

Statement of Investment Principles for the Guide Dogs for the Blind Association Pension Scheme

1. Introduction

This Statement of Investment Principles ("SIP") sets out the policy of the GDBA (Pension Fund Trustee) Limited ("the Trustee") on various matters governing decisions about the investments of the Guide Dogs for the Blind Association Pension Scheme ("the Scheme"), a Defined Benefit ("DB") Scheme. This SIP replaces the previous SIP dated March 2023.

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 (as amended) and the Pension Regulator's guidance for defined benefit pension schemes (March 2017). The SIP also reflects the Trustee's response to the Myners voluntary code of investment principles.

This SIP has been prepared after obtaining and considering written professional advice from LCP, the Scheme's strategic 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 Scheme, and the principles contained in this SIP. The Trustee has consulted with the Guide Dogs for the Blind Association (the "Association") 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 sets out details of the Scheme's investment governance structure, including the key responsibilities of the Trustee, strategic investment adviser and fiduciary manager. It also contains a description of the basis of remuneration of the strategic investment adviser and fiduciary manager.
- Appendix 2 sets out the Trustee's policy towards risk appetite, capacity, measurement and management.
- Appendix 3 sets out the Scheme's investment manager arrangements.

2. Investment objectives

The primary objective is to ensure that the Scheme should be able to meet benefit payments as they fall due. In addition to this primary objective, the Trustee has a series of additional objectives. These are as follows:

- that the return on the Scheme's assets is maximised whilst managing and maintaining investment risk at an appropriate level. What the Trustee determines to be an appropriate level of risk is set out in Appendix 2.
- that the Scheme should be fully funded on a technical provisions basis (ie the asset value should be at least that of its liabilities on this basis). The Trustee is aware that there are various measures of funding and has given due weight to those considered most relevant to the Scheme.

2.1 Journey plan and longer-term objectives

The Trustee and Association have agreed a longer-term investment objective to achieve full funding on a "self-sufficiency" basis (defined as a discount rate of gilts +0.5% pa) by around 2026.

The current investment strategy (comprising 30% growth, 45% liability hedging and 25% cashflow matching credit assets) is expected to deliver returns above the current required return to achieve the self-sufficiency objective.

The Trustee informally monitors progress relative to this objective over time. If the required return reduces materially, eg due to better than expected asset returns or other gains, the Trustee would consider de-risking the investment strategy (ie reducing the exposure to growth assets) to "lock-in" the improved position, reduce future volatility, provide more certainty around future funding levels and future contributions from the Association and remain on track to achieve the objective, subject to consulting with the Association at that time.

The Trustee maintains a policy of seeking to fully hedge interest rate and inflation risk associated with funded liabilities.

The target investment return has also been set to maintain a reasonable buffer above the return required to reach a fully insured position. This is expected to become more affordable as more members retire and the Scheme matures further.

3. Investment strategy

The Trustee, with the help of its advisers and in consultation with the Association, reviews the investment strategy for the DB Section periodically, considering the objectives described in Section 2 above.

Following the most recent review the Trustee agreed an overall investment strategy of investing 30% of the Scheme's assets in growth assets, 45% of the Scheme's assets in liability hedging assets and 25% of the Scheme's assets in cashflow matching credit assets.

Further details about the investment arrangements are provided in Appendix 3.

4. Considerations in setting the investment arrangements

When deciding how to invest the Scheme'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 considered a wide range of asset classes for investment, taking account of the expected returns and key individual risks associated with those asset classes as well as how these risks can be mitigated where appropriate.

In setting the strategy the Trustee took into account:

- the best interests of all members and beneficiaries;
- the Scheme's investment objectives, including the target return required to meet the Trustee's investment objectives;

- the Scheme's cash flow requirements in order to meet benefit payments in the near to medium term;
- the circumstances of the Scheme, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the strength of the Association's covenant;
- the risks, rewards and suitability of a number of possible asset classes and investment strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken;
- the need for appropriate diversification between different asset classes to ensure that both the Scheme's overall level of investment risk and the balance of individual asset risks are appropriate;
- any other considerations which the Trustee considers financially material over the long-term time horizon that the Trustee considers is needed for the funding of future benefits by the investments of the Scheme; and
- the Trustee's investment beliefs about how investment markets work and which factors are most likely to impact investment outcomes.

Some of the Trustee's key investment beliefs are set out below.

- 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 are typically not rewarded, such as interest rate, inflation and currency, should generally be avoided, hedged or diversified;
- 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. However, investment markets are not always efficient and there may be opportunities for good active managers to add value;
- responsible investment in well governed companies and engaging as long-term owners can reduce risk over time and may positively impact the Scheme's returns;
- 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;
- 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.

5. Implementation of the investment arrangements

Before investing in any manner, the Trustee obtains and considers proper written advice from its strategic 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 management arrangements are set out in Appendix 3.

The Trustee has signed an agreement with a fiduciary manager setting out in detail the terms on which the assets are to be managed. The fiduciary manager's primary role is the day-to-day investment management of the Scheme's investments. The fiduciary manager is authorised under the Financial Services and Markets Act 2000 (as amended) to carry out such activities.

The Trustee and fiduciary manager to whom discretion has been delegated exercise their powers to giving effect to the principles in this Statement of Investment Principles, so far as is reasonably practicable.

The Trustee has some influence over its fiduciary manager's investment practices due to the segregated nature of the Scheme's arrangement and has set specific guidelines within the investment agreement that its fiduciary manager must adhere to.

The Trustee's view is that the fees paid to its fiduciary manager, and the possibility of its mandate being terminated, ensure it is incentivised to provide a high quality service that meets the stated objectives, guidelines and restrictions. In practice its fiduciary manager can align its strategy and decisions to the policies of the Trustee in relation to strategy, long-term performance of debt/equity fund managers, engagement and portfolio turnover.

It is the Trustee's responsibility to ensure that the fiduciary manager's investment approach is 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 its fiduciary manager, 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 the fund managers who invest in the underlying issuers to improve their performance. It assesses this when selecting and monitoring its fiduciary manager.

The Trustee evaluates fiduciary manager performance by considering performance over both shorter and longer-term periods as available. Generally, the Trustee would be unlikely to terminate its fiduciary manager mandate based on short-term performance grounds alone. It would also expect its fiduciary manager to be unlikely to terminate an underlying investment manager mandate on short-term historical performance grounds alone.

The Trustee's policy is to evaluate its fiduciary manager by reference to its performance as well as the role it plays in helping the Scheme meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. The fiduciary 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 fiduciary manager. The Trustee expects its fiduciary manager to take into account the potential impact of portfolio turnover and resulting transaction costs as appropriate when managing the Scheme's investment mandate.

6. Realisation of investments

The fiduciary manager has discretion over the timing of realisation of investments of the Scheme within the portfolio that it manages, 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 fiduciary manager of any liquidity requirements. The Trustee's preference is for investments that are readily realisable, but recognises that achieving a well-diversified portfolio may mean holding some investments that are less liquid (eg property).

7. Consideration of 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 long-term time horizon of the Scheme and its members.

The Trustee expects its fiduciary manager to take account of financially material considerations (including climate change and other ESG considerations). The Trustee seeks to appoint a fiduciary manager that has appropriate skills and processes to do this, and from time to time reviews how its fiduciary manager is taking account of these issues in practice. The Trustee has appointed Schroders as the Scheme's fiduciary manager.

Amongst other initiatives, Schroders is a PRI signatory, having been rated A+ by the PRI for their Strategy and Governance in relation to sustainable investment, and is a signatory to the UK Stewardship code. Schroders has an in-house ESG analytics tool, powered by MSCI ESG data, to provide insight on the underlying investment managers' ESG exposures. Schroders challenges external investment managers on their ESG considerations on behalf of the Trustee.

The Trustee reviews ESG reporting in the quarterly investment reports produced by Schroders. This includes a comparison of the Scheme's equity and credit portfolios versus benchmarks, an ESG rating of the underlying components of the equity and credit portfolios and climate change metrics. Where appropriate, the Trustee engages with Schroders to challenge the output of their ESG reporting.

The Trustee can influence Schroder's investment practices due to the segregated nature of the Scheme's arrangement. Although Schroders has limited influence over the underlying investment managers' investment practices where assets are held in pooled funds, the Trustee expects Schroders to encourage the investment managers to improve their practices where appropriate.

The Trustee does not, at this time, 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. Voting and engagement

The Trustee recognises its responsibilities as an owner 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 fiduciary manager the exercise of rights attaching to investments, including voting rights, and engagement with underlying managers who invest in issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, risks and ESG considerations.

The Trustee reviews annually the implementation statement for the Scheme, which summarises voting and engagement examples for its fiduciary manager, as well as the underlying managers. The Trustee will engage with its fiduciary manager to challenge the output where appropriate.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. The Trustee has delegated this to its fiduciary manager (the Trustee acknowledges the fiduciary manager can only engage with the underlying investment managers who invest directly in issuers) and expects the fiduciary manager to exercise ownership rights and undertake monitoring and engagement in line with the fiduciary manager's 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 can influence its fiduciary manager's stewardship practices due to the segregated nature of the Scheme's arrangement. Although the fiduciary manager has limited influence over the investment managers' stewardship practices where assets are held in pooled funds, the Trustee expects its fiduciary manager to encourage the investment managers to improve their practices where appropriate.

The Trustee has selected some ESG priority themes to provide a focus for its fiduciary manager's monitoring of the underlying investment managers' voting and engagement activities. The Trustee will review the themes regularly and update them if appropriate. The Trustee's current priorities are Climate Change, Natural Capital & Biodiversity, and Human Rights.

The Trustee chose these priorities because they are market-wide areas of risk that are financially material for the investments and can be addressed by good stewardship. Therefore, the Trustee believes it is in the Scheme's members' best interests that the Scheme's fiduciary manager and underlying investment managers adopt strong practices in these areas.

The Trustee will write to its fiduciary manager regularly to notify it of the Trustee's stewardship priorities, set out viewpoints and issues of interest ahead of the voting season and remind it of the Trustee's expectations of the fiduciary manager (and the underlying investment managers) in relation to responsible investment – ie ESG considerations, climate change, voting and engagement. If the Trustee's monitoring identifies areas of concern, it will engage with the fiduciary manager to encourage improvement and the Trustee expects the fiduciary manager to engage with the underlying investment managers.

SIP signed for and on behalf of the Trustee of the Scheme:

Signed:

Date:

19 MARCH 2024

Investment governance, responsibilities, decision-making and fees

The Trustee has decided on the following division of responsibilities and decision-making for the Scheme. This division is based upon the Trustee's understanding of the various legal requirements placed upon it, and its view that the division of responsibility allows for efficient operation and governance of the Scheme overall. The Trustee's investment powers are set out within the Scheme'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 Association;
- developing a mutual understanding of investment and risk issues with the Association;
- 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;
- reviewing the investment policy as part of any review of the investment strategy;
- setting the policy for rebalancing between asset classes;
- setting a policy on the exercise of rights (including voting rights) and undertaking engagement activities in respect of the investments;
- appointing (and, when necessary, dismissing) a fiduciary manager, strategic investment adviser, actuary and other service providers;
- monitoring the exercise of the investment powers that they have delegated to the fiduciary manager 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; putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the Association when reviewing the SIP.

2. Fiduciary manager

The Trustee has delegated certain investment decisions and the implementation of these decisions to the Scheme's fiduciary manager, Schroders. As with all governance models, under fiduciary management the Trustee remains responsible for the stewardship of the Scheme, including setting the overall investment objectives and monitoring the fiduciary manager. However, certain responsibilities are delegated to the fiduciary manager such as:

- implementing the investment strategy based on the proposed framework and within the objectives, guidelines and restrictions set out in the Scheme's Investment Management Agreement ("IMA");

- choosing the allocation to the underlying asset classes, investment managers and funds under the terms of the IMA;
- monitoring the fees and other terms imposed by the underlying investment managers and funds;
- choosing how to design and implement the liability hedging assets (subject to the guidelines and restrictions set out in the IMA), including making an allowance for the contribution to hedging from the cashflow matching credit assets;
- carrying out asset transfers and provide the Trustee and the strategic investment adviser with details of any changes to the asset allocation and costs incurred periodically;
- monitoring de-risking triggers and implementing de-risking once triggers have been hit under a de-risking framework agreed between the Trustee, the strategic investment adviser and the fiduciary manager;
- providing the Trustee and strategic investment adviser with quarterly reporting covering the management and performance of the portfolio and the underlying managers;
- informing the Trustee and strategic investment adviser immediately if there is any breach of the Statement of Investment Principles or the IMA;
- attending Trustee meetings from time to time to report on the performance of the assets and any other matter relevant to the fiduciary manager's duties under the IMA;
- determining the allocation to different asset classes to meet the Trustee's objectives (subject to the guidelines and restrictions in the IMA);
- making tactical asset class decisions and benchmark deviations based on market conditions (subject to the guidelines and restrictions in the IMA); and
- appointing and removing investment managers.

When appointing the fiduciary manager, the Trustee considered the following:

- the range of fiduciary options available and the benefits, risks, costs and value that different approaches offer;
- the manager's experience and track record in managing similar mandates;
- the manager's consideration of ESG issues when selecting and monitoring investment managers;
- the manager's consideration of exercise of voting rights (where applicable) and engagement activities when selecting and monitoring investment managers;
- the potential conflicts of interest and how to manage them;
- the need for suitable oversight to monitor effectively the performance of the fiduciary manager and the underlying mandates;
- the cost implications for the Scheme; and
- the ease with which the mandate could be terminated.

3. Strategic investment adviser

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

- designing and reviewing the investment strategy framework to be interpreted by the fiduciary manager. This will include advising the Trustee on the split between liability hedging, cashflow matching credit and growth assets, target interest rate and inflation hedge ratios, permitted asset classes, asset allocation restrictions and rebalancing ranges;
- designing and reviewing an investment journey plan and de-risking procedure. This includes setting any de-risking trigger levels;
- drafting and reviewing the Scheme's Statement of Investment Principles. Reviews will take place as soon as practicable after any significant change in investment policy and at least once every three years;
- advising on how material changes within the Scheme's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;

3.2. Monitoring the fiduciary manager

- producing an annual monitoring report detailing the performance of the fiduciary manager against the prescribed performance benchmarks agreed with the Trustee with regards to risk and return tolerances;
- attending Trustee meetings from time to time to review the fiduciary manager;
- reviewing any changes to the fiduciary manager's documentation from an investment perspective and providing written advice to the Trustee when required;
- monitoring the fees and other terms imposed by the fiduciary manager; and
- providing light touch asset transfer oversight where required.

4. Fee structures

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

The fiduciary investment manager receives an agreed fixed fee and fees in respect of underlying investments that are calculated by reference to the market value of assets under management. The fee rates are believed to be consistent with the manager's 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 Scheme. 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.

Page 10 of 14 It is the Trustee's policy to assess the performance of the Scheme's investments, investment providers and professional advisers from time to time. The Trustee will also periodically assess the effectiveness of its decision-making and investment governance processes and will decide how this may then be reported to members.

6. Working with the Association

When reviewing matters regarding the Scheme's investment arrangements, such as the SIP, the Trustee seeks to give due consideration to the Association's perspective. While the requirement to consult does not mean that the Trustee needs to reach agreement with the Association, the Trustee believes that better outcomes will generally be achieved if the Trustee and Association work together collaboratively.

1. Risk appetite and risk capacity

Risk appetite is a measure of how much risk the Trustee is willing to bear within the Scheme in order to meet its investment objectives. Taking more risk is expected to mean that those objectives can be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action. Risk capacity is a measure of the extent to which the Trustee can tolerate deviation from its long-term objectives before attainment of those objectives is seriously impaired. The Trustee's aim is to strike the right balance between risk appetite and risk capacity.

When assessing the risk appetite and risk capacity, the Trustee considered a range of qualitative and quantitative factors, including:

- the strength of the Association's covenant and how this may change in the near/medium future;
- the agreed journey plan and contributions from the Association;
- the Scheme's long-term and shorter-term funding targets;
- the Scheme's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged;
- the Scheme's cash flow and target return requirements; and
- the level of expected return and expected level of risk (as measured by Value at Risk ("VaR")), now and as the strategy evolves.

2. Approach to managing and monitoring investment risks

The Trustee considers that there are a number of different types of investment risk that are important to manage and monitor. These include, but are not limited to:

2.1. Risk of inadequate returns

A key objective of the Trustee is that, over the long-term, the Scheme should generate its target return so that it has adequate assets to meet its liabilities as they fall due. The Trustee therefore invests the assets of the Scheme to produce a sufficient long-term return in excess of the liabilities. There is also a risk that the performance of the Scheme'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.

2.2. 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 Trustee believes that the Scheme's assets are adequately diversified between different asset classes and within each asset class. This was key consideration when determining the Scheme's investment arrangements and is monitored by the Trustee on a regular basis.

2.3. Fiduciary manager risk

Appendix 2 (cont)

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This is the risk that the Scheme's fiduciary manager fails to meet its investment objectives. Prior to appointing a fiduciary manager, the Trustee receives written advice from a suitably qualified individual, and will typically undertake a fiduciary manager selection exercise. The Trustee monitors the fiduciary manager on a regular basis to ensure it remains appropriate for its mandate.

2.4. Liquidity/marketability risk

This is the risk that the Scheme is unable to realise assets to meet benefit cash flows as they fall due, or that the Scheme will become a forced seller of assets in order to meet benefit payments. The Trustee is aware of the Scheme's cash flow requirements and believes that this risk is managed by maintaining an appropriate degree of liquidity across the Scheme's investments. In addition, the Trustee has made an allocation to cashflow matching credit assets to help meet the Scheme's benefit payments and mitigate this risk.

2.5. Environmental, social and governance (ESG) risks

ESG factors are sources of risk to the Scheme'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 a fiduciary manager who will manage these risks appropriately on their behalf and from time to time reviews how these risks are being managed in practice.

2.6. 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.

The Scheme invests in pooled funds and is therefore directly exposed to credit risk in relation to solvency of the investment manager and custodian of those funds.

Direct credit risk arising from pooled funds is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the investment managers, the regulatory environment in which the pooled managers operate and diversification of the Scheme's investments amongst a number of pooled arrangements. The fiduciary manager carries out due diligence checks on the appointment of new pooled investment managers, and on an ongoing basis monitors any changes to the operating environment of the pooled funds.

The Scheme is indirectly exposed to credit risks arising from the underlying investments held by the pooled funds, where they invest in bonds. The managers of the pooled funds typically manage credit risk by having a diversified exposure to bond issuers, by considering the probability of default on bonds held, and/or by having a relatively low exposure to bonds rated below investment grade. The magnitude of credit risk within each fund will vary over time as the manager changes the underlying investments in line with its views on markets, asset classes and specific bonds.

Within the liability hedging portfolio, there is exposure to credit risk as the fiduciary manager uses derivative instruments to match the Scheme's liabilities efficiently. The liability hedging

portfolio has limits on the exposure to any single counterparty and minimum credit ratings that all counterparties must meet.

2.7. Currency risk

The Scheme is subject to currency risk because some of the Scheme'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.

2.8. Interest rate and inflation risk

The Scheme's assets are subject to interest rate and inflation risk because some of the Scheme's assets are held in bonds and swaps. However, the interest rate and inflation exposure of the Scheme's assets hedges part of the corresponding risks associated with the Scheme's liabilities.

The Trustee considers interest rate, inflation and overseas currency risks to be unrewarded investment risks. The net effect of the Trustee's approach to interest and inflation risk will be to reduce the volatility of the funding level, and so the Trustee believes that it is appropriate to manage exposures to these risks in this manner and to review them on a regular basis.

2.9. Other non-investment risks

The Trustee recognises that there are other, non-investment, risks faced by the Scheme, and takes these into consideration as far as practical in setting the Scheme's investment arrangements as part of its assessment of the other aspects of the Scheme's Integrated Risk Management framework.

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 Association is unable to support the Scheme as anticipated).

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Scheme's funding position falls below what is considered an appropriate level. The Trustee regularly reviews progress towards the Scheme's funding target, both in the longer-term as well as against short-term milestones, comparing the actual versus the expected funding level.

By understanding, considering and monitoring 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

Appendix 3

Page 14 of 14 The Scheme has appointed Schroders as the Scheme's fiduciary manager. The Scheme invests in a range of asset classes as managed and selected by Schroders.

The mandate is expected to comprise of internally managed funds, external funds run by other investment management organisations, and a segregated liability driven investment portfolio.

The overall investment objective of the mandate is to target an investment return of 1.45% pa above the change in the present value of the Scheme's liabilities (over rolling three year periods) by investing:

- 30% of the Scheme's assets in growth assets;
- 25% of the Scheme's assets in cashflow matching credit assets; and
- 45% of the Scheme's assets in liability hedging assets which hedge around 100% of the Scheme's interest rate and inflation risk measured as a proportion of funded liabilities at a given point in time.

The Trustee has also agreed with Schroders the following asset allocation restrictions for the growth assets outlined in the table below.

Asset class	Minimum allocation	Maximum allocation
Equities	20%	65%
Property	0%	20%
Return seeking credit	0%	45%
Commodities	0%	15%
Alternatives	0%	40%
Cash and sovereign bonds	0%	40%
Equities plus Commodities	20%	70%
Sub Investment Grade Debt	0%	30%
Equities and Sub Investment Grade Debt	20%	80%

No illiquid investments are permitted, except those already held or committed to. Schroders is not permitted to reallocate within, or make further investments in, the existing illiquid investments.