



# Money Purchase Section

of the Cheviot Pension  
An authorised Master Trust

## Chair's Governance Statement

July 2022

For the year ended 31 December 2021



## Background

1. This statement explains how the governance requirements for the Money Purchase Section are met. The Money Purchase Section is part of the Cheviot Pension under the Cheviot Trust. The Cheviot Trust also includes defined benefit schemes and a cash balance section which are all managed by the same trustee, Cheviot Trustees Limited ("the Trustee").
2. This Statement is publicly available on the Cheviot website. Members are signposted to the Statement in relevant communications.
3. The Trustee obtained a type 2 report across all the sections and schemes for the 12-month period to 31 December 2021 assessed against the Combined AAF 01/20 assurance reports on Master Trusts and 05/20 internal control assurance reports.<sup>1</sup> These independent reports demonstrate the existence and effectiveness of the controls and procedures in operation at a Trustee governance level as well as those which relate to pensions and financial administration across the organisation.
4. The Money Purchase Section was authorised by the Pensions Regulator as a Master Trust in August 2019 following a robust review of its structure, financial stability, directors and systems and processes. Updated information was provided to the Pensions Regulator in the annual return in March 2021 and March 2022.

## The Trustee

5. Cheviot Trustees Limited is a company limited by guarantee. The articles and the trust deed provide for the Trustee Board to consist of a minimum of six directors, with equal numbers of directors drawn from members (including pensioners) and employers. Currently, there are ten directors in total: four member directors, four employer directors and two co-opted directors.
6. All directors who were appointed or re-appointed to the Board during 2021 were subject to external fit and proper checks.<sup>2</sup> All other directors have completed declarations confirming that there is no change in circumstances that would affect their fit and proper status since the last assessment.

## Appointments

7. **Member representatives** are drawn from the membership. The term of two member representatives, Ms Diane Elliott-Smith and Ms Frances Longmore, expired at the end of 2021. Both existing directors put themselves forward for re-appointment.
8. All members and pensioners were invited to put themselves forward for consideration as part of an open, fair and transparent process. The invitation linked to an information sheet about serving on the Board on the website. No additional candidates put themselves forward. The existing member directors were re-appointed by the Board on 15 December 2021, subject to the completion of the relevant checks<sup>3</sup>, based on their skills and competency.<sup>4</sup>
9. **Employer representatives** are nominated by Participating Employers and appointed by the Trustee Board. The term of one employer representative, Mr Ian Gault, expired in 2021. All employers were invited by email to put candidates forward as part of an open, fair and transparent process. The invitation included a link to an information sheet about serving on the Board on the website. No additional candidates were put forward. After consideration of his skills and competency, the Trustee Board re-appointed Mr Gault in June 2021. The

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<sup>1</sup> The 2020 report was also based on the updated assurance controls.

<sup>2</sup> One member representative, Ms Maralyn Thomas, was reappointed in 2021. Mr Giles Orton was appointed as a member representative (having previously served as a co-opted director). A new employer representative, Mr Stephen Jones, was appointed in April 2021. Details of the process followed is set out in the previous Chair's statement.

<sup>3</sup> Now completed.

<sup>4</sup> Both candidates continue to be designated as non-affiliated as the reappointment process was open and transparent.



relevant external checks were completed.<sup>5</sup>

10. **Co-opted Directors** may be appointed to bring specific skills and experience to the Trustee Board. There are currently two co-opted Directors, the Chair and the Chief Executive.
11. The trust deed governing the Cheviot Trust requires that a majority of the directors, including the Chair, are **non-affiliated** as defined by the legislation.<sup>6</sup> The current Chair, Sir Derek Morris, was designated as non-affiliated on his initial appointment in April 2017.<sup>7</sup> The original appointment was made after a tender exercise involving several independent trustees and trustee companies was undertaken to identify suitable candidates and a series of interviews of those candidates conducted by the Performance Review Committee<sup>8</sup> of the Trustee.<sup>9</sup>
12. Appendix 1 sets out how the requirement for non-affiliated directors is met. Three member representatives, two employer representatives and one co-opted director (the Chair) are designated as non-affiliated.

### Trustee's knowledge and understanding

13. The Directors come from a wide range of backgrounds. All bring different skills to the Cheviot Pension. The Directors have also appointed suitably qualified and experienced advisers to complement their own knowledge and to ensure they have access to the required skills.

### Analysis of skills

14. The Trustee operates six Committees to help it fulfil its functions. Skills analyses are carried out each year through self-evaluation questionnaires based on the Pensions Regulator's standard at an individual, Committee and Trustee level. The training plan is drafted to include any areas where skills need to be improved or additional adviser support is sought. The individual and combined skills analyses demonstrate the breadth and depth of experience on the Trustee
15. Four directors are professional trustees. They have completed the PMI's Award in Pension Trusteeship. The Chief Executive also holds this award. Sir Derek and Mr Orton have been awarded professional trustee accreditation from the Association of Professional Pension Trustees Limited. Ms Thomas has also completed the Certificate in Pension Trusteeship.

### Training

16. An annual training plan is required by the Governance Policy. It reflects the annual skills analysis and documents how all the key areas will be addressed, including Cheviot specific training. All directors are encouraged to attend at least one external session per year.<sup>10</sup> The Governance Policy requires all directors to complete at least twelve hours of training per year, including training at Board and Committee meetings.<sup>11</sup> Directors commit to completing the training, either at the relevant meetings or by personal study or a combination. Training slides are made available on the extranet. All Directors completed the required training hours in 2021.
17. An Education session for Directors is held at least once a year, usually in January following an analysis of skills in Q4. The session was held in January 2021 and allowed training to be undertaken outside the constraints of a Trustee Board meeting. This process is repeated each year. The Education session in January 2021 addressed

<sup>5</sup> Mr Gault continues to be designated as non-affiliated as the appointment process was open and transparent.

<sup>6</sup> Non-affiliated means independent of any undertaking which provides advisory, administration or investment or other services in respect of the Money Purchase Section

<sup>7</sup> Reappointed in April 2020

<sup>8</sup> Now renamed the HR Committee

<sup>9</sup> Sir Derek's non affiliation period expired in 2022 and he was reappointed on 1 July for the period to 31 March 2027, following a tender exercise, based on a review of the exercise in 2017. Three candidates from professional trustee candidates were considered by the Legal Committee against the criteria set by the Board for the appointment. This was considered a proportionate and focused approach, considering past experience of market participants, the Trust's structure and circumstances and the balance of skills and experience on the Board. This process was considered in detail and considered by the Board's legal advisers to constitute an open and transparent process having regard to TPR's guidance.

<sup>10</sup> Includes online training.

<sup>11</sup> Professional trustees are required to undertake 25 hours per year.



gaps identified in the skills analysis in Q4 2020.<sup>12</sup>

18. All Directors have completed the Pensions Regulator's trustee toolkit and regular training is provided on aspects of the Trustee Knowledge and Understanding requirements, including the Trust Deed and Rules, the Statement of Investment Principles and internal dispute resolution procedure.<sup>13</sup> All Board papers include a cross reference to the appropriate provision in the trust deed or other document or policy if relevant.
19. Other training relevant to the Master Trust during 2021<sup>14</sup> included:
  - (i) Master Trust supervision
  - (ii) Scheme administration, including transaction processing, and member data
  - (iii) Risk management and internal controls
  - (iv) Changes in pensions legislation, including the Pension Schemes Act 2021
  - (v) Defined contribution strategy review including value for members, member outcomes, decisions at retirement and default investment strategies
  - (vi) DC Code of practice and the draft combined code of practice
  - (vii) Management and assessment of advisers
  - (viii) Investment issues including implementation statements and DC Code of Practice
  - (ix) The implications of climate change on investment strategy and the TCFD requirements
  - (x) Cyber security
  - (xi) Assessing Board effectiveness
20. All directors are members of the Pensions Management Institute and receive regular updates and opportunities for further training. Three directors are also members of the Association of Pension Lawyers.
21. Three Directors<sup>15</sup> serve on industry groups and several attended external virtual conferences during the year. A co-opted Director is a member of the Pensions and Lifetime Savings Association's Master Trust Committee. A member representative writes technical articles for publication.

## Conclusion

22. Based on the skills analysis undertaken and training provided, the Trustee Board considers that the Directors' combined knowledge and understanding together with the legal, covenant, investment and actuarial advice which they receive, enables them to properly exercise their functions in relation to the Cheviot Trust as set out in the Governance Policy and relevant legislation and guidance and to monitor these activities through the Strategic Plan. The combined knowledge and understanding includes:
  - a working knowledge of the core scheme documents (the Trust Deed and Rules, the Statement of Investment Principles, and the Governance Policy),
  - sufficient knowledge and understanding of the law relating to pensions and trusts and
  - sufficient knowledge and understanding of the relevant principles relating to the funding and investment of occupational pension schemes.

## Board effectiveness

23. The Trustee Board reviews its own effectiveness as a group regularly and pursue any actions that flow from the conclusions. All directors completed a questionnaire based on the TPR's template in advance of the June 2021 Board meeting. The combined results were then discussed at that meeting. No changes were proposed following the discussion which included consideration of the following issues:
  - The difficulty of improving diversity although this was not felt to detract from decision making
  - The importance of the standard and timeliness of the Board papers, particularly the headers provided

<sup>12</sup> A further session was held in January 2022 based on the skills analysis in December 2021.

<sup>13</sup> January 2021

<sup>14</sup> Some training was presented at Committee meetings but made available to all Directors.

<sup>15</sup> Elspeth McKinnon, Ian Gault, Maralyn Thomas



which directed attention to the key points of each paper to support effective decision making

- The usefulness of breakout groups when considering difficult issues
- The ongoing reporting of the Strategic Plan to focus less on operational issues.

## Governance

24. The directors view governance as a core function. There is a clearly articulated governance policy, reviewed at least annually,<sup>16</sup> setting out the roles and responsibilities of the directors and the different Committees, together with clear policies regarding delegations, decision making powers, conflicts of interest, data protection, reporting requirements and appointment of advisers. A strategic and operational plan is reviewed quarterly together with a Governance report. Performance of the Trust as a whole, including the Trustee, is measured against these documents. Risks are a standing item on each Committee and Board meeting. All core documents and board papers, including training, are readily available to Directors on Cheviot's extranet.

## Committee structure

25. A committee structure is used to provide more focus on key areas. Each Committee has written terms of reference which include delegated powers from the Trustee Board. Actions and risks relevant to each Committee are standing items on the relevant agendas. The structure was changed during 2021 to facilitate more focus on strategic issues at Board level by:

- (i) Changing the remit of the Strategic Committee to Risk and Compliance issues and widening its scope to include regulatory documents, GDPR and key communications
- (ii) Widening the scope of the Finance Committee to include operational issues
- (iii) Formalising the terms of reference of the Human Resources Committee to include all HR and employment issues and establishing a reporting line to the Finance Committee
- (iv) Widening the delegation to the Funding and Legal Committee in respect of DB schemes.

26. Four full Trustee Board meetings and seven Board conference calls were held during the year ended 31 December 2021. The Finance and Operations, Funding and Risk and Compliance Committees each held four meetings, the Investment Committee held eight meetings,<sup>17</sup> the Legal Committee held five meetings,<sup>18</sup> and the Human Resources Committee<sup>19</sup> held two meetings during the year.

## Feedback from members

27. The Money Purchase Section provides benefits across more than 68 employers which are non-associated and based in multiple locations across the country. Of the membership of 5,060 membership, approximately 34% are active members and making contributions.<sup>20</sup>

28. Meetings for members only attract a very small number of attendees given the diversity of employers and location. We have therefore concluded that it is not currently an appropriate mechanism for encouraging engagement with members but will keep it under review. Our approach to encouraging feedback is therefore based on regular communications and the website. Approximately 40% of members receive electronic communications,<sup>21</sup> with the rest receiving information by post. The open rate for the benefit statement email in 2021 was around 61%.

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<sup>16</sup> The Governance Policy was reviewed in December 2021. The Committee structure was significantly revised in June and September 2021 to delegate more authority to the Committees. The Policy has subsequently been further reviewed in 2022 to clarify some elements of the delegation provisions.

<sup>17</sup> The usual quarterly meetings were split over two meetings to mitigate the impact of virtual meetings.

<sup>18</sup> Including two focused on the tender for legal service which was undertaken during 2021.

<sup>19</sup> Previously called the Performance Review Committee which now has an extended brief to consider HR issues.

<sup>20</sup> Figures as at 31 December 2021

<sup>21</sup> This has increased to 76% in March 2022 following a communication exercise with members.



29. The Trust issues a report each year<sup>22</sup> to all members which includes topical and relevant items and encourages members to pass on feedback about how the Trust is managed.<sup>23</sup> We also include contact details on the website which enables members to write to a specific email address: [people@cheviottrust.com](mailto:people@cheviottrust.com). Any comments are considered by Cheviot staff and significant feedback reported to the Trustee if appropriate.
30. The focus in the 2021 report was Cheviot's new member website and dashboard. A new member focused website was launched in 2021, designed to be easy to navigate and encourage engagement with members. The 2020 benefit statements<sup>24</sup> were revised to provide simpler and more accessible information in line with the DPW statutory guidance. They were made available through the new member dashboard, accessed through the new member website. To ensure security, all members received a hard copy of the log in details for the new dashboard which has two factor authentication. The Board continues to monitor the response to this new service.
31. Following the launch of the new dashboard, a campaign to encourage members to communicate electronically to reduce costs and our carbon footprint has been completed.

## Core financial transactions

32. The Directors have agreed written financial authorities<sup>25</sup> and service level requirements<sup>26</sup> with the internal administration team<sup>27</sup> to ensure that core financial transactions are processed promptly and accurately. This includes service standards for responses to member enquiries, transfers to and from the scheme, other benefit payments from the scheme to or in respect of members, investment switches, investment of contributions, lifestyle switches and reconciliation of member unit holdings to the investment manager.
33. The Trustee has put processes in place to ensure that core financial transactions are processed accurately and in a timely manner, including daily monitoring of bank accounts, clear processes for managing contributions and appropriate authorisation of investment and banking transactions (which includes at least two signatories).

## Monitoring process

34. A quarterly Governance report on performance against service level requirements is presented to each full Trustee Board meeting, measuring the timeliness and accuracy of the processing of transactions, switches, contributions received and the investment of those contributions, member statistics, accuracy of benefit payments, contributions received late from employers, reconciliation of member unit holdings and a communications report.
35. The administration aspects of the Governance report are based on automated and robust management information reporting from the administration system and enables any slippage in service standards to be discussed and plans to improve service standards to be agreed if necessary. The auditors reviewed key elements of the Governance report as part of their audit process and produced a detailed report which was reviewed by the Finance Committee. No substantive or systemic issues were identified.
36. Based on this management information, the Board reviews and discusses any slippage in service standards as necessary. All service standards were met during 2021. Some postal communications were slightly delayed as the office was closed from time to time due to COVID rates. The move to electronic communications has now been completed, facilitated by the new member website and portal which provides access with a robust level of security.

## Conclusion

37. The service standards have agreed with the administrators have been met during 2021. The regular reports

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<sup>22</sup> The latest report was published in August 2021.

<sup>23</sup> Report to Members 2021, page 2.

<sup>24</sup> Issued in 2021

<sup>25</sup> The financial authorities were updated in November 2021 and ensure appropriate controls, including dual authorisation, for all financial transactions.

<sup>26</sup> The service level requirements were reviewed as part of the Governance Policy in December 2021. Bank accounts are monitored daily.

<sup>27</sup> The administrators are directly employed by the Trustee.



enable the Board to monitor service standards and identify any issues which need to be remedied. No such issues arose during 2021. The launch of the new member website and the secure member portal enables members to make basic changes to their records.

38. As a result of the provision of detailed management information, and the confirmation from the Trust's auditors that there were no material issues identified in the reports, the Directors are satisfied that core financial transactions were processed promptly and accurately and reported in line with the agreed service level requirements in all material respects during 2020. This is kept under close review.

## Investment issues

39. For members of a defined contribution scheme, the absolute returns delivered by the investment strategy are the most important element in delivering the best possible outcome at retirement. The Directors recognise that stable returns are also highly valued by members. The absolute returns and the stability of those returns are reflected in the Trustee Board's investment strategy.

## Investment governance

40. Investment governance is critical to the success of the investment strategy. It is delegated to an Investment Committee which met eight times during 2021. Although the investment options are expressed simply to members to make them easy to understand, the underlying strategy is much more sophisticated and includes approximately 20 different underlying funds. The asset allocation is managed actively. It is reviewed at least monthly and more often if warranted by market conditions.

## Investment performance

41. The Investment Committee and Trustee Board reviews investment performance quarterly against performance targets set for each option which include both return and stability targets, risk budgets and market conditions. The dynamic asset allocation approach has delivered more stable performance within the parameters set by the Directors and returns above the long-term targets over three and five years for both long term and medium-term funds.<sup>28</sup> The short-term funds performed broadly in line with the asset benchmarks.

## Investment platform provider

42. All the funds are held on Mobius Life's investment platform to facilitate the Trustee's dynamic asset allocation strategy. All funds trade daily. The HSBC Islamic Global Equity Index Fund trading prices are available one day later than the other funds.

## Range of options

43. No new funds were introduced in 2021. The range includes five diversified investment options, three equity funds and four specialist funds.<sup>29</sup> The investment information available on the member website explains details of the options and provides quarterly performance information.<sup>30</sup> The diversified options target returns above inflation to reflect the need for funds to grow in real terms to deliver an adequate retirement income for members. The equity and specialist options target market returns in the relevant asset class. Performance is reviewed against these objectives quarterly to ensure returns are consistent with the objectives for each fund. These options allow members to access the most appropriate investment strategy for their individual circumstances and preferences.

## The Cheviot Lifeplan

44. For those members who do not wish to select their own investment options, Cheviot provides the Cheviot Lifeplan,<sup>31</sup> which aims to provide members with an adequate retirement income in as smooth a manner as

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<sup>28</sup> As at 31 December 2021.

<sup>29</sup> The specialist funds and the equity funds are provided by external managers except for Cheviot Cash fund.

<sup>30</sup> Or links to the performance information for external funds.

<sup>31</sup> The default option for the purposes of the legislation.



possible – taking risk where it is best rewarded and offering protection when it is most needed.

45. It uses four of the diversified options to transition members through their membership, reducing risk as they approach their target retirement date by introducing an allocation to the Cash Fund. The target retirement date is set by the member or defaults to the member's State Pension Age. It also provides a post retirement option to cater for members who want to access their benefits flexibly. Since April 2015, a significant proportion of members accessing their benefits have taken advantage of the flexible benefits offered within the Trust.

### Strategy review

46. A review of the investment options and Cheviot Lifeplan's objectives and design is completed annually. This review is conducted by the Investment Committee and is reported to the Trustee Board.
47. The annual strategic review took place in May 2021. It involved reviewing the performance and strategy of the Cheviot Lifeplan based on the Trustee's aims, objectives and investment approach as set out in the Statement of Investment Principles. It included the following related items:
- (i) Whether members were likely to receive "good"<sup>32</sup> retirement outcomes based on their current holdings and future expected returns
  - (ii) Whether the investment return assumptions behind each of the blends remained reasonable
  - (iii) Whether members' investment needs were met through the range of options available to them both pre and post retirement.<sup>33</sup>
48. As a result of this review, the Investment Committee concluded that:
- (i) the range of options remained sufficiently broad in terms of the choice offered to members and in comparison, to other Master Trusts.
  - (ii) introducing an ESG fund to the self-select range would be positive, but the messaging would need to be carefully managed to avoid suggesting that the other funds do not take ESG into account.
  - (iii) the return expectations for each element of the Cheviot Lifeplan remained reasonable driven by the equity holdings.
  - (iv) most members were likely to receive good retirement outcomes, based on three different measures of "good".<sup>34</sup>
  - (v) closer alignment to the FCA pathways would be helpful, including providing a growth only option.

### Implementation of strategic changes

49. The introduction of an ESG equity option for members to select has been delayed due to the constraints of the investment platform. The investment platform only had one suitable fund available which did not meet the due diligence tests by River and Mercantile. A different option has been selected and will be made available when it is accessible on the platform.
50. Work continues to align the retirement options to the FCA pathways and is expected to be implemented in 2022.

### Statement of Investment Principles

51. The Statement of Investment Principles was reviewed in 2021 but no changes were required following the strategic review. We expect to revise it in 2022 to reflect the introduction of the ESG option and any change in retirement options. The current Statement dated October 2020 is attached to this Chair's Statement. It is publicly available online.

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<sup>32</sup> Whilst the definition of "good" is unique to each member depending on their retirement goals, the Investment Committee assessed it against the UK Living Wage, the Pensions Commission's Target Replacement Ratio and the PLSA's Retirement Living Standards.

<sup>33</sup> Retirement in this context is when a member takes their tax-free cash as this is when the investment priorities change.

<sup>34</sup> Living Wage, Replacement Ratio and PLSA Retirement Living Standards, all at April 2021.



## Value for members

52. All charges are borne by members. A key responsibility of the Trustee is to provide good value for money for members.
53. The Trustee appointed consultants<sup>35</sup> to carry out an assessment of the Money Purchase Section's services based on their knowledge of the market and operation of other trustee boards, and using a framework provided by the Pensions Regulator. This considered the cost paid by members for a list of features and services in three core areas of scheme management as set out in the DC code of practice (governance and management, investment, administration and communication). The quality of the services was assessed through establishing whether the Money Purchase Section's services are suitable, relevant and valuable to members and whether each of the services had performed effectively.
54. The Investment Committee has delegated powers to review the assessment. The Committee concluded that services provided in each area were high quality and overall provided good value for members in the three key areas of governance and management, investment, administration and communications services. These services made a positive contribution to member outcomes.
55. The overall charge was within the range identified by Schroders Solutions of master trusts of a similar size and management style. The charge is at the higher end compared to the wider master trust market, given the discounting available from the largest providers in the Master Trust market. The Trustee continues to focus on reducing overall charges, having reduced charges in both 2020 and 2021. Value for members is a standing item on all agendas to ensure that any items which may affect it going forward are recognised and considered in that context.

## Charges and costs

56. The Cheviot Lifeplan meets the requirements of the charge cap. The charge cap is a limit set by the Government on the amount that can be charged to members of a pension scheme.<sup>36</sup> The actual charges depend on how close the member is to retirement.
57. All funds available to members during 2021 (either through the Cheviot Lifeplan or through individual choice) are identified in the table below which includes details of charges in 2021. Charges include investment management, additional expenses, governance, administration, consultant fees and legal fees. Transaction costs, the fees incurred in buying and selling investments, are excluded. Estimated transaction costs in 2021 are set out in Appendix 2.

Investment options used in the Lifeplan <sup>37</sup>	Charge	Charge from 1 7.2021	Other Investment options available	Charge	Charge from 1.7.2021
Cheviot Growth	0.70%	0.65%	Cheviot Low Cost	0.45%	0.45%
Cheviot Moderate	0.70%	0.65%	Cheviot Annuity Planning	0.50%	0.50%
Cheviot Cautious	0.70%	0.65%	HSBC Shariah	0.70%	0.65%
Cheviot Retirement Planning	0.65%	0.65%	LGIM Ethical	0.70%	0.65%
Cheviot Cash	0.25%	0.25%	LGIM UK Equity Index Fund	0.45%	0.45%
			LGIM World Equity Fund (50% GBP hedged)	0.45%	0.45%
			Blackrock Aquila Connect Emerging Markets Fund	0.45%	0.45%

58. Details of the charges are available to members and employers via the website. Members' benefit statements

<sup>35</sup> Schroders Solutions, Investment Consultants

<sup>36</sup> The cap applies to scheme and investment administration charges, excluding transaction costs.

<sup>37</sup> The Lifeplan is the default arrangement. These funds are also available for members to self-select.



include a worked example of how to calculate charges for their own funds.

59. The estimated cumulative impact on members' savings of both charges and other costs is shown in Appendix 3.<sup>38</sup> The Trustee considered the results and concluded that they are reasonable in the context of the investment strategy objectives and having regard to the guidance issued by the Department for Work and Pensions issued in October 2021.<sup>39</sup>
60. Cheviot performance information is shown **after** charges and costs so members can see the actual performance of each option as reflected in their own account value. No changes are therefore required to comply with the 2021 changes in regulations.<sup>40</sup> Performance (calculated using the method provided by the DWP guidance) over one, three and five years for the funds in which members were invested or have been able to invest during the scheme year is shown below.

	1 year		Annual return over 3 years <sup>41</sup>		Annual return over 5 years		Objective
	Fund %	Target %	Fund %	Target %	Fund %	Target %	
<b>Growth</b>	13.9	9.9	13.9	6.9	9.5	7.0	CPI + 4.50%
<b>Moderate</b>	11.5	8.9	11.4	5.9	7.8	6.0	CPI + 3.50%
<b>Low Cost</b>	12.5	12.2	n/a	n/a	n/a	n/a	CPI + 2.50%
<b>Cautious</b>	7.0	7.9	8.2	4.9	5.8	5.0	CPI + 2.50%
<b>Retirement Planning</b>	7.0	7.9	6.7	4.5	4.6	4.2	CPI +2.50%
<b>Annuity Planning</b>	(4.7)	(4.91)	5.7	6.4	3.8	4.5	FTSE + 15Yr Index
<b>Cash</b>	(0.2)	0.0	0.2	0.3	0.2	0.3	7 day Sterling LBID
<b>HSBC Shariah</b>	22.8	23.6	n/a	n/a	n/a	n/a	In line with Shariah benchmark
<b>LGIM Ethical</b>	24.0	24.7	n/a	n/a	n/a	n/a	In line with ethical benchmark
<b>LGIM UK Equity Index Fund</b>	18.1	18.3	n/a	n/a	n/a	n/a	In line with FTSE All-Share Index
<b>LGIM World Equity Fund (50% GBP hedged)</b>	22.1	13.3	n/a	n/a	n/a	n/a	50% in line with FTSE World Index 50% in line with FTSE World Index - GBP hedged
<b>Blackrock Aquila Connect Emerging Markets Fund</b>	-2.7	-2.3	n/a	n/a	n/a	n/a	In line with MSCI Emerging Markets Index

Source: Schroders Solutions, Bloomberg, Old Mutual Wealth, Mobius Life, LGIM, Blackrock, HSBC

## Conclusion

61. The Directors are confident that the Trust is managed effectively on behalf of members and employers as described in this Statement and in compliance with relevant statutory provisions and other guidance.

*Sir Derek Morris*

**Sir Derek Morris**  
**Chair, Cheviot Trustees Limited**

28 July 2022

<sup>38</sup> Based on latest available information

<sup>39</sup> The assumptions were considered and agreed by the Investment Committee in September 2019.

<sup>40</sup> Occupational Pension Schemes (Administration, Investment, Shares and Governance (Amendment)) Regulations 2021. <sup>41</sup> Funds marked "n/a" represent periods before the funds were added to the scheme. Past performance is not a guide to future returns.



## Appendix 1

### Confirmation of non-affiliated status

Non-affiliated means independent of any undertaking which provides advisory, administration, investment or other services in respect of the Money Purchase Section. All directors are asked to confirm their non-affiliation status annually. As six of the ten Directors (including the Chair) are designated non-affiliated, the requirement that a majority of the Directors, including the Chair, are non-affiliated has been met.

Name	Position	Affiliation status	Non-affiliated since	Last appointed
<b>Sir Derek Morris</b>	Chair and co-opted Director	Sir Derek has certified that he meets the non-affiliated requirements.	April 2017	July 2022
<b>Mr Ian Gault</b>	Employer Director and Vice Chair	Mr Gault has certified that he meets the non-affiliated requirements.	1 February 2021	June 2021
<b>Ms Diane Elliott-Smith</b>	Member Director	Ms Elliott-Smith has certified that she meets the non-affiliated requirements	January 2019	January 2022
<b>Ms Frances Longmore</b>	Member Director	Ms Longmore has certified that she meets the non-affiliated requirements	January 2019	January 2022
<b>Mr Gerald Kidd</b>	Employer Director	Mr Kidd has certified that he meets the non-affiliated requirements.	June 2015	December 2020
<b>Mr Giles Orton</b>	Member Director	Mr Orton has certified that he meets the non-affiliated requirements.	September 2018 (as a co-opted Director)	March 2021 (as a member Director).



## Appendix 2

### Impact of Transaction Costs

- Day-to-day trading costs are incurred when the manager of an underlying fund buys and sells investments within their pooled fund and are reflected in the fund's performance. The transaction costs are in addition to the published annual management charge.
- The table below sets out transaction costs for each option for 2021 invested through the Mobius Life platform in 2020. Mobius Life has sourced transaction costs from the underlying fund managers. Each underlying fund manager provides data in 12-month periods. Transaction costs are not fully available for 2021 and reflect the latest available information, with the majority of costs covering the 12 month period to 30 September 2021. It is likely that transaction costs will usually include some estimated costs; and finalised figures will be disclosed retrospectively in next year's report. The Trustee and its advisers continue to press investment managers for more timely reporting.
- Members will experience varying levels of cost depending on which options they are invested in (either through the Cheviot Lifeplan or through individual choice). Similar costs to those shown are expected to continue in the future. A negative cost means that the fund benefited from transaction activity of other investors, rather than incurring a transaction cost.
- The actual transaction costs for 2021 are included for comparison purposes where available, having regard to the Department for Work and Pensions' guidance (and any future guidance).<sup>42</sup>

Investment option	Costs in 2021	Costs in 2020
<b>Investment options used in the Lifeplan<sup>43</sup> and available for members to select</b>		
Cheviot Growth	-0.01%	0.05%
Cheviot Moderate	-0.03%	0.04%
Cheviot Cautious	-0.04%	0.01%
Cheviot Retirement Planning	0.03%	0.01%
Cheviot Cash	-0.02%	-0.02%
<b>Investment options for members to select</b>		
Cheviot Low Cost	-0.01%	0.05%
Cheviot Annuity Planning	0.03%	0.42%
HSBC Islamic Global Equity	0.02%	0.02%
L&G Ethical Global Equity	0.04%	0.13%
BlackRock Aquila Connect Emerging Markets Fund	-0.04%	0.09%
Cheviot Global Equity Fund	-0.04%	0.07%
L&G UK Equity Index Fund	0.01%	-0.03%

Source: 2021 transaction costs Mobius Life. 2020 transaction costs, Mobius Life. These figures represent the latest available information as at the time of publication.

Most of the blended funds have reported negative transaction costs over the 2021 scheme year (therefore resulting in a positive impact), compared to the majority reporting a positive cost in 2020. There was no single factor which resulted in a different impact year-to-year. The difference was a function of manager cash flows, trading activity and general changes to the cost of trading.

- The Investment Committee has reviewed the estimated transaction costs for each investment option and

<sup>42</sup> The full transaction costs were not available in the 2020 Chair's Statement but were based on an annual cost to 30 September 2019.

<sup>43</sup> The Lifeplan is the default arrangement.



## Appendix 2

underlying funds and are comfortable the costs are reasonable, noting two underlying funds where the costs are particularly high. The Trustee believes that these higher costs are acceptable, given the returns associated with them. The sources of the higher costs have been identified as:

- a. *L&G Asia Pacific ex Japan Developed Equity Index GBP Hedged (Lifeplan and Cheviot Low Cost)* has higher transaction costs than other equity funds, due primarily to the cost of currency hedging in Asia Pacific regions.
- b. *BlackRock iShares Global Property Securities Equity Index fund (Cheviot Low Cost)* also has higher transaction costs primarily due to the increased complexity of the underlying transactions of the fund's holdings.



## Appendix 3

### Cumulative costs

#### Cheviot Lifeplan

The level of transaction costs depends on which investment option is selected. The Cheviot Lifeplan automatically switches members between options through their working life to manage investment risk on their behalf. The chart below shows an illustrative example<sup>44</sup> of the effect over time of the application of both the fixed charges and the variable costs on the value of a member's **estimated** account at their Target Retirement Date<sup>45</sup>. It assumes that the account is invested in the Cheviot Lifeplan for the whole period. The after charges figure therefore include the automatic switching process of the Lifeplan, transaction costs (shown in Appendix 2) and the ongoing annual management charge (shown in para 62). Costs can change over time.

The figures are based on a number of assumptions based on the Cheviot membership:

- a. Starting pension account of £10,000.
- b. Inflation of 2.5% each year.<sup>46</sup>
- c. Member salary of £25,000
- d. Salary and contributions increase each year by 1% over inflation.
- e. Combined contributions from member and employer of 12% each year.
- f. Cheviot reduced the AMC on most funds by 0.05% with effect from July 2021. It is assumed that these reduced AMCs will apply in the future.
- g. Transaction costs used are an average of the last three years of data in respect of the underlying pooled fund where available and are assumed to continue for future years. This is expected to be representative of the costs incurred by Cheviot members.
- h. Investment return growth in line with the targets set by the Trustee.<sup>47</sup>

**Cheviot Lifeplan**  
**Projected pension pot in today's terms**

Years	Before charges	After costs and charges <sup>48</sup>
1	£13,800	£13,700
3	£21,400	£21,100
5	£29,700	£29,100
10	£54,600	£52,400
15	£85,700	£80,800
20	£120,800	£111,800
25	£163,000	£148,000
30	£213,800	£190,400
35	£272,700	£237,700
40	£331,400	£282,400

For example, if you invest for 20 years prior to your Target Retirement Date (e.g. age 45 if your Target Retirement Date is your 65 birthday), the projections show you will have a pot of approximately £111,800 at Target Retirement Date after all charges have been deducted.<sup>49</sup> Before charges, the projected pot size is £120,800, meaning the projected impact of costs and charges over the twenty-year period is £9,000.

The estimated costs of switching funds as part of the Cheviot Lifeplan over a 40 year membership averages 0.01% per annum on a worse case basis, and assuming that the fund is cashed in at retirement. The Trustee considers this cost to be reasonable and necessary in the context of the Lifeplan's objectives.

<sup>44</sup> Having regard to the guidance issued by Department for Work and Pensions in September 2018

<sup>45</sup> Target Retirement Date is the date when a member plans to start to access their pension savings

<sup>46</sup> In today's terms this means that the impact of estimated future inflation has been taken into account

<sup>47</sup> The accumulation rates are calculated in line with Actuarial Standard Technical Memorandum (AS TM<sub>1</sub>). Growth +4.5% p.a., Moderate 3.5% p.a., Cautious, 2.5% p.a., Retirement Planning 2.5% p.a., Cash 0% p.a., Annuity Planning 0% p.a., Low Cost 2.5% p.a. (all returns net of inflation), HSBC Islamic Global Equity, L&G Ethical Global Equity, L&G UK Equity, L&G World Equity, BlackRock Aquila Connect Emerging Markets, all 4.5%..

<sup>48</sup> This shows the net projected fund after all costs and charges have been deducted.

<sup>49</sup> Based on the assumptions set out above.



## Appendix 3

### Individual fund costs

Some members prefer to choose their own investment option to meet their plans for retirement. The chart below shows an illustrative example of the effect over time of the application of the costs and charges for each individual option and are based on the same assumptions as shown above for the Cheviot Lifeplan, but assuming that the member stays invested in the same option through the period. The 'After costs and charges' column shows the net projected fund after all costs and charges, including transaction costs, have been deducted.

### FUNDS USED IN THE CHEVIOT LIFEPLAN

YRS	Growth		Moderate		Cautious		Retirement Planning		Cash	
	Before charges	After costs and charges	Before charges	After costs and charges	Before charges	After costs and charges	Before charges	After costs and charges	Before charges	After costs and charges
1	£13,800	£13,700	£13,700	£13,600	£13,600	£13,500	£13,600	£13,500	£13,200	£13,200
3	£21,400	£21,100	£20,900	£20,600	£20,400	£20,100	£20,400	£20,100	£19,300	£19,200
5	£29,700	£29,100	£28,700	£28,100	£27,700	£27,100	£27,700	£27,100	£25,400	£25,200
10	£54,600	£52,400	£51,300	£49,300	£48,200	£46,400	£48,200	£46,300	£41,400	£40,800
15	£86,400	£81,400	£78,900	£74,500	£72,200	£68,200	£72,200	£68,100	£58,100	£57,000
20	£126,700	£117,200	£112,500	£104,300	£100,100	£93,000	£100,100	£92,800	£75,600	£73,800
25	£177,600	£161,200	£153,100	£139,400	£132,500	£121,100	£132,500	£120,700	£94,100	£91,300
30	£241,700	£215,000	£202,100	£180,700	£170,000	£152,700	£170,000	£152,100	£113,400	£109,400
35	£322,300	£280,400	£261,200	£228,700	£213,300	£188,000	£213,300	£187,100	£133,700	£128,200
40	£423,400	£359,500	£332,200	£284,500	£263,300	£227,400	£263,300	£226,200	£155,000	£147,500



## Appendix 3

### OTHER FUNDS AVAILABLE

YRS	Annuity Planning		Low Cost		HSBC Islamic Global Equity		L&G Ethical Global Equity		BlackRock Aquila Connect Emerging Markets Fund Cash		L&G World Equity Index Fund (50% GBP Hedged)		L&G UK Equity Index Fund	
	Before charges	After costs and charges	Before charges	After costs and charges	Before charges	After costs and charges	Before charges	After costs and charges	Before charges	After costs and charges	Before charges	After costs and charges	Before charges	After costs and charges
1	£13,200	£13,200	£13,600	£13,500	£13,800	£13,700	£13,800	£13,700	£13,800	£13,700	£13,800	£13,700	£13,800	£13,800
3	£19,300	£19,200	£20,400	£20,200	£21,400	£21,000	£21,400	£21,000	£21,400	£21,100	£21,400	£21,100	£21,400	£21,200
5	£25,400	£25,300	£27,700	£27,300	£29,700	£29,000	£29,700	£29,000	£29,700	£29,200	£29,700	£29,300	£29,700	£29,300
10	£41,400	£40,700	£48,200	£46,900	£54,600	£52,400	£54,600	£52,200	£54,600	£53,000	£54,600	£53,100	£54,600	£53,100
15	£58,100	£56,400	£72,200	£69,300	£86,400	£81,300	£86,400	£80,800	£86,400	£82,700	£86,400	£82,800	£86,400	£83,000
20	£75,600	£72,800	£100,100	£94,900	£126,700	£116,900	£126,700	£116,100	£126,700	£119,700	£126,700	£119,800	£126,700	£120,200
25	£94,100	£90,300	£132,500	£124,100	£177,600	£160,600	£177,600	£159,200	£177,600	£165,400	£177,600	£165,700	£177,600	£166,300
30	£113,400	£109,200	£170,000	£157,200	£241,700	£214,100	£241,700	£211,900	£241,700	£221,800	£241,700	£222,300	£241,700	£223,200
35	£133,700	£129,500	£213,300	£194,500	£322,300	£278,900	£322,300	£275,600	£322,300	£290,800	£322,300	£291,500	£322,300	£293,000
40	£155,000	£151,300	£263,300	£236,300	£423,400	£357,400	£423,400	£352,500	£423,400	£375,100	£423,400	£376,100	£423,400	£378,300



Appendix 4



the Cheviot **trust**

Statement of  
Investment Principles  
Money Purchase  
Section of the  
Cheviot Pension

October 2020

## 1. Introduction

- 1.1 This Statement describes the investment strategy and policies of the Trustee of the Money Purchase Section of the Cheviot Pension. It reflects the legislative requirements<sup>50</sup> and forms the basis for the decision-making process in relation to investment strategy.
- 1.2 The Trustee has obtained and considered written advice from the Investment Adviser and Scheme Actuary, both of which the Trustee believes are qualified by their ability in, and practical experience of financial matters and have the appropriate knowledge and experience of, the management of investments of pension schemes. The Trustee also consulted its lawyers and employers about this Statement.
- 1.3 The Trustee will also obtain and consider advice (as required by law) before making any future changes in investment strategy or investment options, and before revising this Statement.
- 1.4 Information about the Trustee, the directors' knowledge and understanding and the governance structure is available in the Chair's Governance Statement, available online.

## 2. Investment objectives

- 2.1 The primary objectives of the Trustee for the Money Purchase Section are:
- i. To provide a default plan, called the **Cheviot Lifeplan** to provide members with an "adequate" retirement income<sup>51</sup> in as smooth a manner as possible, taking risk where it is most rewarded and protection where it is most needed. The Cheviot Lifeplan is based on a range of investment options and strategies which are also available to members who wish to choose their own investment approach.
  - ii. To provide a range of investment options that members can select.
  - iii. To provide an element of stability in investment returns. The Trustee believes that stable returns are more valuable to members than volatile returns. This is reflected in how risk is measured, both by fluctuations in returns, and historic and prospective falls in value.
  - iv. To provide investment options for members who wish to invest in line with investment beliefs where financial gain is not the sole criterion.
  - v. To provide investment options for members who wish to invest in line with stock markets.
  - vi. To ensure that contributions payable by the employers and members are invested in accordance with the Cheviot Lifeplan or the options selected by members.
  - vii. As far as practicable and appropriate, to provide investment options that enable members to invest and disinvest daily.

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<sup>50</sup> Including those of the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005.

<sup>51</sup> Measured by reference to the UK Living Wage and the Pension Commission's Target Replacement Ratio.

- 2.2 The implementation of the policies in this statement are intended to ensure assets are invested in the best interests of members by seeking to secure an appropriate level of risk for the member depending on their age and planned retirement date, including the Cheviot Lifeplan, whilst allowing members to make their own decisions if they choose to.

### The Cheviot Lifeplan

- 2.3 The **Cheviot Lifeplan** is available for those members who do not wish to make an investment choice. All members who are auto enrolled will be automatically invested in the Cheviot Lifeplan. By transitioning members automatically through the investment options, the Cheviot Lifeplan aims to maximise long term returns by taking more risk early on and reducing the level of risk as members get closer to retirement. The approach reflects that most members take a 25% cash sum at retirement and that very few members are currently choosing to purchase an annuity.
- 2.4 The Cheviot Lifeplan continues after retirement for members choosing to take their benefits over a period of years, either as a series of lump sums or through drawing down a regular income. Members can change their investment option at any time.
- 2.5 Three growth funds, one retirement planning fund and a cash fund<sup>52</sup> are used in the **Cheviot Lifeplan** to provide suitable investment options for members throughout their membership, targeting expected returns of each option. The date of retirement is based on the member's target retirement date, or State Pension Age if no target retirement date has been set.

### Fund objectives

- 2.6 A list of available funds at the date of this Statement with the relevant risk rating and expected target returns is set out in Appendix A<sup>53</sup>. These objectives are reviewed annually by the Investment Committee against the likely investment outcomes of the options.
- 2.7 The primary investment objectives for the key funds in the Cheviot Lifeplan<sup>54</sup> are to achieve inflation-related returns over a full market cycle of about five years. The secondary investment objective is to provide these returns with less fluctuation in value than the market<sup>55</sup>.
- 2.8 The primary investment objective for other options is to achieve a return consistent with the stated objective related to that asset class.
- 2.9 The Trustee also provides alternative strategies based on a combination of other fund options. The expected returns for these strategies are based on the underlying funds.

## 3. Risk

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<sup>52</sup> See Appendix A.

<sup>53</sup> A current list of fund options can be requested by emailing [ceo@cheviottrust.com](mailto:ceo@cheviottrust.com) and is available on the website.

<sup>54</sup> See Appendix A.

<sup>55</sup> The Low Cost option does not have this secondary objective as it is focused on lower fees.

- 3.1 The Trustee recognises that members face five key risks.
- i. Inflation risk – that the purchasing power or cash value of their fund is not maintained
  - ii. Accumulation risk – that funds do not grow as anticipated
  - iii. Pension conversion risk – that the value of their fund does not keep pace with the cost of providing a pension
  - iv. Capital protection risk – that the value of their fund to provide a cash lump sum falls.
  - v. Security of assets risk - Funds on the investment platform are invested through a long-term insurance policy with Mobius Life Limited. The Trustees are satisfied that the assets are as safe as possible whilst still enabling them to manage the assets using a range of underlying managers.
- 3.2 The Trustee has considered these risks (and other relevant risks such as market risk, counterparty risk, operational risk, environmental/social/governance risk or the risk of failing to provide value for members) when designing the Cheviot Lifeplan and a range of investment options for members to select.
- 3.3 Risks are measured and managed as part of regular investment strategy governance, asset allocation reviews and investment strategy reviews. The Trustee identifies, evaluates, manages and monitors risks to the Money Purchase Section, including their impact, what controls can be put in place to manage those risks and the effectiveness of the risk management process. As part of quarterly reporting, risks are measured against risk tolerance and market conditions to check whether the performance of each investment option remains in line with the agreed risk objectives.
4. **Investment strategy**
- 4.1 When setting the investment strategy, the Trustee will consider, among other things, the suitability of the investments, the need for diversification, the suitability of the fund managers, how members have taken their benefits historically, how the Trustee expects members to take their benefits in the future and compliance with legal requirements.
- 4.2 The range of options available for members varies from time to time and details of the current options and the underlying asset allocation are available online or on request from Cheviot.
- 4.3 All options in the Cheviot Lifeplan (other than Cash) are invested in a diversified range of assets in order to reduce investment risk, which can include (but are not limited to) assets such as developed market equities, emerging market equities, UK or other sovereign bonds, corporate bonds, high yield bonds, real estate and money market instruments. The balance between different kinds of investments reflects the risk profiles of each option. Asset allocation is reviewed at least monthly and changes are actioned as soon as practical.

## 5. Other issues

### Environmental, social and governance factors

- 5.1 When selecting and monitoring an investment the Trustee will consider financially material factors. These are factors that can affect the long-term financial performance of investments and can (but do not have to) include the financial implications of environmental, social and governance factors (otherwise known as ESG) where relevant. All references to ESG also include climate change.
- 5.2 The Trustee has been considering the nature of its investments in the context of long-term financial performance and the extent to which the existing investments implicitly include consideration of ESG factors. It is working to provide more information about how it includes consideration of these factors in its decision making. The Trustee is also considering those elements of the investment strategy where the investment objective is short term in nature and where taking account of ESG factors is unlikely to influence investment performance.
- 5.3 The Trustee is working with the Investment Adviser to understand the new information and assessment tools which are being developed to assist the Trustee to assess the commitment and performance of managers in relation to long term financial factors deriving from ESG. This will help the Trustee when making decisions where ESG factors are relevant and monitor performance to encourage change where appropriate.
- 5.4 Since the underlying investment funds used are pooled products (i.e. funds that are used for investment purposes by different clients), the Trustee is not able to require the managers concerned to make changes to their investment approach to take account of ESG factors, or give directions on stewardship such as how voting rights are used. As the Trustee does not have voting rights in respect of its investments in pooled products, it relies on the managers' engagement with the underlying funds in respect of matters including the approach to performance, strategy, capital structure, conflict management, risks, ESG impact and corporate governance. The Trustee does not currently engage in any formal way with other pooled fund investors in order to exert pressure on managers.
- 5.5 The primary way the Trustee considers long term financial performance including ESG factors and stewardship is through advice from the Investment Adviser and its engagement with investment managers. This enables the Trustee to understand the managers' investment approach in relation to such matters (where appropriate).
- 5.6 Long term financial performance including ESG factors and stewardship is considered at the point of initial investment as a part of the manager selection criteria. Such factors may also be important criteria for considering the replacement of a manager. Once a manager is appointed, the Trustee can monitor ongoing compliance with ESG and other factors like stewardship as a part of overall performance and use its Investment Consultant's engagement with the managers on the Trustee's behalf in its decision making (where appropriate).

**Non-financially material factors**

- 5.7 The Trustee does not at present take into account non-financially material factors (such as members' ethical considerations, social and environmental impact matters or quality of life considerations) when making investment decisions on behalf of members as there is not likely to be a common view on any ethical matters amongst members; but makes available two funds, one consistent with Sharia principles and one reflecting a particular ethical approach, which aim to satisfy certain sets of beliefs. These are available to all members. Given this, the Trustee has no plans to seek the views of the membership on ethical considerations at the current time.

**Responsible investing**

- 5.8 The Trustee is supportive of the UN Principles for Responsible Investing and the UK Stewardship Code and considers whether managers are signatories and adhere to them.

**Asset manager review**

- 5.9 As part of the appointment of the investment managers, the Trustee has entered formal manager agreements and accepted the terms of pooled investment vehicles, setting out the scope of the activities of each investment manager and pooled investment vehicle, their charging basis and other relevant matters. The Trustee has a limited ability to renegotiate commercial terms with such vehicles. The key mechanism by which the Trustee can influence managers in this context is its ability to decide whether to invest or disinvest in the manager's fund.
- 5.10 The Trustee and Investment Adviser undertake regular reviews of the investment managers. These reviews incorporate benchmarking of performance and fees, with some managers on performance-related fees as well as quarterly performance reviews (including understanding key drivers of performance). The Investment Advisor and Trustee review the governance structures of the investment managers, as well as assessing whether their fees, expenses (and any other charges) are in line with industry peers at inception and from time to time whilst invested. The Trustee's arrangements with its investment managers are ongoing, with their duration subject to the Trustee's reviews of its managers. The Trustee's ability to terminate a manager's mandate is facilitated by the liquid nature of the Trustee's investments. The Trustee's regular reviews involve an assessment of whether the manager's performance and remuneration are in line with the Trustee's aims and objectives including the policies in this document.
- 5.11 Where it can be determined, the Trustee and Investment Advisor assess whether the investment manager remuneration arrangements are aligned with the Trustee's objectives on an annual basis. The Trustee periodically review the overall value-for-money of using the Investment Advisor and investment managers. Information in relation to costs associated with investing is included in annual fee review considered by the Trustee. The Trustee expect the investment managers:

- to align their investment strategy and decisions with the Trustee's investment policies, such as their return target and the restrictions detailed in the Investment Management Agreement/pooled fund investment documentation, and
- to assess and make decisions based on the medium- to long-term financial and non-financial performance (meaning relevant governance functions that can ultimately drive financial performance and enable trustee oversight) of an issuer of debt or equity, and to engage with the issuers to improve this medium- to long -term performance.

The success of such engagement will contribute to the Plan's performance, which are reflected and measured relative to the Trustee's long-term performance objectives, and managers are incentivised to do so, as if managers' funds do not deliver in line with the expected risk and return policy, managers are aware that the Trustee will consider disinvesting. In addition, managers are aware that by failing to respond to the Investment Adviser's engagement on the Trustee's behalf, the manager risks being removed from the Investment Adviser's buy list.

- 5.12 The Trustee acknowledges the inherent potential for conflicts of interest which exist as part of ongoing investment management business activities. Where investment managers are regulated, they are likely to be subject to such requirements to manage conflicts of interest as are applicable in their jurisdiction of incorporation or operations. The Trustee and Investment Adviser monitor this as part of ongoing review. As an FCA regulated firm, the Investment Adviser is required to prevent or manage conflicts of interest. The Investment Adviser's Conflict of Interest policy is available publicly.<sup>56</sup>
- 5.13 The Trustee oversees the turnover costs (where available) incurred by the investment managers as part of its ongoing monitoring process and evaluates such costs to determine if they are in line with peer groups and the Investment Adviser's expectations. Information in relation to costs associated with investing is included in annual fee review considered by the Trustee. The Trustee does not have a defined targeted portfolio turnover or turnover range but monitors portfolio turnover on a quarterly basis to ensure that this is in line with each particular mandate. Where there are material deviations the Trustee engages with investment managers to understand the rationale for such deviations and take appropriate action.

### **Liquidity**

- 5.14 Where practicable the Trustee will invest in assets that can be quickly realised (i.e. bought and sold) to allow it to invest or disinvest in each on a daily basis, recognising that contributions need to be invested promptly and members expect to be able to access or transfer their funds quickly. In practice the Trustee facilitates investments and disinvestments at least twice a week.

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<sup>56</sup> [https://riverandmercantile.com/Asp/uploadedFiles/file/Corporate\\_Governance/RMG\\_Conflicts\\_of\\_Interest\\_Policy.pdf](https://riverandmercantile.com/Asp/uploadedFiles/file/Corporate_Governance/RMG_Conflicts_of_Interest_Policy.pdf)

**Review of Statement of Investment Principles**

- 5.15 The Trustee's investment policy and the investment options offered to members and described in this Statement comply with the relevant legislation and are reviewed each year. During the year, the Trustee may add, change or remove investment options in accordance with the policies in this statement. This Statement will be reviewed at least every year or when a significant change to investment strategy or policy is made. Any new investment options will be reflected in the next review of this Statement.
- 5.16 This statement is published on the Cheviot Trust website.

Signed on behalf of Cheviot Trustees Limited

*Elsbeth McKinnon*

Date : 1 October 2020

The investment funds which currently make up the Cheviot Lifeplan<sup>57</sup> and self-select fund options are set out in the tables below. The funds used in the Cheviot Lifeplan<sup>58</sup> have specific targets for stability of returns measured against the market which are reviewed by the Investment Committee each quarter. Any changes in options will be reflected when the Statement of Investment Principles is reviewed. An up to date list of fund options is always available from [ceo@cheviottrust.com](mailto:ceo@cheviottrust.com). The range of self-select funds and alternative retirement strategies are set out on the next page.

## Cheviot Lifeplan

Fund	Long Term Objective	Risk rating (out of 6)
<b>Pre-retirement<sup>59</sup></b>		
<b>Cheviot Growth</b>	CPI + 4% - 5%	5
<b>Cheviot Moderate</b>	CPI + 3% - 4%	4
<b>Cheviot Cautious</b>	CPI + 2% - 3%	3
<b>Cheviot Retirement Planning</b>	CPI + 2% - 3%	3
<b>Cheviot Cash (25% of total fund)</b>	In line with cash benchmark	1
<b>Post-Retirement</b>		
<b>Cheviot Retirement Planning</b>	CPI + 2% - 3%	3
<b>Cheviot Cash (10% of total fund)</b>	In line with cash benchmark	1

The Cheviot Lifeplan transitions members' savings through different funds through their membership based on a date selected by the member (Target Retirement Date) or State Pension Age if no date has been set. The move between funds takes five years until the last transition before retirement when the switch is completed over two years. The change to post retirement takes place when members take their tax-free cash. The chart below shows where funds are invested at different times.

More than 25 years from retirement	<b>Cheviot Growth</b>
20 years from retirement	<b>Cheviot Moderate</b>
5 years from retirement	<b>Cheviot Cautious</b>
1 year from retirement	<b>75% Cheviot Retirement Planning 25% Cheviot Cash</b>
Post retirement	<b>90% Cheviot Retirement Planning 10% Cheviot Cash</b>

<sup>57</sup> The default fund for the purposes of the legislation.

<sup>58</sup> Other than the Cheviot Cash option.

<sup>59</sup> Retirement is defined as when a member takes their tax-free cash.

## Self- Select options

<b>Fund</b>	<b>Long Term Objective<sub>1</sub></b>	<b>Risk rating (out of 6)</b>
<b>Cheviot Growth</b>	CPI + 4% - 5%	5
<b>Cheviot Moderate</b>	CPI + 3% - 4%	4
<b>Cheviot Cautious</b>	CPI + 2% - 3%	3
<b>Cheviot Retirement Planning</b>	CPI + 2% - 3%	3
<b>Cheviot Cash</b>	In line with cash benchmark	1
<b>Cheviot Low Cost</b>	CPI + 2% - 3%	4
<b>HSBC Shariah</b>	In line with Shariah benchmark	6
<b>LGIM Ethical</b>	In line with ethical benchmark	6
<b>LGIM UK Equity Index Fund</b>	In line with FTSE All-Share Index	6
<b>LGIM World Equity Fund (50% GBP hedged)</b>	50% in line with FTSE World Index 50% in line with FTSE World Index - GBP hedged	6
<b>Blackrock Aquila Connect Emerging Markets Fund</b>	In line with MSCI Emerging Markets Index	6

## APPENDIX B

**ADDITIONAL FUNDS FOR NAMED EMPLOYERS**

The Trustee may agree with certain employers to provide access for their employees or former employees to specific additional funds to those set out in Appendix A. These funds will be governed under the same arrangements as the Cheviot arrangements but access to these funds is restricted to employees or ex-employees of named employers.

The Trustee will regularly review these additional options against their objectives and may change or withdraw them in future if necessary. The additional options are currently as set out below. Any changes in options will be reflected when the Statement of Investment Principles is reviewed. An up to date list of fund options is always available from [ceo@cheviottrust.com](mailto:ceo@cheviottrust.com).

<b>Fund</b>	<b>Long Term Objective</b>	<b>Risk rating (out of 6)</b>
<b>Blended funds</b>		
<b>R&amp;M Long Term Growth Fund</b>	CPI + 5%	4
<b>R&amp;M Stable Growth Fund</b>	CPI + 4%	3.5
<b>R&amp;M Cautious Growth Fund</b>	CPI + 3%	3
<b>R&amp;M Fixed Annuity Protection Fund</b>	Match the movement in the price of fixed annuities (investing in a mix of government and corporate bonds)	2
<b>R&amp;M Cash Fund</b>	Match a cash return	1