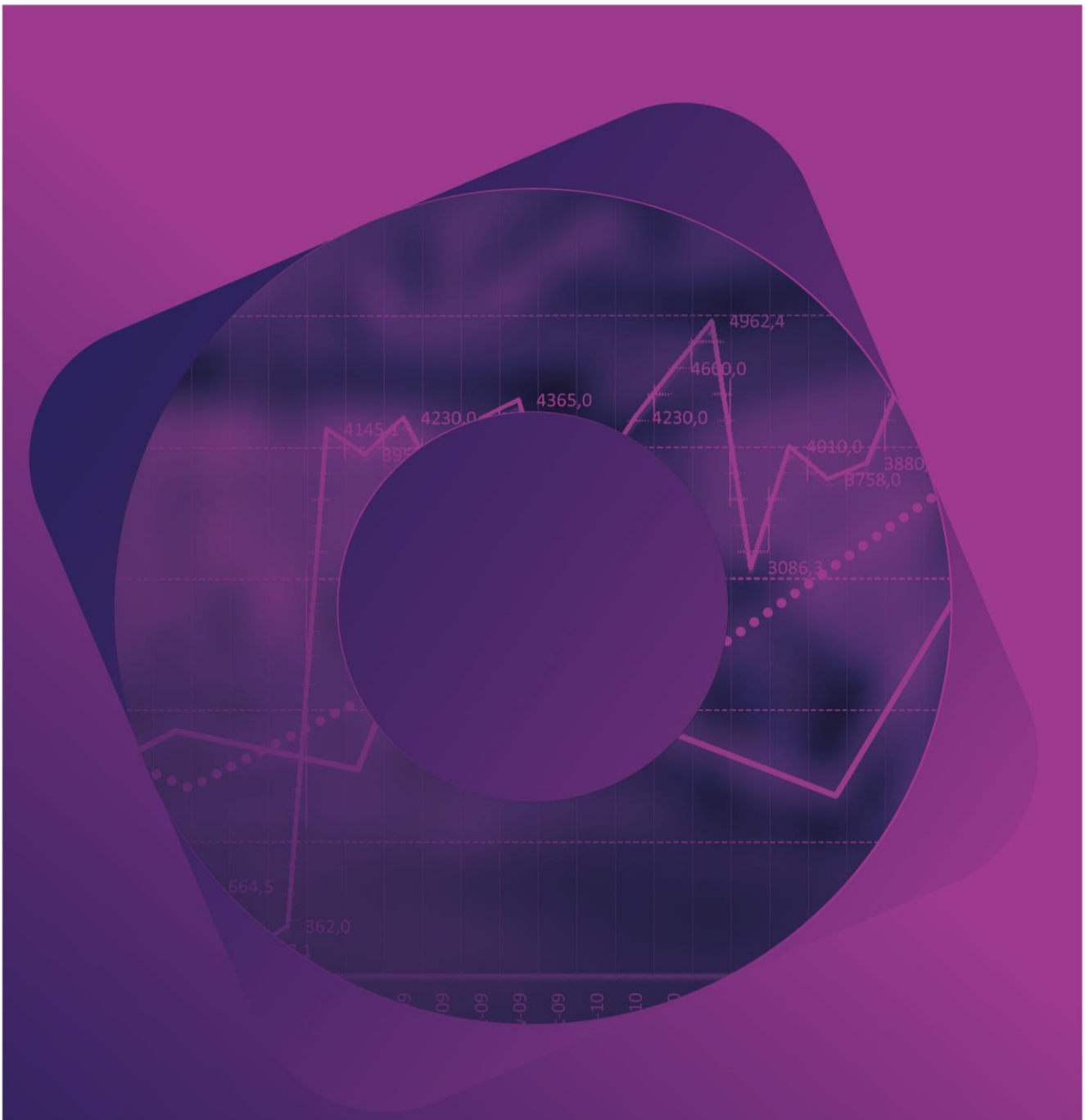
Government of JERSEY

PEPF Public Employees Pension Fund



Statement of Investment Principles 2020

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PEPF Public Employees Pension Fund

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1. Introduction

The Public Employees Pension Fund (PEPF) provides final-salary and career-average revalued earnings (CARE) pension benefits to public servants, excluding teachers, in Jersey. PEPF is "the Fund" as defined under Article 5 of the Public Employees (Pension) (Jersey) Law 2014. The Fund provides final-salary pension benefits under the States of Jersey Public Employees Contributory Retirement Scheme (PECRS) and CARE benefits under the Public Employees Pension Scheme (PEPS). This is, however but one investment fund for the two Schemes, whose respective weights within it are calculated on the basis of advice from the Scheme Actuary.

This Statement has been prepared by the Committee of Management ("the Committee"), in consultation with the Treasurer of the States, in accordance with Regulation 17 of the Public Employees (Pension Scheme) (Administration) (Jersey) Regulations 2015. It sets out the policies and principles governing the Committee's decisions in relation to the investment of the Schemes' assets. The regulations specify that the Statement may contain any of the following:

- the descriptions of investments to be held
- the balance between different descriptions of investments
- risk, including the ways in which risks are to be measured and managed
- the expected return on investments
- the realisation of investments
- the approach taken and the extent (if at all) to which social, environment or ethical considerations are taken into account in the selection, retention and realisation of investments
- the approach taken on the exercising of any rights (including voting rights) attaching to investments, if the Committee has any such policy; and
- the approach taken on stock lending.

The Statement has an Appendix setting out the details of the investments, which is amended from time to time when the investments change.

From 1 January 2016, new joiners accrued benefits in the PEPS Scheme, whilst existing members on 31 December 2015 continued to accrue benefits in the PECRS Scheme until 31 December 2018. From 1 January 2019 all accrual has been in PEPS, except for employees who, on that date, were within seven years of their normal retirement age and chose to remain in the PECRS Scheme. Further details of the accrued benefit obligation of each Scheme can be found in the PEPF Financial Accounts published online.

2. Scheme Management

The Committee is responsible for managing the Schemes' assets in accordance with the relevant regulations, which state that it must have regard to:

- the need for diversification of investments of the assets of the Fund
- the suitability of the investment it proposes to make; and
- proper advice obtained at reasonable intervals.

To allow detailed consideration of investment issues, the Committee has an Investment Subcommittee ("the Subcommittee"). The Subcommittee typically meets five times a year and reports, advises and makes recommendations to the Committee on all investment matters relating to the Schemes, and, in particular, on investment strategy and the investment managers. The Subcommittee pays particular attention to keeping under review the Scheme's investment managers and meets with them regularly, not less than once every two years. The Subcommittee also implements investment decisions on behalf of the Committee, including movement of funds between investment managers. The Committee receives an investment report at each of its quarterly meetings at which investment is a standing agenda item.

The Subcommittee is advised by its Investment Adviser (Mercer) on all aspects of its investment strategy and operations.

3. Investment Objectives

The Committee's investment objective is to invest the assets of the Fund to seek to ensure that the present and future benefits to which members are entitled under the Schemes are provided as they fall due. In order to achieve this, there are a number of contributory things: the level of contributions, likely investment returns, longevity of the membership, employment trends and the outlook for inflation. In order to achieve the required returns on the assets, it is necessary for the Fund to take some investment risk. The Committee weighs with care the amount of investment risk it is necessary or desirable to take at any particular time.

Taking account of the contributions available (the maximum levels of which are laid out in the Schemes' regulations) and the benefits expected to be payable from the Fund, the Committee establishes a target level of investment return. The target is set with advice from the Schemes' Actuary (Aon) on funding-related matters, and the Investment Adviser.

The target investment return at the date of this statement is Jersey RPI plus 2.05% p.a. This target forms the basis of the most recent actuarial valuation of the Scheme, at 31 December 2018. The target is reviewed ahead of each valuation. The Committee develops its investment strategy in order to seek to achieve at least that target return, considering the amount of risk that it is necessary to take, the implications of that and how best to spread risk across the range of investments.

At the date of this statement, the target investment return and investment arrangements of PECRS (excluding the Salary-Linked Bond) and PEPS were the same. As such, the same

investment strategy applies to both Schemes, and this is expected to remain the position for some time, although in due course there will or may need to be divergence between the two in line with the changing circumstances such as differences in the membership profiles. In particular, the Committee expects to need to gradually de-risk the investment arrangements of PECRS as the membership matures as it is, in effect, a closed Scheme.

This expectation of future de-risking was reflected in the arrangements agreed with the Scheme Actuary for determining the PECRS funding requirements at the 2018 actuarial valuation. As part of the 2018 valuation it is assumed that PECRS will gradually be de-risked over the period between 2021 and 2041 to a portfolio (excluding the Salary-Linked Bond) based on one-third in growth investments and two-thirds in bond investments.

4. Investment Strategy

The most important strategic investment issue is the balance between growth like and yield focused assets. This is likely to have the biggest influence on the overall level of return achieved in excess of the Schemes' liabilities, and integral to it is the judgement to be made on the level of risk to be taken. The table below indicates the current strategic asset allocation for the Schemes and the level of flexibility that the Committee gives itself in order to manage the allocations to the various asset categories around the set targets.

The key strategic allocations for the purposes of this document are defined at Asset Class level. Any strategic changes to these allocations require the approval of the Treasury Minister. Individual funds within these Asset Classes may have further operational guidance ranges defined in Appendix 1.

Asset Class	PECRS (including SLB)	PECRS (excluding SLB)	PEPS (%)	Range[1]
Growth	**47.0%**	**54.7%**	**54.7%**	
Equities	35.0%	40.7%	40.7%	+/- 10.0
Alternatives	12.0%	14.0%	14.0%	+/- 6.0
Yield Focused	**53.0%**	**45.3%**	**45.3%**	
Growth Fixed Income	14.0%	16.3%	16.3%	+/- 4.0
Private Debt	12.5%	14.5%	14.5%	n/a
Property	12.5%	14.5%	14.5%	n/a
Salary Linked Bond	14.0%	-	-	n/a

[1] Note totals may not add due to rounding.

[2] The ranges in the table relate to the strategic asset allocation including the Salary-Linked Bond; there are, however, no ranges on the Property, Private Debt or Salary-Linked Bond as these are not regarded as tradeable assets.

(We note that the Final Salary (PECRS) and Career Average (PEPS) schemes' investment strategy will diverge over time. The Career Average Scheme will be required to maintain the current levels of

expected return and the Final Salary Scheme will have the ability to migrate the investment strategy towards more yield-focused assets and a matching portfolio (consisting of bonds).)

The Committee can from time-to-time take temporary positions not represented within the strategic asset class benchmark allocation.

This could be driven by relative market movements within the portfolio or for operational reasons, for instance timing differences when moving between funds. In either example, a shift in asset allocations could potentially move the Schemes outside their defined strategic ranges.

The rebalancing of the Schemes' portfolios is not automatic and must be considered in line with the circumstances as at the time of rebalancing. The Committee must be cognisant of both the costs of rebalancing and the risks associated with movement away from the long term strategic allocation. Future cash flows may provide opportunity for cost effective rebalancing of positions in line with the Schemes' strategic allocations.

In order to properly manage risk, it is anticipated that under certain circumstances, as deemed appropriate by the Committee, movement away from the Schemes' strategic allocation ranges may be necessary. In such circumstances, the Committee will be expected to assess whether the deviation from the strategic allocation ranges is long or short term and whether this would prompt modification to the long term Investment Strategy.
It would be expected that long term movement outside strategic ranges will prompt a recommendation of amendment to the Statement of Investment Principles document or rebalancing.

Deviations from the strategic allocation are reviewed regularly by the Investment Subcommittee. The overall strategic allocations are reviewed each year as a minimum and additionally as required by events.

5. Growth Investments

Growth investments are those assets where the investment aim is to achieve a higher level of investment return relative to the liabilities. The risk, however, or rather uncertainty, associated with assets expected to generate higher relative returns is that their value can be volatile.

The core growth asset used by the Schemes is equities, a significant holding in which the Committee believes provides the most likely means of achieving the requisite investment return over the long term.

In order, however, to diversify the Schemes' growth investments the Committee has invested in other "growth-like" alternatives that still target a reasonably high investment return. A key aim is to avoid being over exposed to any one market, asset class or manager, while having individual holdings that are large enough to attract scale economies in fees and oversight. The "growth-like" alternatives provide differing sources of return less correlated, or indeed uncorrelated, to traditional asset classes. The Committee is aware that investing in alternatives may bring with it risks such as illiquidity and individual manager risk, and that fees tend to be higher than in the case of 'traditional' asset classes. Nonetheless, it believes

that including alternatives within the growth investments is an essential strategic requirement in order to spread risk.

6. Yield-Focused Investments

Yield-focused investments are those assets providing a contribution towards meeting the target investment return and the overall diversification of the portfolio whilst generating income for the Schemes. These investments are also expected to exhibit a lower level of risk than growth investments.

Currently the Yield-focused investments consist of Property, Growth Fixed Income (which invests in Multi-Asset Credit and Emerging Market Debt), Private Debt and the Salary-Linked Bond. More information on each of these mandates is included in the Appendix to this Statement.

As with the growth asset allocation, the Committee keeps under review whether to diversify into other Yield-focused asset classes in order to spread risk in this sphere too.

7. Salary-Linked Bond

The Salary-Linked Bond, which is valued by the Scheme Actuary quarterly, is the capitalised value of the series of payments defined in the Schemes' Regulations which the States and Admitted Bodies are required to pay into PECRS until 2053 (or 2083 for certain Admitted Bodies). These payments are intended to meet the cost of the liability to pay PECRS pension increases which was transferred from the States to PECRS in 1988. This liability is sometimes referred to as the Pre-1987 Debt. Not all Admitted Bodies have a share of this liability; it has been a requirement of the Committee that the element of any part of the Pre-1987 Debt allocated to a department of the States that is incorporated, or otherwise put at "arm's length", should usually be repaid in full on day one.

The Salary-Linked Bond is excluded from the target level of investment return calculation as it provides a stream of annual payments but is not regarded as a tradeable asset, at least at this time. The amount payable under the Salary-Linked Bond increases each year in line with the average increase in the pay bill for all PEPF members who are government employees.

As the Salary-Linked Bond is such a significant asset, the States' covenant is kept under review and the Committee would seek to have repayment accelerated if it felt that the covenant was weakening in what seemed to be a material way. The same applies to the Admitted Bodies which still have debt outstanding.

8. Portfolio Construction

In seeking to ensure that the Scheme's assets are suitably diversified across different investment managers, management styles and approaches, the Committee balances the need for diversification against the importance of allocating managers a sufficient portion of the Scheme's assets to allow them to contribute meaningfully to overall portfolio performance. The Committee is keen not to have more managers than it can reasonably get

to know and monitor regularly. The Subcommittee keeps under review the allocation to each investment manager and its performance.

The Committee has generally continued to believe that active portfolio management adds value and generally appoints active managers rather than managers that passively replicate an investment benchmark. About a tenth of the allocation to equities, however, is managed passively. The Subcommittee regularly reviews active versus passive management outcomes and recognises that active managers may, from time to time, underperform their respective benchmarks.

The Committee entrusts the day-to-day management of the Schemes' investments (including the selection, ongoing monitoring, administration and exercise of the voting rights of individual investments) to the investment management firms that it appoints. These managers are given discretion to buy and sell investments on behalf of the Schemes, subject to agreed limits and constraints.

When considering the appointment of an investment manager, the following steps are taken:

- Discussion of all the options with the Investment Adviser, which eventually leads to the latter putting forward a favoured "best pick" mandate (or mandates), based on its research and judgement to the suitability for the required mandate, taking into account matters such as investment objectives, risk tolerance, investment process, investment management fees, and the liquidity of the mandate.
- The Subcommittee will then receive or visit (or both) the proposed managers to form a view as to suitability and fit, leading to a decision in principle.
- Once such a decision has been taken, formal due diligence is undertaken on the mandate(s) from legal and investment perspectives. Investment due diligence will include consideration of the suitability of the mandate including issues such as the investment objective, benchmarking, level of risk, and fees. Operational due diligence is also undertaken.
- The Subcommittee will then make a recommendation to the Committee of Management.
- If the recommendation for the appointment of the new mandate is accepted by the Committee, the latter makes a recommendation to the Minister for Treasury and Resources whose approval is required under the Public Employees (Pension Scheme) (Administration) (Jersey) Regulations 2015. The Minister has the power not to accept a recommended appointment.
- The Minister may also require the Committee to terminate appointments of current investment managers without notice.
- The appointment of the manager is then completed through the signing of a contract (or similar formal documentation) that sets out the terms and conditions of the manager's appointment and its remuneration.

After appointment, investment managers' performance is subject to regular review by the Subcommittee. It is monitored formally on at least a quarterly basis (and more frequently where necessary) against benchmarks based on national and global market indices, or other appropriate performance objectives. An investment manager, for example, may not deliver a

return or level of risk in line with expectations and, as a consequence and after very careful consideration of all relevant factors including market factors and the necessarily long-term basis of the Funds, the relevant mandate might be terminated. Wider change in the Schemes' investment strategy may also result in the need to change managers.

The investment managers currently appointed by the Schemes are shown in the Appendix to this Statement. Each manager uses a custodian (where appropriate) which will independently hold the assets for the investment manager. This custodian is either appointed by the Treasurer of the States (Northern Trust in the case of segregated mandates) or by the investment manager (in the case of a pooled fund)[1].

9. Safe-keeping of the Schemes' Assets

The Treasurer of the States has the power to appoint custodians whose role is to ensure the safe-keeping of the Schemes' investments, to collect investment income and to implement instructions from the investment managers as to buying and selling stocks and proxy voting. The custodians of pooled funds in which the Schemes invest are appointed by the investment managers of those funds; the custodian appointed by the Treasurer looks after the Schemes' segregated portfolios, and overall investment accounting and performance measurement. Northern Trust was appointed as custodian by the Treasurer in 2014 following an open tender.

The Subcommittee receives a report each year from the Investment Adviser on the custody and prime broker arrangements for the Schemes' assets. This is not only to keep itself informed of developments in the custody industry but also to keep under careful review the financial strength of the custodians and banks responsible for the safe-keeping of the Schemes' investments, and to consider the mitigation of risk within this crucial aspect of the Schemes' investment arrangements.

Securities lending is undertaken within some of the pooled funds in which the Schemes invest, particularly within the alternatives investment category. The Committee requires that securities lending is not undertaken within the Schemes' segregated portfolios.

10. Cashflow

The Committee maintains a working cash balance to meet expected benefit payments and expenses due in the near future. The Committee keeps the cash balance under review to ensure that it remains sufficient, taking advice from its Investment Adviser on where to disinvest or invest monies (such as excess cash reserves) when needed.

11. Investment Risk

One of the key concerns of the Committee is investment risk. In order to achieve the target level of investment return, an appropriate level of risk needs to be taken, which, while offering

[1] A segregated mandate involves the direct purchase of assets in the Scheme's name, whereas a pooled fund is an investment into a co-mingled vehicle, where the Scheme invests alongside other investors.

an upside, may also expose the Schemes to downside risk and the possibility that the returns do not keep pace with what is required to meet the Schemes' liabilities.

Risk can materialise from any number of foreseeable or non foreseeable events and translate into the following major risk effect categories (this is not meant to be an exhaustive list):

- Equity risk: the risk of falling equity markets which can be caused for a variety of reasons.
- Liability risk: the risk that the Schemes' liabilities increase more quickly than anticipated. This could be caused by, amongst other things, reductions in anticipated future investment returns, rising inflation and the Schemes' members living, on average, longer than assumed for valuation purposes.
- Credit risk: the risk that the Schemes do not receive the payments they are expecting from their various bond investments.
- Liquidity risk: the risk arising from holding assets that are not readily realisable.
- Manager risk: the risk that the Schemes' managers do not deliver in line with their stated objectives.
- Regulatory risk: the risk that a change in the environment in which the Schemes operate has adverse implications for the Schemes' investments or liabilities.
- Operational risk: the risk of loss through maladministration, fraud or the structural complexity of the investment firms, vehicles, asset categories and custodians used by both the Schemes and managers.
- Currency risk: the risk that the exchange rate between sterling and currencies in which overseas assets have been purchased changes adversely.

Strategically, the Committee primarily manages such risks through diversification by asset class, geography and manager; and within asset classes. Operational risks are addressed through both due diligence prior to investment and structured, ongoing, performance monitoring. The Subcommittee monitors on a regular basis the risks to which the Schemes' assets are exposed. This process includes:

- taking stock of the largest holdings across the whole portfolio
- analysing the style, sector and currency exposure of the portfolio as a whole and key sub-portfolios
- receiving reports from specialists on the operational risk of the Schemes' investment managers, custodians and prime brokers
- regular site visits and presentations from the Schemes' investment managers.

The Investment Adviser plays a key role in this process.

12. Responsible Investment and Corporate Governance

The Committee entrusts to each of its investment managers the development and application of policies in relation to the UK Corporate Governance Code and the UK Stewardship Code

and how in their investment decisions they take into account aspects of good stewardship and environmental, social and governance ("ESG") issues, including climate change considerations. Where relevant, the Subcommittee receives reports from them summarising their respective policies and how they have exercised voting rights attaching to the stocks held and their engagement with investee firms. Furthermore, the Subcommittee looks to its Investment Adviser (Mercer) to provide relevant guidance on ESG and stewardship issues on a regular basis.

The Subcommittee has not set any investment restrictions on the appointed managers in relation to particular products or activities.

13. Annual Review

The Statement of Investment Principles is reviewed by the Committee, in consultation with the Treasurer of the States, following any material changes to the Schemes' policies and principles as contained in the Statement, or at least annually.

JW
Dec 2020

Appendix to the Statement of Investment Principles 2020

Introduction

This Appendix to the Statement of Investment Principles (the "Statement") of the States of Jersey Public Employees Contributory Retirement Scheme (PECRS) and the Public Employees Pension Scheme (PEPS), together "the Schemes", contains further details of the investment arrangements of the Schemes. The Appendix is produced as a separate document to the Statement so that the details of the Schemes' manager arrangements can be updated more regularly, where needed, without the requirement to update the full Statement. For the avoidance of doubt it is not part of the Statement, but should be read alongside it in order to provide a more comprehensive view of the Schemes' investments.

Investment Managers

The current investment managers appointed by the Committee and the strategic allocation to each of these managers are shown in the table overleaf.

The Committee has the flexibility to allow the Schemes' actual investment holdings to vary away from the long-term strategic Asset Class allocation set out in the Statement, in line with the agreed tolerance ranges. The Committee has agreed these and monitors the actual allocations having regard to advice from its Investment Adviser.

Although ranges have only been set around the main asset classes, the Committee regularly and routinely monitors the allocation to each individual asset class and manager, adding operational guidance ranges to individual fund managers where helpful.

Asset Class *(Strategic asset class allocations shown in grey)*	Strategic Allocation	Range +/-	Manager (Year of appointment)
GROWTH	**47.0%**		
Equities	**35.0%**	**10.0%**	
Global Equity:			
(Large Cap, Growth)	8.5%	2.5%	Baillie Gifford & Company (2008)
(Small Cap, Growth)	3.0%	1.5%	Baillie Gifford & Company (2020)
(Large Cap)	5.0%	2.0%	Lansdowne Partners (2020)
(Large Cap, Value)	3.5%	1.5%	Oldfield Partners (2021)
(Low Volatility, Value)	11.5%	3.0%	Veritas Asset Management (2011)
(Fundamental, Passive)	3.5%	1.5%	Legal & General Investment Management (2012)
Alternatives	**12.0%**	**6.0%**	
Diversified Growth	4.5%	2.0%	Nordea Asset Management (2020)
Global Macro	3.75%	2.0%	Capula Investment Management (2017)
Global Macro	3.75%	2.0%	Rokos Capital Management (2017)
YIELD FOCUSED	**53.0%**		
Property	**12.5%**	**n/a**	
Ground Lease Property	12.5%	-	PGIM (Ground Lease Fund - 2011) / PGIM (Residential Ground Lease Fund - 2014)
Growth Fixed Income	**14.0%**	**4.0%**	
Multi-Asset Credit	8.5%	2.0%	CQS (2013)
Emerging Market Debt	5.5%	2.0%	BlackRock (2016)
Private Debt	**12.5%**	**n/a**	
Private Debt	12.5%	-	Hayfin Capital Management (Direct Lending Fund) vintages I (2013), II (2016) & III (2019) / Park Square Capital (2017) / HIG Whitehorse (Direct Lending Fund – 2020) / Global Infrastructure Partners (Capital Solutions Fund II – 2020)
Salary Linked Bond	**14.0%**	**n/a**	
Asset Backed Securities (Senior Secured)	-	**+ 10.0%**	TwentyFour Asset Management (2020)
Cash			
TOTAL	**100.0%**	-	

We note that the Final Salary (PECRS) and Career Average (PEPS) sections investment strategy will diverge over time. The Career Average section will be required to maintain the current levels of expected return and the Final Salary section will have the ability to migrate the investment strategy towards more Yield Focused assets and a Matching portfolio (consisting of bonds).

Manager Mandates

Further information on each of the mandates in which the Committee invests is set out below.

Baillie Gifford (11.5% of the Scheme's strategic benchmark allocation)

Baillie Gifford actively manages a Global Equity and Global Small Cap Equity allocation for the Scheme.

Global Equity (8.5% of the Scheme's strategic benchmark allocation)

The agreement permits Baillie Gifford to invest on behalf of the Scheme on a segregated basis, in line with Baillie Gifford's Long Term Global Growth strategy.

Asset Class	Benchmark	Outperformance Target [(a)]	Tracking Error Expectation
Global Equity	MSCI AC World Index (GDR)	+3% p.a. (gross of fees)	5 - 15% p.a.

(a) Over rolling 5 year periods.

The mandate is segregated and offers daily dealing, with notice to be given one day prior to the disinvestment date.

Small Cap Global Equity (3.0% of the Scheme's strategic benchmark allocation)

The agreement with Baillie Gifford permits the Scheme to invest in the Baillie Gifford Worldwide Discovery Fund.

Asset Class	Benchmark	Outperformance Target [(a)]	Tracking Error Expectation
Global Small Cap Equity	MSCI AC World Small Cap Index	+3% p.a. (gross of fees)	n/a

(a) Over rolling 5 year periods

Lansdowne (5.0% of the Scheme's strategic benchmark allocation)

Lansdowne actively manages a Global Equity allocation for the Scheme. The agreement permits Lansdowne to invest on behalf of the Scheme on a pooled basis, in line with Lansdowne's Developed Markets Long Only Fund.

Asset Class	Benchmark	Outperformance Target [(a)]	Tracking Error Expectation [(a)]
Global Equity	MSCI AC World Index (GDR)	+3% p.a. (net of fees)	n/a

(a) Over economic cycle.

The mandate is pooled and offers monthly dealing, with notice to be given 90 days prior to the disinvestment date. Up to 20% of the mandate can be redeemed on 30 days notice.

Oldfield (3.5% of the Scheme's strategic benchmark allocation)

Oldfield actively manages a Global Equity allocation for the Scheme. The agreement permits Oldfield to invest on behalf of the Scheme on a pooled basis, in line with Oldfield's Overstone Global Equity strategy.

Asset Class	Benchmark	Outperformance Target [(a)]	Tracking Error Expectation [(a)]
Global Equity	MSCI AC World Index (GDR)	+2-3% p.a. (gross of fees)	6 - 10% p.a.

(a) Over economic cycle.

The mandate is pooled and offers daily dealing, with notice to be given one day prior to the disinvestment date.

Veritas (11.5% of the Scheme's strategic benchmark allocation)

Veritas actively manages a Low Volatility Equity allocation for the Scheme. The agreement permits Veritas to invest on behalf of the Scheme on a segregated basis, in line with Veritas' Global Focus strategy.

Asset Class	Benchmark	Outperformance Target [(a)]	Tracking Error Expectation [(a)]
Low Volatility Global Equity	MSCI AC World Index (GDR)	+2.5% p.a. (net of fees)	< 8% p.a.

(b) Over rolling 5 year periods.

The mandate is segregated and offers daily dealing. There is no strict notice period for disinvestment, as the mandate is segregated.

L&G (3.5% of the Scheme's strategic benchmark allocation)

L&G passively manages a Fundamental Indexation allocation for the Scheme. The agreement with L&G permits the Scheme to invest in the L&G FTSE RAFI All-World 3000 Index Fund.

Asset Class	Benchmark	Outperformance Target	Tracking Error Tolerance [(a)] / Expectation
Global Fundamental	FTSE RAFI All World 3000 GBP Hedged (Net) Index[(b)] [(c)]	To match the benchmark	Up to ±1.0% p.a.

(a) This passive equity fund aims to track the benchmark to within the tracking error range shown in two years out of three.

(b) The benchmark shown for the Global Fundamental Indexation mandate in the table above is for tracking purposes. However, the Committee has chosen to monitor performance of the mandate versus the MSCI World Index (GBP Hedged).

The mandate is pooled and offers weekly dealing, with notice to be given two days prior to the disinvestment date.

Arrowgrass Capital Partners (not represented in the strategic benchmark allocation)

Arrowgrass actively manages a Multi-Strategy hedge fund allocation for the Scheme. The agreement with Arrowgrass permits the Scheme to invest in the Arrowgrass Master Fund.

Asset Class	Benchmark	Outperformance Target	Absolute Volatility Expectation
Multi-Strategy	Zero (absolute return)	+6-7% p.a. (net of fees)	4 - 7% p.a.

The mandate is currently being wound up by Arrowgrass with all capital expected to be returned by the end of 2021 at the latest.

Nordea (4.5% of the Scheme's strategic benchmark allocation)

Nordea actively manages a Diversified Growth Fund allocation for the Scheme. The agreement with Nordea permits the Scheme to invest in Nordea's Alpha 15 MA Fund.

Asset Class	Benchmark	Outperformance Target	Absolute Volatility Expectation
Multi-Strategy	3 Month Sterling LIBOR	+7-10% p.a.	10 - 15% p.a.

The mandate is pooled and offers daily dealing, with notice to be given one day prior to the disinvestment date.

Capula (3.75% of the Scheme's strategic benchmark allocation)

Capula actively manages a Global Macro hedge fund allocation for the Scheme. The agreement with Capula permits the Scheme to invest in the Capula Global Relative Value Fund.

Asset Class	Benchmark	Outperformance Target [(a)]	Absolute Volatility Expectation
Global Macro	Zero (absolute return)	+8% p.a. (net of fees)	n/a

(a) Over rolling 5 year periods.

The mandate is pooled and offers monthly dealing for investments and quarterly dealing for redemptions, with notice to be given 45 days prior to the disinvestment date. Roughly half of the Scheme's investment is invested in a share class whereby disinvestments prior to November 2019 would have resulted in a penalty being incurred. Additionally, disinvestment requests of more than 25% of the value of the investment will be subject to deferred redemption payments. The remaining half of the Scheme's investment is invested in a share class with disinvestments available only every 36 months, following the date of the original

investment in November 2017 i.e. the Scheme can disinvest in November 2020, November 2023 etc.

Rokos (3.75% of the Scheme's strategic benchmark allocation)

Rokos actively manages a Global Macro hedge fund allocation for the Scheme. The agreement with Rokos permits the Scheme to invest in the Rokos Global Macro Fund.

Asset Class	Benchmark	Outperformance Target [(a)]	Absolute Volatility Expectation
Global Macro	Zero (absolute return)	+10% p.a. (net of fees)	14% p.a.

(a) Over a market cycle.

The mandate is pooled and offers monthly dealing, with notice to be given 90 days prior to the disinvestment date. The Scheme is only permitted to disinvest 25% of its investment over a rolling three month period.

PGIM (12.5% of the Scheme's strategic benchmark allocation)

PGIM actively manages two Ground Lease Property allocations for the Scheme. The agreement with PGIM permits the Scheme to invest in the PGIM Real Estate UK Ground Lease Fund and the Pramerica UK Residential Ground Lease Fund II Unit Trust.

Asset Class	Benchmark	Outperformance Target [(a)]	Absolute Volatility Expectation
Ground Lease Property	Retail Price Index (UK)	+2% p.a. (net of fees)	n/a
Residential Ground Lease Property	Retail Price Index (UK)	+2% p.a. (net of fees)	n/a

(a) Over rolling 10 year periods.

The Ground Lease Property mandate is pooled and offers monthly dealing, with notice to be given 30 days prior to the disinvestment date. The Residential Ground Lease Property mandate is pooled, but is illiquid, with dealing only available on a secondary market until the end of a 20 year period ending June 2034.

CQS (8.5% of the Scheme's strategic benchmark allocation)

CQS actively manages a Multi-Asset Credit allocation for the Scheme. The agreement with CQS permits the Scheme to invest in the CQS Credit Multi Asset Fund.

Asset Class	Benchmark	Outperformance Target	Tracking Error Expectation [(a)]
Multi-Asset Credit	3 Month Sterling LIBOR	4-5% p.a. (net of fees)	4-5% p.a.

(a) Estimate of absolute volatility, over a full market cycle.

The mandate is pooled and offers monthly dealing, with notice to be given 30 days prior to the disinvestment date.

BlackRock (5.5% of the Scheme's strategic benchmark allocation)

BlackRock actively manages a local currency Emerging Market Debt allocation for the Scheme. The agreement with BlackRock permits the Scheme to invest in the BGF Emerging Markets Local Bond Fund.

Asset Class	Benchmark	Outperformance Target	Tracking Error Expectation [(a)]
Emerging Market Debt	JPM GBI-EM Global Diversified (GBP Hedged) [(b)]	+2% p.a. (gross of fees)	4% p.a.

(a) Over rolling 3 year periods

(b) This is a custom benchmark that reflects the index that allows for the performance of emerging market currencies versus the US dollar, reflecting the approach used to manage the Fund.

The mandate is pooled and offers daily dealing, with notice to be given one day prior to the disinvestment date.

Hayfin Direct Lending Fund I (part of the 12.5% allocation to Private Debt represented in the strategic benchmark allocation)

Hayfin actively manages a Private Debt allocation for the Scheme. The agreement with Hayfin permits the Scheme to invest in the Hayfin Direct Lending Fund.

Asset Class	Benchmark	Outperformance Target	Absolute Volatility Expectation
Private Debt	Zero (absolute return)	+7.9% p.a. (net of fees)	n/a

The mandate is pooled and illiquid. The investment period for the mandate ended in March 2016, with monies expected to be returned to investors within three years after this date. The term of the Fund may be extended by two one year periods.

Hayfin Direct Lending Fund II (part of the 12.5% allocation to Private Debt represented in the strategic benchmark allocation)

Hayfin actively manages a Private Debt allocation for the Scheme. The agreement with Hayfin permits the Scheme to invest in the Hayfin Direct Lending Fund II.

Asset Class	Benchmark	Outperformance Target	Absolute Volatility Expectation
Private Debt	Zero (absolute return)	+6.7% p.a. (net of fees)	n/a

The mandate is pooled and illiquid. The investment period for the mandate ends in February 2019, with monies expected to be returned to investors within three years after this date. The term of the Fund may be extended by two one year periods.

Hayfin Direct Lending Fund III (part of the 12.5% allocation to Private Debt represented in the strategic benchmark allocation)

Hayfin actively manages a Private Debt allocation for the Scheme. The agreement with Hayfin permits the Scheme to invest in the Hayfin Direct Lending Fund III.

Asset Class	Benchmark	Outperformance Target	Absolute Volatility Expectation
Private Debt	Zero (absolute return)	+6.7% p.a. (net of fees)	n/a

The mandate is pooled and illiquid. The investment period for the mandate will end three years after the final closing date which was in September 2019. Monies are expected to be returned to investors within three years of the end of the investment period. The term of the Fund may be extended by two one year periods.

Park Square (part of the 12.5% allocation to Private Debt represented in the strategic benchmark allocation)

Park Square actively manages a Private Debt allocation for the Scheme. The agreement with Park Square permits the Scheme to invest in the Park Square Capital Credit Opportunities III.

Asset Class	Benchmark	Outperformance Target	Absolute Volatility Expectation
Private Debt	Zero (absolute return)	+6.9% p.a. (net of fees)	n/a

The mandate is pooled and illiquid. The investment period for the mandate will end four years after the final close in June 2019 and monies are expected to be returned to investors within six years after the final close. The term of the Fund may be extended by three one year periods.

HIG Whitehorse (part of the 12.5% allocation to Private Debt represented in the strategic benchmark allocation)

HIG Whitehorse actively manages a Private Debt allocation for the Scheme. The agreement with HIG Whitehorse permits the Scheme to invest in the HIG Whitehorse Direct Lending Fund – 2020.

Asset Class	Benchmark	Outperformance Target	Absolute Volatility Expectation
Private Debt	Zero (absolute return)	+9.7% p.a. (net of fees)	n/a

The mandate is pooled and illiquid. The investment period for the mandate will end three years after the final close (subject to an extension of up to two years) and monies are expected to be returned to investors within three years of the end of the investment period. The Fund offers an optional evergreen structure.

Global Infrastructure Partners ("GIP") (part of the 12.5% allocation to Private Debt represented in the strategic benchmark allocation)

GIP actively manages an Infrastructure Debt allocation for the Scheme. The agreement with GIP permits the Scheme to invest in the GIP Capital Solutions Fund II.

Asset Class	Benchmark	Outperformance Target	Absolute Volatility Expectation
Infrastructure Debt	Zero (absolute return)	+10.0% p.a. (net of fees)	n/a

The mandate is pooled and illiquid. The investment period for the mandate will end five years after the final close and monies are expected to be returned to investors within ten years after the final close. The term of the Fund may be extended by two one year periods at the General Partners discretion with Limited Partners approval required for additional extensions.

TwentyFour Asset Management ("TwentyFour") (not represented in the strategic benchmark allocation)

TwentyFour actively manages an Asset Backed Securities allocation for the Scheme. The agreement with TwentyFour permits the Scheme to invest in the TwentyFour Monument Bond Fund.

Asset Class	Benchmark	Outperformance Target	Absolute Volatility Expectation
Asset Backed Securities (Senior Secured)	LIBOR	+2-3% p.a. (net of fees)	n/a

The mandate is pooled and invests in highly liquid, senior secured asset backed securities to allow the Scheme to easily access the funds for capital calls from the private debt mandates. The Fund will initially be used to warehouse cash provided by the repayment of capital from Arrowgrass. This cash will then be used to fund subsequent capital calls from the private debt mandates. It is envisaged that the Fund will be supplemented over time by cash distributions from the Scheme's existing private debt portfolios.

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