STATEMENT OF INVESTMENT PRINCIPLES

OF THE SANTANDER (UK) GROUP PENSION SCHEME

AUGUST 2020

Background

1 Trustees of pension funds are required to prepare a statement of principles governing investment decisions and review it at least every three years or after any significant change in investment policy. This document contains the statement for the Santander (UK) Group Pension Scheme ("the Scheme") and is prepared by Santander (UK) Group Pension Scheme Trustees Limited ("the Trustee").

2 The Scheme participates in the Santander (UK) Common Investment Fund ("the CF") and therefore key investment decisions are taken by the Trustee of the CF ("the CF Trustee"). The Scheme operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries. The Scheme provides two types of benefit, one linked to final salary (Defined Benefit Section) and the other of a money purchase type benefit (Defined Contribution arrangements). These are covered separately in this Statement.

3 In preparing this document, the Trustee has consulted the person duly appointed by the Employer and participating employers ("the Company") as their representative for this purpose. The ultimate power and responsibility for deciding the investment policy, however, lies solely with the Trustee.

4 The Trustee has obtained and considered the written advice of a person who is reasonably believed by the Trustee to be qualified by his ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of the investments of such schemes. This document will be reviewed at least every three years or immediately after any significant change in investment policy.

5 Under Section 36(3) of the Pensions Act 1995 (as amended), before investing in any manner, trustees must obtain and consider proper advice on the question whether the investment is satisfactory having regard to the requirements of regulations under subsection (1), so far as relating to the suitability of investments, and to the principles contained in the statement under section 35. It is generally accepted that this includes "managed", "balanced" or "pooled" funds where trustees have selected a single fund and where the manager has no discretion to invest in other vehicles. The Trustee has obtained and considered this advice. The governing documents of the CF require the CF Trustee to comply with Section 36 of the Pensions Act 1995 (as amended) and associated regulations as if the CF was an occupational pension scheme. The Trustee will review whether the investment in the CF continues to be satisfactory from a Section 36 perspective on an annual basis.

6 The Trustee intends to comply with any applicable legislation regarding investment of the assets. The Trustee also intends to comply with any legislation regarding scheme funding and will consult the Scheme Actuary and liaise with the Company on matters requiring employer agreement or consultation.

Investment Governance

7 The Trustee can invest in bulk annuity policies with a reputable insurer to match the underlying liabilities of the insured members. These policies will be held as investments of the Scheme. For the Scheme's assets (excluding the bulk annuity policies) the Trustee has decided to achieve its investment objectives by participating in the CF. The CF Trustee is responsible for setting, implementing and monitoring investment strategy, operating in accordance with its Statement of Investment Policy. The Trustee will review this Statement, the CF Statement of Investment Policy and the Scheme's participation in the CF at least once a year or prior to a significant change in investment policy.

8 The strategic asset allocation structure, including benchmarks and constraints of the CF will be subject to a formal review process on a regular basis. This will include a review in conjunction with the Scheme's funding position on a 3-yearly basis.

9 The Trustee receives regular information from the CF Trustee to enable them to monitor the CF.

Defined Benefit (DB) Section of the Scheme

Investment Objective (DB)

10 The principal duty of the Trustee is to act in the best interests of the beneficiaries of the Scheme.

11 In light of this duty, the Trustee's objectives, as communicated to the CF Trustee, are:

- to maintain a portfolio of assets of appropriate suitability, quality, security, liquidity and profitability which will generate income and capital growth to meet, together with new contributions from members and the employers, the cost of current and future benefits which the Scheme provides, as set out in the Rules of the Scheme;
- to limit the risk of the assets failing to meet the liabilities;
- to invest in a manner appropriate to the nature and duration of the expected future retirement benefit payments under the Section; and
- to minimise the long-term costs of the Scheme by maximising the return on the assets, net of fees and expenses, whilst having regard to the objectives shown above.

In addition, the Pensions Act 2004 (as amended) requires that the Trustee maintains a Statement of Funding Principles, stating the methods and assumptions used in calculating the amount required to make provision for the Scheme's liabilities, and the manner and period in which any shortfall will be remedied. The Trustee will consult with the Scheme Actuary and the Company when deciding upon the appropriate response to any shortfall.

The Trustee considers that the investment policy pursued by the CF is consistent with its obligations under the scheme funding legislation. In addition, the Trustee will review the CF's investment policy in light of actuarial valuations, certificates and schedules of contributions produced in order to comply with the requirements of the Pensions Act 2004 (as amended).

Investment Principles (DB)

Asset Allocation (DB)

12 Strategic asset allocation is seen as an important aspect of the work of the CF Trustee and details (excluding any bulk-annuity assets owned by the Scheme) are contained in the CF Statement of Investment Policy.

13 When deciding upon the long-term strategic asset allocation, the CF Trustee will be mindful of the need for the Scheme to hold sufficient investments in liquid or readily realisable assets to meet cash flow requirements in the majority of foreseeable circumstances so that the realisation of assets will not disrupt the Scheme's overall investment policy, where possible.

14 The CF Trustee's investment policy is to seek to achieve the objectives through investing in a suitably diversified mixture of real (e.g. equity) and monetary (e.g. fixed interest) assets. The CF Trustee recognises that the returns on real assets, while expected to be greater over the long-term than those on monetary assets, are likely to be more volatile. A mixture across asset classes should nevertheless provide the level of returns required by the Scheme to meet its liabilities at an acceptable level of risk for the Trustee and an acceptable level of cost to the Company.

15 The CF must invest in assets that consist predominantly of investments admitted to trading on regulated markets. Investment in assets which are not admitted to trading on such markets must be kept at a prudent level.

16 The CF must be properly diversified in such a way as to avoid excessive reliance on any particular asset, issuer or group of undertakings and to avoid accumulations of risk in the portfolio. Investment in assets issued by the same issuer or by issuers belonging to the same group must not expose the Scheme to excessive risk concentration.

17 The CF Statement of Investment Policy will set out a governance framework for the use of derivatives within the CF.

Risk (DB)

18 The Trustee expects the CF Trustee to recognise, and monitor, several risks involved in the investment of the assets of the Scheme. The Trustee may undertake additional risk monitoring if it considers that this would be appropriate and would assist in its communications with the CF Trustee.

In recognition of this, the CF Trustee will consider the following risks for the CF with regard to its investment policy and the Scheme's liabilities:

Not achieving the target returns – this is addressed through:

- Diversification of the return-seeking assets
- Monitoring risk – such as Value-at-Risk
- Regularly reviewing the participating Sections’ funding levels

The CF Trustee considers risk reporting each quarter in respect of estimated total investment risk being taken within the CF relative to the liabilities.

Interest rate risk The CF Trustee has agreed liability benchmarks that reflect the sensitivities of each section’s liabilities to interest rate risk. The CF Trustee invests a portion of each section’s assets in instruments that are designed to match an agreed portion of these sensitivities.

Inflation risk The CF Trustee has agreed liability benchmarks that reflect the sensitivities of each section’s liabilities to inflation risk. The CF Trustee invests a portion of each section’s assets in instruments that are designed to match an agreed portion of these sensitivities.

Market risk The CF Trustee ensures that the CF’s assets are spread across a range of different investments. Risks are only taken where they are expected to be rewarded, through appropriate investment returns or portfolio diversification. The CF Trustee regularly monitors the CF’s exposures to different market risk factors.

Manager risk The CF Trustee monitors each of the CF’s managers’ performance on a regular basis. The CF Trustee has a written agreement with each manager, which contains a number of restrictions on how each manager may operate. The monitoring of manager performance may be delegated.

Liquidity risk The CF invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the CF’s and the Scheme’s cash flow requirements. The CF’s and the Scheme's respective administrators assess the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.

Operational risk The CF Trustee conducts thorough due diligence on all third-party service providers to ensure that processes, procedures and systems are robust, documented and operated by appropriately qualified individuals.

Legal risk The CF Trustee ensures that all advisers and third-party service providers that it appoints are suitably qualified and experienced. The CF Trustee ensures that a formal legal review is conducted before appointing third-party service providers. Suitable liability and compensation clauses are included in all contracts for professional services.

Corporate Governance risk It is measured and managed by regular reviews of concentration and regular discussions with the investment managers regarding corporate governance risk.

Political risk It is reduced by diversification of the assets across many countries and is managed by the regular assessment of the levels of diversification within the existing policy.

Custodian risk It is addressed through the agreements with the custodian and ongoing monitoring of the custodial agreements. Restrictions are applied to those persons able to authorise transfer of cash and the accounts to which transfers can be made.

Security risk It is addressed by having the custodian hold all assets on behalf of the CF, including collective investments. Monitoring of the custodian is outlined above.

Counterparty risk The CF Trustee controls counterparty risk by limiting the credit rating of counterparties it will transact with and the maximum allowable exposure to any single counterparty.

The CF Trustee regularly monitors the CF's exposure to each counterparty.

Currency risk The Scheme's liabilities are denominated in sterling. The CF may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management. The CF may manage its currency exposure by hedging currency risk.

Longevity risk It is addressed by the Trustee purchasing bulk annuity policies which protects the Scheme against the risk that the insured members live, on average, longer than expected.

Sponsor Investment Risk The CF Trustee does not invest in Banco Santander or its affiliated entities' equity or debt unless such investments are made indirectly through pooled funds.

19 The Trustee will monitor the employer support risk – the risk that the Company may withdraw or substantially weaken its covenant with the Trustee to support the Scheme – addressed by: the Trustee's Covenant Advisors, regular dialogue between the Trustee and the Company and receipt by the Trustee of twice yearly presentations from the Company on its results.

Investment Managers (DB) and bulk annuity providers

20 The CF Trustee's policy is to delegate day-to-day management of the Schemes' assets to fund managers, as detailed in the CF Statement of Investment Policy. The Trustee has entered into a bulk annuity policy with Aviva plc which provide payments to match the pensions payable to the underlying liabilities insured by the policy.

Borrowing (DB)

21 The Trustee, the CF Trustee and the investment managers may not borrow money or act as guarantor except borrowing for the purpose of providing temporary liquidity.

Defined Contribution (DC) arrangements

The Scheme's DC arrangements are made up of the following:

- The Alliance & Leicester (A&L) Defined Contribution (DC Section);
- The Household Mortgage Corporation (HMC) Section; and
- The Additional Voluntary Contributions (AVC) plans.

Defined Contribution

Investment Objectives (DC)

22 The Trustee's overall investment policy is guided by the following objective:

23 To make available to members a programme of investment via pooled funds which seeks to maximise the real return net of charges on members' assets but also allows members to control the risks arising from the potential volatility of such investments if they wish.

Risk (DC)

24 The Trustee has considered risk from several perspectives. The Trustee considers that these risks can be managed by the range of investment options provided to members. The key risks which they have identified are as follows:

- **Inflation risk –** The risk that the investment returns over members' working lives is not adequate relative to inflation. This can be measured against market indices and managed through the provision of suitable growth asset funds expected to produce a return in excess of inflation over the long-term and that have delivered this historically.
- **Pension conversion risk** – The risk that relative market movements in the years just prior to retirement lead to a substantial reduction in the benefits secured. This can be measured against changes in annuity prices and managed through the provision of bond-based investment funds or Lifestyle strategies designed to invest in bond based assets such that members can build a portfolio that minimises volatility compared to annuity prices.
- **Shortfall or 'Opportunity cost' risk** – The risk that members end up with insufficient funds at retirement with which to secure a reasonable income. This can be measured using expected replacement ratios and managed through investment in growth assets when tolerance to risk is high and investment in lower-risk diversified assets when tolerance to risk is low (i.e. lifestyling).

- **Manager risk** – The risk that the chosen investment manager underperforms the benchmark against which they are assessed. The Trustee believes this risk to be of such significance that the assets (except for cash and property) are managed on an index-tracking basis. This can be monitored using performance reports (from the investment manager or the investment consultant) and managed through regular reviews of investment manager performance combined with qualitative advice from the investment consultant.

Investment Strategy (DC)

25 The Trustee has reviewed compliance with the Pensions Regulator's revised Code of Practice 13 – Governance and Administration of occupational trust-based schemes providing money purchase benefits. Having considered the needs of the membership and taken expert advice from Willis Towers Watson, the Trustee has identified types of investment options for members which they believe are suitable to cover the range of likely investment objectives and risk tolerances over a member's working life.

26 Members are free to choose to invest in one or more of six funds providing exposure to a range of asset classes, including equities, property and bonds. Further information is set out in the Appendix. In addition, the Trustee has put in place two lifestyle strategies. The default lifestyle strategy is available to all members who do not wish to select their own funds, and a cash lifestyle strategy is available to those members who may choose to withdraw their whole account as a cash payment or series of cash payments.

Default Lifestyle Strategy (DC)

27 The Trustee reviewed the needs of the membership prior to determining the current default investment option and the investment options offered. The Trustee identified that most members joined the scheme by default and as such the responsibility for the default investment option is vitally important. The Default Lifestyle strategy is as follows:

Growth phase contributions	Invested in the Balance Focus Fund
Target Retirement Date	Members can select a target retirement age between 55 and 75 (65 is the default)
10 Years before Target Retirement Date	Over the 10-year period prior to a member's target retirement age, the strategy gradually and automatically switches assets into the Pre-Retirement Fund and Cash Fund
At Target Retirement Age	Invested 25% in the Cash Fund, 60% in the Pre-Retirement Fund and 15% in the Balance Focus Fund

28 This strategy seeks to capture the expected outperformance of growth assets, such as equities and alternative investments, over other asset classes whilst providing some protection against fluctuations in the costs of buying a non-inflation-linked pension and providing a lump sum cash payment at retirement.

29 Other parts of this statement address risk, expected return, and realisation of investments in respect of the pooled funds available for members to choose. Because the Default Lifestyle Strategy makes use of three of these funds (Balance Focus, Pre-Retirement and Cash) those parts of this statement also apply to the Default Lifestyle Strategy. In addition, the parts of this statement dealing with environmental, social and governance issues, rights attaching to investments and engagement apply to the Default Lifestyle Strategy.

30 The Trustee considers that the best interests of the persons invested in the Default Lifestyle Strategy are served by the objective and other factors described in this statement. In particular, the Trustee considers that:

- Purchase of a non-index-linked pension and cash is an appropriate end result for members using the Default Lifestyle Strategy. This takes account, among other things, of the certainty of the pension, the tax advantages of the lump sum and that alternative options are available for selection including the Cash Lifestyle Strategy.
- A strategy which moves gradually from a growth phase towards a high allocation to the Pre-Retirement Fund, the assets of which reflect investments underlying typical non-inflation linked annuity products, and cash is appropriate.

Monitoring (DC)

31 The Trustee reviews the investment manager's quarterly reports and meets with the investment manager to review their actions and the background behind the investment performance. The Trustee reviews whether the performance and processes remain consistent with the Trustee's aims and objectives for both the default and free choice options. Willis Towers Watson is retained as investment consultant to help in monitoring the investment manager and produces an annual review of the suitability of the fund range for the Trustee.

Additional Voluntary Contribution Funds (AVCs)

Assets in respect of each member's additional voluntary contributions are invested in a range of pooled funds.

32 Assets in respect of contributions paid by the Company to secure additional benefits for individual members on a "money-purchase" basis are invested in pooled funds.

33 Additional voluntary contributions are invested in similar funds to those offered to Defined Contributions members.

34 Some members of the Scheme continue to have their funds invested with Phoenix Life or in a in a Legal & General Assurance Society AVC policy. Funds previously invested with the Equitable Life Assurance Society have been transferred to Utmost Life but these will be transferred to LGIM during 2020.

35 In addition, the Scheme has several annuities with Legal & General (which relate to pensioners who retired under a former scheme before 1987).

36 The Trustee has regard to the historical rates of return earned on the various classes of asset available for investment and their corresponding volatilities in assessing the choices offered to members.

37 The members' accounts are held in funds which are sufficiently liquid to be realised to provide pension benefits on retirement, death or earlier transfer to another pension arrangement.

38 The Trustee has taken advice from the Scheme's Investment Consultant to ensure that the funds are appropriate for the Scheme.

Investment Procedures

Financially material considerations, including environmental, social and corporate governance ("ESG") considerations and responsible ownership – general

39 The Trustee has a long-term investment horizon. It believes that an appropriate assessment of factors such as sustainable growth, environmental and climate change impacts, as well as other social and governance considerations, will help to better achieve the objectives set and improve outcomes for members and beneficiaries through enhanced long-term returns and management of arising risks in respect of the Scheme's assets.

40 The Trustee also believes that investors who are responsible owners, and who engage, support better outcomes for the companies they invest in and ultimately enhance their investments by using their rights as shareholders influencing more sustainable corporate strategies, performance, risk management, capital structure, tax transparency and corporate governance, including culture, diversity and remuneration, potential conflicts of interest and social and environmental impact. Engagement is purposeful dialogue with companies on these matters as well as on issues that are the immediate subject of votes at general meetings. The Trustee will also monitor its supply chain for modern slavery risk.

Defined Benefit sections

41 As most of the assets of the Scheme are invested in the CF, the CF Trustee has primary responsibility for giving effect to the Trustee's policy on financially material considerations and responsible ownership. Specifically:

- Where an investment manager or fund is being considered for appointment or investment, the Trustee expects that the CF Trustee will have regard to that manager or fund's policies on financially material considerations, so far as relevant to its mandate, when deciding whether they should be selected. The Trustee also expects the CF Trustee to monitor how investment managers and funds take account of financially material considerations as part of their investment process, so far as relevant to their mandate.

- Consistent with the Trustee's views, the CF Trustee expects its rights as an investor to be exercised by the investment managers appointed by it or by the funds in which it invests. These managers are better positioned to drive engagement initiatives, directly interacting with the companies in their portfolios and exercising voting rights and acting alongside other investors, investment managers and stakeholders where appropriate. The CF Trustee requires investment managers to report on their stewardship policies, proxy voting and engagement initiatives as part of their initial assessment and on-going monitoring, so far as relevant for their mandate.

Defined Contribution sections

42 The Trustee will review:

- how financially material considerations, including ESG considerations, are integrated into the processes of the manager of the funds available for investment in the defined contribution arrangements, including the funds underlying the Default Lifestyle strategy from time to time; and
- the voting and engagement policies of that manager as part of their ongoing monitoring of that manager.

These would also be relevant considerations when considering whether to retain that manager and whether to appoint a replacement manager.

Non-financial matters

Defined benefit sections

43 In setting investment strategy the Trustee acts in the best financial interests of the Scheme's beneficiaries as a whole. Given this primary fiduciary duty as well as the significant practical and cost implications, the Trustee does not explicitly take into account the views of individual beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters. The Trustee will keep good practice in this area under review.

Defined Contribution sections

44 The Trustee recognises that members may have views on ethical investing or on matters such as the social and environmental impact of investing. The Trustee will consider requests for alternative fund options where they are made proactively by members but does not actively seek members' views.

Arrangements with fund managers and pooled funds

Defined benefit sections

45 The Trustee expects that, where a segregated account is used, the CF Trustee should normally ensure that the arrangement with the fund manager is negotiated by the CF's Investment Consultant on a case by case basis and will be bespoke to the strategy and asset class of the investment. Before an investment is made in a pooled fund, the objectives of the pooled fund should be reviewed by the CF's Investment Consultant to assess their consistency with the Trustee's overall investment objectives

46 Arrangements can include certain restrictions on geographies, sectors, credit ratings or individual security limits amongst other restrictions, which align the CF Trustee's investment beliefs and risk appetite with the fund manager or pooled fund. It is expected that these restrictions are reviewed and reported on by the CF's Investment Consultant.

47 Formal engagements will be performed regularly and throughout the investment lifecycle, with poor performance or breaches of restrictions potentially leading to termination of the arrangement or disinvestment.

48 Arrangements may include performance related remuneration, payable for financial performance above an agreed threshold, over a specified period. This may include "high water marks" to help to ensure that sustained favourable performance is rewarded rather than short term success.

49 The fund manager will be incentivised by a combination of remuneration and the commercial benefit of maintaining an ongoing relationship. The CF Trustee may choose to terminate arrangements where there is no clear alignment of strategy or investment beliefs.

50 As part of the initial due diligence, it is expected that the CF's Investment Consultant will consider the general management style and ESG credentials of asset managers and pooled funds, where relevant to their mandates. This should include their engagement with underlying issuers of debt or equity, as well as portfolio turnover, where relevant.

51 It is expected that this activity will be repeated regularly and will be reported back to the CF Trustee, together with assessments on the ESG momentum of the fund manager or pooled fund.

52 Where appropriate, investment objectives may include a reference to returns over financial periods which are consistent with a medium to long-term investment approach.

53 The financial performance of fund managers and Pooled Funds is independently calculated (net of fees) by a third party and is reported on a quarterly basis. Part of this reporting includes long-term performance against both specified targets and benchmarks.

54 The Trustee expects that turnover costs should be monitored by the CF Trustee and the CF's Investment Consultant and form part on the ongoing due-diligence process. Targeted portfolio turnover range is also reviewed by the CF'S Investment Consultant.

55 The duration of arrangements with Asset Managers and Pooled Funds will be dependent on the specific strategy of the Fund and how that strategy fits with the Scheme's own strategy. Generally, it is expected that the CF Trustee will look to build and protect long term value and capital growth through medium to long term relationships.

Defined contribution sections, including the Default Lifestyle Strategy

56 The Trustee's policy, working with its Investment Consultant, is to apply the arrangements described above to the pooled funds used for defined contribution investment, so far as the arrangements are relevant and it is proportionate to do so. For example:

- The Trustee currently reviews the performance of the funds over the preceding quarter, 1 year, 3 years and 5 years. Twice a year they review the Balanced Focus Fund against rolling 5-year performance and volatility metrics and the Pre-Retirement fund against annuity price changes over rolling 1, 3 & 5 year time horizons.

- Level of costs and charges is considered annually as part of a Value for Member assessment.

- Turnover costs (or transition costs) are considered annually as part of the Value for Member assessment.

Monitoring and review

57 The CF Trustee will regularly monitor the investment performance and process, including the investment managers' compliance with legislative requirements where appropriate. The CF Trustee will review the continuation/termination of the investment managers' contracts at least every three years.

58 Key information from this Statement and key results of monitoring of the CF will be sent annually to members. Members can request a copy of this Statement, which will also be made available online.

59 The Trustee will annually monitor whether participation in the CF continues to be appropriate for the Scheme (see paragraph 5 above).

60 The Trustee can withdraw the Scheme from the CF at any time by giving at least six months' written notice to the CF Trustee.

Agreement

61 This statement was agreed by the Scheme Trustee and replaces all previous statements. Any subsequent amendments will be made available to the Santander (CF Trustee) Limited, the fund managers, the Scheme Actuary and the Scheme auditor upon request.

Signed

Date 14/9/2020

On behalf of Santander (UK) Group

Pension Scheme Trustees Limited

Appendix - Defined Contribution Section

Investment Strategy

Free Choice

1 There are six fund options currently available to members of the Defined Contribution Section of the Scheme under the free-choice section, these are: Growth Focus Fund, Balance Focus Fund, Property Fund*, Pre-Retirement Fund, Pre-Retirement Inflation-Linked Fund and Cash Fund. All the funds are managed by Legal & General Investment Management ("LGIM") and are offered as pooled funds that are readily redeemable in normal circumstances. The range of options provided is diversified and intended to meet members' varying objectives.

2 Each of the investment options is made up of underlying asset classes. Equities are expected to produce returns in excess of rates of salary and price inflation in the medium to long-term. Bonds are likely to be less volatile than equities but tend to produce lower returns in the medium to long-term. The value of bonds is expected to move broadly in line with the price of annuities with the expectation of protecting purchasing power of a member's account near retirement. Cash is expected to exhibit low risk to capital and easily realisable asset values with limited returns.

3 The **Growth Focus Fund** is intended to provide growth over the long-term in line with the return in global shares. It invests in companies listed around the world including developed and emerging markets, to provide a diversified global portfolio of stocks.

4 The **Balance Focus Fund** is intended to provide long-term investment growth through a diversified range of asset classes, including global equities, developed corporate bonds, developed government bonds and alternatives.

5 The **Property Fund*** is intended to provide diversification as a secondary investment vehicle over a member's working lifetime. This is because property over the long-term is expected to give good returns and protect against inflation thereby increasing the buying power of a member's money.

6 It invests in UK freehold and leasehold property (i.e. Office, Retail, Industrial, and Leisure). The Fund does not engage in higher risk activities such as development and does not permit gearing on directly held assets. The Fund may invest in indirect vehicles and property derivatives. The Fund is managed on an active basis.

7 The **Pre-Retirement Inflation-Linked Fund** is intended to provide some protection against fluctuations in the cost of buying an inflation-linked pension as members approach retirement. The Fund does not provide protection against changes in annuity prices driven by changes in mortality expectations. The Pre-Retirement Inflation-Linked Fund aims to provide diversified exposure to sterling assets that reflect the broad characteristics of

investments underlying the pricing of a typical inflation-linked annuity and therefore provides some protection against changes in the prices of pensions. The benchmark allocation for the Fund is a composite of index-linked gilts and corporate bond funds. The benchmark for this Fund is regularly reviewed by LGIM.

8 The **Pre-Retirement Fund** is intended to provide some protection against fluctuations in the cost of buying a non-inflation-linked pension as a member approaches retirement. The Fund does not provide protection against changes in annuity prices driven by changes in mortality expectations. The Pre-Retirement Fund aims to invest in bond assets that reflect the investments underlying a typical non-inflation-linked pension and therefore provides some protection against changes in the prices of pensions. The Pre-Retirement Fund currently invests in a combination of gilts and corporate bonds. The benchmark for this Fund is regularly reviewed by LGIM.

9 The **Cash Fund** aims to protect the capital value of members' accumulated funds as they approach retirement. This is useful if they wish to take a cash lump sum at retirement. The Fund invests in cash deposits and other short-term instruments and aims to match the median return of similar cash funds.

Cash Lifestyle Strategy

10 A cash lifestyle strategy has been introduced to reflect the additional options available to members considering the new pension freedoms. The strategy will target a lump sum at retirement and is intended for members who may choose to withdraw their whole account as a cash payment or series of cash payments. The Cash Lifestyle strategy is as follows:

Growth phase contributions	Invested in the Balance Focus Fund
Target Retirement Date	Members can select a target retirement age between 55 and 75 (65 is the default)
10 Years before Target Retirement Date	Over the 10-year period prior to a member's target retirement age, the strategy gradually and automatically switches assets into the Cash Fund
At Target Retirement Age	Invested 70% in the Cash Fund and 30% in the Balance Focus Fund

Day-to-Day Management of the Assets

Main Assets

11 The Growth Focus Fund, Balance Focus Fund, Property Fund*, Pre-Retirement Fund, Pre-Retirement Inflation-Linked Fund and Cash Fund are all managed by Legal & General Investment Management ("LGIM").

12 The **Growth Focus Fund** is invested in a global equity index fund and managed by LGIM. The Fund employs an index tracking strategy, aiming to replicate the performance of its benchmark. (FTSE All-World Index). 75% of the developed market overseas assets are currently currency hedged back to sterling.

13 The **Balance Focus Fund** is invested in a range of asset classes and managed by LGIM. The Fund is expected to perform in line with a developed market equity fund. The diversified nature of the Fund means that it is expected to have less exposure than a pure equity fund to adverse market conditions. However, the Fund may perform less strongly than a pure equity fund in benign or positive market conditions.

14 The **Property Fund*** is invested in LGIM's Managed Property Fund*. The Fund invests in UK freehold and leasehold property and aims to outperform the benchmark over rolling three- and five-year periods. The benchmark for the Fund is AREF/IPD UK Quarterly All Balanced Property Funds Index. The Managed Property Fund* invests in a range of sectors covering Offices, Warehouses, Retail and Supermarkets. The proportions invested in each of these sectors may change from time to time.

15 The **Pre-Retirement Inflation-Linked Fund** aims to invest in assets that reflect the investments underlying typical inflation-linked pension annuity products. The Fund invests in a combination of index-linked gilts and corporate bonds funds. The benchmark for this Fund is regularly reviewed by LGIM.

16 The **Pre-Retirement Fund** aims to invest in assets that reflect the investments underlying typical non-inflation-linked pension annuity products. The Fund invests in a combination of gilts and corporate bonds. The benchmark for this Fund is regularly reviewed by LGIM.

17 The **Cash Fund** invests in LGIM's Cash Fund which is designed to match the median return of similar cash funds without incurring excessive risk. The benchmark for the Cash Fund is the 7 Day LIBID.

18 LGIM operates to an agreed fee scale. Each LGIM fund has a percentage fee (differing by fund type) which is applied to the amount of assets under management.

Additional Assets

19 Assets in respect of members' additional voluntary contributions are also invested with LGIM in the following funds: Growth Focus Fund, Balance Focus Fund, Pre-Retirement Fund, Cash Fund, Pre-Retirement Inflation-Linked Fund and Property Fund*.

* Contributions are directed to the cash fund whilst the Property Fund is suspended