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3.14 How the arrangement incentivises the investment manager to align its investment strategy and decisions with the Trustees’ policies

- The Trustees have delegated the day to day management of the Scheme’s assets to an investment manager. The Scheme’s assets are invested in pooled funds which have their own policies and objectives and charge a fee, agreed with the investment manager, for their services. Such fees incentivise the investment manager to adhere to their stated policies and objectives.

3.15 How the arrangement incentivises the investment manager to engage and take into account financial and non-financial matters over the medium to long-term

- The Trustees, in conjunction with their investment consultant, appoint their investment manager and choose the specific pooled funds to offer in order to meet specific Scheme policies. They expect that their investment manager makes decisions based on assessments about the financial performance of underlying investments, and that it engages with issuers of debt or equity to improve its performance (and thereby the Scheme's performance) over an appropriate time horizon.

- The Trustees have decided not to take non-financial matters into account when considering their policy objectives.

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

- The Trustees expect their investment manager to invest the assets within their portfolio in a manner that is consistent with the guidelines and constraints set out in its appointment documentation. The Trustees review the investment manager periodically. These reviews incorporate benchmarking of performance and fees. Reviews of performance focus on longer-term performance (to the extent that is relevant), e.g. looking at five years of performance.

- If the Trustees determine that the investment manager is no longer managing the assets in line with the Trustees' policies they will make their concerns known to the investment manager and may ultimately disinvest.

- The Trustees pay their investment managers a management fee which is a fixed percentage of assets under management.

- Prior to agreeing a fee structure, the Trustees, in conjunction with their investment consultant, consider the appropriateness of this structure, both in terms of the fee level compared to that of other similar products and in terms of the degree to which it will incentivise the investment manager.

3.17 How the Trustees monitor portfolio turnover costs incurred by the investment manager, and how they define and monitor targeted portfolio turnover or turnover range

- The Trustees, in conjunction with their investment consultant, have processes in place to review investment turnover costs incurred by the Scheme on an annual basis. The Trustees receive a report which includes the turnover costs incurred by the investment manager used by the Scheme.

- The Trustees expect turnover costs of the investment manager to be in line with its peers, taking into account the style adopted by the investment manager, the asset class invested in and prevailing market conditions.

- The Trustees do not explicitly monitor turnover, set target turnover or turnover ranges. The Trustees believe that the investment manager should follow its stated approach with a focus on risk and net return, rather than on turnover. In addition, the individual mandates are unique and bespoke in nature and there is the potential for markets to change significantly over a short period of time.

3.18 The duration of arrangements with investment managers

- The Trustees do not in general enter into fixed long-term agreements with their investment manager and instead retain the ability to change investment manager should the performance and processes of the investment manager deviate from the Trustees' policies. However, the Trustees expect their manager appointments to have a relatively long duration, subject to the manager adhering to its stated policies, and the continued positive assessment of its ability to meet its performance objective.

4. Myners Principles

The original Myners review of "Institutional Investing in the UK" was published in March 2001. It included a set of 10 Principles that pension scheme trustees are recommended to use when considering their investment policy for defined benefit pension schemes and 11 Principles for defined contribution schemes. The Government endorsed the report with some minor modifications on 2 October 2001. Pension scheme trustees were asked to comply with the Principles on a voluntary basis. The Myners Principles recommend that certain issues were included in the Statement of Investment Principles ("SIP").

The Myners Principles was subsequently reviewed in October 2008; the explicit requirement to include certain items in a strengthened SIP was removed and replaced with a requirement for Trustees to act in a transparent and responsible manner. By making the following statements the Trustees believe that they are complying with the spirit of these principles.

4.1 Responsible ownership

Details of the responsibility for the exercising of rights (including voting rights) attaching to the Scheme's investments are included in Sections 2.2.11 and 3.12.

4.2 Transparency & reporting

The Trustees have discretion over the form of reporting they wish to undertake. This Statement provides the following details of the Trustees' investment approach:

- Who is taking which decisions and why has the structure been selected?

  Details of the Trustees' decision making structure are included in Section 2.1.

- The Trustees' investment objective.

  Details of the Trustees' investment objective are included in Sections 2.2.1 and 3.1, with the appointed investment managers' specific objectives in Appendix 1.

- The Trustees' asset allocation strategy, including projected investment returns in each asset class, and how the strategy has been selected.

  Details of the Trustees' asset allocation strategy are included in Appendix 1. The strategy was agreed to after taking advice from the Investment Consultant.

- The mandates given to all advisers and managers.

  The responsibilities of the Trustees, investment managers and the Investment Consultant are outlined in section 4.3, while the Investment Managers' mandates are specified in Appendices 1 and 2.

- The nature of the fee structures in place for all advisers and investment managers; and why this set of structures has been selected.

  Details of the fees charged by the Investment Consultant and investment managers are included in Appendix 2. The Trustees have discussed and agreed these fees following consultation with their advisers, where appropriate, and believe they are reasonable for the services they receive.

4.3 Appointments & responsibilities

4.3.1 Trustees

The Trustees' primary responsibilities regarding investments include:

- Preparation of the SIP and reviewing the content of the Statement and modifying it if deemed appropriate, in consultation with the Principal Employer and the Investment Consultant, at least every three years. The Statement will also be reviewed following a significant change in investment strategy.

- Appointing investment managers and investment consultants as necessary for the good stewardship of the Scheme's assets.

- Reviewing the DB investment strategy in conjunction with each triennial Actuarial Valuation, and/or asset liability modelling exercise, and/or significant changes to the Scheme's liabilities, taking advice from the Investment Consultant.

- Reviewing the DC investment strategy at least every three years, and without delay following any significant change impacting the Scheme's membership.

- Assessing the performance and processes of the investment managers by means of regular, but not less than annual, reviews of investment performance and other information.

- Monitoring compliance of the investment arrangements with this Statement on a regular basis.

- Monitoring risk and the way in which the investment managers have cast votes on behalf of the Trustees in respect of the Scheme's equity holdings.

4.3.2 Investment Consultant

The main responsibilities of the Investment Consultant include:

- Assisting the Trustees in the preparation and periodic review of this Statement in consultation with the sponsoring employer.

- Undertaking project work including reviews of investment strategy, investment performance and manager structure as required by the Trustees.

- Advising the Trustees on the selection and review of investment managers.
- Monitoring and advising upon where contributions should be invested on a periodic basis.

4.3.3 Investment Managers

The investment managers' main responsibilities include:

- Investing assets in a manner that is consistent with the objectives set.
- Ensuring that investment of the Scheme's assets is in compliance with prevailing legislation and within the constraints detailed in this Statement.
- Providing the Trustees with quarterly reports including a review of the investment performance and any changes to their investment process.
- Attending meetings with the Trustees as and when required.
- Informing the Trustees of any changes in the internal performance objective and guidelines of any pooled fund used by the Scheme as and when they occur.
- Exercising voting rights on share holdings in accordance with their general policy.

4.3.4 Custodian

- The custodianship arrangements are those operated by the investment managers for all clients investing in their pooled funds.

4.3.5 Administrators

- The Scheme's pension administrator is Buck for both the defined benefit and defined contribution sections.

4.3.6 Scheme Actuary

The Actuary's main responsibilities in respect of investment policy include:

- Performing the triennial (or more frequently as required) Actuarial Valuations and advising on the appropriate level of contributions.

The Scheme's actuary is David Jones of Buck.

4.4 Performance monitoring

- Each of the vehicles in which the Scheme invests has a stated performance objective by which the performance is measured.
- The Trustees will review the performance of the appointed investment managers from time to time, along with reasons for this performance.
- The investment managers are expected to provide written reports on a quarterly basis.

Signed on behalf of the Trustees of the Gates UK Pension Scheme

Signed on 16th December 2021

Appendix 1 – Strategic Benchmark and Objectives

Defined Benefit Section

Strategic benchmark

The Scheme's assets consist of a growth portfolio (which aims to achieve returns higher than that of gilts) and a liability-hedging portfolio (which aims to partially hedge changes in the Scheme's liabilities due to changes in gilt yields). The investment manager for the Scheme is Legal & General Investment Management.

The funds that comprise the growth portfolio are detailed in the table below. There is no target split between the funds within the growth portfolio. The intention of the Trustees is to disinvest from the All World Equity Index Fund – GBP Hedged and invest the proceeds in the Scheme's other funds depending on progression of the Scheme's funding level. No explicit timeframe has been agreed for this disinvestment but it is anticipated this will take place in the medium term.

Fund	Benchmark Index
All World Equity Index Fund – GBP Hedged	FTSE All-World Index – GBP Hedged
AAA-AA Fixed Interest Over 15 Year Targeted Duration Fund	Markit iBoxx £ Non-Gilt Sovereign & Sub-Sovereign AAA-AA Over 15 Year Index
AAA-AA-A Corporate Bond – Over 15 Year Index Fund	iBoxx £ Non–Gilts (ex. BBB) Over 15 Year

The funds that comprise the liability-hedging portfolio are detailed in the table below. There is no target hedge ratio for this portfolio but the hedging will be reviewed periodically and consideration given to any changes required.

Fund	Benchmark Index
Leveraged Gilt and Index-Linked Gilt Funds	Comparator based on nominal/real interest rates
Absolute Return Bond Fund	ICE Bank of America Sterling 3-Month Deposit Offered Rate Constant Maturity Index

Performance Objectives

The performance objectives relative to the specified Benchmark Index for each of the funds are as follows:

All World Equity Index Fund – GBP Hedged

- This fund aims to track the performance of the FTSE All-World Index (less withholding tax where applicable) – GBP Hedged (with the exception of emerging markets), which is a customised index to within +/- 0.5% per annum for two years out of three.

AAA-AA Fixed Interest Over 15 Year Targeted Duration Fund

- This fund aims to produce a total return in line with the performance of a subset of the FTSE Actuaries UK Conventional Gilts Over 15 Years Index, this being the gilts with maturities of 15 to 35 years and capture the yield spread over gilts of AAA-AA rated fixed interest securities.

AAA-AA-A Corporate Bond – Over 15 Year Index Fund

- This fund aims to track the performance of the Markit iBoxx £ Non-Gilts (ex-BBB) Over 15 Years Index to within +/-0.5% p.a. for two years out of three.

Leveraged Gilt and Index-Linked Gilt Funds

- The aim of these funds is to provide leveraged exposure to an underlying fixed or index-linked reference gilt. The fund aims to provide a single payment on the specified maturity date of the underlying reference gilt.

Absolute Return Bond Fund

- The fund aims to produce a positive return derived from capital growth and income by investing in fixed and floating rate securities. The investment objective of the fund is to exceed the ICE Bank of America Sterling 3-Month Deposit Offered Rate Constant Maturity Index by 1.50% p.a. over a rolling three-year basis (before fees).

Defined Contribution Section

Members have the option to invest in the following six funds with Legal & General Investment Management:

Global Equity Fixed Weights (60:40) Index Fund

- This Fund aims to capture the total returns of the UK and overseas equity markets, as represented by the FTSE All Share Index in the UK and the appropriate regional sub-divisions of the FTSE All World Index. A 60/40 distribution between UK and overseas assets is maintained with the overseas distribution held in fixed weights.

Diversified Fund

- This Fund aims to achieve a similar long-term return to that from global equity markets but with approximately 2/3rds of the volatility over the longer term. The Fund will hold between 20-50% in bonds, and the remaining 50%-80% will be held in a range of assets which may include equities, bonds, property, commodities and listed infrastructure, private equity and global real estate companies.

Future World Multi-Asset Fund

- The investment objective of this Fund is to provide long-term investment growth through exposure to a diversified range of asset classes (excluding physical property) while reflecting significant environmental, social and corporate governance (ESG) issues into the Fund's investment strategy.

Property Fund

- This Fund aims to provide diversified exposure to the institutional property market. This Fund is invested wholly or predominantly in freehold and leasehold property to include retail and commercial premises, agricultural land, development sites and schemes (including joint partnership funding), whether in single or multiple occupation and located throughout the United Kingdom. The Fund may also hold indirect vehicles with exposure to property. The Fund can invest in money market products.

Pre-Retirement Fund

- This Fund aims to provide diversified exposure to assets that reflect the investments underlying a typical traditional non-inflation linked pension annuity product. The Fund's benchmark is kept broadly in line with current pension annuity market investments for non-Limited Price Indexation linked annuities. The Fund invests in gilts and corporate bonds.

Cash Fund

- This Fund is designed to match the median return of similar cash funds without incurring excessive risk.

The Global Equity Fund and Pre-Retirement Fund are passively managed, whilst the Property and Cash Funds are actively managed. The Diversified Fund is a fund of funds, which includes both passive and active funds, although the majority are passively managed. The Future World Multi-Asset Fund is also a fund of funds and exposure to each asset class will primarily be through investing in passively managed funds with the ESG exposure being provided through investments in a range of Future World equity and bond index funds. These funds are constructed and weighted by the index provider based on ESG scoring of eligible constituents. Where an ESG approach is not likely to be feasible or meaningful, the fund will use traditional index funds for asset allocation purposes.

Details of the funds' individual benchmarks are included in the table below:

Fund	Benchmark
Global Equity Fixed Weights (60:40) Index	60% FTSE All Share Index + 40% Composite of overseas country indices*
Diversified	FTSE Developed World Equities (50% hedged to GBP)
Future World Multi-Asset	ABI Mixed Inv 40-85% Shares Sector
Managed Property	AREF/IPD UK Quarterly All Balanced Funds Index
Pre-Retirement Fund	Composite of gilt and corporate bond indices aimed at matching the cost of buying a non-inflation linked annuity
Cash	LIBID 7 Day Notice

* The overseas exposure is split 35% North America, 35% Europe (ex-UK), 17.5% Japan and 12.5% Asia Pacific (ex-Japan)

Appendix 2 – Fees

Investment Manager Fees

Defined Benefit Section

Manager	Fund	Fee (% p.a.)
Legal & General	All World Equity Index Fund – GBP Hedged	0.223
	AAA-AA Fixed Interest Over 15 Year Targeted Duration Fund	0.069
	AAA-AA-A Corporate Bond – Over 15 Year Index Fund	0.150
	Leveraged Gilt and Index-Linked Gilt Funds	0.180
	Absolute Return Bond Fund	0.250

Defined Contribution Section

Manager	Fund	Fee (% p.a.)
Legal & General	Global Equity Fixed Weights (60:40) Index	0.160
	Diversified	0.300
	Future World Multi-Asset	0.300
	Managed Property	0.700
	Pre-Retirement Fund	0.150
	Cash	0.125

Investment Consultant fees

The investment consultancy services are provided by Buck who are remunerated on a time cost basis, which is considered the most appropriate basis as the services required fluctuate year on year. The basis of remuneration is kept under review.