28 September 2020

Statement of Investment Principles for the MPS Pension Scheme

1. Introduction

This Statement of Investment Principles ("SIP") sets out the policy of the Trustee of the MPS Pension Scheme ("the Trustee") on various matters governing decisions about the investments of the MPS Pension Scheme ("the Scheme"), a Defined Benefit ("DB") Scheme. This SIP replaces the previous SIP dated 6 September 2019.

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 ("the Act"), the Occupational Pension Schemes (Investment) Regulations 2005 and the Pension Regulator's guidance for defined benefit pension schemes (March 2017).

This SIP has been prepared after obtaining and considering written professional advice from LCP, the Scheme's investment adviser, whom the Trustee believes to be suitably qualified and experienced to provide such advice. The advice takes into account the suitability of investments including the need for diversification given the circumstances of the Scheme and the principles contained in this SIP. The Trustee has consulted with the Medical Protection Society (the "employer") in producing this SIP.

The Trustee will review this SIP from time to time and, with the help of their advisers, will amend it as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy and at least once every three years.

- **Appendix 1** sets out details of the Scheme's investment governance structure, including the key responsibilities of the Trustee, investment advisers and investment managers. It also contains a description of the basis of remuneration of the investment adviser and the investment managers.
- **Appendix 2** sets out the Trustee's policy towards risk appetite, capacity, measurement and management.
- **Appendix 3** sets out the Scheme's investment manager arrangements.

2. Investment objectives

The primary objective is to ensure that the Scheme should be able to meet benefit payments as they fall due. In addition to this primary objective, the Trustee has a series of additional objectives. These are as follows:

- that the return on the Scheme's assets is maximised whilst managing and maintaining investment risk at an appropriate level. What the Trustee determines to be an appropriate level of risk is set out in Appendix 2.
- that the Scheme should be fully funded on a technical provisions basis (ie the asset value should be at least that of its liabilities on this basis). The Trustee is aware that there are various measures of funding and have given due weight to those considered most relevant to the Scheme.

3. Investment strategy

The Trustee, with the help of their advisers and in consultation with the employer, reviewed the investment strategy in November 2017 taking into account the objectives described in Section 2 above.

The result of the review was that the Trustee agreed that the investment strategy of the Scheme should be gradually de-risked towards the risk reducing strategic allocation shown below, by the end of 2019. This strategy was implemented by the Trustee over three de-risking stages carried out in Q1 2018, Q4 2018 and Q4 2019.

Asset class	Strategic allocation
Equities	16%
Diversified growth funds	16%
Absolute return bonds	36%
LDI and cash	32%
Total	100%

Deviations from this allocation are valid and indeed to be expected. This is in part due to the way that the LDI portfolio is considered to provide a desired approximate level of hedging of interest rate and inflation risks and so a fixed percentage allocation is not an appropriate means by which to summarise this allocation. In addition, the need to have liquidity to respond to potential collateral requirements for the LDI portfolio will also cause deviations from the above allocations over time.

The Trustee expects the LDI portfolio to hedge around 90% of interest rate risk and inflation risk measured on a technical provisions basis.

There is no formal rebalancing policy. The Trustee monitors the asset allocation from time to time. If material deviations from the strategic allocation occur the Trustee will consider with their advisers whether it is appropriate to rebalance the assets taking into account factors such as market conditions, anticipated future cash flows and the Scheme's target interest rate and inflation hedging ratios.

4. Considerations in setting the investment arrangements

When deciding how to invest the Scheme's assets, the Trustee considers a number of risks, including, but not limited to, those set out in Appendix 2. Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each risk.

The Trustee considered a wide range of asset classes for investment, taking account of the expected returns and key individual risks associated with those asset classes as well as how these risks can be mitigated where appropriate. The key assumptions (as at 30 September 2017) for expected returns above gilts are as follows:

- average long-term return on equities: 5.0%
- average long-term return on diversified growth: 3.0%
- average long-term return on absolute return bonds: 1.5%
- average long-term return on dynamic LDI: 1.0%

In setting the strategy the Trustee took into account:

- the Scheme's investment objectives, including the target return required to meet the Trustee's investment objectives;
- the Scheme's cash flow requirements in order to meet benefit payments in the near to medium term;
- the best interests of members and beneficiaries;
- the circumstances of the Scheme, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the strength of the employer covenant;
- the risks, rewards and suitability of a number of possible asset classes and investment strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken;
- the need for appropriate diversification between different asset classes to ensure that both the Scheme's overall level of investment risk and the balance of individual asset risks are appropriate; and
- the Trustee's investment beliefs about how investment markets work and which factors are most likely to impact investment outcomes.

5. Implementation of the investment arrangements

Before investing in any manner, the Trustee obtains and considers proper written advice from their investment adviser on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

Details of the investment managers are set out in Appendix 3.

The Trustee has signed agreements with the investment managers, setting out in detail the terms on which the portfolios are to be managed. The investment managers' primary role is the day-to-day investment management of the Scheme's investments. The managers are authorised under the Financial Services and Markets Act 2000 (as amended) to carry out such activities.

The Trustee and investment managers to whom discretion has been delegated exercise their powers to giving effect to the principles in this Statement of Investment Principles, so far as is reasonably practicable.

The Trustee has limited influence over managers' investment practices where the Scheme's assets are held in pooled funds, but they encourage their managers to improve their practices where appropriate. The Trustee instructs Ruffer, which manages a segregated diversified growth portfolio for the Scheme, to tailor its investment practices such that they align with the Scheme's investment strategy and objectives.

The Trustee's view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice 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 the Trustee's responsibility to ensure that the managers' investment approaches are consistent with its 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. It assesses this when selecting and monitoring managers.

The Trustee evaluates investment manager performance by considering performance over both shorter and longer-term periods as available. The duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. Generally, the Trustee would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustee's policy is to evaluate each of its investment managers by reference to the manager's individual performance as well the role it plays in helping the Scheme meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustee recognises that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustee expects its investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates.

6. Realisation of investments

The investment managers have discretion over the timing of realisation of investments of the Scheme within the portfolios that they manage, and in considerations relating to the liquidity of investments.

When appropriate, the Trustee, on the administrators' recommendation, decides on the amount of cash required for benefit payments and other outgoings and inform the investment managers of any liquidity requirements. The Trustee's preference is for investments that are readily realisable, but recognise that achieving a well-diversified portfolio may mean holding some investments that are less liquid.

In September 2018 the Trustee agreed a cashflow policy for the Scheme, which was updated in February 2020, whereby the regular pensioner payroll is covered by income distributions from a number of the Scheme's managers, alongside regular monthly disinvestments from the Scheme's assets. Larger cashflow requirements arising from transfer values or tax free cash lump sums for example will be considered separately by the Trustee.

7. Consideration of financially material and non-financial matters

The Trustee has considered how environmental, social, governance ("ESG") and ethical factors should be taken into account in the selection, retention and realisation of investments since they recognise that these factors can be relevant to investment performance.

The Trustee expects their investment managers to take account of financially material considerations (including climate change and other ESG considerations). The Trustee seeks to appoint managers that have appropriate skills and processes to do this, and from time to time review how their managers are taking account of these issues in practice.

The Trustee has limited influence over managers' investment practices where assets are held in pooled funds, but they encourage their managers to improve their practices where appropriate.

The Trustee does not take into account any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

8. Voting and engagement

The Trustee recognises their responsibilities as owners of capital, and believe that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments. The Trustee has delegated to their investment managers the exercising of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, risks and ESG considerations.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. They expect the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustee from time to time, taking into account the long-term financial interests of the beneficiaries. The Trustee seeks to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and from time to time the Trustee reviews how these are implemented in practice.

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 SIP signed for and on behalf of the Trustee of the MPS Pension Scheme:

Signed: C.B. Rande ______________________

Investment governance, responsibilities, decision-making and fees

Appendix 1

The Trustee has decided on the following division of responsibilities and decision-making for the Scheme. This division is based upon the Trustee's understanding of the various legal requirements placed upon them, and their view that the division of responsibility allows for efficient operation and governance of the Scheme overall. The Trustee's investment powers are set out within the Scheme's governing documentation.

Trustee

In broad terms, the Trustee is responsible in respect of investment matters for:

- setting the investment strategy, in consultation with the employer;
- developing a mutual understanding of investment and risk issues with the employer;
- reviewing the investment policy as part of any review of the investment strategy;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- formulating a policy on taking account of non-financial matters in the selection, retention and realisation of investments;
- setting the policy for rebalancing between asset classes;
- setting a policy on the exercise of rights (including voting rights) and undertaking engagement activities in respect of the investments;
- appointing (and, when necessary, dismissing) investment managers, investment advisers, actuary and other service providers;
- monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Act;
- communicating with members as appropriate on investment matters;
- putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employer when reviewing the SIP.

Investment managers

In broad terms, the investment managers will be responsible for:

- managing the portfolios of assets according to their stated objectives, and within the guidelines and restrictions set out in their respective investment manager agreements and/or other relevant governing documentation.
- taking account of financially material considerations (including climate change and other ESG considerations) as appropriate when managing the portfolios of assets;
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments;
- providing the Trustee with regular information concerning the management and performance of their respective portfolios; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The custodians of the portfolios (whether there is a direct relationship between the custodian and the Trustee or not) are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

Investment adviser

In broad terms, the investment adviser will be responsible, in respect of investment matters, as requested by the Trustee, for:

- advising on how material changes within the Scheme's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;
- advising on the selection, and review, of the investment managers, incorporating its assessment of the nature, effectiveness and appropriateness of the managers' approaches to financially material considerations (including climate change and other ESG considerations); and
- participating with the Trustee in reviews of this SIP.

Fee structures

The Trustee recognises that the provision of investment management and advisory services to the Scheme results in a range of charges to be met, directly or indirectly, by deduction from the Scheme's assets.

The Trustee has agreed Terms of Business with the Scheme's actuarial and investment advisers, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis.

The investment managers receive fees calculated by reference to the market value of assets under management and also in some cases a performance related fee. The fee rates are believed to be consistent with the managers' general terms for institutional clients and are considered by the Trustee to be reasonable when compared with those of other similar providers.

The Trustee has appointed a custodian in respect of the Scheme's investments with Insight. The custodian's fees are calculated on a per transaction basis as well as by reference to the market value of assets under custody subject to a minimum fee. The fee rates are believed to be consistent with the custodians' general terms for institutional clients and are considered by the Trustee to be reasonable when compared with those of other similar providers.

The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustee's view as to the most appropriate arrangements for the Scheme. However, the Trustee will consider revising any given structure if and when it is considered appropriate to do so.

Performance assessment

The Trustee is satisfied, taking into account the external expertise available, that there are sufficient resources to support their investment responsibilities. The Trustee believes that they have sufficient expertise and appropriate training to carry out their role effectively.

It is the Trustee's policy to assess the performance of the Scheme's investments, investment providers and professional advisers from time to time. The Trustee will also periodically assess the effectiveness of their decision-making and investment governance processes and will decide how this may then be reported to members.

Working with the Scheme's employer

When reviewing matters regarding the Scheme's investment arrangements, such as the SIP, the Trustee seeks to give due consideration to the employer's perspective. While the requirement to consult does not mean that the Trustee needs to reach agreement with the employer, the Trustee believes that better outcomes will generally be achieved if the Trustee and employer work together collaboratively.

Policy towards risk

Appendix 2

1. Risk appetite and risk capacity

Risk appetite is a measure of how much risk the Trustee is willing to bear within the Scheme in order to meet their investment objectives. Taking more risk is expected to mean that those objectives can be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action. Risk capacity is a measure of the extent to which the Trustee can tolerate deviation from their long term objectives before attainment of those objectives is seriously impaired. The Trustee's aim is to strike the right balance between risk appetite and risk capacity.

When assessing the risk appetite and risk capacity, the Trustee considered a range of qualitative and quantitative factors, including:

- the strength of the employer's covenant and how this may change in the near/medium future;
- the agreed employer contributions;
- the Scheme's long-term and shorter-term funding targets;
- the Scheme's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged;
- the Scheme's cash flow and target return requirements; and
- the level of expected return and expected level of risk (as measured by Value at Risk ("VaR")), now and as the strategy evolves.

Following completion of the final stage of de-risking at the end of 2019, the Scheme's three year 95% Value at Risk was £27.9m (as at 31 December 2019). Three year 95% Value at Risk means that there is a 1 in 20 chance that the Scheme's funding position will worsen by these amounts or more, compared to the expected position, over a three year period.

When deciding on the de-risking investment strategy, the Trustee believed the target level of risk to be appropriate given the Trustee's and employer's risk appetite and capacity, given the Scheme's objectives.

2. Approach to managing and monitoring investment risks

The Trustee considers that there are a number of different types of investment risk that are important to manage and monitor. These include, but are not limited to:

2.1. Strategic risk

This is the risk that the performance of the Scheme's assets and liabilities diverges in certain financial and economic conditions. This risk has been taken into account in the Trustee's investment strategy review, and will be monitored by the Trustee on a regular basis.

The Trustee will review the Scheme's investment strategy at least every three years in light of the various risks faced by the Scheme.

2.2. Risk of inadequate returns

A key objective of the Trustee is that, over the long-term, the Scheme should generate its target return so that it has adequate assets to meet its liabilities as they fall due. The Trustee therefore invests the assets of the Scheme to produce a sufficient long-term return in excess of the liabilities. There is also a risk that the performance of the Scheme's assets and liabilities diverges in certain financial and economic conditions in the short term. This risk has been taken into account in setting the investment strategy and is monitored by the Trustee on a regular basis.

2.3. Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Scheme's assets. The Trustee believes that the Scheme's assets are adequately diversified between different asset classes and within each asset class. This was a key consideration when determining the Scheme's investment arrangements and is monitored by the Trustee on a regular basis.

2.4. Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, the Trustee receives written advice from a suitably qualified individual and will typically undertake an investment manager selection exercise. The Trustee monitors the investment managers on a regular basis to ensure they remain appropriate for their selected mandates.

2.5. Liquidity/marketability risk

This is the risk that the Scheme is unable to realise assets to meet benefit cash flows as they fall due, or that the Scheme will become a forced seller of assets in order to meet benefit payments. The Trustee is aware of the Scheme's cash flow requirements and believe that this risk is managed by maintaining an appropriate degree of liquidity across the Scheme's investments and by investing in income generating assets, where appropriate.

2.6. Environmental, social and governance (ESG) risks

Environmental, social and corporate governance (ESG) factors are sources of risk to the Scheme's investments, some of which could be financially significant, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Trustee seeks to appoint investment managers who will manage these risks appropriately on their behalf and from time to time reviews how these risks are being managed in practice.

2.7. Collateral adequacy risk

The Scheme is invested in leveraged Liability Driven Investment ("LDI") arrangements to provide protection ("hedging") against adverse changes in interest rates and inflation expectations. The LDI manager may from time to time call for additional cash to be paid to the LDI portfolio in order to support a given level of leverage. Collateral adequacy risk is the risk that the Trustee when requested to do so will not be able to post additional cash to the LDI fund within the required timeframe. A potential consequence of this risk is that the Scheme's interest rate and inflation hedging could be reduced and that the Scheme's funding level could suffer subsequently as a result. In order to manage this risk, the Trustee ensures that the Scheme has a sufficient allocation to cash and other highly liquid assets which can be readily realised, so that cash can be posted to the LDI manager at short notice.

2.8. Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Scheme is subject to credit risk because it invests in bonds via pooled funds. The Trustee manages the Scheme's exposure to credit risk by only investing in pooled funds that have a diversified exposure to different credit issuers, and only invests in bonds that are classified as "investment grade".

2.9. Currency risk

Whilst the majority of the currency exposure of the Scheme's assets is to Sterling, the Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets. The Trustee considers the overseas currency exposure in the context of the overall investment strategy, and believes that the currency exposure that exists diversifies the strategy and is appropriate. Furthermore, the Trustee manages the amount of currency risk by investing in pooled funds that hedge currency exposure or implement separate currency hedging arrangements.

The Trustee currently hedges around 50% of the Scheme's overseas developed market equity exposure to foreign currencies back to Sterling.

2.10. Interest rate and inflation risk

The Scheme's assets are subject to interest rate and inflation risk because some of the Scheme's assets are held in bonds/interest rate swaps, via pooled funds. However, the interest rate and inflation exposure of the Scheme's assets hedges part of the corresponding risks associated with the Scheme's liabilities.

The Trustee considers interest rate, inflation and overseas currency risks to be generally unrewarded investment risks.

As a result, the Trustee aims to hedge around 90% of the Scheme's exposure to interest rate and inflation risk measured on a technical provisions basis by investing in a mixture of bonds as well as leveraged LDI arrangements managed by Insight.

The net effect of the Trustee's approach to interest and inflation risk will be to reduce the volatility of the funding level, and so the Trustee believes that it is appropriate to manage exposures to these risks in this manner and to review them on a regular basis.

2.11. Other non-investment risks

The Trustee recognises that there are other, non-investment, risks faced by the Scheme, and takes these into consideration as far as practical in setting the Scheme's investment arrangements as part of their assessment of the other aspects of the Scheme's Integrated Risk Management framework.

Examples include:

- longevity risk (the risk that members live, on average, longer than expected); and
- sponsor covenant risk (the risk that, for whatever reason, the sponsoring employer is unable to support the Scheme as anticipated).

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Scheme's funding position falls below what is considered an appropriate level. The Trustee regularly reviews progress towards the Scheme's funding target, both in the longer-term as well as against short-term milestones, comparing the actual versus the expected funding level.

By understanding, considering and monitoring the key risks that contribute to funding risk, the Trustee believes that they have appropriately addressed and are positioned to manage this general risk.

Investment manager arrangements

Details of the investment managers, their objectives, and investment guidelines and custody arrangements are set out below.

1. Blackrock

The Scheme invests in UK, global and emerging market equities through pooled funds detailed below. BNY Mellon is responsible for custody of the assets for the following Blackrock funds in which the Scheme is invested. The Trustee does not have a direct relationship with the custodian.

1.1. UK equities

The Scheme invests in UK equities through the pooled Aquila Life UK Equity Index Fund. The objective of this fund is to achieve a return that is consistent with the return of the FTSE All-Share Index. The expected tracking error of the fund is 0.2%pa. The fund is priced daily, open ended and is unlisted.

1.2. Emerging market equities

The Scheme invests in emerging market equities through the pooled iShares Emerging Markets Index Fund. The objective of this fund is to achieve a return in line with the MSCI Global Emerging Markets Index. The expected tracking error of the fund is 1.0%pa. The fund is priced daily, open ended and is unlisted.

1.3. Global equities (hedged)

The Scheme invests in currency hedged global equities through the pooled Aquila Life Currency Hedged World ex UK Equity Fund. The objective of this fund is to achieve a return in line with the currency hedged FTSE All-World Developed ex-UK Index. The expected tracking error of the fund is 0.3%pa. The fund is priced daily, open ended and is unlisted.

1.4. Global equities (unhedged)

The Scheme invests in global equities through the pooled fund called the Aquila Life World (ex UK) Equity Index Fund. The objective of this fund is to achieve a return in line with the FTSE All-World Developed ex-UK Index. The expected tracking error of the fund is 0.3%pa. The fund is priced daily, open ended and is unlisted.

2. Baillie Gifford – diversified growth fund

The Scheme invests in the Baillie Gifford Diversified Growth Fund. The objective of this fund is to outperform the UK Bank of England base rate by at least 3.5% per annum (net of fees) over rolling five-year periods, with an annualised volatility of less than 10%. The fund is priced daily, open ended and is unlisted.

BNY Mellon is responsible for custody of the fund's assets. The Trustee does not have a direct relationship with the custodian.

3. Ruffer – DGF

The Scheme invests in a segregated diversified growth portfolio with Ruffer. Ruffer has complete discretion to invest across a full range of investments including equities and bonds, as well as underlying collective funds (managed by Ruffer) as they deem appropriate. In doing this, Ruffer will aim to keep the portfolio well diversified and suitably liquid in a manner consistent with the objectives for the Scheme's mandate.

Ruffer's overall objective is to:

- preserve the Scheme's capital over rolling twelve month periods; and
- to grow the Scheme's assets at a higher rate (after fees) than could reasonably be expected from the alternative of depositing the cash value of the Scheme's assets in a reputable UK bank

Ruffer has delegated all custody functions to RBC investor Services. The Trustee does not have a direct relationship with the custodian.

4. Insight

The Trustee has appointed Insight to manage the Scheme's liability matching assets, which include:

- an allocation to dynamic LDI funds represented by units in Insight's range of Enhanced Selection Funds which can hold a mixture of cash, gilts and swaps;
- an allocation to two of Insight's liquidity funds: the Liquidity Fund and the Liquidity Plus Fund; and
- an allocation to two of Insight's absolute return bond funds: the Bond Plus Fund and the LIBOR Plus Fund.

All funds are daily dealt.

Northern Trust is responsible for custody of the fund's assets of the fund. The Trustee does have a direct relationship with the custodian.

4.1. LDI

Insight has used liability cash flows provided by the Scheme Actuary to set an appropriate benchmark (as defined in the Insight Investment Management Agreement) for the investment of the Scheme's liability matching assets. The benchmark will be updated when new liability cash flows are produced by the Scheme Actuary.

Insight's objective is to ensure that the liability matching assets have broadly the same sensitivity to changes in long-term interest rates and inflation expectations as an appropriate proportion of the Scheme's liability cash flows. The proportions are agreed by the Trustee from time to time. In this way, the Trustee expects any changes in interest rates and inflation to have broadly the same impact on the Scheme's liability matching assets as on the relevant proportion of the liabilities that those assets are matching.

4.2. Additional funds

In order to manage the overall leverage of the LDI portfolio and provide some collateral for the LDI funds, the Scheme invests in liquidity funds and absolute return bond funds with Insight, namely the Liquidity Fund, the Liquidity Plus Fund, the LIBOR Plus Fund and Bond Plus Fund.

4.2.1. Liquidity funds

The objective of the Liquidity Fund is to deliver a net return equivalent to the return of the seven-day GBP LIBID after deduction of annual management fees and expenses over rolling 3 year periods. The fund is daily dealt.

The objective of the Liquidity Plus Fund is to deliver a net return equivalent to 12.5 basis points above the return of the three-month GBP LIBID. The fund is daily dealt.

4.2.2. Absolute return bond funds

The objective of the LIBOR Plus Fund is to outperform 3 month sterling LIBOR by 2% pa, gross of fees, over rolling three year periods. The Fund is weekly dealt.

The objective of the Bonds Plus Fund is to outperform the return of the 3 month sterling LIBOR by 2% pa, gross of fees, over rolling-three year periods. The target tracking error is 5% pa. The Fund is bi-monthly dealt.

5. Additional Voluntary Contributions

Additional Voluntary Contributions ("AVCs") are invested separately from the main assets of the Scheme with the Standard Life Assurance Company. Some members retain AVC investments in Utmost Life and Pensions Limited or Phoenix Life Limited, but these are closed to further contributions.