Statement of Investment Principles for The Law Debenture Pension Plan

15 August 2019

1. Introduction

This Statement of Investment Principles ("SIP") sets out the policy of Open Trustees Limited ("the Trustee") on various matters governing decisions about the investments of the Law Debenture Pension Plan ("the Plan"), a Defined Benefit ("DB") Plan. This SIP replaces the previous SIP dated November 2017.

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 ("the Act"), the Occupational Pension Plans (Investment) Regulations 2005, and the Occupational Pension Plans (Charges and Governance) Regulations 2015.

This SIP has been prepared after obtaining and considering written professional advice from LCP, the Plan's investment adviser, whom the Trustee believes to be suitably qualified and experienced to provide such advice. The advice takes into account the suitability of investments including the need for diversification, given the circumstances of the Plan, and the principles contained in this SIP. The Trustee has consulted with the relevant employers in producing this SIP.

The Trustee will review this SIP from time to time and, with the help of its advisers, will amend it as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy, and at least once every three years.

Appendix 1 contains brief details of the respective responsibilities of the Trustee, investment advisers and investment managers. It also contains a description of the basis of remuneration of the investment adviser and the investment managers.

2. Investment objectives

The Trustee's primary objectives are that:

- the Plan should be able to meet benefit payments as they fall due; and
- that the Plan's funding position (ie the value of its assets relative to the assessed value of its liabilities) should remain at an appropriate level. The Trustee is aware that there are various measures of funding, and has given due weight to those considered most relevant to the Plan.

3. Investment strategy

The Trustee, with the help of its advisers and in consultation with the employers, last considered the Plan's investment strategy in January 2019, taking into account the objectives described in Section 2 above.

The result of the review was that the Trustee agreed that the investment strategy of the Plan should be based on the allocation below.

Asset class	Benchmark allocation (%)	Control range (%)
UK equities	18.0	15-21
Overseas equities	22.0	
North American equities	*6.0*	*3-9*
European equities	*4.0*	*2-6*
Japanese equities	*3.0*	*1-5*
Pacific basin equities	*3.0*	*1-5*
Emerging market equities	*6.0*	*3-9*
Total equities	**40.0**	
Diversified Growth Funds	**15.0**	**12.5-17.5**
Infrastructure	**10.0**	**7.5-12.5**
US index-linked bonds	10.0	8-12
UK corporate bonds	10.0	8-12
UK index-linked bonds	15.0	13-17
Total bonds	**35.0**	
Total	**100.0**	

The Trustee is aware that the allocation to Infrastructure is subject to a drawdown process managed by the selected infrastructure manager, the timing of which is not known in advance with certainty. As a result, the Plan's actual allocation is expected to be outside of the permitted control range for infrastructure until the drawdown process is complete, and there will be a corresponding overweight to other asset classes.

The Trustee's rebalancing policy is set out in Appendix 3.

4. Considerations in determining the investment arrangements

When deciding how to invest the Plan's assets, the Trustee considers a number of risks including, but not limited to, those set out in Appendix 2. Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each risk.

The Trustee has considered a wide range of asset classes for investment, and the expected returns and risks associated with those asset classes. The central estimates of the expected returns from the main asset classes, as at 31 December 2018, are set out below. Returns are quoted in excess of the return on long-dated government bonds:

UK equities	5.0% pa
Overseas equities	5.0% pa
Emerging market equities	6.0% pa
Corporate bonds	1.1% pa
Diversified growth	3.0% pa
US / UK index linked bonds	0.0% pa
Infrastructure	4.0% pa

In setting the investment strategy the Trustee also from time to time takes into account:

- the best interests of members and beneficiaries;
- the circumstances of the Plan, including the profile of the benefit cash flows, the funding level, and the strength of the employer covenant;
- the risks, rewards and suitability of a number of possible asset classes and investment strategies; and
- the need for appropriate diversification between different asset classes.

5. Implementation of the investment arrangements

Before investing in any manner, the Trustee obtains and considers proper written advice from its investment adviser on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

Details of the investment managers, their objectives, investment guidelines, and custody arrangements are set out in Appendix 3.

The Trustee has signed agreements with the investment managers, setting out in detail the terms on which the portfolios are managed. The investment managers' primary role is the day-to-day investment management of the Plan's investments. The managers are authorised under the Financial Services and Markets Act 2000 (as amended) to carry out such activities.

The Trustee has limited influence over managers' investment practices because all the Plan's assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

The Trustee's view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

It is the Trustee's responsibility to ensure that the managers' investment approaches are consistent with its policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustee expects investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. It assesses this when selecting and monitoring managers.

The Trustee evaluates investment manager performance by considering performance over both shorter and longer-term periods as available. Generally, the Trustee would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustee's policy is to evaluate each of its investment managers by reference to the manager's individual performance as well the role it plays in helping the Plan meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustee recognises that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustee expects its investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Plan's investment mandates.

6. Realisation of investments

The investment managers have discretion over the timing of realisation of investments of the Plan and in considerations relating to the liquidity of investments. When appropriate, the Trustee, on the administrators' recommendation, decides on the amount of cash required for benefit payments and other outgoings and informs the investment managers of any liquidity requirements.

7. Financially material and non-financial matters

The Trustee has considered how environmental, social, governance ("ESG") and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Plan and its members.

The Trustee expects its investment managers to take accounts of financially material considerations (including climate change and other ESG considerations). The Trustee seeks to appoint managers that have appropriate skills and processes to do this, and from time to time reviews how its managers are taking account of these issues in practice. The Trustee has limited influence over managers' investment practices where assets are held in pooled funds, but it encourages managers to improve their practices where appropriate.

The Trustee does not take into account any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

8. Stewardship

The Trustee recognises its responsibilities as owners of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments. The Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, risks and ESG considerations.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. It expects the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustee from time to time, taking into account the long-term financial interests of the beneficiaries.

The Trustee seeks to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and from time to time the Trustee may review how these are implemented in practice.

However, where the Trustee holds assets in pooled funds, the Trustee has limited influence over managers' stewardship practices, but it encourages its managers to improve their practices where appropriate.

For on behalf of Open Trustees Limited

Signed: Mike Wareing

Responsibilities, decision-making and fees

The Trustee has decided on the following division of responsibilities and decision-making for the Plan. This division is based upon the Trustee's understanding of the various legal requirements placed upon it, and its view that this division allows for efficient operation of the Plan overall, with access to an appropriate level of expert advice and service. The Trustee's investment powers are set out within the Plan's governing documentation.

1. Trustee

In broad terms, the Trustee is responsible in respect of investment matters for:

- setting the investment strategy, in consultation with the employers;
- reviewing the investment policy as part of any review of the investment strategy;
- setting the policy for rebalancing between asset classes;
- appointing (and, when necessary, dismissing) the investment managers, custodians, investment adviser, actuary and other advisers;
- monitoring the exercise of the investment powers delegated to the investment managers and monitoring compliance with Section 36 of the Act;
- communicating with members as appropriate on investment matters, such as the Trustee's assessment of its effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employers when reviewing the SIP.

2. Investment managers

In broad terms, the investment managers are responsible for:

- managing the relevant portfolio of assets according to the stated objectives, and within the guidelines and restrictions set out in the investment manager agreements and/or other relevant governing documentation, as agreed with the Trustee;
- providing the Trustee with regular information concerning the management and performance of the relevant portfolio; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The custodians of the Plan's assets (whether there is a direct relationship between the custodians and the Trustee or not) are responsible for safe keeping of the asset and facilitating all investment transactions.

3. Investment adviser and actuary

In broad terms, the investment adviser and actuary will be responsible, in respect of investment matters, as requested by the Trustee, for:

- advising on how material changes within the Plan's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;
- advising on the selection, and review, of the investment managers; and
- participating with the Trustee in reviews of this SIP.

4. Fee structures

The Trustee recognises that the provision of investment management and advisory services to the Plan results in a range of charges to be met, directly or indirectly, by deduction from the Plan's assets.

The Trustee has agreed Terms of Business with the Plan's actuarial and investment advisers, under which charges are calculated on both a fixed and "time-cost" basis.

The investment managers receive fees calculated by reference to the market value of assets under management. The fee rates are believed to be consistent with the managers' general terms for institutional clients and are considered by the Trustee to be reasonable when compared with those of other similar providers.

The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustee's view as to the most appropriate arrangements for the Plan. However, the Trustee will consider revising any given structure if and when it is considered appropriate to do so.

5. Performance assessment

The Trustee is satisfied, taking into account the external expertise available, that there are sufficient resources to support its investment responsibilities. The Trustee believes that it has sufficient expertise and appropriate training to carry out its role effectively.

It is the Trustee's policy to assess the performance of the Plan's investments, investment providers and professional advisers from time to time. The Trustee will also carry out periodically an assessment of its own effectiveness as a decision-making body and will decide how this may then be reported to members.

Policy towards risk, risk measurement and risk management

The Trustee considers that there are a number of different types of investment risk that are important for the Plan. These include, but are not limited to:

1. Risk of inadequate returns

A key objective of the Trustee is that, over the long-term, the Plan should have adequate assets to meet its liabilities as they fall due. The Trustee therefore invests the assets of the Plan to produce a sufficient long-term return in excess of the liabilities. There is also a risk that the performance of the Plan's assets and liabilities diverges in certain financial and economic conditions in the short term. This risk has been taken into account in setting the investment strategy and is monitored by the Trustee on a regular basis.

2. Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Plan's assets. The Trustee believes that the Plan's assets are adequately diversified between different asset classes and within each asset class. This was a key consideration when determining the Plan's investment arrangements.

3. Investment manager risk

This is the risk that the investment managers fail to meet their investment objectives. Prior to appointing the investment managers, the Trustee undertook appropriate investment manager selection exercises. The Trustee monitors the investment managers on a regular basis.

4. Liquidity/marketability risk

This is the risk that the Plan is unable to realise assets to meet benefit cash flows as they fall due. The Trustee is aware of the Plan's cash flow requirements and believes that this risk is managed by maintaining an appropriate degree of liquidity across the Plan's investments.

5. Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Plan is subject to credit risk since it holds bonds, and to a lesser extent the bonds held within its Diversified Growth Funds, via pooled funds. The Trustee manages its exposure to credit risk by only investing in pooled funds that have a diversified exposure to different credit issuers.

6. Currency risk

Whilst the majority of the currency exposure of the Plan's assets is to Sterling, the Plan is subject to currency risk because some of the Plan's investments are held in overseas markets.

The Trustee considers the overseas currency exposure in the context of the overall investment strategy, and believes that the currency exposure that exists diversifies the strategy and is appropriate.

7. Interest rate and inflation risk

The Plan's assets are directly subject to interest rate and inflation risk because some of the Plan's assets are held in bonds, and to a lesser extent the bonds held within its Diversified Growth Funds, via pooled funds. However, the interest rate and inflation risks to which the Plan's assets are exposed serves to hedge part of the corresponding risks associated with the Plan's liabilities. The net effect will be to reduce the volatility of the funding level.

8. Environmental, social and governance (ESG) risks

Environmental, social and corporate governance (ESG) factors are sources of risk to the Plan's investments, some of which could be financially significant, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Trustee seeks to appoint investment managers who will manage these risks appropriately on their behalf and from time to time reviews how these risks are being managed in practice.

9. Other non-investment risks

The Trustee recognises that there are other, non-investment, risks faced by the Plan, and takes these into consideration as far as practical in setting the Plan's investment arrangements.

Examples include:

- longevity risk (the risk that members live, on average, longer than expected); and
- sponsor covenant risk (the risk that, for whatever reason, the sponsoring employers are unable to support the Plan as anticipated).

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Plan's funding position falls below what is considered an appropriate level. By understanding and considering the key risks that contribute to funding risk, the Trustee believes that it has appropriately addressed and is positioned to manage this general risk.

Investment manager arrangements

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

1. Developed equities and bonds – Legal & General

The Trustee has selected Legal & General Assurance (Pension Management) Limited ("LGAPM") as the provider of its bond and developed markets equity investments. LGAPM has delegated its investment responsibilities to an investment manager, Legal & General Investment Management ("LGIM"). LGIM's objective is to maintain the Plan's asset distribution close to Benchmark, within the ranges detailed in the below table. LGIM is also required to track, gross of fees, on an annual basis, the total return on the relevant Benchmark index, within specified tolerances. LGIM's Benchmark is as follows:

Asset class	Benchmark allocation (%)	Control range (%)	Benchmark index	Objective
UK equities	29.0	26-32	FTSE All Share	Track its benchmark index to within +/-0.25% p.a. for 2 years out of 3
North American equities	9.5	7-12	FTSE World North America	Track its benchmark index* to within +/-0.5% p.a. for 2 years out of 3
European equities	7.0	5-9	FTSE Developed Europe (ex UK)	Track its benchmark index* to within +/-0.5% p.a. for 2 years out of 3
Japanese equities	4.5	3-6	FTSE Japan	Track its benchmark index* to within +/-0.5% p.a. for 2 years out of 3
Pacific basin equities	4.5	3-6	FTSE Asia Pacific (ex Japan)	Track its benchmark index* to within +/-0.75% p.a. for 2 years out of 3
US index-linked bonds	13.0	11-15	Barclays Capital Over 5 Year US TIPS (series L)	Track its benchmark index to within +/-0.50% p.a. for 2 years out of 3
UK corporate bonds	13.0	11-15	Markit iBoxx Sterling non-gilt	Exceed the benchmark index by 0.75% p.a. (before fees) over a 3 year rolling period
UK index-linked bonds	19.5	17-22	FTSE A Govt Index-linked (Over 5 Year)	Track its benchmark index to within +/-0.25% p.a. for 2 years out of 3
Total	**100.0**			

*less withholding tax if applicable

All of the LGIM funds are priced and traded weekly. The funds are open ended. The funds are not listed on any exchange. The custodian for the UK assets is HSBC Bank Plc London. The custodian for the overseas assets is Citibank N.A London.

2. Emerging market equities – Morgan Stanley

The Trustee has selected Morgan Stanley Investment Management ("MSIM") as the manager of its emerging markets equity mandate.

Asset class	Benchmark allocation (%)	Control range (%)	Benchmark index	Objective
Emerging market equities	100.0	n/a	MSCI Emerging Markets	To target 2.5% - 3% outperformance of the index over a rolling 3 to 5 year period.
Total	**100.0**			

The fund is daily priced and traded with the exception of Luxembourg bank holidays. The fund is open ended and is not listed on any exchange. Morgan Stanley has appointed J.P. Morgan Bank Luxembourg S.A. as the custodian for the fund.

3. Diversified growth

The Trustee has selected Invesco Asset Management Limited ("Invesco") and Ruffer LLP ("Ruffer") as the managers for the Diversified Growth Fund portfolio.

Fund name	Benchmark allocation (%)	Control range (%)	Benchmark index	Objective
Ruffer CF Absolute Return Fund	33.3	n/a	BoE deposit rate	To preserve the Client's capital over rolling twelve month periods, and secondly to grow the Portfolio at a higher rate (after fees) than could reasonably be expected from the alternative of depositing the cash value of the Portfolio in a reputable United Kingdom bank.
Invesco Global Targeted Returns Fund	66.7	n/a	UK 3 month LIBOR	To target a gross return of 5% pa above UK 3 month LIBOR (or an equivalent reference rate) over a rolling 3 year period and aims to achieve this with less than half the volatility of global equities over the same 3 year period.
Total	**100.0**			

The Ruffer fund is daily priced and traded with the exception of UK bank holidays. The fund is open ended and is not listed on any exchange. In addition to acting as the investment manager, Ruffer will act as the Plan's custodian, and in turn delegate the custody functions to a Global Sub-Custodian, RBC Investor Services Trust.

The Invesco fund is daily priced and traded with the exception of UK bank holidays. The fund is open ended and is not listed on any exchange. Invesco has appointed Bank of New York Mellon as the custodian for the fund.

4. Infrastructure

The Trustee has selected JP Morgan Investment Management Inc ("JP Morgan") as the manager of the infrastructure mandate.

Asset class	Benchmark allocation (%)	Control range (%)	Benchmark index	Objective
Infrastructure	100.0	n/a	n/a	To target a net return of 8-12% pa, over five to seven years.
Total	**100.0**			

The JP Morgan fund is valued quarterly on an unaudited basis and is valued annually on an audited basis. The fund is open ended and is not listed on any exchange. JP Morgan has appointed Citco Fund Services as the custodian for the fund.

5. Rebalancing

New money / disinvestments to / from LGIM, Morgan Stanley, Ruffer, Invesco and JP Morgan are used by the Trustee to maintain the Plan's actual asset allocation as close as possible to the Benchmark (as set out in Section 3, "Investment strategy").

If, after any investments / disinvestments have been made, the allocation to emerging markets or the diversified growth portfolios is still outside of its control ranges (as set out in Section 3, "Investment strategy"), then the Trustee may transfer a sum of no less than £100,000 between LGIM and Morgan Stanley / Ruffer / Invesco to bring the allocation back to within its control ranges.

At the start of each calendar quarter, after taking account of any investments / disinvestments made, LGIM will rebalance any asset class(es) that lie(s) outside the control range to just within the control range indicated in Section 1 of this Appendix.

6. Additional Voluntary Contributions

The Trustee has selected Legal & General Assurance Society as the Plan's money purchase AVC provider.