



# Money Purchase Section

of the Cheviot Pension  
An authorised Master Trust

## Chair's Governance Statement

30 July 2024  
For the year ended 31 December 2023



## 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. The structure and content of this document reflects the requirements of the Pensions Regulator for Chair's Statements for money purchase schemes. It 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 2023, assessed against the Combined AAF 01/20 assurance reports on Master Trusts and 05/20 internal control assurance reports. No exceptions were identified in the reports. 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 is authorised by the Pensions Regulator as a Master Trust and is subject to regular 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 2024.

## 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 nine directors in total: four member directors, three employer directors and two co-opted directors.<sup>1</sup>
6. All directors who were appointed or re-appointed to the Board during 2023 were subject to external fit and proper checks. 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. **Employer representatives** are nominated by Participating Employers and appointed by the Trustee Board. The term of one employer representative, Mr Gerald Kidd, expired in 2023. All employers were invited by email to put candidates forward as part of an open, fair and transparent process.<sup>2</sup> 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 Kidd in December 2023, subject to the relevant external checks.<sup>3</sup>
8. **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.
9. 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>4</sup>
10. Appendix 1 of this Statement sets out how the requirement for non-affiliated directors is met. Two member

<sup>1</sup> The Board has agreed to reduce the number of directors to eight. The reappointment process for one employer representative and two member representatives is currently in progress.

<sup>2</sup> Mr Kidd will continue to be designated as non-affiliated as the appointment process was open and transparent.

<sup>3</sup> The checks were completed in January 2024.

<sup>4</sup> Non-affiliated means independent of any undertaking which provides advisory, administration or investment or other services in respect of the Money Purchase Section



representatives, two employer representatives and one co-opted director (the Chair) are designated as non-affiliated.

### Trustee's knowledge and understanding

11. 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

12. During 2023, the Trustee operated six Committees and two Working Parties to help it fulfil its functions. One working party has been disbanded in 2024. 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 of the directors.
13. Two directors are professional trustees and have completed the PMI's Award in Pension Trusteeship.<sup>5</sup> 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 completed the PMI's Certificate in Pension Trusteeship.

### Training

14. An induction process is in place for new directors. There were no new directors during 2023.
15. 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>6</sup> The Governance Policy requires all directors to complete at least twelve hours of training per year, including training at Board and Committee meetings and other professional development.<sup>7</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 2023.
16. An education session for directors is held at least once a year, usually in January following an analysis of skills in December of the previous year. The Education session in January 2023 addressed gaps identified in the skills analysis in Q4 2022. The Education session allows training to be undertaken outside the constraints of a Trustee Board meeting. This process is repeated each year, and the training decks remain available to all trustees.
17. 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>8</sup> All Board papers include a cross reference to the appropriate provision in the trust deed or other document or policy if relevant.
18. Training relevant to the Master Trust during 2023<sup>9</sup> included:
  - (i) Master Trust supervision
  - (ii) AAF reports
  - (iii) Risk management and internal controls
  - (iv) Climate Change and TCFD
  - (v) Trust Deed and Rules and trustee protections.

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<sup>5</sup> Sir Derek and Mr Orton

<sup>6</sup> Includes online training.

<sup>7</sup> Professional trustees are required to undertake 25 hours per year.

<sup>8</sup> January 2023

<sup>9</sup> Some training was presented at Committee meetings but was made available to all Directors.



- (vi) Changes in pensions legislation
  - (vii) Defined contribution strategy review including value for members, member outcomes, decisions at retirement and default investment strategies
  - (viii) Management and assessment of advisers
  - (ix) Investment issues including implementation statements, Statement of Investment Principles and TCFD reporting
  - (x) Cyber security
  - (xi) Assessing Board effectiveness
  - (xii) Directors Duties
  - (xiii) Review of the new General Code
  - (xiv) Conflicts of interest
19. All directors are members of the Pensions Management Institute and receive regular updates and opportunities for further training.
20. Two Directors<sup>10</sup> serve on industry groups and several attended external virtual and in person conferences during the year. A member representative writes technical articles for publication.

## Conclusion

21. 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

22. The Trustee Board reviews its own effectiveness as a group regularly and pursues any actions that flow from its conclusions. All directors completed a questionnaire based on the TPR's template in advance of the June 2023 Board meeting. The combined results were then discussed at that meeting. The following changes were proposed, following the discussion which included consideration of the following issues:
- The difficulty of improving diversity on the Board. The Trustee agreed to be more proactive in the approach to members, specifically asking key firms to advertise Trustee vacancies on their extranet.<sup>11</sup>
  - Monitoring advisers in accordance with their Service Level Agreements (SLAs) and relationships with Scheme Employers and picking up performance issues more quickly.
23. The benefit of each full Board meeting being held in person and the usefulness of the training session held the day before the Board meetings. These issues have been monitored and followed up.<sup>12</sup>

## Governance

24. There is a clearly articulated governance policy, reviewed at least annually,<sup>13</sup> setting out the roles and responsibilities of the directors and the different Committees and Working Parties, together with policies regarding delegations, decision making powers, conflicts of interest, data protection, reporting requirements,

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<sup>10</sup> Elspeth McKinnon, Maralyn Thomas

<sup>11</sup> This will be introduced in 2024.

<sup>12</sup> The Board has had further training on equality, diversity and inclusion in early 2024.

<sup>13</sup> The Governance Policy was regularly reviewed during 2023.



appointment of advisers and climate change.

25. A strategic and operational plan is reviewed quarterly together with a detailed 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

26. A committee structure is used to provide more focus on key areas. Each Committee has written terms of reference which set out delegated powers from the Trustee Board. Actions and risks relevant to each Committee are standing items on the relevant agendas. Working Parties continued to oversee ongoing projects which require oversight from more than one Committee.
27. Four full Trustee Board meetings and seven Board conference calls were held during 2023 together with at least month strategic planning meetings. The Finance and Operations, Risk and Compliance and Legal Committee each held four meetings, the Investment Committee held six meetings, the Funding Committee and the Human Resources Committee held two meetings during the year.

## Feedback from members

28. The Money Purchase Section provides benefits across more than 50<sup>14</sup> employers which are non- associated and based in multiple locations across the country. Approximately 30% of the membership of 5,536 are active members and making contributions.<sup>15</sup>
29. Given the diversity of employers and location, an in-person meeting for members is not effective although we continue to consider whether virtual meetings would be useful. Our approach to encouraging feedback is largely based on regular communications and the website. Approximately 75% of members receive electronic communications, with the rest receiving member specific information by post. The open rate for the benefit statement email in 2023 was around 70%.
30. The Trust issues a report each year to all members which includes topical and relevant items and encourages members to pass on feedback about how the Trust is managed.<sup>16</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.
31. Benefit statements at December 2022 were issued in June 2023 and were in line with the DWP statutory guidance for simpler statements. Two factsheets were issued at the same time: the first explaining some background to the benefit statements, the second explaining the disappointing 2022 performance and why members close to retirement suffered significant falls in value.
32. The benefit statements were made available through the member dashboard, accessed through the member website. To ensure security, the dashboard has two factor authentication. The Board continues to monitor the response to the dashboard. More than 52% of members are accessing the dashboard through the app.
33. The 2023 report included articles on Cheviot's ITN 'Pensions at Work 100' short film made in conjunction with the Pensions and Lifetime Savings Association, the focus on climate change together with a market overview and signposts to core documents, including the Statement of Investment Principles and the Chair's Governance Statement.

## Core financial transactions

34. The Directors have agreed written financial authorities and service level requirements<sup>17</sup> with the internal

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<sup>14</sup> Only includes Active Employers

<sup>15</sup> Figures as at 31 December 2023

<sup>16</sup> Front page of Report to Members issued 2023

<sup>17</sup> The service level requirements were reviewed as part of the Governance Policy in December 2023. Bank accounts are monitored daily.



administration team<sup>18</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.

35. 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

36. A quarterly Governance report on performance against service level requirements is discussed at each Finance and Operations meeting and reported to the Board. The report includes 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.
37. The administration aspects of the Governance report are based on automated and robust management information reporting from the administration system. Based on this management information, the Finance and Operations Committee reviews and discusses any slippage in service standards as necessary, agrees remedial plans if necessary and reports to the Board. All service standards were met during 2023 apart from one quarter<sup>19</sup>.
38. The auditors reviewed key elements of the Governance reports during 2023 as part of their audit process and produced a detailed report which was reviewed by the Finance and Operations Committee. No substantive or systemic issues were identified.

### Conclusion

39. Regular governance reports enable the Board to monitor service standards and identify any issues which need to be remedied. No such issues arose during 2023. The service standards agreed with the administrators have been met during 2023. The finance team did not meet the target in one quarter (May-July) in respect of member payments. Six member payments fell outside the target due to staff sickness, administration delays and trustee unavailability for large payments between May and July 2023. These issues have not reoccurred since.
40. As a result of the provision of detailed management information and the confirmation from the Trust's auditors, 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 2023. This is kept under close review.

### Investment issues

41. 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

42. Investment governance is critical to the success of the investment strategy. It is delegated to an Investment Committee which met six times during 2023.<sup>20</sup> Although the investment options are expressed simply to members to make them easy to understand, the underlying strategy is much more sophisticated and usually

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<sup>18</sup> The administrators are directly employed by the Trustee.

<sup>19</sup> See para 61.

<sup>20</sup> The Board has appointed a fiduciary manager in February 2024 and the investment processes are under review.



includes around 24 different underlying funds excluding self-select options. The asset allocation is managed actively. It is reviewed at least monthly and more often if warranted by market conditions.

### Investment performance

43. The Investment Committee and Trustee Board reviewed investment performance quarterly against performance targets set for each option which included both return and stability targets, risk budgets and market conditions. The Investment Committee also considered an annual report from a third party adviser on the performance of the assets. The Growth, Moderate and Cautious blends all slightly underperformed the short-term benchmarks over the year. The blends also underperformed their long-term inflation-linked benchmarks over 3 years per annum and 5 years per annum, mainly because of the high levels of inflation.

### Investment platform provider

44. All the funds were held on Mobius Life's investment platform to facilitate the Trustee's dynamic asset allocation strategy. All funds trade daily. The prices for five funds which are included in the investment strategy, the HSBC Islamic Global Equity Index Fund, the BlackRock ACS World Equity ESG funds (GBP hedged and unhedged), the Legal and General 0 to 5 Year Gilts Index Fund and the Invesco Physical Gold Fund are available one day later than the other funds. The Investment Committee reviewed an assessment of the security of assets during the year.<sup>21</sup>

### Range of options

45. The range includes five diversified investment options, four equity funds and four specialist funds.<sup>22</sup> The investment factsheets available on the member website explain details of the options and provides quarterly performance information.<sup>23</sup> A new ESG Global Equity Fund was introduced in January 2023 and is also used in the diversified options where appropriate.
46. 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. The range of options allow members to access the most appropriate investment strategy for their individual circumstances and preferences.

### The Cheviot Lifeplan

47. For those members who do not wish to select their own investment options, Cheviot provides the Cheviot Lifeplan,<sup>24</sup> which aims to provide members with an adequate retirement income in as smooth a manner as possible – taking risk where it is best rewarded and offering protection when it is most needed.
48. The Lifeplan uses four of the diversified options to transition members through their membership, with the objective of reducing risk as they approach their target retirement date. The target retirement date is set by the member or defaults to the member's State Pension Age.
49. The Trust also provides post-retirement options to cater for members who want to access their benefits flexibly. The post-retirement investment options set out in the Statement of Investment Principles are currently under review and are not available to members.<sup>25</sup> Since April 2015, a significant proportion of members accessing their benefits have taken advantage of the flexible benefits offered within the Trust.

### Strategy review

50. 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.

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<sup>21</sup> Completed in August 2023

<sup>22</sup> The specialist funds and the equity funds are provided by external managers except for Cheviot Cash fund.

<sup>23</sup> Or links to the performance information for external funds.

<sup>24</sup> The default option for the purposes of the legislation.

<sup>25</sup> The Statement is under review.



51. The annual strategic review took place from May-November 2023 as the Investment Committee raised various follow up questions. 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" 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>26</sup>
52. 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 consistent with other Master Trusts and there was an increase in the use of options other than the Lifeplan when compared to the previous year.
  - (ii) the return expectations for the growth element of the Cheviot Lifeplan remained reasonable, following an increase in the equity holdings in August 2022 to reflect future return expectations.<sup>27</sup>
  - (iii) most members were likely to receive good retirement outcomes, based on the PLSA's Moderate Retirement Living Standards.
  - (iv) Member behaviour remained broadly consistent with wider market trends. The post-retirement options available to members were appropriate and the proposed alignment to the FCA Retirement Pathways would be helpful.
  - (v) It was appropriate to consider whether consolidating the equity holdings in the static portion of each blend, to simplify the underlying holdings and reduce the governance burden.

#### **Cheviot MPS Default Strategy Asset Allocation as at 31/12/2023:**

53. From 1st October 2023, the Trustee is required to disclose the underlying percentage of assets allocated to each of the asset classes shown below in their default arrangement, at different stages of the lifestyle process:

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<sup>26</sup> Retirement in this context is when a member takes their tax-free cash as this is when the investment priorities change.

<sup>27</sup> Cheviot's current investment targets are CPI+





Fund	25-year-old member	45-year-old member	55-year-old member	1 day prior to State Pension Age
Cash	0.1%	0.3%	0.3%	25.5%
Government bonds	1.8%	6.1%	6.1%	19.2%
Corporate bonds	6.9%	21.5%	21.5%	21.9%
Emerging Market Debt	0.0%	0.0%	0.0%	0.0%
Listed equities	91.0%	71.1%	71.1%	31.9%
Private equity	0.0%	0.0%	0.0%	0.0%
Infrastructure	0.0%	0.0%	0.0%	0.0%
Property/ real estate	0.0%	0.0%	0.0%	0.0%
Private debt/ credit	0.0%	0.0%	0.0%	0.0%
Other	0.3%	0.9%	0.9%	1.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Mobius Life, Legal and General, BlackRock, BNY Mellon, PIMCO, Invesco as at 31/12/2023. Schroders Solutions (calculations as at April 2024).

## Implementation of strategic changes

54. The implementation of the consolidation of the equity holdings was deferred as the Trustee was considering the appointment of a new investment adviser. The Trustee changed its approach to investment management in February 2024 and appointed a fiduciary manager, VLK Investment Management. VLK's approach is to provide strategic asset allocation on a bespoke basis for each fund, bearing in mind the relevant timescale, with clarity and conviction in focused positions which consider ESG and climate change. As part of the transition to VLK, the DC investment strategy is being reviewed in detail.

## Statement of Investment Principles

55. The Statement of Investment Principles was reviewed in 2023 to include the changes identified as part of the strategic review. It was issued for consultation in early 2023 and signed on 29 March 2023. It is attached to this Chair's Statement. It is publicly available online. The post-retirement **default** option is not currently available to members. It will be reviewed following the completion of the

## Value for members

56. All charges are borne by members. A key responsibility of the Trustee is to provide good value for money for members.
57. The Trustee appointed consultants<sup>28</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 charges 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.
58. 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 charges, administration and communications. The AAF reports support the assessment of excellent administration as no exceptions to agreed procedures were identified.
59. The blended funds underperformed their short term market benchmarks but were ahead of long-term inflation-linked benchmarks to 31 December 2023. The longer term performance remains behind the inflation-linked targets which resulted in an amber rating for performance.

<sup>28</sup> Schroders Solutions, Investment Consultants



60. The governance structure meets the high standards required for authorised Master Trusts. It provides for a detailed annual review of the membership and projected retirement income to enable the Investment Committee to assess whether the Cheviot Lifeplan remains appropriate to meet the long-term target of providing an adequate retirement income.
61. The administration team met the service standards set by the Trustee during 2023 other than one quarter when the target for member payments was not met.<sup>29</sup> Six complaints were received by the administration team during 2023: only one was upheld. The member portal is working effectively. The introduction of the Cheviot app has improved take up, with most members preferring to access their account via mobile devices (phones and tablets) rather than desk top computers. These services made a positive contribution to member outcomes.
62. 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 commercial providers in the Master Trust market. The Trustee continues to focus on reducing overall charges and expects to be able to do so by the end of 2024. 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

63. 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>30</sup> The actual charges depend on how close the member is to retirement.
64. All funds available to members during 2023 (either through the Cheviot Lifeplan or through individual choice) are identified in the table below which includes details of charges in 2023. 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 2023 are set out in Appendix 2.

Investment options used in the Lifeplan <sup>31</sup>	Charge	Other Investment options available	Charge
Cheviot Growth	0.65%	Cheviot Low Cost	0.45%
Cheviot Moderate	0.65%	Cheviot Annuity Planning	0.50%
Cheviot Cautious	0.65%	HSBC Shariah	0.65%
Cheviot Retirement Planning	0.65%	LGIM Ethical	0.65%
Cheviot Cash	0.25%	LGIM UK Equity Index Fund	0.45%
		LGIM World Equity Fund (50% GBP hedged)	0.45%
		Blackrock Aquila Connect Emerging Markets Fund	0.45%

Details of the charges are available to members and employers via the website. Members' benefit statements include a worked example of how to calculate charges for their own funds.

65. The estimated cumulative impact on members' savings of both charges and other costs is shown in Appendix 1 and has been calculated having regard to the DWP guidance and the AS TM1 Guidelines which came into force in October 2023. The new regulations require a more prescriptive approach and have reduced the expected fund values. These assumptions are consistent with the benefit statements issued to members as at 31 December 2023.
66. The Trustee considered the results and concluded that they are reasonable in the context of the investment

<sup>29</sup> See para

<sup>30</sup> The cap applies to scheme and investment administration charges, excluding transaction costs.

<sup>31</sup> The Lifeplan is the default arrangement. These funds are also available for members to self-select.



strategy objectives. The Trustee believes that the assumptions used in these projections (outlined in Appendix 3) are reasonable in the context of the Scheme's membership and are consistent with the DWP guidance issued in October 2021 and the new actuarial guidance.

67. Cheviot investment performance information is always shown after deduction of charges and costs so members can see the actual performance of each option as reflected in their own account value. The information below complies with the relevant regulations.<sup>32</sup> Performance over one, three and five-year periods for the core options used in the Cheviot Lifeplan together with the self-select options is shown below. Performance over longer periods has seen improvement as while still being impacted by the poor returns in 2022 against rising inflation.

Fund	1 year %		3 year annual return % <sup>33</sup>		5 year annual return %		Long term objective
	Fund	Target	Fund	Target	Fund	Target	
Cheviot Lifeplan							
Growth	15.3	8.5	4.9	11.1	8.4	8.8	CPI + 4.50%
Moderate	13.6	7.5	3.3	10.1	6.4	7.8	CPI + 3.50%
Cautious	10.3	6.5	-0.3	9.1	3.3	6.8	CPI + 2.50%
Retirement Planning	10.3	6.5	-0.3	9.1	2.4	6.6	CPI +2.50%
Self-select funds							
Low Cost	13.6	6.5	2.0	9.1	6.0	6.8	CPI + 2.50%
Annuity Planning	7.0	4.2	-10.6	-10.4	-2.3	-1.8	FTSE Annuities Index
Cash	4.5	4.8	1.8	2.0	1.2	1.4	Sterling Overnight Index Average
HSBC Shariah	16.7	17.8	10.2	11.3	N/A	N/A	In line with Dow Jones Islamic Market Titans 100 Index
LGIM Ethical	26.5	27.5	10.0	10.5	N/A	N/A	In line with FTSE 4Good Index
LGIM UK Equity Index Fund	7.4	7.9	8.2	8.6	N/A	N/A	In line with FTSE All-Share Index
LGIM World Equity Fund (50% GBP hedged)	19.3	20.0	8.5	9.2	N/A	N/A	50% in line with FTSE World Index 50% in line with FTSE World Index - GBP hedged
Blackrock Aquila Connect Emerging Markets Fund	0.7	3.5	-3.9	-3.0	N/A	N/A	In line with MSCI Emerging Markets Index
Blackrock ACS World ESG Equity Tracker Fund (50%) GBP Hedged	19.2	18.9	N/A	N/A	N/A	N/A	50% in line with MSCI World ESG Focus Low Carbon Screened Index 50% in line with MSCI World ESG Focus Low Carbon Screened Index

## Lifestyle Strategies

68. For the strategies where returns vary with age, returns are shown below over 1, 3 and 5 years for a member aged 25, 45, and 55 at the start of the period. Please note that there are three lifestyle options available, but at the ages shown below, the performance at each stage is the same.

Age in 2023	1 year (%)	3 years p.a. (%)	5 years p.a. (%)
25	15.3	4.9	8.4

<sup>32</sup> Occupational Pension Schemes (Administration, Investment, Charges and Governance (Amendment)) Regulations 2021.

<sup>33</sup> The performance of funds not showing 3- or 5-year figures have an inception date later than the requirement.



45	13.9	3.9	7.6
55	13.6	3.3	6.4

Source: Mobius Life, Schroders Solutions (data, as at 31 December 2023). **Past Performance is not a guide to future performance.**

Conclusion

69. 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

30 July 2024



## 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.<sup>34</sup>

Name	Position	Affiliation status	Non-affiliated since	Last appointed <sup>35</sup>	Non-affiliation expires
<b>Sir Derek Morris</b>	Chair and co-opted Director	Director certification	April 2017	July 2022	March 2027 (10 years)
<b>Ms Diane Elliott-Smith</b>	Member Director	Director certification	Jan 2019	Jan 2022	Jan 2029
<b>Ms Frances Longmore</b>	Member Director	Director certification	Jan 2019	Jan 2022	Jan 2029
<b>Mr Stephen Jones</b>	Employer Director	Director certification	June 2024	April 2021 <sup>36</sup>	June 2029
<b>Mr Gerald Kidd</b>	Employer Director	Director certification	June 2015	Dec 2023	May 2025 <sup>37</sup>
<b>Mr Giles Orton</b>	Member Director	Director certification	Sept 2018 (as a co-opted Director)	March 2021 <sup>38</sup> (as a member Director).	March 2028 <sup>39</sup>

<sup>34</sup> The number of non-affiliated directors will reduce to five if the board reduces to eight directors later in 2024. See footnote 1.

<sup>35</sup> Following expiry of their three year term.

<sup>36</sup> Appointment process in progress.

<sup>37</sup> Mr Kidd will have been non-affiliated since 2015 and by 2025 therefore will have reached maximum of 10 year limit.

<sup>38</sup> Appointment process in progress.

<sup>39</sup> Mr Orton will have been co-opted director since 2018 and by 2028 therefore will have reached maximum of 10 year limit.

## Appendix 2

### Impact of Transaction Costs

1. 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.
2. The table below sets out transaction costs for each option invested through the Mobius Life platform in 2023. 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 2023 and reflect the latest available information, with most costs covering the 12-month period to 30 September 2023. 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.
3. 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 2022 are included for comparison purposes where available, having regard to the Department for Work and Pensions' guidance (and any future guidance).<sup>40</sup>

Investment option	Estimated Costs in 2023	Actual costs in 2022
<b>Investment options used in the Lifeplan<sup>41</sup> and available for members to select</b>		
Cheviot Growth	0.06%	0.02%
Cheviot Moderate	0.07%	0.02%
Cheviot Cautious	0.03%	0.03%
Cheviot Retirement Planning	0.03%	0.03%
Cheviot Cash	-0.30%	0.00%
<b>Investment options for members to select</b>		
Cheviot Low Cost	0.08%	0.03%
Cheviot Annuity Planning	-0.39%	0.00%
HSBC Islamic Global Equity	0.00%	0.00%
L&G Ethical Global Equity	0.05%	0.08%
BlackRock Aquila Connect Emerging Markets Fund	0.02%	-0.10%
Cheviot Global Equity Fund	0.11%	0.08%
L&G UK Equity Index Fund	0.00%	0.06%
Global Equity ESG	0.07%	N/A

Source: 2022 transaction costs Mobius Life. 2023 transaction costs, Mobius Life. These figures represent the latest available information as at the time of publication.

Most of the blended funds have reported positive transaction costs over the 2023 scheme year (therefore resulting in a negative impact on members). The majority also reported a positive cost in 2022. The different impact from year to year is a function of manager cash flows, trading activity and general changes to the cost of trading.

4. The Investment Committee has reviewed the estimated transaction costs for each investment option and underlying funds and are comfortable the costs are reasonable.

<sup>40</sup> The full transaction costs were not available in the 2022 Chair's Statement but were based on an annual cost to 30 September 2022.

<sup>41</sup> The Lifeplan is the default arrangement.



## 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>42</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>43</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 the following assumptions based on the Cheviot membership:

- Starting pension account of £10,000 at age 23.
- Inflation of 2.5% each year.<sup>44</sup>
- Member salary of £25,000
- Salary and contributions increase each year by 1% over inflation.
- Combined contributions from member and employer of 12% each year.
- 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.
- Investment return growth in line with the targets set by the Trustee.<sup>45</sup>

Cheviot Lifeplan Projected pension pot in today's terms		
Years to retirement	Before charges	After costs and charges <sup>46</sup>
1	£13,600	£13,500
3	£20,400	£20,100
5	£27,700	£27,100
10	£48,200	£46,300
15	£72,200	£68,000
20	£100,100	£92,600
25	£132,500	£120,400
30	£170,000	£151,700
35	£209,700	£183,300
40	£238,000	£203,800

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 £92,600 at Target Retirement Date after all charges have been deducted.<sup>47</sup> Before charges, the projected pot size is £100,100, meaning the projected impact of costs and charges over the twenty-year period is £7,500.

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>42</sup> [Reporting of costs, charges and other information: guidance for trustees and managers of occupational schemes – effective 1 October 2021 \(publishing.service.gov.uk\)](https://publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/900000/reporting-of-costs-charges-and-other-information-guidance-for-trustees-and-managers-of-occupational-schemes-effective-1-october-2021.pdf).

<sup>43</sup> Target Retirement Date is the date when a member plans to start to access their pension savings.

<sup>44</sup> In today's terms this means that the impact of estimated future inflation has been considered.

<sup>45</sup> The assumptions have changed to follow the new guidance (see para 65). The accumulation rates are calculated in line with Actuarial Standard Technical Memorandum (AS TM1 5.0). Growth 2.5% p.a., Moderate 2.5% p.a., Cautious, 0.5% p.a., Retirement Planning 0.5% p.a., Cash -1.5% p.a., Annuity Planning 2.5% p.a., Low Cost 2.5% p.a. HSBC Islamic Global Equity 2.5% p.a., L&G Ethical Global Equity 2.5% p.a., L&G UK Equity 2.5% p.a., L&G World Equity 2.5% p.a., BlackRock Aquila Connect Emerging Markets, 4.5% p.a. All return assumptions are net of inflation.

<sup>46</sup> This shows the net projected fund after all costs and charges have been deducted.

<sup>47</sup> Based on the assumptions set out above.

## Appendix 3

### Self-select funds

#### 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.<sup>48</sup>

#### 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	£13,600	£13,500	£13,600	£13,500	£13,300	£13,200	£13,300	£13,200	£13,100	£13,000
3	£20,400	£20,100	£20,400	£20,100	£19,500	£19,200	£19,500	£19,200	£18,600	£18,500
5	£27,700	£27,100	£27,700	£27,100	£25,900	£25,300	£25,900	£25,300	£24,200	£24,000
10	£48,200	£46,300	£48,200	£46,300	£42,600	£41,000	£42,600	£40,900	£37,800	£37,200
15	£72,200	£68,000	£72,200	£68,100	£60,600	£57,400	£60,600	£57,200	£51,200	£50,200
20	£100,100	£92,600	£100,100	£92,800	£79,900	£74,400	£79,900	£74,200	£64,500	£62,900
25	£132,500	£120,400	£132,500	£120,600	£100,500	£92,200	£100,500	£91,900	£77,600	£75,400
30	£170,000	£151,700	£170,000	£152,100	£122,500	£110,800	£122,500	£110,400	£90,800	£87,700
35	£213,300	£186,600	£213,300	£187,100	£146,100	£129,900	£146,100	£129,400	£103,900	£99,800
40	£263,300	£225,500	£263,300	£226,100	£171,300	£149,800	£171,300	£149,100	£117,000	£111,700

<sup>48</sup> The projections are different from previous years due a regulatory change in the AS TM1 guidelines, which came into force in October 2023. Specifically, this change relates to how SMPI assumptions are calculated; these assumptions are the growth rates used in member illustrations. [AS TM1: Statutory Money Purchase Illustrations \(frc.org.uk\)](#) The regulation instructs a much more prescriptive approach to producing SMPI assumptions, requiring them to be based on the historic volatility of each fund. Each fund is given a specific growth rate depending on the level of historic volatility.





## Appendix 3

### Self-select funds

YRS	ANNUITY PLANNING		LOW COST		HSBC ISLAMIC GLOBAL EQUITY		L&G ETHICAL GLOBAL EQUITY	
	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	£13,600	£13,500	£13,600	£13,500	£13,600	£13,500	£13,600	£13,500
3	£20,400	£20,100	£20,400	£20,200	£20,400	£20,100	£20,400	£20,100
5	£27,700	£27,100	£27,700	£27,300	£27,700	£27,100	£27,700	£27,100
10	£48,200	£46,300	£48,200	£46,800	£48,200	£46,300	£48,200	£46,100
15	£72,200	£68,200	£72,200	£69,200	£72,200	£68,100	£72,200	£67,700
20	£100,100	£92,900	£100,100	£94,800	£100,100	£92,700	£100,100	£92,000
25	£132,500	£120,800	£132,500	£123,800	£132,500	£120,500	£132,500	£119,500
30	£170,000	£152,300	£170,000	£156,900	£170,000	£151,900	£170,000	£150,300
35	£213,300	£187,500	£213,300	£194,000	£213,300	£186,900	£213,300	£184,600
40	£263,300	£226,700	£263,300	£235,700	£263,300	£225,900	£263,300	£222,700



## Appendix 3

### Self-select funds

YRS	BLACKROCK AQUILA CONNECT EMERGING MARKETS FUND CASH		L&G WORLD EQUITY INDEX FUND (50% GBP HEDGED)		L&G UK EQUITY INDEX FUND		CHEVIOT GLOBAL EQUITY ESG 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
1	£13,800	£13,800	£13,600	£13,500	£13,600	£13,500	£13,600	£13,500
3	£21,400	£21,200	£20,400	£20,200	£20,400	£20,200	£20,400	£20,200
5	£29,700	£29,300	£27,700	£27,300	£27,700	£27,300	£27,700	£27,200
10	£54,600	£53,200	£48,200	£46,800	£48,200	£46,900	£48,200	£46,700
15	£86,400	£83,100	£72,200	£69,100	£72,200	£69,300	£72,200	£68,900
20	£126,700	£120,300	£100,100	£94,600	£100,100	£94,900	£100,100	£94,300
25	£177,600	£166,400	£132,500	£123,600	£132,500	£124,000	£132,500	£123,000
30	£241,700	£223,500	£170,000	£156,600	£170,000	£157,100	£170,000	£155,600
35	£322,300	£293,400	£213,300	£193,500	£213,300	£194,400	£213,300	£192,200
40	£423,400	£378,900	£263,300	£235,000	£263,300	£236,200	£263,300	£233,200



# 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<sup>1</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>2</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.
- 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.

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<sup>1</sup> Including those of the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005.

<sup>2</sup> 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<sup>3</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>4</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>5</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>6</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

- 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.

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<sup>3</sup> See Appendix A.

<sup>4</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>5</sup> See Appendix A.

<sup>6</sup> 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 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 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 Advisor 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.<sup>7</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 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

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<sup>7</sup> [Conflicts Framework Summary for External Use Schroders.pdf](#)



## Statement of Investment Principles



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:

*Elsbeth McKinnon*

Date: 29/03/2023

## Investment options

The investment funds which currently make up the Cheviot Lifeplan<sup>8</sup> and self-select fund options are set out in the tables below. The funds used in the Cheviot Lifeplan<sup>9</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>10</sup></b>		
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
<b>Post-Retirement</b>		
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

<sup>8</sup> The default fund for the purposes of the legislation.

<sup>9</sup> Other than the Cheviot Cash option.

<sup>10</sup> Retirement is defined as when a member takes their tax-free cash.



## Self- Select options

Fund	Long Term Objective <sub>1</sub>	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.