

October 2010



# THE CHEVIOT TRUST

*Pensions for the legal sector*

STATEMENT OF INVESTMENT PRINCIPLES

For

THE FINAL SALARY SCHEMES

OF

THE CHEVIOT TRUST

October 2010

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## 1. INTRODUCTION

- 1.1 The following is the written Statement of Investment Principles (SIP) applicable to each final salary scheme of The Cheviot Trust (collectively referred to as “the Schemes”) as required under the Pensions Act 1995 as amended by the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005. It is also in compliance with the recommendations of the Myners’ Principles for Institutional Investment and reflects the requirements of the Occupational Pension Schemes (Investment) Regulations 2005.
- 1.2 Cheviot Trustees Limited, as trustee (the “**Trustee Board**”) confirms that before finalising this statement it has consulted with the sponsoring employer of each scheme and obtained and considered written advice from the Scheme Actuary and the Investment Adviser (“the Advisers”). The Trustee Board believes the Advisers to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of investment arrangements such as the Schemes.
- 1.3 Each scheme is sponsored by an individual employer and has differing benefit structures and funding positions. This statement sets out the broad principles under which the Trustee Board sets the investment strategy for the Schemes. The strategy is adapted to the specific circumstances of each scheme, after consultation with the relevant employer.
- 1.4 Administration of the Schemes is arranged by the Trustee Board, which is responsible for the investment of each scheme’s assets. Where it is required to make an investment decision, the Trustee Board always receives written advice from the relevant Advisers and it believes that this ensures that it is appropriately familiar with the issues concerned.
- 1.5 In accordance with the Financial Services & Markets Act 2000 (“the FSMA”), the Trustee Board sets each scheme’s general investment policy, but has delegated the day-to-day investment of the Schemes’ assets to professional Investment Managers. The Investment Managers are authorised under the FSMA and provide the expertise necessary to manage the investments of the Schemes competently.
- 1.6 Specific roles and responsibilities have been agreed with all professional Advisers and Investment Managers. These are set out in Appendix A for the Investment Adviser, Investment Managers and the Scheme Actuary as well as the Trustee Board. In all cases, roles and responsibilities are reflected in formal agreements with each party.
- 1.7 The Schemes’ investments are held and invested through the Common Investment Fund of the final salary schemes of the Cheviot Trust, the provisions relating to which are contained in the Trust Deed governing the Cheviot Trust.

## 2. INVESTMENT OBJECTIVES

2.1 The Trustee Board is responsible for the proper and secure investment of the Schemes' assets with the primary objectives of the Trustee Board being:

- i. To ensure that funds will be available to secure members' benefits as they fall due;
- ii. To obtain a rate of return in excess of the return available on government securities that broadly match the term and nature of each scheme's future benefit payments with an acceptable level of risk for each scheme, and
- iii. To protect the funding level<sup>1</sup> of each scheme against adverse movements in the value of assets and liabilities on account of changes in interest rates and price inflation when practical and cost effective in the context of each scheme.

2.2 Each scheme is a defined benefit scheme under which the members' benefits depend on their age, salary, period of membership and the scheme's benefit structure. The nature of these liabilities varies between different classes of member (active members, deferred pensioners and current pensioners) and in forming their investment strategy for each scheme, the Trustee Board will obtain and consider advice on the most appropriate strategy in light of the Trustee Board's primary objectives.

2.3 The Trustee Board will obtain and consider advice on the allowance to be made within each scheme's investment strategy for the effect of the Statutory Funding Objective requirements detailed in the Pensions Act 2004, in particular when deciding on the proportion to be invested in each of the Funds described below.

## 3. FUNDING AND INVESTMENT PRINCIPLES

3.1 In pursuing the objectives set out in the previous section, the Trustee Board has developed (with advice from the Advisers) a set of principles for investment. These principles aim to balance for each scheme:

- the desire to achieve diversification in investment terms
- the strength of the relevant employer's covenant and its ability to withstand funding volatility, and
- the maturity of the liabilities.

Where matters described in this Statement may affect the scheme's funding policy, input has been obtained from the Scheme Actuary.

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<sup>1</sup> Funding level is the ratio of asset values to liability values as measured using each Scheme's funding basis

3.2 The investment strategy for each scheme is considered by reference to:

- the size of the scheme;
- the size of any deficit in relation to the size of the sponsoring employer;
- the strength of the employer's covenant.

Schemes are broadly categorised as follows:

**Category A** where the scheme and deficit is generally modest in relation to the strength of the employer covenant

**Category B** where the scheme and deficit is more significant in relation to the strength of the employer covenant.

A scheme's categorisation may also be affected by the employer's stated objective for the scheme.

**Category A schemes:**

*a. All pensions, once they come into payment, will be valued on either a gilts basis or the relevant swaps basis, depending on whether the scheme is participating in the liability hedge.*

*b. For members who have not yet retired, benefits will be valued on either a gilts or swaps basis for the period when they are assumed to be in payment and discounted over the period from retirement to the valuation date on a gilts or swaps plus risk basis. However, for the five years prior to retirement, the discount rate is phased from the pre-retirement rate to the post-retirement rate.*

*c. An allowance for future ongoing scheme expenses (i.e. administration and professional fees, any death-in-service insurance premiums and the PPF levy) will be made when calculating the contributions due from the employer.*

The risk basis assumes a prudent return of 2% per year above the yield on gilts or swaps for the period before retirement.

This approach is based on the twin premise that the Trustee Board will usually be content for the risks in such schemes to be managed through an appropriate investment strategy, agreed between the Trustee Board and the employer and that the employer will normally prefer this approach to incurring the costs of buying out the benefits.

**Category B Schemes:**

*a. Schemes that are targeting a specific date on which they intend to buyout their liabilities will be valued for all members on a buyout basis at the valuation date.*

For schemes without a specific target date:

- b. *All pensions, once they come into payment, will be valued on a buyout basis using buyout terms estimated by the Scheme Actuary at the valuation date.*
- c. *For members who have not yet retired, benefits will be valued on a buyout basis for the period when they are assumed to be in payment and discounted over the period from retirement to the valuation date on a gilts or swaps plus risk basis. However, for the five years prior to retirement, the discount rate is phased from the pre-retirement rate to the post-retirement rate.*
- d. *An allowance for future ongoing scheme expenses (i.e. administration and professional fees, any death-in-service insurance premiums and the PPF levy) will be made when calculating the contributions due from the employer.*
- e. *An allowance for the expected expenses relating to the wind-up of the scheme will be made.*

The risk basis assumes a prudent return of 2% per year above the yield on gilts or swaps for the period before retirement.

This approach is based on the twin premise that the Trustee Board will usually want the risks in such schemes to be covered by buying out the liabilities with an insurer and that the employer will normally prefer to remove their pension liabilities in this way when possible. “Buyout” in this context therefore means the purchase cost estimated by the Scheme Actuary, at the time of the valuation, of a traditional bulk immediate annuity contract with a UK life insurer which removes all liabilities from the scheme. It should be noted that the purchase costs often differ significantly between pensioners and deferred pensioners. Consequently, the Trustee Board’s approach is to provide a structured financial plan that targets funding on the above basis within a reasonable timescale.

3.3 Investment strategy is defined in the context of the funding principles set out above as far as possible. The key principles in this strategy are as follows:

- An Investment Fund/Matching Fund structure is adopted for the management of asset allocation in the context of the above principles. The objective of the Investment Fund will be to outperform a portfolio of gilts by 2.5% per annum net of investment management fees. The objective of the Matching Fund is to provide assets moving in line with the relevant liabilities. This may include investing in swaps to provide a hedge against movements in the cost of providing the benefits as a result of movements in interest rates or inflation expectations;
- The Trustee Board may, after consultation with the Employer, decide to invest part or all of a scheme’s investments in insured annuities to meet the relevant liabilities for pensions in payment or deferred pensioners or both. In these circumstances the strategic allocation to the Matching Fund will be adjusted accordingly as recommended by the Investment Adviser;

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- The strategic allocation to the Investment and Matching Funds is reviewed as part of each triennial valuation. The allocation is determined using the following principles which are designed to facilitate the reduction of investment risk as the liabilities mature;
  - For retired members the appropriate investment corresponding to the value of liabilities is the Matching Fund;
  - For the liabilities in respect of members more than five years from retirement, being invested entirely in the Investment Fund represents an acceptable level of risk;
  - For members in the five years before retirement, assets are balanced between the Investment Fund and the Matching Fund thus reducing the level of risk as members approach retirement;
- The Matching Fund will be invested in gilts or cash as appropriate, either on a standalone basis or to facilitate the implementation of a pooled liability hedge;
- The Investment Adviser provides advice on this allocation based on information received from the Scheme Actuary as part of the actuarial valuation process. The relevant allocation for each scheme is shown in a scheme specific Appendix C to this Statement of Investment Principles;
- The Investment Adviser advises on the rebalancing process and the asset allocation of the Investment Fund (i.e. split between equities and other asset classes). Rebalancing would normally occur at least once a year unless market conditions are such that the Investment Adviser advises against rebalancing. Rebalancing to the strategic allocation occurs one way only – when the Investment Fund allocation increases, the assets are rebalanced to the strategic allocation. If the Investment Fund is underweight, rebalancing does not occur, as this would involve disinvesting assets currently backing the retired members and liabilities backing members within 5 years of retirement (and as such increase investment risk);
- The Scheme Actuary advises on the structure of the Matching Fund in the context of the post-retirement liabilities (as the key driver of this is the nature of the liabilities, e.g. fixed versus inflation linked);
- In normal circumstances, investments will only be realised from the Matching Fund or the Investment Fund when it is not possible to meet expenditure out of income.

**3.4** The Trustee Board will appoint one or more Investment Managers to act within the terms of the Investment Management Agreement (or similar relevant document) established for each Manager by the Trustee Board and in accordance with the Investment Objectives set out below. The Investment Managers will act within the

terms of an Investment Management Agreement or similar equivalent contract (which will reflect the Investment Objectives and the investment powers of the Trustee Board).

3.5 The Trustee Board will monitor the performance of the Investment Managers against the agreed Investment Performance Objectives with the Advisers as required. This process will focus principally on the Investment Managers’ performance relative to the Investment Performance Objectives as measured over successive periods of three years. Significant under-performance by this measure for a period of two years may result in a formal review of the relevant Investment Manager’s appointment.

**4. INVESTMENT MANAGEMENT**

**4.1 Strategy Implementation – Investment Fund**

Having considered advice from the Advisers, and also having due consideration for the objectives and attitude to risk of the Trustee Board, the sponsoring employers and the liabilities of each of the schemes, the Trustee Board agreed the following structure for the Investment Fund in September 2010. All asset classes are actively managed. The Trustee Board may in exceptional circumstances agree a different approach in respect of any specific scheme after consultation with the relevant employer.

Asset Class		Style	Strategic Allocation
Global Equity	} 35%	Active	15.75%
Global Equity		Active	14%
Emerging Market Equity		Active	5.25%
Broad Bonds <sup>2</sup>	30%	Active	30%
Dynamic Asset Allocation <sup>3</sup>	35%	Active	35%

The objective of this structure is to provide diversification to produce smoother returns over the long run than holding wholly equities, but without reducing expected longer term returns.

The equity allocation has been designed on the basis of the following factors:

- A desire to gain access to growth in global equity markets, including emerging markets

<sup>2</sup> Broad Bonds describes an investment mandate seeking to make reasonable long term returns through the management of a wide range of bond classes. This may include government bonds, investment grade corporate bonds, high yielding (low grade) corporate bonds, emerging market debt and other bond types. The investment manager will rotate through these bond types depending on their view of the prevailing market conditions.

<sup>3</sup> Dynamic Asset Allocation is an investment mandate seeking to make long term returns consistent with equities, but with lower risk. The manager can move into other asset classes when the outlook for equities is less attractive. It uses a wide range of asset classes – equities, government bonds, high yield bonds, commodities, property and other alternatives.

- The need for a simple, cost effective governance structure
- The need to manage currency risk
- The desire to use active management where appropriate and in particular for the emerging market allocation

The allocation between the asset classes will be managed over time in light of market conditions within the following ranges.

Asset Class	Minimum (%)	Central (%)	Maximum (%)
Equity	20	35	50
Broad Bonds	15	30	40
Dynamic Asset Allocation	20	35	50

Details of the current allocation can be obtained by contacting the Chief Executive’s Office at The Cheviot Trust.

#### 4.2 Strategy Implementation – Matching Fund

The Matching Fund will be invested in either gilts or in a liability hedge comprising leveraged pooled funds<sup>4</sup> and gilts, following discussion between the Employer and the Trustee Board. The Trustee Board’s strong preference is for each scheme to be invested in the liability hedge unless there are particular reasons why it is not appropriate.

The liability hedge will be invested in gilts or cash and swaps which broadly replicate the interest rate and inflation risk profile of each scheme. The liability hedge will generally cover the value of liabilities equal to the value of each scheme’s assets but may, after consultation with the relevant employer, be in respect of the total value of a scheme’s liabilities. The liability hedge will be tailored for each scheme by investing its Matching Fund in different pooled funds covering inflation swaps and interest rate swaps at specific durations, which reflect the nature of each scheme’s liabilities.

The Trustee Board will seek to implement the liability hedge by aggregating the requirements of the Schemes as far as possible in order to reduce on-going management and implementation costs whilst protecting against cross subsidy between schemes as far as possible. The structure of the liability hedge will be reviewed annually.

#### 4.3 Rates of Return

The expected real rate of return will be dependent upon the asset allocation strategy for each scheme.

#### 4.4 Diversification

The investment strategy is designed to ensure that the Schemes’ investments can be

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<sup>6</sup> Leveraged to provide more swap coverage than just the assets invested

adequately diversified and liquid. The Trustee Board monitors the strategy regularly to ensure that it is comfortable with the level of diversification being achieved.

#### 4.5 Suitability

The Trustee Board has taken advice from the Advisers to ensure that the asset classes available are suitable. This suitability is viewed on a stand alone basis and also as building blocks to be used in constructing scheme-specific Investment Strategies.

#### 4.6 Investment Management

The Trustee Board appoints investment managers to manage the assets. The objectives for the current managers at October 2010 are set out in the table below:

Asset Class	Fund	Out-performance Objective (% pa)	Benchmark
Global Equity	Invesco Perpetual Total Return Global Equity	4	3 Month UK LIBOR
Global Equity	Ironbridge Global Focus	3.5	MSCI World
Emerging Market Equity	Skagen Kon-Tiki	0 <sup>5</sup>	MSCI Emerging Markets
Broad Bonds	Pioneer UK LIBOR Plus	4	3 Month UK LIBOR
Broad Bonds	Pioneer Credit Opportunities	4	3 Month UK LIBOR <sup>6</sup>
Dynamic Asset Allocation	PIMCO UK All Asset	4	3 Month UK LIBOR
Government Bonds	LGIM Index-Linked Bond	0.75	FTSE Index-Linked>5 yrs
Government Bonds	LGIM Fixed Interest – Over 15 Year	0.6	FTSE Fixed Interest Gilts > 15 Yr
Leveraged pooled funds	F&C Leveraged Funds <sup>7</sup>	0	<sup>8</sup> TBC

The managers appointed will vary time to time. A list of the current managers is available from the Chief Executive's Office at The Cheviot Trust on request.

#### 4.7 Realisation of Assets

The assets are held in pooled funds, which can be realised easily if the Trustee Board so requires.

<sup>5</sup> The objective of the fund is to perform in line with the objective, in practice we expect the managers to outperform the index.

<sup>7</sup> In the process of being appointed

<sup>8</sup> Helen to provide wording

#### 4.8 Custody

As the assets of the Schemes are held in pooled funds, the responsibility for arranging the custody of the assets lies with the Managers. The Trustee Board has reviewed in detail the arrangements employed by its Investment Managers for the custody and security of assets, and has ensured that this is, as far as possible, reflected contractually. The Trustee Board continues to keep this under regular review.

If the assets are not held in a pooled fund, the Trustee Board will make appropriate arrangements for the custody of the investments of the Schemes and these arrangements will be governed by a Custody Agreement agreed by the Trustee Board.

### 5. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Each scheme provides a facility for members to pay AVCs for investment in the Money Purchase Scheme of The Cheviot Trust to enhance their benefits at retirement. The SIP for the Money Purchase Scheme is available on request.

**Comment [SS1]:** Need to add wording to reflect future schemes such as Rowley Ashworth.

### 6. SOCIALLY RESPONSIBLE INVESTMENT AND EXERCISE OF VOTING RIGHTS

6.1 Where the underlying investments of the Schemes are held directly, the Trustee Board will consider and may implement a formal policy regarding the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments and of the policy adopted in relation to the exercise of rights (including voting rights) attaching to investments. If so implemented, then the Managers will be required to act in accordance with these policies as a term of the Investment Management Agreement, to the extent that additional action is required by such a policy.

6.2 Alternatively the Trustee Board may decide to invest in common investment funds in which the Schemes' investments are pooled with those of other investors. As such, direct control of the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments and of the policy adopted in relation to the exercise of rights (including voting rights) attaching to investments lies with the bodies which control the policy of those common investment funds.

6.3 In this event, the Trustee Board will consider the policy in respect of these areas of any investment fund in which the Schemes' assets may be, or are, invested as a part of its process of appointing, or reviewing the continuing appointment of the Investment Manager concerned. The Trustee Board will not, however, adopt a formal policy.

## 7. RISKS

The Trustee Board recognises a number of risks involved in the investment of assets of each scheme. These risks, 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. In particular;
  - Use of a liability related (gilts or swaps based) benchmark as a proxy for the liabilities in order to measure the performance of the investments relative to broad changes in the liabilities (due to changes to the relevant gilt or swap yields only).
  - Use of a liability hedge to provide some protection against volatility in the costs of providing benefits although the pooled vehicle will not provide an exact match for the liabilities.
  - The Trustee Board also recognises the risk of a negative impact on the funding level from changes to the actuarial assumptions used to calculate the liabilities and experience variation.
  - When setting and reviewing investment strategy, the Trustee Board examines how the investment strategy impacts on risk.
- The risk that if interest rates rise or inflation falls the pooled liability hedging funds will be required to make a payment to the swap counterparties. If this becomes a material amount, then some of the Investment Fund assets may have to be sold to ensure there is sufficient cash in the Matching Fund assets to meet any further required payments and to avoid de-leveraging or closure of the swap positions. In these circumstances, even though a scheme has had to reduce its Investment Fund allocation, the value of hedged liabilities should also have fallen by a similar amount.
- To the extent that there is a funding shortfall, the value of any liabilities in excess of the value of each scheme's assets will not be covered by the liability hedge. In some cases, the full cost of the liabilities may be hedged. The risk of a shortfall will be reflected in the way in which any deficit contributions are allocated between the Investment and Matching Funds.
- Risk of inadequate diversification or inappropriate investment – the risk of an adverse influence on investment values from concentration of holdings is reduced by diversification of the assets, achieved through the asset allocation strategy and by setting restrictions on concentration placed on the Managers.

- Country risk – the risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across many countries.
- Default risk – addressed through the restrictions placed on the Managers, in particular any investment in corporate bonds is managed through a well diversified portfolio.
- Organisational risk – addressed through regular monitoring of the Manager(s) and Advisers.
- Sponsor risk – the risk of the employer ceasing to exist is assessed by external advisers and, for reasons of prudence, has been taken into account when setting the asset allocation strategy.
- Cash flow risk - addressed through monitoring cash flow requirements to control the timing of any disinvestments of assets.
- The Trustee Board has recognised and addressed these risks as far as possible in respect of each scheme in the investment strategy for the Investment and Matching Funds. The Trustee Board will keep these risks under regular review.

## **8. MONITORING**

### **Investment Managers**

- 8.1 The Investment Committee of the Trustee Board will be responsible for monitoring the performance of the Managers against the agreed performance objectives and will report regularly back to the Trustee Board.
- 8.2 The Investment Committee holds regular meetings with the Managers to satisfy itself that the Managers are carrying out their work competently and have the appropriate knowledge and experience to manage the assets of the Schemes.
- 8.3 The Trustee Board will regularly obtain and consider proper advice on whether the Schemes' investment arrangements continue to be satisfactory or whether any changes are necessary having regard to this statement and the Investment and Funding Objectives.

### **Advisers**

- 8.4 The Trustee Board will monitor the performance of the Advisers on a regular basis.

### **Other**

- 8.5 The Trustee Board will regularly review this statement (at least annually) and will obtain proper advice before any changes to the investment arrangements are implemented. There will be no obligation to change this SIP or any Adviser as part of

such a review.

## **9. PROFESSIONAL FEES**

- 9.1** Professional fees are charged in relation to the services received. For Investment Managers, these are calculated as a percentage of assets under management in line with the industry standard for such fees. In some cases, where appropriate, the Investment Managers may be rewarded on a performance related basis.
- 9.2** Fees payable to the Investment Adviser have been agreed on a fixed fee basis related in part to the value of the assets under management. Other professional fees are based either on actual time spent and hourly rates for relevant individuals, or on fixed fees agreed in advance for specifically defined projects. The Trustee Board considers that this structure effectively balances the desire for quality advice with the need to manage the overall cost of advice.
- 9.3** Professional fees are reviewed periodically in the context of value received from advisers and Investment Managers. These reviews also cover Custodian and performance measurement charges, where used. Such a review considers both the level and structure of fees paid.

## **10. LEGISLATIVE REQUIREMENTS**

- 10.1** The Trustee Board's policy complies with the Pensions Act 1995 as amended by the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005.
- 10.2** The Trustee Board's policy about:
- the kinds of investments to be held is set out in part 4;
  - the balance between different kinds of investments is set out in part 3.2 and part 4;
  - risk is set out in parts 2.1, part 3 and part 7;
  - the expected return of investments is set out in part 4.6;
  - the realisation of investments is set out in part 4.7; and
  - the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments is set out in part 6.
- 10.3** The Statement of Investment Principles also reflects the requirements of the Occupational Pension Schemes (Investment) Regulations 2005 and addresses the

Myners Principles (part 11).

## **11. RESPONSE TO MYNERS REVIEW**

- 11.1** The Trustee Board intends that in making investment arrangements, its decisions should follow best practice principles. The Trustee Board has accordingly considered the recommendations in the Myners Report (the most authoritative review of institutional investment practices) and any subsequent revisions to the principles set out in the report.
- 11.2** The Trustee Board has summarised its approach to each of the main principles identified in the Myners Report (as amended). The approach to each principle is reviewed regularly as part of the wider monitoring process.

## **APPENDIX A ROLES & RESPONSIBILITIES**

### **The Trustee Board**

The Trustee Board is responsible for:

1. reviewing from time to time (at least annually) the content of the SIP and for modifying it if deemed appropriate, in consultation with the Investment Advisers and Scheme Actuary;
2. reviewing the suitability of the investment policy following the results of each actuarial review in conjunction with the Investment Adviser and Scheme Actuary;
3. allocating assets and cash flow between the Investment Managers;
4. appointing, monitoring and dismissing, if appropriate, the Investment Managers;
5. appointing and monitoring the Custodian(s) (where applicable);
6. consulting with the relevant employers when reviewing investment policy issues;
7. monitoring compliance of the investment arrangements with the SIP on an ongoing basis, and
8. monitoring the ongoing suitability and effectiveness of any investment adviser employed.

### **The Investment Committee**

The Investment Committee, on behalf of the Trustee Board, is responsible for:

1. considering strategic issues in detail before they are presented to the Trustee Board and making recommendations;
2. executing policy decisions made by the Trustee Board, whether monitoring, selection and appointment of providers, or changing asset allocation within the agreed ranges, subject to advice;
3. taking responsibility for the review of the SIP to ensure it is consistent with the relevant investment strategy and finalising it after consultation with the employers;
4. taking decisions about the level of the hedge in conjunction with the Investment Adviser and Scheme Actuary;

5. reviewing and revising as necessary the SIP applicable to each scheme, subject to consultation with employers;
6. taking any other decisions in relation to investment that it considers appropriate save that any strategic decision regarding asset allocation should be referred to the Trustee Board for final decision.

### **Investment Managers**

The Investment Managers will be responsible for:

1. at their discretion, but within any guidelines given by the Trustee Board, taking all day to day decisions relating to the investments and securities within each asset class;
2. providing the Trustee Board with quarterly statements of the assets along with a quarterly report on actions and future intentions and any changes to the processes applied to their portfolios, and
3. informing the Trustee Board immediately of:
  - a. Any breach of this SIP that has come to their attention.
  - b. Any serious breach of internal operating procedures.
  - c. Any material change in the knowledge and experience of those involved in managing the Schemes' investments.
  - d. Any breach of investment restrictions agreed between the Trustee Board and the Investment Managers from time to time.

### **Investment Adviser(s)**

The Investment Adviser(s) will be responsible for:

1. participating with the Trustee Board in reviews of the SIP;
2. advising the Trustee Board in these areas:
  - a. Through consultation with the Scheme Actuary, how any changes within each scheme's benefit, membership, and funding position may affect the manner in which the assets should be invested;
  - b. Any changes that should occur to the structure of the Investment Fund in light of market and other developments;

- c. Any changes in Investment Managers' organisations which could affect the interests of the fund; and
  - d. Any changes in the investment environment that could either present opportunities or problems for the Schemes;
  - e. Any changes that should occur in the structure of the Matching Fund and the liability hedge in the light of market and other developments both at a scheme level and more generally.
3. undertaking project work as requested including:
    - a. Reviews of asset allocation policy;
    - b. Research reviews of Investment Managers, and
    - c. The implementation process of any changes
  4. advising on the competency and skill of the current Managers and on the selection of new Managers and/or Custodians, and
  5. confirming the suitability of potential derivatives contracts.

#### **Scheme Actuary**

The Scheme Actuary will be responsible for broad-ranging advice on the financial position of the Schemes, including:

1. liaising with the Trustee Board and Investment Adviser on the suitability of each scheme's investment strategy in the context of the specific funding positions of that scheme;
2. assessing the statutory funding position of each scheme and advising on the appropriate response to any funding issues, and
2. performing the triennial (or more frequently as required) valuations and advising on the appropriate contribution levels.

#### **Legal Adviser**

The Legal Adviser will be responsible for, amongst other things, liaising with the Trustee Board to ensure legal compliance including those in respect of investment matters.

## **APPENDIX B INDEPENDENT ADVISERS AS AT SEPTEMBER 2010**

Advisers to the Final Salary Schemes of The Cheviot Trust are as follows:

### **Scheme Actuary**

Edward Spencer of Barnett Waddingham LLP

### **Investment Adviser**

P-Solve Asset Solutions Ltd

### **Investment Managers**

F&C\*

Invesco Perpetual

IronBridge

Legal & General Investment Management

PIMCO

Pioneer

Skagen

\* not yet formally appointed

### **Custodian**

Kas Bank NV

### **Auditors**

Crowe Clark Whitehill LLP

### **Covenant review advisers**

PKF LLP

### **Solicitors**

Norton Rose LLP

## **APPENDIX C SCHEME SPECIFIC DETAILS**

[To be included for each of the individual schemes]