DERWENT
LONDON

Derwent London Pension Scheme

Statement of Investment Principles: August 2019

Pension Scheme Registration Number: 100757522

The attached Statement of Investment Principles ("SIP") sets out the policy of the Trustees of the Derwent London Pension Scheme (the "Scheme"), a Defined Contribution Scheme, on various matters governing decisions about the investments of the Scheme. If you have any questions, please contact the Trustees of the Derwent London Pension Scheme.

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Statement of Investment Principles for the Derwent London Pension Scheme (the "Scheme") August 2019

1. Introduction

This Statement of Investment Principles ("SIP") sets out the policy of the Trustees of the Derwent London Pension Scheme (the "Scheme"), a Defined Contribution ("DC") Scheme, on various matters governing decisions about the investments of the Scheme.

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

This SIP has been prepared after obtaining and considering written professional advice from LCP, the Scheme's investment adviser, whom the Trustees believe 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 Scheme, and the principles contained in this SIP. The Trustees have consulted with the relevant employer in producing this SIP.

The Trustees will review this SIP from time to time and, with the help of their advisers, will amend it as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy, or in the demographic profile of the relevant members in respect of the Scheme, and at least once every three years.

Appendix 1 sets out details of the Scheme's investment governance structure, including the key responsibilities of the Trustees, investment advisers and investment managers. It also contains a description of the basis of remuneration of the investment adviser and the investment managers.

Appendix 2 sets out the Trustees' policy towards risk appetite, capacity, measurement and management.

2. Investment objectives

The Trustees' primary objectives for the Scheme are to provide members with access to:

- an appropriate range of investment options, reflecting the membership profile of the Scheme and the variety of ways that members can draw their benefits in retirement; and
- a default investment option that the Trustees believe to be reasonable for those members that do not make their own investment decisions. The objective of the default option is to generate returns significantly above inflation whilst members are some distance from retirement, but then to switch automatically and gradually to lower risk investments as members near retirement.

3. Investment strategy

The Trustees, with the help of their advisers and in consultation with the employer, carried out a review of investment strategy for the Scheme during 2015, taking into account the objectives described in Section 2 above and the increased flexibility for DC members announced in the 2014 Budget.

The Trustees offer members a range of investment funds. Each member is responsible for specifying one or more funds for the investment of their account, having regard to their attitude to the risks involved. If a member does not choose an investment option, their account will be invested into the default option, which is managed as a "lifestyle" strategy (ie it automatically combines investments in proportions that vary according to the time to retirement).

The default option was designed to be in the best interests of the majority of the members based on the demographics of the Scheme's membership. The default option now targets income drawdown at retirement, since the Trustees believe that most members will wish to take their benefits in this form. Therefore, it is initially invested in assets that have a relatively high expected return aiming for growth, and then as the member approaches retirement, it gradually switches into less risky assets, with the asset allocation at retirement being designed to be appropriate for members taking an income drawdown option.

The objective for the default option is to provide a long term return in excess of inflation while displaying less volatility than a pure equity approach in the middle growth phase, and reducing volatility for members approaching retirement age.

Members wishing to adopt an investment strategy in line with the previous default, ie one targeting annuity purchase at retirement, or an alternative lifestyle approach, may do so via the self-select options, carrying out their own switches at the appropriate times.

The Trustees will review the strategy used for the default option and the other investment options at least every three years and as soon as practicable after any significant change in investment policy, or the demographic profile of relevant members. The Trustees will also review periodically the relevant members' use of their options at retirement or on taking benefits from the Scheme to check whether assumptions made about how members access their benefits are borne out in practice.

4. Considerations made in determining the investment arrangements

When deciding how to invest the Scheme's assets, the Trustees consider 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 Trustees have tried to allow for the relative importance and magnitude of each risk.

The Trustees considered a wide range of asset classes for investment, and the expected returns and risks associated with those asset classes.

In determining the investment arrangements for the Scheme the Trustees also took into account:

- the best interests of members and beneficiaries;
- the profile of the membership and what this was likely to mean for the choices members might make upon reaching retirement;
- the risks and rewards of a number of different lifestyle strategies; and
- the need for appropriate diversification within the default strategy and between the other investment options offered to members.

The Trustees' key investment beliefs, which influenced the setting of the investment arrangements, are as follows:

- asset allocation is the primary driver of long-term returns;
- risk-taking is necessary to achieve return, but not all risks are rewarded;
- equity, credit and illiquidity are the primary rewarded risks;
- risks that do not have an expected reward should generally be avoided, hedged or diversified;
- investment markets are not always efficient and there may be opportunities for good active managers to add value;
- environmental, social and governance (ESG) factors are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors;
- investment managers who can consistently spot and profitably exploit market opportunities are difficult to find and therefore passive management, where available, is usually better value;
- long-term environmental, social and economic sustainability is one factor that trustees should consider when making investment decisions; and
- costs have a significant impact on long-term performance and therefore obtaining value for money from the investments is important.

The Trustees' key investment beliefs and understanding of the Scheme's membership are reflected in the design of the default and other lifestyle options, and in the range of other funds made available to members.

5. Implementation of the investment arrangements

Before deciding upon what investment options will be available to members and what the default strategy will be, the Trustees obtain and consider proper written advice from their investment adviser on the question of whether the investment options and strategies are satisfactory, having regard to the need for suitable and appropriately diversified investments.

Details of the investment managers, their objectives and investment guidelines are set out in the separate Investment Policy Implementation Document.

There is no direct relationship between the Scheme and the underlying investment managers of the investment fund options.

The Trustee has signed agreements with a platform provider, who makes available a range of investment options to members. These agreements set out in detail the terms on which the investments are managed. The investment managers' primary role is the day-to-day investment management of the Scheme's investments. The managers are authorised under the Financial Services and Markets Act 2000 to carry out such activities.

The Trustees have limited influence over managers' investment practices because all the Scheme's assets are held in pooled funds, but they encourage their managers to improve their practices where appropriate.

The Trustees' 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 Trustees' responsibility to ensure that the managers' investment approaches are consistent with their 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 Trustees expect 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. They assess this when selecting and monitoring managers.

The Trustees evaluates investment manager performance by considering performance over both shorter and longer-term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. Generally, the Trustees would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustees' policy is to evaluate each of their investment managers by reference to the manager's individual performance as well the role it plays in helping the Scheme 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 Trustees recognise 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 Trustees expect their investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates.

6. Realisation of investments

The investment managers have discretion over the timing of realisation of investments of the Scheme and in considerations relating to the liquidity of investments. For the Scheme, the Trustees' policy is to invest in funds that offer daily dealing to enable members to readily realise and change their investments.

7. Consideration of financially material and non-financial matters

The Trustees have 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 Scheme and its members.

The Trustees have limited influence over managers' investment practices where assets are held in pooled funds but expect their investment managers to take account of financially material considerations (including climate change and other ESG considerations) as the managers consider appropriate. The Trustees seek to appoint managers that have appropriate skills and processes to do this.

The Trustees do 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. Exercise of investment rights

The Trustees recognise their responsibilities as shareholders being the owners of capital, and believe that good corporate governance enhances shareholder value in the long term.

The Trustees cannot usually directly influence the managers' policies on the exercise of investment rights where assets are held in pooled funds; this is due to the nature of these investments. The Trustees understand that investment rights will be exercised by the investment managers in line with the managers' general policies on corporate governance, which reflect the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, taking into account the financial interests of the beneficiaries.

The Trustees do not monitor or engage directly with issuers or other holders of debt or equity. They expect 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 Trustees from time to time, considering the long-term financial interests of the beneficiaries. The Trustees have limited influence over managers' stewardship practices where assets are held in pooled funds, but they encourage their managers to improve their practices where appropriate.

For on behalf of the Trustees of the Derwent London Pension Scheme:

Signed: ____

Investment governance, responsibilities, decision-making and fees

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

1. Trustees

In broad terms, the Trustees are responsible in respect of investment matters for:

- setting the investment options and default strategy;
- reviewing the investment options;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- formulating a policy on taking account of non-financial matters in the selection, retention and realisation of investments;
- appointing (and, when necessary, dismissing) investment managers, platform providers, investment consultants and other advisors;
- monitoring the exercise of the investment powers that they have 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;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employer when reviewing the SIP.

2. Investment platform provider

In broad terms, the investment platform provider will be responsible for:

- providing access to a range of funds managed by various investment managers;
- providing the Trustees, through the platform, with regular information concerning the management and performance of the assets; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

3. Investment managers

In broad terms, the investment managers will be responsible for:

- managing the portfolios of assets according to their stated objectives, and within the guidelines and restrictions set out in their respective investment manager agreements and/or other relevant governing documentation, as agreed with the Trustees;
- providing the Trustees with regular information concerning the management and performance of their respective portfolios; and

- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The custodians of the portfolios (whether there is a direct relationship between the custodian and the Trustees or not) are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

4. Investment adviser

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

- advising on a suitable fund range and default strategy for the Scheme, and how material changes to legislation or within the Scheme's membership may impact this;
- advising on the selection, and review, of the investment managers; and
- participating with the Trustees in reviews of this SIP.

5. Fee structures

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

The Trustees have agreed Terms of Business with the Scheme's investment advisers, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis.

The investment managers and platform provider 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 Trustees 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 Trustees' view as to the most appropriate arrangements for the Scheme. However, the Trustees will consider revising any given structure if and when it is considered appropriate to do so.

6. Performance assessment

The Trustees are satisfied, taking into account the external expertise available, that there are sufficient resources to support their investment responsibilities. The Trustees believe that they have sufficient expertise and appropriate training to carry out their role effectively.

It is the Trustees' policy to assess the performance of the Scheme's investments, investment providers and professional advisers from time to time. The Trustees will also carry out periodically an assessment of their 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 Trustees consider that there are a number of different types of investment risk that are important for the Scheme. These include, but are not limited to:

1. Risk of inadequate returns

In the Scheme, as members' benefits are dependent on the investment returns achieved, it is important that investment options are available which can be expected to produce adequate real returns over the longer term. Accordingly, equity and equity-based funds, which are expected to provide positive returns above inflation over the long term, have been made available to members and feature in the growth phase of the default strategy. To reduce the chance of a sharp deterioration in members' benefits close to retirement, the Trustees have made the default option a "lifestyle" strategy.

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 Scheme's assets. The Trustees believe that the Scheme's DC default strategy is adequately diversified between different asset classes and within each asset class, and the DC options provide a suitably diversified range for members to choose from. This was a key consideration when determining the Scheme's investment arrangements.

3. Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, the Trustees receive written advice from a suitably qualified individual, and would typically undertake an investment manager selection exercise if change was desired. The Trustees monitor the investment manager(s) on a regular basis.

4. Liquidity/marketability risk

For the Scheme, this is the risk that core financial transactions, such as investing and disinvesting members' contributions, are not processed promptly due to lack of liquidity in the investments. The Trustees manage this risk by only using pooled funds with daily dealing (in the normal course of events) within the default strategy and diversifying the strategy across different types of investment.

5. Risk from excessive charges

Within the Scheme, if the investment management charges together with other charges levied on, for example, transfers or early retirement are excessive, then the value of a member's account will be reduced unnecessarily. The Trustees are comfortable that the charges applicable to the Scheme are in line with market practice and assess regularly whether these represent good value for members.

6. 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.   Where relevant, the Trustees manage its exposure to credit risk by only investing in pooled funds that have a diversified exposure to different credit issuers.

7. Currency risk

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

The Trustees consider the overseas currency exposure in the context of the overall investment strategy, and believe that the currency exposure that exists diversifies the strategy and is appropriate.

8. Other non-investment risks

The Trustees recognise that there are other, non-investment, risks faced by the Scheme, and take these into consideration as far as practical in setting the Scheme's investment arrangements.