The Horserace Totalisator Board (1968) Pension Scheme

Statement of Investment Principles

This document is The Horserace Totalisator Board (1968) Pension Scheme's ("the Scheme") Statement of Investment Principles ("the SIP"). Details of the implementation of the Scheme's investment principles along with the Trustees' governance policy are set out in a separate document, the Investment Implementation Document ("IID").

Investment objective

The Trustees' overall investment policy is guided by the following objectives:

- The Trustee recognises the importance of the Scheme providing the previously promised level of pension benefit, at a reasonable cost to the sponsor. The primary investment objective is thus to invest the assets in such a way that the expected cost of providing the benefits is maintained at an acceptable level without reducing the security (solvency) of the Scheme to an unacceptable level.
- The Trustee is aiming to achieve a greater return than risk-free assets and thereby contribute to the repair of a deficit and possibly create a surplus. An investment strategy which strives for higher return without significantly increasing the level of risk is acceptable.

It is the Trustees' policy that the Scheme's funding position will be estimated and reviewed quarterly to assess the position relative to the funding target and whether the investment policy remains appropriate to the Scheme's circumstances. Following a review of the investment arrangements in 2016 the Trustee agreed to target a self-sufficient funding level over the medium term where self-sufficiency is measured as gilts + 50% of the AA corporate bond credit spread, which based on market conditions was taken as gilts + 0.5% at the time of the analysis. In 2020 the Trustee undertook a review of the investment strategy and it was agreed that the self-sufficient target of gilts +0.5% was still appropriate.

Risks

A non-exhaustive list of risks and financially material considerations that the Trustee has considered and sought to manage is shown below.

The Trustee adopts an integrated risk management approach. The three key risks associated within this framework and how they are managed are stated below:

Risks	Definition	Policy
Investment	The risk that the Scheme's position deteriorates due to the assets underperforming.	• Selecting an investment objective that is achievable and is consistent with the Scheme's funding basis and the sponsoring company's covenant strength. • Investing in a diversified portfolio of assets.

Funding	The extent to which there are insufficient Scheme assets available to cover ongoing and future liability cash flows.	• Funding risk is considered as part of the investment strategy review and the actuarial valuation. • The Trustee will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time.
Covenant	The risk that the sponsoring company becomes unable to continue providing the required financial support to the Scheme.	• When developing the Scheme's investment and funding objectives, the Trustee takes account of the strength of the covenant ensuring the level of risk the Scheme is exposed to is at an appropriate level for the covenant to support.

The Scheme is exposed to a number of underlying risks relating to the Scheme's investment strategy, these are summarised below:

Risk	Definition	Policy
Interest rates and inflation	The risk of mismatch between the value of the Scheme assets and present value of liabilities from changes in interest rates and inflation expectations.	To target a hedge of c.84% on a self sufficiency basis(liabilities not covered by the buy-in) of these risks on a self-sufficiency basis. This is expected to move to 100% hedged over time.
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they fall due (including transfer values), and to provide collateral to the LDI manager.
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away any unrewarded risks, where practicable.
Credit	Default on payments due as part of a financial security contract.	To diversify this risk by investing in a range of credit markets across different geographies and sectors.
Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Scheme's investments.	The Trustee monitors the mangers on an ongoing basis.

Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	The Trustee hedges the Scheme's currency exposure as much as is deemed possible.
Non-financial	Any factor that is not expected to have a financial impact on the Scheme's investments.	Non-financial matters are considered in the selection, retention or realisation of investments.

Investment strategy

Once an agreed risk tolerance has been established, the balance between different types of investments is determined with advice from the Trustees' Investment Advisers. The Trustee consider a wide range of investments when determining the asset mix.

The Trustee has opted to follow a strategy which is tailored to meet the specific demands of the Scheme's liability profile and funding status, and to be consistent with the Scheme's own objectives. In particular, the Trustee has taken advice from the Scheme's Actuary and from its Investment Adviser regarding the likely sensitivity of the Scheme's financial position to different investment strategies.

The Scheme completed a partial buy-in of pensioner liabilities in May 2013 and a further buy-in top up of pensioner liabilities in September 2015 whereby a portion of the assets are held by an insurance provider with the objective of providing a broad match to the corresponding pensioner liabilities.

In March 2020, the Scheme refined the long-term investment strategy which aims to de-risk the portfolio as monies are distributed from the Scheme's current illiquid investments, Direct Lending and Commercial Real Estate Debt "CRED". As a result, the investment objective is expected to move from 2.3%(1) to 0.9%(1) p.a. above the return on UK Government bonds (which are considered to move in a similar fashion to the calculated value of the Scheme's liabilities) over the longer term.

As distributions are received from the illiquid investments, the money will be re-invested in line with the long-term Strategic Asset Allocation. The time to de-risk will be dependent on the speed of the distributions from the illiquid holdings.

The Trustees will monitor the assets and invest according to the long-term Investment Strategy which follows the broad exposures:

Asset Class	**Current Asset Allocation**	**Long-Term Strategic Asset Allocation**(2)	**Control Ranges**
M&G Diversified Credit	18.6%	20.0%	+/- 5%
Direct Lending	14.4%	0.0%	+/- 15%
CRED	9.9%	0.0%	+/- 15%
Liability Driven Investing Funds ("LDI")(3)	39.4%	45.0%	-
L&G Diversified Credit	17.7%	15.0%	-
Buy and Hold Corporate Bonds	-	20.0%	+/- 20%
Total	**100.0%**	**100.0%**	

Note: (1) Investment Advisers long-term best estimate assumptions which were used when setting this investment *strategy, net of investment management fees, calculated on an arithmetic basis. (2) Current Asset Allocation shown as at 30 June 2020. (3)Economic exposure may be greater due to leverage. Totals may not sum due to rounding. The Scheme's actual asset allocation may deviate from the table due to market movements, active management of the portfolio, and drawdown and distributions from CRED and Direct Lending mandates.*

The Trustee recognises there will be deviations from the Long-Term Strategic Asset Allocation due to the current allocations to the illiquid closed ended vehicles. The Trustee will review the Scheme's Current Asset Allocation relative to the long-term Strategic Asset Allocation on a regular basis to monitor the Scheme's progress to the new strategy.

The Trustee recognises that a key risk for the Scheme is the mismatch between the performance of the assets and the calculated value of the liabilities. This risk is monitored by regularly assessing the funding position and the characteristics of the assets and liabilities. The risk is managed by investing in assets which are expected to perform in excess of the liabilities over the long term, and also by investing in a suitably diversified portfolio of assets with the aim of reducing (as far as possible) volatility relative to the liabilities.

The Trustee has implemented a LDI strategy as well as the partial buy-in to reduce the mismatch between the characteristics of the liabilities and the assets (i.e. the interest rate and inflation risk). Following a review of the Scheme's LDI portfolio in 2019 the current hedge ratio of the Scheme is c.84% of the PV01 (a measure of sensitivity to changes in interest rates) and c.84% of the IE01 (a measure of sensitivity to changes in inflation) of the Scheme's liabilities (which are not covered by the buy-in) on a self-sufficient basis. The Trustee seeks to minimise the inflation and interest rate risks through maximising the Scheme's hedge ratio as much as practically possible. The Scheme's asset allocation to LDI will change over time due to market movements, but it is not appropriate to rebalance back to the initial allocation as doing so would change the hedge ratio. Therefore, the Trustee has not set control ranges for the LDI allocation. . The Scheme's allocation to the L&G Diversified Credit is also to be used as the collateral pool for the LDI. Therefore, the Trustee will monitor the allocation to this Fund relative the size of the LDI and has again not adopted control ranges on a portfolio level.

Investment mandates

The Trustee has appointed a number of Investment Managers to manage the assets of the Scheme, as detailed in the Scheme's IID. All the Investment Managers are regulated by the Financial Conduct Authority.

Investment Restrictions and Sponsor-Related Investments

Most decisions about the day-to-day management of the assets have been delegated to the Investment Managers via written agreements. This delegation includes decisions about:

- Realisation of investments;
- Social, environmental and ethical considerations in the selection, retention and realisation of investments; and
- The exercise of rights (including voting rights) attached to the investments.

The Trustee takes the Investment Managers' policies on the above items into account when selecting and monitoring them.

The Financial Reporting Council set out a series of seven principles known as the Stewardship Code to provide a framework for good practice for institutional investors that directly manage assets. The Trustee is supportive of the Stewardship Code and will monitor their relevant Investment Managers' compliance on an annual basis.

Regarding sponsor-related investments as defined in the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005, other than to the extent that pooled funds are invested in securities issued by Betfred Group Limited (or any other related group company), the Scheme's Investment Managers are not permitted to invest in such securities without the Trustees' prior consent. Where the Scheme invests in pooled vehicles that may hold sponsor-related investments the total exposure to sponsor-related investments is not expected to exceed 5% of the Scheme's value. The Trustee monitors its sponsor-related investments on an annual basis.

Direct investments

Direct investments, as distinguished by the Pensions Act 1995, are products purchased without delegation to an Investment Manager through a written contract. When selecting and reviewing any direct investments, it is the Trustees' policy to obtain appropriate written advice from their Investment Advisers.

The partial buy-in of pensioner liabilities held by Legal & General Assurance Limited provider is a direct investment.

Compliance

This Statement has been prepared in compliance with the Pensions Act 1995, the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005. Before preparing or subsequently revising this Statement, the Trustee consulted the sponsoring employer and took appropriate written advice. The Statement is reviewed at least every three years, and without delay after any significant change in investment policy.

Financially Material Considerations

The Trustee considers that financially material considerations, including environmental, social and corporate governance (ESG) factors (such as climate change) and risks related to these factors can contribute to the identification of investment opportunities and financially material risks, and can have a material impact on investment risk and return outcomes, over a time horizon which is the length of time that members' retirement benefits require to be funded by the investments in the Scheme.

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

As noted above, the Trustee has delegated day to day management of the Scheme's assets to investment managers as further noted on page 6. Consequently, the Trustee recognises that its ability to directly influence the actions of investee companies is limited.

The Trustee therefore expects the Scheme's investment managers to take ESG factors, including climate change, into account when exercising the rights attaching to the Scheme's investments, and in setting their policies in relation to the selection, retention and realisation of investments. Any decision should not apply personal ethical or moral judgments to these issues but should consider the sustainability of business models that are influenced by them. The Trustee will review any reports which the investment managers produce concerning their approach to financially material considerations and discuss further with their Investment Adviser where appropriate. More information on the Trustees policies in relation to the investment management arrangements for the Scheme is provided in appendix A.

Non Financial Matters (Including Member's Views)

As noted in the risk table on page 3, non-financial matters are taken into account in the selection, retention and realization of investments.

The views of members and other beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life, are not considered in the selection, retention and realisation of investments within the Scheme. The Trustee will review its policy towards this as appropriate.

Voting and Engagement

The Trustee believes that good stewardship helps create and preserve value for companies and markets. The Trustee's policy in relation to the exercise of rights (including voting rights) attaching to investments is that they should be exercised by each investment manager to whom the day to day responsibilities have been delegated. The Trustee believes that this will ultimately be in the best interests of the Scheme and undertaking engagement activities in respect of investments, is that the Trustee wishes to encourage best practice in terms of stewardship.

The Trustee recognises that, for the reasons outlined above, its ability to directly influence stewardship matters is limited.

The Trustee therefore expects its investment managers to discharge their responsibilities in respect of investee companies in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

Monitoring

The Trustee considers how ESG, climate change and stewardship is integrated within the processes of its investment managers. The Scheme's Investment Adviser will provide the Trustee with reporting on a regular basis, and at least annually, on ESG integration progress, stewardship, and monitoring. The Trustee will engage with their Investment Adviser to request additional information where necessary.

Should the Trustee seek to appoint a new manager, it will appoint a manager who complies with the following criteria (unless there is a good reason why the manager does not satisfy each criteria):

- They have a responsible Investment (RI) Policy/ Framework
- ESG factors are implemented via the Investment Process

- They have a track record of using engagement and any voting rights to manage ESG factors
- They provide ESG specific reporting
- They are a UN PRI Signatory

Date: 28 September 2020

For and on behalf of the Trustee of The Horserace Totalisator Board (1968) Pension Scheme

Appendix A

The Trustee have the following policies in relation to the investment management arrangements for the Scheme:

How the investment managers are incentivised to align their investment strategy and decisions with the Trustee policies.	• As the Scheme is invested in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustee policies. However, the Trustee invest in a portfolio of pooled funds that are aligned to the strategic objective.
How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.	• The Trustee review the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements. • The Trustee do not incentivise the investment managers to make decisions based on non-financial performance.
How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustee policies.	• The Trustee review the performance of all the Scheme's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives. • The Trustee evaluate performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years.
The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.	• The Trustee do not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.
The duration of the Scheme's arrangements with the investment managers	• The duration of the arrangements is considered in the context of the type of fund the Scheme invests in. o For closed ended funds or funds with a lock-in period the Trustee ensure the timeframe of the investment or lock-in is in line with the Trustee objectives and Scheme's liquidity requirements. o For open ended funds, the duration is flexible, and the Trustee will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.