

Avis UK Pension Plan

*Investment Implementation
Document*

June 2020

Table of Contents

Strategic Benchmark and Objectives	3
Fees.....	8

This document sets out the Strategic Benchmark and Objectives adopted by the Trustee of the Avis UK Pension Plan and should be read in conjunction with the Statement of Investment Principles dated June 2020.

Strategic Benchmark and Objectives

Plan's target asset allocation

The Trustee has adopted a dynamic investment strategy for the Plan's assets, whereby assets will be switched from equities to bonds (and vice versa) depending on movements in the Plan's funding level. The features of the dynamic investment strategy are as follows:

- The intention is to move the strategic split between 'growth assets' (equities, property and other alternatives) and 'fixed income' assets (bonds) from 60%-40% respectively as at 31 March 2008 to 45%-55% by no later than 31 March 2023.
- As part of the dynamic investment strategy, the target allocations to growth assets and fixed income assets will move towards fixed income assets at the rate of 1% p.a., with effect from 31 March each year following the Actuarial Valuation as at 31 March 2008.
- At the end of each quarter, the Trustee will assess an interim estimate of the Plan's funding level on the Technical Provisions basis, with assistance from the Investment Consultant (and Scheme Actuary if required). Advance deficit contributions from the company will not be included in the calculation of the Plan's funding level until they were originally intended to fall due.
- The Trustee has identified a 'target' funding level for the Plan, starting with the funding level on the Technical Provisions basis at the Actuarial Valuation as at 31 March 2008 and increasing linearly to 100% by the end of the previous Recovery Period, at 31 March 2018. The target funding level currently increases linearly to 108% by 31 March 2023. The target was revised following the Actuarial Valuation as at 31 March 2011 and again following the Actuarial Valuation as at 31 March 2014, allowing for changes to the policy objectives and the assumptions underlying the Technical Provisions.
- If the Plan's funding level increases above the target funding level by 4%, the Trustee will increase the target allocation to fixed income assets to 50%.
- If the Plan's funding level increases above the target funding level by 9%, the Trustee will increase the target allocation to fixed income assets to 55%.
- If, following a breach of either of the above triggers and a subsequent increase in the target allocation to fixed income assets to 50% or 55%, the Plan's funding level subsequently drops below the target funding level by 3%, the Trustee would 're-risk' by switching back to the level of growth assets implied by the automatic 1% p.a. increase to fixed income assets.

The strategic target asset allocation for the Plan is set out below, followed by the investment managers' underlying benchmarks.

Asset Class	Benchmark Index	Target Allocation %	Control Range ±%
UK Equity	FTSE All Share (5% Capped)	6.5	-
Overseas Equity	Composite ¹	18.0	-
Global Minimum Volatility Equity	MSCI World Minimum Volatility	10.5	-
Unlisted Infrastructure	N/A	7.0	-
Listed Infrastructure	FTSE MFG Core Infrastructure	5.0	-
Private Debt	N/A	4.0	-
Total Growth Assets		51.0	5.0
Multi Sector Credit	LIBOR +3-5%	10.0	-
UK Bonds	iBoxx £ Non-Gilts All Maturities Index	3.0	-
Fixed LDI	Market iBoxx Fixed Long	1.8	
Real LDI	Market iBoxx Real Long	16.2	-
Total Fixed Income Assets		31.0	5.0
Buy-in Policy	N/A	18.0	-
Total		100.0	-

¹ 1.125% FTSE Developed North America, 3.375% FTSE Developed North America – GBP Hedged, 1.125% FTSE Developed Europe (ex UK), 3.375% FTSE Developed Europe (ex UK) – GBP Hedged, 1.125% FTSE Japan, 3.375% FTSE Japan – GBP Hedged, 2.25% FTSE Developed Asia Pacific (ex Japan), 2.25% S&P/IFCI Composite Global Emerging Markets.

The Trustee may deviate from the long-term policy on a tactical basis where appropriate. In December 2018, the Trustee adopted an “interim Brexit benchmark” to protect against heightened uncertainty.

Investment Manager Asset Allocation Targets

LGIM passively manages UK and overseas equity investments on behalf of the Plan. The target allocation and control ranges set for LGIM are as follows:

Fund	Benchmark Index	Target Allocation %	Control Range ±%
UK Equity (5% Capped) Passive ¹	FTSE All Share (5% Capped)	17.50	2.00
North America Equity Index	FTSE Developed North America	3.05	0.50
North America Equity Index – GBP Hedged	FTSE Developed North America – GBP Hedged	9.15	1.25
Europe (ex UK) Equity Index	FTSE Developed Europe (ex UK)	3.05	0.50
Europe (ex UK) Equity Index – GBP Hedged	FTSE Developed Europe (ex UK) – GBP Hedged	9.15	1.25
Japan Equity Index	FTSE Japan	3.05	0.50
Japan Equity Index – GBP Hedged	FTSE Japan – GBP Hedged	9.15	0.75
Asia Pacific (ex Japan) Developed Equity Index	FTSE Developed Asia Pacific (ex Japan)	6.10	0.50
Global Emerging Markets Equity Index	S&P/IFCI Composite Global Emerging Markets	6.10	0.50
MSCI World Minimum Volatility Index	MSCI World Minimum Volatility	33.70	3.00
Total		100.00	-

¹The LGIM UK Equity (5% Capped) Passive Fund aims to restrict the weighting in each individual stock whose weight is above 5% of the index to 5% of the index. All remaining UK stocks are managed in proportion to their weightings in the FTSE All Share Index.

LGIM also manages the following mandates in separate sub-policies:

- a passive listed infrastructure mandate which includes the LGIM Infrastructure Equity MFG Fund (currency hedged). The Infrastructure Equity MFG Fund tracks a global infrastructure equity index created by Magellan Financial Group (“MFG”).
- a passively managed LDI mandate which includes the LGIM Matching Core Real Long Duration Fund and the LGIM Matching Core Fixed Long Duration Fund.
- A cash mandate which includes the LGIM Sterling Liquidity Fund for investment in short-term cash.

RLAM actively manages sterling fixed income investments on behalf of the Plan in the UK Corporate Bond Fund.

M&G actively manages multi-sector credit investments on behalf of the Plan. The mandate is invested in the M&G Alpha Opportunities Fund.

Barings actively manages investments in credit assets that are not traded on public markets, in the Barings European Private Loan Fund II.

JP Morgan actively manages investments in unlisted infrastructure that are not traded on public markets, in the JP Morgan Infrastructure Investments Fund.

Investment Manager Performance Targets

LGIM aims to track the respective benchmark index for each asset class, before fees, within a target tracking error ("TTE") for two years out of three. The TTEs for each fund are detailed below:

Fund	Benchmark Index	TTE ±%
UK Equity (5% Capped) Passive	FTSE All Share (5% Capped)	0.25
North America Equity Index	FTSE Developed North America	0.50
North America Equity Index – GBP Hedged	FTSE Developed North America – GBP Hedged	0.50
Europe (ex UK) Equity Index	FTSE Developed Europe (ex UK)	0.50
Europe (ex UK) Equity Index – GBP Hedged	FTSE Developed Europe (ex UK) – GBP Hedged	0.50
Japan Equity Index	FTSE Japan	0.50
Japan Equity Index – GBP Hedged	FTSE Japan – GBP Hedged	0.50
Asia Pacific (ex Japan) Developed Equity Index	FTSE Developed Asia Pacific (ex Japan)	0.75
Global Emerging Markets Equity Index	S&P/IFCI Composite Global Emerging Markets	1.50
MSCI World Minimum Volatility Index	MSCI World Minimum Volatility	0.75

LGIM's objective for the LGIM Infrastructure Equity MFG Fund is to provide diversified exposure to global listed infrastructure investments by producing a return broadly comparable to the FTSE MFG Core Infrastructure Index. There is no target tracking error. The objective of the LGIM Matching Core Real Long Duration Fund is to track the Markit iBoxx Real Long Index and the objective of the LGIM Matching Core Fixed Long Duration Fund is to track the Markit iBoxx Fixed Long Index.

M&G has a performance objective for the Alpha Opportunities Fund which is a target return of LIBOR +3-5% p.a., gross of fees.

RLAM has a performance objective which is to outperform the benchmark by 1.25% p.a. over rolling 3-year periods, gross of fees.

Barings European Private Loan Fund II targets a return net of fees of 7.0% to 8.0% p.a. in GBP terms.

JP Morgan Infrastructure Investments Fund targets a return net of fees of 8.0% to 12.0% p.a.

Fees

Investment manager fees

Manager	Fund	AMC % p.a.
LGIM ¹	UK Equity (5% Capped) Passive	0.11 for the first £10m; 0.085 for the next £10m; 0.07 for the next £30m; 0.06 for the balance over £50m
	North America Equity Index	0.20 for the first £1m; 0.175 for the next £1.5m; 0.15 for the next £7.5m; 0.125 for the next £20m; 0.10 for the next £20m; 0.08 for the balance over £50m
	North America Equity Index – GBP Hedged	0.225 for the first £1m; 0.20 for the next £1.5m; 0.175 for the next £7.5m; 0.15 for the next £20m; 0.125 for the next £20m; 0.105 for the balance over £50m
	Europe (ex UK) Equity Index	0.25 for the first £1m; 0.225 for the next £1.5m; 0.20 for the next £7.5m; 0.175 for the next £20m; 0.15 for the next £20m; 0.125 for the balance over £50m
	Europe (ex UK) Equity Index – GBP Hedged	0.275 for the first £1m; 0.25 for the next £1.5m; 0.225 for the next £7.5m; 0.20 for the next £20m; 0.175 for the next £20m; 0.15 for the balance over £50m
	Japan Equity Index	0.225 for the first £1m; 0.20 for the next £1.5m; 0.175 for the next £7.5m; 0.15 for the next £20m; 0.125 for the next £20m; 0.10 for the balance over £50m
	Japan Equity Index – GBP Hedged	0.25 for the first £1m; 0.225 for the next £1.5m; 0.20 for the next £7.5m; 0.175 for the next £20m; 0.15 for the next £20m; 0.125 for the balance over £50m
	Asia Pacific (ex Japan) Developed Equity Index	0.275 for the first £1m; 0.25 for the next £1.5m; 0.225 for the next £7.5m; 0.20 for the next £20m; 0.175 for the next £20m; 0.15 for the balance over £50m
	Global Emerging Markets Equity Index	0.45 for the first £5m; 0.35 for the next £5m; 0.30 for balance over £10m
	MSCI World Minimum Volatility Index	0.25 for the first £5m; 0.225 for the next £10m; 0.20 for the next £35m; 0.175 for the balance over £50m
	Infrastructure Equity MFG – GBP Hedged	0.560 for all investments
	LDI – Matching Core Fixed Long	0.24 for the first £25m; 0.17 for the balance over £25m
	LDI – Matching Core Real Long	0.24 for the first £25m; 0.17 for the balance over £25m
Sterling Liquidity Fund	0.125 for the first £5m; 0.10 for the next £5m; 0.075 for the next £20m; 0.05 for the balance over £30m	
M&G	Alpha Opportunities	0.350
RLAM	UK Corporate Bond	0.300

Barings	European Private Loan Fund II	0.950
JP Morgan	Infrastructure Investments Fund	0.950 p.a. plus a performance fee of 15% of any outperformance over the hurdle return of 7% p.a.

Investment consultancy fees

The Investment Consultant is remunerated on a time cost basis, which is considered the most appropriate basis as the services required fluctuate year on year. The basis of remuneration is kept under review.