

Statement of Investment Principles –  
The Scotts Company (UK) Pension Scheme  
(September 2023)

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## Section 1: Introduction

- 1.1 This document describes the principles currently adopted by The Scotts Company Pension Trustee Limited (“the Trustee”) as Trustee of the Scotts Company (UK) Pension Scheme (“the Scheme”). The Scheme operates for the exclusive purpose of providing retirement benefits and death benefits for Scheme members and their dependants. The Scheme has two separate sections – a defined benefits (DB) section (which was closed to active members with effect from 30 June 2004 and subsequently closed to future accrual on 30 June 2010), and a defined contribution (DC) section. The DB section was contracted out of the State Second Pension. Members of the DC Section were not contracted out.
- 1.2 Under the Pensions Act 1995 (as amended by the Pensions Act 2004), Trustees are required to prepare a statement of the principles governing investment decisions. This document contains that statement. The Trustee is responsible for the investment strategy of the Scheme. Before preparing this document, the Trustee has consulted the employer and the Trustee will consult the employer before revising this document. The Trustee will consult the employer on changes in their investment principles as set out in this document, and on the employment or removal of the firm or firms providing investment management services (“the Investment Managers”). However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee. Before preparing this document, the Trustee has sought advice from the Scheme’s Investment Consultant and actuary, Towers Watson Limited. The Trustee will review this document regularly, more often than three years, and without delay following a significant change in investment policy.
- 1.3 Before preparing this document the Trustee has had regard to the requirements of the Pensions Act concerning diversification of investments and suitability of investments and the Trustee will consider those requirements on any review of this document or any change in their investment policy. The Trustee will refer to this document where necessary to ensure that they exercise their powers of investment so as to give effect to the principles set out in it as far as is reasonable.
- 1.4 In accordance with the Financial Services and Markets Act 2000, the Trustee will set the general investment policy, but will delegate the responsibility for selection of specific investments to the appointed investment manager(s). The investment manager(s) shall provide the skill and expertise necessary to manage the investment of the Scheme competently.
- 1.5 In 2022, the Trustee undertook a full Scheme buy-in and is now in the process of converting this to individual annuity policies for members, It is anticipated that this process will take up to two years to complete and that the Scheme will commence winding up in late 2024.

## **Section 2: Division of responsibilities**

### **2.1 The Trustee**

In respect of the investment of the Scheme's assets, the Trustee is responsible for:

- Agreeing the overall objectives of the Scheme and its governance structure.
- Reviewing the suitability of the broad investment strategy and the guidelines set for the Fiduciary Manager, following the results of each actuarial review, or asset liability study, in consultation with the Investment Consultant and Scheme Actuary, including setting appropriate guidelines for the Fiduciary Manager to adhere to in the management of the Scheme's assets.
- Consulting with the employer when reviewing investment policy issues.
- Reviewing, at least annually and immediately after any significant change in investment policy, the content of the SIP and modifying it if deemed appropriate, in consultation with the employer and Scheme Actuary and with written advice from the Investment Consultant.
- Monitoring compliance with the SIP on an ongoing basis.

### **2.2 Fiduciary Manager – DB**

The Scheme has appointed Willis Towers Watson to act as Fiduciary Manager for the DB Section of the Scheme. The Fiduciary Manager will be responsible for:

- Implementing at their discretion, but within guidelines given by the Trustee, changes in the asset mix and selecting securities within each asset class.
- Providing the Trustee with updates on the Scheme's assets and details of actions undertaken as required and appropriate
- Informing the Trustee of any changes in the investment objectives or performance objectives of any pooled Fund in which the Scheme invests as and when such changes occur.
- Investing cash in a suitable manner.
- Giving effect to the principles contained in this Statement as far as is reasonably practical

### **2.3 Investment managers / providers**

The Scheme may use different managers and mandates to implement its investment policies. The Trustee ensures that, in aggregate, its portfolio is consistent with the policies set out in this Statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005).

The Investment Manager(s) of the assets of the DB section will be responsible for:

- Implementing at their discretion, but within guidelines given by the Fiduciary Manager, changes in the asset mix and selecting securities within each asset class.
- Providing the Fiduciary Manager with quarterly statements of the assets together with a quarterly report on their actions and future intentions, and any changes to the processes applied to their portfolios.
- Providing the performance measurer (as appointed from time to time) with the information necessary to calculate performance statistics.
- Instructing the custodian(s) in respect of any corporate governance activity which is considered to be in the interests of the Scheme.
- Informing the Fiduciary Manager of any changes in the investment objectives or performance objectives of any pooled Scheme in which the Scheme invests as and when such changes occur.
- Investing cash in a suitable manner.
- Giving effect to the principles contained in this Statement as far as is reasonably practical

The Scheme's DC invested assets are held in an insurance policy issued by Scottish Equitable plc (part of the Aegon brand), the Investment Platform Provider. A number of pooled funds are made available through this platform. The Investment Managers of these funds will manage them to the fund's stated objectives.

The Scheme's Investment Platform Provider will be responsible for:

- Providing the Trustee with quarterly reporting statements and factsheets on the underlying funds.
- Ensuring that the underlying funds are priced correctly.
- Reviewing the continued structural suitability of the underlying funds.

## **2.5 Custodian(s)**

The custodian(s) will be responsible for:

- The safekeeping of the assets of the Scheme.
- Providing all appropriate administration relating to the Scheme's assets.
- Processing all dividends and tax reclaims in a timely manner.

- Notifying the Fiduciary Manager and the relevant authorities in the event of the Scheme's aggregate holdings exceeding disclosable amounts.
- Dealing with corporate actions.

## **2.6 Investment Consultant**

The Investment Consultant will be responsible for:

- Participating with the Trustee in reviews of this Statement of Investment Principles.
- Proactively advising the Trustee on any changes in the investment environment that could present either opportunities or problems for the Scheme.
- Undertaking project work as required including reviews of investment policy

## **2.7 Scheme Actuary**

The Scheme Actuary's responsibilities include:

- Liaising with the Investment Consultant on the suitability of the Scheme's investment strategy, including reviewing asset allocation policy, given the financial characteristics of the Scheme.
- Assessing the scheme-specific funding position of the Scheme and advising on the appropriate response to any shortfall.

## Section 3. Defined Benefit Section

### 3.1 Investment objectives – Defined benefit section

The investment objective of the defined benefit section of the Scheme is to limit the risk of the assets failing to meet the liabilities.

### 3.2 Investment strategy – Defined benefit section

The Trustee has received advice to determine an appropriate investment strategy for the Scheme. The Trustee has a desire to diversify risk exposures and to manage its investments effectively.

The investment strategy makes use of two key types of investments:

- Investments that provide a better match to changes in liability values (insured assets). In particular, the Scheme has invested in a buy-in with Aviva, which is an asset that will provide income matching the benefits insured under the policy. Prior to purchasing this asset, the Trustee undertook consultation with the sponsoring employer and took advice from WTW, Sackers, THPA and Cardano.
- A portfolio of low risk assets held to fund any additional costs before buyout can be achieved and any wind up costs for the Scheme (uninsured assets).

The Trustee has appointed an investment manager to manage the Scheme's uninsured assets on a discretionary basis and to provide investment advisory services to the Trustee (the "Fiduciary Manager"). The balance within and between these investments will be determined from time-to-time at the discretion of the Fiduciary Manager, with the objective of maximising the probability of achieving the Scheme's investment objective set by the Trustee. The Fiduciary Manager's discretion is subject to guidelines set by the Trustee in the Fiduciary Management Agreement between the parties as amended from time to time (the "FMA"). In exercising investment discretion, the Fiduciary Manager is required to act in accordance with its obligations in the FMA, including the guidelines and any investment restrictions set out therein, and in so doing is expected to give effect so far as reasonably practicable to the principles contained in this SIP. This ensures appropriate incentivisation and alignment of decision-making with the Trustee's overall objectives, strategy and policies.

- The Scheme will hold assets in cash and other money market instruments from time to time as may be deemed appropriate.
- The Trustee will monitor the liability profile of the Scheme and will regularly review, in conjunction with the Fiduciary Manager and the Scheme Actuary, the appropriateness of its investment strategy.
- The expected return of all the Scheme's investments will be monitored regularly and will be directly related to the Scheme's investment objective.
- The Trustee's policy is that there will be sufficient investments in liquid or readily realisable assets to meet cash flow requirements in foreseeable circumstances so that the realisation of assets will not disrupt the allocation of the Scheme's overall investments, where possible.

### **3.3 Investment managers – Defined benefit section**

The Trustee has delegated investment selection, de-selection and the ongoing management of relationships with investment managers to the Fiduciary Manager within guidelines set by the Trustee in the FMA. Investments will be made by the Fiduciary Manager on behalf and in the name of the Trustee directly in pooled vehicles or by the appointment of third-party investment managers to provide discretionary investment management services to the Trustee.

The Trustee considers the Fiduciary Manager's performance in carrying out these responsibilities as part of its ongoing oversight of the Fiduciary Manager. The Trustee expects the Fiduciary Manager to ensure that the Scheme's investment portfolio, in aggregate, is consistent with the policies set out in this SIP, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). The Trustee expects the Fiduciary Manager to, as appropriate:

- check that the investment objectives and guidelines of any pooled vehicle are consistent with the Trustee's policies contained in the SIP;
- set appropriate guidelines within each investment management agreement for segregated investments with a view to ensuring consistency with the Trustee's policies contained in the SIP.

In accordance with the Financial Services and Markets Act 2000, the selection of specific investments will be delegated to investment managers. The investment managers will provide the skill and expertise necessary to manage the investments of the Scheme competently.

The Trustee and Fiduciary Manager are not involved in the investment managers' day-to-day method of operation and do not directly seek to influence attainment of their performance targets. However, the Fiduciary Manager may provide investment recommendations to the investment managers of certain pooled funds appointed where it considers it appropriate. The Fiduciary Manager will maintain processes to ensure that performance and risk are assessed on a regular basis against measurable objectives for each investment manager, consistent with the achievement of the Scheme's long-term objectives.

### **3.4 Defined benefit section – Sustainable Investment Policy**

The Trustee takes account of all financially material risks and opportunities in consultation with its advisers. All risks and opportunities are considered for materiality and impact within the Scheme's Risk Register. The Trustee consider sustainable investment factors, such as (but not limited to) those arising from Environmental, Social and Governance (ESG) considerations, including climate change, in the context of this broader risk framework. The Trustee recognises that an investment's long-term financial success is influenced by a range of financially material factors including environmental, social and governance ("ESG") issues.

The Trustee's policy is that day-to-day decisions relating to the investment of Scheme assets is left to the discretion of its investment managers. This includes consideration of all financially materially factors, with respect to relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings. The Trustee has sought to identify and understand what current ESG policies each manager has in place by undertaking a review of their sustainability policies and is comfortable with what is in place given the nature of the Scheme's mandates. In addition, the Trustee have taken into account the Scheme's investment objectives and current investment strategy.

The Trustee expects the consideration of ESG issues to be fully embedded in the investment manager selection and portfolio management process of the Fiduciary Manager, and expects the Fiduciary Manager to assess the alignment of each investment manager's approach to sustainable investment (including engagement) with its own before making an investment on the Scheme's behalf. The Trustee also expects the Fiduciary Manager to engage with the Scheme's investment managers where the Fiduciary Manager considers this appropriate regarding their approach to stewardship with respect to relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings. In addition, the Trustee expects the Fiduciary Manager to review the investment managers' approach to sustainable investment (including engagement) on a periodic basis and engage with the investment managers to encourage further alignment as appropriate.

The Trustee expects the Fiduciary Manager to select investment managers with an expectation of a medium to long-term partnership with the Trustee, which encourages active ownership of the Scheme's assets. Given the completion of the buy-in, the Trustee's relationship with its investment managers has an expected duration of c2 years and appropriate termination rights are included in the terms to allow the termination of these appointments following the completion of the buyout. When assessing an investment manager's performance, the Trustee expects the Fiduciary Manager to focus on longer-term outcomes. Consistent with this view, the Trustee does not expect that the Fiduciary Manager would terminate an investment based purely on short-term performance but recognises that an investment may be terminated within a short timeframe due to other factors such as a significant change in the relevant manager's business structure or investment team. The Trustee adopts the same long-term focus as part of its ongoing oversight of the Fiduciary Manager.

### ***Voting and engagement***

The Trustee does not hold any equity securities either directly or indirectly within the investment strategy of any of its investment managers. As a result, the Trustee and its investment managers do not have any voting rights in relation to their investments.

However, if such equity investments become part of the portfolio, the Trustee expectse's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to the Scheme's investments to its investment managers. In addition, the Trustee would expect the Fiduciary Manager to work with investment managers who will use their engagement activity to drive improved performance over medium to long term periods within the wider context of long-term sustainable investment.

Consequently, the Trustee (through the selection of the Fiduciary Manager with its approach to ESG issues) seeks to be an active investor. The Trustee's focus is explicitly on financially material factors. The Trustee's policy at this time is not to take into account non-financial matters.

### ***Fees and costs***

The Trustee expects the Fiduciary Manager to consider the fee structures of investment managers and the alignment of interests created by these fee structures as part of its investment decision making process, both at the initial selection of an investment manager and on an ongoing basis. Investment managers are generally paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement. The Trustee expects the Fiduciary Manager to review and report on the costs incurred in managing the Scheme's assets regularly, which includes the costs associated with portfolio turnover. Very low levels of turnover are expected in the uninsured assets .

## **Section 4: Defined Contribution Section**

### **4.1 Investment objectives – Defined contribution section**

The Trustee's investment principles in respect of the DC Section have been formulated to meet the following objective:

- To provide a suitable investment framework to allow members to save for retirement.

### **4.2 Investment strategy – Defined contribution section**

In determining which investment options to make available, the Trustee has considered the investment risk associated with defined contribution pension investment. The risk can be defined as the uncertainty in the ultimate amount of savings available to provide benefits in retirement.

There are a number of factors, which contribute to this uncertainty, some of which cannot be managed by the investment options made available to members.

The Trustee's current investment principles in respect of the DC Section may be summarised as follows:

- Range of funds
- Provision of information
- Clear investment objectives.

These principles are discussed in more detail below. They are subject to periodic review in the light of prevailing circumstances. The Trustee will consult with the employer before making any changes to the current investment principles.

### **4.3 Investment managers – Defined contribution section**

The Trustee provides a range of funds from which members may choose, and these were selected taking account of the membership's risk tolerance and in consultation with the employer, with the intention of meeting the objective above. Since, under a DC pension arrangement, members' retirement benefits are dependent on investment performance the Trustee intends that members should determine their own investment strategies by choosing a fund, or funds, from the range of funds provided.

Since 31 August 2017, the Scheme no longer has a default investment strategy (as advised by its legal advisors), and subsequently the Trustee is no longer required to undertake a review of the default investment strategy. The Trustee will continue to periodically review the range of funds provided, taking into account the risk tolerance of the membership and advice from the Investment Consultant. The Trustee last reviewed the investment options under the DC Section on 8 December 2022.

The Trustee have decided to offer predominantly passively managed investment options, which aim to track the performance of a chosen index. The use of passive management minimises the potential risk of underperformance compared with actively managed funds.

In addition to the range of funds shown below, from 3 August 2015, the Trustee offers one bespoke lifestyle strategy, with the main target of looking to provide the member with a secure income in retirement and hence why it was agreed that the SCPS Lifestyle Strategy should target annuity purchase.

With effect from 3 August 2015, the bespoke lifestyle strategy is as follows:

- More than 20 years before retirement, the assets are invested wholly in the Aegon BlackRock 30:70 Global Equity Currency Hedged Index fund.
- 20 years from retirement, assets begin switching into the Aegon BlackRock Market Advantage Fund. At retirement this fund holds 15% of the member's total assets.
- 10 years from retirement, assets begin switching into the Aegon BlackRock Pre-Retirement Fund. At retirement this fund holds 60% of the member's total assets.
- 3 years from retirement, assets begin switching into the Aegon BlackRock Cash fund. At retirement this fund holds 25% of the member's total assets.

The range of Aegon BlackRock LifePath funds will be available to members on a self-select basis, which will enable members to target a different outcome at retirement. The Trustee's intention is that all members, including those opting for a lifestyle strategy, should understand the investment choices they make so their chosen strategies are appropriate to their own circumstances.

The Trustee's intention is to provide members with information concerning each of the funds from which they may choose in order to enable them to design and review their own investment strategies.

The Trustee's intention is that all funds should have clear, distinct, investment objectives. This is intended to facilitate members' design of their own investment strategies.

The Trustee takes account of all financially material risks and opportunities in consultation with its advisers. All risks and opportunities are considered for materiality and impact within the Scheme's Risk Register. The Trustee consider sustainable investment factors, such as (but not limited to) those arising from Environmental, Social and Governance (ESG) considerations, including climate change, in the context of this broader risk framework.

The Trustee's policy is that day-to-day decisions relating to the investment of Scheme assets is left to the discretion of its investment managers. This includes consideration of all financially materially factors, with respect to relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings. The Trustee has sought to identify and understand what current ESG policies each manager has in place by undertaking a review of their sustainability policies and is comfortable with what is in place given the nature of the Scheme's mandates. In addition, the Trustee have taken into account the Scheme's investment objectives and current investment strategy.

When considering the appointment of new managers, and reviewing existing managers, the Trustee, together with its Investment Consultant, will look to take account of the approach taken by managers with respect to sustainable investing including voting policies and engagement where relevant.

The Trustee does not factor non-financial factors, such as member ethical views, into its investment decision making.

The responsibility for the exercising of rights (including voting rights) in the underlying investments of pooled funds is delegated to the Investment Manager(s).

The Trustee has made available the following funds to members of the DC section via the Investment Platform Provider:

<b>Manager and Fund</b>	<b>Assets</b>	<b>Description</b>
Aegon BlackRock World (ex UK) Equity Index Fund	Equity	A passively managed fund which aims to invest in the shares of overseas companies according to market capitalisation weightings. The Fund's benchmark is FTSE-AW Developed (ex UK) Index.
Aegon BlackRock (30:70) Global Equity Currency Hedged Index Fund	Equity	A passively managed fund which invests in both the UK and overseas markets. The Fund's benchmark is 30% FTSE All-Share, 60% FTSE All-Worlds Developed ex-UK Index (Hedged to GBP), 10% MSCI Emerging Markets Index.
Aegon BlackRock (50:50) Global Equity Index Fund	Equity	A passively managed fund which invests in both the UK and overseas markets. The Fund's benchmark is 50% FTSE-All Share Index, 16.5% FTSE-AW USA Index, 16.5% FTSE-AW Dev Europe (ex UK) Index, 8.5% FTSE-AW Japan Index, 8.5% FTSE-AW Dev Asia Pacific (ex Japan) Index.
Aegon BlackRock UK Equity Index Fund	Equity	A passively managed fund which invests in the shares of UK companies. The Fund's benchmark is the FTSE All-Share Index.
Aegon BlackRock Emerging Markets Equity Index Fund	Equity	A passively managed fund which invests in emerging markets.
Aegon BlackRock over 5 year Index-linked Gilt Index Fund	Bonds	A passively managed fund which invests in UK government index-linked securities that have a maturity period of 5 years or longer. The Fund's benchmark is the FTSE UK Gilts Index Linked Over 5 years Index.
Aegon BlackRock Pre-retirement Fund	Bonds	This Fund invests in UK Gilts, UK Bonds and other fixed income securities with the aim of producing a return in excess of a benchmark designed to reflect long term changes in immediate annuity prices.
Aegon BlackRock Cash Fund	Money market instruments, bonds and cash	The Fund aims to produce a return consistent with the average returns of the money market sector.
Aegon BlackRock Aquila Market Advantage Fund	Mixed asset	The Fund follows a diversified, risk controlled investment process which aims to achieve a return similar to that of a balanced portfolio, with approximately 40% less risk and to provide smoother returns during extreme market conditions.
Aegon BlackRock DC LifePath Funds	Mixed asset	A range of funds targeting retirement in periods of 3 years. Options are available which target annuity purchase, drawdown and cash at retirement.

Each Investment Manager of the above funds should achieve the objective in the majority of three year periods under consideration. It is not expected that all the Investment Managers will achieve these targets in every three year period. However, the Investment Managers should demonstrate that the skill exercised on the portfolio is consistent with this target given the levels of risks adopted.

#### **4.4 Sustainable Investment Policy – Defined contribution section**

- The Trustee agreed to set key stewardship priorities that the investment manager, BlackRock will be monitored against going forward. The Trustee intends to engage with manager, BlackRock (so far as it is able) on the agreed stewardship priorities and review the relevant managers' track record of voting in relation to these priorities as part of its investment governance framework. The Trustee agreed the following stewardship priorities: Climate change
- Human and labour rights
- Company remuneration policies

The rationale for choosing these priorities being that they align with the Trustee's agreed focus areas as well as the capabilities of the relevant investment manager, BlackRock.

#### **4.5 Other matters**

Before the DB section closure, the Scheme provided a facility for active members to pay AVCs to enhance their benefits at retirement. The members had the option of either using the same range of funds as available under the defined contribution arrangements, or a separate arrangement with Prudential in which to invest their AVC payments. Although there are no further AVCs being made, the Trustee will review any AVC providers, to the extent that members retain investments with them. The Trustee recognises a number of risks involved in the investment of the Scheme's assets, and, where applicable, monitors these risks. See Appendix for more information on these risks.

## **Appendix – Policy towards risk**

### **1. Defined Benefit Section**

The Trustee recognise, measure and manage a number of risks involved in the investment of the assets of the Scheme, including but not limited to:

#### **Fiduciary Manager risk**

- is measured by the deviation of the actual portfolio outcomes achieved by the Fiduciary Manager relative to the expected target outcomes
- is managed by the Trustee monitoring the portfolio outcomes achieved by the Fiduciary Manager using independently calculated reporting as well as a wider annual advisor assessment against its pre-agreed objectives.

#### **Investment Manager risk:**

- is measured by the expected deviation of the return relative to the benchmark set.
- is managed by the Fiduciary Manager by monitoring the actual deviation of returns relative to the benchmark and factors supporting the investment managers' investment process.

#### **Liquidity risk:**

- is measured by the level of cash flow required by the Scheme over a specified period.
- is managed by the Scheme's administrator assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy and through the Fiduciary manager holding assets of appropriate liquidity, as per the portfolio guidelines

#### **Interest rate and inflation risk:**

- are measured by comparing the likely movement in the Scheme's liabilities and assets due to movements in inflation and interest rates.
- are managed by holding a buy-in policy with Aviva which provides the cashflows required for the payment of all liabilities covered by the agreement

#### **Political risk:**

- is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention.
- is managed by regular reviews of the actual investments relative to policy and through the level of country diversification within the policy.

#### **Employer risk:**

- is measured by the creditworthiness of the sponsor and the size of the pension liability relative to the financial strength of the sponsor, among other factors.
- is managed by assessing the interaction between the Scheme and the sponsor's business.

#### **Environmental, social and governance (ESG) risks**

- Is measured by the extent to which sustainability factors may have a detrimental impact on the Scheme's ability to meet its long-term objectives
- Is managed by:
  - the Fiduciary Manager embedding sustainability factors into its portfolio construction decision making process and being able to evidence that to the Trustee, supporting its reporting requirements. This includes the Fiduciary Manager reviewing all of the Scheme's 3rd party investment managers' capabilities in voting, engagement and ESG within their investment process.

The Trustee continue to monitor these risks and any other risks that may arise, with the assistance of the Investment Consultant, and may add to this list any new significant risk categories.

These measures do not render the investment policy free of risk. Rather, the measures endeavour to balance the need for risk management and the need to allow the Investment Managers sufficient flexibility to manage the assets in such a way as to achieve the required performance target.

## 2. Defined Contribution Section

The Trustee recognises that, in a defined contribution arrangement, members assume the investment risks. The Trustee further recognise that members are exposed to different types of risk at different stages of their working lifetimes. These risks can be broadly defined as follows:

### **Inflation risk:**

- includes the risk that a member's investment does not provide a return at least in line with inflation, such that purchasing power is not maintained. It is measured by comparing the returns against an appropriate measure of inflation such as the Retail Price Index (RPI).

### **Pension conversion risk:**

- includes the risk that, when close to retirement, a member has not invested the part of their fund that will be used to purchase a pension in those asset classes (principally UK bonds) which provide a partial hedge against annuity rate movements. Only relevant should a member purchase an annuity.

### **Capital risk:**

- includes the risk that the value of the member accounts falls, possibly more than anticipated, resulting in less money for the member to purchase his pension from.

### **Opportunity risk (or poor asset allocation):**

- includes the risk that a member takes insufficient investment risk when they can (such as when they are younger). This also includes the risk that a member is not invested in those asset classes (principally equities) that are expected to yield the highest returns over the long term. This results in a smaller pot of money with which a pension can be purchased.

The Trustee consider that the risk assumed by members in the Defined Contribution Section is managed by offering a range of investment options in which members can choose to invest their accounts and by communicating this investment option range appropriately. The Trustee does not monitor the asset allocation of the membership.

Each member of the DC Section has responsibility for selecting his/her investments from the funds made available by the Trustee and for monitoring the continued suitability of the investments to the member's personal circumstances.

The range of investment options provides various potential mixes across asset classes, reflecting the different requirements of members as they progress towards retirement.