

Vp Pension Scheme (DB Section)

Statement of Investment Principles

September 2020

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Glossary

LGIM	Legal & General Investment Management Limited
ESG	Environmental, Social and Governance (including, but not limited to, climate change)
LDI	Liability Driven Investment
Scheme	Vp Pension Scheme
Trustee	The Trustee of the Scheme
UNPRI	United Nations Principles for Responsible Investment

1. Introduction

This statement is made in accordance with the requirements of legislation¹ and, in determining a suitable investment strategy for the Scheme, the Trustee has considered The Pension Regulator's Investment Guidance for defined benefit pension schemes.

The main body of this statement sets out the principles and policies that govern investments made by the Trustee of the Scheme. Details of the specific investment arrangements in place are set out in the Appendices.

Upon request, a copy of this statement will be made available to members, the Scheme Actuary and any investment managers used by the Trustee.

¹ In particular, the Pensions Act 1995, the Occupational Pensions (Investment) Regulations 2005 and the Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

2. Investment Governance Structure

Investment Advice

As required by legislation, in the preparation and maintenance of this statement and when considering the suitability of any investments, the Trustee will obtain and consider written advice from its investment adviser.

The Trustee is advised on investment matters by First Actuarial LLP. First Actuarial LLP is regulated by the Institute and Faculty of Actuaries and is qualified to provide the required advice through knowledge and practical experience of financial matters relating to pension schemes.

Legal Advice

Whenever deemed necessary, the Trustee will seek advice from its legal adviser on investment matters.

Employer Consultation

Under legislation, the ultimate responsibility for determining the investment strategy rests with the Trustee. However, the Trustee must consult with the sponsoring employer and consultation must comprise a sharing of views, not simply notification of intent.

Investment Managers

Day-to-day management of the Scheme's assets is delegated to one or more investment managers.

To ensure safekeeping of the assets, ownership and day to day control of the assets is undertaken by custodian organisations which are independent of the sponsoring employer and the investment managers. Where pooled investment vehicles are used, the custodians will typically be appointed by the investment manager.

Members' Views and Other Non-Financial Matters

In the relevant regulations "non-financial matters" refers to the views of the members. This includes, but is not limited to, ethical views, views on ESG factors and views on the present and future quality of life for the members.

The Trustee recognises that it is likely that members and beneficiaries will hold a broad range of views. However, the Trustee does not take non-financial matters into account in the selection, retention and realisation of investments. The Trustee will review its policy on whether or not to take account of non-financial matters as appropriate.

The Trustee believes that its duty to members and beneficiaries will be best served by ensuring that all benefits can be paid as they fall due and the Trustee's Investment Objectives are designed to ensure this duty is achieved.

2. Investment Governance Structure (continued)

Conflicts of Interest

The Trustee is satisfied that the investment strategy described in this Statement meets its responsibility to invest the assets in the best interests of the members and beneficiaries and, in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries.

3. Investment Beliefs

The investment beliefs stated below have been developed by the Trustee and are reflected in the Scheme's investment strategy.

Appropriate Time Horizon

In determining investment objectives and a suitable investment strategy for the Scheme, the Trustee takes into account an appropriate time horizon. The Trustee believe that an appropriate time horizon will be the period over which benefits are expected to be paid from the Scheme.

Risk versus Reward

Targeting higher levels of investment return requires increased levels of investment risk which increases the volatility of the funding position.

Asset Allocation

Long-term performance of the Scheme's assets is attributable primarily to the strategic asset allocation rather than the choice of investment managers.

Diversification

Asset diversification helps to reduce risk.

Use of Pooled Funds

Taking into account the size of the Scheme's assets, it is expected that pooled funds will typically be a more practical way of implementing the Scheme's investment strategy than establishing segregated mandates with investment managers.

Use of Active Management

Active management has the potential to add value either through offering the prospect of enhanced returns or through the control of volatility. In addition, it is recognised that active management may help to mitigate the financial impact of ESG risks.

For each asset class, the Trustee will consider whether the higher fees associated with active management are justified.

ESG and Other Financially Material Considerations

The Trustee believes that financially material considerations, including ESG factors and the risks related to such factors, can contribute to the identification of both investment opportunities and financially material risks. Consequently, financially material considerations can have a material impact on investment risk and return outcomes.

The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

Assessment of how ESG risks are mitigated will be one of the factors considered by the Trustee when selecting and monitoring investment managers.

3. Investment Beliefs (continued)

Stewardship

The Trustee believes that good stewardship can help create, and preserve, value for companies and markets as a whole.

4. Investment Objectives and Strategy

Defined Benefit Assets – Investment Objectives

The Trustee's primary investment objectives are:

- to ensure that the assets are sufficient and available to pay members' benefits as and when they fall due;
- to generate an appropriate level of investment returns – to improve the funding position and thereby improve security for members; and
- to protect the funding position – limiting the scope for adverse investment experience reducing security for members.

The Trustee's investment approach is designed to strike a balance between the above primary objectives but also considers:

- the nature and timing of benefit payments;
- expected levels of investment return on different asset classes;
- expected levels of investment return variability and, specifically, the expected level of short-term volatility of the funding position;
- the sponsoring employer's ability to withstand additional contribution requirements that may arise from volatility in the funding position; and
- the full range of available investments (within the bounds of practicality).

Defined Benefit Assets – Investment strategy

The Trustee has taken advice from its investment adviser to construct a portfolio of investments consistent with these objectives. In doing so, consideration is given to all matters which are believed to be financially material over the appropriate time horizon.

The Trustee does not take account of non-financial matters when determining the Scheme's investment strategy.

5. Use of Investment Managers

Investment Manager Selection

The Trustee delegates the day to day management of the assets, including selection, retention and realisation, to professional investment managers.

When considering the suitability of an investment manager, the Trustee (in conjunction with its investment adviser), will take account of all matters which are deemed to be financially material. In particular, the Trustee will:

- ensure that the investment manager has the appropriate knowledge and experience;
- ensure that the investment manager's mandate is appropriate; and
- consider the investment manager's approach to ESG matters.

When selecting investment managers, the Trustee may also take into account non-financially material considerations such as the investment manager's administrative capabilities and the liquidity of the investments.

Where pooled investment vehicles are used, it is recognised that the mandate cannot be tailored to the Trustee's particular requirements. However, the Trustee ensures that any pooled investment vehicles used are appropriate to the circumstances of the Scheme.

The Trustee will normally select investment managers who are signatories to the UNPRI and who publish the results of their annual UNPRI assessment. This principle may be waived if a fund offered by a non-signatory manager is deemed to have investment characteristics which are particularly important for meeting the Trustee's investment objectives.

Manager Implementation

Assets are invested predominantly on regulated markets, as so defined in legislation. Any investments that do not trade on regulated markets are kept to a prudent level.

Use of Derivatives

The investment managers are permitted to use derivative instruments to reduce risk or for efficient portfolio management. Risk reduction would include mitigating the impact of a potential fall in markets or the implementation of currency hedging whilst efficient portfolio management would include using derivatives as a cost-effective way of gaining access to a market or as a method for generating capital and/or income with an acceptable level of risk.

Leverage

The instruments used by the investment managers of the Liability Matching Assets may result in the Liability Matching Assets being leveraged. Since these assets are closely aligned to the liabilities, the allocation to Liability Matching Assets (and any associated leverage) reduces the volatility of the Scheme's funding position and therefore reduces risk.

6. Stewardship

The Trustee's policy in relation to the exercise of rights attaching to investments, and undertaking engagement activities in respect of investments, is that they wish to encourage best practice in terms of stewardship.

However, the Trustee invests in pooled investment vehicles and therefore accepts that ongoing engagement with the underlying companies (including the exercise of voting rights) will be determined by the investment managers' own policies on such matters. For that reason, the Trustee recognises that its ability to directly influence the action of companies is limited.

Nevertheless, the Trustee expects that each investment manager will discharge its responsibilities in respect of investee companies in accordance with that investment manager's own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustee also expects that each investment manager will take ESG factors into account when exercising the rights attaching to investments and in taking decisions relating to the selection, retention and realisation of investments.

When considering the suitability of an investment manager, the Trustee (in conjunction with its investment adviser) will take account of any particular characteristics of that manager's engagement policy that are deemed to be financially material.

The Trustee recognises that the members might wish the Trustee to engage with the underlying companies in which the Scheme invests with the objective of improving corporate behaviour to benefit the environment and society. However, the Trustee's priority is to select investment managers which are best suited to help meet the Trustee's investment objectives. In making this assessment, the Trustee will receive advice from its investment adviser. The Trustee recognises that the investment managers' own policies are likely to be focussed on maximising financial returns and minimising financial risks rather than targeting an environmental or societal benefit.

7. Investment Manager Arrangements

As the Scheme's assets are held in pooled funds, the Trustee has limited influence over the investment managers' investment decisions. In practice, investment managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

It is therefore the Trustee's responsibility to ensure that the approaches adopted by investment managers are consistent with the Trustee's policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies.

The Trustee expects investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. The Trustee assesses this when selecting and monitoring managers.

The Trustee's policy on selecting, monitoring, evaluating and (where necessary) terminating these arrangements is set out in further detail below.

Compatibility of Pooled Funds with the Trustee's Investment Strategy

When selecting a pooled fund, the Trustee considers various factors, including:

- the assets that will be held within that fund and whether the asset allocation of the fund is expected to change over time;
- the risks associated with the fund along with the return that is expected;
- the fund's objective (as stated by the fund's investment manager) and whether the objective is consistent with the performance that the Trustee expects from that fund;
- the fund's fee structure to ensure that this is reasonable and that it does not provide an incentive for the investment manager to manage the fund in a way that differs from the expectations of the Trustee;
- how frequently underlying investments within the fund are expected to be traded by the investment manager;
- how financially material considerations (including ESG factors) over the appropriate time horizon are taken into account by the investment manager;
- the investment manager's policy in relation to the exercise of the rights (including voting rights) attaching to the investments held within the pooled fund; and
- the investment manager's policy in relation to undertaking engagement activities in respect of the investments held within the pooled fund*.

**This includes engaging with an issuer of debt or equity regarding matters including (but not limited to) performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, and ESG matters. It also includes engaging on these matters with other investment managers, other holders of debt or equity and persons or groups of persons who have an interest in the issuer of debt or equity.*

7. Investment Manager Arrangements (continued)

After analysing the above characteristics for a fund, the Trustee identifies how that fund would fit within their overall investment strategy for the Scheme and how the fund is expected to help the Trustee meet its investment objectives.

Duration of Investment Manager Arrangements

The Trustee normally expects that pooled funds will be held for several years.

However, as part of the periodic strategic asset allocation reviews (which take place at least every three years), the Trustee will review whether the ongoing use of each fund remains consistent with its investment strategy.

The Trustee regularly monitors the financial and non-financial performance of the pooled funds held and details of this monitoring process is set out below. If the Trustee becomes concerned about the ongoing suitability of a pooled fund, they may reduce exposure to it or disinvest entirely. Such action is expected to be infrequent.

Monitoring Pooled Funds

The Trustee regularly assesses the performance of each fund held and this monitoring includes an assessment of whether the investment manager continues to operate the fund in a manner that is consistent with the factors used by the Trustee to select the fund (as listed above).

When assessing the performance of a fund, the Trustee does not usually place too much emphasis on short-term performance although they will seek to ensure that reasons for short-term performance (whether favourable or unfavourable) are understood.

The Trustee expects the investment managers of pooled funds to invest for the medium to long term and they expect investment managers to engage with issuers of debt or equity with a view to improving performance over this time frame.

If it is identified that a fund is not being operated in a manner consistent with the factors used by the Trustee to select the fund, or that the investment manager is not engaging with issuers of debt or equity, the Trustee may look to replace that fund. However, in the first instance, the Trustee would normally expect its investment adviser to raise the Trustee's concerns with the investment manager. Thereafter, the Trustee, in conjunction with its investment adviser, would monitor the performance of the fund to assess whether the situation improves.

7. Investment Manager Arrangements (continued)

Portfolio Turnover

The Trustee is aware of the requirement to monitor portfolio turnover costs (the costs incurred as a result of the buying, selling, lending or borrowing of investments).

When selecting a pooled fund, the Trustee will consider how the investment manager defines and measures:

- the targeted portfolio turnover (the frequency within which the assets of the fund are expected to be bought or sold); and
- turnover range (the minimum and maximum frequency within which the assets of the fund are expected to be bought or sold).

At least annually, the Trustee, in conjunction with its investment adviser, will consider the transaction costs incurred on each pooled fund. As part of this analysis, the Trustee will consider whether the incurred turnover costs have been in line with expectations.

The Trustee will take the above information on portfolio turnover into account when assessing the ongoing suitability of each pooled fund.

8. Risk Mitigation

When determining suitable investment objectives and when designing the Scheme's investment strategy, the Trustee (in conjunction with its investment adviser), will take into account all risks that are assessed to be financially material. The principal investment risks are listed in Appendix 3, which also provides an explanation of how the investment risks are managed.

Risk Capacity and Risk Appetite

In determining a suitable investment strategy, the Trustee considers how the volatility of the funding position is likely to be affected by changes to the asset allocation. An important consideration for the Trustee is whether a potential investment strategy is consistent with the ability of the sponsoring employer to address any future increase in deficit that may arise due to market movements.

Self-Investment Risk

Legislation imposes a restriction that no more than 5% of a pension scheme's assets may be related to the sponsoring employer. The Trustee does not hold any direct employer-related assets and any indirect exposure is expected to be less than 5% of total assets.

ESG Risks

The Trustee (in conjunction with its investment adviser) has considered the likely impact of the financially material ESG risks associated with all of the Scheme's investments and has assessed the mitigation of such risks implemented by each of the investment managers. In making this assessment, the Trustee recognises that, where pooled investment vehicles are held, the extent to which ESG factors will be used in the selection of suitable underlying investments will be determined by the investment managers' own policies on such matters.

Liquidity Risk

The majority of the Scheme's investments will be liquid and will be realisable for cash at relatively short notice without incurring high costs. However, the Trustee recognises that the liabilities are long-term in nature and that a modest allocation to less-liquid investments may be appropriate.

Details of the liquidity characteristics of the funds held are provided in Appendix 2.

9. Monitoring

The Trustee regularly reviews the Scheme's investments for all matters considered to be financially material over the future period for which benefits are expected to be paid from the Scheme. This includes reviewing that the assets continue to be managed in accordance with each manager's mandate and that the choice of managers remains appropriate.

Furthermore, the Trustee regularly monitors the position of the investment managers with regards to ESG matters.

To assist with the monitoring of the investment managers, the Trustee receives regular information from their investment adviser providing details of investment manager performance and asset allocation decisions. This analysis includes comparisons with benchmarks and relevant peer-group data.

The analysis assesses whether performance has been in line with expectations given market conditions and whether the level of risk has been as expected.

The investment adviser also provides regular updates on the investment managers' actions regarding ESG factors and shareholder engagement.

The investment adviser regularly meets with the managers of pooled funds on its approved list.

10. Future Amendments

This statement will be reviewed at least every three years and without delay after any significant change in circumstances or investment strategy.

The Trustee has consulted with the sponsoring employer as part of the work preparing this statement.

The principles set out in this Statement have been agreed by the Trustee:

Date: 15th September 2020

For and on behalf of the Trustee of the Vp Pension Scheme.

Appendix 1: The Trustee's Investment Strategy

Strategic Asset Allocation

In determining the strategic asset allocation, the Trustee views the investments as falling into two broad categories:

1. **Growth Assets** – Assets that are expected to deliver long-term returns in excess of liability growth. The use of Growth Assets is expected to deliver a level of investment returns deemed appropriate by the Trustee given the risk involved.
2. **Liability Matching Assets** – Assets that are expected to react to changes in market conditions in a similar way to the liabilities. The use of Liability Matching Assets is expected to protect the funding position of the Scheme.

In addition, the Trustee may hold cash. Cash will normally be held in the Trustee's bank account if it is to be used to make payments due in the short-term whereas cash that is to be held for more than a few weeks will normally be held in a cash fund.

At the time of preparing this statement, the split of the Scheme's assets between the above categories was approximately 30.2% Growth, 25.4% Liability Matching and 44.4% Cash.

The Trustee will review the strategic asset allocation periodically, and at least every three years, to ensure that the investment strategy remains consistent with the Trustee's funding objectives. As part of such a review, the Trustee will consider the risks associated with the investment strategy.

Investment Strategy Implementation

The Trustee has selected funds managed by LGIM to implement the Scheme's investment strategy. Investments in these funds are made via the LGIM investment platform.

Further details of the investment strategy and the funds used are provided below.

Design of the Growth Asset Portfolio

The structure of the Scheme's Growth Assets has been designed to offer diversification across a range of underlying asset classes.

The strategic allocation for the Scheme's Growth Assets is as follows:

Pooled Fund	Allocation as at 30 June 2020
LGIM Dynamic Diversified Fund	100%
Total Growth Assets	100%

Appendix 1: The Trustee's Investment Strategy (continued)

Design of the Liability Matching Portfolio

The Scheme's Liability Matching Assets are invested in leveraged Liability Driven Investment (LDI) funds managed by LGIM. The LGIM funds used are:

- LGIM Matching Core Fixed Short Fund
- LGIM Matching Core Real Long Fund

Cash

The Trustee may invest in the LGIM Sterling Liquidity Fund.

LDI Leverage Management Policy

In an environment of rising yields, leverage increases, and if the leverage of an LGIM LDI fund breaches the upper threshold, LGIM will require a recapitalisation to lower the leverage of the relevant fund. This will ensure that leverage within the LDI funds remains within a permissible range. The Trustee decides where such payments should be taken from. The Trustee has provided LGIM with authority to use the LGIM Sterling Liquidity Fund to recapitalise any LDI funds.

In an environment of falling yields, leverage falls, and if the leverage of an LGIM LDI fund falls below a minimum threshold, LGIM will make a cash payment from the relevant fund to raise the leverage. This will ensure that leverage within the LDI funds remains within a permissible range. The Trustee decides how such payments shall be invested. The Trustee has provided LGIM with authority to invest any such cash proceeds in the LGIM Sterling Liquidity Fund.

Cashflow Management Policy

Any investments or disinvestments will be made at the discretion of the Trustee, but the Trustee will maintain a *Cashflow Management Policy* which will record how such payments should be structured. The *Cashflow Management Policy* will be designed to ensure the allocation of the Scheme's assets remains closely aligned with the strategy described in this statement.

To ensure the Scheme operates efficiently, the Trustee may share the *Cashflow Management Policy* with the individual(s) responsible for processing payments from the Scheme.

The *Cashflow Management Policy* will be reviewed from time-to-time by the Trustee and, as a minimum, at least every three years in line with a review of this statement. Given that the *Cashflow Management Policy* is designed to keep the Scheme's asset allocation aligned with the investment strategy and investment principles described in this statement, the sponsoring employer is satisfied that the *Cashflow Management Policy* can be amended by the Trustee without consulting the sponsoring employer.

Appendix 2: Fund Details

This Appendix provides a summary of the funds used to implement the Scheme's investment strategy. The details provided below were correct as at June 2020.

The following points should be noted:

- **AMC:** The Annual Management Charge applicable to each fund represents the fee payable to the fund manager.
- **Additional expenses:** These are third party costs associated with the operation of a fund such as fees paid to the administrator, the custodian and the auditor and the costs associated with the use of third-party funds where these are used. The level of the additional expenses may vary over time.
- **T:** Trade Date

LGIM Dynamic Diversified Fund	
Objective	The LGIM Dynamic Diversified Fund aims to provide long-term investment growth through dynamic exposure to a diversified range of asset classes. The long-term expected rate of return is the Bank of England Base Rate + 4.5% per annum over a full market cycle.
Legal Structure	Unit-linked insurance policy
Trading Frequency	Weekly
Notice Period	T-2
Settlement Period	Up to T+3
Fee	AMC: 0.50% per annum
	Additional Expenses (approx.): 0% per annum

Appendix 2: Fund Details (continued)

LGIM Matching Core Fixed Short Fund	
Objective	To provide liability hedging based on the fixed, short dated liability cashflows of a typical UK pension scheme.
Legal Structure	Unit-linked insurance policy
Trading Frequency	Weekly
Notice Period	T-2
Settlement Period	Up to T+3
Fee	AMC: 0.24% per annum
	Additional Expenses (approx.): 0.05% per annum

LGIM Matching Core Real Long Fund	
Objective	To provide liability hedging based on the inflation linked, long dated liability cashflows of a typical UK pension scheme.
Legal Structure	Unit-linked insurance policy
Trading Frequency	Weekly
Notice Period	T-2
Settlement Period	Up to T+3
Fee	AMC: 0.24% per annum
	Additional Expenses (approx.): 0.05% per annum

Appendix 2: Fund Details (continued)

LGIM Sterling Liquidity Fund	
Objective	The principal investment objective of the Sterling Liquidity Fund is to provide capital stability, liquidity and income through investment in a diversified portfolio of high credit quality short term fixed income and variable rate securities including but not limited to certificates of deposit, fixed and floating rate notes, fixed rate commercial paper and bonds listed or traded on one or more Recognised Exchanges.
Legal Structure	Unit-linked insurance policy
Trading Frequency	Weekly
Notice Period	T-2
Settlement Period	Up to T+3
Fee	AMC: 0.125% p.a. for the first £5 million, 0.100% p.a. for the next £5 million, 0.075% p.a. for the next £20 million, 0.050% p.a. thereafter
	Additional Expenses (approx.): 0% per annum

Appendix 3: Investment Risks

The table below lists the principal investment risks and includes commentary on how these risks are managed. The risks are not necessarily stated in order of importance and the potential consequences of different risks may vary over time as conditions change.

Risk:	Market Risk
Definition:	<p>The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.</p> <p>Market Risk comprises three types of risk:</p>
Risk:	<i>Currency Risk</i>
Definition:	Market Risk arising from changes in foreign exchange rates.
Management:	<p>Currency Risk arises because some of the DB Section's investments are held in overseas markets via pooled investment vehicles.</p> <p>When selecting a pooled investment vehicle, the Trustee considers the exposure of that investment vehicle to overseas markets and the investment manager's approach towards currency hedging.</p>
Risk:	<i>Interest Rate Risk</i>
Definition:	Market Risk arising from changes in market interest rates.
Management:	<p>Interest Rate Risk arises principally from the DB Section's allocation to Liability Matching Assets. These assets are invested in bonds via pooled investment vehicles.</p> <p>However, these assets are held because their sensitivity to interest rates acts to reduce the volatility of the DB Section's funding position.</p> <p>If interest rates fall, the value of the Liability Matching Assets will rise to help match the increase in the actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, the Liability Matching Assets will fall in value as will the actuarial liabilities because of an increase in the discount rate.</p> <p>The structure of the Liability Matching Assets is designed to ensure that these assets will respond to changes in market interest rates in a similar way to the liabilities</p>

Appendix 3: Investment Risks (continued)

Risk:	Other Price Risk
Definition:	Market Risk arising from changes in market prices (other than those arising from Currency Risk or Interest Rate Risk), whether those changes are caused by factors specific to the financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.
Management:	Other Price Risk arises principally from the DB Section's allocation to Growth Assets and, to manage this risk, a diversified portfolio of Growth Assets is held. This is designed to avoid excessive reliance on a single asset class or region and, in particular, to reduce the impact of a large fall in equity markets.
Risk:	Credit Risk
Definition:	The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
Management:	Credit Risk arises directly from the DB Section's investments in pooled investment vehicles. It also arises indirectly from some of the investments made by the investment managers. The two sources of credit risk are considered separately below.
	<i>Direct Credit Risk</i>
	The Trustee diversifies the DB Section's investments amongst a number of pooled investment vehicles which provides mitigation of Direct Credit Risk.
	The Trustee, in conjunction with the investment adviser, carries out due diligence checks on the appointment of new pooled investment vehicles and, on an ongoing basis, monitors any changes to the regulatory and operating environment of the investment manager.
	The investments with LGIM are held in unit-linked insurance contracts where the assets backing those contracts are held in a long-term fund alongside assets backing other pooled funds. The long-term fund is held separate from shareholder assets. For these investments, Direct Credit Risk is mitigated by capital requirements and the Prudential Regulatory Authority's regulatory oversight.
	<i>Indirect Credit Risk</i>
	Credit Risk also arises indirectly from some of the financial instruments held by the pooled investment vehicles. This risk is controlled through diversification, risk limits applied by the investment manager and, in some cases, the investments may also have the benefit of security.

Appendix 3: Investment Risks (continued)

Risk:	Inflation Risk
Definition:	The risk that a change in the expected level of future inflation will adversely impact the funding position.
Management:	The value of a proportion of the Liability Matching Assets will react to changes in expectations of future inflation in a similar way to the liabilities. This acts to reduce the volatility of the DB Section's funding position.
Risk:	Real Return Risk
Definition:	The risk that the assets do not deliver a long-term return in excess of inflation.
Management:	The Growth Assets are expected to provide real returns over the longer term.
Risk:	Solvency and Employer Covenant Risk
Definition:	The risk that the assets fall short of the amount required to pay all benefits and expenses as they fall due and that insufficient assets are recoverable from the sponsoring employer to meet the shortfall.
Management:	In determining the funding and investment strategy, the Trustee considers the strength of the sponsoring employer's covenant.
Risk:	Realisation of investments / illiquidity risk
Definition:	The risk of having to make a large realisation of assets at depressed prices
Management:	The majority of the investments held are liquid and can be realised for cash at relatively short notice without incurring high costs. However, it is recognised that the liabilities are long-term in nature and that less liquid investments can have a place in the portfolio if they are considered to be sufficiently attractive.

Appendix 3: Investment Risks (continued)

Risk:	Fund manager risk
Definition:	The risk that a fund manager does not deliver returns in line with expectations.
Management:	The Trustee takes independent advice on the selection of fund managers and the ongoing suitability of the chosen fund managers is regularly monitored. The assessment of ongoing suitability includes consideration of qualitative factors in addition to analysis of the manager's performance.
Risk:	ESG Risk
Definition:	The risk that ESG factors may have a financially material impact on the Scheme's investments.
Management:	The Trustee with support from an independent advisor, has considered the likely impact of the financially material ESG risks associated with all of the Scheme's investments and has assessed the mitigation of such risks implemented by each of the investment managers.