LGC Staff Pension Scheme

Statement of Investment Principles

Date prepared: September 2020

Date signed: September 2020

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 Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018; and
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

1.2. In preparing this statement the Trustee has consulted LGC Limited, the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustee's investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.

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.
Governance risk	Each asset manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustee monitors these and will report on the managers' practices in their annual Implementation Statement.
ESG/Climate risk	The Trustee has considered long-term financial risks to the Scheme and concluded that ESG factors as well as climate risk are potentially financially material and will continue to develop its policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments.
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. Policy on arrangements with asset managers

10.1. The Trustee has set policies in relation to these matters. These policies are set out in Appendix 3.

11. Agreement

11.1. 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: Steve Sampson **Date:** 17 September 2020

On behalf of the LGC Staff Pension scheme

Appendix 1 - Note on investment policy of the Scheme as at July 2020 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
	Matching Core Fixed Short Fund	Nominal pensioner liabilities of a typical scheme	To protect against changes in nominal 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 in the Trustee's Investment Manager Arrangement Summary document.

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 Trustee 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

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.

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. This includes, where appropriate, engaging with underlying investee companies to promote good corporate governance, accountability and to understand how those companies take account of ESG issues in their businesses.

The Trustee will monitor and engage with the investment managers about relevant matters (including matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance), through the Scheme's investment consultant.

Investment managers will be asked to provide details of their stewardship policy and engagement activities on at least an annual basis. The Trustee will, with input from their investment consultant, monitor and review the information provided by the investment managers. Where possible and appropriate, the Trustee will engage with their investment managers for more information and ask them to confirm that their policies comply with the principles set out in the Financial Reporting Council's UK Stewardship Code.

The Trustee acknowledges the importance of ESG and climate risk within their investment making framework. When delegating investment decision making to their investment managers the Trustee provides the investment managers with a benchmark they expect the investment managers to either follow or outperform. The investment manager has discretion over where in an investee company's capital structure it invests (subject to the restrictions of the mandate), whether directly or as an asset within a pooled fund.

The Trustee is firmly of the belief that ESG and climate risk considerations extend over the entirety of a company's corporate structure and activities i.e. that they apply to equity, credit and property instruments or holdings. The Trustee also recognises that ESG and climate related issues are constantly evolving and along with them so too are the products available within the investment management industry to help manage these risks.

The Trustee considers it to be a part of their investments managers' roles to assess and monitor developments in the capital structure for each of the companies in which the manager invests on behalf of the Scheme or as part of the pooled fund in which the Scheme holds units. The Trustee also considers it to be part of the investment managers' roles to assess and monitor how the companies in which they are investing are managing developments in ESG related issues, and in particular climate risk, across the relevant parts of the capital structure for each of the companies in which the managers invest on behalf of the Scheme. Where the Trustee uses pooled funds the Trustee expects the investment manager to employ the same degree of scrutiny.

Should an investment manager be failing in these respects, this should be captured in the Scheme's regular performance monitoring.

The Scheme's investment managers are granted full discretion over whether or not to hold the equity, debt or other investment in the Principal Employer's business. Through their consultation with the Principal Employer when setting this Statement of Investment Principles the Trustee has made the Principal Employer aware of their attitude to ESG and climate related risks, how they intend to manage them and the importance that the pensions industry as a whole, and its regulators, place on them.

The Scheme's investment consultants, Barnett Waddingham, are independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes the Trustee confident that the investment manager recommendations they make are free from conflict of interest.

The Trustee expects all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so the Trustee believes they have managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustee/investment manager and the investee companies.

In selecting and reviewing their investment managers, where appropriate, the Trustee will consider investment managers' policies on engagement and how these policies have been implemented.

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.

Appendix 3 - Note on asset manager arrangements as at July 2020 in relation to the current Statement of Investment Principles

Aligning the investment strategy and decisions of the asset manager with the Trustee's investment policies

Prior to appointing the investment manager, the Trustee discusses the investment manager's benchmark and approach to the management of ESG and climate related risks with the Scheme's investment consultant, and how they are aligned with the Trustee's own investment aims, beliefs and constraints.

When appointing an investment manager, in addition to considering the investment manager's investment philosophy, process and policies to establish how the manager intends to make the required investment returns, the Trustee also considers how ESG and climate risk are integrated into these. If the Trustee deems any aspect of these policies to be out of line with their own investment objectives for the part of the portfolio being considered, it will use another manager for the mandate.

The Trustee carries out a strategy review at least every 3 years where they assess the continuing relevance of the strategy in the context of the scheme and their aims, beliefs and constraints. The Trustee monitors the investment managers' approach to ESG and climate related risks on an annual basis.

In the event that the investment manager ceases to meet the Trustee's desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment will be terminated. The investment managers have been informed of this by the Trustee.

Investment manager ESG policies are reviewed in the context of best industry practice and feedback will be provided to the investment manager.

Incentivising asset managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term

The Trustee is mindful that the impact of ESG and climate change may have a long-term nature. However, the Trustee recognises that the potential for change in value as a result of ESG and climate risk may occur over a much shorter term than climate change itself. The Trustee has acknowledged this in its investment management arrangements.

When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustee assesses these over an agreed predetermined rolling timeframe. The Trustee believes the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon. Where a fund may have an absolute return or shorter term target, this is generally supplementary to a longer term performance target. In the case of assets that are actively managed, the Trustee expects this to be sufficient to ensure an appropriate alignment of interests.

The Trustee expects investment managers to be voting and engaging on behalf of the fund's holdings and the Scheme monitors this activity within the Implementation Statement in the Scheme's Annual Report and Accounts.

The Trustee does not expect ESG considerations to be disregarded by the investment manager in an effort to achieve any short term targets.

How the method (and time horizon) of the evaluation of the asset managers' performance and the remuneration for asset management services are in line with the Trustee's policies

Evaluation of asset managers' performance

Trustee monitors the performance of their investment managers over the medium to long time periods that are predetermined and consistent with the Trustee's investment aims, beliefs and constraints.

Remuneration of asset managers

The Scheme invests exclusively in pooled funds. The investment manager is remunerated by the Trustee based on the assets they manage on behalf of the Trustee. As the funds grow, due to successful investment by the investment manager, they receive more and as values fall they receive less. Details of the fee structures for the Scheme's investment managers are contained in the Investment Manager Arrangements Summary.

The Trustee believes that this fee structure enables the investment manager to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.

The Trustee asks the Scheme's Investment Consultant to assess if the asset management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered every three years as part of the review of the Statement of Investment Principles.

How the Trustee monitors portfolio turnover costs incurred by asset managers, and how they define and monitor targeted portfolio turnover or turnover range

The Trustee acknowledges that portfolio turnover costs can impact on the performance their investments. Overall performance is assessed as part of the regular investment monitoring process.

During the investment manager appointment process, the Trustee may consider both past and anticipated portfolio turnover levels. When underperformance is identified, deviations from the expected level of turnover may be investigated with investment manager concerned if it is felt they may have been a significant contributor to the underperformance. Assessments reflect the market conditions and peer group practices.

The Trustee acknowledges that for some asset classes, such as LDI, a higher turnover of contracts such as repurchase agreements, can be beneficial to the fund from both a risk and cost perspective.

The duration of arrangements with the asset managers

For the open-ended pooled funds in which the Scheme invests, there are no predetermined terms of agreement with the investment managers.

The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustee's investment aims, beliefs and constraints is assessed every three years, or when changes deem it appropriate to do so more frequently. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.