Medical Defence Union Pension and Life Assurance Scheme
Statement of Investment Principles

This Statement of Investment Principles covers the defined benefit and the defined contribution sections of the Medical Defence Union Pension and Life Assurance Scheme (the "Scheme"). It is set out in three parts. Firstly, those policies specific to the defined benefit section, secondly those specific to the defined contribution section, and finally the Trustees' overall policies on issues that apply both to the defined benefit and defined contribution sections.

1. Defined Benefit Section

Scheme Investment Objective

The Trustees aim to invest the assets of the Scheme prudently to ensure that the benefits promised to members are provided. In setting investment strategy, the Trustees first considered the lowest risk asset allocation that they could adopt in relation to the Scheme's liabilities. The asset allocation strategy they have selected is designed to achieve a higher return than the lowest risk strategy while maintaining a prudent approach to meeting the Scheme's liabilities.

STRATEGY

The current **planned asset allocation strategy** chosen to meet the objective above is set out in the table below. The Trustees will monitor the actual asset allocation versus the target weight set out in the table below. The Trustees acknowledge that due to factors such as market movements, investment views, governance constraints and implementation issues the Scheme's actual asset allocation may deviate significantly from the target.

Asset class	Allocation (%)
Growth portfolio	**10.0**
All World Equity	5.0
All World Equity GBP Hedged	5.0
Maturing Buy & Maintain Credit	**30.0**
Liability Matching portfolio	**60.0**
Liability Driven Investment and Cash	60.0
Total	**100.0**

The Trustees review the asset allocation at each meeting and consider whether rebalancing is needed. The Trustees take advice on where to disinvest/invest as cashflows require (with the exception of costs/income accruing in the pooled funds and some cashflows within the Liability Matching portfolio, which are added/subtracted automatically). As the Maturing Buy & Maintain Credit holdings rolls down, the Trustees will look to top up by an amount that will bring the holdings back in line with the strategic asset allocation.

The planned asset allocation strategy was determined with regard to the actuarial characteristics of the Scheme, in particular the strength of the funding position and the liability profile. The Liability Matching Portfolio as a whole aims to provide interest rate and inflation protection broadly in line with the funding level on a self-sufficiency style basis.

The planned asset allocation strategy was based on the assumption that equities and corporate bonds would outperform gilts over the long term. However, the Trustees recognise the potential volatility of these asset classes, particularly relative to the Scheme's liabilities. When choosing the Scheme's planned asset allocation strategy the Trustees considered written advice from their investment advisers and also consulted with the sponsoring employer.

RISK MEASUREMENT AND MANAGEMENT

The Trustees recognise that the key risk to the Scheme is that it has insufficient assets to make provisions for 100% of its liabilities ("funding risk"). The Trustees have identified a number of risks which have the potential to cause a deterioration in the Scheme's funding level and therefore contribute to funding risk. These are as follows:

- The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors ("mismatching risk"). The Trustees and their advisers considered this mismatching risk when setting the investment strategy.
- The risk of a shortfall of liquid assets relative to the Scheme's immediate liabilities ("cash flow risk"). The Trustees and their advisers will manage the Scheme's cash flows taking into account the timing of future payments in order to minimise the probability that this occurs.
- The failure by the fund managers to achieve the rate of investment return assumed by the Trustees ("manager risk"). This risk is considered by the Trustees and their advisers both upon the initial appointment of the fund managers and on an ongoing basis thereafter.
- The failure to spread investment risk ("risk of lack of diversification"). The Trustees and their advisers considered this risk when setting the Scheme's investment strategy.
- The possibility of failure of the Scheme's sponsoring employer ("covenant risk"). The Trustees and their advisers considered this risk when setting investment strategy and consulted with the sponsoring employer as to the suitability of the proposed strategy.
- The risk of fraud, poor advice or acts of negligence ("operational risk"). The Trustees have 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 Trustees consider the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review (normally triennially). Some of these risks may also be modelled explicitly during the course of such reviews.

Having set an investment objective which relates directly to the Scheme's liabilities and having implemented it, the Trustees' policy is to monitor, where possible, these risks periodically. The Trustees receive periodic reports showing:

- Performance of individual fund managers versus their respective targets.
- Any significant issues with the fund managers that may impact their ability to meet the performance targets set by the Trustees.

IMPLEMENTATION

The Scheme's investment manager is Legal & General Investment Management (LGIM). The managers' objectives are as follows:

- LGIM equity funds: to produce a return in line with the return of the benchmark for each pooled fund invested in.
- LGIM Maturing Buy & Maintain Funds: The objective of the fund is to capture the credit risk premium within a globally diversified portfolio of predominantly investment grade credit and to preserve value over the course of the credit cycle by avoiding defaults and securities experiencing a significant deterioration in credit quality.
- LGIM Liability Matching Portfolio: the portfolio invests in the LGIM Maturing Buy & Maintain Credit Funds (detailed above), a range of leveraged and unlevered gilt funds and a liquidity fund. The liquidity fund is managed actively to outperform the Sterling Overnight Index Average (SONIA) gross of fees. The overall objective of the Liability Matching Portfolio is to provide interest rate and inflation protection broadly in line with the funding level on a self-sufficiency style basis.

2. Defined Contribution Section and AVC Benefits

Investment Objective

In investing the assets of the Scheme in a prudent manner, the Trustees' key aim is to provide a range of investments that are suitable for meeting members' long and short-term investment objectives. They have taken into account members' circumstances, in particular members' attitudes to risk and term to retirement.

STRATEGY

The Scheme Investment Objective is implemented using the range of investment options set out in the Appendix. The range of investment options offered will be reviewed periodically and change in response to member demand.

After taking advice, the Trustees decided to make three distinct lifestyle options available to members, which target different benefits at retirement, namely drawdown, annuity purchase and cash.

It is the Trustees' policy to provide suitable information for members so that they can make the appropriate investment decisions. The range of funds was chosen by the Trustees after taking expert advice from the Trustees' investment advisers.

The Trustees expect the long-term return on the investment options that invest predominantly in equities to exceed price inflation and general salary growth. The long term returns on the property fund and diversified growth fund will be more volatile and less secure than UK government bonds. To compensate for this extra risk, the Trustees expect higher investment returns from these asset classes. These asset classes provide diversification from equities.

The long term returns on the bond and cash options are expected to be lower than the predominantly equity options. However, bond funds are expected to broadly match the price of annuities, with a focus on inflation linked annuities, giving some protection in the amount of secured pension for members closer to retirement.

The Cash Fund will provide protection against changes in short-term capital values and may be appropriate for members receiving part of their retirement benefits in the form of tax-free cash.

DEFAULT INVESTMENT

The Trustees are required to designate a default arrangement into which members who are automatically enrolled are invested. The Trustees have designated the drawdown lifestyle option as the default arrangement for the Scheme.

The Trustees, with the investment advisor, have assessed the suitability of the default Lifestyle strategy in the light of the new regulations governing the ways in which members can access their benefits at retirement. This assessment took into account an analysis of the membership profile and expected fund values at retirement. The default Lifestyle strategy was constructed following analysis of the membership of the Scheme. This analysis took into account factors such as age, salary, contribution level, accumulated fund values and term to retirement to identify different types of member in order to test alternative investment strategies. The design of the default Lifestyle strategy reflects this analysis having carried out multiple simulations of future economic and investment scenarios.

The aim of the default Lifestyle strategy is to provide members with the potential for higher levels of growth during the accumulation of their retirement savings through exposure to the Global Equity Fund and then to gradually diversify their investments in the years approaching retirement, in order to provide a real income during the post-retirement phase whilst protecting the value of members' investments.

The asset allocation throughout the default Lifestyle strategy and the phasing of the gradual switching of investments takes into account members' greater capacity for risk early on and reduced capacity for risk in later years.

The default Lifestyle strategy will be reviewed periodically in the future with reference to the manner in which members are expected to take their benefits from the Scheme. This periodic review will also take into account any significant changes in the demographic profile of the relevant members.

Following the temporary redirection of members' contributions as a result of the Property Fund's trading suspension, the Trustees also consider the Cash Fund to be a default arrangement. As a result, the Cash Fund is subject to the same governance and charge cap requirements as the DC Scheme's default Lifestyle strategy.

ILLIQUID INVESTMENTS

The Trustees do not currently hold any illiquid investments on behalf of DC members in the default investment strategy.

The Trustees do not have any specific concerns with illiquid investments. However, at this time, they believe the current assets utilised reflect the optimal mix for members at each stage of the default lifestyle, in terms of expected risk, expected return and diversification.

The Trustees would be willing to consider the use of illiquid investments in the future. This is a consideration that would form part of any future review of investment strategy or selection of investment provider.

RISK MEASUREMENT AND MANAGEMENT

The Trustees recognise the key risk is that members will have insufficient income in retirement or an income that does not meet their expectations. The Trustees considered this risk when setting the investment options and strategy for the Scheme. The Trustees' policy in respect of risk measurement methods and risk management processes is set out below.

The Trustees consider the following sources of risk:

- Risk of not meeting the reasonable expectations of members, bearing in mind members' contributions and fund choices.
- Risk of fund managers not meeting their objectives ("manager risk"). This risk is considered by the Trustees and their advisers both upon the initial appointment of the fund manager and on an ongoing basis thereafter.
- Risk of the default fund being unsuitable for the requirements of some members.
- The risk of fraud, poor advice or acts of negligence ("operational risk"). The Trustees have 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 Trustees consider these risks in a qualitative rather than quantitative manner as part of each formal strategy review. The Trustees' policy is to review the range of funds offered and the suitability of the lifestyle options regularly.

These risks are considered as part of each normal strategy review. In addition, the Trustees measure risk in terms of the performance of the assets compared to the benchmarks on a regular basis, usually quarterly, along with monitoring any significant issues with the fund managers that may impact their ability to meet the performance targets set by the Trustees.

IMPLEMENTATION

The Trustees use LGIM as the main investment manager. For the majority of funds, LGIM's primary objective is to produce a return in line with the return on the appropriate indices for each pooled fund offered. The LGIM Sterling Liquidity Fund's primary objective is to provide capital stability, liquidity and diversification to investors, and perform in line with the benchmark (gross of fees) without incurring excessive risk.
In addition, the Threadneedle Pensions Property Fund and Nordea Diversified Return Fund are available to members via LGIM wrapped vehicles. The range of funds offered is set out in the Appendix.

ADDITIONAL VOLUNTARY CONTRIBUTIONS

Any member opting to pay Additional Voluntary Contributions (AVCs) may choose to invest contributions in any of the range of funds set out in the appendix.

The Trustees have previously made a selection of funds available to members other than those described in the appendix, including:

- With Profits options, offered by Friends Provident; and

- Unit-linked holdings with Utmost Life & Pensions. These assets were previously held in the Equitable Life With Profits Fund. Equitable Life proposed closing the With Profits fund as part of a transfer of business to Utmost Life and Pensions, which was implemented on 1 January 2020. Upon transfer to Utmost Life and Pensions, members' assets were invested in the Secure Cash investment for three months, before being gradually switched to the 'Investing by Age strategy'. Members now have a range of alternative unit-linked fund options available.

New members are no longer able to make contributions to these legacy AVC funds, but existing assets may remain invested until further notice.

3. Defined Benefit and Defined Contribution Sections

GENERAL

For both sections it is the Trustees' policy to consider:

- A full range of asset classes, including alternative asset classes such as private equity, property and hedge funds.
- The risks and rewards of a range of alternative asset allocation strategies.
- The suitability of each asset class in the defined benefit section planned asset allocation strategy and for investment in the defined contribution section.
- The suitability of different styles of investment management and the option of manager diversification.
- The need for appropriate diversification both across asset classes and within asset classes.

GOVERNANCE

The Trustees are responsible for the investment of the Scheme assets. The Trustees take some decisions themselves and delegate others. When deciding which decisions to take themselves and which to delegate, the Trustees have taken into account whether they have the appropriate training and expert advice in order to take an informed decision. The Trustees have established the following decision making structure:

Trustees

- Set structures and processes for carrying out their role.
- Select and monitor planned asset allocation strategy.
- Appoint and monitor investment advisers and investment managers.
- Set the investment manager structure for implementing the investment strategy
- Select direct investments (see below).

Insurance Company/Investment Manager

- Operate within the terms of this statement, as far as is practical.
- Notify the Trustees of any significant changes to the funds or investment process for the investment managers available to the Trustees.

Investment Adviser

- Advises on all aspects of the investment of the Scheme assets, including implementation.
- Advises on this statement.
- Provides required training.

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager with a written contract and those where a product is purchased directly, e.g. the purchase of an insurance policy or units in a pooled vehicle. The latter are known as **direct investments.**

The Trustees' policy is to review their direct investments and to obtain written advice about them at regular intervals. When deciding whether or not to make any new direct investments the Trustees will obtain written advice.

The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this statement. The regulations require all investments to be considered by the Trustees (or, to the extent delegated, by the fund managers) against the following criteria:

- The best interests of the members and beneficiaries
- Security
- Quality
- Liquidity
- Profitability
- Nature and duration of liabilities
- Tradability on regulated markets
- Diversification
- Use of derivatives

The Trustees' investment adviser has the knowledge and experience required under the Pensions Act 1995.

The Trustees expect the investment managers to manage the assets under the terms of its policy and to give effect to the principles in this statement so far as is reasonably practical.

The investment managers also arrange for custody of the assets underlying the Scheme's investment arrangements with appropriate custodians. The custodians provide safekeeping for all the Scheme's assets and perform the administrative duties attached, such as the collection of interest and dividends and dealing with corporate actions.

The investment managers are remunerated on an *ad valorem* fee basis. This structure has been chosen by the Scheme Trustees as representing value for services received. The charges have been negotiated to ensure competitiveness and are reviewed regularly. In addition, the investment managers pay commission to third parties on any trades they undertake in the management of the assets.

The Trustees will review this SIP at least every three years and immediately following any significant change in investment policy. The Trustees will take investment advice and consult with the Sponsoring Employer over any changes to the SIP.

Environmental, Social and Governance

In setting the Scheme's defined benefit and defined contribution investment strategies, the Trustees' primary concern is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. This includes the risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly. The Trustees consider this risk by taking advice from their investment adviser when setting the Scheme's asset allocation, when selecting managers and when monitoring their performance.

In order to identify and assess climate change the Trustees have received training on climate change and its associated risks and opportunities and considered the possible short, medium and long-term effects of climate change on the scheme's objectives and its operations.

For the defined contribution section, the Trustees will continue to consider the impact of climate change in determining any future changes to the defined contribution section strategy.

For the defined benefit section, the process for identifying and assessing climate-related risks and opportunities is captured by:

- Our advisers demonstrating how they have considered short and long-term climate change risks and opportunities when providing new strategic investment advice, new mandates, new funding plans and new advice on the covenant.
- Investments that are Buy rated by Aon having at least an appropriate or advanced process to identify, evaluate and mitigate potential financially material ESG risks, including climate change, within the portfolio.
- Our asset managers demonstrating how they have considered short and long-term climate change risks and opportunities when reporting on their portfolios.

This will enable us to understand what measures are being taken to reflect climate change opportunities and risk within the investments, funding and covenant.

Arrangement with Investment Managers

The Trustees will monitor the Scheme's investments to consider the extent to which the investment strategy and decisions of the investment managers are aligned with the Trustees' policies. This includes monitoring the extent to which investment managers:

- make decisions based on assessments about medium- to long-term financial performance of the underlying assets; and
- engage with issuers of the underlying assets in order to improve their performance in the medium- to long-term.

The Trustees will be supported in this monitoring activity by their investment adviser.

The Trustees receive at least quarterly reports and verbal updates from the investment adviser on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustees focus on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Scheme’s objectives, and assess the investment managers over 3-year periods.

The Trustees will also receive annual stewardship reports on the monitoring and engagement activities carried out by their investment managers, which will support the Trustees in determining the extent to which the Scheme's policies have been followed throughout the year.

The Trustees will share the policies, as set out in this SIP, with the Scheme's investment managers, and request that the investment managers review and confirm whether their approach is in alignment with the Trustees' policies.

Before appointment of a new investment manager, the Trustees review the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustees' policies.

As the Scheme predominantly invests in pooled funds, the Trustees have limited direct influence on the investment holdings, processes and policies in place. However, the Trustees will encourage managers to improve their practices where possible, while acknowledging that in practice the managers may face limitations in fully aligning their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors.

Where investment managers are considered to make decisions that are not in line with the Trustees' policies, expectations, or the other considerations set out above, the Trustees will typically first engage with the investment manager but could ultimately replace the investment manager where this is deemed necessary.

There is typically no set duration for arrangements with investment managers, although the continued appointment for all investment managers will be reviewed periodically, and at least every three years.

The Trustees do not regularly monitor investment managers against non-financial criteria of the investments made on their behalf.

Cost Transparency

The Trustees recognise the importance of monitoring the level of investment costs incurred in the management of the Scheme assets and the impact these can have on the value of the assets.

Cost Transparency

The Trustees are aware of the importance of monitoring their investment managers' total costs and the impact these costs can have on the overall value of the Scheme's assets. The Trustees recognise that in addition to annual management charges, there are a number of other costs incurred by their investment managers that can increase the overall cost.

The Trustees will collect annual cost transparency reports covering all of their investments and ask that the investment managers provide this data in line with the appropriate Cost Transparency Initiative (“CTI”) template for each asset class. This will allow the Trustees to understand exactly what they are paying their investment managers.

Within the Defined Contribution Section specifically, these costs, along with estimated impact on representative members, will be made publicly available within the annual Defined Contribution Governance Statement.

Portfolio Turnover

The Trustees accept that transaction costs will be incurred to drive investment returns and that the level of these costs varies across asset classes and by manager style within an asset class. In both cases, a reasonable level of transaction costs is acceptable as long as it is consistent with the asset class characteristics and manager’s style and historic trends. Where the Trustees' monitoring identifies a lack of consistency the mandate will be reviewed.

Targeted portfolio turnover is defined as the expected frequency with which each underlying investment manager's fund holdings change over a year. The Scheme's investment adviser will monitor this on behalf of the Trustees as part of the manager monitoring they provide to the Trustees and will flag to the Trustees where there are concerns.

Evaluation of Performance and Remuneration

The Trustees are open to investment managers implementing performance related fees if these are suitable for the Scheme and are aligned with the objectives of the Scheme.

Stewardship – Voting and Engagement

The defined benefits assets are held through direct investments with LGIM. The defined contribution assets are held through an investment platform provided by Legal & General Assurance (Pensions Management) Limited. Within the investment platform, there are arrangements with three asset managers – LGIM, Nordea and Threadneedle. The Trustees expect all three investment managers (LGIM, Threadneedle and Nordea) to carry out the following duties:

- Realisation of investments;
- Where appropriate, taking into account environmental, social and governance considerations in the selection, retention and realisation of investments;
- Where appropriate, engage with investee companies with the aim to protect and enhance the value of assets; and
- Exercising the Trustee's voting rights in relation to Scheme assets.

The Trustees recognise the importance of their role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Scheme invests, as ultimately this creates long-term financial value for the Scheme and its beneficiaries.

The Trustees regularly review the suitability of the Scheme's appointed investment managers and take advice from their investment adviser with regard to any changes. This advice will include consideration of broader stewardship matters and the exercise of voting rights by the appointed investment managers. If an incumbent investment manager is found to be falling short of the standards the Trustees have set out in their policy, the Trustees will undertake to engage with the investment manager and seek a more desirable position but may look to replace the investment manager.

The Trustees will review the stewardship activities of their asset managers on an annual basis, covering both engagement and voting actions.

The Trustees will engage with their investment managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned.

It is the expectation of the Trustees that the Scheme's investment managers will actively monitor environmental, social and governance risks within the investment, providing transparency on engagement and voting actions with respect to mitigating these risks as appropriate.

Where voting is concerned, the Trustees expect their investment managers to recall stock lending as necessary, in order to carry out voting actions.

From time to time, the Trustees will consider the methods by which, and the circumstances under which, they would monitor and engage with an investment manager and other stakeholders. The Trustees may engage with an investment manager and other stakeholders on matters concerning an underlying asset, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.

Members' Views and Non-Financial Factors

In setting and implementing the Scheme's defined benefit investment strategy the Trustees do not explicitly take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors"[1]).

For the defined contribution section, the Trustees recognise the importance of offering a suitable range of investment options for members and where applicable will consider member feedback on updating the default fund and range of ethical funds.

The funds that make up the default fund and other self-select funds should not apply personal ethical or moral judgements as the sole basis for an investment decision.

[1]The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018

Within the Global Equity Fund (which makes up the growth stage of the default investment strategy), there is no allocation to any companies in the tobacco industry (i.e. classified as 'Tobacco' under industry benchmark classifications). The Trustees believe this to be aligned with the beliefs of the majority of the Scheme's membership and will not materially impact investment performance detrimentally.

The Trustees have made available the World Low Carbon Target Fund for those members who wish to invest in a fund with this specific characteristic.

INVESTMENT ADVISER

Aon Investments Limited has been selected as investment adviser to the Trustees. It operates under an agreement to provide a full service designed to ensure that the Trustees are fully briefed both to take the decisions they take themselves and to monitor those they delegate. Aon Investments Limited is paid a fee on a time-cost basis, although fixed fees may be negotiated for specific projects.

Appendix

DB Funds

LGIM	Performance target	Benchmark Index	Investment Characteristics
All World Equity Index	To match the benchmark return as closely as possible	FTSE All-World NetTax Index	The fund employs an index tracking strategy, aiming to replicate the performance of its benchmark. LGIM follow a pragmatic approach to managing index funds, either investing directly in the securities of that index, or indirectly through other LGIM funds. The fund may also hold index and single stock futures for efficient portfolio management.
All World Equity Index (GBP Hedged)	To match the benchmark return as closely as possible	FTSE All-World NetTax Index - GBP Hedged	The fund employs an index tracking strategy, aiming to replicate the performance of its benchmark. LGIM follow a pragmatic approach to managing index funds, either investing directly in the securities of that index, or indirectly through other LGIM funds. The fund may also hold index and single stock futures for efficient portfolio management. The developed market currency exposure, except where arising from holdings in emerging market securities denominated in developed market currencies (e.g. ADRs/GDRs), is hedged back to sterling. Currency hedging is achieved by selling forward for approximately one month the relevant currency exposure of the fund. Currency exposure of any emerging markets will not be hedged.
LDI Pooled Funds	To match the benchmark return as closely as possible	Corresponding treasury Gilt Fund	The LDI funds are comprised of unlevered gilts, leveraged gilts, green gilts and index linked gilts. The overall objective is to provide interest rate and inflation protection broadly in line with the funding level on a self-sufficiency style basis.
Maturing Buy & Maintain Credit	To provide investors with credit risk exposure	n/a	The fund may achieve all or a significant amount of its exposure by purchasing shares in the LGIM Maturing Buy & Maintain Credit Fund which is a UCITS Compliant SICAV sub-fund. The underlying fund invests predominantly in a variety of US dollar, euro and sterling denominated fixed interest instruments and related derivatives. Although the fund currently limits the use of derivatives to efficient portfolio management, it reserves the right to use them for investment purposes in future. Currency and interest rate exposures which are derived from non-sterling securities may be hedged back to Sterling. The fund has a duration range of +/-1 year relative to the Markit iBoxx Sterling non-gilt Index. The fund can allocate up to 100% in AAA-rated sovereign and supranational debt or investment grade credit. The fund may hold 10% in sub investment grade credit.

Sterling Liquidity Fund	To offer access to liquidity whilst providing capital stability	SONIA	The principal investment objective of the SLF is to provide capital stability, liquidity and income through investment in a diversified portfolio of high credit quality short term fixed income and variable rate securities including but not limited to certificates of deposit, fixed and floating rate notes, fixed rate commercial paper and bonds listed or traded on one or more recognised exchanges.

DC Funds

LGIM	**Performance target**	**Benchmark Index**	**Investment Characteristics**
UK Equity	To match the benchmark return as closely as possible	FTSE All-Share	Invests in shares in the UK. The returns will be more volatile and less secure than UK government bonds. To compensate for this extra risk, investors expect higher investment returns from this asset class.
Global Equity	To match the benchmark return as closely as possible	50% World Developed Tobacco Sector Exclusions Equity Index Fund 50% World Developed Tobacco Sector Exclusions Equity Index Fund (GBP hedged)	The fund will invest 50% in the LGIM World Developed (ex-Tobacco) Equity Index Fund and 50% in the LGIM World Developed (ex-Tobacco) Equity Index GBP Currency Hedged fund. The returns will be more volatile and less secure than UK government bonds. To compensate for this extra risk, investors expect higher investment returns from this asset class. There will also be additional risk due to currency movements for the unhedged fund. However, the additional diversification will help to reduce risk. The underlying index (and therefore fund) excludes any companies in the tobacco industry (i.e. classified as 'Tobacco' under industry benchmark classifications).
Overseas Equity	To match the benchmark return as closely as possible	FTSE World ex-UK	Invests in global equities (excluding the UK). The returns will be more volatile and less secure than UK government bonds. To compensate for this extra risk, investors expect higher investment returns from this asset class. There will also be additional risk due to currency movements. However, the additional diversification will help to reduce risk.
Emerging Market Equity	To match the benchmark return as closely as possible	FTSE Emerging NetTax (UKPN)	Invests in emerging market equities. The returns will be more volatile and less secure than UK government bonds. To compensate for this extra risk, investors expect higher investment returns from this asset class. There will also be additional risk due to currency movements. However, the additional diversification will help to reduce risk.

UK Corporate Bond	To match the benchmark return as closely as possible	Markit iBoxx GBP Non-Gilts (All Stocks)	Invests in long dated UK corporate bonds. Low to medium risk option. The expected returns are lower than for equities, but higher than UK government bonds. There is no explicit protection from inflation.
UK Fixed Interest	To match the benchmark return as closely as possible	FTSE-A Gilt Index – Over 15 Years	Invests in long dated UK government bonds. The expected returns and volatility are lower than for equities. There is no explicit protection from inflation.
Short Duration Index-Linked Gilt	To match the benchmark return as closely as possible	FTSE-A Index-Linked Gilt Index under 5 years	Invests in short-dated UK government index-linked bonds. The expected returns and volatility are lower than for equities. Investment returns are not eroded by unanticipated inflation.
Long Duration Index-Linked Gilt	To match the benchmark return as closely as possible	FTSE-A Index-Linked Gilt Index over 5 years	Invests in long-dated UK government index-linked bonds. The expected returns and volatility are lower than for equities. Investment returns are not eroded by unanticipated inflation.
World Low Carbon Target Equity	To match the benchmark return as closely as possible	MSCI World Low Carbon Target Index Fund	Invests in global companies, overweighting those with low carbon emissions (relative to sales) and low potential carbon emissions compared to the wider market. The returns will be more volatile and less secure than UK government bonds. To compensate for this extra risk, investors expect higher investment returns from this asset class.
Cash	To provide capital stability, liquidity and diversification	SONIA	Invests in a diversified portfolio of high credit quality short term fixed income and variable rate securities. The fund will seek to obtain and maintain a triple-A rating from at least one internationally recognised rating agency. Low expected return but provides security and liquidity for members in the run up to retirement, particularly in respect of any tax-free cash the member intends to take at retirement. In the event of a negative interest rate environment, there is a risk of negative returns on cash.
Drawdown Lifestyle profile (Default fund)	n/a	n/a	This option is invested in the Global Equity Fund until 10 years before a member's chosen retirement age. From this point, assets are gradually transitioned to the Short Duration Index Linked Bond Fund, Corporate Bond Fund and Diversified Growth Fund, with a portion remaining in the Global Equity Fund. At retirement the assets are invested in a broad mix of asset classes, with the aim of providing a real income during the post-retirement phase whilst protecting the value of the investments.

Annuity Lifestyle profile	n/a	n/a	This option is invested in the Global Equity Fund until 10 years before a member's chosen retirement age. From this point, assets are gradually transitioned to the Long Duration Index Linked Bond Fund, Corporate Bond Fund and Diversified Growth Fund. Then, from 5 years to retirement (at which point equities make up 45% of assets), the fund is gradually switched into a mixture of the Index Linked Bond Fund and the Cash Fund, with the aim of protecting the value of the investments relative to movements in annuity prices and cash.
Cash Lifestyle profile	n/a	n/a	This option is invested in the Global Equity Fund until 10 years before a member's chosen retirement age. From this point, assets are transitioned to the Short Duration Index Linked Bond Fund, Corporate Bond Fund and Diversified Growth Fund. Then, from 5 years to retirement (at which point equities make up 45% of assets), the fund gradually switches to the Cash Fund. The aim is to reduce the investment risk for taking cash at retirement.

Threadneedle	**Performance target**	**Benchmark Index**	**Investment Characteristics**
TPEN (Property Pension Fund)	To outperform the benchmark by 1.0% p.a. over rolling three year periods	AREF/MSCI Quarterly All Balanced Property	Invests in a diversified portfolio of property and real estate in the UK through a daily priced managed fund structure. The returns will be more volatile and less secure than UK government bonds. To compensate for this extra risk, investors expect higher investment returns from this asset class. This asset class provides diversification from equities.

Nordea	**Performance target**	**Benchmark Index**	**Investment Characteristics**
Diversified Return Fund	To outperform the benchmark by 4.0% p.a. over rolling three year periods	SONIA	The fund seeks to generate absolute returns from exposure to a combination of directional and relative value strategies. The fund invests in a range of equities, bonds and derivatives. The fund looks to provide positive investment returns with less volatility than, and offering diversification relative to, equity market returns.