

# Statement regarding DC Governance

**Chair's Annual Statement:  
Covering DC Benefits Provided Through  
The Balfour Beatty Pension Fund  
(‘the Fund’)  
1 April 2020 to 31 March 2021**

## Introduction

I am pleased to provide you with my Annual Statement for the Fund year ended 31 March 2021. It explains steps which have been taken by the Trustee in a number of key areas, with the help of our professional advisers, to meet the required governance standards. This Statement covers the Defined Contribution (‘DC’) benefits within the Fund, including Additional Voluntary Contributions (AVCs) invested with Legal & General Investment Management (LGIM), Utmost (formerly with Equitable Life), Aegon, Aviva, Phoenix Life and Prudential (those other than LGIM being legacy AVC providers).

This Annual Statement sets out how the Trustee has met the statutory governance standards applicable to the DC benefits under the Fund. These standards relate to:

- The operation of a default investment arrangement for members;
- Processing financial transactions promptly and accurately;
- Details and impact of charges and transaction costs borne by members;
- Assessment of the value for members; and
- Meeting the requirements for trustees' knowledge and understanding.

This last year has been a challenging one as a result of the COVID pandemic but the DC Sub Committee of the Trustee has continued to work hard on DC matters. The DC Sub Committee is made up of members of the Trustee Board and helps the Trustee to operate the Fund to a high professional standard for the benefit of our DC members by focusing on investment, administration, communication and governance activities. The DC Sub Committee meets at least four times a year but holds additional meetings as necessary. This reporting period saw the introduction of the COVID related measures beginning in March 2020. Subsequently, DC Sub Committee meetings were held remotely making use of video conferencing technologies. This worked well and enabled the DC Sub Committee to continue its duties and oversight of the DC benefits without any disruption. The Trustee also sent a communication to members in April 2020 to support them in understanding the implications of the COVID pandemic on their investments and retirement planning. References to the activities of the DC Sub Committee and the Trustee within this document reflect the allocation of responsibility for oversight of the Fund under the DC Sub Committee’s Terms of Reference.

## The investment options

The Fund offers a range of investment options through which DC members can invest. The investment approaches on offer include a number of ‘lifestyle options’ (explained in more detail below) and a range of investment funds across asset classes to allow individual members to invest in a manner which is consistent with their own risk preferences and circumstances. When a member first applies to join the Fund, they need to make a choice about the investment of their pension savings. However, our Annuity Target Lifestyle option is classified as a ‘default arrangement’ during this reporting period under the prevailing governance regulations. Changes were made to the Annuity Target Lifestyle on 1 August 2020 when it was closed to new joiners and on 1 July 2021 (outside of this reporting period) when the Annuity Target Lifestyle was fully closed, and all

members invested in this option were automatically moved to the Blended Target Lifestyle. As this was a transfer without member consent the Blended Target Lifestyle is deemed a 'default arrangement' going forward and will be covered in the 2021/22 DC Chair's Statement. Our Fund's Statement of Investment Principles dated July 2020 includes a section on the investment options for DC members, including the lifestyle options. A copy of the latest Statement of Investment Principles for the Fund is attached in the appendix and is available at [www.mypension.com/bbpf](http://www.mypension.com/bbpf).

In summary, the key points to note in relation to the lifestyle options are as follows:

- Lifestyle options offer pre-determined investment which target specific retirement objectives.
- Over a period approaching a member's planned retirement age the lifestyle option automatically switches assets from growth assets to assets which better reflect the target retirement objectives.
- The Trustee sets general investment policy but delegates the responsibility for selection of specific investments to the investment manager, Legal & General Investment Management (LGIM).

The strategy of the default arrangement was not reviewed during the period covered by this statement. The last review was completed in May 2019.

The outcome of the review resulted in some changes to the fund range including the introduction of three new lifestyle options which replace the current Annuity Target Lifestyle option. The three new lifestyle options all initially invest in the same Global Equity Fund (the All World Equity Index Fund) during the early years when members are generally looking for long-term growth. Further details are as follows:

- Blended Target Lifestyle - this option is for members that are not targeting one specific income option when they take their savings and instead targets an outcome that is a blend of the short-term withdrawal and drawdown options. At a member's selected retirement date, this option will invest 55% in the Diversified Fund and 45% in the Cash Fund.
- Cash Target Lifestyle - this option is for members who intend to withdraw their DC fund as a one-off cash sum or a series of cash sums over a relatively short period of time. It is worth noting that members cannot take a series of cash sums through the Fund and would need to transfer out to access this option. However, DC benefits can be taken as a one-off lump sum from the Fund. At a member's selected retirement date, this option will invest 20% in the Diversified Fund and 80% in the Cash Fund.
- Drawdown Target Lifestyle - this option is for members who plan to keep their DC fund invested past retirement and plan to withdraw their savings on a flexible basis throughout their retirement as necessary (noting that the drawdown option is not available through the Fund and members would need to transfer out of the Fund in order to take their benefits using drawdown). At a member's selected retirement date, this option will invest 75% in the Diversified Fund and 25% in the Cash Fund.

Although the investment changes were agreed in 2019, the implementation was delayed for several important reasons. The Fund's DC administration moved to XPS in December 2019 and we had hoped to make the investment changes shortly after in Q1 2020. However, with the COVID 19 pandemic and resulting volatility in markets, we decided to transition existing lifestyle investments to the new fund range at a later date, when we were comfortable with the levels of volatility in the market and that the changes could be undertaken from an operational perspective. From August 2020, new members were given access to the new lifestyle options and existing members had the option to invest in these options on a voluntary basis. A new ESG Fund was also made available as a self-select option. In July 2021, the Annuity Target Lifestyle option was closed and existing assets in the Annuity Target Lifestyle option were moved to the Blended Target Lifestyle option. Also, in July 2021 changes were made to the structure of the Inflation Linked Annuity Protection Fund in order to provide better protection against changes in annuity prices. This fund is now known as the Annuity Protection Fund.

The Trustee is required to review the default investment strategy at least every three years (or if there has been a significant change in the membership or investment policy). The next review is scheduled to be completed by May 2022.

There is no requirement for a default investment arrangement for DB members who are invested in AVC policies with Utmost (Equitable Life), Aviva, Aegon, Phoenix Life and Prudential. These policies are closed to ongoing contributions.

The Trustee reviews the performance of the Fund's LGIM investment funds (including those making up the lifestyle options) quarterly against agreed benchmarks based on the information provided by LGIM and the Trustee's professional advisers. The funds are predominantly passively managed and the performance over the different periods to 31 March 2021 has been within an acceptable tolerance of the respective index. The Trustee is satisfied that investment performance remains consistent with the aims and objectives stated in the SIP.

### **Core financial transactions**

The Trustee has a specific duty to ensure that core financial transactions relating to the Fund are processed promptly and accurately. This is done by receiving and reviewing regular quarterly reporting provided by the Fund's DC administrator (XPS), which set out performance against the service standards that are in place.

Core financial transactions include (but are not limited to):

- The investment of contributions to the Fund.
- The transfer of assets relating to members in and out of the Fund.
- The transfer of assets relating to members between different investments within the Fund.
- Payments from the Fund to, or in respect of, members.

During the year the Trustee ensured the core financial transactions of the Fund were processed promptly and accurately by:

- Having an agreement with the Balfour Beatty Pensions Centre and through them, with XPS, committing them to defined service level agreements ('SLAs').
- Having XPS regularly report on their performance against the SLAs. A report is presented at each quarterly Trustee meeting. Specifically, this includes a breakdown of service standard achievement for member-level activity including retirement and death settlement cases, transfers in and out and comments and explanations of any service standard issues. XPS's performance between meetings is actively monitored by the Balfour Beatty Pension Centre on behalf of the Trustee.
- Ensuring appropriate documentation was in place recording payments in and out of the Fund.
- Ensuring XPS has in place appropriate internal processes and controls which includes the checking and reconciliation of investment and banking transactions.
- Ensuring appropriate processes and documentation were in place reconciling the bulk switch of AVC funds from Utmost (previously Equitable Life) as part of the AVC consolidation exercise that took place in September 2020.

Fund-level core financial transactions such as investing contributions and lifestyle switches and member-level investment switches are processed using 'straight-through processing' and reported by XPS in its quarterly reporting.

Reviewing the accuracy of the Fund's common data on a regular basis helps provide reassurance that data is available and complete to help ensure that the allocation of contributions and payment of benefits are being made accurately, at the right time and to/for the right beneficiaries. XPS undertakes regular data assessments and the score as at April 2021 was 95% for common data. Steps have been taken by the Trustee and XPS to improve the score.

XPS has in place appropriate internal processes and controls which include the checking and reconciliation of investment and banking transactions.

XPS has service standards of between 2 to 10 days depending on the task.

The SLA performance was 85% over the period which has been badly affected by the COVID 19 pandemic and has impacted all administrators with the need to move people to home working and prioritise cases based on the type of activity and sensitivity.

XPS has provided the Trustee with a copy of its latest AAF audit report covering the period from 1 January to 31 December 2000. Whilst some issues were identified in that report the Trustee notes that XPS have implemented measures to address these issues.

XPS continue to work with the Trustee to improve the service provided.

The Trustee believes that the agreed service standards remain suitable and are satisfied that XPS has provided a good level of service in relation to processing core financial transactions. Administration services more broadly were covered in the value for members assessment in which the Trustee concluded that the members receive good value in relation to administration. It should be noted that there has been a steady improvement in SLA performance at each quarter over the reporting period.

Member satisfaction questionnaires are issued to members on completion of leavers, retirements and transfers. The recent results showed an average satisfaction level of 70% and that over half of respondents felt that the administrator they had dealt with had been helpful, friendly and efficient.

The Trustee is satisfied that the Fund's core financial transactions have been processed promptly and accurately during the reporting period.

### **Charges and transactions costs**

The charges and transaction costs borne by DC members affect the value of benefits that are ultimately payable. As such, they are closely monitored by the Trustee.

Charges are expressed by what is referred to as the total expense ratio (TER). This is a measure of the costs associated with managing and operating an investment fund. These costs consist primarily of annual management charges (AMC) and variable additional expenses incurred by the investment manager, such as legal and auditor fees and other operational expenses.

Transaction costs are those incurred by the investment manager (LGIM and the legacy AVC providers) as a result of buying, selling, lending or borrowing investments. Transaction costs are typically categorised as being explicit costs or implicit costs:

- Explicit costs are directly observable and include broker commissions and taxes
- Implicit costs cannot be observed in the same way but can also result in a reduction in the value of capital invested. Implicit costs include market impact or delay costs which can also result in a gain for the fund (i.e. negative transaction cost).

An overall negative transaction cost (net gain) is reported when implicit negative costs (gains) exceed explicit costs. This is an implication of the prescribed 'slippage cost' methodology used to calculate transaction costs.

The TER and transaction costs applied to the LGIM funds available for selection by members of the Fund are set out separately in the table below. These costs are reflected in the daily pricing of each fund. The TER for LGIM funds in the table below includes an administration charge of 0.08% pa which is applied by the Trustee.

The allocation of the assets between the components within the lifestyle options change as a member approaches their selected retirement date. Below we have set out the level of charges and transaction costs at different stages of the lifestyle options. The charges and transaction costs for each individual fund are set out in the 'self-select' section.

***Blended Target Lifestyle***

| <b>Years to selected retirement date</b> | <b>Total Expense Ratio (TER)</b> | <b>Transaction Costs</b> |
|--|----------------------------------|--------------------------|
| 20 or more years to retirement           | 0.23%                            | 0.0076%                  |
| 10 years to retirement                   | 0.26%                            | 0.0010%                  |
| At target retirement date                | 0.23%                            | -0.0004%                 |

***Cash Target Lifestyle***

| <b>Years to selected retirement date</b> | <b>Total Expense Ratio (TER)</b> | <b>Transaction Costs</b> |
|--|----------------------------------|--------------------------|
| 20 or more years to retirement           | 0.23%                            | 0.0076%                  |
| 10 years to retirement                   | 0.26%                            | 0.0010%                  |
| At target retirement date                | 0.20%                            | -0.0015%                 |

***Drawdown Target Lifestyle***

| <b>Years to selected retirement date</b> | <b>Total Expense Ratio (TER)</b> | <b>Transaction Costs</b> |
|--|----------------------------------|--------------------------|
| 20 or more years to retirement           | 0.23%                            | 0.0076%                  |
| 10 years to retirement                   | 0.26%                            | 0.0010%                  |
| At target retirement date                | 0.24%                            | 0.0002%                  |

***Annuity Target Lifestyle (closed to new joiners from 1 August 2020)***

| <b>Years to selected retirement date</b> | <b>Total Expense Ratio (TER)</b> | <b>Transaction Costs</b> |
|--|----------------------------------|--------------------------|
| 20 or more years to retirement           | 0.22%                            | -0.0108%                 |
| 10 years to retirement                   | 0.25%                            | 0.0021%                  |
| At target retirement date                | 0.18%                            | -0.0001%                 |

**Self-select funds**

| <b>Fund name</b>   | <b>Total Expense Ratio (TER)</b> | <b>Transaction Costs<sup>1</sup></b> |
|--|----------------------------------|--------------------------------------|
| UK Equity Index Fund <sup>2</sup>                                      | 0.13%                            | -0.0199%                             |
| World (ex-UK) Equity Index Fund <sup>2</sup>                           | 0.215%                           | -0.0121%                             |
| All World Equity Index Fund <sup>3</sup>                               | 0.23%                            | -0.0076%                             |
| World Emerging Markets Equity Index Fund <sup>2</sup>                  | 0.48%                            | 0.0183%                              |
| Diversified Fund <sup>2</sup> and <sup>3</sup>                         | 0.26%                            | 0.0010%                              |
| Over 5 year Index-linked Gilts Index Fund                              | 0.13%                            | 0.0218%                              |
| Corporate Bond All Stocks Index  | 0.23%                            | -0.0207%                             |
| Inflation-Linked Annuity Protection Fund <sup>2</sup> and <sup>4</sup> | 0.18%                            | 0.0006%                              |
| ESG Global Equity Fund   | 0.23%                            | -0.0236%                             |
| Cash Fund <sup>2</sup> and <sup>3</sup>                                | 0.19%                            | -0.0021%                             |

**Notes**

1. Transaction costs as a percentage has been calculated by dividing the total transaction costs by the average assets under management (AUM) over the 12 month period. This allows comparison of the transaction cost figure with the TER.
2. These funds are component funds within the Annuity Target Lifestyle.
3. These funds are a component of the three new lifestyle strategies. The All World Equity Index Fund is not available as a self-select option.
4. The Inflation-Linked Annuity Protection Fund was replaced by the Annuity Protection Fund on 1 July 2021 (outside of this reporting period).

The Trustee requested cost and charges from each of the legacy AVC providers and these have been provided and are set out below. The Phoenix Life With Profits Fund does not have explicit costs and charges and is therefore not included in the table. Investment costs and charges for the AVCs are borne by the member.

| AVC Fund name                                      | Total Expense Ratio (TER) | Transaction Costs |
|--|---------------------------|-------------------|
| Aegon With Profits Endowment Fund                  | 1.00%                     | 0.01%             |
| Aegon With Profits Option 1 Fund                   | 1.00%                     | 0.06%             |
| Aegon High Equity With Profits Fund                | 1.00%                     | 0.19%             |
| Aegon Global Fund                                  | 1.00%                     | 0.42%             |
| Aegon Equity Fund                                  | 1.00%                     | 0.26%             |
| Aegon Mixed Fund                                   | 1.00%                     | 0.29%             |
| Aegon Cash Fund                                    | 1.00%                     | 0.00%             |
| Aviva With Profits Fund                            | 0.88%                     | 0.075%            |
| Aviva With Profits (Norwich Union Guaranteed) Fund | 0.88%                     | 0.075%            |
| Prudential With Profits Cash Accumulation Fund     | 0.80%                     | 0.11%             |

From April 2015, all Trustee Boards in the UK have been required (insofar as they are able) to assess transaction costs and report on them in the Chair's Statement. The provision of transaction cost information from investment managers has been very limited due to the complex nature of investments and lack of standard disclosure requirements.

Following a consultation, the Financial Conduct Authority (FCA) has established a defined methodology to calculate transaction costs. These requirements took effect from January 2018 and investment managers are now obliged to report transaction costs using this methodology going forward.

In order to comply with the requirement as fully as possible, the Trustee has asked LGIM and the legacy AVC providers for transaction costs disclosures they are able to provide. They have provided transaction costs incurred by members at a fund level and these details have been included in the tables above. Based on the information we have available, the transaction costs reported during the period appear reasonable.

The Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 requires the Trustee to produce an illustration showing the compounding effect of costs and charges on DC funds and include this in the annual Chair's Statement. The Trustee has set out an illustration in the appendix which shows the projected values based on three example members of the Fund (these are not actual members). The three examples show members at different ages, with different average pension savings and investing in a range of different investment options. The projections compare what the investments could grow to at age 65 before and after charges have been deducted and have been prepared taking account of the relevant statutory guidance.

### Utmost transfer

The Utmost AVC assets were disinvested in September 2020 and reinvested in the Cash Target Lifestyle. The monies were previously invested in the Utmost Money Market Fund and these amounted to £513,563 on disinvestment and were received by the administrators on 30 September 2020. The Trustee worked to ensure these were reinvested as soon as possible in order to minimise any out of market exposure. The assets were reinvested with LGIM on 6 October 2020. The majority of the assets were reinvested in the Cash Fund (£281,722) with the remainder in the Diversified Fund (£215,212) and the All World Equity Index Fund (£16,629). There are no remaining members or assets with Utmost.

### Value assessment

The Trustee is committed to ensuring that members receive value for the services that are provided through the Fund and keeps value for members in mind on an ongoing basis. In particular, the Trustee has considered the extent to which the charges (and transaction costs, where available) borne by members represent good value to members over the reporting period. There is no definition of "good value" and so the process of assessment is a subjective one carried out by the Trustee with guidance from its advisers.

The Trustee undertakes an annual assessment of the value provided by the Fund for members taking into account the requirements within the Pensions Regulator's DC Code of Practice with support from its professional advisers. For the purpose of the assessment carried out in May 2021, the Trustee considered the services members pay for (this is the basic requirement) and has assessed the extent to which these services both meet

members' needs and have performed over the reporting period. Members pay for the investment, administration and communication services that are provided by XPS. The Trustee also considered the charges in the area of scheme management which the members do not pay for. The Trustee benchmarks these charges against those typically found in similar schemes.

The Trustee's assessment included the following value contributors:

- Stringent investment governance and oversight by the Trustee.
- A range of funds that takes into account members' investment needs with competitive fund charges.
- The funds generally performed in line with the benchmarks and where this was not the case the Trustee investigated the reasons to better understand any deviation against expected performance.
- The Fund provides members with general communications and online tools to help them with their contribution and investment decisions. The DC Sub Committee has spent a considerable amount of time over the reporting period reviewing the member materials and updating the communication strategy (this included the DC specific newsletter).
- The Trustee believes that members receive excellent broader value through the robust Fund's governance and management framework.
- The Trustee undertook a benchmarking exercise of the charges paid by the members and concluded that the costs and charges are competitive compared against other similar types of DC arrangements.

The Trustee concluded that the Fund has delivered good value for members in the area of administration and excellent value in terms of investment, scheme governance and communication over the reporting period.

There are legacy AVC policies with Aegon, Aviva, Phoenix Life and Prudential with a small number of members remaining. Where these policies are invested in with-profits funds there is little scope for the Trustee to make changes to these types of funds, however the Trustee will continue to keep these policies under review.

### **Knowledge and understanding of the Trustee**

The law requires the Trustee to have sufficient knowledge and understanding to run the Fund effectively. The Trustee is satisfied that it has sufficient knowledge and understanding of the law relating to pensions and trusts and the principles relating to the funding and investment of occupational schemes. The Trustee is also required to be conversant with the scheme's governing documents.

These requirements have been met, during the reporting period, by virtue of having a structured TKU process in place which includes:

- The Trustee board, which includes a professional Trustee.
- The DC Sub-Committee (and the Trustee Board as a whole) undertook investment training and education from its DC adviser as part of its preparation for the DC investment strategy review referred to earlier in this statement. This training is ongoing and ensures that the Trustee has sufficient and appropriate knowledge and understanding to provide sound and prudent oversight of the investment strategy and investment/risk management expertise to critically evaluate and oversee the investment strategy and associated risks.
- A record is kept of the training completed by each member of the Trustee. Any gaps in knowledge are addressed either at the regular Trustee meetings, by reference to available pensions information (e.g. the trustee toolkit) or at a dedicated training day usually held annually (the 2020 training day that was due to take place during this reporting period did not take place due to COVID restrictions, however these will resume as soon as practical). We work with our professional advisers to conduct relevant training and to take account of guidance issued by the Pensions Regulator. Some examples of the training topics undertaken by the Trustee during the period are detailed below:
  - Disclosure and investment changes for 2020 (June 2020)
  - LGIM ESG presentation (August 2020).
- Training more broadly is incorporated into regular Trustee meetings and additional training from advisers on topical items as and when required.
- A structured induction process is in place for new Trustees, with all new Trustees completing the Pensions Regulator's Toolkit. During the period there was one new Trustee appointment. Adrian Mathias resigned as a Trustee and Chair on 31 May 2020 and Stuart Benson was appointed as his successor with effect from 1 June 2020.
- Each member of the Trustee board ensures they have a working knowledge through training on all key documents setting out the Trustee's current policies, the Trust Deed and Rules and current Statement of Investment Principles. The Trust Deed and Rules is maintained in consolidated form to aid understanding.
- The Trustee members of the DC Sub Committee have also been provided with additional training on DC member communication, investment and the new governance requirements.

Some members of the Trustee board have been awarded the PMI Trustee Certificate and the majority have completed the Pensions Regulator's Trustee Toolkit.

The Trustee assesses its training needs each year as part of its business plan. The Trustee also receives updates on legal and other developments at its regular board meetings which includes working knowledge of the key trust documentation.

The Trustee board also includes a professional trustee with extensive experience of pension schemes and the regulatory context in which they operate. The Trustee believes that this wider experience broadens the Trustee's understanding and makes it better placed to assess, and where appropriate challenge, the advice it receives.

The Trustee has also reviewed the Pensions Regulator's DC Code of Practice and accompanying 'how to guides' as they relate to the Fund and undertakes ongoing activity to meet the Code's requirements and expectations. The Trustee will continue to monitor adherence on an ongoing basis.

We will continue to collate on, an annual basis, the Trustee's views on their performance and areas of future development which is used to plan future training sessions. This will enable the Chair to have a good understanding of the levels of knowledge and experience that each member of the Trustee board brings. Our decisions are also supported by professional advice where appropriate and our key professional advisers attend our Board meetings. Taking account of the professional advice available to us, I am confident that the combined knowledge and understanding of the Trustee enables us to exercise our functions properly for the benefit of our members.

It is a requirement for trustees to make available certain information on a publicly accessible website. This information can be accessed using the website <https://www.mypension.com/bbpf>. The information on this website includes the costs and charges illustration, the Statement of Investment Principles and a copy of this Chair's statement.

If you have any questions or require any further information you should contact the Balfour Beatty Pensions Centre by emailing [bbpensionfundhelpdesk@balfourbeatty.com](mailto:bbpensionfundhelpdesk@balfourbeatty.com).

This Statement regarding DC governance (Chair's Annual Statement) on pages 18 to 39 was approved by the Trustee and signed on its behalf by:

**Stuart Benson**  
**Chair of the Trustee**  
**21 October 2021**

## Appendix - Illustration of the effect of costs and charges on a member's pension pot

In order to achieve greater transparency about costs, regulations came into force in April 2018 which require the Trustee to provide members with additional information in relation to investment charges and transactions costs.

The illustration has been prepared in accordance with the relevant statutory guidance and reflects the impact of costs and charges for three typical examples of members within the Fund, using the default lifestyle strategy and six of the self-select funds (which were selected for broadly representing the highest and lowest investment returns and charges, and popularity with members). The Annuity Target Lifestyle was the most popular Lifestyle option during this reporting period. This option was closed and replaced by the Blended Target Lifestyle on 1 July 2021 (outside of this reporting period). The illustration in the 2021/22 DC Chair's statement will reflect these changes.

The illustrations below show the projected fund values based on certain assumptions before and after charges so that the potential impact of charges is clearly shown. Members should be aware that these are simply illustrations, and so the actual fund values and implication of charges for an individual member are likely to differ due to personal details, investment choices and actual performance of the funds. This means that the information contained in this Appendix is not a substitute for the individual and personalised illustrations which are provided to members each year by the Fund.

| Example Member         | Projection period (years) | Annuity Target Lifestyle |               | World (ex-UK) Equity Index Fund |               | UK Equity Index Fund |               | World Emerging Markets Equity Index Fund |               |
|------------------------|---------------------------|--------------------------|---------------|---------------------------------|---------------|----------------------|---------------|--|---------------|
|                        |                           | Before charges           | After charges | Before charges                  | After charges | Before charges       | After charges | Before charges                           | After charges |
| Youngest member        | 1                         | £5,100                   | £5,100        | £5,100                          | £5,100        | £5,100               | £5,100        | £5,100                                   | £5,100        |
|                        | 3                         | £10,500                  | £10,500       | £10,600                         | £10,500       | £10,500              | £10,500       | £10,600                                  | £10,500       |
|                        | 5                         | £16,300                  | £16,200       | £16,400                         | £16,300       | £16,100              | £16,100       | £16,400                                  | £16,100       |
|                        | 10                        | £32,200                  | £31,800       | £32,400                         | £32,100       | £31,600              | £31,400       | £32,400                                  | £31,600       |
|                        | 15                        | £50,500                  | £49,600       | £51,100                         | £50,200       | £49,000              | £48,600       | £51,100                                  | £49,000       |
|                        | 20                        | £71,500                  | £69,900       | £72,700                         | £71,000       | £68,800              | £67,900       | £72,700                                  | £68,800       |
|                        | 25                        | £95,700                  | £92,900       | £97,700                         | £94,900       | £91,100              | £89,700       | £97,700                                  | £91,200       |
|                        | 30                        | £122,600                 | £118,300      | £126,800                        | £122,300      | £116,400             | £114,200      | £126,800                                 | £116,500      |
|                        | 35                        | £152,500                 | £146,000      | £160,400                        | £153,800      | £145,000             | £141,800      | £160,400                                 | £145,100      |
|                        | 45                        | £179,800                 | £170,100      | £244,700                        | £231,400      | £213,900             | £207,800      | £244,700                                 | £214,200      |
| Average member         | 1                         | £68,300                  | £68,100       | £68,400                         | £68,300       | £68,100              | £68,000       | £68,400                                  | £68,100       |
|                        | 3                         | £85,400                  | £84,900       | £86,000                         | £85,500       | £84,900              | £84,600       | £86,000                                  | £84,900       |
|                        | 5                         | £103,200                 | £102,300      | £104,600                        | £103,700      | £102,500             | £102,000      | £104,600                                 | £102,500      |
|                        | 10                        | £151,800                 | £149,300      | £156,300                        | £153,900      | £150,500             | £149,300      | £156,300                                 | £150,600      |
|                        | 15                        | £194,200                 | £189,600      | £216,200                        | £211,400      | £204,900             | £202,500      | £216,200                                 | £205,000      |
|                        | 20                        | £218,200                 | £212,100      | £285,600                        | £277,500      | £266,400             | £262,400      | £285,600                                 | £266,600      |
| Approaching retirement | 1                         | £72,500                  | £72,400       | £74,600                         | £74,400       | £74,200              | £74,100       | £74,600                                  | £74,200       |
|                        | 3                         | £86,500                  | £86,100       | £94,600                         | £94,100       | £93,400              | £93,100       | £94,600                                  | £93,400       |
|                        | 5                         | £99,000                  | £98,200       | £115,800                        | £114,800      | £113,500             | £113,000      | £115,800                                 | £113,500      |

| Example Member         | Projection period (years) | Diversified Fund |               | Over 5 Year Index Linked Gilts Index Fund |               | Cash Fund      |               |
|------------------------|---------------------------|------------------|---------------|---|---------------|----------------|---------------|
|                        |                           | Before charges   | After charges | Before charges                            | After charges | Before charges | After charges |
| Youngest member        | 1                         | £5,100           | £5,100        | £4,900                                    | £4,900        | £5,000         | £5,000        |
|                        | 3                         | £10,500          | £10,400       | £9,400                                    | £9,400        | £9,800         | £9,800        |
|                        | 5                         | £16,100          | £16,000       | £13,700                                   | £13,700       | £14,600        | £14,500       |
|                        | 10                        | £31,600          | £31,100       | £23,400                                   | £23,200       | £26,000        | £25,800       |
|                        | 15                        | £49,000          | £48,000       | £31,700                                   | £31,200       | £37,000        | £36,400       |
|                        | 20                        | £68,800          | £67,000       | £38,800                                   | £38,100       | £47,300        | £46,400       |
|                        | 25                        | £91,100          | £88,100       | £44,900                                   | £43,900       | £57,200        | £55,800       |
|                        | 30                        | £116,400         | £111,700      | £50,200                                   | £48,900       | £66,600        | £64,700       |
|                        | 35                        | £145,000         | £138,200      | £54,700                                   | £53,100       | £75,500        | £73,100       |
|                        | 40                        | £177,300         | £167,700      | £58,500                                   | £56,700       | £84,000        | £81,000       |
| 45                     | £213,900                  | £200,800         | £61,900       | £59,800                                   | £92,100       | £88,400        |               |
| Average member         | 1                         | £68,100          | £67,900       | £64,600                                   | £64,500       | £65,900        | £65,700       |
|                        | 3                         | £84,900          | £84,300       | £73,400                                   | £73,000       | £77,400        | £77,000       |
|                        | 5                         | £102,500         | £101,500      | £81,700                                   | £81,000       | £88,800        | £88,000       |
|                        | 10                        | £150,500         | £147,900      | £100,300                                  | £98,900       | £116,100       | £114,500      |
|                        | 15                        | £204,900         | £199,700      | £116,300                                  | £114,100      | £142,100       | £139,300      |
|                        | 20                        | £266,400         | £257,700      | £130,000                                  | £127,100      | £166,800       | £162,800      |
| Approaching retirement | 1                         | £74,200          | £74,100       | £70,400                                   | £70,300       | £71,800        | £71,700       |
|                        | 3                         | £93,400          | £92,800       | £80,800                                   | £80,400       | £85,200        | £84,800       |
|                        | 5                         | £113,500         | £112,400      | £90,600                                   | £89,900       | £98,400        | £97,600       |

#### Assumptions and notes

- Projected pension account values are shown in today's terms.
- Contributions and costs/charges that are shown as a monetary amount and reductions are made halfway through the year.
- Investment returns and costs/charges as a percentage reduction per annum are assumed to be deducted at the end of the year.
- Charges and costs are deducted before applying investment returns.
- Switching costs are not considered in the lifestyle strategy.
- Inflation is assumed to be 2.5% each year.
- Contributions are assumed to be paid from age 20 for the youngest example, 45 for the average member, and 60 for members approaching retirement. Contributions increase in line with assumed earnings inflation of 0% per year (in real terms).
- Values shown are estimates and are not guaranteed.
- The real projected growth rates for each fund are as follow:
  - Lifestyle strategy (default) – from -1.563% to 2.850% (adjusted depending on term to retirement)
  - World (ex-UK) Equity Index Fund – 3.000%
  - UK Equity Index Fund – 2.500%
  - World Emerging Markets Equity Index Fund – 3.000%
  - Diversified Fund – 2.500%
  - Over 5 Year Index Linked Gilts Index Fund – -3.000%
  - Cash Fund – -1.000%
- Transactions costs and other charges have been provided by LGIM and cover the period 01 April 2018 to 31 March 2021. Transaction costs have been averaged by WTW using a time-based approach. The transaction costs for Blended funds were estimated by WTW based on the transaction costs for the underlying funds.
- Pension scheme's normal retirement age is 65.
- Example members
  - Youngest: age 20, total initial contribution: £2,500, starting fund value: £2,500.
  - Average: age 45, total initial contribution: £6,500, starting fund value: £60,000.
  - Approaching retirement: age 60, total initial contribution: £7,500, starting fund value: £65,000.

## Appendix – Statement of Investment Principles

### Balfour Beatty Pension Fund Statement of Investment Principles July 2020

#### Introduction

This document is the Statement of Investment Principles ('SIP') made by the Trustee of the Balfour Beatty Pension Fund (the 'Fund') in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004) and regulations made under it (the Occupational Pension Schemes (Investment) Regulations 2005).

The Trustee will review this SIP at least every three years and without delay after any significant change in investment policy.

Before finalising this SIP, the Trustee has:

- obtained and considered written advice from the Fund's Investment Consultant (Willis Towers Watson); and
- consulted Balfour Beatty plc (the 'Employer') who has been nominated for this purpose by all of the Fund employers.

The ultimate power and responsibility for deciding investment policy, however, lies solely with the Trustee.

#### Governance

The development and implementation of appropriate investment strategies for the Fund's assets is a key responsibility of the Trustee of the Fund.

The board of the Trustee (the "Trust Board") has established an Investment Committee (the "IC") in accordance with the Trustee's articles of association. The IC will, within certain parameters, make the Trustee's decisions. The role of the IC is set out in a Terms of Reference agreed by the Trust Board.

As the IC is a committee of the Trustee established in accordance with its articles of association, the decisions of the IC stand as the decisions of the Trustee. The Trust Board remains ultimately responsible for the investment of the Fund's assets.

The Trustee has appointed the Investment Consultant to provide Investment Advisory and Fiduciary Management services. The Fiduciary Management services involve the Investment Consultant being delegated authority to implement aspects of the Fund's investment strategy within guidelines set out in a Fiduciary Management Agreement (the "FMA"). The Investment Consultant considers the FMA, the guidelines and the Trustee's policies set out within this statement when carrying out its role and responsibilities, which ensures appropriate incentivisation and alignment of decision-making with the Trustee's overall objectives, strategy and policies.

The Trustee has also established an Investment Operations Committee (the "IOC") to support the IC in overseeing the activities that have been delegated to the Investment Consultant. The role of the IOC is set out in a separate Terms of Reference, which has been developed and will be maintained by the IC.

## Defined Benefit Section of the Fund

### Trustee mission and objectives

The Trustee's ultimate mission is to ensure that there are sufficient assets available to pay members' and dependants' benefits as and when they fall due. Over the longer term, the Trustee seeks to achieve this mission by accumulating sufficient assets that its reliance on the employers in fulfilling the Trustee's obligations is substantially reduced. At this point, the Trustee would be able to adopt a low risk investment strategy in which a large proportion of investment and longevity risks are removed.

The Trustee has established a Journey Plan towards achieving its mission which encapsulates its high level investment objectives as follows:

- to be fully funded on a gilts +0.5% basis with an additional margin (of 6.5%) to cover retained investment and longevity risks
- to achieve this position by 31 March 2027
- to target a return of gilts +2.0% pa with effect from 30 June 2020, with an expectation that the risk and return will gradually reduce over the period of the Journey Plan

The Trustee's assessment of the strength of the employers' covenant was considered in agreeing these objectives.

### Investment strategy

The Trustee acting through the IC (or the Investment Consultant where and to the extent that appropriate authority has been delegated) will determine an appropriate investment strategy for the Fund consistent with achieving the investment objectives.

The kinds of investments to be held and the balance between different types of investments will be determined from time to time by the Trustee acting through the IC (or the Investment Consultant where and to the extent that appropriate authority has been delegated) with regard to maximising the chance of achieving the Fund's investment objective. This will take into account expectations of returns, risk and correlations between the asset classes in which the Fund invests.

The Trustee acting through the IC (or the Investment Consultant where and to the extent that appropriate authority has been delegated) will determine what proportion of risks, including interest rate, inflation and longevity risk should be hedged. This will be specified in the form of a target hedge ratio of each risk.

The Trustee acting through the IC will monitor the liability profile of the Fund and will review, at least every three years but more frequently if deemed necessary, in conjunction with the Investment Consultant and the Scheme Actuary, the appropriateness of the Fund's investment strategy. Further details of the Fund's investment strategy from time to time are set out in the Trustee's Investment Strategy Summary document.

The Fund will hold assets in cash and other money market instruments from time to time as may be deemed appropriate. The Trustee's policy is that there will be sufficient investments in liquid or readily realisable assets to meet cashflow requirements in foreseeable circumstances so that the realisation of assets will not disrupt the Fund's overall investments, where practicable. The Balfour Beatty Pensions Team will be responsible for the management of the Fund's benefit and other payment obligations.

## Investment managers

The Trustee has delegated investment manager selection, de-selection and the ongoing management of relationships with asset managers to the Investment Consultant within Investment Guidelines set by the Trustee. The Trustee considers the Investment Consultant's performance in carrying out these responsibilities as part of its ongoing oversight of the Investment Consultant. The Trustee expects the Investment Consultant to ensure that, the portfolio, in aggregate, is consistent with the policies set out in this statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). Where relevant to the mandate, the Trustee expects the Investment Consultant to:

- ensure that the investment objectives and guidelines of any pooled vehicle are consistent with the Trustee's policies;
- use its discretion, where appropriate, to set explicit guidelines within the Investment Management Agreement for segregated investments to ensure consistency with the Trustee's policies.

In accordance with the Financial Services and Markets Act 2000, the Trustee (through the IC) will set general investment policy, but will delegate the responsibility for the selection of specific investments to appointed investment managers. The investment managers shall provide the skill and expertise necessary to manage the investments of the Fund competently.

The Trustee and Investment Consultant are not involved in the investment managers' day-to-day method of operation and do not directly seek to influence attainment of their performance targets. The Investment Consultant will maintain processes to ensure that performance and risk are assessed on a regular basis against measurable objectives for each investment manager, consistent with the achievement of the Fund's long term objectives

The Trustee expects the Investment Consultant to appoint investment managers with an expectation of a long-term partnership, which encourages active ownership of the Fund's assets. When assessing a manager's performance, the Trustee expects the Investment Consultant to focus on longer-term outcomes, commensurate with the Trustee's position as a long term investor. Consistent with this view, the Trustee does not expect that the Investment Consultant would terminate a manager's appointment based purely on short term performance but recognises that a manager may be terminated within a short timeframe due to other factors such as a significant change in business structure or the investment team. The Trustee adopts the same long term focus as part of its ongoing oversight of the Investment Consultant.

For most of the Fund's investments, the Trustee expects the Investment Consultant to appoint managers that have a medium to long time horizon, consistent with the Fund. In particular areas such as equity and credit, the Trustee expects the Investment Consultant to work with managers who will use their engagement activity to drive improved performance over medium to long term periods within the wider context of long-term sustainable investment. The Trustee notes that the Investment Consultant may invest in certain strategies where such engagement is not deemed appropriate or possible, due to the nature of the strategy and/or the investment time horizon underlying decision making. The Trustee expects that the appropriateness of the Fund's allocation to such mandates is determined in the context of the Fund's overall objectives.

The Trustee expects the Investment Consultant to consider the fee structures of asset managers and the alignment of interests created by these fee structures as part of its investment decision making process, both at the appointment of an asset manager and on an ongoing basis. Asset managers are generally paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement. The Trustee expects the Investment Consultant to review and report on the costs incurred in managing the Fund's assets regularly, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustee expects the Investment Consultant to have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

## Financially material considerations

The Trustee recognises that factors including, but not limited to, environmental, social and governance (ESG) factors, including climate change, can have a material financial impact on the Fund given its long time horizon, and that taking account of such 'financially material considerations' as part of investment decision-making is expected to have a positive financial benefit to the Fund over the longer term.

Responsibility for taking into account financially material considerations is primarily delegated to the Investment Consultant and the investment managers. Where appropriate, they have produced, or will be requested to produce, statements setting out their policy in this regard.

The Trustee's expectation is that the Investment Consultant will allow for such considerations directly in determining the type of assets to hold and the balance between these assets as part of the Fiduciary Management services it provides. It will also assess how investment managers take financially material considerations into account in the selection, retention and realisation of investments, and this assessment will form part of the criteria for appointing, retaining or terminating the investment managers.

The Trustee delegates the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long-term shareholder value. Where appropriate, the managers have produced, or will be requested to produce, written guidelines of their process and practice in this regard. The managers are encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.

The Trustee delegates responsibility for engagement in respect of investments held by the Fund to the investment managers (which could include a specialist engagement manager if deemed appropriate). The Trustee's expectation is that engagement will take place, either directly or as part of a collective multi-investor initiative as appropriate, with the aim of protecting or enhancing the value of the Fund's investments. The Investment Consultant has appointed Hermes EOS to support its efforts in public policy engagement and to carry out company-level engagement alongside the appointed investment managers.

The Trustee expects the Investment Consultant to engage with underlying managers where appropriate regarding their approach to stewardship with respect to relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings. In addition, the Trustee expects the Investment Consultant to review the managers' approach to sustainable investment (including engagement) on a regular basis and engage with the manager to encourage further alignment as appropriate.

The Investment Consultant encourages and expects the Fund's investment managers to sign up to local or other applicable Stewardship Codes, in-keeping with good practice, subject to the extent of materiality for certain asset classes. The Investment Consultant itself is a signatory to the Principles for Responsible Investment (PRI) and the UK Stewardship Code and is actively involved in external collaborations and initiatives.

Monitoring how the investment managers fulfil their responsibilities with regards voting and engagement forms part of the Investment Consultant's role.

## Non-financial matters

The Trustee recognises that members and beneficiaries may have ethical views or views on matters such as the social and environmental impact of the Fund's investments. In conjunction with there being practical challenges of capturing and maintaining a consensus view on multiple issues across a large and varied membership population, it is the Trustee's view that financial factors should take precedence in seeking to maximise the security of member benefits. As such, it is the Trustee's policy not to take into account the views of members or beneficiaries when taking investment decisions related to the Defined Benefit section of the Fund.

## Risk management

The Trustee recognises that there are a number of risks involved in investing the assets of the Fund. Assessing and monitoring these risks is undertaken by the IC or the Investment Consultant as appropriate (except sponsor risk which is undertaken by the Trustee). The key risks, and the approach used to manage these risks, is set out below.

| <b>Risk</b>                      | <b>Definition</b>   | <b>How is the risk managed?</b>  |
|----------------------------------|---|--|
| Total investment risk            | The risk that the Fund's assets underperform the liabilities causing a deficit to emerge/increase. The risk can be measured using metrics such as Value at Risk (VaR) and Funding Level at Risk (FLaR). | By assessing the risk using asset liability modelling techniques and maintaining the VaR and FLaR within the portfolio at a level that is considered acceptable.<br>By understanding the investment risks to which the assets are exposed, mitigating risks which are expected to be poorly rewarded through hedging and holding a diversified exposure to those risks which are expected to be well rewarded. |
| Sponsor risk                     | The risk that the sponsor is unable to fulfil its responsibilities to the Fund, at a time where there are insufficient assets to fully secure the Fund's liabilities.                                   | By regularly monitoring the sponsor covenant and setting a Journey Plan targeting a level of funding at which sponsor risk is materially reduced. A proportion of the agreed contributions are also supported by assets within a Scottish Limited Partnership structure.   |
| Interest rate and inflation risk | The risk that changes in interest rates or inflation expectations causes an increase in the deficit due to the assets and liabilities having different exposures to these variables.                    | By quantifying the exposure to these variables within the liabilities, agreeing how much of this exposure should be hedged and by structuring a portfolio of assets to provide this hedge.   |
| Longevity risk                   | The risk that members live longer than expected causing an increase in the Fund's liabilities.  | By allowing for changes in future mortality within the actuarial valuation basis. The risk may also be mitigated using insurance products or longevity hedging instruments if deemed appropriate.  |
| Currency risk                    | The risk that changes in the exchange rate between Sterling and a foreign currency will negatively impact the value of the Fund's assets.   | By setting a limit on the aggregate exposure to non-Sterling currencies within the Fund's assets and, where necessary, using currency hedging to reduce the exposure to this risk.   |
| Liquidity risk                   | The risk that the Fund is unable to meet shorter term cashflows as a result of being unable to redeem assets within a suitable timeframe.   | By projecting the likely shorter term cashflow requirements, by holding a cash allocation to cover these payments and by controlling the proportion of the Fund that is invested in assets with different degrees of liquidity.  |
| Manager risk                     | The risk that poor performance from a manager, relative to a market index or other benchmark, results in a negative impact on the Fund.   | By understanding the investment approach used by the manager and the likely risk and return profile of the manager's portfolio and by diversifying the Fund's assets across multiple managers.   |
| Counterparty risk                | The risk that a counterparty to which the Fund has exposure defaults resulting in a loss to the Fund.   | By setting limits on the minimum credit quality of Fund counterparties, by ensuring exposure is diversified across a range of counterparties and, where possible, by requiring counterparties to post collateral to cover the Fund's exposure in the event of default.   |
| Inappropriate investments        | The risk that the Fund invests in an asset which is unsuitable for its circumstances from a legal or investment perspective.  | By ensuring that all Fund investments are considered satisfactory in the context of Section 36 of the Pensions Act and that appropriate legal advice is received before an investment is made.   |

## Monitoring

The Trustee acting through the IC will monitor the progress of the Fund's assets versus the objectives, and monitor the Investment Consultant. In performing this monitoring role the IC will be supported by the IOC. Further detail on the monitoring responsibilities are set out within the relevant Terms of Reference documents.

## Defined Contribution Section of the Fund

### Investment objectives and strategy

With regards to the Fund's DC investments, one of the Trustee's primary objectives is to make available appropriate investment options through which members can invest.

In determining which investment options to make available, the Trustee has considered the investment risk associated with defined contribution pension investment. This risk can be defined as the uncertainty in the ultimate amount of savings available on retirement, which will be taken out as cash or through income drawdown or used to purchase an annuity that will provide retirement benefits. There are a number of factors which contribute to this uncertainty. Some of these factors (such as the amount of contributions paid and the length of time these contributions are invested) cannot be managed by the investment options made available to members.

The DC accounts are held in funds which can be sold to provide benefits on retirement, or earlier on transfer to another pension arrangement. The investments are in pooled funds, ensuring members' investments can achieve sufficient diversification and that investments may be readily realisable.

The Trustee recognises that members have differing investment needs and that these may change during the course of members' working lives. The Trustee also recognises that members have different attitudes to risk. The Trustee believes that members should make their own investment decisions based on their individual circumstances. The Trustee's policy is for the investment funds offered to cover a sufficiently broad range of asset classes to allow individual members to invest in a manner which is consistent with their own risk preferences and other circumstances.

The Trustee also recognises that some members may not feel confident enough to take many investment decisions. The Trustee therefore offers two overall approaches for members to invest their DC account:

1. Self-select – this approach has been made available for those members who would like to manage the investment of their DC account.
2. Lifestyle – this approach has been made available for those members who wish to have a less active role in managing their investments. Under this approach, members' investments are automatically switched from higher risk funds into lower risk funds as they move towards their planned retirement age.

The Trustee offers four lifestyle options which aim to achieve capital growth in the early stages by investing in equities before gradually and automatically introducing greater diversification and moving towards a retirement portfolio which matches each lifestyle option's target retirement objective, as the member approaches their planned retirement age.

### Annuity Target Lifestyle

Younger members' accounts are invested in equities before switching into the Diversified Fund from 20 years prior to retirement. From ten years before planned retirement date, assets begin switching into bonds and cash assets towards a final at-retirement asset allocation of 25% Cash Fund and 75% Inflation-linked Annuity Protection Fund.

### **Blended Target Lifestyle**

Younger members' accounts are invested in the All World Equity Index Fund before switching into the Diversified Fund from 25 years prior to retirement. From seven years before planned retirement date, some assets begin switching into cash assets towards a final at-retirement asset allocation of 55% Diversified Fund and 45% Cash Fund.

### **Cash Target Lifestyle**

Younger members' accounts are invested in the All World Equity Index Fund before switching into the Diversified Fund from 25 years prior to retirement. From seven years before planned retirement date, some assets begin switching into cash assets towards a final at-retirement asset allocation of 20% Diversified Fund and 80% Cash Fund.

### **Drawdown Target Lifestyle**

Younger members' accounts are invested in the All World Equity Index Fund before switching into the Diversified Fund from 25 years prior to retirement. From seven years before planned retirement date, some assets begin switching into cash assets towards a final at-retirement asset allocation of 75% Diversified Fund and 25% Cash Fund.

The Trustee believes that the aim, design and operation of the lifestyle approach ensure that the assets are invested in the best interests of those members who wish to have a less active role in managing their investments by automatically changing the mix of investments as they approach their planned retirement date in a way which helps manage the risks mentioned below.

The Trustee's intention is that all members, including those investing through the lifestyle approach, should understand the investment choices they make so that their chosen investment options are appropriate to their own circumstances.

A list of the investment funds that are currently provided alongside the lifestyle strategy, along with the objective of each fund, is listed in Appendix 1 – DC Fund Range. The suitability of the investment options provided is regularly reviewed by the Trustee and from time to time will be changed as appropriate.

### **Financially material considerations**

The Trustee takes account of all financially material risks and opportunities in consultation with its advisers in the context of setting and implementing its investment strategy. All risks and opportunities are considered for materiality and potential financial impact to member outcomes over the longer term.

The Trustee's policy is that day-to-day decisions relating to the investment of the Fund's DC assets is left to the discretion of its appointed investment managers. This includes consideration of all financially material factors, including (but not limited to) those arising from Environmental, Social and Governance (ESG) related issues where relevant, including climate change. The Trustee explores these issues with its investment managers to understand how they exercise these duties in practice and receives reports on how these issues are addressed.

When considering the appointment of new investment managers, and reviewing existing investment managers, the Trustee, together with its Investment Consultant, looks to take account of the approach taken by investment managers with respect to sustainable investing including voting policies, stewardship and engagement where relevant.

The Trustee policy is to delegate responsibility for the exercising of ownership rights (including voting rights) attaching to investments to the investment managers. The Trustee recognises the UK Stewardship Code as best practice and encourages their investment managers to comply with the UK Stewardship Code or explain where they do not adhere to this policy and understand their differing approach.

## **Non-financial matters**

In line with the policy on non-financial matters adopted for the Defined Benefit section of the Fund, the Trustee does not take into account the views of members or beneficiaries on non-financial matters when setting investment strategy for the Defined Contribution section of the Fund.

## **Arrangement with investment manager**

The Fund uses Legal & General to implement its investment policies. The Trustee ensures that, in aggregate, the investment options are consistent with the policies set out in this SIP, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). The Trustee will also ensure that the investment objectives and guidelines of any particular pooled vehicle are consistent with its policies, where relevant to the mandate in question. These considerations will also apply in the appointment process of any new investment managers and arrangements.

To maintain alignment, the investment manager is provided with the most recent version of this SIP on a periodic basis to ensure the manager is aware of the Trustee's expectations regarding how the Fund's assets are being managed.

Should the Trustee's monitoring process reveal that a fund is not aligned with the Trustee's policies, the Trustee will engage with the investment manager to ascertain the reasons for this and whether closer alignment can be achieved. This monitoring process includes, but is not limited to, specific consideration of the sustainable investment/ESG characteristics of the fund and the investment manager's engagement activities. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the Trustee may consider alternative options available in order to consider terminating and replacing the investment manager.

For most of the Fund's investment funds, the Trustee expects the investment manager to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods. The Trustee may select certain investment funds where such engagement is not deemed appropriate, due to the nature of the strategy and/or the investment time horizon underlying decision making.

The Trustee appoints the investment manager with an expectation of a long-term partnership, which encourages active ownership of the Fund's assets. When assessing the investment manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate the investment manager's appointment based purely on short term performance. However, the investment manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

The investment manager receives ad valorem fees calculated by reference to the market value of assets under management, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement.

The Trustee will review the costs incurred in managing the Fund's assets periodically, which includes the costs associated with portfolio turnover, including regular engagement with the investment manager on this subject and through the receipt of cost and charges reporting. There is no broad targeted portfolio turnover (how frequently assets within a fund are bought and sold) which the Trustee adheres to. The Trustee, with the help of the Investment Consultant, will monitor that the level of portfolio turnover remains appropriate in the context of the investment manager's strategy and the Fund's investment strategy.

## Risk Management

The Trustee recognises that there are a number of investment risks that are faced by members of the DC Section which include:

- a. 'Inflation risk' – the risk that the investment return over members' working lives does not keep pace with inflation and does not therefore secure adequate benefits in retirement. The Trustee's objective is to provide an investment option that is expected to provide a long-term rate of return that exceeds inflation. Such an option would largely consist of "equity" / "growth" investments.
- b. 'Mis-match risk' – the risk that investment allocations in the years just prior to retirement do not match members' retirement objectives, exposing members to inefficient or uncertain outcomes. The Trustee is satisfied that the range of funds offered will enable members to safeguard against this risk. The lifestyle strategy also aims to reduce the mismatch between how members are invested in the years prior to retirement and the price of annuities.
- c. 'Manager risk' – the risk that the chosen investment manager underperforms the benchmark against which the investment manager is assessed. The Trustee believes that by offering index tracking funds, this reduces the risk of underperformance. The Trustee will regularly monitor the performance of the chosen investment manager and take action if necessary.
- d. 'Capital risk' – the risk of a fall in the value of the members' funds. The Trustee's objective is to provide an investment option that offers a very low risk of capital loss. A cash fund is an example of such an option.
- e. 'Shortfall' or 'opportunity cost' risk – the risk that members end up with insufficient funds at retirement with which to secure a reasonable income due to continued investment in low risk and low return funds. The Trustee offers growth focused investment options and the lifestyle strategy aims to expose members to an appropriate risk and return profile throughout its duration.

The Fund provides a facility for members to pay AVCs to enhance their benefits at retirement. Members are offered the range of funds offered to DC members, which the Trustee considers will provide a suitable long-term return for members, consistent with members' reasonable expectations and their preferences between risk and return.

The Fund's Investment Consultant will provide written advice that the Fund's investments are satisfactory for the purpose of satisfying Section 36 of the Pensions Act.

**Signed:**

**Name:** Stuart Benson

**Date:** 17 September 2020

Authorised for and on behalf of the Trustee of the Fund

## Appendix 1 – Defined Contribution Fund Range

The below table details the DC fund range. The funds gain exposure to assets by investing in one or more underlying investment funds. These funds may use derivatives for the purpose of efficient portfolio management, reduction of risk or to meet their respective investment objective if this is permitted and appropriate. The underlying investment funds of the DC fund range may be actively or passively managed depending on the DC fund.

The Trustee has appointed Legal & General Investment Management (LGIM) to provide a range of funds which will deliver returns to members in the DC section of the Fund. The investment funds available and their charges, objectives and benchmarks are set out below:

| Fund Name                                 | Fund AMC | Fund Objective  | Benchmark  |
|---|----------|---|--|
| UK Equity Index Fund                      | 0.050%   | The objective of the fund is to track the return of the FTSE All-Share Index to within +/- 0.25% p.a. for two years out of three.   | FTSE All-Share Index   |
| World (ex-UK) Equity Index Fund           | 0.135%   | The objective of the fund is to track the performance of the FTSE World (ex UK) Index (less withholding tax if applicable) to within +/-0.5% p.a. for two years out of three.   | FTSE World ex UK Index   |
| World Emerging Markets Equity Index Fund  | 0.400%   | The objective of the fund is to track the performance of the FTSE Emerging Index (less withholding tax if applicable) to within +/-1.5% p.a. for two years out of three.  | FTSE All-World Emerging Markets Index  |
| Future World Global Equity Index Fund     | 0.150%   | The objective of the fund is to track the performance of the Solactive L&G ESG Global Markets Index (less withholding tax where applicable) to within +/- 0.60% p.a. for two years out of three   | Solactive L&G ESG Global Markets Index   |
| Diversified Fund                          | 0.180%   | The objective of the fund is to provide long-term investment growth through exposure to a diversified range of asset classes. The long-term expected rate of return of the fund is broadly similar to that of a developed market equity fund. The diversified nature of the fund means that it is expected to have less exposure than a pure equity fund to adverse equity market conditions. However, the fund may perform less strongly than a pure equity fund in benign or positive market conditions | FTSE Developed World Index (50% hedged to GBP),  |
| Over 5 year Index-linked Gilts Index Fund | 0.050%   | The objective of the fund is to track the performance of the FTSE A Index-linked (Over 5 year) Index to within +/-0.25% p.a. for two years out of three.  | FTSE A Index-linked (Over 5 year) Index  |
| Corporate Bond All Stocks Index Fund      | 0.150%   | The objective of the fund is to track the performance of the Markit iBoxx £ Non-Gilt (ex-BBB) Index to within +/-0.5% p.a. for two years out of three.  | Markit iBoxx £ Non-Gilt (ex-BBB) Index   |
| Inflation-linked Annuity Protection Fund  | 0.100%   | The objective of the fund is to provide diversified exposure to Sterling assets that reflect the broad characteristics of investments underlying the pricing of a typical inflation-linked annuity product.   | 50% Markit iBoxx Sterling Non-Gilts (ex BBB) Index and 50% FTSE A Index-Linked (Over 5 Year) Index |
| Cash Fund                                 | 0.110%   | The objective of the fund is to allow members to build up a proportion of their Fund for a tax-free lump sum on retirement. It is designed to perform in line with 7 Day LIBID, without incurring excessive risk.   | 7 Day LIBID  |
| All World Equity Index Fund <sup>1</sup>  | 0.150%   | The objective of the fund is to track the performance of the FTSE All-World Index (less withholding tax where applicable) to within +/- 0.5% per annum for two years out of three.  | FTSE All-World Index   |

1. Constituent of Blended Target Lifestyle, Cash Target Lifestyle and Drawdown Target Lifestyle only