



# Statement of Investment Principles for The RSM UK (2006) Retirement Benefit Scheme

Effective from:  
30 August  
2023

## 1. Introduction

This Statement of Investment Principles (“SIP”) sets out the policy of RSM UK Pension Trustees Limited (“the Trustee”) on various matters governing decisions about the investments of The RSM UK (2006) Retirement Benefit Scheme (“the Scheme”), a Defined Benefit (“DB”) Scheme. This SIP replaces the Scheme’s previous SIP.

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

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

The Trustee will review this SIP from time to time and, with the help of its advisers, will amend it as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy and at least once every three years.

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

## 2. Investment objectives

The primary objective is to ensure that the Scheme should be able to meet benefit payments as they fall due. In addition to this primary objective, the Trustee has a series of additional objectives. These are as follows:

- that the return on the Scheme’s assets is maximised whilst managing and maintaining investment risk at an appropriate level. What the Trustee determines to be an appropriate level of risk is set out in Appendix 2.
- that the Scheme should be fully funded on a technical provisions basis (ie the asset value should be at least that of its liabilities on this basis). The Trustee is aware that there are various measures of funding and has given due weight to those considered most relevant to the Scheme.
- that the Scheme has a long-term journey plan in place (which has been agreed with the employer) which is designed to help it achieve full funding over the long term on the desired technical provisions basis. Progress against this long-term journey plan is

assessed and reported on a regular basis with progress being measured against a set of short-term milestones.

### 3. Investment strategy

The Trustee, with the help of its advisers and in consultation with the employer, agreed a revised investment strategy in June 2023, taking into account the objectives described in Section 2 above and market conditions at the time of review.

The result of the review was that the Trustee agreed to transition towards the long-term strategic allocation detailed below.

Asset class	Strategic allocation
<b>Return-seeking assets</b>	<b>35%</b>
Global equities (unhedged)	10%
Global equities (GBP hedged)	10%
Emerging market multi-asset	5%
Infrastructure	10%
<b>Matching assets</b>	<b>65%</b>
LDI, Credit-linked LDI & money market cash	65%
<b>Total</b>	<b>100%</b>

There is no formal rebalancing policy in place for the Scheme. The Trustee monitors the asset allocation from time to time. If material deviations from the strategic allocation occur, the Trustee will consider with its advisers whether it is appropriate to rebalance the assets, taking into account factors such as market conditions and anticipated future cash flows.

### 4. Considerations in setting the investment arrangements

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

The Trustee considered a wide range of asset classes for investment, taking account of the expected returns and key individual risks associated with those asset classes as well as how these risks can be mitigated where appropriate. The key financial assumption made by the Trustee in determining the investment arrangements is that equity-type investments will, over the long term, outperform gilts by 4.0% pa.

The other key assumptions for expected returns above gilts as at 31 December 2022 are as follows:

Asset class	Expected excess return over gilts (% pa)
Global equities (unhedged)	4.0
Global equities (GBP hedged)	3.9
Emerging market multi-asset	3.9
Private credit	3.6
Infrastructure	3.4
Credit-linked LDI	1.6
Dynamic LDI	0.4
Cash	0.0

In setting the strategy the Trustee took into account:

- the Scheme's investment objectives to meet the Trustee's investment objectives;
- the Scheme's cash flow requirements in order to meet benefit payments in the near to medium term;
- the best interests of all members and beneficiaries;
- the circumstances of the Scheme, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the strength of the employer covenant;
- the risks, rewards and suitability of a number of possible asset classes and investment strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken;
- the need for appropriate diversification between different asset classes to ensure that both the Scheme's overall level of investment risk and the balance of individual asset risks are appropriate;
- any other considerations which the Trustee considers financially material over the time horizon that the Trustee considers is needed for the funding of future benefits by the investments of the Scheme; and
- the Trustee's investment beliefs about how investment markets work and which factors are most likely to impact investment outcomes.

Some of the Trustee's key investment beliefs are set out below.

- asset allocation is the primary driver of long-term returns;
- risk-taking is necessary to achieve return, but not all risks are rewarded;
- as the Scheme has a long time horizon with relatively young members, running most investment risks today (including equity, interest rate, inflation, illiquidity and credit risk) is appropriate and the Trustee is comfortable that the sponsor can underwrite the risks being run today;
- to be fully funded on a technical provisions basis is an appropriate long-term target;
- investment markets are not always efficient and there may be opportunities for good active managers to add value;

- environmental, social and governance (ESG) factors are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors;
- investment managers who can consistently spot and profitably exploit market opportunities are difficult to find and therefore passive<sup>1</sup> management, where available, is usually better value;
- long-term environmental, social and economic sustainability is one factor that Trustee should consider when making investment decisions;
- any unexpected profits made on the Scheme's assets should be captured;

<sup>1</sup> Passive management includes a range of rules-based portfolio construction strategies

- being a forced seller if assets are to fall significantly should be avoided;
- responsible investment in well governed companies and engaging as long-term owners can reduce risk over time and may positively impact Scheme returns;
- cash flow requirements should be managed efficiently and transaction costs kept to a minimum; and
- costs have a significant impact on long-term performance.

## 5. Implementation of the investment arrangements

Before investing in any manner, the Trustee obtains and considers proper written advice from its investment adviser on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

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

The Trustee has signed agreements with the investment managers and a platform provider setting out in detail the terms on which the portfolios are to be managed. The investment managers' primary role is the day-to-day investment management of the Scheme's investments.

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

The Trustee has limited influence over managers' investment practices because all the Scheme's assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

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

It is the Trustee's responsibility to ensure that the managers' investment approaches are consistent with its 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 Trustee expects 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. It assesses this when selecting and monitoring managers.

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

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

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

## **6. Realisation of investments**

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

When appropriate, the Trustee, on the administrators' recommendation, decides on the amount of cash required for benefit payments and other outgoings and informs the investment managers of any liquidity requirements. The Trustee's preference is for investments that are readily realisable, but recognise that achieving a well-diversified portfolio may mean holding some investments that are less liquid (eg property). In general, the Trustee's policy is to use cash flows to rebalance the Scheme's assets towards the strategic asset allocation, and also receive income from some of the portfolios where appropriate.

## **7. Financially material considerations and non-financial matters**

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

The Trustee expects its investment managers to take account of financially material considerations (including climate change and other ESG considerations). It seeks to appoint managers that have appropriate skills and processes to do this, and from time to time review how its managers are taking account of these issues in practice. The Scheme's equity mandate has an explicit carbon intensity reduction target relative to a broad, market-capitalisation weighted index to help manage climate-related risks.

The Trustee has limited influence over managers' investment practices where assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

The Trustee does not take into account any non-financial factors (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

## **8. Voting and engagement**

The Trustee recognises its responsibilities as owners of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments.

The Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations. The Trustees expect the managers to undertake voting and engagement in line with their stewardship policies, considering the long-term financial interests of the beneficiaries.

The Trustee seeks to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code 2020 issued by the Financial Reporting Council.

The Trustee monitors managers' activities in relation to ESG factors, voting and engagement on a regular basis. The Trustee seeks to understand how they are implementing their stewardship policies in practice to check that their stewardship is effective and aligned with our expectations.

The Trustee has selected some priority ESG themes to provide a focus for the monitoring of its investment managers' voting and engagement activities. The Trustee reviews its priority themes regularly and will update them if appropriate. The Trustee will look to communicate these stewardship priorities to the Scheme's managers if there are any changes.

If the monitoring identifies areas of concern, the Trustee will engage with the relevant manager to encourage improvements.

**Approved by the Trustee of the Scheme at its meeting on 30 August 2023.**

## Investment governance, responsibilities, decision-making and fees

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

### 1. Trustee

In broad terms, the Trustee is responsible in respect of investment matters for:

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

### 2. Platform provider

The investment platform provider will be responsible for:

- providing access to a range of funds managed by various investment managers; and
- providing the Trustee with regular information concerning the management and performance of the assets.

### 3. Investment managers

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

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

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

### 4. Investment adviser

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

## Appendix 1 (cont)

- advising on how material changes within the Scheme's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;
- advising on the selection, and review, of the investment managers, incorporating its assessment of the nature and effectiveness of the managers' approaches to financially material considerations (including climate change and other ESG considerations); and
- participating with the Trustee in reviews of this SIP.

### 5. Fee structures

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

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

The investment managers and platform provider receive fees calculated by reference to the market value of assets under management and also in some cases a performance related fee. The fee rates are believed to be consistent with the managers' general terms for institutional clients and are considered by the Trustee to be reasonable when compared with those of other similar providers. See also Section 5 of the SIP.

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

### 6. Performance assessment

The Trustee is satisfied, taking into account the external expertise available, that there are sufficient resources to support its investment responsibilities. The Trustee believes that it has sufficient expertise and appropriate training to carry out its role effectively.

It is the Trustee's policy to assess the performance of the Scheme's investments, investment providers and professional advisers from time to time. See Section 5 of the SIP. The Trustee will also periodically assess the effectiveness of its decision-making and investment governance processes and will decide how this may then be reported to members.

### 7. Working with the Scheme's employer

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



## Policy towards risk

## Appendix 2

### 1. Risk appetite and risk capacity

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

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

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

The Scheme's investment allocation as at 30 November 2022, had a 1 year 95% Value at Risk of £10m. This means that there is a 1 in 20 chance that the Scheme's funding position will worsen by £10m or more over a one year period. When deciding on the current investment strategy, the Trustee believed this level of risk to be appropriate given the Trustee's and employer's risk appetite and capacity, given the Scheme's objectives.

### 2. Approach to managing and monitoring investment risks

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

#### 2.1. Risk of inadequate returns

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

#### 2.2. Risk from lack of diversification

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

#### 2.3. Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, the Trustee receives written advice from a suitably

qualified individual and will typically undertake an investment manager selection exercise. The Trustee monitors the investment managers on a regular basis to ensure it remains appropriate for its selected mandate.

#### **2.4. Liquidity/marketability risk**

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

#### **2.5. Environmental, social and governance (ESG) risks**

Environmental, social and corporate governance (ESG) factors are sources of risk to the Scheme's investments, some of which could be financially significant, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Trustee seeks to appoint investment managers who will manage these risks appropriately on their behalf, and may manage these risks by investing in funds that explicitly aim to manage these risks (eg climatetilted equities). From time to time the Trustee reviews how these risks are being managed in practice.

#### **2.6. Collateral adequacy risk**

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

#### **2.7. Credit risk**

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

The Scheme is subject to credit risk because it invests in investments such as bonds and/or credit default swaps via pooled funds. The Trustee manages its exposure to credit risk by only investing in pooled funds that have a diversified exposure to different credit issuers.

## 2.8. Currency risk

Whilst the majority of the currency exposure of the Scheme's assets is to Sterling, the Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets. The Trustee considers the overseas currency exposure in the context of the overall investment strategy, and believes that the currency exposure that exists diversifies the strategy and is appropriate. Furthermore, the Trustee manages the amount of currency risk by investing in pooled funds that hedge currency exposure or implement separate currency hedging arrangements.

The Trustee currently hedges around 50% of the Scheme's overseas equity exposure to foreign currency back to GBP. The Trustee also hedges around 50% of the Scheme's foreign currency exposure in the emerging market multi-asset portfolio. The Trustee does not hedge any of its foreign currency exposure in the infrastructure portfolio.

## 2.9. Equity risk

Equity represents (part) ownership of a company. Equity risk is the risk that the value of this holding falls in value.

The Trustee believes that equity risk is a rewarded investment risk, over the long term.

The Trustee considers exposure to equity risk in the context of the Scheme's overall investment strategy and believes that the level of exposure to this risk is appropriate.

## 2.10. Interest rate and inflation risk

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

As a result, the Trustee aims to hedge around 90% of the Scheme's exposure to interest rate risk and inflation risk (measured on a low risk basis) by investing in leveraged LDI arrangements.

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

## 2.11. Counterparty risk

This is the risk that one party to a contract (such as a derivative instrument) causes a financial loss to the other party by failing to discharge a contractual obligation. This risk applies in particular for those contracts that are traded directly between parties, rather than traded on a central exchange.

In particular, Columbia Threadneedle ("CT", formally BMO) makes use of derivative and gilt repos contracts within its LDI and credit-linked LDI funds, which the Trustee uses to efficiently match a portion of the Scheme's liabilities and gain credit exposure. Counterparty risk is managed within the funds through careful initial selection and ongoing monitoring of trading counterparties, counterparty diversification and a robust process of daily collateralisation of each contract, to ensure that counterparty risk is limited, as far as possible, to one day's market movements.

## 2.12. Other non-investment risks

## Appendix 2 (cont)

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

Examples include:

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

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

By understanding, considering and monitoring the key risks that contribute to funding risk, the Trustee believes that it has appropriately addressed and are positioned to manage this general risk.

## Investment manager arrangements

## Appendix 3

Details of the investment managers, their objectives, and investment guidelines are set out below.

### 1. L&G

The Trustee's equity investments are held through an insurance policy with Legal & General Assurance (Pensions Management) Limited. Legal & General Assurance (Pensions Management) Limited delegates investment management responsibilities to Legal & General Investment Management Limited ("L&G").

The Trustee has also selected L&G as the Scheme's investment platform provider.

The Scheme's equity element of the return-seeking assets portfolio is invested in L&G's Low Carbon Global Equity Index Fund. The Fund aims to produce a return consistent with the index Solactive L&G Low Carbon Transition Global Index. The index aims to provide exposure to developed and emerging equity markets while reducing carbon intensity by 70% at the outset on a de-carbonisation path to achieve net zero by 2050, whilst also significantly reducing the level of carbon reserves and improving green revenues through exposure to six underlying alternatively weighted indices. The target reduction in carbon intensity is relative to a broad, market-capitalisation weighted index. Around 50% of the equity allocation's overseas currency exposure is hedged.

### 2. Capital

The Scheme's Capital emerging market multi-asset investment portfolio is invested in units of Capital's Emerging Market Total Opportunities Fund, in a 50% GBP currency hedged share class.

Capital's formal investment objective of the ETOP Fund is to achieve long-term capital growth with relatively low volatility of returns and preservation of capital by investing primarily in equity, hybrid securities, bonds (both corporate and sovereign) and short-

term instruments of emerging markets issuers. Capital has confirmed to us that they consider this objective to be equivalent to a return (in US dollar terms) of 10% pa with a volatility target of 12% pa over a full business cycle.

### **3. Columbia Threadneedle**

The Trustee has selected Columbia Threadneedle (“CT”) to manage an LDI mandate, utilising pooled funds, which consists of investments in CT’s Nominal Dynamic LDI fund and Credit-linked Real Dynamic LDI fund. The objective of the mandate is to provide interest rate and inflation hedging of a portion of the Scheme’s liabilities and exposure to credit markets.

The Scheme is also invested in CT’s Sterling Liquidity Fund, a daily-dealt fund which aims to perform in line with its cash-based benchmark – the Sterling Overnight Index Average (SONIA)rate.

### **4. Hayfin**

The Trustee has selected Hayfin to manage a private credit mandate which consists of an investment in Hayfin’s Direct Lending Fund II GBP LP. The objective of the mandate is to achieve a portfolio IRR of 8-10% pa before fees.

### **5. IFM**

The Trustee has selected IFM to manage a global infrastructure mandate which consists of an investment in IFM’s Global Infrastructure Fund. The objective of the mandate is to achieve a portfolio return of 10% pa net of fees over the long term. The Trustee is invested in the currency unhedged version of the fund.

### **6. Rebalancing and switching between portfolios**

The Trustee will monitor the asset allocation of the Scheme on a quarterly basis, but there is no formal rebalancing between the portfolios.

The Trustee generally invests and disinvests net cash flows (ie contributions less benefits and expenses) from the Scheme’s Sterling Liquidity Fund with CT.

### **7. Additional Voluntary Contributions (“AVCs”)**

The Trustee has made available to members a range of Additional Voluntary Contribution (AVC) funds offered by Aviva plc, Utmost Life and Pensions, and Royal London. These were chosen after taking appropriate advice. The Trustee carries out a formal review every 3-years after taking advice from its investment adviser, but looks to monitor AVCs at least annually in order to comply with best practice principles set out in the DC Code of Practice 13.

The Trustee does not provide any advice to individual members concerning the members’ choice of AVC funds.