Statement of Investment Principles

March 2023

Money Purchase Section

An authorised Master Trust

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[1] 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[2] 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.

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.

[1] Including those of the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005.
[2] Measured by reference to the UK Living Wage.

The approach takes into consideration that most members take a 25% cash sum at retirement but balances it against the need for return. Very few members are currently choosing to purchase an annuity and so this is accommodated through providing an option for members to select rather than in the Cheviot Lifeplan.

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[3] 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.[4] 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[5] 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.[6]

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

3.1 The Trustee recognises that members face three 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 use 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] See Appendix A.
[4] A current list of fund options can be requested by emailing ceo@cheviottrust.com and is available on the website.
[5] See Appendix A.
[6] The Low Cost option does not have this secondary objective as it is focused on lower fees.

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, patterns of member behaviour at retirement 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 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. The Trustee receives an annual report which sets out the approach to ESG consideration and enables an assessment of its effectiveness. ESG is integrated into the decision-making process and most Cheviot managers take ESG factors into account as part of their investment process. It continues to investigate new information and assessment tools to support its assessment of managers. The Trustee is also considering those elements of the investment strategy where the investment objective is short term in nature and taking account of ESG factors is unlikely to influence investment performance.

5.3 The Investment Committee has considered the implications of climate change on the portfolio's future investment returns in detail based on the data available. The Trustee has adopted a bespoke net zero commitment by 2050, reflecting the Paris Agreement's objectives. It reflects the Board's fiduciary responsibilities to members and employers and the need for governments and policymakers to deliver on their commitments to achieve the temperature goals of the Paris agreement.

5.4 Work continues on the implications of climate change with focus on improving the data available from managers to enable more accurate setting of targets. More information is available in the TCFD report available online.

5.5 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 to exert pressure on managers but is looking to do so in 2023.

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 manger 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 currently 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 three funds, one consistent with Sharia principles, one reflecting a particular ethical approach and an ESG equity fund, 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 its 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 Advisor is required to prevent or manage conflicts of interest. The Investment Advisor's Conflict of Interest policy is available publicly.[7]

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 Advisor'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 line in 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.

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

[7] Conflicts Framework Summary for External Use Schroders.pdf

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

Signature: ELSPETH MCKINNON

Date: 29/03/2023

Investment options

The investment funds which currently make up the Cheviot Lifeplan[8] and self-select fund options are set out in the tables below. The funds used in the Cheviot Lifeplan[9] 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. 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)
Pre-retirement[10]		
Cheviot Growth	CPI + 4% - 5%	5
Cheviot Moderate	CPI + 3% - 4%	4
Cheviot Cautious	CPI + 2% - 3%	3
Cheviot Retirement Planning	CPI + 2% - 3%	3
Cheviot Cash (15% of total fund)	In line with cash benchmark	1
Post-Retirement		
Cheviot Retirement Planning	CPI + 2% - 3%	3
Cheviot Cash (10% of total fund)	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	**Cheviot Growth**
20 years from retirement	**Cheviot Moderate**
5 years from retirement	**Cheviot Cautious**
1 year from retirement	**85% Cheviot Retirement Planning** **15% Cheviot Cash**
Post retirement	**95% Cheviot Retirement Planning** **5% Cheviot Cash**

[8] The default fund for the purposes of the legislation.
[9] Other than the Cheviot Cash option.
[10] Retirement is defined as when a member takes their tax-free cash.

Self- Select options

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

APPENDIX B

Additional Funds for specific 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.