London & Cambridge Properties Pension & Assurance Scheme

Statement of Investment Principles

September 2020

Statement of Investment Principles

This document constitutes the Statement of Investment Principles ('the SIP') required under Section 35 of the Pensions Act 1995 for the London & Cambridge Properties Pension & Assurance Scheme ('the Scheme'). It describes the investment policy being pursued by the Trustees of the Scheme and is in accordance with the Government's voluntary code of conduct for Institutional Investment in the UK ("the Myners Principles"). This SIP also reflects the requirements of Occupational Pension Schemes (Investment) Regulations 2005.

It supersedes any previous SIP and reflects the investment policy agreed by the Trustees in respect of assets covering Defined Benefit liabilities.

The Scheme Actuary is Craig Wootton of XPS Pensions Limited alongside XPS Investment Limited as the investment Adviser to the DB Section (collectively termed 'the Advisers').

The Trustees confirm that, before preparing this SIP, they have consulted with the employer, LCP Management Limited ('the Employer') and the Advisers and have obtained and considered written advice. The Trustees believe the Advisers to be qualified by their ability and practical experience of financial matters and to have appropriate knowledge of the investment arrangements that the Scheme requires.

The Trustees are responsible for the investment of the Scheme's assets and arrange administration of the Scheme. In order to meet the requirements of S36 of the Pensions Act (choosing investments), where they are required to make an investment decision, the Trustees obtain written advice from the Investment Adviser. They consider this to be proper advice as such term is defined Pensions Act 1995 because the Investment Adviser is authorised and regulated by the Financial Conduct Authority.

Given the size of the Scheme, the Trustees have decided the most cost effective way of investing the Scheme assets is to invest through the regulated life insurance company Mobius Life ('the Platform Provider') rather than directly appointing individual investment managers. The Scheme holds a single life policy with the Platform Provider where the value is linked to the value of specific funds selected by the Trustees from time to time. Decisions about which funds to invest in are made after receiving investment advice from an FCA regulated firm. The Scheme currently invests in funds managed by Legal and General Investment Management Ltd, Schroders plc and BMO Financial Group, but funds managed by other managers may in the future become more suitable to implement the strategy detailed in this SIP.

This SIP reflects the current strategy and the Appendices detail the current investments which are intended to implement the strategy. However the Trustees keep their investment strategy under regular review to reflect, amongst other things, changes in the funding position, changes in the strength of the employer covenant, the timing of the liabilities and new investments that may become available. The SIP will be updated to reflect any changes in strategy as soon after implementation as is practical.

Declaration

The Trustees confirm that this Statement of Investment Principles reflects the Investment Strategy they have decided to implement. The Trustees acknowledge that it is their responsibility, with guidance from the Advisers, to ensure the assets of the Scheme are invested in accordance with these Principles.

Signed: . . . . Date: . . . .

Name: . . . .

For and on behalf of the Trustees of the Scheme

Scheme Governance

The Trustees are responsible for the governance and investment of the Scheme's assets. The Trustees consider that the governance structure set out in this SIP is appropriate for the Scheme as it allows the Trustees to make the important decisions on investment policy. Day to day decisions are taken by the managers of the underlying funds and decisions about changes to the underlying funds are taken after considering written advice from the Investment Advisers. The responsibilities of each of the parties involved in the Scheme's governance are detailed in Appendix A.

The Trustees believe that they should be collectively involved in the investment decision–making function and have therefore decided not to appoint an Investment Sub-Committee to deal with investment matters.

Investment objectives

The Trustees' primary investment objective is to ensure that they hold suitable assets to enable them to pay member benefits in full as they fall due. With this in mind, the Trustees have set the following specific objectives:

1. To act in the best interests of the Scheme's members;
2. To adopt an approach that recognises the need to balance risk with the achievement of a satisfactory investment return; and
3. Paying due regard to the Employer's interests in the size and incidence of the Employer's contribution payments and avoiding significant volatility in the Employer contribution rate.

The Trustees will consider the investment objectives and the investment strategy as part of discussing the actuarial valuation methodology and assumptions with the Scheme Actuary, taking into account the Employer covenant and will update the investment objectives and the investment strategy in future if appropriate.

The Trustees have decided to invest the Scheme's assets through the Platform Provider to further meet their investment objectives as set out above. In particular, using the Platform Provider will facilitate transfers between underlying funds and the investment and disinvestment of cash. In some cases annual management fees for funds offered through the Platform Provider are lower than the equivalent underlying funds because of the economies of scale.

Investment Manager Arrangements

Based on the structure set out in Appendix B, the Trustees consider the arrangements with the Investment Managers to be aligned with the Scheme's overall strategic objectives. Details of each specific mandate are set out in agreements and pooled fund documentation with each Investment Manager. The amounts allocated to any individual category or security will be influenced by the overall benchmark and objectives, varied through the Investment Managers' tactical asset allocation preferences at any time, within any scope given to them through the asset allocation set by the Trustees or governing the pooled funds in which the Scheme is invested.

The Trustees will ensure that the Scheme's assets are invested in regulated markets to maximise their security.

Investment Managers are incentivised to perform in line with expectations for their specific mandate as their continued involvement as Investment Managers as part of the Scheme's investment strategy – and hence the fees they receive – are dependent upon them doing so. They are therefore subject to performance monitoring and reviews based on a number of factors linked to the Trustees' expectations.

The Trustees encourage Investment Managers to make decisions in the long-term interests of the Scheme. The Trustees expect engagement with management of the underlying issuers of debt or equity and the exercising of voting rights. This expectation is based on the belief that such engagement can be expected to help Investment Managers to mitigate risk and improve long term returns. The Trustees also require the Investment Managers to take ESG factors and climate change risks into consideration within their decision-making as the Trustees believe these factors could have a material financial impact in the long-term. The Trustees therefore make decisions about the retention of Investment Managers, accordingly.

Asset allocation Strategy

The Trustees have taken the view that the investment objective is best achieved by determining, and investing in accordance with, an appropriate split between "return-seeking" assets (e.g. equities and diversified growth funds) and "matching" assets (e.g. gilts, high quality corporate bonds and LDI funds).

The allocation between the asset classes making up the return-seeking and matching assets will vary over time to reflect, amongst other factors, the profile of the liabilities, the perceived relative value of the different asset classes and the perceived risk to the primary investment objective arising from any shortfall in the funding of the Scheme. The current benchmark and target allocation is set out in Appendix B and any changes in such allocations will only be made after receiving written advice from the Investment Advisers that such allocation remains consistent with the investment objectives.

Due to the size of the fund, the Trustees have decided to use the Platform Provider to invest the Scheme's assets. Changes to the underlying funds or the allocation between underlying funds invested in via the Platform Provider will be made after obtaining written advice from the Investment Advisers. Appendix B will be amended promptly to reflect any such changes.

Rebalancing Policy

The Trustees, in conjunction with the Advisers, will monitor the actual asset allocation of the Scheme on a bi-annual basis via the governance report, and on a more frequent ad-hoc basis. If the actual allocation moves further than -/+10% from the allocation set out in Appendix B , the Trustees will make a decision as to whether to switch assets back to the strategy following consideration of advice.

Rates of Return

The target benchmarks for the underlying funds are detailed in Appendix B. The allocation combined with the expected return of each fund is expected to be sufficient to meet the long term objective.

Diversification

The Trustees have sought to achieve diversification by investing in funds which have investment restrictions i.e. funds which impose concentration limits on individual positions and limits on the exposure to individual issuers. Generally speaking, each asset class would expect to have different issuers and therefore add to the diversification of the Scheme. The diversified fund is intended to provide additional diversification in that it invests across a range of asset classes which are expected to have uncorrelated returns. The Trustees will monitor the strategy regularly to ensure that it is comfortable with the level of diversification.

The Trustees maintain one policy with the Platform Provider instead of holding shares or units in pooled funds. The Scheme is therefore subject to the risk of insolvency of the Platform Provider. Whilst the Trustees have not diversified against this risk, the likelihood of the Platform Provider becoming insolvent has been minimised as far as practical. For example, the Platform Provider is a regulated Life Insurance Company governed by UK Law and is therefore subject to regular scrutiny by the Financial Services Regulators (PRA/FCA) and is not exposed to any general claims risk. Furthermore, the Platform Provider holds Professional Indemnity Insurance to cover the risk of operational risks and fraud.

Suitability

The Trustees have taken advice from the Investment Advisers to ensure that the investments are suitable for the Scheme, given its investment objectives. The Trustees have also obtained advice from the Advisers as to the appropriateness of the investment strategy given the funding position and the strength of the employer covenant.

The Trustees have chosen to hold some of the Scheme's assets in LDI and bond funds (the matching assets) to provide some degree of matching with the Scheme's liabilities. A corporate bond fund has been selected in order to benefit from the higher expected long-term returns over gilts and the Trustees consider the additional credit risk to be consistent with the investment objectives.

The aim of the return-seeking assets is to provide additional expected return above that achieved by the matching assets, consistent with the investment objectives.

Liquidity

All of the non-cash assets are held with the Platform Provider in funds with frequent dealing dates.

Strategy Implementation

The Trustees have decided to implement their investment strategy through investment in funds (via the Platform Provider).

Mandate and Performance Objectives

The Trustees have received advice on the appropriateness and suitability of the Platform Provider and believe this meets the Scheme's investment objectives. Furthermore, the Trustees have received advice in relation to the underlying funds held by the Platform Provider on the Scheme's behalf and believe them to be suitable to meet the Scheme's investment objectives. The benchmark for each fund currently held and its objectives are set out in Appendix B.

Manager Agreement

Since the Scheme is invested with a Platform Provider there is no formal agreement between the Trustees and an individual fund manager relating to investments that might be held in each underlying fund at any time.

Platform Provider

The Trustees have appointed Mobius Life ("the Platform Provider") to administer the Scheme's invested assets. The Platform Provider is authorised by the Prudential Regulatory and regulated by the Financial Conduct Authority. The day-to-day management of the assets have been delegated to the Platform Provider via a written agreement, subject to relevant restrictions and in line with the benchmarks outlined in Appendix B.

Custody

Custody of the underlying assets is at the discretion of the Platform Provider; units in the funds are held in book form only. Cash is held securely in separate accounts with approved counterparties.

Monitoring

Underlying Funds

The Trustees maintain one policy with the Platform Provider. The Platform Provider links the value of the policy to specific funds chosen by the Trustees from time to time, following receipt of advice from the Investment Advisor. The Trustees will monitor the performance of the funds against their stated performance objectives.

The Trustees, or the Advisers on behalf of the Trustees, will review regularly the performance of the funds to satisfy themselves that the funds remain suitable.

If the Trustees are not satisfied with the performance of the funds they will ask the manager of those funds what steps they intend to take to rectify the situation. If the funds still do not meet the Trustees' requirements, they will look to purchase other funds - potentially with a different manager - after consultation with the Investment Adviser.

Evaluation of asset manager's performance and remuneration

The Trustees receive semi-annual performance monitoring reports from the Investment Adviser which consider performance over the 6 month, one and three year periods. In addition, any significant changes relating to the criteria below that the Investment Adviser is aware of will be highlighted, which may lead to a change in the Investment Adviser's rating for a particular mandate. These ratings help to determine an Investment Manager's ongoing role in implementing the investment strategy. If there are concerns, the Trustees may carry out a more in-depth review of a particular Investment Manager. Investment Managers will also attend Trustees meetings as requested.

Appointments of Investment Managers are expected to be long-term, but the Trustees will review the appointment of the Investment Manager in accordance with their responsibilities. Such reviews will include analysis of each Investment Manager's performance and processes and an assessment of the diversification of the assets held by the Investment Manager. The review will include consideration of the continued appropriateness of the mandate given to the Investment Manager within the framework of the Trustees' investment policies.

Fund manager remuneration is considered as part of the manager selection process. It is also monitored regularly with the help of the Investment Adviser to ensure it is in line with the Trustees' policies and with fee levels deemed by the Investment Adviser to be appropriate for the particular asset class and fund type.

The Investment Adviser has also carried out a review of how well ESG factors are incorporated into each Investment Manager's processes and the Trustees will re-assess progress on ESG issues periodically.

Platform Provider

The Trustees together with the Investment Advisers keep the credit rating and solvency ratios of the platform provider under regular review as well as the choice of funds on the platform.

SIP

The Trustees will review this SIP triennially or following any significant changes in the Scheme and modify it if deemed appropriate, in consultation with the Advisers. There will be no obligation to change this SIP or any Investment Manager or Adviser as part of such a review.

Advisers

The Trustees will monitor the advice given by their appointed advisers on a regular basis and will assess their performance on the basis of their ability to explain the expected return on investments, how the investments will help the Trustees meet their investment objectives and the risks that will impact on such return.

Trustees

The Trustees monitor all the decisions they take by maintaining a record of all decisions taken, together with the rationale in each case.

Fees

Underlying Funds

The current fee basis for each of the funds is set out in Appendix B. The Trustees will ensure that the investment management fees paid to the Investment Managers are in line with industry standards.

Platform Provider

The charge for the Platform Provider is 0.035% of the Scheme's invested assets per annum. This charge is included in the investment management fees summarised in Appendix B

Advisers

Fees paid to the Advisers are based either on actual time spent and hourly rates for relevant individuals, or on fixed fees agreed in advance for specifically defined projects.

Custodian

There is no custodian appointed directly by the Trustees.

Trustees

None of the Trustees is paid directly for their duties. Their expenses are met and they are given time off from their other employment duties to attend the periodic Trustees' meetings.

Risks

The Trustees recognise a number of risks involved in the investment of assets of the Scheme.

The Trustees are seeking to produce a high and consistent overall investment return subject to the over-riding objectives noted in Section 3. "Risk" is defined for the purposes of this SIP as the probability that these objectives are not met.

The Trustees recognise that there are a number of elements to this risk involved in the investment of assets of the Scheme. These and how they are measured and managed include:

- Funding and Asset/liability mismatch risk – addressed through the asset allocation strategy and through regular actuarial and investment reviews and the funding target. Much of the Scheme's liabilities are linked to inflation and the Trustees hold inflation-linked assets to reduce this risk.
- Underperformance risk – monitoring closely the performance of the Managers and taking necessary action when this is not satisfactory, and by use of more than one manager to avoid overexposure to one organisation.
- Country risk – the risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across several countries.
- Risk of inadequate diversification or inappropriate investment – investing in a diversified portfolio of assets thereby avoiding concentration of assets in one particular stock or sector. The Trustees' agreements with the Managers contain a series of restrictions to limit the risks from each individual investment and prevent unsuitable investment activity.
- Default risk – addressed through the restrictions for the Managers, in particular sterling corporate bonds are managed using a diversified portfolio of investment grade bonds.
- Organisational risk – addressed through regular monitoring of the Managers and Advisers.
- Sponsor risk – the risk of the Employer ceasing to exist, which for reasons of prudence, the Trustees have taken into account when setting the asset allocation strategy.
- Liquidity risk – investing in assets which are realisable at short notice.
- Insurance risk – the risk that any insurance contract fails to deliver the expected benefits to pensioner members is managed by acquiring insurance contracts with insurers with a strong credit rating and monitoring that credit rating over time.
- Credit risk – the risk that the platform provider fails is managed by using an insurer with no general insurance risks and by monitoring the credit rating of the platform provider.
- The Risk of the Platform Provider becoming insolvent.

The Trustees will keep these risks and how they are measured and managed under regular review.

Other Issues

Statutory Funding Requirement

The Trustees will obtain and consider proper advice on the question of whether the investments are satisfactory having regard to both the investment objectives and the requirement to meet statutory funding requirements. The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation every three years.

The Trustees will consider with the Advisers whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the statutory funding requirement.

Corporate Governance

The Trustees have considered corporate governance issues and have agreed that they will have no specific policy in place. The Platform Provider carries out ongoing due diligence on all fund links as part of its overall governance responsibilities. The Trustees have chosen to utilise the Platform Provider, in part, due to the reduction in corporate governance requirements.

Responsible investment and Environmental, Social and Governance ("ESG")

The Trustees have considered their approach to environmental, social and corporate governance ("ESG") factors for the long term time horizon of the Scheme and believe there can be financially material risks relating to them. The Trustees have delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Scheme's Investment Managers. The Trustees require the Scheme's Investment Managers to take ESG and climate change risks into consideration within their decision-making, in relation to the selection, retention or realisation of investments, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest.

The Trustees will seek advice from the Investment Adviser on the extent to which their views on ESG and climate change risks may be taken into account in any future Investment Manager selection exercises. Furthermore, the Trustees, with the assistance of the Investment Adviser, will monitor the processes and operational behaviour of the Investment Managers from time to time, to ensure they remain appropriate and in line with the Trustees' requirements as set out in this Statement.

Voting Rights

As the Scheme holds a life policy with the Platform Provider it has no control over the exercise of voting rights attributable to assets held within the policy. Therefore, the responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments must be delegated to the Investment Managers.

The Trustees encourage them to engage with investee companies and vote whenever it is practical to do so on financially material matters such as strategy, capital structure, conflicts of interest policies, risks, social and environmental impact and corporate governance as part of their decision-making processes. The Trustees require the Investment Managers to report on significant votes made on behalf of the Trustees.

If the Trustees become aware of an Investment Manager engaging with the underlying issuers of debt or equity in ways that they deem inadequate or that the results of such engagement are mis-aligned with the Trustees' expectation and the investment mandate guidelines provided, then the Trustees may consider terminating the relationship with that Investment Manager.

Portfolio turnover

The Trustees require the Investment Managers to report on actual portfolio turnover at least annually, including details of the costs associated with turnover, how turnover compares with the range that the Investment Manager expects and the reasons for any divergence.

Appendix A - Responsibilities

Trustees

The Trustees of the Scheme are responsible for, amongst other things:

- Determining the investment objectives of the Scheme and reviewing these from time to time.
- Agreeing an investment strategy designed to meet the investment objectives of the Scheme.
- Reviewing triennially the content of this SIP and modifying it if deemed appropriate, in consultation with the Advisers.
- Reviewing the suitability of the investment policy following the results of each actuarial or investment review, in consultation with the Advisers.
- Assessing the quality of the performance and process of the underlying funds by means of regular reviews of the investment results and other information, by way of meetings and written reports, in consultation with the Advisers.
- Selecting underlying funds which are consistent with the investment strategy after consultation with the Advisers.
- Assessing the ongoing effectiveness of the Advisers.
- Consulting with the Employer when reviewing investment policy issues.
- Monitoring compliance of the investment arrangements with this SIP on an ongoing basis.
- Informing the Advisers of any changes to Scheme benefits, significant changes in membership.
- Monitoring the risks associated with utilising a platform provider

Platform Provider

The platform provider's responsibilities include:

- Performing due diligence on the funds such that they do not create undue risks to the solvency of the insurer or the integrity of the Platform.
- Maintaining adequate solvency ratios so as to minimise the risk of insolvency.
- Ensuring funds are managed in line with the mandate and investment restrictions are adhered to.
- The safekeeping of all the assets of the Scheme held on the platform.
- Processing the settlement of all transactions.
- Undertaking all appropriate administration of the Scheme's assets.
- Processing all dividends and tax reclaims in a timely manner.
- Dealing with corporate actions.
- Providing access to a range of appropriate underlying funds.

Investment Adviser

The Investment Adviser will be responsible for, amongst other things:

- Participating with the Trustees in reviews of this SIP.
- Advising the Trustees how any changes within the Scheme's benefits, membership and funding position may affect the manner in which the assets should be invested.
- Advising the Trustees of any changes in the underlying funds or the Platform Provider that could affect the interests of the Scheme.
- Undertaking reviews of the Scheme's investment arrangements including reviews of the asset allocation policy and current underlying funds and advising on the selection of new funds if so requested.
- Advising the Trustees ahead of any new investment or disinvestment decisions.
- Providing the Trustees with access to an online portal to provide the Trustees with information on all investments held with the Platform Provider

Scheme Actuary

The Scheme Actuary will be responsible for, amongst other things:

- Liaising with the Investment Adviser on the suitability of the Scheme's investment strategy.
- Performing the triennial (or more frequently as required) valuations and advising on the appropriate contribution levels.
- Commenting on the appropriateness of the investment strategy relative to the liabilities of the Scheme at the triennial valuations.
- Advising the Trustees of any changes to contribution levels and funding level.

Appendix B – Mandates, Performance Objectives and Fees

The Trustees have chosen to invest in funds available from three Investment Managers via the Platfrom: Legal & General Investment Management ('LGIM'), Schroders plc ("Schroders") and BMO Financial Group ("BMO"), to manage the assets of the Scheme. The Platform Provider creates pools of assets with the life policy which are managed in line with the mandates set out below.

The overall mandates for the underlying funds are as follows:

Overall strategy

The investment strategy of the Scheme is summarised in the table below.

Fund	Benchmark/ target return	Benchmark Allocation (%)	Tolerance range (+/-10%)	Total Expense Ratio including Mobius Life charge
Return-Seeking assets		60.00	54-66	
LGIM World (Ex-UK) Equity Index Fund (GBP hedged)	Track growth of FTSE World Index	10.00	9-11	0.135% pa
LGIM World (ex-UK) Equity Index Fund	Track growth of FTSE World Index	10.00	9-11	0.115% pa
LGIM UK Equity Index Fund	Track growth of FTSE All-Share Index	5.00	4.5-5.5	0.065% pa
LGIM Dynamic Diversified Fund	BoE Base Rate +4.5% pa	35.00	31.5-38.5	0.395% pa
Matching assets		40.00	36-44	
Schroders Long Dated Corporate Bond Fund series 1	ML over 15yr Non-Gilts +0.75% pa	15.00	13.5-16.5	0.305% pa
BMO Regular Profile Nominal Dynamic LDI Fund		11.15		0.351% pa
BMO Short Profile Real Dynamic LDI Fund		13.85		0.349% pa

Regular disinvestment policy

The Trustees will consult with the Investment Adviser regarding the source of disinvestments. These disinvestments will be made inline with the benchmark allocation to keep fund within the stated +/- 10% tolerance range. All of the invested funds may be used as a source of disinvestment; however, this is constrained by minimum disinvestment amounts for the BMO LDI funds and therefore these funds do not fall under the disinvestment policy for the Scheme.

Liability hedging

This strategy was implemented with an expectation to achieve liability hedging against interest and inflation rate expectations changing in the future. The strategy was initially designed to achieve liability hedging of:

- 78% of the interest rate risk, as a proportion of the Scheme's total liabilities, as assessed against the current technical provisions basis.
- 78% of the inflation risk as a proportion of the Scheme's total liabilities, as assessed against the current technical provisions basis.

The amount of hedging achieved may vary over time for a number of reasons. One of the key variations in the hedge level will come from investments or disinvestments being made to or from the Schroders Long Dated Corporate Bond Fund. The level of hedging will also be impacted if the assumptions used in the actuarial valuation are changed or not born out in practise.

Registration

XPS Pensions Consulting Limited, Registered No. 2459442. XPS Investment Limited, Registered No. 6242672. XPS Pensions Limited, Registered No. 3842603. XPS Administration Limited, Registered No. 9428346. XPS Pensions (RL) Limited, Registered No. 5817049.

All registered at: Phoenix House, 1 Station Hill, Reading RG1 1NB.

Authorisation

XPS Investment Limited is authorised and regulated by the Financial Conduct Authority for investment and general insurance business (FCA Register No. 528774).

This communication should not be relied upon for detailed advice or taken as an authoritative statement of the law.

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