Statement of Investment Principles for the Royal Opera House Pension Scheme

February 2020

1. Introduction

This Statement of Investment Principles ("SIP") sets out the policy of the Trustee of the Royal Opera House Pension Scheme ("the Trustee") on various matters governing decisions about the investments of the Royal Opera House Pension Scheme ("the Scheme"), a Defined Benefit ("DB") Scheme.

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 (as amended) and the Pension Regulator's guidance for defined benefit pension schemes (March 2017). The SIP also reflects the Trustee's response to the Myners voluntary code of investment principles.

This SIP has been prepared after obtaining and considering written professional advice from LCP, the Scheme's investment adviser, whom the Trustee believe 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 have consulted with the relevant employer in producing this SIP.

The Trustee will review this SIP from time to time and, with the help of its 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 Scheme's long-term investment strategy in the context of the Scheme's agreed funding objectives.
- **Appendix 3** sets out the Trustee's policy towards risk appetite, capacity, measurement and management.
- **Appendix 4** 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 additional objectives. These are as follows:

- that the Scheme's funding position (ie the value of its assets relative to the assessed value of its liabilities) should remain at an appropriate level. The Trustee is aware that there are various measures of funding and has given due weight to those considered most relevant to the Scheme. In particular, the Trustee has taken into account the funding requirements detailed in the Occupational Pensions Scheme (Scheme Funding) Regulations 2005 when carrying out the triennial valuation as at 5 April 2018.
- that the Scheme's investment strategy should be linearly de-risked between 2015 and 2030 to a "destination portfolio" (which has been agreed with the Company) where this portfolio is invested 60% in matching assets (LDI funds, government bonds and cash) and 40% in return-seeking assets (absolute return funds and multi-asset credit). The Scheme's investments are to be reviewed on an annual basis to assess whether the Scheme is on course to meet this target.

3. Investment strategy

The Trustee, with the help of its advisers and in consultation with the employer, reviewed the investment strategy in June 2019, taking into account the objectives described in Section 2 above.

The result of the review was that the Trustee agreed that the Scheme's investment strategy should be based on the allocation below (but noting the longer-term intention to reduce risk).

Asset class	Strategic allocation
Equities	38%
Absolute return	21%
Multi-asset credit	9%
Property	2%
LDI	26%
ARBs / cash	4%
Gilts	-
Total	100%

The Trustee monitors the asset allocation from time to time. If material deviations from the strategic allocation occur the Trustee will consider with its advisers whether it is appropriate to rebalance the assets taking into account factors such as market conditions and anticipated future cash flows.

In addition, the Scheme's assets are reviewed on an annual basis to assess whether the Scheme is on course to meet its long-term destination portfolio. Appendix 2 sets out in detail the Scheme's long-term de-risking plan.

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 3. 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 financial assumption made by the Trustee in determining the investment arrangements is that equity-type investments will, over the long term, outperform gilts by 5.0% pa. The other key assumptions for expected returns above gilts are as follows:

Return assumptions

Asset class or investment	Expected return over gilts (% pa)
Money market cash	0.0
Fixed interest gilts	0.0
Index-linked gilts	0.0
Equities	5.0
UK property	3.3
Absolute return bonds	1.1
Diversified growth	3.0
Multi-asset credit	2.3
Dynamic LDI	1.0

In setting the strategy the Trustee took into account:

- the Scheme's investment objectives, including the target returns required to meet those investment objectives;
- 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;
- any other considerations which the Trustee considers financially material over the time horizon that the Trustee considers is needed for the funding of future benefits by the investments of the Scheme;
- the best interests of all members and beneficiaries; and
- the Trustee's investment beliefs about how investment markets work, and which factors are most likely to impact investment outcomes.

Some of the Trustee' key investment beliefs, which influenced the setting of the investment arrangements, are as follows.

- asset allocation is the primary driver of long-term returns;
- risk-taking is necessary to achieve return, but not all risks are rewarded;
- equity, credit and illiquidity are the primary rewarded risks;
- risks that do not have an expected reward should generally be avoided, hedged or diversified;
- investment markets are not always efficient and there may be opportunities for good active managers to add value;
- environmental, social and governance (ESG) factors are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors;
- long-term environmental, social and economic sustainability is one factor that trustees should consider when making investment decisions; and
- costs have a significant impact on long-term performance and therefore obtaining value for money from the investments is important.

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 4.

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 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 because all the Scheme's assets are held in pooled funds, but they encourage their managers to improve their practices where appropriate.

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 their 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. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, 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 their 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 their 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 reimbursing the employer for benefit payments and other outgoings paid on its behalf and informs 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 (eg property). In general, the Trustee's policy is to use cash flows to rebalance the Scheme's assets towards the strategic asset allocation, and also receive income from some of the portfolios where appropriate.

7. Financially material considerations 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, taking into account the time horizon of the Scheme and its members.

The Trustee expects its 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 reviews how its 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 it encourages its 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 its responsibilities as an owner of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attached to investments, protect and enhance the long-term value of investments.

The Trustee has delegated to its investment managers the exercise of rights attached to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. It expects 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.

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

Signed: ____

Investment governance, responsibilities, decision-making and fees

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 it, and its 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:

- developing a mutual understanding of investment and risk issues with the employer;
- setting the investment strategy, in consultation with the employer;
- reviewing the investment policy as part of any review of the investment strategy;
- setting the policy for rebalancing between asset classes;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- setting a policy on the exercise of rights (including voting rights) and on engagement activities;
- appointing, monitoring, reviewing and 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;
- putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- communicating with members as appropriate on investment matters, such as the Trustee's assessment of its effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employer(s) 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) attached 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 and effectiveness 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. 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. See also Section 5 of the SIP.

For JP Morgan Chase Bank, the custodian fees consist of a fixed fee, plus a charge in respect of each transaction. The fee rates are believed to be consistent with the custodian's general terms for similar 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 its investment responsibilities. The Trustee believes that it has sufficient expertise and appropriate training to carry out its 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. See Section 5 of the SIP. The Trustee will also periodically assess the effectiveness of its decision-making and investment governance processes and will decide how this may then be reported to members.

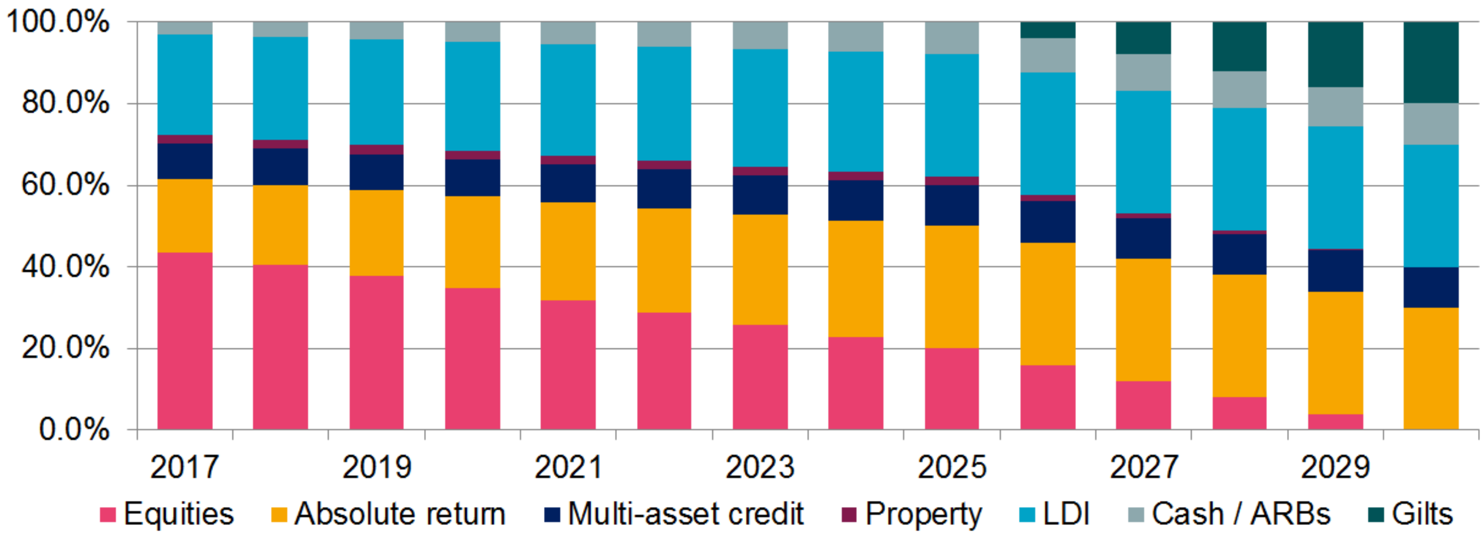
Working with the Scheme’s employer

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 employers work together collaboratively.

Longer-term objectives

As noted in section 2, the Trustee's intention is that over a 15 year period from 2015 to 2030 the Scheme's investment strategy should be linearly de-risked to a "destination portfolio" (which has been agreed with the Company) where this portfolio is invested 60% in matching assets (LDI funds, government bonds and cash) and 40% in return-seeking assets (absolute return funds and multi-asset credit). The Scheme's investments, including the levels of interest rate and inflation hedging, are to be reviewed on an annual basis, to assess whether the Scheme is on course to meet its projected investment de-risking plan. The levels of interest rate and inflation hedging would be expected to increase by broadly 3-4% each year, dependent on actual market movements from time to time. The Trustee will typically review the asset allocation of the Scheme at its second quarter meeting each year, with implementation to take place as soon as practicable following any decisions taken.

The below chart sets out the Scheme's current long-term de-risking strategy in more detail. In a typical year, the Trustee can expect to transfer around 3% of return-seeking assets to the matching portfolio.



Policy towards risk

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 its 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 its long-term objectives before attainment of those objectives is seriously impaired. The Trustees aims 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 de-risking plan and 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 implementation of the Scheme's current investment strategy, as at 30 June 2019, the Scheme's 1 year 95% Value at Risk was £11m. This means that there is a 1 in 20 chance that the Scheme's funding position will worsen by £11m or more over a one-year period, when compared with the expected position in one year's time. When deciding on the current investment strategy, the Trustees believed this level of risk to be appropriate given the Trustee's and employer's risk appetite and capacity, and 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. 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.

2.2. 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.

2.3. 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 mandate.

2.4. Counterparty risk

This is the risk that one party to a contract (such as a derivative instrument) causes a financial loss to the other party by failing to discharge a contractual obligation. This risk applies in particular for those contracts that are traded directly between parties, rather than traded on a central exchange.

In particular, BMO makes use within its Pooled Dynamic LDI range of derivative and gilt repos contracts and these funds are used by the Trustee to match efficiently a portion of the Scheme's liabilities. Counterparty risk is managed within the fund through careful initial selection and ongoing monitoring of trading counterparties, counterparty diversification and a robust process of daily collateralisation of each contract, to ensure that counterparty risk is limited, as far as possible, to one day's market movements

2.5. Illiquidity/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 believes that this risk is managed appropriately. First, by maintaining an appropriate degree of liquidity across the Scheme's investments; second, by investing in income generating assets, where appropriate and third; by having an arrangement in place with the employer which allows Scheme payments up to a certain level (currently £1m) to be met by the employer before these are repaid.

2.6. Environmental, social and governance (ESG) risks

Environmental, social and corporate governance (ESG) factors are sources of risk to the Scheme's investments, 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 the Scheme's 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 absolute return bonds, which can be readily realised by the LDI manager, so that cash can be accessed by the LDI manager at short notice.

2.8. Credit risk

This is the risk that a borrower will cause a financial loss for the other party by failing to meet required payments for a contractual obligation

The Scheme is subject to credit risk because it invests in bonds via pooled funds. The Trustee manages its exposure to credit risk by only investing in pooled funds that have a diversified exposure to different credit issuers, and where the managers undertake rigorous analysis of the credit worthiness of the bonds invested in.

2.9. Equity risk

Equity represents (part) ownership of a company. Equity risk is the risk that the value of this holding falls in value.

The Trustee believes that equity risk is a rewarded investment risk, over the long term.

The Trustee considers exposure to equity risk in the context of the Scheme's overall investment strategy and believes that the level of exposure to this risk is appropriate.

2.10. 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.

2.11. 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 and inflation risks to be generally unrewarded investment risks.

As a result, the Trustee aims to hedge around 60% of the Scheme's exposure to interest rate risk and inflation risk, by investing in a mixture of bonds as well as leveraged LDI arrangements. This level of hedging will be increased over time as part of the Scheme's long-term de-risking plan.

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.

2.12. 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 the 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 it has appropriately addressed and are positioned to manage this general risk.

Investment manager arrangements

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

1. The return-seeking portfolio

1.1. Schroders – equity and property portfolio

The Trustee has selected Schroder Investment Management Limited ("Schroders") as the investment provider for the Scheme's equity and property portfolio. The Benchmark is as follows:

Asset class	Benchmark (%)	Permitted range (%)	Index
UK	61.5	+/-5	FTSE All-Share
Overseas:	31.5	+/-5	
North America	13.5	+/-4	FTSE All World North America
Europe ex-UK	8.0	+/-4	FTSE World Europe ex-UK
Japan	5.5	+/-3	FTSE All World Japan
Pacific ex-Japan	4.5	+/-3	FTSE All World Developed Asia Pacific ex-Japan
Property	7.0	+/-5	HSBC/APUT All Balanced Funds Weighted Average
Cash	0.0	5	LIBID 7 Day
Total	**100.0**		

A maximum of 5.0% of the Scheme's assets held with Schroders may be invested in non-benchmark assets. Schroders' objective is to outperform the prescribed Benchmark return, after investment management fees, by 1% pa over rolling three-year periods. The custody and safekeeping of the assets managed by Schroders are provided by JP Morgan Chase Bank.

The Schroders funds are all open-ended and not listed on any exchange. Schroders' equity and cash investments have daily liquidity, whereas the property fund deals monthly.

The Scheme first invested with Schroders on 28 June 2005.

1.2. Baillie Gifford & GMO – absolute return funds

The Trustee has selected Baillie Gifford & Co ("Baillie Gifford") and Grantham, Mayo, Van Otterloo & Co. LLC ("GMO") as the investment providers for the Scheme's "absolute return" portfolio. Both of the funds are priced daily. Both funds are also open-ended and unlisted.

The objective of the Baillie Gifford absolute return fund is to outperform the return of the Bank of England base rate by 3.5% pa, net of fees, over rolling 5-year periods.

GMO's objective is to seek to achieve a return in excess of the OECD G7 CPI, which is a measure of inflation across seven major developed economies.

The Scheme first invested with Baillie Gifford and GMO on the 12 October 2018 and 15 March 2015 respectively.

1.3. M&G – multi asset credit

The Trustee has selected M&G Investments ("M&G") as the investment provider of the Scheme's "multi asset credit" portfolio. The investment is wholly in the M&G Alpha Opportunities Fund. The objective of the M&G Alpha Opportunities Fund is to provide an absolute return of 1-month LIBOR + 3% to 5% pa, gross of fees over the medium term. The fund is priced monthly, is unlisted and open-ended.

As at 30 June 2018, around 64% of the return-seeking portfolio was invested with Schroders, with the remaining balance split broadly equally between Baillie Gifford, GMO and M&G.

The Scheme first invested with M&G on 3 March 2014.

2. The matching portfolio

2.1. BMO – dynamic LDI portfolio

The Trustee has selected BMO Global Asset Management Limited ("BMO") as the investment manager for the Scheme's dynamic LDI portfolio and liquidity assets.

Within the dynamic LDI portfolio, the Scheme currently invests in the Real Dynamic LDI Fund and the Nominal Dynamic LDI Fund. BMO's stated objective for the Real and Nominal Dynamic LDI Funds is to provide a hedge against changes in the value of a set of benchmark cash flows representing the profile of a "typical" pension scheme. BMO will use different instruments (swaps and gilts) based on the relative attractiveness of each.

The Scheme's liquid assets are held in an absolute return bond fund. This was introduced in October 2017 and is intended to hold the bulk of the liquidity assets.

BMO's stated objective for the Absolute Return Bond Fund is to deliver an absolute return irrespective of bond market direction. The Absolute Return Bond Fund's formal objective is to seek to achieve a return of LIBOR + 3% pa (before fees) over the medium term. The BMO funds are all dealt daily, unlisted and open-ended.

The Scheme first invested with BMO on 26 March 2015.

3. Additional Voluntary Contributions

Additional Voluntary Contributions ("AVCs") are invested in separate arrangements with The Standard Life Assurance Company and The Equitable Life Assurance Society (whose business is due to be sold to Reliance Life) although the Trustee does not allow members to make further contributions to the latter fund provider.