

MRC Pension Scheme – MRC Section

Statement of Investment Principles

June 2019

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1. Introduction

1.1 Scheme Background

- This Statement of Investment Principles (the "Statement") details the principles governing investment decisions for the MRC Section (the "Section") of the MRC Pension Scheme (the "Scheme"). The Trustee reviews the Statement on a regular basis, and this latest version is effective from May 2019.
- The Scheme is a defined-benefit (final salary) pension scheme, first established in 1975, and is financed on the traditional balance-of-cost basis.
- The MRC Supplementary Benefits Scheme was also set up at the same time to provide additional death-in-service and ill-health benefits, to be financed wholly by the members. The two schemes were originally established under separate trusts, but were merged to form one trust, with effect from 1 April 1988. The Supplementary Section of the Scheme was formally merged with the MRC Section with effect from April 2006.
- The rules require pensions in payment to be increased in line with an inflation measure based on Consumer Price Index (CPI) from April 2011. On 1 January 2014 the Universities Section was formed, which has a separate Statement reflecting the funding objective of the University Section.
- Buck is the investment consultant to the Trustee.

1.2 Membership

- The Scheme has now been in existence for about 44 years and, although not yet fully mature, the number of pensions in payment has been growing steadily. The Section is open to new members. The changing composition of the membership is illustrated by Table One overleaf which gives the number of members in each of the years between 2010 and 2018 (figures from Annual Actuarial Valuation Updates and the Trustee Report and Accounts). Membership numbers post 31 December 2013 exclude Universities Section members.

Table One

MRC Pension Scheme – MRC Section
Statement of Investment Principles
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| | Number of Members | | | | |
|---------------------|-------------------|-----------------|-----------------|-----------------|-----------------|
| | @ 31.12.2010 | @ 31.12.2011 | @ 31.12.2012 | @ 31.12.2013 | @ 31.12.2014 |
| Active Members | 3,110 | 3,041 | 3,217 | 2,505 | 2,413 |
| Deferred Pensions | 3,557 | 3,767 | 3,803 | 4,006 | 4,162 |
| Pensions in payment | 2,392 | 2,523 | 2,577 | 2,654 | 2,739 |
| Total Membership | 9,059 | 9,331 | 9,597 | 9,165 | 9,314 |

| | Number of Members | | | |
|---------------------|-------------------|-----------------|-----------------|-----------------|
| | @ 31.12.2015 | @ 31.12.2016 | @ 31.12.2017 | @ 31.12.2018 |
| Active Members | 2,260 | 1,954 | 1,795 | 1,658 |
| Deferred Pensions | 4,142 | 4,332 | 4,370 | 4,451 |
| Pensions in payment | 2,792 | 2,869 | 2,937 | 2,989 |
| Total Membership | 9,194 | 9,155 | 9,102 | 9,098 |

Note: Numbers do not include pending members.

1.3 Statement Structure

This Statement is divided into two main sections as follows:

- **Statutory Section:** This section covers the requirements of and the Scheme's compliance with the provisions of the Pensions Act 1995 and 2004 as amended by the Occupational Pension Schemes (Investment) Regulations 2005.
- **Myners Section:** This section includes additional non-statutory information that is set out in the Myners Principles and now included in a strengthened Statement.

1.4 Funding Requirements

- The Pension Act 2004 introduced the concept of "Scheme Specific Funding", replacing the previous legislative provision regarding the "Minimum Funding Requirement". Under the Scheme Specific Funding regime, the Trustee is required to ensure that the assets held by the Section are sufficient to cover the Technical Provisions of the Section. Technical Provisions is the value of the Section's liabilities for funding purposes as at the

latest Actuarial Valuation date. Information on the Section's funding objective, together with actuarial assumptions adopted, is set out in the Statement of Funding Principles prepared along with the Actuarial Valuation.

2. Statutory Information

2.1 Introduction

- This section of the Statement covers the requirements of the Pensions Act 1995 and 2004 as amended by the Occupational Pension Schemes (Investment) Regulations 2005. In accordance with section 35 of the Pensions Act 1995, the Trustee has reviewed and considered written advice from the investment consultant prior to the preparation of this Statement and has consulted the sponsoring employer and the Scheme Actuary.
- The assets of the Section are held in trust by the Trustee. The Trustee has full regard to its investment powers under the Trust Deed and Rules and the suitability of the various types of investments, the need to diversify, the custodianship of assets and any self-investment. These powers do not conflict with the investment policy set out herewith.
- The investment managers will prepare detailed quarterly reports on their activities and the Trustee will meet with them periodically.
- This Statement will be reviewed periodically or whenever changes to the investment strategy or investment managers are necessary. Any changes to this Statement will be undertaken following advice from the investment consultant, as will any removal or appointment of the investment managers.
- All of the Section's investment decisions are under the control of the Trustee, with no constraint by the sponsoring employer. All investment decisions are taken by the board as a whole. However, the Trustee has appointed an Investment Sub-Committee ("ISC") with responsibilities as outlined in the ISC's Terms of Reference. The Trustee will examine regularly whether additional investment training is desirable for any individual Trustee Director.

2.2 Statutory requirements

- This section of the Statement details the Trustee's policies in compliance with sections 35 and 36 of the Pensions Act 1995.

2.2.1 Investment objectives and suitability of investments

- The Trustee's primary objective is to operate an investment strategy that provides appropriate security for all beneficiaries. The Trustee considers the key investment objectives are:
 - to ensure that the Section benefits are securely financed;

- to maximise the investment returns on the Section's assets (while having due regard to security and risks);
 - to control the risks of low returns and loss of value;
 - to prevent unauthorized use of funds; and
 - to comply with long term funding requirements, while meeting short term cash needs.
- The Trustee's agreed investment strategy is based on an analysis of the liability profile of the Section, the required investment return and the returns expected from the various asset classes over the long-term. Long-term returns from equities are expected to exceed the returns from bonds and cash, although equity returns and capital values may demonstrate higher volatility. The Trustee is prepared to accept this higher volatility in order to aim to achieve the overall investment objectives.
 - In accordance with the Financial Services & Markets Act 2000, the Trustee is responsible for setting the general investment policy, but the responsibility for all day-to-day investment decisions has been delegated to investment managers authorised under the Act. Details are included in the appendices.
 - The Trustee has translated its objectives into a suitable strategic asset allocation benchmark for the Section. The Trustee considers its current strategic asset allocation to be consistent with the current financial position of the Section.

2.2.2 Diversification

- The Trustee, after taking appropriate investment advice, has selected a strategic asset allocation benchmark as set out in Appendix 1.
- Subject to the respective benchmarks and guidelines, the investment manager is given full discretion over the choice of securities and is expected to maintain a diversified portfolio.
- The Trustee is satisfied that the investments selected are consistent with its investment objectives, particularly in relation to diversification, risk, expected return and liquidity.
- Given the size and nature of the Section, the Trustee has decided to invest through a combination of segregated mandates and pooled funds; any such investment is effected through a direct agreement with an investment manager and/or through an insurance contract.
- The Trustee is satisfied that the range of vehicles in which the Section's assets are invested provides adequate diversification.

2.2.3 Balance between different kinds of investments

- The appointed investment managers will hold a diversified mix of investments in line with their agreed benchmarks. Within each major market the manager will maintain a diversified portfolio of securities.

2.2.4 Risk

- The Trustee considers the main risk to be that the assets are insufficient to meet the Section's liabilities as they fall due. The Trustee has assessed the likelihood of undesirable financial outcomes arising in the future.
- The investment strategy has been determined with the objective of achieving a value of the assets to match the value placed on the liabilities of the Section over time, and of the need to avoid undue volatility of contribution rates. In determining the Section's investment strategy, the Trustee received advice from its investment consultant regarding its suitability relative to the Section's liability profile. Taking this advice into account, along with the expected returns required to meet the Trustee's return requirements, resulted in the strategy outlined in Appendix 1 being agreed.
- Although the Trustee acknowledges that the main risk is that the Section will have insufficient assets to meet its liabilities, the Trustee recognises other contributory risks, including the following. The risk:
 - associated with the differences in the sensitivity of asset and liability values to changes in financial and demographic factors;
 - of the Section having insufficient liquid assets to meet its immediate liabilities;
 - of the investment managers' failing to achieve the required rate of return;
 - associated with the lack of diversification of investments; and
 - the failure of the Section's Principal Employer to meet its obligations.
- The Trustee manages and measures these risks on a regular basis with actuarial and investment reviews, and in the setting of investment objectives and strategy.
- The Trustee undertakes monitoring of the investment managers' performance against its target and objectives on a regular basis.
- The Trustee provides a practical constraint against Section investments deviating greatly from the Trustee's intended approach by adopting a specific asset allocation target to which the Section's assets are rebalanced, if necessary. This is shown in Appendix 1.
- The Trustee has signed a legal agreement with its investment managers, which details the specific performance targets; these are shown in Appendix 1. Within each asset

class, the investment managers are expected to maintain a portfolio of securities that ensures that the risk being accepted in each market is broadly diversified.

- The divergence of the actual distribution of the investments from the benchmark weighting will be monitored by the Trustee's investment consultant. Any deviation from the target asset allocation will be discussed periodically with the investment consultant.

2.2.5 Expected return on investments

- The investment strategy adopted by the Trustee is believed to be capable of exceeding, in the long run, the overall required rate of return assumed in the Scheme Actuary's published Actuarial Valuation report in order to maintain a fully funded status under the agreed assumptions.

2.2.6 Kind of investments to be held

- The Trustee may invest the Section's assets in quoted and unquoted securities of UK and overseas markets including, for example, equities, property, fixed interest and index linked bonds, cash etc, via segregated mandates and pooled investment vehicles that are considered to be appropriate for tax-exempt registered occupational pension schemes. Such a mix of asset classes is expected to provide a balance of real capital growth and investment income over the long-term while mitigating to some extent the risk of over-concentration in a single asset class. The Trustee has considered the attributes of the various asset classes, these attributes being:
 - security (or quality) of the investment;
 - yield (expected long-term return);
 - spread (or volatility) of returns;
 - term (or duration) of the investment;
 - exchange rate risk;
 - marketability/liquidity (i.e., the tradability on regulated markets); and
 - taxation.

2.2.7 Realisation of investments

- In the event of an unexpected need to realise all or part of the assets within the portfolio, the Trustee requires the investment managers to be able to realise the Section's investments within a reasonable timescale by reference to the market conditions existing at the time the disposal is required and subject to the best interests of the Section. The Scheme's private equity, infrastructure and property holdings are materially less liquid

than the other asset classes and therefore delays could arise were there a requirement to sell these investments. The Scheme's other assets are not expected to take an undue time to liquidate.

2.2.8 Financially material considerations

- The Trustee's objective is to ensure that the investment managers have the financial interests of the Scheme members as their first priority when choosing investments. The Trustee expects its investment managers, where appropriate, to have taken account of financially material considerations, which include but are not restricted to Environmental Social and Governance ("ESG") factors as part of their investment analysis and decision making process.
- The Trustee reviews the investment managers' policy in respect of financially material considerations on an annual basis to satisfy themselves that it is consistent with the above approach.

2.2.9 Non financial matters

- The Trustee's objective is that the financial interests of the Scheme members is their first priority when choosing investments. The Trustee will take into account Scheme members' preferences if they consider it appropriate to do so.
- Non-financial matters may be taken into account if the Trustee has good reason to think that the members would share the concern; and that the decision does not involve a risk of significant detriment to members' financial interests.
- If the Trustee appoints investment managers to manage a segregated portfolio of equities or bonds on an active basis, the managers have been given specific instructions not to invest in the shares of those companies whose predominant business revenues come from tobacco related products. Subject to that specific exclusion, the Trustee has delegated to the investment managers the selection of individual assets and the exercise of responsible ownership of the assets selected.
- The Trustee reviews the investment managers' policy in respect of non-financially material considerations on an annual basis to satisfy themselves that it is consistent with the above approach.

2.2.10 Stewardship in relation to the Scheme's assets

- The Trustee has a fiduciary duty to consider their approach to the stewardship of the investments, to maximise financial returns for the benefit of members and others over the long term. The Trustee can promote an investment's long-term success through monitoring, engagement and/or voting, either directly or through their investment managers.

- The Trustee reviews the investment managers' policy in respect of stewardship considerations on an annual basis to satisfy themselves that it is consistent with the above approach.

2.2.10.1 The Trustee's policy in relation to engagement and monitoring

- The Trustee's policy is to delegate responsibility for engaging and monitoring investee companies to the investment managers and expects the investment managers to use their discretion to maximise financial returns for members and others over the long-term.

2.2.10.2 The Trustee's policy in relation to peer to peer engagement

- The Trustee does not envisage being directly involved with peer to peer engagement in investee companies (i.e. the Scheme's fund managers are expected to act as financial intermediaries with investee companies).

2.2.10.3 The Trustee's policy in relation to voting rights

- The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and to encourage the managers to exercise those rights. The investment managers are expected to provide regular reports for the Trustee detailing their voting activity.

3. Myners Principles

The Myners review of "Institutional Investing in the UK" was published in March 2001. It included a set of 10 Principles that pension scheme trustees were recommended to use when considering their investment strategy for defined benefit pension schemes and 11 Principles for defined contribution pension schemes. The Government endorsed the report with some minor modifications in October 2001. Pension scheme trustees were asked to comply with the Principles on a voluntary basis. The Myners Principles recommend that certain issues are included in the Statement.

The Myners Principles were subsequently reviewed in October 2008. The explicit requirement to include certain items in a strengthened Statement was removed and replaced with a requirement for Trustee Directors to act in a transparent and responsible manner. In making the following statements the Trustee Directors believe that they are complying with the spirit of these Principles.

3.1 Responsible ownership

Details of the responsibility for the exercising of rights (including voting rights) attaching to the Section's investments are included in section 2.2.9.

3.2 Transparency & reporting

The Trustee has discretion over the form of reporting it wishes to undertake. This Statement provides the following details of the Trustee's investment approach:

- Who is taking which decisions and why has the structure been selected?

Details of the Trustee's decision making structure are included in section 2.1.

- What is the Trustee's investment objective?

Details of the Trustee's investment objective are included in section 2.2.1, with the appointed investment managers' specific objectives set out in appendix 1.

- What is the Trustee's asset allocation strategy, including projected investment returns in each asset class, and how the strategy has been selected?

Details of the Trustee's asset allocation strategy are included in appendix 1. The strategy was determined after taking advice from the investment consultant and consultation with the sponsoring employer and the Scheme Actuary.

- What are the mandates given to all advisers and investment managers?

The responsibilities of the Trustee, the investment consultant and the investment managers are outlined in section 3.3, while the investment managers' mandates are specified in appendices 1 and 2.

- What is the nature of the fee structures in place for all advisers and managers; and why this set of structures has been selected?

Details of the fees charged by the investment managers and the investment consultant are included in appendix 2. The Trustee has discussed and agreed these fees following consultation with its advisers, where appropriate, and believes these are reasonable for the services it receives.

3.3 Appointments & responsibilities

3.3.1 Trustee

The Trustee's primary responsibilities regarding investments include:

- Preparation of the Statement and reviewing the content of the Statement and modifying it if deemed appropriate, in consultation with the Principal Employer and the investment consultant, at least every three years. The Statement will also be reviewed following a significant change to investment strategy and/or the investment managers.
- Appointing investment consultants and investment managers as necessary for the good stewardship of the Section's assets.
- Reviewing the investment strategy following the results of each triennial actuarial valuation, and/or asset liability modelling exercise, and/or significant changes to the Section's liabilities, taking advice from the investment consultant and the Scheme Actuary.
- Assessing the processes (and therefore the performance) of the investment managers by means of regular, but not less than annual, reviews of information obtained (including investment performance).
- Monitoring compliance of the investment arrangements with this Statement on a regular basis.
- Monitoring risk and the way in which the investment managers have cast votes on behalf of the Trustee in respect of the Section's equity holdings.

3.3.2 Investment consultant

The main responsibilities of the investment consultant include:

- Assisting the Trustee in the preparation and periodic review of this Statement in consultation with the Principal Employer.
- Undertaking project work including reviews of the investment strategy, investment manager structure and the performance of the investment managers as required by the Trustee.
- Advising the Trustee on the selection and review of investment managers.
- Monitoring and advising upon where contributions should be invested or disinvested on a periodic basis.

3.3.3 Investment managers

The investment managers' main responsibilities include:

- Investing assets in a manner that is consistent with the objectives set.
- Ensuring that investment of the Section's assets is in compliance with prevailing legislation and the constraints detailed in this Statement.
- Providing the Trustee with quarterly reports including any changes to their investment process and a review of the investment performance.
- Attending meetings with the Trustee as and when required.
- Informing the Trustee of any changes in the fee structure, internal performance objectives and guidelines of any pooled fund used by the Section as and when they occur.
- Exercising voting rights on shareholdings in accordance with their general policy.

The detailed terms of appointment of the investment managers selected (who are all regulated by the Financial Conduct Authority) are set out in Investment Manager Agreements (IMAs) between the Trustee and investment managers. These agreements specify the assets in which the managers may invest, the flexibility given to the managers to vary the assets held, and the benchmark against which performance will be assessed. The IMAs also specify the target outperformance which the investment managers are aiming to achieve, the tolerance levels with regard to risk, and the scale of fees charged by the managers.

The Trustee is responsible for ensuring that appropriate systems of control are in place to safeguard the Section's assets and to prevent and detect fraud and other irregularities. Suitable systems have been set in place in collaboration with the Trustee's investment managers, custodian, bankers and auditors.

3.3.4 Custodian

- The Trustee appoints a custodian (State Street Global Services) for the safe keeping of the Section's assets managed via segregated mandates. For pooled fund investments, the custodianship arrangements are those operated by the investment managers for all clients investing in the funds.

3.3.5 Administrators

- The Section's administration is carried out by JLT Employee Benefits.

3.3.6 Scheme Actuary


The Scheme Actuary's main responsibilities in respect of investment policy include:


- Commenting on the suitability of the Section's investment strategy given the financial characteristics of the Section.
- Performing the triennial (or more frequently as required) actuarial valuation and advising on the Section's funding level and therefore the appropriate level of contributions in order to aid the Trustee in balancing short-term and long-term investment objectives.

3.4 Performance monitoring

- Each of the vehicles in which the Section invests has a stated performance objective against which the performance is measured.
- The investment managers are expected to provide written reports to the Trustee on a quarterly basis.
- The ISC, on behalf of the Trustee will review the performance of the appointed investment managers from time to time, along with reasons for this performance.
- The Trustee receives an independent investment performance monitoring report from their investment consultant on a quarterly basis.

Signed on behalf of the Trustee of the MRC Pension Scheme

| Name | Signature | Date |
|-----------|--|-----------------|
| W. RAYNER |  | 27 June 2019 |
| | | |

| Name | Signature | Date |
|------------------|--|----------|
| PETER MORGAN. |  | 27/6/19. |
| | | |

Appendix 1 – Strategic Benchmark & Objectives

Section's target asset allocation

Table Two

| Asset Class | Sub Asset Class | Investment Style | Strategic Allocation (%) | Allocation Range (%) |
|-----------------------|--------------------------------------|------------------|--------------------------|----------------------|
| Equities | UK | Active | 7.00 | |
| | | Passive | 9.75 | |
| | Total UK Equity | | 16.75 | 6.5 – 27.0 |
| | North America | Passive | 4.00 | 0.0 – 11.5 |
| | Europe (ex UK) | Passive | 5.75 | 0.0 – 11.5 |
| | Japan | Passive | 3.50 | 0.0 – 10.0 |
| | Asia Pacific (ex Japan) | Active | 5.00 | 0.0 – 10.0 |
| | Emerging Markets | Active | 5.00 | 0.0 – 10.0 |
| | Global ¹ | Active | 10.00 | 0.0 – 20.0 |
| | Global Equity Income | Active | 5.00 | 0.0 – 10.0 |
| | Total Global/ Overseas Equity | | 38.25 | 27.0 – 50.5 |
| | TOTAL Listed Equity | | 55.00 | 35.0 – 75.0 |
| Property | Core UK (Direct/Indirect) | Active | 15.00 | 5.0 – 25.0 |
| | Property Income | Active | 10.00 | 5.0 – 15.0 |
| | TOTAL Property | | 25.00 | 15.0 – 35.0 |
| Alternatives | Infrastructure | Active | | |
| | Absolute Return Bond | Active | | |
| | Private Debt | Active | 10.00 | |
| | Private Equity | Active | | |
| | TOTAL Alternatives | | 10.00 | 0.0 – 20.0 |
| Bonds and Cash | UK Corporate Bonds | Active | 5.00 | 0.0 – 10.0 |
| | Fixed Interest Gilts | Active | 0.00 | 0.0 – 10.0 |
| | Index-Linked Gilts | Active | 5.00 | 0.0 – 10.0 |
| | Cash | Active | 0.00 | 0.0 – 10.0 |
| | TOTAL Bonds | | 10.00 | 5.0 – 20.0 |
| | TOTAL Non-Listed Equity | | 45.00 | 25.0 – 65.0 |
| Total | | | 100.00 | |

Note 1: Global equity sub-asset class allocation refers to the standalone mandate.

Medium term adjustments to asset allocation policy

The Trustee has a rebalancing framework for asset allocation which allows adjustments to the long term asset distribution to reflect the medium-term outlook for investment markets. The Trustee has the flexibility of increasing or decreasing the allocation to asset classes and to regional equity portfolios. The Trustee has agreed Terms of Reference for the Investment Sub-Committee's (ISCs) role in amending asset allocations from June 2010 onwards.

The relative attractiveness of different asset classes will be assessed on a quarterly basis after taking appropriate advice. The minimum and maximum adjustments to the strategic asset distribution are set out in Table Two on the previous page.

Reconsideration of the strategic allocations, or re-balancing, can be undertaken at any time not just when actual allocations drift beyond these control ranges. Allocation ranges are based on strategic targets and do not take into account allocations within other asset classes on a look-through basis.

Investment Manager Structure

The Trustee has decided to appoint investment managers with specialist mandates, and with Section-specific benchmarks.

Generally, a different investment manager is appointed for each of the investment mandates, partly in order to minimise investment manager risk, but also to facilitate the appointment of the most preferred manager. However, in some instances, managers may manage multiple mandates. This is most common for the passively managed investments.

Benchmarks & performance objectives

Table Three shows the long term strategic allocations to the investment mandates noted above, consistent with the long term strategic allocations specified in Table Two. Also shown in Table Three are the investment managers appointed, the benchmark used for performance measurement, and the performance target which has been specified for each manager. The outperformance target shown is the additional return anticipated over the benchmark, and is generally monitored on a rolling three-year or five-year basis (with information provided quarterly).

Table Three

| Mandate | Target Allocation (%) | Investment Manager | Benchmark | Target Over Benchmark gross of fees unless otherwise stated (% p.a.) |
|--|-----------------------|-----------------------------|---|--|
| Active UK equities | 7.00 | Liontrust | FTSE All Share Total Return Index | 2.0 |
| Passive UK equities | 9.75 | LGIM | FTSE All-Share (ex-Tobacco) Index | ±0.25 ¹ |
| Global Equity Income | 5.00 | Invesco Perpetual | MSCI World Index (total return) | 2.0 |
| Passive overseas equities² | 13.25 | LGIM | Bespoke Indices | ±0.50 ¹ |
| Active Asia Pacific (ex Japan) equities | 5.0 | First State | MSCI Asia Pacific AC (Ex Japan) Index | 3.0 (net of fees) |
| Active emerging markets equities | 5.0 | Morgan Stanley | MSCI Emerging Markets Free (Net) Index | 2.0 |
| Active global equities | 10.0 | Baillie Gifford | MSCI All Country World Index | 2.0 - 3.0 |
| Core UK Property | 15.0 | Nuveen Real Estate | IPD Pension Fund index <£250m | 1.0 |
| Property income³ | 10.0 | M&G | | 3.0 above UK RPI (net of fees) |
| | | Aviva | IPD All Balanced Funds Weighted Average Index | 1.5 above its composite gilt benchmark |
| Infrastructure | | Infracapital Partners Group | n/a | The target IRR is low to mid-teens |
| Private Debt | | Ares | n/a | 11 – 13% net IRR over investment period |
| Absolute return bonds⁴ | 10.0 | GAM | 3 Month £ LIBOR | 50% LIBOR + 1.0 - 2.0 50% LIBOR + 2.0 - 4.0 over a full market cycle |
| Private equity | | Hg Capital (& Vesey St) | n/a | 25-35% gross IRR (2.5x return on original cost) |
| | | Partners Group | n/a | The target IRR is low to mid-teens |
| Bonds | 10.0 | RLAM | 50% iBoxx Sterling Non-Gilts Index + 50% FTSE A Index Linked Over 15 Year Gilts Index | 0.75 |
| Cash | 0.0 | RLAM | SONIA | Capital growth and income in excess of benchmark over rolling 12 month periods |

Notes:

1) Refers to the guidelines for tracking error against the benchmark rather than a target.

- 2) Each of the LGIM passively managed overseas equities mandates (North America, Europe and Japan) can invest through either an unhedged or GBP currency hedged fund based upon the Trustee's desired risk exposure to each of the respective currency markets over the medium term.
- 3) M&G's official benchmark is the FTSE UK Gilts Index and Aviva's is 50 % FTSE 5-15Yr Gilt Index + 50% FTSE >15Yr Gilt Index.
- 4) The Absolute Return Bond holding is used as a temporary holding investment within Alternatives whilst the commitment to Infrastructure is drawn down.

Appendix 2 – Fees

Investment manager fees

Table Four

| Investment Manager | Portfolio/ Fund | Investment Style | Management Fee |
|--------------------|--|------------------|--|
| Liontrust | UK Equity Segregated Portfolio | Active | 0.65% p.a. |
| LGIM | FTSE All-Share Ex Tobacco Equity Index Fund | Passive | 0.06% p.a. |
| | North America Equity Index Fund | Passive | 0.10% p.a. 0.15% p.a. (GBP currency hedged) |
| | Europe (ex UK) Equity Index Fund | Passive | 0.15% p.a. 0.20% p.a. (GBP currency hedged) |
| | Japan Equity Index Fund | Passive | 0.125% p.a. 0.15% p.a. (GBP currency hedged) |
| Invesco Perpetual | Global Equity Income | Active | 0.365% on first £100m, 0.350% on assets between £100 and £250m and 0.300% up to £500m |
| First State | Segregated Asia Pacific Equity Portfolio ¹ | Active | 0.25% p.a. plus 20% of outperformance over rolling three year periods |
| MSIM | Emerging Markets Offshore Fund | Active | 0.90% p.a. |
| Baillie Gifford | Global Alpha Equity Segregated Portfolio | Active | 0.65% p.a. for first £30m; 0.50% p.a. for next £30m; 0.35% p.a. thereafter |
| Nuveen Real Estate | Segregated Property Portfolio (UK and European, direct and indirect) | Active | 0.350% p.a. for first £50m 0.325% p.a. for next £50m 0.300% p.a. thereafter plus performance related fee ² |
| Aviva | Lime Property Fund Unit Trust | Active | 0.45% p.a. |
| M&G | M&G Secured Property Income Fund | Active | 0.50% p.a. |
| Infracapital | Infracapital Partners II | Active | 0.75% p.a. on committed undrawn capital; 1.10% p.a. on invested amounts |

| | | | |
|----------------|------------------------------------|--------|--|
| | Infracapital Greenfield Partners | Active | 0.65% p.a. on committed capital; 1.00% p.a. on invested amounts |
| | Infracapital Partners III | Active | 0.75% p.a. on unallocated commitment; 1.25% p.a. on invested amounts up to £50m |
| Partners Group | Global Value 2011 | Active | 0.70% p.a. |
| | Direct Infrastructure 2015 LP | Active | 0.75% on called capital until September 2016 and 1.50% p.a. thereafter plus 20% of outperformance above 8% p.a. on called capital ³ |
| | Global Value 2017 | Active | 0.75% organisational charge fee applied to all investments made, 0.75% p.a. on unallocated commitment |
| Ares | Ares Capital Europe (ACE IV) | Active | 1.375% p.a. on invested assets (equity capital only) over the initial investment period.; 1.0% p.a. on invested assets (equity and leveraged capital) through harvesting period and 15% of outperformance above 7% preferred return (net of fees). |
| GAM | Absolute Return Bond Defender Fund | Active | 0.20% p.a. plus 10.0% of outperformance over performance target |
| | Absolute Return Bond Fund | Active | 0.30% p.a. plus 10.0% of outperformance over performance target |
| BlackRock | Private Equity (Vesey Street) | Active | 0.175% p.a. on first £50m 0.15% p.a. thereafter |
| Hg Capital | MUST 4 | Active | 1.75% p.a. (of total commitments less acquisition cost of investments realised or written off) |
| | Hg Capital 5 | Active | 1.50% p.a. (of net invested capital) plus 20% performance fee above 8% hurdle rate |
| | Hg Capital 6 | Active | 1.50% p.a. (of net invested capital) plus 20% performance fee above 8% hurdle rate. Prior to 1 January 2009 no fees were charged in relation to Hg Capital 6 |
| | Hg Capital 7 | Active | 1.75% p.a. (of total commitments to the fund) plus 20% performance fee above 8% hurdle rate |
| | Mercury (TMT) | Active | 1.50% p.a. (of net invested capital) plus 20% performance fee above 8% hurdle rate |
| | Mercury 2 | Active | 1.75% p.a. (of total commitments to the fund) plus 20% performance fee above 8% hurdle rate |

| | | | |
|------|---------------------------|--------|--|
| | Hg Capital 8 | Active | 1.75% p.a. (of total commitments to the fund) plus 20% performance fee above 8% hurdle rate |
| RLAM | Segregated Bond Portfolio | Active | 0.23% p.a. for first £25m; 0.21% p.a. for next £25m; 0.19% p.a. for next £50m; 0.18% p.a. thereafter |
| | Cash Plus | Active | 0.125% p.a. |

Notes:

- 1) with ability to invest 25% in global equities.
- 2) Nuveen Real Estate fee calculated as follows:
 - Perf. related fee = $V \times 0.001 \times (RF - R\ IPD)$, at a maximum of $0.002 \times V$, where:
 - V = value of the Fund at the end of the latest calendar year
 - RF = % annualised return on the Fund over three years less base fees, calculated by IPD
 - R IPD = % annualised return on the benchmark performance over three years
- 3) Prevailing fees will be reduced by 10% p.a. from the fifth anniversary of the fund's final close onwards.

Investment consultancy fees

The investment consultant provides agreed core services on a fixed fee basis with additional items charged on a time cost basis subject to agreement in advance. The basis of remuneration is kept under review.