Trustee Statement of Investment Principles

Reviewed by the Investment Committee: 19 September 2018

Approved by the Trustee Board: 8 November 2018

1. Introduction

1.1. **The Pensions Trust** is an occupational pension scheme. In considering the appropriate investments, the Corporate Trustee, Verity Trustees Limited (the Trustee), has obtained and considered the written advice of their Investment Consultant, whom the Trustee believes to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005. The Trustee has consulted the participating employers about this Statement of Investment Principles.

2. Appointments and Delegation

2.1. The Trustee has delegated investment decisions and compliance stewardship to a formal Investment Committee (IC) and a Chief Investment Officer (CIO) that report back to the Trustee.

2.2. The IC has delegated day-to-day investment management to authorised managers and has taken steps to satisfy itself that the managers have the appropriate knowledge and experience for managing TPT's investments. These appointments are regularly reviewed. The details of individual managers are published each year in the investment report within the Trustee's Annual Report.

3. Investment Beliefs

3.1 The Trustee has agreed a set of Investment Beliefs that the IC and CIO use as a framework when making decisions and agreeing investment strategy. The Investment Beliefs are reviewed annually and published each year and are published on TPT's website.

4. Investment Strategies for Defined Benefits assets

4.1 Investment strategy involves the decision on the mix between Liability Focused Assets (assets that will have similar characteristics to the liabilities, for example interest rate and inflation sensitivity) and Growth assets. Growth assets have the potential for higher returns but typically bring additional risk.

4.2 The investment strategy for each individual scheme will be determined after considering the liability and risk profile of the scheme. In addition, the investment strategy takes into account the underlying financial strength of the employer(s) and its ability and willingness to contribute appropriately to the scheme.

4.3 In order to meet the long-term funding objectives with an acceptable level of contributions, the Trustee seeks to control investment risk relative to each scheme's liabilities but does not necessarily fully match the liabilities.

4.4 By allocating to Growth assets the strategy targets a greater return than Liability Focused Assets are expected to provide. Investment risk is measured using different metrics, including the likely annual variation in return between the matching portfolio of investments and the investment strategy adopted.

4.5 The Growth portfolio aims to be well diversified between asset classes and return drivers. The strategy for each scheme is reviewed at least every three years to ensure it remains appropriate.

5. Investment Strategies for Defined Contribution assets

5.1 The Trustee recognises that individual members have differing investment needs, that these may change during the course of members' working lives and that members have differing attitudes to risk. The Trustee has established a suite of funds based on the 'target date fund' concept, i.e. funds that do not require members to make their own investment decisions and are designed to be suitable for members' own individual expected retirement date.

5.2 For those members who do wish to make their own investment decisions, self-select investment funds are available.

5.3 All funds are made available after the provision to the Trustee of appropriate written advice. In doing this the Trustee has taken into account the risk that the investments might not, over a member's working life, produce adequate returns and that during the period preceding retirement a change in investment market conditions might lead to a reduction in anticipated benefits.

5.4 The investment objective for the default strategy is set by the Trustee and is reviewed annually.

5.5 The performance of the default strategy funds and the 'self-select' funds is monitored on a quarterly basis by the IC and reviewed annually in conjunction with the managers of the funds.

5.6 The on-going suitability of the default target date funds and the range of self-select funds is also reviewed annually by the IC.

5.7 The main risk is that the investment returns over the life of the funds fail to meet their fund-specific performance objective. For the target date funds, this is expressed as an investment return in excess of inflation (measured by CPI). The investment manager seeks to dampen the impact of short-term market moves by adjusting the asset allocation tactically. Over the life of the fund the strategic asset allocation shifts so that as a member approaches retirement the exposure to Growth assets is reduced in favour of more defensive, less volatile assets. The self-select funds are chosen by members who bear the risks associated with their chosen fund(s).

5.8 The range of DC funds comprises unitised products which are dealt on a daily basis and so are readily realisable.

5.9 The DC funds invest in a range of underlying funds which are managed by third party managers. The Trustee strives to ensure that these managers' environmental, social and governance (ESG) policies are in line with TPT's policies. A suite of ethical target date funds is available for members who wish to invest in accordance with ethical considerations.

5.10 The Trustee is unable to exercise voting rights on investments made through third party managers in pooled funds.

6. Investment Return

6.1 The IC and CIO determine the targets for each manager and monitor their performance using quarterly independent reports. The Trustee believes it is desirable to balance return and risk by using a combination of index tracking and active managers, and by taking account of the different investment styles of active managers. In the longer term this approach is expected to produce overall returns in excess of those of the relevant market indices. For the DC funds, the long–term performance of the target date funds depends on the asset allocation strategy of the manager; the self-select funds are designed to match the performance of the underlying index tracking funds (after allowing for fees).

7. Management and Risk

7.1 Investments are held by Custodians (or property deeds are held directly). Only designated persons can authorise the transfer of assets between managers. Each investment manager executes its own stock selection policy within asset allocation control targets agreed with the IC. The discretionary managers determine the investments held, subject to objectives agreed and reviewed from time to time. Most assets are quickly marketable. Investments may be realised from time to time as required to provide funds to make payment of benefits. Formal meetings are held regularly with the investment managers and custodians. By using a number of investment managers, the risk attached to adverse performance by any one manager is reduced. Derivative contracts can only be used with the prior agreement of the IC.

7.2 For DC, our relationship with the provider of the funds is governed by an insurance policy; the Trustee has no direct ownership of the underlying funds. The default funds and the self-select options invest in a range of (mainly) index tracking funds which are provided by leading investment houses. Regular meetings are held with the provider of the DC funds and the manager of the target date funds to assess protection for members and contingency plans. All funds are accessible on a daily basis.

7.3 The following risks, which are not exhaustive, are assessed and monitored regularly.

Risk	Description	Mitigation
Basis	Liabilities cannot be perfectly matched	Modelling of liabilities using Asset-Liability software enables risk relative to liabilities to be understood and monitored. Additionally, work with the LDI manager enables LDI approaches to be designed to mitigate mismatch risks
Concentration	A high proportion of the assets are invested in securities of the same, or related, issuer or in the same or similar industry sectors	Provide an appropriate spread of assets by type and spread of individual securities within each asset class through the overall investment arrangements
Counterparty	Schemes or managers enter into financial contracts with a third party which then fails, probably due to default, to fulfil its obligations	Set an appropriately high minimum credit rating of counterparties to transact with and limit the exposure to any single counterparty. Collateral is required from counterparties to financial contracts to mitigate the loss in the event they fail to fulfil their obligations under the contracts
Covenant	Financial capacity and willingness of the sponsoring employers to support the scheme	Monitor and review on a regular basis
Credit	Default by issuers of financial assets and the risk that the value of these assets depreciates as a result of an increase in the overall level of perceived credit risk in the market	Control by imposing limits on the amount and type of credit assets that can be held
ESG & Climate Change	Downside risks that results from environmental, social and governance (ESG) related factors including climate change.	Responsible Investment policy sets out ESG risk management strategy as an integral part of investment decision making process, with specific reference to climate change.
Foreign Exchange	Losses that result from unhedged overseas investments	Implement a dedicated foreign currency hedging programme
Illiquidity	Inability of assets to be sold quickly or sold at fair market values	Set a prudent limit for the proportion of liquid assets to be held in the portfolio and monitor the exposure on a regular basis
Longevity	Pensioners live longer than expected, leading to greater than expected benefit payments being made	Monitor schemes’ mortality experience and mortality trends, and consider the likely outlook for future experience. Carry out sensitivity testing on the mortality assumptions to determine the impact of

		changes in the assumptions
Manager	Investment managers persistently underperform their performance objectives	Maintain a robust manager selection and monitoring process, manager diversification, tracking error limits and performance targets
Mismatch	Mismatch between the schemes' assets and liabilities, particularly in relation to the impact of changes in long term interest rates and inflation	Implement bespoke liability hedging solutions to manage a significant portion of the mismatch risk for each scheme
Operational	Loss arising from insufficient internal processes, people or systems and external events. This includes risk arising from the custody or transfer of assets, either internally or from new schemes entering the Trust (see 7.1)	Ensure processes and procedures are robust, documented and operated by trained personnel. Appropriately test systems and put in place appropriate business continuity plans
Strategic Investment	The selected long-term investment strategy fails to deliver the level of expected return or risk characteristics necessary to meet the underlying schemes' objectives	Set risk measures and limits, to be monitored regularly. Consider valuation metrics for investments, review strategic allocations on a regular basis

8. Responsible Investment, Climate Change, Voting and Engagement

8.1 The Trustee will act wherever reasonably possible as a responsible asset owner and market participant across all of its investments. The Trustee believes that responsible investment (incorporating Environmental, Social and Governance factors) reduces investment risk and has the potential to enhance returns and it has set out its framework for integrating this into the investment process in its Responsible Investment policy.

8.2 The Trustee is a signatory to the Principles for Responsible Investment (PRI) and the UK Stewardship Code and supports other industry wide initiatives to promote responsible investment

8.3 TPT's Climate Change Policy is a strategic part of its approach to being a responsible investor. The policy drives an understanding of exposure to climate change risks and opportunities at the portfolio level for both DB and DC investments, and it helps to ensure that new and existing investments are managed in a way that takes account of these risks.

8.4 TPT's Voting and Engagement policy requires its investment managers to follow the PLSA's Corporate Governance Policy and Voting Guidelines, the G20/OECD Principles of Corporate Governance and the ICGN's Statement on Global Governance, unless it is the case that the investment manager's own Voting & Engagement policies better reflect TPT's Investment Beliefs.

8.5 The IC takes appropriate steps to implement and monitor these policies and will take due account of these matters in the manager selection and monitoring process. Where relevant it will formally include reference to its expectations on ESG in the legal documentation its puts in place with managers and service providers.

8.6 In the case of DC, the underlying investments comprise mainly pooled index tracking funds managed by third-party managers. To the extent possible the Trustee seeks to implement its Responsible Investment and Climate Change policies into the underlying investment, which may include allocating to ESG indices and/or low-carbon investments where appropriate. The Trustee provides ethical investment options for both its Defined Benefit and Defined Contribution schemes.

9. Funding Requirements

9.1 The Trustee receives independent professional advice from its actuary in order to ensure that the funding obligations of the Pensions Act 1995 and the Pensions Act 2004 are complied with. Each scheme is individually valued in order to assess its own funding position relative to its obligations to members.

10. Compliance

10.1 The IC requires all investment managers to confirm, through their reporting, that the investments are diversified and suitable, and that they have complied with the principles set out in this Statement. The Trustee will review this Statement annually and without delay after any significant change in investment policy.

10.2 Consultation with participating employers will be undertaken if these investment principles change.

10.3 The investment strategy and expected return details of individual schemes will be available to members of that scheme on request from TPT.

10.4 In the case of DC a common investment policy is offered to all employers, with the target date funds being offered as the default and members able to choose from a range of self-select options. Fact sheets on all the DC funds are available to members on TPT’s website.