The Institution of Civil Engineers Staff Retirement Benefits & Life Assurance Scheme

Statement of Investment Principles

September 2020

Introduction

This is the Statement of Investment Principles prepared by the Trustees of the Institution of Civil Engineers Staff Retirement Benefits & Life Assurance Scheme (the "Scheme"). This Statement sets down the principles governing decisions about investments for the Scheme to meet the requirements of:

- the Pensions Act 1995, as amended by the Pensions Act 2004;
- the Occupational Pension Schemes (Investment) Regulations 2005, as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010;
- the Occupational Pension Schemes (Charges and Governance) Regulations 2015; and the Occupational Pension Schemes (Investment) (Amendment) Regulations 2018; and
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

In preparing this Statement the Trustees have consulted the Institution of Civil Engineers, the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustees' investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.

This Statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.

The Trustees will review this Statement at least every three years or if there is a significant change in the policy on any of the areas covered by the Statement.

The investment powers of the Trustees are set out in Clause 51 of the Definitive Trust Deed & Rules, dated 20 November 1998. This Statement is consistent with those powers.

Choosing Investments

The Trustees' policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustees consider the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.

The day-to-day management of the Scheme's assets is delegated to one or more fund managers. The Scheme's fund managers are detailed in Appendix 1 to this Statement. The fund managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights.

The Trustees review the appropriateness of the Scheme's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the fund managers with respect to performance within any guidelines set. The Trustees will also consult the employer before amending the investment strategy.

Investment Objectives

The Trustees' main investment objective is to ensure that they can meet the members' entitlements under the Trust Deed and Rules as they fall due. Subject to this, the Trustees' overall investment policy is to maximise returns.

The Trustees are aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Scheme's liabilities at any time. The Trustees have obtained exposure to investments that they expect will meet the Scheme's objectives to the fullest extent possible.

Kinds of investments to be held

The Scheme can invest in a wide range of asset classes including:

- Equities;
- Bonds;
- Cash;
- Property;
- Alternatives (e.g. private equity, commodities, infrastructure, high yield debt and derivatives);
- Annuity policies.

Any investment in derivative instruments is only made to contribute to a reduction in the overall level of risks in the portfolio or for the purposes of efficient portfolio management.

The Trustees monitor from time-to-time the employer-related investment content of their portfolio as a whole and will take steps to alter this should they discover this to be more than 5% of the portfolio. Typically this check is carried out annually by the Scheme's auditors.

The balance between different kinds of investments

The Scheme invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained within Appendix 1 to this Statement.

The Trustees consider the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in Appendix 1 to this Statement.

From time to time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate any short term cashflow requirements or any other unexpected items.

The Trustees are aware that the appropriate balance between different kinds of investments will vary over time and therefore the Scheme's asset allocation will be expected to change as the Scheme's liability profile matures.

Risks

The Trustees have considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities:

Risk versus the liabilities The Trustees will monitor and review the investment strategy with respect to the liabilities following each actuarial valuation. The investment strategy will be set with consideration of the appropriate level of risk required for the funding strategy as set out in the Scheme's Statement of Funding Principles.

Asset Allocation risk The asset allocation is detailed in Appendix 1 to this Statement and is monitored on a regular basis by the Trustees.

Fund manager risk The Trustees monitor each of the Scheme's fund managers' performance on a regular basis in addition to having meetings with each manager from time to time as necessary, usually on an annual basis. The Trustees have a written agreement with each fund manager, which contains a number of restrictions on how each fund manager may operate.

Governance risk Each asset manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustees monitor these and will report on the managers' practices in their annual Implementation Statement.

ESG/Climate risk The Trustees have considered the long-term financial risks of ESG factors and climate risks to the Scheme. They will continue to develop their policy to consider these alongside other factors when selecting or reviewing the Scheme's investments in order to minimise the potential of unexpected losses.

Concentration risk Each fund manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.

Loss of investment The risk of loss of investment by each fund manager and custodian is assessed by the Trustees. Each fund manager monitors counterparty credit risk and evaluates counterparty credit quality on a continuous basis.

Liquidity risk The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Scheme's cash flow requirements. The Scheme's administrators assess the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.

Covenant risk The creditworthiness of the employer and the size of the pension liability relative to the employer's earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the employer covenant.

Solvency and mismatching Risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustees are aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Scheme's funding basis.

Currency risk The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management.

Expected return on investments

The Trustees have regard to the relative investment return and risk that each asset class is expected to provide. The Trustees are advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the fund managers.

The Trustees recognise the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

In considering the expected return from investments, the Trustees recognise that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.

Having established the investment strategy, the Trustees monitor the performance of each fund manager against an agreed benchmark as frequently as appropriate according to market conditions and the Scheme's funding position. The Trustees meet the Scheme's fund managers as frequently as is appropriate, normally on an annual basis, in order to review performance.

Realisation of investments

The Trustees have delegated the responsibility for buying and selling investments to the fund managers. The Trustees have considered the risk of liquidity as referred to above.

Ultimately, the investments will all have to be sold when the Scheme's life comes to an end. In this situation, the Trustees are aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Scheme accounts.

Financially material considerations, exercise of voting rights and engagement activities, and non-financial matters

Policy on financially material considerations

The Trustees are comfortable that the funds currently invested in by the Scheme are managed in accordance with their views on financially material factors, as set out below. This position is monitored periodically, at least annually. In the future, the views set out below will be taken into account in the selection, retention and realisation of investments.

The Trustees believe that Environmental, Social and Governance ("ESG") factors will be financially material over the Scheme's investment horizon, which is long-term given the Scheme's liability profile and the Trustees' objectives. In other words, ESG factors are considered to have the potential to impact the value of the Scheme's investments from time-to-time. This view includes an appreciation for the potential for climate risk to impact on the value of the Scheme's investments over the Scheme's investment horizon.

The Trustees appreciate that the method of incorporating ESG in the investment strategy and process will differ between asset classes. A summary of the Trustees' views for each asset class in which the Scheme invests is outlined below, taking into account the investment horizon noted above.

The Trustees have received training on financially material considerations from their investment advisors, Barnett Waddingham LLP.

Passive equities

The Trustees believe that ESG issues will be financially material to the risk-adjusted returns achieved by the Scheme's passive equities. The Trustees accept that fund managers must invest in line with the specified index for each fund and, therefore, may not be able to disinvest if they have concerns relating to ESG. The Trustees therefore require that the fund manager takes into account ESG considerations by engaging with companies and by exercising voting rights. However, the exercise of rights and engagement activities should be consistent with, and proportionate to, the rest of the investment process.

Multi-asset funds

The Trustees believe that ESG issues will be financially material to the risk-adjusted returns achieved by the Scheme's multi-asset fund managers. The investment process for any multi-asset fund manager used by the Scheme should take ESG issues into account. The Trustees also support engagement activities and, where relevant, the exercise of rights attaching the investments by the Scheme's multi-asset fund managers. However, the incorporation of ESG issues, the exercise of rights and engagement activities should be consistent with, and proportionate to, the rest of the investment process.

Credit

The Trustees believe that ESG issues will be financially material to the risk-adjusted returns achieved by the Scheme's credit holdings. Within this, however, the Trustees acknowledge that ESG factors may be more financially material to some types of credit (e.g. corporate bonds) over other types of credit (e.g. asset-backed securities) depending on the nature of the underlying investments. The Trustees recognise that fixed income assets do not typically include voting rights, however, they support engagement with companies by their managers. However, they understand that this may not be possible where exposure to credit markets is obtained using derivatives. Altogether, the incorporation of ESG issues and engagement activities should be consistent with, and proportionate to, the rest of the investment process.

LDI and money market

The Trustee believes there is less scope for the consideration of ESG issues to improve risk-adjusted returns in these asset classes because of the nature of the instruments used within the LDI funds and the fact that money market investments are short term.

It is worth noting that when transacting in LDI and money market funds, the Trustees require due diligence is undertaken to assess the credit worthiness of the counterparty both at the start of and throughout any investment, whilst at the same time looking to achieve best execution. The Trustees believe this is more relevant for longer term trades compared to shorter term trades and should incorporate ESG factors where these assist with the credit worthiness assessment.

Policy on the exercise of voting rights and engagement activities

The Scheme currently invests in pooled investment funds only. The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the relevant fund managers. The Trustees also expect managers to engage with companies in relation to ESG matters. The Trustees are comfortable with the fund managers' strategies and processes for exercising rights and conducting engagement activities, and specifically that they attempt to maximise shareholder value as a long-term investor. They will review this position periodically, usually annually.

The Trustees acknowledge the importance of ESG and climate risk within their investment decision making framework. When delegating investment decision making to their investment managers they provide their investment managers with a benchmark they expect the investment managers to either follow or outperform. The investment manager has discretion over where in an investee company's capital structure it invests (subject to the restrictions of the mandate), whether directly or as an asset within a pooled fund.

The Trustees are firmly of the belief that ESG and climate risk considerations extend over the entirety of a company's corporate structure and activities i.e. that they apply to equity, credit and property instruments or holdings. The Trustees also recognise that ESG and climate related issues are constantly evolving and along with them so too are the products available within the investment management industry to help manage these risks.

The Trustees consider it to be a part of their investments managers' roles to assess and monitor developments in the capital structure for each of the companies in which the manager invests on behalf of the Scheme or as part of the pooled fund in which the Scheme holds units. The Trustees also consider it to be part of their investment managers' roles to assess and monitor how the companies in which they are investing are managing developments in ESG related issues, and in particular climate risk, across the relevant parts of the capital structure for each of the companies in which the managers invest on behalf of the Scheme. Where the Trustees use pooled funds the Trustees expect the investment manager to employ the same degree of scrutiny.

Should an investment manager be failing in these respects, this should be captured in the Scheme's regular performance monitoring.

The Scheme's investment managers are granted full discretion over whether or not to hold the equity, debt or other investment in the Sponsoring employer's business. Through their consultation with the Sponsoring Employer when setting this Statement of Investment Principles the Trustees have made the Sponsoring Employer aware of their attitude to ESG and climate related risks, how they intend to manage them and the importance that the pensions industry as a whole, and its regulators, place on them.

The Scheme's investment consultants, Barnett Waddingham, are independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes the Trustees confident that the investment manager recommendations they make are free from conflict of interest.

The Trustees expect all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so the Trustees believe they have managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustees/investment manager and the investee companies.

Policy for taking into account non-financial matters

The Trustees do not consider any non-financial matters when constructing the investment strategy and/or when selecting or reviewing fund managers.

Agreement

This Statement was agreed by the Trustees, and replaces any previous statements. Copies of this Statement and any subsequent amendments will be made available to the employer, the fund managers, the actuary and the Scheme auditor upon request.

Signed: **Date:**

On behalf of the Institution of Civil Engineers Staff Retirement Benefits & Life Assurance Scheme

Appendix 1 Investment policy as at September 2020

Choosing investments

The Trustees have appointed Barnett Waddingham LLP to advise on investment matters in addition to advice received from the fund managers on suitability of investments.

The Trustees have appointed the Legal and General Investment Management ("LGIM"), Newton Investment Management ("Newton") and Aberdeen Asset Management ("Aberdeen") to carry out the day-to-day investment of the fund. LGIM, Newton and Aberdeen are authorised and regulated by the Financial Conduct Authority.

Asset allocation

The asset allocation has been agreed after considering the Scheme's liability profile, funding position, the covenant of the sponsoring employer, the expected return of the various asset classes and the need for diversification.

The Trustees have chosen to invest their assets in three separate portfolios in line with the following allocation:

Portfolio	Benchmark allocation (% total assets)
Equity	20
Multi-asset	25
Protection	55

Together the equity and multi asset portfolios are referred to as the "growth portfolio".

Equity portfolio allocation

The Trustees' benchmark for the equity portfolio is shown in the following table:

Region	Fund name	Benchmark (% of equity portfolio)	Allowed range (% of equity portfolio)
UK Equities	LGIM UK Equity Index Fund	25	22.5-27.5
North America	LGIM North American Equity Index Fund	12.5	11.25-13.75
North America	LGIM North American Equity Index Fund – GBP Currency Hedged	12.5	11.25-13.75
Europe (ex. UK)	LGIM Europe (ex-UK) Equity Index Fund	12.5	11.25-13.75
Europe (ex. UK)	LGIM Europe (ex-UK) Equity Index Fund – GBP Currency Hedged	12.5	11.25-13.75
Japan Equities	LGIM Japan Equity Index Fund	6.25	5.625-6.875
Japan Equities	LGIM Japan Equity Index Fund – GBP Currency Hedged	6.25	5.625-6.875
Asia Pacific (ex-Japan)	LGIM Asia Pacific (ex-Japan) Developed Equity Index Fund	6.25	5.625-6.875
Asia Pacific (ex-Japan)	LGIM Asia Pacific (ex-UK) Developed Equity Index Fund – GBP Currency Hedged	6.25	5.625-6.875

Multi-asset portfolio allocation

The Trustees' benchmark for the multi-asset portfolio is shown in the following table:

Investment Manager	Fund name	Initial allocation (% of multi-asset portfolio)
Newton	Multi-Asset Diversified Return Fund	40
Aberdeen	Diversified Growth Fund	60

Protection portfolio allocation

The Trustees' benchmark for the protection portfolio is shown in the following table:

Asset class	Fund name	Initial allocation (% of protection portfolio)
Credit funds	LGIM Buy & Maintain Credit Fund	14.5
Absolute return bond funds	LGIM Absolute Return Bond Fund	14.5
Liability matching	LGIM LDI Matching Core Funds & Sterling Liquidity Fund	71.0

Rebalancing of assets

The Trustees recognise that the allocation of investments in different asset classes will vary over time because of market movements. The Trustees seek a balance between the benefits of maintaining the asset allocation in line with its benchmark and the costs of rebalancing.

The components of the Scheme's equity portfolio will be rebalanced towards their benchmark by LGIM if they fall outside of the allowable ranges set out above.

The Trustees will monitor the split between the equity, multi-asset and the protection portfolio on a regular basis. If in their view these have deviated too far from their benchmark (usually taken to be a 10% tolerance range around the benchmark allocation) the Trustees will instruct their investment managers to rebalance the assets towards the benchmark. However, the Trustees note that the LDI portfolio is intended to move in line with the liabilities following changes in market conditions. For this reason, they may accept larger deviations from the benchmark allocation from time to time.

Investments/disinvestments

Investments/disinvestments will be made to move the allocation between the equity, multi-asset and protection portfolios towards the Scheme’s benchmarks outlined above.

Performance monitoring

The investment benchmarks and objectives for LGIM, Newton and Aberdeen are given below:

Fund	Benchmark	Objective
Newton Multi-Asset Diversified Return Fund	One Month GBP LIBOR	Outperform benchmark by 3.0% pa over rolling 5 year periods (gross of fees)
Aberdeen Diversified Growth Fund	One month GBP LIBOR	Outperform benchmark by 4.5% pa over rolling 5 year periods (net of fees)
LGIM UK Equity Index Fund	FTSE All Share Index	Track benchmark within +/-0.25% pa for 2 out of 3 years
LGIM North American Equity Index Fund	FTSE AW - North America Index	Track benchmark within +/-0.5% pa for 2 out of 3 years
LGIM North American Equity Index Fund – GBP Currency Hedged	FTSE AW - North America Index - Sterling Hedged	Track benchmark within +/-0.5% pa for 2 out of 3 years
LGIM Europe (ex-UK) Equity Index Fund	FTSE AW - Europe (ex UK) Index	Track benchmark within +/-0.5% pa for 2 out of 3 years

LGIM Europe (ex-UK) Equity Index Fund – GBP Currency Hedged	FTSE AW - Europe (ex UK) Index – Sterling Hedged	Track benchmark within +/-0.5% pa for 2 out of 3 years
LGIM Japan Equity Index Fund	FTSE AW - Japan Index	Track benchmark within +/-0.5% pa for 2 out of 3 years
LGIM Japan Equity Index Fund – GBP Currency Hedged	FTSE AW - Japan Index - Sterling Hedged	Track benchmark within +/-0.5% pa for 2 out of 3 years
LGIM Asia Pacific (ex-Japan) Developed Equity Index Fund	FTSE AW – Developed Asia-Pacific (ex Japan) Index	Track benchmark within +/-0.75% pa for 2 out of 3 years
LGIM Asia Pacific (ex-UK) Developed Equity Index Fund – GBP Currency Hedged	FTSE AW - Developed Asia-Pacific (ex Japan) Index - Sterling Hedged	Track benchmark within +/-0.75% pa for 2 out of 3 years
LGIM Buy & Maintain Credit Fund	-	To capture the credit risk premium within a globally diversified portfolio and to preserve value over the course of the credit cycle
LGIM Absolute Return Bond Fund	3-month sterling LIBOR index	Outperform benchmark by 1.5% pa over rolling 3 year periods (gross of fees)
LGIM LDI Matching Core Real Long Profile Fund	Markit iBoxx Real Long	To track the respective benchmarks. The benchmark for each fund aims to hedge a subset of the liabilities of a typical UK pension scheme with respect to changes in interest rates and, in some cases, inflation expectations.
LGIM LDI Matching Core Real Short Profile Fund	Markit iBoxx Real Short	
LGIM LDI Matching Core Fixed Long Profile Fund	Markit iBoxx Fixed Long	
LGIM LDI Matching Core Fixed Short Profile Fund	Markit iBoxx Fixed Short	

The performance of fund managers will be monitored as frequently as the Trustees consider appropriate in light of the prevailing circumstances. The monitoring takes into account both short term and long-term performance.

Fee arrangements

The fee arrangements with LGIM, Newton and Aberdeen are summarised below:

Fund	Annual Management Charges (pa)
Newton Multi-Asset Diversified Return Fund	0.625% per annum
Aberdeen Diversified Growth Fund	0.500% per annum
LGIM UK Equity Index Fund	0.100% per annum on first £10m, plus 0.075% per annum on next £10m
LGIM North American Equity Index Fund	0.200% per annum on first £1m, plus 0.175% per annum on next £1.5m, plus 0.150% per annum on next £7.5m

LGIM North American Equity Index Fund – GBP Currency Hedged	0.225% per annum on first £1m, plus 0.200% per annum on next £1.5m, plus 0.175% per annum on next £7.5m
LGIM Europe (ex-UK) Equity Index Fund	0.250% per annum on first £1m, plus 0.225% per annum on next £1.5m, plus 0.200% per annum on next £7.5m
LGIM Europe (ex-UK) Equity Index Fund – GBP Currency Hedged	0.275% per annum on first £1m, plus 0.250% per annum on next £1.5m, plus 0.225% per annum on next £7.5m
LGIM Japan Equity Index Fund	0.225% per annum on first £1m, plus 0.200% per annum on next £1.5m
LGIM Japan Equity Index Fund – GBP Currency Hedged	0.250% per annum on first £1m, plus 0.225% per annum on next £1.5m
LGIM Asia Pacific (ex-Japan) Developed Equity Index Fund	0.275% per annum on first £1m, plus 0.250% per annum on next £1.5m
LGIM Asia Pacific (ex-UK) Developed Equity Index Fund – GBP Currency Hedged	0.300% per annum on first £1m, plus 0.275% per annum on next £1.5m
LGIM Buy & Maintain Global Credit Fund	0.150% per annum
LGIM Absolute Return Bond Fund	0.250% per annum
LGIM LDI Matching Core Real Long Profile Fund	0.240% per annum on first £25m, plus 0.170% per annum on next £25m
LGIM LDI Matching Core Real Short Profile Fund	
LGIM LDI Matching Core Fixed Long Profile Fund	
LGIM LDI Matching Core Fixed Short Profile Fund	
LGIM Sterling Liquidity Fund	0.125% per annum on first £5m, plus 0.100% per annum on next £5m, plus 0.075% per annum on next £20m

The annual management charges in the table above are calculated as a percentage of the assets invested in the respective funds. On top of the charges sets out above, LGIM charge an annual fixed fee of:

- £2,250 if the assets invested with LGIM are less than £10 million;
- £1,500 if the assets invested with LGIM are between £10 million and £25 million; or
- Nil if the assets invested with LGIM are over £25 million.

Appendix 2 Policy on arrangement with asset managers

How the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with the trustees' investment policies

Prior to appointing the investment manager, the Trustees discuss the investment manager's benchmark and approach to the management of ESG and climate related risks with the Scheme's investment consultant, and how they are aligned with the Trustees' own investment aims, beliefs and constraints.

When appointing an investment manager, in addition to considering the investment manager's investment philosophy, process and policies to establish how the manager intends to make the required investment returns, the Trustees also consider how ESG and climate risk are integrated into these. If the Trustees deem any aspect of these policies to be out of line with their own investment objectives for the part of the portfolio being considered, they will use another manager for the mandate.

The Trustees carry out a strategy review at least every 3 years where they assess the continuing relevance of the strategy in the context of the scheme and their aims, beliefs and constraints. The Trustees monitor the investment managers' approach to ESG and climate related risks on an annual basis.

In the event that the investment manager ceases to meet the Trustees' desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment will be terminated. The investment managers have been informed of this by the Trustees.

Investment manager ESG policies are reviewed in the context of best industry practice and feedback is provided to the investment manager.

How that arrangement incentivises the asset manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term

The Trustees are mindful that the impact of ESG and climate change may have a long-term nature. However, the Trustees recognise that the potential for change in value as a result of ESG and climate risk may occur over a much shorter term than climate change itself. The Trustees have acknowledged this in their investment management arrangements.

When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustees assess these over an agreed predetermined rolling timeframe. The Trustees believe the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon. Where a fund may have an absolute return or shorter term target, this is generally supplementary to a longer term performance target. In the case of assets that are actively managed, the Trustees expect this to be sufficient to ensure an appropriate alignment of interests.

The Trustees expect investment managers to be voting and engaging on behalf of the fund's holdings and the Scheme monitors this activity within the Implementation Statement in the Scheme's Annual Report and Accounts. The Trustees do not expect ESG considerations to be disregarded by the investment manager in an effort to achieve any short term targets.

How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the trustees' investment policies

The Trustees monitor the performance of their investment managers over the medium to long time periods that are predetermined and consistent with the Trustees' investment aims, beliefs and constraints.

The Scheme invests exclusively in pooled funds. The investment manager is remunerated by the Trustees based on the assets they manage on behalf of the Trustees. As the funds grow, due to successful investment by the investment manager, they receive more and as values fall they receive less. In some instances, a performance fee may also be applied. Details of the fee structures for the Scheme's investment managers are contained in Appendix 1.

The Trustees believe that this fee structure, including the balance between any fixed and performance related element, enables the investment manager to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.

The Trustees ask the Scheme's Investment Consultant to assess if the asset management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered every three years as part of the review of the Statement of Investment Principles.

How the trustees monitor "portfolio turnover costs" incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range

The Trustees acknowledge that portfolio turnover costs can impact on the performance their investments. Overall performance is assessed as part of the regular investment monitoring process.

During the investment manager appointment process, the Trustees consider both past and anticipated portfolio turnover levels. When underperformance is identified deviations from the expected level of turnover may be investigated with investment manager concerned if it is felt they may have been a significant contributor to the underperformance. Assessments reflect the market conditions and peer group practices.

The Trustees acknowledge that for some asset classes, such as LDI, a higher turnover of contracts such as repurchase agreements, can be beneficial to the fund from both a risk and cost perspective.

The duration of the arrangement with the asset manager

For the open-ended pooled funds in which the Scheme invests, there are no predetermined terms of agreement with the investment managers.

The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustees' investment aims, beliefs and constraints is assessed every three years, or when changes deem it appropriate to do so more frequently. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.