

MONEY PURCHASE SCHEME SIP



THE CHEVIOT TRUST

Pensions for the legal sector

**THE MONEY PURCHASE SCHEME
OF
THE CHEVIOT TRUST**

Statement of Investment Principles

April 2011

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1. INTRODUCTION

- 1.1** The following is the written Statement of Investment Principles (SIP) as required under Section 35 of the Pensions Act 1995 as amended by the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005. It describes the investment policies being pursued by the Trustee Board of the Money Purchase Scheme of The Cheviot Trust (“the Scheme”) and is in compliance with the recommendations of the Myners’ Principles for Institutional Investment. This SIP also reflects the requirements of Occupational Pension Schemes (Investment) Regulations 2005.
- 1.2** Cheviot Trustees Limited, (the “Trustee Board”) confirms that, before finalising this SIP, it has consulted with the participating employers 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 Scheme.
- 1.3** The Trustee Board is responsible for the investment and administration of the Scheme’s assets. The investment contracts may be between the Trustee Board and the managers directly or may be implemented through an investment platform. Where the Trustee Board is required to make an investment decision, it always receives written advice from the Advisers and it believes that this ensures that it is sufficiently familiar with the issues concerned.
- 1.4** In accordance with the Financial Services & Markets Act 2000 (“the FSMA”), the Trustee Board sets the Scheme’s general investment policy, but has delegated the day-to-day investment of the Scheme’s assets to professional Investment Managers. The Investment Managers are authorised under the FSMA and provide the expertise necessary to manage the investments of the Scheme competently.
- 1.5** 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, the Investment Committee, the Scheme Actuary and the Trustee Board. In all cases, roles and responsibilities are reflected in formal agreements with each party.

- 1.6 The Scheme comprises two sections, the With Profits Section and the Unit Linked Section. The With Profits Section was closed to new contributions at 31 December 2002 and all new contributions are now invested in the Unit Linked Section.
- 1.7 Members with benefits in the With Profits Section continue to earn investment return on a with profits basis, comprising interest and bonuses (if awarded), until they reach retirement. The With Profits Section also provides pensions in payment to members who retired before July 2005 and left their account within the Scheme.
- 1.8 There is currently considerable uncertainty about the status of the With Profits Section as a defined contribution arrangement and there is a possibility that part or all of it will be reclassified as a defined benefit scheme in the future. This uncertainty has continued for some time and is now likely to continue for a further period pending the outcome of various court cases which are being appealed. The uncertainty in relation to the status of the With Profits Section has not directly affected the investment strategy of the Section to date but this may change in the future.
- 1.9 The Unit Linked Section offers four options, Growth, Moderate, Cautious and Retirement Protection, which provide investment performance directly linked to the value of underlying assets through the value of investment units. Each of the options is based on separately ascribed funds of investment.

2. INVESTMENT OBJECTIVES

With Profits Section

- 2.1 The primary objectives of the Trustee Board for the With Profits Section are:
 - i. to invest the assets of the With Profits Section in such a manner that the pensions in payment can be met and any guaranteed return can be provided;
 - ii. Subject always to i, to maximise returns for members and pensioners where possible and prudent to do so.

2.2 The second objective means:

- i the highest possible overall return (consistent with the normal responsibilities of trustees) during the period of investment, bearing in mind any guaranteed return due to members who have not yet retired, and
- ii pension increases in line with the increase in the Retail Prices Index for With Profit pensioners. For With Profit LPI pensioners whose pensions are guaranteed to increase by 5% or the increase in the RPI if less, the objective is to provide pension increases averaging 1% p.a. above the guaranteed increase.

2.3 The investment performance objective for the assets of the With Profits Section is to achieve a return consistent with the delivery of these benefit levels, but minimising the potential for the assets not to deliver on the guaranteed benefits.

2.4 The Trustee Board's policy is also to have sufficient investments in readily realisable assets to meet unexpected cashflow requirements, so that the realisation of assets will not disrupt the With Profits Section's overall investment policy. The Trustee Board will seek to ensure that it will hold sufficient cash to meet the likely benefit outgoings from time to time.

Unit Linked Section

2.5 The primary objectives of the Trustee Board for the Unit Linked Section are:

- i. to ensure that the contributions payable by employers and members are invested in accordance with the options selected by members, and
- ii. to provide returns to members which are consistent with the level of risk of the relevant investment option.

2.6 Under the Unit Linked Section there are four options: the Cautious, Moderate, Growth and Retirement Protection options. Members' contributions are invested in funds which directly reflect the value of their underlying investments. The investment objective of the Trustee Board in respect of these options is that the aggregate investment performance under each option should achieve the objectives which are described to members, as follows:

“Cautious”

This approach is designed for people who wish to reduce their exposure to volatile return seeking assets whilst still retaining some opportunity for long term growth balanced by the more stable returns associated with assets such as bonds.

“Moderate”

This approach is designed for people who feel uncomfortable about being invested solely in return seeking assets but are seeking reasonable opportunity for long-term growth partly balanced by the more stable returns associated with assets such as bonds.

“Growth”

This approach is designed for people who are prepared to take more risk to achieve potentially higher growth over the long term.

“Retirement Protection”

The Retirement Protection option is only available to members who are within five years of their Target Retirement Date and is designed to minimise uncertainty in the value of pension benefits and cash to be received at retirement.

- 2.7 Under the Cautious, Moderate and Growth options, each member’s investments will be automatically “lifestyled” to reduce the degree of investment risk as the member gets closer to retirement. Lifestyling switches funds progressively from Cautious, Moderate and Growth options into the Retirement Protection option as members approach their Target Retirement Date so that, at the Target Retirement Date, all the funds are invested in the Retirement Protection Option. This reduces the volatility of the value of a member’s investment against the cost of purchasing a pension and taking a tax free cash lump sum.
- 2.8 The investment performance objectives for the Unit Linked Section are to achieve an annual return in excess of such investment indices as the Trustee Board may with proper advice decide is appropriate in the relevant investment sectors, over rolling three year periods. The Trustee Board will also have regard for the returns, net of investment management fees, achieved in relation to alternatives available in the market for investment management of the asset classes used.

3. INVESTMENT PRINCIPLES

With Profits Section

- 3.1** The Trustee Board will have regard to the characteristics of the pensions in payment from the With Profits Section in setting the investment strategy.
- 3.2** The Trustee Board will also have regard to the small proportion of promised benefits which are more defined benefit in nature and for which a Scheme Specific Funding valuation has been completed.
- 3.3** The assets of the With Profits Section will be invested in a diversified range of appropriate investments in order to reduce investment risk. That range of investments will be defined in a benchmark asset allocation which will be revised from time to time according to appropriate investment strategy advice provided to the Trustee Board and having regard to the Investment Objectives and to the investment powers of the Trustee Board as defined in the Trust Deed. The asset allocation as at March 2011 is set out in Appendix C and is subject to regular review and amendment without further change in this SIP.
- 3.4** Based on the current asset allocation, the target is to provide a return of 2.6% above the yield available from swaps¹ over the longer term from these assets. This is intended to provide a sufficient “buffer” above the minimum rate of return assumed by the Actuary, which is swaps + 2.2%. The expected return is reviewed periodically, in the context of prevailing market conditions.
- 3.5** The Trustee Board has taken formal investment advice in relation to these objectives and their implications for investment strategy, the range of asset classes involved and the mandates considered appropriate for achieving the objectives.

¹ Swaps are contracts in which two parties agree to exchange periodic interest payments

Unit Linked Section

- 3.6 The Trustee Board is implementing a revised strategy for the Unit Linked Options by investing in a more diversified range of investments in order to reduce investment risk. That range of investments is defined by the Trustee Board from time to time according to appropriate investment strategy advice provided to them and having regard to the Investment Objectives and to the investment powers of the Trustee Board as defined in the Trust Deed. The actual asset allocation will be regularly reviewed in light of market conditions. This review may be undertaken by the Trustee Board or may be delegated to a suitably qualified organisation, including the Investment Adviser. The proposed asset allocation as at March 2011 is set out in Appendix C and is subject to regular review and amendment without further change in this SIP. The intention is to implement the changes by the end of 2011.²
- 3.7 Based on long term financial assumptions the expected future real rate of return³ for each option is shown below:

Option	Expected future real rate of return
Cautious	3.3% per year to 3.8% per year
Moderate	3.9% per year to 4.6% per year
Growth	4.5% per year to 5.5% per year
Retirement Protection	1.8% per year

4. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

- 4.1 The Scheme provides a facility for members to pay AVCs to enhance their benefits at retirement. The Members are offered the same range of options in which to invest their AVC payments as those available for their main contributions.

² SIP was implemented from 1 July 2011

³ "Real rate of return" means the return excluding the impact of inflation

5. SOCIALLY RESPONSIBLE INVESTMENT AND EXERCISE OF VOTING RIGHTS

- 5.1 Where the underlying investments of the Scheme are held directly by the Scheme, 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 investment manager 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.
- 5.2 Alternatively, the Trustee Board may decide to invest in investment funds in which the Scheme's 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.
- 5.3 In this event the Trustee Board will consider the policy in respect of these areas of any investment fund in which the Scheme's 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.

6. RISKS

- 6.1 The Trustee Board recognises that the Scheme is exposed to investment risk and pursues appropriate investment strategies to address these risks. The Trustee Board will keep these risks, and how they are measured and managed, under review.

With Profits Section

- 6.2 Under the With Profits Section there are risks arising from the payment of existing pensions (including mortality risk), the historical guaranteed return on contributions (further details are set out in the Members' Explanatory Booklet) and movements in long term interest rates in relation to its liabilities.

- 6.3 The Trustee Board factors these risks into the With Profits Section's strategy for asset allocation. There are a large number of specific risks which could impact the performance of the assets, such as default, currency movements or mismanagement risk. The Trustee Board has invested in a wide range of asset classes on a global basis to ensure these risks are reduced through appropriate diversification.
- 6.4 Another way in which the Trustee Board manages risk is through the use of its liability hedge. This investment increases or decreases in value when interest rates fall or rise (respectively). This provides some protection against interest rate movements adversely affecting the funding level of the With Profits Section.
- 6.5 The liability hedge is invested in gilts or cash or swaps (or a combination of these) which broadly replicate the interest rate profile of the With Profits Section providing some protection for the value of the Section's assets. The structure of the liability hedge will be reviewed annually.

Unit Linked Section

- 6.6 The Trustee Board recognises that members face three key risks. They are as follows:
- i. Inflation risk – that the purchasing power of their investments is not maintained;
 - ii. Pension conversion risk – that the value of pension benefits that can be purchased by a given defined contribution amount is not maintained,
 - iii. Capital protection risk – that the value of the investments to provide a tax-free cash sum is not maintained.
- 6.7 Whilst it is not possible to fully protect against these risks, the Trustee Board has considered them when offering Members, according to their own risk profile, the choice between the different options for their contributions. In particular, the lifestyling ensures that investment risk is reduced as members approach retirement and provides a more stable value against the cost of purchasing a pension and taking a tax-free cash sum. Members of the With Profits Section are able to transfer their benefits into the Retirement Protection option as they approach retirement to enable them to reduce investment risk.

7. MONITORING

Investment Manager

- 7.1 The Investment Committee will be responsible with the Investment Adviser for monitoring the performance of an Investment Manager against the agreed performance objectives and will report back regularly to the Trustee Board. This may be delegated to the Chief Executive or Investment Adviser where deemed appropriate.
- 7.2 The Investment Committee holds regular meetings with the Investment Managers to satisfy itself that the Investment Managers will continue to carry out their work competently and have the appropriate knowledge and experience to manage the assets of the Scheme.
- 7.3 The Trustee Board will regularly obtain and consider proper advice on whether the Scheme's investments continue to be satisfactory or whether any changes are necessary having regard to this statement and the Investment Objectives.

Investment Adviser

- 7.4 The Trustee Board will monitor the advice given by the Adviser on a regular basis.

Platform Provider

- 7.5 The Trustee Board will monitor the service provided by any platform provider used on a regular basis.

Other

- 7.6 The Trustee Board will regularly review this statement (at least annually or following any strategic changes), and will obtain proper advice before any changes are implemented. There will be no obligation to change this SIP or any Adviser as part of such a review.

8. OTHER ISSUES

- 8.1** The Investment Committee will appoint Investment Managers to manage the investments of the Scheme or may invest some or all assets via an Investment Platform. An Investment Platform means that the platform provider has the direct relationships with the managers but the arrangement does not constrain the Trustee Board's ability to review or change a manager as appropriate. Each investment manager will act within the terms of an Investment Management Agreement (or in the case of some pooled funds, an application form and prospectus) which will be agreed by the Trustee Board or the platform provider as appropriate. Where agreements are in place, they will reflect the Investment Objectives and, as relevant, the investment powers of the Trustee Board.
- 8.2** The Investment Committee will monitor the performance of the Investment Managers against the agreed Investment Performance Objective. This process will focus principally on each investment manager's performance relative to the Investment Performance Objective and the time horizon over which this is expected to be achieved. Analysis will focus both on whether this has been/is being achieved, and whether any other events have occurred which affect the expectation of the objective being achieved in the future. Formal review of an investment manager's appointment would result where it is considered there is a question about the objective being achieved in the future. Formal review may also occur where it is considered that an alternative organisation may offer a more financially attractive proposition.
- 8.3** The Trustee Board will obtain and consider proper advice from the appointed advisers on the question of whether the Scheme's investments or changes to the Scheme's investments are satisfactory having regard to the investment objectives.
- 8.4** The Trustee Board will obtain and consider proper advice on investment strategy in the context of the With Profits Section and Unit Linked Section.
- 8.5** The Trustee Board will continue its investment in Cheviot Pension Services Limited, a wholly owned subsidiary of the Money Purchase Scheme, on the basis of the following objectives:
- to provide pension administration services to the legal profession;
 - to help defray the administrative costs of the Money Purchase Scheme;
 - to provide a reasonable return over the long term.

- 8.6 Where the investments of the Scheme are subject to custodial arrangements made by another party then they will be reviewed by the Trustee Board prior to acceptance. Otherwise, the Trustee Board will make appropriate arrangements for the custody of the investments of the Scheme and these arrangements will be governed by a Custody Agreement set down by the Trustee Board.
- 8.7 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.

Professional Fees

- 8.8 Professional fees are charged in relation to services received. For Investment Managers, these are calculated as a percentage of assets under management in line with the industry standard for such fees. Some investment management fees also include a fee payable in relation to the performance achieved, which is consistent with the objective of the fund(s) and the typical structure of fees payable in relation to such funds.
- 8.9 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.
- 8.10 Professional fees are reviewed periodically in the context of value received from advisers and Investment Managers. Such review considers both the level and structure of fees paid.

General

- 8.11 This Statement of Investment Principles will only be changed by the Trustee Board once proper advice has been obtained.

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, either directly or via the investment platform (which may in turn be delegated to the Investment Adviser)
4. Appointing and dismissing, if appropriate, the Investment Managers, Investment Advisers, custodian or platform providers (where applicable)
5. Monitoring compliance of the investment arrangements with the SIP on an ongoing basis
6. Monitoring the ongoing suitability and effectiveness of any investment adviser employed.

The Investment Committee

The current terms of reference of the Investment Committee are attached as Appendix D and may be changed from time. An up to date version can be obtained at any time from the CEO's office.

Investment Managers

The Investment Managers and platform provider 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.

3. Informing the Trustee Board immediately of any breach of investment restrictions agreed between the Trustee Board and the Investment Managers from time to time.

Investment Adviser(s)

The Investment Adviser will be responsible for:

1. Participating with the Trustee Board in reviews of the SIP.
2. Advising the Trustee Board in these areas:
 - a. 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 Scheme's investments, including the liability hedge, in light of market conditions 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 present either opportunities or problems for the Schemes.
3. Reviewing asset allocation decisions either for confirmation by the Trustee Board or Investment Committee as appropriate or directly as a result of powers delegated to the Investment Adviser by the Trustee Board.
4. Undertaking project work including:
 - a. Research reviews of Investment Managers; and
 - b. The implementation process of any changes.
5. Advising on the competency and skill of the current Investment Managers, custodian, or platform provider and on the selection of new Investment Managers, Custodians or platform providers.
6. Confirming the suitability of potential derivatives contracts.

Scheme Actuary

In relation to any part of the With Profits Section which may be deemed to be defined benefit in nature, the Scheme Actuary will be responsible for broad-ranging advice on the financial position of that part of the Scheme, including:

1. Liaising with the Trustee Board and Investment Adviser on the suitability of the investment strategy in the context of the funding positions of the defined benefit liabilities.
2. Assessing the statutory funding position in relation to the defined benefit liabilities and advising on the appropriate response to any funding issues.
3. Performing the triennial (or more frequently as required) valuations and advising on the appropriate contribution levels in relation to the defined benefit liabilities.

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**

Advisers to Money Purchase Scheme of The Cheviot Trust are as follows:

Scheme Actuary

Jonathan Punter of Punter Southall Limited

Investment Managers

Unit Linked Section

BlackRock
Friends Provident
PIMCO
Pioneer
Skagen

With Profits Section

Legal & General
Pioneer
PIMCO
P-Solve Investment Limited
Skagen

Auditors

Crowe Clark Whitehill LLP

Lawyers

Norton Rose LLP

Investment Adviser

P-Solve Asset Solutions

APPENDIX C ASSET ALLOCATION AS AT MARCH 2011⁴

With Profits Section

Set out in the table below is the strategic asset allocation for the With Profits Section as at March 2011.

Asset Class	Weightings* (%)
Global Equity	17.5
Broad Bonds ⁵	15
Dynamic Asset Allocation ⁶	17.5
Gilts and Investment Grade Corporate Bonds	50
Total	100

The Trustee Board may decide, following advice, to vary these weightings over the short term depending on where the best investment opportunities are perceived.

⁴ Please contact the Chief Executive's office in Southend for a current asset allocation statement

⁵ 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.

⁶ Dynamic Asset Allocation is an investment mandate seeking to make long terms 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.

Unit Linked Section

The Trustee Board is proposing to move to the following benchmark allocations and ranges for the Cautious, Moderate and Growth options by the end of 2011. The investments may be made directly with the managers by the Trustee Board or via an investment platform. Most investments will be passively managed.

	Growth			Moderate			Cautious		
	Low	<i>Central</i>	High	Low	<i>Central</i>	High	Low	<i>Central</i>	High
Equity	25	75	100	25	50	100	0	35	65
Investment Grade	0	0	40	0	20	40	10	20	40
High Yield	0	15	30	0	20	30	0	20	30
Property	0	10	20	0	10	15	0	0	10
Gilts	0	0	40	0	0	60	5	25	60
Cash	0	0	30	0	0	30	0	0	30

The Retirement Protection option will be invested 75% in index linked bonds and 25% in cash.

APPENDIX D INVESTMENT COMMITTEE TERMS OF REFERENCE

The terms of reference of the Investment Committee are as follows:

1. The Investment Committee is established by the Trustee Board in accordance with its power to delegate under the trust deed for the principal purpose of assisting the Trustee Board to discharge its responsibilities in respect of the selection, appointment and monitoring of the performance of the Investment Managers appointed to manage the Trust's assets (as set out in the Statement of Investment Principles for each Scheme).
2. The Investment Committee should comprise at least four Trustee Board Directors. Where possible, all members of the Investment Committee should attend the NAPF annual investment conference to maintain and improve their investment knowledge. The quorum for the Committee will be set from time to time by the Trustee Board and, unless otherwise decided upon, will be four.
3. The process for considering investment issues is set out in monitoring schedule. The monitoring schedule forms the business plan as required by the Myners' Principles on institutional investment and is reviewed by the Investment Committee at least annually. The Trustee Board remains responsible for the final decision in relation to investment strategy. The Committee has a significant role to play in the following areas:
 - (i) considering strategic issues in detail before they are presented to the Trustee Board and making recommendations
 - (ii) executing policy decisions made by the Trustee Board, whether monitoring, selecting and appointing of providers, or changing asset allocation within the agreed ranges subject to advice;
 - (iii) taking responsibility for the review of the Statement of Investment Principles to ensure it is consistent with the relevant investment strategy for each Scheme and finalising them without reference to the Trustee Board, after consultation with the employers. The Committee may but is not required to refer any issues which arise from the consultation with employers, to the Trustee Board. When considering whether to do so, the Committee must take into account any conflicts of interest. The Trustee Board must be provided with a copy of the finalised version;
 - (iv) taking decisions about the level of the hedge in respect of the Final Salary Schemes and With Profits section;
 - (v) taking decisions about any de risking strategies in place as required, and

- (vi) taking any other decisions in relation to investment matters that it considers appropriate save that any strategic decision regarding asset allocation should be referred to the Trustee Board for final decision.
5. The Committee is responsible for the detailed monitoring of the performance of the appointed investment advisers and custodian in accordance with the mandates given to them by the Trustee Board, in line with the agreed strategic investment objectives. This monitoring will be conducted through reports from the investment consultant and through face to face meetings with the managers. The Committee will meet each manager at least annually.
 6. The Committee will report to the Trustee Board after each meeting on their findings and whether any further consideration of the managers is required.
 7. The Committee will also consider other policy issues, such as voting issues and socially responsible investment, and report on these matters to the Trustee Board (as set out in the monitoring schedule). It may also consider all new ideas or financial products suggested by the Investment Advisers' or other advisers or staff before making a recommendation to the Board. It will also form a view on the performance of the investment adviser for further consideration by the Trustee Board at least annually.
 8. The Committee has delegated responsibility in respect of the level of any hedging arrangements. Members from the Investment Committee will make any decision to increase or decrease the hedge after considering advice from the Investment Adviser and after consultation with the appropriate Scheme Actuary. The full Investment Committee should be consulted if the hedge needs to be lowered, although a decision can be taken by majority and can exclude any members of the Committee who are unavailable. The responsibility in respect of the level of the hedge has been further delegated to the Investment Adviser and Chief Executive if an urgent decision is required and it is not possible to convene a conference call. Members of the Committee who are unavailable must be informed of the decision as soon as possible.

The Investment Committee should meet at least four times a year. An agenda and discussion papers should be circulated prior to the meetings together with minutes of the previous meeting. All outstanding issues from previous meetings should be followed up and resolved. A summary of the minutes from Investment Committee meetings are circulated to the full Trustee Board. It may meet by conference call if necessary.

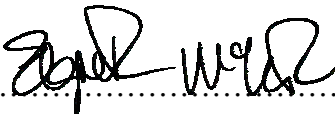
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OF
THE CHEVIOT TRUST**

Statement of Investment Principles

April 2011

Signed on behalf of Cheviot Trustees Ltd

by

..... Signature

...Elspeth McKinnon Name

...Chief Executive Position

...10 May 2011Date