Kwik Fit Group Pension and Life Assurance Scheme (the Scheme)

Money Purchase Section

Chair's Statement for the Year Ending 30 June 2022

Introduction

This statement has been prepared by the Trustees of the Kwik-fit Group Pension and Life Assurance Scheme ("the Scheme") in accordance with regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations ("the Regulations") 1996. It explains how the Trustees have met their obligations in relation to the management of the Scheme over the period 1 July 2021 to 30 June 2022 ("the Scheme Year").

In line with the Occupational Pension Schemes (Administration, Investment, Charges and Governance Amendment) Regulations 2021 ("the 2021 Regulations"), the Trustees have assessed the extent to which they believe the Scheme provides Value for Members, the results of which are set out in Appendix 1 of this statement.

It should be noted that up until 30 June 2006 all contributions were invested with Phoenix Life in a with-profit deferred annuity contract. Contributions at this point were frozen and any incremental premiums resulting from increases in Pensionable Salary have been invested with Aviva.

The charges applied by Phoenix and Aviva cover both the administration and investment services provided to members.

A copy of the Scheme's latest Statement of Investment Principles is attached at the end of this statement.

Default Arrangement

There is only one investment choice with Phoenix, namely the with-profit deferred annuity contract.

The default investment with Aviva is a "lifestyle" arrangement. This was reviewed in 2021 against the backdrop of the new DC flexibilities introduced by the Government in 2015.

The default arrangement invests in Aviva's My Future investment programme. This initially invests in the Aviva My Future Growth Fund. In the 15-year period leading up to a member's selected retirement age, the lifestyle process switches investments on a monthly basis into lower risk investments held in the Aviva My Future Consolidation Fund. This fund aims to provide a broad 'base' for members to reflect the pension freedoms.

Having taken advice from Premier Benefit Solutions the Trustees concluded that this approach remains suitable. Members who do not wish to invest in the default arrangement have the option to invest in a range of other investment options on the Aviva platform. These include alternative lifestyle strategies and individual fund choices.

Net Investment Returns

The Occupational Pension Schemes (Administration, Investment, Charges and Governance Amendment) Regulations 2021 introduces new disclosure requirements for Trustees of DC pension schemes. From 1 October 2021, the Trustees are required to calculate and state the return on investments from their default and self-select funds, net of transaction costs and charges. The Trustees calculated the return on investments, as far as they were able to do so.

Below are the annualised net investment returns to 30 June 2022 for the Scheme's Aviva default funds.

	Returns	
Fund	**1 year**	**5years (Annualised)**
My Future Growth Fund	-4.0%	6.5%
My Future Consolidation Fund	-5.60%	1.90%

The net returns of some of the self-select funds are shown below

	Returns	
Fund	**1 year**	**5years (Annualised)**
UK Smaller Companies	-24.91%	3.51%
Managed	-6.21%	3.37%
Pre-retirement fixed interest	-18.66%	-1.43
Stewardship International Equity	-2.78	10.2
Stewardship Managed	-5.91	6.98

With regard to the Phoenix Life with profit deferred annuity contact, each premium paid purchases a guaranteed annuity at retirement with reference to an underlying rate table. It is possible that the underlying guarantee may be increased through the payment of an annual or terminal bonus. However, Phoenix have not paid annual bonuses for many years and the extent to which a terminal bonus is paid is limited.

Charges and Transaction Costs

The Total Expense Ratio of the two Aviva funds within the default arrangement is 0.72% per annum. Aviva have also provided details of their transaction costs. Scheme members can also invest in an extensive range of fund options available on Aviva's platform. The impact of charges and transaction costs set out in the next section capture some of the funds that Aviva have advised that the Scheme members invest in. The charges that Phoenix make are implicit within the guaranteed annuity rate tables and an analysis of the impact of costs and charges is not feasible.

Impact of Charges and Transaction Costs

Disclosure regulations require the Trustees to illustrate the potential impact of charges and transaction costs on the value of Members' Accounts (pot size). In order to do this, we have to make a number of assumptions. For this Chair's statement the assumptions are as follows:

- The starting pot size is £47,000
- Contributions are assumed to be £4,500 per annum increasing by 4% each year

- The time period for the projections are from age 36 to age 65, a period of 29 years, this representing the investment term for the youngest Scheme member, and from age 55 to 65, a period of 10 years, this representing the investment term based on the average age of Scheme members.
- Inflation is assumed to be 2.5% each year
- The assumed gross investment returns are those used in the Scheme's Statutory Money Purchase Illustrations as at 1 July 2022. These are set out in the table below, together with the charges.
- Values shown are estimates and not guaranteed and have been designed to illustrate the impact of charges on the pension pot.

Fund	Gross Investment Return %	Charges %	Net Investment Return %
Cash	1.0	0.7203	0.2797
Managed	4.1	0.7793	3.3207
My Future Consolidation	2.9	0.8201	2.0799
My Future Drawdown	3.5	0.8461	2.6539
My Future Growth	4.1	0.8509	3.2491
Pre-retirement Fixed Interest	2.0	0.7327	1.2673
Stewardship UK Equity	5.0	0.7985	4.2015
Stewardship International Equity	5.0	0.9437	4.0563
Stewardship Managed	4.1	0.893	3.207
UK Smaller Companies	5	0.6862	4.3138

The table below shows the impact of costs and charges based on the table above.

Kwik-Fit Group Pension and Life Assurance Scheme: Chair's Statement information as at 30 June 2022

Fund	Youngest member (age 36)		Average age member (age 55)	
	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
Cash	£162,078	£145,314	£84,793	£80,519
Managed	£271,409	£236,834	£106,146	£100,292
My Future Consolidation	£220,433	£192,378	£97,273	£91,662
My Future Drawdown	£244,285	£211,498	£101,608	£95,552
My Future Growth	£271,409	£233,938	£106,146	£99,771
Pre-retirement Fixed Interest	£189,895	£168,958	£91,134	£86,440
Stewardship UK Equity	£319,297	£276,354	£113,354	£106,934

Stewardship International Equity	£319,297	£269,313	£113,354	£105,808
Stewardship Managed	£271,409	£232,255	£106,146	£99,466
UK Smaller Companies	£319,297	£281,954	£113,354	£107,814

Value for Member Assessment

As the Scheme has total assets of below £100m, under the 2021 Regulations, the Trustees are required to carry out a more detailed Value for Member assessment. This includes using three comparator schemes for the purpose of comparing the costs and charges and net performance returns of the Scheme with other larger DC schemes.

The comparator schemes chosen include a bundled DC arrangement and an unbundled DC arrangement, both with DC assets in excess of £100m. The third comparator is a Master Trust arrangement capable of taking on the benefits and assets of the Scheme.

The costs and charges and net investment returns of the Scheme's default arrangement and those of the comparator schemes chosen are set out in the Appendix A to this Statement.

The Appendix highlights that higher charges are applied to members policies within the Scheme than the comparator schemes in terms of the Default Investment Strategy.

In addition, the net Investment returns of the Default Investment Strategy of the Scheme are below the returns of the comparator schemes over the periods assessed.

The comparator schemes provide a reasonable comparison against the Scheme's Aviva investments but not the Phoenix with-profit fund which provides valuable guaranteed benefits at retirement.

Information was requested from Phoenix regarding the underlying costs of the with profits fund, but this information was not provided. Separate analysis has indicated that the guaranteed benefits are of value to members and that the investment returns required to generate a fund of sufficient size to purchase similar guarantees may be unrealistic in the current economic climate.

In addition, the Trustees are required to carry out a self-assessment of scheme governance and administration against certain criteria, which are prescribed in the 2021 Regulations. The Trustees' assessment of the Scheme's governance and administration against the areas prescribed in the 2021 Regulations is that Phoenix fall below services that could be offered by an alternative provider. Assessing whether this offsets the benefits of the guaranteed benefits to the extent that the Scheme should be wound up is difficult. However, on balance the Trustees concluded that the guaranteed benefits take precedence, and the Phoenix policy does represent value for members.

Turning to Aviva it is clear that the costs and charges and net investment returns under other scheme's including the Aviva's master trust, which would be prepared to accept a transfer of Aviva funds, are more favourable than under the Scheme. The Trustees have also concluded that adherence to the administration and governance requirements would we be equally met under Aviva's master trust as they currently are under the Scheme.

In isolation the Trustees have concluded that a transfer of Aviva investments to Aviva's master trust would represent better value for members. However, as this is not the case for the Phoenix the Trustees are faced with a dilemma. It would be possible to just transfer Aviva funds but that could potentially cut across auto-enrolment contribution requirements, as contributions to just Phoenix or just an Aviva master trust might not be sufficient to meet the requirements.

The Trustees intend to deliberate further on the most appropriate course of action.

Signed for and on behalf of the Kwik-fit Group Pension and Life Assurance Scheme.

DocuSigned by:
Glenn Andrews
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Glenn Andrews -Chair of the Trustees
30-01-2023

.... Date

Appendix 1 - Illustrations of the effect of costs and charges and net investment returns including comparison against three comparator schemes

Background

The next pages provide comparative information about the costs and charges applied by the Scheme's fund managers and those of the three comparator schemes. Net investment returns are also shown.

Information is provided for the default fund as most members invest in this fund. Impacts for members aged 55, 45 and 25 are shown.

Costs and Charges

The tables below set out the Schemes costs and charges of the default fund against three comparator Schemes.

Scheme	Total Expense Ratio %	T costs %	Total Charge %
Default age 55	0.72	0.1001	0.8201
Default age 45	0.72	0.1309	0.8509
Default age 25	0.72	0.1309	0.8509

Lloyds	Total Expense Ratio %	T costs %	Total Charge %
Default age 55	0.38	0.17	0.55
Default age 45	0.33	0.15	0.48
Default age 25	0.33	0.15	0.48

Wood	Total Expense Ratio %	T costs %	Total Charge %
Default age 55	0.22	0.17	0.39
Default age 45	0.22	0.17	0.39
Default age 25	0.22	0.17	0.39

Aviva	Total Expense Ratio %	T costs %	Total Charge %
Default age 55	0.49	0.1	0.5
Default age 45	0.49	0.4	0.53
Default age 25	0.49	0.4	0.53

Net Investment Returns

The table below sets out the net annualise investment returns for the default fund

	Age 55		Age 45		Age 25	
	1 year %	5 Years %	1 year %	5 years %	1 year %	5 years %
Scheme	-6.32	1.15	-4.7	5.77	-4.7	5.77
Aviva	-5.9	1.5	-4.4	6.2	-4.4	6.2
Lloyds	-6.23	1.63	-4.1	4.17	-4.1	4.35
Wood	-8.0	4.27	-8.0	4.29	-8.0	4.29

BIG THINKING
FOR SMALL SCHEMES

Statement of Investment Principles

Kwik-Fit Group Pension and Life Assurance Scheme

September 2020

Barker Tatham™
Pension Investments

1. Introduction

Under the Pensions Act 1995, trustees are required to prepare and review regularly a Statement of Investment Principles, dealing with certain specific matters.

This statement sets out the principles governing decisions about the investment of the assets of the Kwik-Fit Group Pension and Life Assurance Scheme (the Scheme). Before preparing it, the Trustees obtained and considered written professional advice from Barker Tatham Investment Consultants Limited as their investment consultants. Prior to finalising this document, they also consulted with the sponsoring employer, Kwik-Fit Holdings Ltd. Barker Tatham Investment Consultants Limited ("BTIC") are licensed by the Institute and Faculty of Actuaries to provide investment advice.

The Trustees review this Statement on a regular basis and will also do so in response to any material changes to the investment arrangements of the Scheme. Formal reviews will be undertaken no less frequently than every 3 years to coincide with the Actuarial Valuations. Any such review will again be based on written expert investment advice and will be in consultation with the Scheme's sponsoring employer, Kwik-Fit Holdings Ltd.

Signed for and on behalf of the Trustees of the Kwik-Fit Group Pension and Life Assurance Scheme

Signed: .... Date: 25/09/2020 ....

2. Decision Making

The Trustees distinguish between two types of investment decision:

Strategic investment decisions

These decisions are long-term in nature, and driven by an understanding of the objectives, needs and liabilities of the Scheme.

The Trustees take all such decisions. Where appropriate this is after receiving written advice from their investment consultant, and consulting, as appropriate, with the employer. Examples of such decisions include:

- setting investment objectives;
- setting strategic asset allocation;
- setting benchmarks;
- drafting the Statement of Investment Principles; and appointing and removing fund managers.

Work is charged for either by an agreed fee or on a time cost basis. In particular, the investment consultant does not receive commission or any other payments in respect of the Scheme that might affect the impartiality of their advice. The Trustees believe that this is the most appropriate fee structure for the Scheme.

Tactical investment decisions

Tactical investment decisions are based on views of future market movements.

The Trustees employ fund managers to make such judgements, and do not interfere with their decisions. Examples of such decisions include:

- selecting individual stocks;
- temporarily deviating from the strategic asset allocation to take advantage of better market opportunities; and
- timing of entry or exit from a market.

Each investment manager is remunerated by ad valorem charges based on the value of assets managed on behalf of the Scheme. The Trustees believe that this is the most appropriate fee structure for the Scheme.

3. Defined Benefit Section: Myners' Investment Principles

The Trustees recognise the relevance to pension schemes of the Myners' Investment Principles that were published by the Government in October 2001, and updated in March 2008. The Scheme's adherence to (or otherwise) the Myners' Investment Principles is set out below.

Principle 1: Effective Decision-Making

"Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.

Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest."

- The Trustees make investment decisions by consulting with professionals that they believe to be best equipped to give that advice. Long-term strategic investment decisions are made in consultation with the Scheme's investment consultant, whereas tactical decisions are made by the appropriate fund manager.

Principle 2: Clear Objectives

"Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers."

- The Trustees have reviewed their investment objectives with the assistance of their investment consultant.
- The investment objectives are set out in Section 4 of this document.
- The strength of the sponsor's covenant is reviewed on a regular basis.
- All the assets of the Scheme are invested via pooled funds. In each case, the fund manager has an explicit benchmark and outperformance target, as well as clear constraints within which to operate.

Principle 3: Risk and Liabilities

"In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk."

- These issues were taken into account in setting the Scheme's investment strategy.

Principle 4: Performance Assessment

"Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisors. Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members."

 The Trustees currently receive:

- quarterly performance reports from the fund managers; and - annual audited accounts.

Principle 5: Responsible Ownership

"Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents. A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles.

Trustees should report periodically to members on the discharge of such responsibilities."

- We have requested the managers to state their adherence to the ISC Statement of Principles and the Stewardship Code.
- The Trustees' policy on responsible ownership is described in Section 9 of this Statement of Investment Principles.
- The Trustees will report on the Scheme's policy on responsible ownership in the annual Implementation Statement.

Principle 6: Transparency and Reporting

"Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.

Trustees should provide regular communication to members in the form they consider most appropriate."

- A copy of this Statement of Investment Principles is available to members on request, and can also be viewed on a publicly available website.
- Other documents such as actuarial valuation reports, the Statement of Funding Principles, the Schedule of Contributions, Implementation Statements and the Annual Report and Accounts are also available to members on request. Additionally, the Implementation Statement can be viewed on a publicly available website.
- A representative from the employer regularly attends Trustee meetings and this helps communication with the employer over investment matters.

4. DB: Investment Objectives

The Trustees' investment policy for the defined benefit section is guided by the following objectives:

What constitutes risk?

The Trustees regard the key investment risk as being the risk of future investment returns failing to cover the growth in the Scheme's liabilities over a prolonged period. In order to measure and monitoring the risk, the Trustees will monitor, with the Scheme Actuary, the funding position of the Scheme, and will aim to have sufficient assets to meet the Scheme's liabilities within agreed timeframes.

Appetite for risk

The Trustees will also monitor the strength of the covenant of the Sponsor when setting the degree of risk within their investment strategy. The Trustees believe that the current distribution of investments is appropriate in relation to the nature of the Scheme's liabilities and the Sponsor's commitment to the Scheme. The Trustees will monitor the ongoing appropriateness of their asset distribution at each actuarial valuation.

Other considerations

- **Flexibility**
  The Scheme invests in liquid assets that can be sold at short notice to meet any cash flow requirements.

- **Exposure to property markets**
  The Scheme has no existing exposure to property (e.g. through a charge over the sponsor's property), so this asset class is not precluded from the strategy.

5. DB: Implementation

The Trustees set their strategy based on the objectives set out in Section 4 and written advice from the investment consultants.

As investment markets (particularly interest rates and inflation expectations) move, the split between the assets will vary. There is no automatic rebalancing as this could lead to the interest rate or inflation exposures of the Scheme being over- or under- hedged. Instead, the hedges are monitored on a regular basis by the investment consultants. Remedial action is recommended when appropriate.

The table below gives the allocation as at September 2020, following an investment strategy review.

Fund	Benchmark	Performance Target	Fees	Initial Allocation
LGIM Dynamic Diversified Fund	FTSE Developed World Index 50% Hedged to GDP	In line with the benchmark	0.3% p.a.	30.0%
LGIM Global Equity Fixed Weights (50:50) GBP Hedged Index Fund	Composite of 50/50 distribution between UK and Overseas	The investment objective of the fund is to provide diversified exposure to the UK and overseas equity markets	0.1% p.a.	10.0%
LGIM Matching Core – Real Short Fund	Markit iBoxx Real Short	Provide exposure to and protection from changes in interest rates and inflation	0.24% p.a.	23.4%
LGIM Self Sufficiency Credit -Real Short Fund		The fund aims to generate a return of gilts +0.5% p.a.	0.2% p.a.	20.0%
LGIM Cash Fund		The fund aims to track the sterling total return of the benchmark to within +/- 0.25% pa for two years in three.	0.1% p.a.	16.6%
				100.0%

LGIM - Diversified Fund

- The LGIM Diversified Fund targets equity-like returns with a lower level of risk. It has a passive allocation to a wide variety of asset classes.

LGIM – Global Equity Fixed Weights (50:50) GBP Hedged Index Fund

- The LGIM Global Equity Fixed Weights (50:50) GBP Hedged Index Fund aims to provide diversified exposure to the UK and overseas equity markets. The fund will invest 50% in the UK and 50% overseas. The overseas distribution is fixed with 17.5% in North America, 17.5% in Europe (ex UK), 8.75% in Japan and 6.25% in Asia Pacific (ex-Japan).

LGIM – Matching Core Real Short Fund

- This fund aims to protect the Scheme from movements in either long-term interest rates or expected inflation.
- These funds use derivatives and gilts to hedge these risks. If long-term interest rates fall, or inflation expectations rise then then the value of the Scheme’s liabilities will increase. These funds will mitigate the impact on the Scheme’s funding level by rising a similar amount. If liabilities fall in value, the reverse is true.

LGIM – Self-Sufficiency Credit – Real Short Fund

- This fund invests in high credit corporate bonds and uses an overlay of inflation linked derivatives, to give a profile that matches a typical pension scheme’s liability.

- The fund aims to generate expected returns above gilts of +0.5% per annum.

LGIM – Cash Fund

- This fund offers daily liquidity and aims to preserve capital.
- It invests in a diversified portfolio of low risk money-market securities.

6. Defined Contributions: Myners' Investment Principles

Principle 1: Clear roles and responsibilities

"Roles and responsibilities in relation to investment decision making and governance are clearly defined and communicated to interested parties."

- This lays foundations for the process of investment governance and advocates that schemes have defined and documented roles and responsibilities for each element of the governance chain. The Trustees have outlined these roles in this Statement.

Principle 2: Effective decision making

"Decisions relating to investment governance are taken on a fully informed basis and the investment governance processes are sound."

- The Trustees make investment decisions based on quality and timely information and/or advice provided by professionals that they believe to be best equipped to provide that information or advice.

Principle 3: Appropriate investment options

"The investment options provided take account of a range of member risk profiles and needs and are designed appropriately."

- The Trustees have formally reviewed their investment objectives and investment options with the assistance of their investment consultant.
- The Scheme offers an appropriate default option and a range of other investment options, given the expected risk tolerances and requirements of Scheme members.

Principle 4: Appropriate default strategy

"An appropriately designed investment strategy is offered for members who prefer not to make a choice."

- A relatively straightforward default strategy is set up that would cater for the majority of members, given the profile of the members.
- The default lifestyling arrangement currently in place specifically targets the purchase of an annuity at retirement together with a cash lump sum.

Principle 5: Effective performance assessment

"The performance of investment options is monitored."

- The Trustees currently:
  - Receive quarterly valuation reports from the fund provider (Aviva)
  - Meet at least twice a year, when they also review fund performance
  - Prepare an annual report to members, including annualised investment returns for a selection of funds and the Auditor's statement on contributions paid.

Principle 6: Clear and relevant communication to members

"Clear information on the investment options and their characteristics that will allow members to make informed choices is provided."

- Members are provided with annual benefit statements, and have access to detailed investment reports in paper or electronic format, from Aviva.
- Communications are tailored to the expertise of the members, with information on how to seek further assistance, if required.
- The Trustees are required to produce an annual Chair's Statement. This statement is made available on a public website.
- A copy of this Statement of Investment Principles is available to members on request and can also be viewed on a publicly available website.
- A representative from the employer (who may also be a Trustee and/or a member of the Scheme) regularly attends Trustees' meetings and this helps communication with the employer over investment matters.

7. DC: Trustees' Investment Objectives, Policy on Risk and Investment Beliefs

Trustees' investment objectives

The Trustees recognise that members have differing investment needs and that these may change during the course of the members' working lives. The Trustees 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 and, therefore, see their duty as making available a range of suitable investment options, sufficient to allow members to tailor their own investments.

The Trustees also recognise that some members may not believe themselves able to make an investment decision and, as such, the Trustees make available a default option.

The Trustees regularly review the suitability of the options provided. The next review will take place in 2021.

Trustees' policy with regard to risk

The Trustees are mindful of their responsibility to provide members with an appropriate range of investment funds.

The Trustees recognise that in a DC arrangement, members assume the investment risks themselves. The Trustees further recognise that members are exposed to different types of risk at different stages of their working lifetimes. Broadly speaking, the following types of risk can be identified:

- **Investment-return risk**
  - This is the risk that the investment return, over the members' working lives, will not keep pace with inflation and does not provide adequate savings to meet members' retirement income needs.
- **Underperformance risk**
  - This is the risk that the investment vehicles in which monies are invested underperform the expectations of the Trustees.
- **Annuity-rate risk**
  - This is the risk that a member's ability to purchase an adequate annuity at retirement is compromised by rising annuity prices.
- **Drawdown risk**
  - This is the risk that a member's invested pension fund can fluctuate according to what the market is doing.

- **Market movement risk**
  - This is the risk that investment market movements in the period immediately prior to retirement leads to a substantial reduction in the level of members' retirement savings.
- **Lump-sum risk**
  - When close to retirement, a member may still be fully invested in those asset classes (every type except Cash), which are subject to volatility in capital-value terms.
- **Market-switching risk**
  - If there is to be switching between investment vehicles and it is performed wholesale, members may be unnecessarily exposed to the fluctuations in the markets on a particular day.

Underlying investment principles

The Trustees, having taken investment advice, have adopted the investment strategy based on the following underlying principles:

- long term growth on investment options that invest predominantly in equities and other growth seeking asset classes (e.g. diversified growth funds) will exceed price inflation and general salary growth
- the long-term returns on bonds and cash options will be lower than the largely equity invested options
- bond funds broadly match the price of annuities, and so investing in a bond fund is expected to provide some protection for the amount of protected pension that a member could expect to purchase at retirement
- Cash funds provide protection against changes in short terms capital values, and may be appropriate for members taking all, or part, of their retirement benefits in the form of a cash lump sum (although it is not guaranteed that these funds will not fall in value).

In choosing the Scheme's investment options, the Trustees have considered:

- A full range of asset classes, including alternative asset classes
- the suitability of each asset class within a defined contribution scheme the need for appropriate diversification and adequate liquidity.

The member options are invested predominantly on regulated markets (with investments not on regulated markets being kept to a prudent level) and properly diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings so as to avoid, as far as is reasonably possible, accumulations of risk in the individual member's portfolios as a whole. Investment in derivatives is only made by the managers in so far as they contribute to the reduction of investment risks or facilitate efficient portfolio management and are managed such as to avoid excessive risk exposure to a single counterparty or other derivative operations. The Trustees have made the full range of funds on Aviva's platform available for DC members in addition to the default strategy.

8. DC: Default Strategy

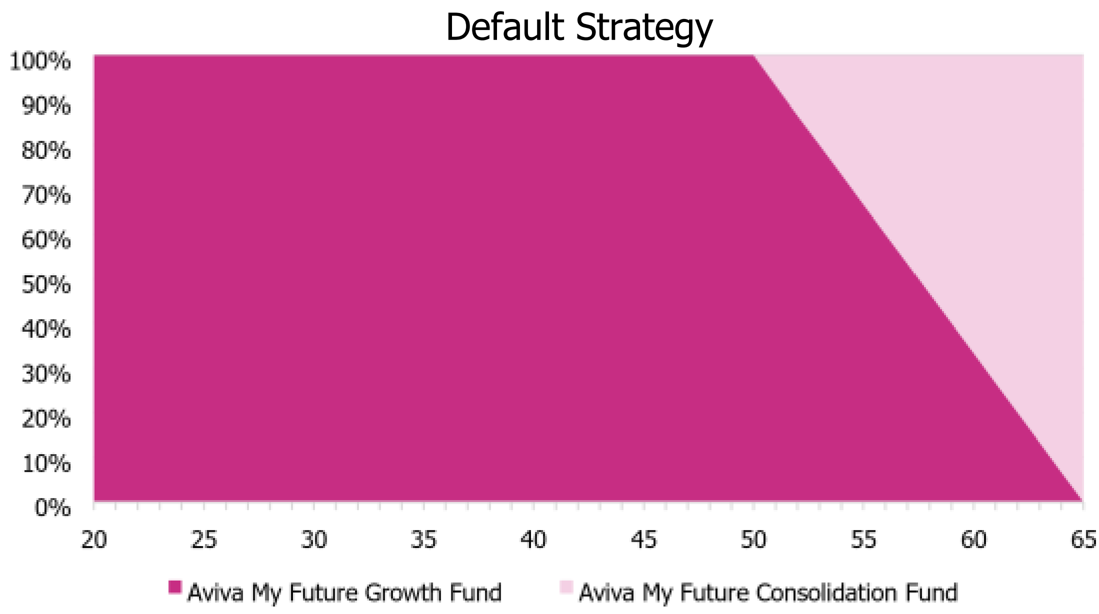
Objectives

- The Trustees have selected a default investment strategy for Scheme members who do not wish to select their own investments.
- The strategy was reviewed in 2018, taking into account general member behaviour at retirement, in light of the pension freedoms introduced in 2015.

Strategy

- 100% investment in the **Aviva My Future Growth fund** until the age of 50*
- Switch investments on a monthly basis into lower risk **Aviva My Future Consolidation Fund**
- Switching period of 15 years
-

*Note that normal retirement date ("NRD") is 65 for all active and most deferred members.



Rationale

- The Aviva My Future Fund invests in growth assets.
- The Aviva My Future Consolidation Fund aims to provide a broad 'base' for members to reflect the pension freedoms.

9. Other Matters – Both DB & DC

Introduction

This section covers those matters prescribed in Sections 35 and 36 of The Pensions Act 1995, The Pensions Act 2004 and the 2005 Investment Regulations 2005/3378 (as amended from time to time).

Choosing Investments

The assets of the Scheme are invested in pooled vehicles. Selection of the individual underlying assets has been wholly delegated to the fund managers listed in the Appendix.

Kinds of Investments

The Trustees may invest in the following asset classes (via the fund managers) on behalf of the Scheme:

- UK equities
- Overseas equities
- Corporate bonds
- Gilts (conventional and index-linked)
- Cash
- Overseas bonds
- Property
- Derivatives

The presence of an asset class on the list does not imply that the Scheme is currently invested in such assets.

Balance between Investments

The Trustees recognise the advantages of diversification between UK and overseas investment in equities from the perspective of:

 Reducing the risk that results from investment in any one particular market; and Enhancing return.

Risk (Defined Benefits)

The Trustees pay close regard to the risks that may arise through a mismatch between the Scheme's assets and its liabilities, and to the risks that may arise from the lack of diversification of investments. They believe that the investment policies to be followed by their investment managers do have adequate regard to the need to diversify within each asset class as well as in terms of stock selection.

Under the Pensions Act 2004, trustees must now state their policy on the ways in which risks are to be measured and managed. These are set out below:

- **Solvency / funding risk:**
  - is managed through setting an investment strategy (primarily asset allocation) with an appropriate level of risk.
  - is measured using an Asset Liability Model from the investment consultant.
  - is monitored in quarterly reports from the investment consultant.
- **Manager risk:**
  - is managed through selecting funds with suitable target levels of risk and that the investment consultant have deemed the managers' risk controls as acceptable.
  - is measured and monitored from quarterly reports from the fund managers and the investment consultant.
- **Liquidity risk:**
  - is managed by ensuring that the majority of the pooled funds used by the Scheme are liquid and can be sold at short notice to meet any cash flow requirements.
- **Political risk:**
  - is managed by investing globally.
- **Sponsor risk:**
  - is managed via the actuarial valuation process.
  - is measured and monitored by regular assessment of the Sponsor's covenant by the Trustees.

Expected Return on Investments

Gilts are the easiest asset class for which to predict the long-term returns. Providing that they are held to maturity, and ignoring reinvestment risk, the return on gilts over their lifetime will be the current Gross Redemption Yield (GRY).

The Trustees base their expected investment returns for other asset classes on this GRY as a starting point. Over the long-term, they expect the following returns per year over and above that of gilts:

Developed market equities	+3.0%
Diversified Growth Funds	+3.0%
Corporate bonds	+1.0%

Realisation of Investments

The Scheme's assets are invested in the investment managers' pooled vehicles, which in turn invest in securities traded on recognised exchanges. The Trustees conclude that the majority of the Scheme's investments can be realised at short notice if necessary.

Environmental, Social and Corporate Governance Policies

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustees have elected to invest through pooled funds. They acknowledge that they cannot directly influence the environmental, social and governance ("ESG") policies and practices of the companies in which the pooled funds invest. The Trustees also acknowledge that where index tracking pooled vehicles are employed, ESG considerations cannot be taken into account due to the nature of the investment.

In principle, the Trustees believe that ESG factors can have an impact on the performance of its investments and that the management of ESG risks and the exploitation of ESG opportunities, especially in relation to climate change, can add value to the portfolio. To that effect, the Trustees expect their fund managers, where appropriate, to have integrated ESG factors as part of their investment analysis and decision-making process.

Appropriate weight will be given to ESG factors in the appointment of fund managers.

The Trustees believe that the stewardship responsibilities attached to the ownership of shares are important but recognise that investment in pooed funds limits their ability to be fully involved. The Trustees expect their investment managers to report in detail on how they have exercised voting rights attached to shares including across passive equity mandates. Managers are expected to be signatories to the FRC UK Stewardship Code.

On 6 June 2019, the Government published the Occupational Pension Schemes (investment and
Disclosure) (Amendment) Regulations which expand the requirements for Statements of Investment Principles such as this. To be compliant with these regulations, the Trustees have set further ESG policies.

The Trustees' policies are set out below:

- **How they incentivise their appointed investment managers to align investment strategy and decisions with the trustees' policies, including risk, return and ESG.**

  The scheme invests solely in pooled funds where fees charged are a combination of fixed fees and a proportion of the assets under management. There are no performance related components of the fees.

  The only incentivisation that the Trustees can exert is through the decision to retain or liquidate their holdings in each fund.

  The investment strategies of the pooled funds are aligned to the Trustees' investment objectives by selecting funds with suitable characteristics:

  - Benchmarks
  - Risk Budgets
  - Constraints
  - Approaches (this includes ESG where appropriate)

  The Trustees maximise the probability of its investment objectives being met by selecting an appropriate and Scheme-specific combination of such funds with advice from their investment consultant.

- **How the asset manager is incentivised to make decisions on assessments about medium to long term financial and non-financial performance of an issuer of debt or equity. Also, how the managers are incentivised to engage with the issuers in order to improve their performance.**

  Active fund managers are retained subject to, amongst other criteria, achieving adequate medium-to long-term performance. In order to do so, they will need to make assessments about the medium to long-term financial performance of debt and equity issuers. They will also need to assess non-financial performance in as much as it may be a source of risk.

  It also incentivises them to engage with issuers where this is in the financial interests of the Scheme (i.e. where it will make a material impact on the performance of the fund).

  Passive fund managers are not expected to make assessments about the financial or nonfinancial performance of the issuers of securities they invest in.

- **How the method and time horizon of the evaluation of managers' performance and remuneration are in line with the trustees' policies.**

  The Trustees receive quarterly reports from the fund managers and regular analysis from their investment consultant. The investment consultant takes into account the performance of the fund managers but does not restrict their analysis to performance alone. However, given these funds are passively managed, the performance is expected to be broadly in line with the benchmarks.

  Performance is compared to the benchmark and tracking error target of each fund, in order to ensure that this is in alignment to the objectives and policies of the Trustees.

  In selecting pooled funds, the Trustees and their investment consultant take into account the fees charged by the fund manager. These are judged in terms of value for money given the nature of the fund, particularly the asset class and outperformance target.

  Fund managers need to give the Trustees notice if they plan to change the level of the fees. If this occurs, the Trustees seek advice from their investment consultant on whether to retain or replace the manager.

- **How the trustees monitor portfolio turnover costs incurred by the manager/s (and how they define and monitor targeted portfolio turnover or turnover range).**

  Given the size of the Scheme's investment it would not be cost effective to monitor the turnover or turnover costs directly. The performance figures that the Trustees and its investment consultant analyse are net of transaction costs, so this is taken into account indirectly. The Trustees do not believe that they should micro-manage the level of turnover provided that the net outcome to the Scheme is acceptable.

- **The duration of their arrangement with the asset manager**

  In order to maintain an incentive for the fund manager to perform well, the Trustees do not enter any fixed term arrangement with their manager. Investments in each pooled fund are only retained for as long as the aim of the fund is consistent with the overall investment objectives of the Scheme and the Trustees have confidence that the fund managers can credibly deliver that aim in a cost-effective manner.

Appendix 1: Third Party Arrangements

Advisors

The following advisors assist the Trustees:

Scheme Actuary	Pension Consultant
Stephanie Murphy Premier Pensions Management Limited AMP House, Dingwall Road CR0 2LX	Premier Pensions Management Limited AMP House, Dingwall Road CR0 2LX

Investment Consultant

Barker Tatham Investment Consultants Limited
AMP House, Dingwall Road, Croydon CR0 2LX

Fund Managers

The Trustees have appointed the following fund managers:

Legal & General Investment Management Ltd

1 Coleman Street
London   EC2R 5AA

Phoenix Life Limited

Juxon House
100 St Paul's Churchyard
London   EC4M 8BU

Aviva Investors

Saint Helen's
1 Undershaft
London   EC3P 3DQ