Statement of Investment Principles for the Natixis Pension Scheme July 2020

1. Introduction

This Statement of Investment Principles ("SIP") sets out the policy of the Trustees of the Natixis Pension Scheme ("the Trustees") on various matters governing decisions about the investments of the Natixis Pension Scheme ("the Scheme"), a Defined Benefit ("DB") scheme. This SIP replaces the previous SIP dated September 2019.

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 (as amended) and the Pension Regulator's guidance for defined benefit pension schemes (March 2017).

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

The Trustees will review this SIP from time to time and, with the help of their advisers, will amend it as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy, or in the demographic profile of the relevant members, 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 Trustees, 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 Trustees' 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 Trustees have a series of additional objectives as set out below:

- The return on the Scheme's assets is maximised whilst managing and maintaining investment risk at an appropriate level. What the Trustees determine to be an appropriate level of risk is set out in Appendix 2.
- The Scheme should be fully funded on a Technical Provisions basis (i.e. the asset value should be at least that of its liabilities on this basis), with a secondary objective of being fully funded on a buyout basis, or similar prudent funding basis, in the longer term. The Trustees are aware that

Lane Clark & Peacock LLP is a limited liability partnership registered in England and Wales with registered number OC301436. LCP is a registered trademark in the UK (Regd. TM No 2315442) and in the EU (Regd. TM No 002935583). All partners are members of Lane Clark & Peacock LLP.
A list of members' names is available for inspection at 95 Wigmore Street, London, W1U 1DQ, the firm's principal place of business and registered office.
The firm is regulated by the Institute and Faculty of Actuaries in respect of a range of investment business activities. Locations in London, Winchester, Ireland and - operating under licence - the Netherlands.

there are various measures of funding, and have given due weight to those considered most relevant to the Scheme.

- The Scheme has a long-term journey plan in place (which has been agreed with the sponsoring employer) which is designed to help it achieve full funding on a buyout basis. The timeframe over which to achieve this funding level will be reviewed from time to time, in consultation with the sponsoring employer and the Trustees' advisers.

3. Investment strategy

The Trustees, with the help of their advisers and in consultation with the employer, reviewed the investment strategy towards the end of 2019 and early 2020, considering the objectives described in Section 2 above.

The result of the review was that the Trustees agreed that the investment strategy of the Scheme should be based on the initial allocation below.

Asset class	Initial allocation (%)
Global equities (GBP hedged)	20.0%
Emerging market equities	5.0%
Diversified growth funds	30.0%
Listed Infrastructure[1]	10.0%
Total growth assets:	**65.0%**
Dynamic Liability Driven Investment ("LDI") / Liquidity	31.0%
Short Duration Credit	4.0%
Total matching assets:	**35.0%**
Total assets:	**100.0%**

The allocation to LDI is expected to hedge around 100% of the Scheme's funding level, on a Technical Provisions liability basis, to changes in interest rates and inflation expectations.

As the Scheme matures over time, the Trustees will seek to de-risk the investment strategy as market conditions allow, with a high-level objective of securing the Scheme's liabilities with an insurance company in line with the Scheme's long-term journey plan. This means that the investment strategy will gradually target a higher allocation to lower risk assets as the Scheme matures.

There is no formal rebalancing policy. The Trustees monitor the asset allocation from time to time. If material deviations from the allocation set out above occur, the Trustees will consider with their advisers whether it is appropriate to rebalance the assets considering factors such as market conditions and anticipated future cash flows.

In June 2020 the Trustees, with the help of their advisers, considered the appropriateness of the above investment strategy in light of the initial impact of Covid-19 on investment markets and economies. The

[1] The Trustees, after receiving advice from their advisers in early 2020, decided in-principle to make a 10% strategic allocation to listed infrastructure. This mandate is intended to be funded gradually over the course of 2020 from assets held in the BMO Sterling Liquidity Fund. Therefore, over the short-term at least, the Scheme's actual asset allocation is expected to deviate from the initial allocation outlined in the table above.

Trustees concluded that the investment strategy remains appropriate at this time, but agreed to monitor this as the situation develops.

4. Considerations in setting the investment arrangements

When deciding how to invest the Scheme's assets, the Trustees consider 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 Trustees have tried to allow for the relative importance and magnitude of each risk.

The Trustees 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 assumptions made by the Trustees in determining the investment arrangements, based on LCP's best estimate expected return assumptions as at 31 March 2020, are as follows:

Asset class	Expected excess return over gilts (% pa)
Global equities	5.5
Emerging market equities	6.5
Diversified growth	3.0
Listed Infrastructure	4.6
Short duration credit	1.5
Dynamic LDI	1.0
Liquidity fund	0.0

Within LCP's model, the expected return assumptions for gilts and cash are updated daily based on observed market yields. The assumptions above are set to be best estimates; this means that for each assumption there is a 50/50 chance that the observed value will either be higher, or lower than assumed.

In setting the strategy the Trustees considered:

- the Scheme's investment objectives, including the target return required to meet these investment objectives;
- 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 Scheme's cash flow requirements to meet benefit payments in the near to medium term;
- 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;

- the Trustees' investment beliefs about how investment markets work and which factors are most likely to impact investment outcomes;
- any other considerations which the Trustees consider financially material over the time horizon that the Trustees consider is needed for the funding of future benefits by the investments of the Scheme; and
- the views of the sponsoring employer.

The Trustee's key investment beliefs, which influenced the setting of the investment arrangements, are as follows:

- asset allocation is the primary driver of long-term returns;
- risk-taking is necessary to achieve return, but not all risks are rewarded;
- equity, credit and illiquidity are the primary rewarded risks;
- risks that are typically not rewarded, such as interest rate, inflation and currency, should generally be avoided, hedged or diversified;
- 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 an area of market inefficiency and so investment 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[2] management, where available, is usually better value;
- responsible investment in well governed companies and engaging as long-term owners can reduce risk over time and may positively impact Scheme returns;
- long-term environmental, social and economic sustainability is one factor that trustees should consider when making investment decisions; and
- costs have a significant impact on long-term performance and therefore obtaining value for money from the investments is important.

5. Implementation of the investment arrangements

Before investing in any manner, the Trustees obtain and consider proper written advice from their 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, their objectives, investment guidelines and custody arrangements are set out in Appendix 3.

The Trustees have signed agreements with the investment managers, setting out in detail the terms on which the portfolios are to be managed. The investment managers' primary role is the day-to-day

[2] Passive management includes a range of rules-based portfolio construction strategies

investment management of the Scheme’s investments. The managers are authorised under the Financial Services and Markets Act 2000 (as amended) to carry out such activities.

The Trustees 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 Trustees’ 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 funds. 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 Trustees’ responsibility to ensure that the managers’ investment approaches are consistent with their policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustees expect investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. They assess this when selecting and monitoring managers.

The Trustees evaluate investment manager performance by considering performance over both shorter and longer-term periods as available. The duration of a manager’s appointment will depend on strategic considerations and the outlook for future performance. Generally, the Trustees would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustees’ policy is to evaluate each of the 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 Trustees recognise 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 Trustees expect their investment adviser 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 Trustees decide on the amount of cash required for benefit payments and other outgoings and inform the investment managers of any liquidity requirements. The Trustees’ 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 infrastructure). In general, the Trustees’ policy is to use cash flows to rebalance the Scheme’s assets towards the desired asset allocation.

7. Financially material considerations and non-financial matters

The Trustees have 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 Trustees expect their investment managers to take account of financially material considerations (including climate change and other ESG considerations). The Trustees seek to appoint managers that have appropriate skills and processes to do this, and from time to time review how their managers are taking account of these issues in practice.

The Trustees have limited influence over managers' investment practices where assets are held in pooled funds, but they encourage their managers to improve their practices where appropriate.

The Trustees do not take into account any non-financial matters (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 Trustees recognise their responsibilities as owners of capital, and believe 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 Trustees have delegated to their 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 do not monitor or engage directly with issuers or other holders of debt or equity. They expect the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustees from time to time, considering the long-term financial interests of the beneficiaries. The Trustees have limited influence over managers' stewardship practices where assets are held in pooled funds, but they encourage their managers to improve their practices where appropriate.

SIP signed for and on behalf of the Trustees of the Natixis Pension Scheme:

Signed:

Andrew Grant
Trustee

Peter Bullock
Chair of the Trustees

Investment governance, responsibilities, decision-making and fees

The Trustees have decided on the following division of responsibilities and decision-making for the Scheme. This division is based upon the Trustees' understanding of the various legal requirements placed upon them, and their view that the division of responsibility allows for efficient operation and governance of the Scheme overall, with access to an appropriate level of expert advice and service. The Trustees' investment powers are set out within the Scheme's governing documentation.

1. Trustees

In broad terms, the Trustees are responsible in respect of investment matters for:

- developing a mutual understanding of investment and risk issues with the employer;
- setting the investment strategy, in consultation 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);
- 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, monitoring, reviewing (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, such as the Trustees' assessment of their effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged;
- putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- reviewing the investment policy as part of any review of the investment strategy;
- 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. 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 Trustees 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 Trustees or not) are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

3. Investment adviser

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

- 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 Trustees in reviews of this SIP.

4. Fee structures

The Trustees recognise 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 Trustees have 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 receive fees calculated by reference to the market value of assets under management. There is also a fixed fee element to L&G's fees. The fee rates are believed to be consistent with the managers' general terms for institutional clients and are considered by the Trustees to be reasonable when compared with those of other similar providers. See also Section 5 of the SIP.

The Trustees have appointed BNY Mellon as custodian in respect of the Scheme's investments with BlackRock. BNY Mellon's fees and expenses are paid for by BlackRock as part of the investment management and custodian agreements in place between the Trustees, BlackRock and BNY Mellon.

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

5. Performance assessment

The Trustees are satisfied, taking into account the external expertise available, that there are sufficient resources to support their investment responsibilities. The Trustees believe that they have sufficient expertise and appropriate training to carry out their role effectively.

It is the Trustees' 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 Trustees will also periodically assess the effectiveness of their decision-making and investment governance processes and will decide how this may then be reported to members.

6. Working with the Scheme's employer

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

Policy towards risk

1. Risk appetite and risk capacity

Risk appetite is a measure of how much risk the Trustees are willing to bear within the Scheme in order to meet their 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 Trustees can tolerate deviation from their long term objectives before attainment of those objectives is seriously impaired. The Trustees' aim is to strike the right balance between risk appetite and risk capacity.

When assessing the risk appetite and risk capacity, the Trustees 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 agreed journey plan and 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 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.

Based on the Scheme's investment strategy as at 31 March 2020 (reflecting the agreed allocation to listed infrastructure) the Scheme's 1 year 95% Value at Risk, on a Technical Provisions basis, was estimated to be around £4.9m. This means that there is estimated to be a 1 in 20 chance that the Scheme's funding position will worsen by £4.9m or more, compared to the expected position, over a one-year period. When deciding on the target investment strategy, the Trustees believed this level of risk to be appropriate given the Trustees' and employer's risk appetite and capacity and the Scheme's objectives.

2. Approach to managing and monitoring investment risks

The Trustees consider that there are several 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 Trustees 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 Trustees therefore invest 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 considered in setting the investment strategy and is monitored by the Trustees 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 Trustees believe that the Scheme's assets are adequately diversified between different asset classes and within each asset class. This was a key consideration when determining the Scheme's investment arrangements and is monitored by the Trustees 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 Trustees receive written advice from a suitably qualified individual, and will typically undertake an investment manager selection exercise. The Trustees monitor the investment managers on a regular basis to ensure they remain appropriate for their selected mandates.

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 Trustees are aware of the Scheme's cash flow requirements and believe that this risk is managed by maintaining an appropriate degree of liquidity across the Scheme's investments.

2.5. Environmental, social and governance (ESG) risks

Environmental, social and corporate governance (ESG) factors are sources of risk to the Scheme's investments which could be financially material, 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 Trustees seek to appoint investment managers who will manage these risks appropriately on their behalf and from time to time review how these risks are being managed in practice.

2.6. Equity risk

Equity represents (part) ownership of a company. Equity risk is the risk that the value of this holding falls in value. The Trustees believe that equity risk is a rewarded investment risk, over the long term.

The Trustees consider exposure to equity risk in the context of the Scheme's overall investment strategy and believe that the level of exposure to this risk is appropriate.

2.7. 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. 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 Trustees 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 Trustees ensure that the Scheme has a sufficient allocation to cash and/or other highly liquid assets which can be readily realised, so that cash can be posted to the LDI manager at short notice.

2.8. 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 meet its obligations.

The Scheme invests in pooled funds and is therefore directly exposed to credit risk in relation to solvency of the investment manager and custodian of those funds. This risk is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the investment managers and respective custodian's own balance sheets, the regulatory environment in which the investment managers operate and diversification of the Scheme's investments amongst a number of pooled arrangements. The Trustees carry out due diligence checks on the appointment of new pooled investment managers, and on an ongoing basis monitor any changes to the operating environment of the pooled fund.

The Scheme is also subject to indirect credit risk arising from the underlying investments held by the pooled funds, where they invest in bonds. The Trustees manage the Scheme's exposure to credit risk by only investing in pooled funds that have a diversified exposure to different credit issuers and counterparties. Responsibility is delegated to the investment managers to manage the level of credit risk within each fund; the magnitude of which will vary over time as the manager changes the underlying investments in line with its views on markets, asset classes and specific bonds.

2.9. 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, BMO makes use within its LDI funds of derivative and gilt repos contracts. This fund is used by the Trustee to match efficiently the Scheme's liabilities. Counterparty risk is managed within the fund through careful initial selection and ongoing monitoring of trading counterparties, counterparty diversification and minimum credit ratings that all counterparties must meet. In addition, derivative positions are collateralised daily, with the aim of reducing the extent of any losses on these positions to around one to two day's market movements in the event of default of the counterparty. Restricting losses in this way is dependent on the continuing availability of replacement contracts through a liquid market, which may be uncertain given the market conditions that could trigger such a default event.

2.10. Currency risk

This is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.

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 Trustees consider the overseas currency exposure in the context of the overall investment strategy, and believe that the non-Sterling currency exposure that exists diversifies the strategy and is appropriate. Furthermore, where the Scheme invests in non-Sterling denominated securities the Trustees manage the amount of currency risk by either investing in pooled funds that hedge some or all of their currency exposure or by delegating responsibility to the investment managers to determine the amount of foreign currency exposure to take, in line with the investment restrictions of the funds.

Specifically, the foreign currency exposure of the overseas developed market equity allocation (making up 50% of the global developed market equity allocation) and the infrastructure allocation is hedged back to Sterling.

2.11. Interest rate and inflation risk

These are the risks that the value of an asset (or liability) will fluctuate due to changes in interest rates and inflation expectations.

The Trustees consider interest rate and inflation risks to be unrewarded investment risks.

The Scheme's assets are subject to interest rate and inflation risk as some of the Scheme's assets are held in bonds, swaps and other assets within pooled funds (particularly the LDI funds in which the Scheme invests) whose values move in line with changes in interest rates and inflation expectations. The interest rate and inflation exposure of the Scheme's assets is intended to hedge the corresponding risks associated with the Scheme's liabilities therefore it is expected that the net effect will be to reduce the volatility of the funding level. The Trustees believe that it is appropriate to have exposures to these risks in this manner. The level of the interest rate and inflation risks of the Scheme's assets and liabilities are monitored on a regular basis by the Trustees.

2.12. Other price risk

This is the risk that the value of an asset will fluctuate due to changes in market prices (other than those arising from the risks above), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting similar financial instruments.

The Scheme is subject to other price risk though its investments and this risk will vary depending on the particular market / asset class invested in. The Trustees seek to reduce the Scheme's exposure to overall price risk by investing in a diversified range of investments across various markets.

2.13. Other non-investment risks

The Trustees recognise that there are other, non-investment, risks faced by the Scheme, and take these into consideration as far as practical in setting the Scheme's investment arrangements.

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 Trustees regularly review 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 Trustees believe that they have appropriately addressed and are positioned to manage this general risk.

Investment manager arrangements

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

1. Legal & General Investment Management ("L&G") – passive equities and listed infrastructure

The Trustees have selected L&G as the investment manager for the Scheme's equity and listed infrastructure assets. L&G does not carry out any automatic rebalancing between the pooled funds. The benchmarks and performance objectives for the funds are as follows:

Asset class	Fund	Benchmark index	Performance objective
Passive Equity	Global Equity Fixed Weight (50:50) GBP Hedged	FTSE All-Share Index in the UK and appropriate subdivisions of the FTSE World Index overseas	To provide diversified exposure to UK and overseas equity markets while minimising foreign currency exposure
Passive Equity	World Emerging Markets Equity Index Fund	FTSE AW All Emerging Markets Index	To track the performance of the benchmark to within ±1.5% pa for two years in three (gross of fees)
Listed Infrastructure	Infrastructure Equity MFG Fund	MFGAM Core Infrastructure Index	To provide diversified exposure to global listed infrastructure markets and to produce a return broadly comparable to the benchmark (less withholding tax where applicable)

The funds are priced weekly and at month ends. The funds are open-ended and are unlisted.

L&G is responsible for custody of the assets of the funds. Generally, responsibility for UK assets is delegated to HSBC and responsibility for all other assets is delegated to Citibank. Investments are held in the name of the custodian's nominee company, in line with common practice for pension scheme investments. The Trustees do not have a direct relationship with the custodian.

2. Aberdeen Standard Investments ("ASI") – diversified growth

The Trustees have selected ASI as an investment manager for part of the Scheme's diversified growth fund allocation. The fund is managed on an active basis. The benchmark and performance objective for the fund are as follows:

Fund	Benchmark index	Performance objective
Aberdeen Diversified Growth Fund	GBP 1 Month LIBOR	Outperform benchmark by 5% pa over rolling 5 year periods (gross of fees)

The fund is priced daily. The fund is open-ended and is unlisted.

ASI is responsible for custody of the assets of the fund. The custodian appointed by ASI is Citibank NA London Branch. Investments are held in the name of the custodian's nominee company, in line with common practice for pension scheme investments. The Trustees do not have a direct relationship with the custodian.

3. BlackRock Investment Management ("BlackRock") – diversified growth

The Trustees have selected BlackRock as an investment manager for part of the Scheme's diversified growth fund allocation. The fund is managed on an active basis. The benchmark and performance objective for the fund are as follows:

Fund	Benchmark index	Performance objective
Dynamic Diversified Growth Fund	3 Month LIBOR	Outperform benchmark by at least 3% pa (net of fees)

The fund is priced daily. The fund is open-ended and is unlisted.

The Trustees have appointed Bank of New York Mellon ("BNYM") as the custodian for the BlackRock assets. The role of a custodian is to ensure safe keeping of the assets and facilitate all transactions in respect of the portfolios for which it provides custody.

4. BMO Global Asset Management plc ("BMO") – LDI, Short Dated Credit and Liquidity Fund

The Trustees have selected BMO as an investment manager for the Scheme's LDI allocation. The Scheme invests in the BMO Real and Nominal Dynamic LDI Funds. The objective of these funds is to provide liability hedging by offering interest rate and inflation exposure which replicates the liability profile of a typical UK defined benefit pension scheme.

The Scheme also invests in the Global Low Duration Credit Fund. The objective of this fund is to deliver a return in line with low duration non-government bonds.

The Scheme also invests in the BMO Sterling Liquidity Fund.

BMO does not have a central benchmark allocation and hence does not carry out any automatic rebalancing between the pooled funds. The benchmarks and performance objectives for the funds are as follows:

Fund	Benchmark index	Performance objective
BMO Nominal Dynamic LDI Fund	Custom leveraged liability benchmarks based on swaps and gilts	To provide a hedge against nominal rate liabilities
BMO Real Dynamic LDI Fund	Custom leveraged liability benchmarks based on swaps and gilts	To provide a hedge against real rate liabilities
BMO Global Low Duration Credit Fund	No formal benchmark in place. Market reference: ICE BofA 0-5yr UK Gilt Index	To deliver a total return in line with investment in low duration non-government bonds and other similar assets
BMO Sterling Liquidity Fund	7-day Sterling LIBID	Maintain high levels of liquidity, preserve capital and generate a return in line with the benchmark

The LDI portfolio as a whole is designed to be approximately three-times leveraged so that each unit of investment in the portfolio has sensitivity to interest rates and inflation of around three units of technical provisions.

The funds are typically priced daily. The funds are open-ended and are unlisted.

In a deleveraging event (when the value of the LDI funds falls to the extent that the capital required to support the hedge needs to be topped up) BMO will notify the Trustees and disinvest initially from the Sterling Liquidity Fund to top up the LDI Funds. If there are insufficient assets in the Sterling Liquidity Fund, then BMO will look to fund the shortfall by disinvesting from the Global Low Duration Credit Fund. If there are insufficient assets in both of these two funds then BMO will contact the Trustees for cash. The Trustees believe that the Scheme's other assets are sufficiently liquid to meet the capital call requirements of a deleveraging event.

In a releveraging event (when the value of the LDI Funds increases to the extent that there is too much capital supporting the hedge) BMO will notify the Trustees and invest cash proceeds from the LDI Funds into the Global Low Duration Credit Fund.

BMO is responsible for custody of the assets of the funds. Responsibility is delegated to State Street Bank Luxembourg S.C.A. Investments are held in the name of the custodian's nominee company, in line with common practice for pension scheme investments. The Trustees do not have a direct relationship with the custodian.

5. Additional Voluntary Contributions

No further AVCs are permitted to be made. However there is a legacy AVC arrangement in place with Standard Life Assurance Society in respect of accrued AVC funds.