LGC Staff Pension Scheme

Statement of Investment Principles

Date prepared: September 2019

Date signed: September 2019

Contents

1. Introduction

1.1. This is the Statement of Investment Principles prepared by the Trustee of the LGC Staff Pension Scheme (the Scheme). This statement sets down the principles which govern the decisions about investments that enable the Scheme to meet the requirements of:

- the Pensions Act 1995, as amended by the Pensions Act 2004;
- the Occupational Pension Schemes (Investment) Regulations 2005, as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010; the Occupational Schemes (Charges and Governance) Regulations 2015; and the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.

1.2. In preparing this statement the Trustee has consulted LGC Limited, the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustees' investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority and licensed by the Institute and Faculty of Actuaries for a range of investment business activities.

1.3. This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.

1.4. The Trustee will review this statement at least every three years or if there is a significant change in any of the areas covered by the statement.

1.5. The investment powers of the Trustee are set out in Rule 26 of Schedule 1 attached to the Deed Adopting New Provisions, dated 16 April 2018. This statement is consistent with those powers.

2. Choosing investments

2.1. The Trustee's policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustee considers the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.

2.2. The day-to-day management of the Scheme's assets is delegated to one or more investment managers. The Scheme's investment managers are detailed in Appendix 1 to this Statement. The investment managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights.

2.3. The Trustee reviews the appropriateness of the Scheme's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the investment managers with respect to performance within any guidelines set. The Trustee will also consult the employer before amending the investment strategy.

3. Investment objectives

3.1. The Trustee has discussed key investment objectives in light of an analysis of the Scheme's liability profile as well as the constraints the Trustee faces in achieving these objectives. As a result, the Trustee's main investment objectives are:

- to ensure that the Scheme can meet the members' entitlements under the Trust Deed and Rules as they fall due;
- to manage the expected volatility of the returns achieved in order to control the level of volatility in the Scheme's required contribution levels;
- to invest in assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from the participating employers, the cost of current benefits which the Scheme provides;
- to reduce the risk of the assets failing to meet the liabilities over the long term.

3.2. The Trustee is aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Scheme's liabilities. The Trustee has obtained exposure to investments that they expect will meet the Scheme's objectives as best as possible.

4. Kinds of investments to be held

4.1. The Scheme is permitted to invest in a wide range of assets including equities, bonds, cash, property and alternatives.

4.2. The Trustee monitors from time-to-time the employer-related investment content of their portfolio as a whole and will take steps to alter this should they discover this to be more than 5% of the portfolio. Typically this check is carried out annually by the Scheme's auditors.

5. The balance between different kinds of investments

5.1. The Scheme invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained within Appendix 1 to this Statement.

5.2. The Trustee considers the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in Appendix 1 to this Statement.

5.3. From time to time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate any short-term cashflow requirements or any other unexpected items.

5.4. The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and therefore the Scheme's asset allocation will be expected to change as the Scheme's liability profile matures.

6. Risks

6.1. The Trustee has considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities, and considered ways of managing/monitoring these risks:

Risk versus the liabilities	The Trustee will monitor and review the investment strategy with respect to the liabilities in conjunction with each actuarial valuation. The investment strategy will be set with consideration to the appropriate level of risk required for the funding strategy as set out in the Scheme's Statement of Funding Principles.
Covenant risk	The creditworthiness of the employers and the size of the pension liability relative to the employers' earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the employer covenant.
Solvency and mismatching	This risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustee is aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Scheme's funding basis.
Asset allocation risk	The asset allocation is detailed in Appendix 1 to this Statement and is monitored on a regular basis by the Trustee.
Investment manager risk	The Trustee monitors the performance of each of the Scheme's investment managers on a regular basis in addition to having meetings with each manager from time to time as necessary, usually on an annual basis. The Trustee has a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate.
Concentration risk	Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.
Liquidity risk	The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Scheme's cashflow requirements. The Scheme's administrators assess the level of cash held in order to limit the impact of the cashflow requirements on the investment policy.
Currency risk	The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management. Currency hedging is employed to manage the impact of exchange rate fluctuations.
Loss of investment	The risk of loss of investment by each investment manager and custodian is assessed by the Trustee. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud).

7. Expected return on investments

7.1. The Trustee has regard to the relative investment return and risk that each asset class is expected to provide. The Trustee is advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the investment managers.

7.2. The Trustee recognises the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

7.3. In considering the expected return from investments, the Trustee recognises that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.

7.4. Having established the investment strategy, the Trustee monitors the performance of each investment manager against an agreed benchmark as frequently as appropriate according to market conditions and the Scheme's funding position. The Trustee meets the Scheme's investment managers as frequently as is appropriate, normally on an annual basis, in order to review performance.

8. Realisation of investments

8.1. The Trustee has delegated the responsibility for buying and selling investments to the investment managers. The Trustee has considered the risk of liquidity as referred to above.

8.2. Ultimately, the investments will all have to be sold when the Scheme's life comes to an end. In this situation, the Trustee is aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Scheme accounts.

9. Financially material considerations, the exercise of rights and engagement activities, and non-financial matters

9.1. The Trustee has set policies in relation to these matters. These policies are set out in Appendix 2.

10. Agreement

10.1. This statement was agreed by the Trustee, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the employer, the investment managers, the actuary and the Scheme auditor upon request.

Signed:..... **Date:**.....13/9/19.....

On behalf of the LGC Staff Pension scheme

Appendix 1 Note on investment policy of the Scheme as at September 2019 in relation to the current Statement of Investment Principles

1. The balance between different kinds of investment

The Scheme has a strategic asset allocation as set out in the table below, which has been agreed after considering the Scheme's liability profile, funding position, expected return of the various asset classes and the need for diversification.

Rebalancing

The Trustee recognises that the asset allocation of investments in different asset classes will vary over time as a result of market movements. The Trustee seeks to maintain a balance between maintaining the asset allocation in line with its benchmark and limiting the costs of rebalances.

Portfolio	Asset class	Allocation (%)
Growth portfolio	Global Equity	8
	Absolute Return	8
	Property	4
	Multi Asset Credit	40
Protection portfolio	LDI (including cash)	40
Total		**100**

2. Choosing investments

The Trustee has appointed the following investment managers to carry out the day-to-day investment of the Scheme:

- Legal and General Investment Management Limited ("LGIM");
- Ruffer LLP ("Ruffer");
- Barings Global Advisors Limited ("Barings");
- Janus Henderson Investors ("Janus Henderson")
- Columbia Threadneedle Investments ("Columbia Threadneedle")
- Scottish Widows Investment Partnership ("SWIP")

The Trustee also has an AVC contract with Scottish Widows for members' Additional Voluntary Contributions (AVCs).

The investment managers are authorised and regulated by the Financial Conduct Authority. The AVC manager is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

The investment benchmarks and objectives for each investment manager are given below:

Investment manager	Fund	Benchmark	Objective
LGIM	Global Equity Market Weights (30:70) Index Fund - GBP 75% Currency Hedged	Composite of 30/70 distribution between UK and overseas, 75% GBP Hedged	To track the composite index (before fees)
	Matching Core Real Long Fund	Real non-pensioner liabilities of a typical scheme	To protect against changes in real interest rates
	Matching Core Fixed Long Fund	Nominal non-pensioner liabilities of a typical scheme	To protect against changes in nominal interest rates
	Matching Core Real Short Fund	Real pensioner liabilities of a typical scheme	To protect against changes in real interest rates
	Sterling Liquidity Plus Fund	3 Month GBP ICE LIBOR	To preserve capital over a 6 to12-month horizon and generate an annual return above the benchmark
Ruffer	Absolute Return	Band of England base rate	Informally, 2 times the benchmark
Columbia Threadneedle	TPEN Property Fund	MSCI/AREF UK All Balanced Quarterly Property Fund Index	To outperform the benchmark by 1% p.a. over rolling 3 year periods (net of fees)
Barings	Global High Yield Credit Strategies Fund	3 month LIBOR	To outperform the benchmark by 5% p.a (net of fees)
Janus Henderson	Multi Asset Credit	3 month GBP LIBOR	To outperform the benchmark by 5% p.a (gross of fees) over a 3-5 year time horizon
SWIP	Cash Fund	7 day LIBID	To outperform the benchmark over rolling 3 year periods

The performance of the investment managers will be monitored as frequently as the Trustee considers appropriate in light of the prevailing circumstances. The monitoring takes into account both short-term and long-term performance.

The AVC arrangement is reviewed from time to time.

3. Fee agreements

The fee arrangements with the investment managers are summarised below:

Investment manager	Fund	Annual Management Charge (p.a.)
LGIM	Global Equity Market Weights (30:70) Index Fund - GBP 75% Currency Hedged	0.2% on the first £2.5m 0.19% on the next £7.5m 0.175% on the next £15m 0.15% on the next £25m 0.13% thereafter
	Matching Core Real Long Fund	0.24%
	Matching Core Fixed Long Fund	0.24%
	Matching Core Real Short Fund	0.24%
	Sterling Liquidity Plus Fund	0.15%
Ruffer	Absolute Return	1.2%
Columbia Threadneedle	TPEN Property Fund	0.75%
Barings	Global High Yield Credit Strategies Fund	0.7% for investments less than £6.5m 0.6% for investments between £6.5m and £32m 0.525% for investments over £32m
Janus Henderson	Multi Asset Credit	0.5% on the first £10m 0.35% on the next £90m 0.3% thereafter
SWIP	Cash Fund	0.2%

As well as the annual management charges given above, additional fund expenses will apply (covering legal, accounting and auditing fees for each fund).

The Trustee has appointed Barnett Waddingham LLP to advise on investment matters. Barnett Waddingham are normally remunerated on a time-cost basis, although fixed fees may be agreed for specific tasks.

4. Investments and disinvestments

Investments and disinvestments are usually made so as to move the actual asset allocation more in line with the target asset allocation.

The Trustee has set up arrangements to enable income distribution from the LGIM global equity fund to be transferred to Scottish Widows' Cash Fund in order to meet monthly pension payments and lump sums on retirement, and income distribution from the Ruffer, Janus Henderson and Barings funds to be transferred to the Trustee's bank account for reallocation, as appropriate.

In the event that cash payments are made from the LDI funds the Trustees will consider the implications on a case by case basis with a view to redirecting investment in line with the agreed long term strategic asset allocation. In the event that additional cash is required to meet collateral calls and there is insufficient cash held in the LGIM Sterling Liquidity Plus Fund or the Trustee's bank account, disinvestment will take place from the LGIM global equity fund.

Appendix 2 Note on financially material considerations, the exercise of rights and engagement activities, and non-financial matters

1. Policy on financially material considerations

After receiving training and advice from its investment advisor, Barnett Waddingham, the Trustee believes that environmental, social and governance ("ESG") factors, including but not limited to climate change, are financially material and therefore has a policy to consider these, alongside other key factors, taking into consideration the nature of the underlying investment when selecting or reviewing the Scheme's investments.

Further to Barnett Waddingham's initial report provided to the Trustee setting out the ESG integration credentials for the Scheme's current investment managers, the Trustee periodically asks the Scheme's investment managers to attend meetings and provide updates on the funds, which will include an update on ESG considerations.

The Trustee appreciates that the method of incorporating ESG factors into the investment strategy and process will differ between asset classes. A summary of the Trustee's views for each asset class in which the Scheme invests is outlined below.

Passive Equities

The Trustee accepts that investment managers must invest in line with the specified index and, therefore, may not be able to disinvest if they have concerns relating to ESG. However, the Trustee believes that positive engagement on ESG issues can lead to improved risk-adjusted returns over the Trustee's intended time horizon for the investment in question. Therefore, the Trustee looks to the passive equity manager to positively engage with companies where there is scope to improve the way ESG issues are taken into account when running the company. However, engagement activities (including the exercise of rights) should be consistent with, and proportionate to, the rest of the investment process.

Absolute Return Funds

The Trustee believes that ESG issues will be financially material to the risk-adjusted returns achieved by the Scheme's absolute return fund manager over the Trustee's intended time horizon for the investment in question. The investment process for any absolute return fund manager should take ESG into account when selecting holdings. The Trustee also supports engagement activities and, where relevant, the exercise of rights attaching to the investments by the Scheme's absolute return fund manager. However, the process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

Property

The Trustee believes that ESG issues can be financially material to the risk-adjusted returns achieved by the Scheme's property manager over the Trustee's intended time horizon for the investment in question. Environmental issues are particularly important when selecting appropriate properties for the property portfolio, and so the Trustee looks to the manager to incorporate environmental issues into their investment process.

Multi Asset Credit

The Trustee believes that ESG issues will be financially material to the risk-adjusted returns achieved by the Scheme's credit holdings over the Trustee's intended time horizon for the investment in question. The investment process for the manager should take ESG into account when selecting holdings. The Trustee also supports engagement activities, although they appreciate that fixed income assets do not typically provide voting rights. The process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

Liability Driven Investment

The Trustee believes that ESG issues are not financially material to the risk-adjusted returns achieved by the Scheme's Liability Driven Investment strategy, given its sole purpose is to provide a hedge against the Scheme's exposure to movements in nominal interest rates and inflation.

2. Policy on the exercise of rights and engagement activities

The Trustee believes that good stewardship and positive engagement are likely to lead to improved governance and better risk-adjusted returns. The Trustee delegates the exercise of rights (including voting rights) attached to the Scheme's investments to the investment managers, who are all signatories to the UK Stewardship Code. The Trustee also delegates undertaking engagement activities, which include entering into discussions with company management in an attempt to influence behaviour, to the investment managers.

The Trustee will periodically review the investment managers' stewardship and voting policy and practice and whether this has been in line with their stated policy on engagement.

3. Policy for taking into account non-financial factors

The Trustee does not consider any non-financial matters, such as members' ethical views, social and environmental impact, or present and future quality of life of the members when constructing the investment strategy and/or when selecting or reviewing fund managers. This policy will be reviewed periodically.