

## **Agility Pension Plan (“the Plan”) – LUFS Section Statement of Investment Principles (“the Statement”)**

### **1. Scope of Statement**

This Statement has been prepared in accordance with Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005).

The effective date of this Statement is 29 May 2019. The Trustee will review this Statement and the Plan’s investment strategy annually and without delay after any significant change in investment policy.

The Plan is comprised of three sections: one providing defined benefits (LUFS), a section providing Money Purchase benefits (LUMP), both of which have been closed to new members and future accrual since 2006, and the third is a Defined Contribution Section (2006 Plan). There is no cross-subsidy between the different sections. This statement relates only to the LUFS Section of the Plan (“LUFS Section”).

### **2. Consultations Made**

The Trustee has consulted with the Sponsoring Employer prior to writing this Statement and will take the Employer’s comments into account when it believes it is appropriate to do so.

The Trustee is responsible for the investment strategy of the LUFS Section of the Plan. It has obtained written advice on the investment strategy appropriate for the LUFS Section and on the preparation of this Statement. This advice is provided by its investment adviser, Aon Hewitt Limited, who are authorised and regulated by the Financial Conduct Authority.

The Trustee has decided to invest the LUFS Section’s assets in the Aon Pension Solution (“APS”). Under the APS, the Trustee, following advice from their investment adviser, set specific funding objectives for the LUFS Section. Russell Investments Limited (the “Manager”) manage the LUFS Section’s assets in a range of funds which can include multi-asset, multi-manager and specialist third party liability matching funds. The Manager conducts the necessary day to day management of the LUFS Section’s assets required to meet the LUFS Section’s objectives.

A copy of this Statement is available to the Manager and/or the members of the LUFS Section on request.

### **3. Objectives and Policy for Securing Objectives**

The Trustee’s primary objectives for setting the investment strategy of the LUFS Section are:

- “funding objective” – to ensure that the LUFS Section is fully funded using assumptions that contain a margin for prudence. Where an actuarial valuation reveals a deficit, a recovery plan will be put in place which will take into account the financial covenant of the Employer;
- “stability objective” – to have due regard to the likely level and volatility of required contributions when setting the LUFS Section’s investment strategy; and

- “security objective” – to ensure that the solvency position of the LUFS Section (as assessed on a gilts basis) is expected to improve. The Trustee will take into account the strength of the Employer's covenant when determining the expected improvement in the solvency position of the LUFS Section.

The Trustee decided to invest the LUFS Section's assets in a bundled investment service through the APS because it provides the framework for a risk-management strategy that better helps the Trustee meet its primary objectives above. The three key components of the Trustee's risk-management strategy are:

1. Appropriate diversification of the growth portfolio;
2. Efficient liability hedging; and
3. Frequent funding level monitoring and triggers to automatically de-risk the LUFS Section when the opportunity arises.

The Trustee selected the APS because it considered it to provide such a bundled service that is easy to access and that is cost-effective.

Under the APS, the funding objective is set in relation to the liability cash flows that are required to be met from the LUFS Section in each future year. In each future year the annual cash flow is made up from a mixture of pensioners' and (current) non-pensioners' benefits.

The funding objective is based on a measure of the liabilities which takes into account risk free returns plus an explicit allowance for excess return derived from the growth assets. The risk free measure used is based on yields on fixed interest and index-linked gilts, being the financial instruments which can most appropriately match the profile of the expected benefit payments. The excess return is based on the proportion of growth assets that the LUFS Section holds and an anticipated return that the Trustee is comfortable with in the context of the covenant of the Sponsoring Employer and is reviewed on a regular basis. The Trustee's funding objective for the LUFS Section is to be fully funded on an actuarial basis that assumes returns in line with the yields on gilts +0.3% per annum both pre-retirement and post-retirement.

Details of the LUFS Section's current funding objective are described in the Appendix to this Statement.

#### **4. Choosing Investments**

This Statement sets out the Trustee's policies for securing compliance with Section 35 of the Pensions Act 1995.

The types of investments held and the balance between them is deemed appropriate given the liability profile of the LUFS Section, its cashflow requirements, the funding level of the LUFS Section and the Trustee's objectives.

It is the Trustee's intention to ensure that the assets of the LUFS Section are invested in the best interests of the members and beneficiaries.

The Trustee delegates its powers of investment in a manner that is expected to ensure the security, quality, liquidity and profitability of the portfolio as a whole. The assets of the LUFS Section are invested predominantly in regulated markets (with investments not in regulated markets being kept to a prudent level) and properly diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings so as to avoid accumulations of risk in the portfolio as a whole. The diversification is both within and across the major asset classes.

Assets held to cover the LUFS Section's technical provisions (the liabilities of the LUFS Section) are invested in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the LUFS Section but recognising also the return requirement in order to meet the funding objective.

Investment in derivatives is only made in so far as they contribute to the reduction of investment risks or facilitate efficient portfolio management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk) and are managed so as to avoid excessive risk exposure to a single counterparty or other derivative operations.

## **5. The Balance between Different Kinds of Investments (LUFS section)**

The Trustee recognises that the key source of financial risk (in relation to meeting its objectives) arises from asset allocation.

Under the APS, the LUFS Section will have an allocation to a diversified growth fund ("the Growth Portfolio") and an allocation to specific liability matching funds ("the Matching Portfolio") based on gilts. Within this structure:

- The allocation to the Growth Portfolio is set so that the expected return, together with the planned contributions, is expected to be sufficient to meet the funding objective by the target date. The Growth Portfolio will be well diversified and will be managed actively between asset classes. Within the Growth Portfolio, fixed income securities may be held as a source of return and as a diversifier.
- The Matching Portfolio's asset profile is selected to provide protection against movements in interest rates and inflation. The Matching Portfolio will be tailored to match the LUFS Section's liability cash flows as far as is practically possible and will use leveraged gilt funds to extend the matching characteristics where appropriate.

A plan (the "Road Map") has been put into place to reduce the required return systematically as the funding level improves from the starting allocation to the target allocation implicit in the funding objective. The Road Map reduces the required return as the funding level improves but maintains sufficient assets in the Growth Portfolio so that the funding objective is still expected to be achieved. This aims to lock in favourable increases in assets (or falls in liability value not match by the liability hedging in place) to the greatest extent possible, without jeopardising the LUFS Sections' funding objective.

The Road Map is currently suspended pending review.

Under the APS, the Trustee delegates responsibility for managing its asset allocation to the Manager. This allows the asset allocation of the LUFS Section to be adjusted quickly, where needed, in response to changes in the funding level, to best meet the investment objectives of the LUFS Section.

The Trustee reviews its investment strategy in conjunction with each formal actuarial valuation of the LUFS Section (or more frequently should the circumstances of the LUFS Section change in a material way). The Trustee takes written advice from its professional advisers regarding an appropriate investment strategy for the LUFS Section. The investment strategy for the APS (set out in the Appendix) was implemented following a review of the LUFS Section's liabilities, investment strategy and manager structure which was carried out following the actuarial valuation with an effective date of 31 December 2017.

Following finalisation of the latest actuarial valuation, the Trustee is in the process of reviewing the investment strategy and Road Map.

Details of the LUFS Section's Road Map and of the Growth and Matching Portfolios are described in the Appendix to this Statement.

## 6 Investment Risk Measurement and Management

The Trustee recognises that the key risk to the LUFS Section is that it has insufficient assets to meet its liabilities ('funding risk'). The Trustee has identified a number of key risks which have the potential to cause a deterioration in the funding level of the LUFS Section. These are as follows:

- **Asset allocation risk** – the risk of below expected returns from the LUFS Section's assets. The Trustee has put in place a Road Map (currently suspended pending review) to systematically reduce the required return as the funding level improves over time.

Regular checks are made as to whether the funding and investment strategy, including the Road Map, remain on target to achieve the original objectives, and within acceptable parameters. If not, then corrective action is considered by adjusting the investment strategy, or through amendments to the contribution plan.

The Manager monitors the funding level on a daily basis and has been instructed by the Trustee to invest the assets to deliver the required return in accordance with the Road Map. If the funding level falls through a trigger point then no automatic re-risking takes place through an increase in the required return.

- **Covenant risk** – the possibility of failure of the LUFS Section's Sponsoring Employer. The Trustee and its advisers considered this risk when setting the investment strategy and have consulted with the Sponsoring Employer as to the suitability of the proposed strategy.

Risks associated with changes in the Employer covenant are assessed on a regular basis using a number of methods including monitoring the Failure Score (as defined for the purposes of calculating the risk-based element of the Pension Protection Fund levy) and taking independent covenant assessment advice. The Trustee also has an agreement with the Employer to receive notification of any events which have the potential to alter the creditworthiness of the Sponsoring Employer. In particular, the Trustee will be informed of Type A events, as defined in appropriate guidance issued by the Pensions Regulator, and Employer-related Notifiable Events. On receipt of such notification, the Trustee will re-consider the continued appropriateness of the LUFS Section's existing investment strategy.

- **Mismatching risk** – the risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors. The Trustee and its advisers have considered this risk when setting the investment strategy and have specifically structured the LUFS Section's assets so as to minimise this risk as far as is practical. The asset profile of the Matching Portfolio is tailored to meet the LUFS Section's liability cash flows as far as is practically possible and will use leveraged gilt funds to extend the matching characteristics where appropriate.
- **Diversification risk** – the failure to spread investment risk. The Trustee and its advisers have considered this risk when setting the investment strategy of the LUFS Section. The LUFS Section's assets are invested in the APS, which provides exposure to a diversified growth fund and specialist third party liability matching funds.
- **Cash flow risk** – the risk of a shortfall of liquid assets relative to the LUFS Section's immediate liabilities. The Trustee, its advisers and the Manager will manage the LUFS Section's cash flows taking into account the timing of future payments in order to minimise the probability that this occurs.

- **Manager risk** – the failure by the fund managers to achieve the rate of investment return expected by the Trustee. This risk is considered by the Trustee and its advisers both upon the initial appointment of the fund managers and on an ongoing basis thereafter, through quarterly investment reports prepared by its advisers.
- **Operational risk** – the risk of fraud, poor advice or acts of negligence. The Trustee has sought to minimise such risk by ensuring that all advisers and third-party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.

Due to the complex and interrelated nature of these risks, the Trustee considers the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review and in conjunction with the actuarial valuation of the LUFS Section, following which the Trustee takes advice on the continued appropriateness of the existing investment strategy.

Having set and implemented an investment objective which relates directly to the LUFS Section's liabilities, the Trustee's policy is to monitor, where possible, these risks on a regular basis. The Trustee monitors these risks through quarterly reports which detail the latest financial position of the LUFS Section including the actual funding level versus the expected funding level, an analysis of investment performance and risk versus return.

The Trustee monitors the performance of the assets on a quarterly basis via investment monitoring reports prepared by its investment adviser.

The Trustee acknowledges that investment returns achieved outside the expected deviation (positive or negative) maybe an indication that the Manager is taking a higher level of risk than expected.

The Trustee has established a separate Investment Sub-Committee to consider matters with regard to investment, including performance monitoring.

## 8. Custody

Investment in pooled funds gives the Trustee a right to the cash value of the units rather than to the underlying assets.

Day to day control of custody arrangements for the LUFS Section's assets is delegated to State Street Bank and Trust Company, who are independent of the Sponsoring Employer.

## 9. Expected Returns on Assets

The Growth Portfolio aims to deliver equity like returns in the medium to long term with around half to two thirds of the expected volatility (defined in terms of standard deviation of returns) of equity markets.

The Matching portfolio is expected to move in a way that matches the sensitivity of the liabilities to interest rates and inflation.

## 10. Realisation of Investments/Liquidity

The Trustee recognises that there is a risk in holding assets that cannot be easily realised should the need arise. Given the long-term nature of the LUFS Section, this is not expected to be a major problem.

The majority of the assets held are realisable at short notice (either through the sale of direct holdings of stocks, bonds etc. or the sale of units in pooled funds).

## **11. Responsible Investment Considerations**

In setting the investment strategy, the Trustee's primary concern is to act in the best financial interests of the Plan and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. The Trustee believes that, in order to fulfil this commitment and to protect and enhance the value of the Plan's investments, it must act as a responsible steward of the assets in which the Plan invests.

**Environmental, Social and Governance considerations:** The Trustee further acknowledges that an understanding of 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.

As part of their delegated responsibilities, the Trustee expects the Plan's Manager and underlying investment managers to take into account corporate governance, social, and environmental considerations (including long-term risks posed by sustainability concerns including but not limited to climate change risks) in 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 is taking the following steps to monitor and assess ESG related risks and opportunities:

- The Trustee will have periodic training on Responsible Investment to understand how ESG factors, including climate change, could impact the Plan's assets and liabilities.
- When reviewing the investment strategy and strategic risks, the Trustee considers the implication of ESG risks, including climate change, using the available modelling tools, including deterministic scenarios.
- As part of the ongoing monitoring of the Plan's investments, the Trustee will use ESG ratings information on the underlying investment managers provided by the Plan's Manager, where relevant and available, to monitor the level of integration of ESG on a regular basis.
- The Trustee will include ESG-related risks, including climate change, on the Plan's risk register as part of ongoing risk assessment and monitoring.

**Members' views and non-financial factors:** In setting and implementing the Plan's investment strategy the Trustee will ensure that the investments comply with the appropriate regulations but does not explicitly take into account the views of Plan members and beneficiaries, in relation to ethical views, social and environmental impact matters and present and future quality of life of the members and beneficiaries of the Plan (defined as "non-financial factors"). The Trustee will review its policy towards this at least every three years.

**Initiatives and industry collaboration:** In recognition of the commitment of the Plan's Manager to environmental, social and corporate governance issues, the Manager is a signatory of the UN Principles for Responsible Investment ("UN PRI" or the "Principles"). The Principles are a voluntary set of global best practices that aim to provide a framework for integrating environmental, social and corporate governance issues into financial analysis, investment decision-making and ownership practices. The UN PRI are voluntary and aspirational. Where consistent with their fiduciary responsibilities, the Manager will aim to pursue each of the six Principles, these being:

- Incorporating environmental, social and corporate governance issues into investment analysis and decision-making processes.
- Being active owners and incorporating environmental, social and corporate governance issues into their ownership policies and practices.
- Seeking appropriate disclosure on environmental, social and corporate governance issues by the entities in which they invest.
- Promoting acceptance and implementation of the Principles within the investment industry.
- Working together to enhance their effectiveness in implementing the Principles.
- Reporting on their activities and progress toward implementing the Principles.

The Plan's Manager has also signed up to the UK Stewardship Code. This Code aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities. It sets out good practice on engagement with investee companies to which the Financial Reporting Council believes institutional investors should aspire and operates on a 'comply or explain' basis.

**Disclosure and reporting:** The Trustee will report to its stakeholders on its responsible investment activities on an annual basis.

## **12. Activism, and the Exercise of the Rights Attaching to Investments**

The Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Trustee recognises that ultimately this protects the financial interests of the Plan and its beneficiaries.

The Trustee expects the Plan's Manager through the underlying investment managers to use their influence as major institutional investors to carry out the Trustee's rights and duties as a shareholder including voting, along with – where relevant and appropriate – engaging with underlying investee companies to promote good corporate governance, accountability, and positive change.

The Trustee regularly reviews the continuing suitability of the appointed Manager. This review includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. The Trustee will engage with its Fiduciary Manager where necessary for more information.

### 13. Additional Voluntary Contributions ("AVCs") Arrangements

In addition to the main LUFs Section benefits, some members obtain further benefits by paying Additional Voluntary Contributions (AVCs) to the Plan. The liabilities in respect of historic AVC arrangements are equal to the value of the investments bought by the members.

From time to time the Trustee reviews the choice of investments available to members to ensure that they remain appropriate to the members' needs.

This Statement replaces the former Statement of Investment Principles which had an effective date of 13 February 2019.

<u>KIM NASH</u>	<u></u>	<u>21/8/19</u>
Name (Print)	Signature	Date
<u>MICHAEL WOODMORE</u>	<u>M.B. Woodmore</u>	<u>21/08/19</u>
Name (Print)	Signature	Date



## **Agility Pension Plan**

### **Appendix to Statement of Investment Principles – LUFS Section**

This Appendix sets out the Trustee's current investment strategy and is supplementary to the Trustee's Statement of Investment Principles (the "attached Statement").

#### **1. Long Term Funding Objective**

The Trustee's funding objective for the LUFS Section is to be fully funded on an actuarial basis that assumes returns in line with the yields on gilts + 0.3% per annum for both pre-retirement and post-retirement. The Trustee's previous intention (which is currently under review) is that, if the funding level improves to certain pre-determined trigger points, the LUFS Section will:

- de-risk from the starting allocation by reducing the expected return required to meet the funding objective. If growth assets reduce to 50%, the Trustee will review the Road Map; and
- reduce the expected end date of the Recovery Plan by a proportionate amount.

This target assumes Employer contributions will continue at a rate of £2.3m pa increasing with the Retail Prices Index (RPI). This was implemented following the actuarial valuation with an effective date of 31 December 2017.

#### **Current asset allocation**

The allocation of the LUFS Section's assets between the Growth Portfolio and the Matching Portfolio will depend on the return and hedging ratio required, which is dictated by the funding position of the LUFS Section. At the date of the attached Statement, the target return for the LUFS Section was gilts + 2.5% per annum (net of fees) with a target hedge ratio of 100% of the funded liabilities.

As at 31 March 2019, the total assets were invested as follows:

APS Growth Portfolio	53.9%
APS Matching Portfolio	35.0%
Property	11.1%*
<b>Total</b>	<b>100%</b>

\*The allocation to property is held outside of the APS through the Standard Life Investments Pooled Property Fund and will be disinvested at the next appropriate opportunity. Once disinvested the proceeds will be invested in the APS.

## 2. Road Map

The Road Map is currently suspended and under review.

The Manager will monitor the funding level on a daily basis. The de-risking triggers are in the process of being updated following finalisation of the actuarial valuation with an effective date of 31 December 2017. When monitoring indicates that the funding level has increased above a trigger point, the Manager will notify the Trustee, although will not make any immediate change to the target return and hedge ratio.

### Growth Portfolio

The allocation of the Growth Portfolio held by the LUFs Section in the APS is set out in the table below. This excludes the allocation to property which is held separately to the APS.:

Manager	Asset Class	Actual Allocation as at 31 March 2019 (%)
Russell Investments Limited  (Russell Investments Limited adopt a multi manager approach to investing, whereby they utilise a number of "best of breed" Manager products to create a single composite fund)	Equities	40.9
	Fixed Income	40.0
	Real Assets (commodities, real estate and listed infrastructure)	6.0
	Alternatives (hedge funds, active currency, absolute return)	2.4
	Cash	10.7

The objective of the Growth Portfolio is to generate capital appreciation over the course of a complete economic and market cycle through a diversified portfolio of investments.

The performance target will be UK inflation plus 4% per annum. UK inflation will be measured by the UK Retail Price Index (all items, not seasonally adjusted), as currently produced by the UK Office for National Statistics.

Total portfolio volatility (defined in terms of standard deviation of returns) is expected to be between 50% and 75% of that of equity markets. Whilst the Manager will normally seek to operate within these bands, from time to time market circumstances may mean that the portfolio proves to have a higher or lower volatility than this range. The performance of the Growth Portfolio may vary considerably from the performance target over the short-term.

The Growth Portfolio may invest in collective investment vehicles and other securities including, but not limited to, equity and fixed income securities.

The Growth Portfolio will be subject to the following restrictions:

- The exposure to publicly listed equities will be between 0% and 80% of the Growth Portfolio;

- The exposure to fixed income securities, including cash, cash equivalent and other money market securities, will be between 0% and 80% of the Growth Portfolio;
- The exposure to real assets, being assets that are linked to inflation rates (including but not limited to commodities), will be between 0% and 30% of the Growth Portfolio;
- The exposure to all other asset classes and strategies not covered above (for example but not limited to: portable alpha funds, active currency funds, hedge funds, PFI funds) shall not exceed 40% of the Growth Portfolio; and
- The maximum exposure to collective investment vehicles that have less than weekly liquidity is 20%.

The limits on investments shall apply at the time of the purchase of the investments. If the limits referred to are exceeded for reasons beyond the control of the Manager, the Manager shall ensure that the fund will adopt as a priority objective for its sales transactions the remedying of that situation taking due account of the interests of the Plan.

The Growth Portfolio may employ investment techniques and financial derivative instruments for investment purposes or for efficient portfolio management purposes, such as to reduce risk, reduce cost and for hedging purposes and/or to alter currency exposure.

Overall, 88% of the Plan's total assets are to be denominated in Sterling, with the remaining 12% denominated in Euros; the exposure to Euro denominated assets is to be achieved through the Growth Portfolio.

### **Matching Portfolio**

The Matching Portfolio held by the LUFS Section in the APS will change from time to time based on:

- The target hedge ratio, which is subject to the expected return requirement. This will constrain the available capital that can be used to hedge the liabilities with an appropriate level of leverage. As at the date of this Statement, the target hedge ratio was 100% of the Plan's funded liabilities;
- The target hedge ratio is also based on the views of the Trustee on the advice from its investment adviser, Aon;
- The advice of the LUFS Section's Scheme Actuary on the portfolio required to match the liabilities;
- The Manager's use of discretion; and
- Changing market conditions.

The Manager will use reasonable endeavours to maintain the interest rate sensitivity of the Matching Portfolio within the following limits:

- The total interest rate sensitivity of the Matching Portfolio may vary to within -2 to +10 percentage points of the target hedge ratio.
- The total interest rate sensitivity of the real portion of the Matching Portfolio may vary to within -2 to +10 percentage points of the real portion of the target hedge ratio.

- The total interest rate sensitivity of the nominal portion of the Matching Portfolio may vary to within -2 to +10 percentage points of the nominal portion of the target hedge ratio.
- The interest rate sensitivity of the real portion of the model liability benchmark at different maturity dates will be specified by the Trustee, in a format specified by the Manager. The interest rate sensitivity of the real portion of the Matching Portfolio at each maturity point will not exceed the interest rate sensitivity of the real portion of the model liability benchmark at the same maturity point.
- The interest rate sensitivity of the nominal portion of the model liability benchmark at different maturity dates will be specified by the Trustee, in a format specified by the Manager. The interest rate sensitivity of the nominal portion of the Matching Portfolio at each maturity point will not exceed the interest rate sensitivity of the nominal portion of the model liability benchmark at the same maturity point.
- The contribution to the target hedge ratio arising from assets defined as being in the Matching Portfolio is limited to 100% in interest rate swaps, 100% in inflation swaps, 100% in gilt based derivatives and instruments and 50% in other assets.
- The Matching Portfolio will comprise primarily of fixed income securities, inflation-linked securities, money market securities, derivatives and collective investment vehicles that invest in the foregoing instruments.

Gilts, swaps and other derivatives may be used to create leverage within the Matching Portfolio and the Matching Portfolio may also be invested in collective investment schemes that use derivatives to create leverage. The overall degree of underlying leverage in the Matching Portfolio will vary with market movements.

With effect from 22 January 2019, the benchmark for the Matching Portfolio assets has been based on projected fixed and real cashflows for the Plan as provided to Russell Investments. This will be updated after each actuarial valuation to allow for changes in the membership.

### **APS cash balances**

In addition to the Growth and Matching Portfolios, the Manager may hold Residual Cash from time to time that is not invested in either the Growth or Matching Portfolios.

The primary purpose of a Residual Cash allocation will be to meet anticipated disbursements and expenses and to facilitate any short-term cash flows.

Residual Cash will not exceed 5% of the LUFs Section's APS Portfolio in normal circumstances. Residual Cash will be held on deposit or invested in short term money market funds.

### **Other cash balances**

In addition to the assets managed by the Manager, the Trustee will run a bank account which holds a working balance of cash, held for imminent payment of benefits, expenses, etc. Under normal circumstances it is not the Trustee's intention to hold a significant cash balance and this is carefully monitored by the LUFs Section's administrators.

### **3. Fee structure for advisers and managers**

#### **3.1 Advisers**

Any advisory work that falls out of the APS is paid for on the basis of the time spent by the advisor. For significant areas of advice (e.g. one off special jobs, or large jobs, such as asset and liability modelling), the Trustee will endeavour to agree a project budget.

These arrangements recognise the bespoke nature of the advice given and that no investment decisions have been delegated to the adviser.

#### **3.2 Investment managers**

##### **APS**

A fee (based on the value of the assets invested) is deducted from the assets managed under APS to cover a range of services including asset management, fiduciary management, investment consultancy advice and actuarial advice that the LUFs Section requires in connection with funding. The total fee is payable on the value of the LUFs Section's assets in APS as follows:

- 0.68% per annum on Growth Assets; and
- 0.38% per annum on Matching Assets.

These fees include a fiduciary management and advisory fee of 0.22% per annum of the Quarterly Portfolio Value which is calculated as follows:

- 0.08% per annum in relation to the Consultant's fiduciary management services;
- 0.05% per annum in relation to the Manager's fiduciary management services; and
- 0.09% per annum in relation to the Consultant's advisory services which are in addition to the Consultant's fiduciary management services.

### **4. Additional Voluntary Contributions**

The Trustee has appointed Standard Life and Royal London as the provider of AVC services.

