Vp Pension Scheme (“the Scheme”)

Chair’s Statement – Year ended 31 March 2021.

This governance statement sets out how we have embraced statutory governance standards which are central to the operational aspects of the Defined Contribution (“DC”) benefits held under the Vp Pension Scheme (“the Scheme”). This statement should be read in conjunction with the attached Statement of Investment Principles (“SIP”) for the DC section dated September 2020. These documents are designed to help members achieve a good outcome from their pensions savings. Colin Marsh (representing HR Trustees Limited) has been appointed Chair of the Trustee for the purposes of this statement.

This statement covers the period from 1 April 2020 to 31 March 2021.

The Scheme is used as a qualifying auto-enrolment scheme.

Background to the Scheme’s DC benefits

The DC Section of the Scheme commenced on 1 August 1997 following the closure of the DB Scheme to new members. The Scheme then closed to new members on 1 August 2004. However, existing DC Section members continue to contribute to the Scheme.

The Scheme is operated as an unbundled trust-based DC scheme. This means that separate service providers supply investment management and administration services. Investment management is undertaken by Legal & General Investment Management (“LGIM”) with administration services being provided by First Actuarial.

The sponsoring employer meets the costs of governance, administration, communications and support with decision making (excluding annuity broking); members meet investment management charges and annuity broking costs (where this option is chosen).

At retirement, members can take up to 25% of their benefits in the DC Section as a tax-free lump sum, using the retirement freedoms to access the remainder by transferring into another pension arrangement (possibly with Legal & General).

Governance of the default investment arrangement

As at 31 March 2021, the defined contribution funds under management with LGIM were £15,832,029.

The DC Section of the Scheme has a designated default arrangement, i.e. a series of funds into which contributions are placed without the member having made a choice as to where the contributions are allocated. The specific funds used for each member is determined by the member’s age. The Scheme uses a combination of LGIM funds in the default arrangement. These are highlighted in the table on Page 3.

The default arrangement is a ‘lifestyle’ strategy, which de-risks members’ investments as they approach retirement. This means that investments are gradually moved from higher-risk funds into more stable funds (like bonds and cash), while also targeting a specific form of retirement benefit.

The attached SIP is prepared in accordance with regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 and was reviewed and revised by the Trustee in April 2019 and published in September 2020.

Vp Pension Scheme (“the Scheme”)

The SIP sets out the aims and objectives of the default fund as well as providing details of all investment options that are available to members. Almost all members remain invested in the default arrangement, with just under 99% of total section assets spread amongst the default’s underlying funds.

One of the key responsibilities is to ensure that, based on the aims and objectives of the default arrangement; the default strategy is designed in the best interests of all members. Individual preferences can be addressed by the member choosing their own funds within a suitable range. These options are clearly communicated to members.

To help ensure that the default arrangement, as well as the funds available for the self-selected investments, continues to be appropriate to our members, we regularly review suitability with our investment advisers at least every three years (although it will undertake an earlier review if there are any significant changes in investment policy or member demographics. This review considers the range of investments, their risk profiles and the demographics of our members.

Up to and including the Scheme Year covered by this statement, the last review was carried out in June 2018 and at the time we concluded that investment performance was in line with their stated objectives and was fit for purpose. There have been no material changes over the last 12 months but for the purpose of good governance a strategy review was undertaken following the end of the Scheme year in July 2021.

The Trustee has also considered the latest available information about the investment performance of the funds in which members of the Scheme are invested. The Trustee is satisfied that the investment performance (net of fees) remains consistent with the stated objectives for these funds as set out in the SIP.

Charges and transaction costs

Costs and annual charges borne by members’ funds may have a significant impact on their accumulated pension funds, so it is important to keep these to a minimum. To help with this objective the Government has imposed a charge cap of 0.75% p.a. from 6 April 2015. This cap does not include transaction costs. We have considered this cap in connection with all members and not just active members.

The annual ongoing charges levied by the investment manager and deducted from members’ investment depends on the funds used and the table below shows this charge.

Members invested in the default investment fund are subject to an ongoing investment management charge (Total Expense Ratio) of 0.20% per annum during the growth phase. The Diversified Fund is used in the final 10 years before target retirement date to reduce risk as members approach retirement. This fund is blended with the Global Equity and Corporate Bond Funds between 10 years and 6 years from retirement. From 6 years to 4 years, 100% of the assets are held in the Diversified Fund and then blended with the Cash Fund from 4 years from retirement. The maximum charge members incur is 0.32% a year (between 6 years and 4 years to retirement).

In addition to these explicit member charges, members may also incur transaction costs. Transaction costs are defined in regulations as the costs incurred because of buying, selling, lending or borrowing investments and they can have a significant impact on members’ fund values.

Vp Pension Scheme ("the Scheme")

Transaction costs are typically categorized as explicit costs or implicit costs. Explicit costs are directly observable e.g. taxes such as stamp duty. Implicit costs cannot be observed in the same way but will result in a reduction in the total amount of money invested e.g. buying and selling spreads and market impact and can have a significant impact on net returns.

The costs and charges made available to us are reviewed on an annual basis by our advisers, First Actuarial. This review covers both the default arrangement and the self-selected option chosen by members.

Due to the methodology used in calculating transaction costs, these costs may be negative, therefore having a positive impact on the fund. The transaction costs incurred as disclosed by LGIM are shown in the table below.

LGIM Fund	Unique fund identifier	Total Expense Ratio (TER)	Transaction costs** (%)
LGIM Diversified Fund*	MAAB	0.32%	0.00%
LGIM Investment grade Corporate Bond Fund*	CCAD	0.15%	-0.01%
LGIM Global Equity 70:30 Index Fund*	AK	0.20%	0.00%
LGIM Global Equity 60:40 Index Fund	CH	0.19%	0.00%
LGIM UK Equity Index Fund	AS	0.15%	-0.02%
LGIM Multi-Asset Fund (from Consensus)	AN	0.26%	0.03%
LGIM Over 15 Year Gilts Index Fund	AM	0.10%	0.00%
LGIM Cash Fund*	H	0.12%	0.00%

* These funds form part of the default arrangement

** Rounded to 2 decimal places.

The Scheme is invested in daily dealt funds for which LGIM publish a single price on which all deals are made (both buying and selling), the "dealing price". This unit price is a swinging price and is set depending on whether there is a net inflow/outflow of assets into individual funds. A swinging price approach is common amongst providers.

If there is a net inflow the price will swing to an (higher) offer price; if there is a net outflow the price will swing to a (lower) bid price. With all buying and selling done at the same price, buying units on an offer price would cost the member as would selling at a bid price. Conversely buying at a bid price and selling at an offer price would benefit members.

The extent of these costs is unknown in advance of the transaction (and can be nil). There is also an "anti-dilution levy" to protect existing fund investors from having their performance diluted through meeting the trading costs of other investors. This is a common feature of pooled funds and for the year beginning 1 April 2020 this levy has more than offset all trading costs.

Vp plc meets the costs of governance, administration, communications, and support with decision making (excluding annuity broking); members meet investment managements charges and costs (as detailed above) and annuity broking costs.

In assessing value-for-money (as assessed below), the Trustee has only considered the costs and charges met by members.

Vp Pension Scheme ("the Scheme")

Cumulative costs and charges

The Trustee has conducted an analysis of the cumulative impact of the member-borne costs and charges within the various investment funds for typical members of the Scheme, which is set out in the Appendix.

Core financial transactions

The processing of core financial transactions is regularly monitored by our administrators, First Actuarial, who has implemented internal controls procedures that help ensure that such transactions are processed promptly and accurately.

The administration services monitored include the following "core financial transactions":

- Timely investment of contributions;
- Transfers of assets relating to members into and out of the Scheme;
- Transfers of assets relating to members between different investments within the Scheme; and
- Payments from the Scheme to, or in respect of, members.

Other activities covered include controls and procedures to manage the accuracy of investment allocations and the settlement of benefits. In addition, the prompt resolution by of any inconsistencies identified in accordance with the applicable service level agreement timeframes in place.

To help gain assurances that the administration is being dealt with promptly and accurately, we undertake on a regular basis the following with input from First Actuarial:

- Monitoring services against contractual service level agreements
- Reviewing the 6 monthly administration reports provided by First Actuarial

The Trustee is satisfied that during the period of this statement, core financial transactions have been processed accurately and promptly.

Value for members

The Trustee is committed to ensuring that the Scheme provides good value for members. Within its latest Code of Practice for schemes providing defined contribution benefits and value for members guide, the Pensions Regulator has set out its expectations of trustee boards in several areas including the assessment of value for members. The Trustee has taken these expectations into account, when reviewing value for members of the Scheme.

As part of a value for member assessment we commissioned a report from our advisers, First Actuarial, and this was considered at a Trustee's meeting on 14 July 2020 and then updated and discussed further following the end of the Scheme year. This focused on costs and charges met by members balanced against the services provided to members and compared these against other schemes and arrangements.

Our view is that the Scheme provides good value for members with the balance of services available and charges met by members shown in the table overleaf.

Vp Pension Scheme ("the Scheme")

		Charges met by members		
		Lower than other schemes	In line with other schemes	Higher than other schemes
Services Available to Members	Low level of services available			
	Satisfactory level of services available	**Vp**		
	High level of services available			

The DWP Pension Charges survey was updated in January 2021 which provides a useful benchmark and given First Actuarial 's experience of the DC market, the Scheme's charges borne by members remain lower than the median charge for similar sized schemes.

The charges and quality of investment options available for members with LGIM are deemed to be very competitive for this size of scheme.

The Trustee is aware of the requirement to engage with members in order to assess their priorities and thus feed into the value for money assessment. There is member representation on the Trustee Board and feedback is encouraged from members both formally and informally. No member communications were issued during the scheme year other than those required by regulation.

Based on these reviews, the Trustee is satisfied that the Scheme does provide value for members compared to similar schemes of a comparable size.

Trustee knowledge & understanding

The law requires the Trustee to possess, or have access to, sufficient knowledge and understanding to run the Scheme effectively, including knowledge of the Scheme's Trust Deed and Rules, SIP and other informal policies. Upon appointment as a Trustee on 10 May 1999, the Trustee obtained all of the Scheme's key documents (including the interim trust deed dated 22 March 1985, the definitive deed dated 1 November 1989 and the Definitive Trust Deed dated 30 November 2000) and now has a working knowledge of these documents.

Where further clarification is required about the Scheme's governing documentation, the Trustee takes legal advice from Squire Patton Boggs LLP.

In accordance with Section 248 of the Pensions Act 2004, the Trustee acting through its representatives is required to maintain sufficient knowledge and understanding to fulfil their duties. All representatives are required to undertake continuous training evidenced by a training log, complete the Pensions Regulator's Trustee Toolkit online training modules and certify a "fit and proper" test. The representatives act on a number of other similar trusteeships which enhances their knowledge and skills.

Vp Pension Scheme ("the Scheme")

The Corporate Trustee is supported by independent and professional advisers who ensure that they are kept abreast of the latest legislative, regulatory and market developments that apply to the Scheme. These advisory appointments are also periodically reviewed.

The Trustee, HR Trustees Limited, is part of PS Governance, and is one of the largest professional trustee firms in the UK. They provide their staff with bespoke training involving external experts who present on a periodic basis on subjects including defined contributions arrangements. They also have sufficient knowledge and understanding of the relevant principles relating to the funding and investment of occupational pension schemes.

HR Trustees Limited is represented by Colin Marsh who is an accredited professional trustee (PTPMI (Accred)) with over 30 years of relevant pensions experience and is a chair of trustees for four other pension schemes which ensures he has experience of most issues affecting pension schemes and takes advice from a variety of professional advisers. He is able to apply this experience to the running of the Scheme and ensure the legal requirements of trusteeship are met. HR Trustees is subject to AAF audit requirements which requires the attendance of each of its staff at five or more technical training sessions per year which ensures that the Trustee has a high level of TKU which it is able to use when exercising its discretions and setting the Scheme's strategic direction. During the year, training sessions included; going concern basis for pension scheme audits, investment governance, managing longevity risk, fraud prevention and member engagement.

During the year, the Trustee continued to use its discretion in a number of cases where members sought to transfer or exercise pensions flexibility from the DC section.

The Trustee regularly considers its performance and training requirements. Its training program is reviewed annually to ensure it remains up to date and relevant and, specifically in connection with the Scheme, regularly receives advice from its advisers in connection with its ongoing arrangements (including DC and AVCs).

The combination of Trustee training, the appointment of a professional trustee and advice from professional advisers means that the Trustee can effectively exercise its role as Trustee of the Scheme.

How to contact the Trustee

If you have any further queries regarding the Scheme, please contact:

First Actuarial LLP
Mayesbrook House
Lawnswood Business Park
Leeds
LS16 6QY
Tel: 0113 818 7300
Email: leeds.admin@firstactuarial.co.uk

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Colin Marsh

Director, acting as Chairman of the Scheme Trustee

Date: 11th October 2021

Vp Pension Scheme (“the Scheme”)

Appendix

The Trustee has taken account of the statutory guidance when preparing these illustrations. The assumptions used to calculate the cumulative pension costs are based on actual scheme information and are as set out under the tables.

Projected pension pot in today’s money - active members										
Fund	Global Equity 70:30		Diversified		Investment grade Corporate Bond All Stocks		Cash		Over 15- year Gilt Index	
Years	Before charges	After all costs and charges	Before charges	After all costs and charges	Before charges	After all costs and charges	Before charges	After all costs and charges	Before charges	After all costs and charges
1	£56,878	£56,774	£55,653	£55,484	£54,289	£54,216	£54,084	£54,020	£54,083	£54,031
3	£70,177	£69,814	£66,004	£65,443	£61,570	£61,336	£60,920	£60,720	£60,916	£60,754
5	£84,478	£83,784	£76,642	£75,614	£68,676	£68,266	£67,539	£67,192	£67,533	£67,250
10	£125,122	£123,218	£104,543	£101,994	£85,701	£84,788	£83,182	£82,422	£83,169	£82,548
15	£173,858	£170,053	£134,415	£129,794	£101,721	£100,224	£97,612	£96,387	£97,592	£96,590
20	£232,297	£225,678	£166,396	£159,091	£116,795	£114,646	£110,925	£109,191	£110,896	£109,477
25	£302,371	£291,744	£200,636	£189,965	£130,979	£128,121	£123,206	£120,931	£123,168	£121,306
30	£386,395	£370,209	£237,294	£222,501	£144,325	£140,710	£134,536	£131,696	£134,488	£132,164
35	£487,148	£463,401	£276,542	£256,789	£156,883	£152,472	£144,988	£141,566	£144,930	£142,129
40	£607,960	£574,083	£318,562	£292,923	£168,699	£163,462	£154,630	£150,616	£154,562	£151,275

Vp Pension Scheme (“the Scheme”)

Projected pension pot in today’s money - deferred members										
Fund	Global Equity 70:30		Diversified		Corporate Bond All Stocks		Cash		Over 15- year Gilt Index	
Years	Before charges	After all costs and charges	Before charges	After all costs and charges	Before charges	After all costs and charges	Before charges	After all costs and charges	Before charges	After all costs and charges
1	£52,453	£52,352	£51,277	£51,115	£49,970	£49,899	£49,773	£49,712	£49,772	£49,722
3	£56,404	£56,081	£52,696	£52,199	£48,768	£48,561	£48,193	£48,017	£48,190	£48,046
5	£60,652	£60,076	£54,155	£53,305	£47,595	£47,259	£46,663	£46,379	£46,658	£46,426
10	£72,728	£71,351	£57,980	£56,175	£44,784	£44,154	£43,047	£42,525	£43,039	£42,612
15	£87,207	£84,742	£62,075	£59,199	£42,140	£41,253	£39,712	£38,992	£39,700	£39,111
20	£104,569	£100,648	£66,459	£62,387	£39,651	£38,542	£36,635	£35,752	£36,620	£35,898
25	£125,388	£119,538	£71,153	£65,745	£37,310	£36,010	£33,797	£32,781	£33,779	£32,948
30	£150,351	£141,973	£76,178	£69,285	£35,106	£33,644	£31,178	£30,057	£31,159	£30,241
35	£180,285	£168,620	£81,559	£73,015	£33,033	£31,434	£28,762	£27,560	£28,742	£27,757
40	£216,178	£200,267	£87,319	£76,946	£31,082	£29,368	£26,534	£25,270	£26,512	£25,476

Assumptions:

1. Projected pension pot values are shown in today's terms and do not need to be reduced further for the effect of future inflation
2. The starting pot size is assumed to be £50,582
3. Inflation is assumed to be 2.5% each year
4. For active members, contributions of 9% are assumed to continue from age 25 to 65. No future contributions are assumed for deferred members
5. Values shown are estimates and are not guaranteed
6. The projected growth rate for each fund are as follows:

Global Equity 70:30	3.70%	above inflation
Diversified	1.37%	above inflation
Corporate Bond All Stocks	1.21%	below inflation
Cash	1.60%	below inflation
Over 15 year Gilt Index	1.60%	below inflation

Vp Pension Scheme (DC Section)

Statement of Investment Principles

September 2020

Contents

Glossary

LGIM	Legal & General Investment Management Limited
AVCs	Additional Voluntary Contributions
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 legislation[1] 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 Contribution Assets – Members' Investment Requirements

In determining their investment objectives, the Trustee considers the investment requirements of the membership.

- It is expected that the investment strategy for an individual member is likely to change over time:
- For younger members the investment priority is likely to be to achieve long-term investment growth.

As retirement approaches, members are likely to look to reduce investment risk. The way such risk is reduced will vary depending on whether the member intends to take benefits as an annuity, as cash or via an income drawdown product.

Whilst some members might set their own investment strategy and review this over time, others might prefer a lifestyle strategy under which the asset allocation is automatically adjusted as retirement approaches.

Defined Contribution Assets – Investment Objectives

The Trustee sets an investment strategy that reflects the following primary investment objectives:

- **Offering an appropriate range of investment options**
  The range of funds that is offered is intended to offer sufficient investment flexibility for members of all ages.

- **Offering suitable lifestyle strategies**
  The Trustee considers the likely form of benefits that will be paid to members and determine the lifestyle strategies accordingly.

- **Offering a default investment option**
  The Trustee designates a default investment option which will be used by those members who do not select their own investment strategy.

3. Investment Objectives and Strategy (continued)

Defined Contribution Assets – Investment Strategy

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

The investments are made in pooled investment vehicles and it is recognised that the mandates of these vehicles cannot be tailored to the Trustee's particular requirements. However, the Trustee ensures that the pooled investment vehicles are appropriate to the circumstances of the DC Section and that the chosen vehicles will enable the Trustee to achieve its investment objectives.

Details of the investment manager mandates are provided in Appendix 1.

The Trustee is satisfied that the investment managers have the appropriate knowledge and experience for managing the investments.

The Trustee, in conjunction with its investment adviser, regularly reviews each of the investment managers to ensure that the manager remains competent and that the assets continue to be managed in accordance with the manager’s mandate.

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 2, together with an explanation of how they 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.

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 its 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:

Signed: Date:

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

Appendix 1: The Trustee's Investment Strategy

Fund Manager

The Trustee has appointed Legal & General Investment Management (LGIM) to manage the assets of the DC Section. Further details of the specific arrangements in place with LGIM are contained in this Appendix. The mandate the Trustee has given to LGIM reflects the principles and policies as set out in the main body of this Statement.

Funds available to members

The Trustee has made the following LGIM funds available for members to invest in. Members can choose to invest in the funds in any proportion.

Pooled investment fund	Fund objective	Total Expense Ratio (TER)
LGIM Global Equity 70:30 Index Fund	The LGIM Global Equity (70:30) Index Fund employs an index-tracking strategy aiming to replicate the performance of its benchmark. The benchmark return is calculated as the weighted average of global equity indices with the weightings being 70% UK and 30% overseas. The exposure to overseas equities will reflect that of the FTSE AW All-World (Ex-UK) Index. This includes developed and emerging markets.	0.18% p.a.
LGIM Global Equity 60:40 Index Fund	The LGIM Global Equity Fixed Weights (60:40) Index Fund employs an index-tracking strategy aiming to replicate the performance of its benchmark. The benchmark return is calculated as the weighted average of global equity indices with the weightings being 60% UK, 14% North America, 14% Europe (ex UK), 7% Japan and 5% Asia Pacific (ex Japan).	0.17% p.a.
LGIM UK Equity Index Fund	To track the performance of the FTSE All-Share Index to within +/-0.25% p.a. for two years out of three.	0.13% p.a.
LGIM Multi-Asset Fund	To provide long-term investment growth through exposure to a diversified range of asset classes, excluding physical property.	0.25% p.a.
LGIM Investment Grade Corporate Bond All Stocks Index Fund	To track the performance of the Markit iBoxx £ Non-Gilts (All Stocks) Index to within +/-0.5% p.a. for two years out of three.	0.15% p.a.
LGIM Diversified Fund	To provide long-term investment growth through exposure to a diversified range of asset classes. The long-term rate of return is expected to be broadly similar to that of a developed market equity fund.	0.32% p.a.
LGIM Over 15 Year Gilts Index Fund	To track the performance of the FTSE A Government (Over 15 Year) Index to within +/-0.25% p.a. for two years out of three.	0.10% p.a.

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

LGIM Cash Fund	The LGIM Cash Fund holds sterling deposits with a range of high quality financial institutions and may also hold certificates of deposit, commercial paper, UK Treasury Bills or other short dated debt issued by the Government or other public sector bodies. The fund aims to provide capital preservation with the objective of delivering returns in line with 7 Day LIBID, without incurring excessive risk.	0.12% p.a.

Default lifestyle strategy

Unless a member chooses otherwise, their pension pot is invested in line with the Trustee's default lifestyle strategy set out below. In designing this default the Trustee has assumed a target retirement date of age 65, which is in line with the Scheme's Normal Retirement Age.

Age	70:30 Equity Fund	Corporate Bond Fund	Diversified Fund	Cash Fund
<40	100%	0%	0%	0%
41-54	80%	20%	0%	0%
55	64%	16%	20%	0%
56	48%	12%	40%	0%
57	32%	8%	60%	0%
58	16%	4%	80%	0%
59	0%	0%	100%	0%
60	0%	0%	100%	0%
61	0%	0%	91%	9%
62	0%	0%	82%	18%
63	0%	0%	73%	27%
64	0%	0%	64%	36%
65	0%	0%	55%	45%

Alternative lifestyle strategy

When the above default was introduced, members had the option to retain the old default lifestyle strategy, which is designed to be appropriate where a member will purchase an annuity at retirement. This is set out in the table below.

Age	70:30 Equity Fund	Corporate Bond Fund	Over 15 Year Gilt Fund
<40	100%	0%	0%
41-55	80%	20%	0%
56	72%	18%	10%
57	64%	16%	20%
58	56%	14%	30%
59	48%	12%	40%
60	40%	10%	50%
61	32%	8%	60%
62	24%	6%	70%
63	12%	3%	85%
64	0%	0%	100%

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

An additional switch is then made into 25% cash shortly before the member's normal retirement date.

Deferring benefits past target retirement age

Where members are invested in either of the lifestyle strategies above and defer benefits past target retirement age, unless members choose otherwise, their existing benefits and any future contributions will remain invested in line with the final allocation of the lifestyle strategy.

Appendix 2: 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:	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market Risk comprises three types of risk:
Risk:	*Currency Risk*
Definition:	Market Risk arising from changes in foreign exchange rates.
Management:	Currency Risk arises because some of the pooled funds offered to members include investments which are held in overseas markets. 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.
Risk:	*Interest Rate Risk*
Definition:	Market Risk arising from changes in market interest rates.
Management:	Interest Rate Risk arises principally from any pooled funds available to members which include investments in bonds. When selecting a pooled investment vehicle, the Trustee considers the exposure to bond markets and the investment manager's approach towards managing the sensitivity of the fund to changes in interest rates. The Trustee recognises that, if a member intends to purchase an annuity at retirement, increasing the allocation to bonds as retirement approaches can help to provide increasing certainty over the level of annuity income that could be secured. If interest rates fall, the value of bond investments will rise to help offset the increase in annuity prices that is likely to arise in this scenario. Similarly, if interest rates rise, bond investments will fall in value as will the price of an annuity.

Appendix 2: 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 pooled funds offered to members which are not bond funds. To manage this risk, a range of funds is offered to members. This is designed to enable member 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 DC 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. *Direct Credit Risk* The Trustee diversifies the DC 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, monitor 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.

Appendix 2: Investment Risks (continued)

Indirect Credit Risk

Credit Risk also arises indirectly from some of the financial instruments held by the pooled investment vehicles. This risk is mitigated through the investment manager mandates which require the majority of counterparties to be investment grade. From time to time, credit investments may be chosen by the investment managers to deliberately take Credit Risk if the return is considered appropriate for the risk. 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.

Risk:	**Insufficient Fund Risk & Inflation Risk**
Definition:	The risk that a member's account proves to be insufficient to generate the expected level of retirement income.
Management:	The fund range offered to members includes funds which are expected to deliver long-term growth in excess of inflation.

Risk:	**Fund Volatility Risk**
Definition:	The risk of short-term volatility in the value of a member's account. This risk is likely to be primarily of concern as a member approaches retirement as a fall in markets will directly reduce the retirement income that can be achieved.
Management:	The fund range offered to members includes funds which are expected to deliver lower volatility than an equity investment.

Risk:	**Annuity Purchase Risk**
Definition:	The risk that annuity prices increase as a member approaches retirement. This will only affect those members who intend to purchase an annuity.
Management:	Annuities are generally influenced by the price of good quality bonds. The fund range available to members includes bond funds and if a member invests in these ahead of retirement it is likely that the value of such an investment will move broadly in line with annuity price movements.

Appendix 2: 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.