

## Statement of investment principles in respect of the default investment option

### 1. Introduction

- 1.1 The Trustee of the Plan has drawn up this Statement of Investment Principles (the Statement) to comply with the requirements of Section 2A of the Occupational Pension Schemes (Investment) Regulations 2005 and subsequent legislation, relating to provision of information specific to default investments, referred to as 'default arrangement'. This should be read in conjunction with the main Statement.
- 1.2 The default arrangement covered by this Statement is the Clerical Medical With Profits Fund.

### 2. Principles

- 2.1 The Trustee recognises that many members do not consider themselves able to take investment decisions. In addition, the Trustee is aware that members who have not actively decided upon an investment option will have had their contributions invested for them, making their arrangements a default arrangement.
- 2.2 Whilst no contributions are currently being paid into the Plan, investments may have historically been placed in the default arrangement.
- 2.3 The default arrangement is the Clerical Medical With Profits Fund which is accessed on a platform provided by the Equitable Life Assurance Society (Equitable Life).

### 3. Default Arrangement

#### Objectives

- 3.1 The aims of the default arrangement and the ways in which the Trustee seeks to achieve these are detailed below:
- To achieve a stable and smoothed level return over the medium to long term
  - The Trustee has selected a with profits fund as the default arrangement. With profits funds have objectives that are consistent with that stated above
  - The Trustee has delegated management of the default arrangement to Clerical Medical. The Clerical Medical With Profits Fund is invested in a range of assets including equities, government and corporate bonds, property and cash. The strategic investment mix is reviewed regularly by Clerical Medical and assets are chosen with a view to getting the best possible long-term performance; and making sure that the with-profits fund can always meet its guarantees.
  - To provide members with bonuses, at the discretion of the provider, depending on prevailing investment performance.

The policies with regards to the payment of bonuses can be found in the Principles and Practices of Financial Management Management (which is a Clerical Medical document) that sets out how the Clerical Medical With Profits Fund is managed.

#### Policies in relation to the default arrangement

- 3.2 The Trustee's policies in relation to the default arrangement arrangement, in relation to regulation 2A of the Occupational Pension Schemes (investment) Regulations, Section (b) (i) to (vi) are as follows:
- The Trustee has selected a with profits arrangement which means that the policy on the kinds of investments and the balance between different kinds to be held has been delegated to Clerical Medical. The Trustee acknowledges that it cannot control these decisions.
  - The default arrangement manages investment risks during the lifetime of the investment. Section 4 provides further information on the Trustee's risk policies in relation to the default arrangement.
  - In providing the default arrangement the Trustee has considered the trade-off between expected risk and return. This is reviewed periodically. The Trustee's expectation is that the default arrangement will provide a positive real return over the long term in a steady manner, noting that it is reliant on asset allocation decisions taken by Clerical Medical to achieve this expectation.
  - The Trustee has taken into account the needs of members with regards the investment in relation to the security, quality, liquidity and profitability. To a great extent, the Trustee is reliant on the provider to manage these aspects.
  - If members wish to, they can opt to choose their own investment options at any time from a limited range of unit-linked funds.

- The Trustee monitors performance of the default arrangement. The Trustee does not provide advice to members on their individual choice of investment options.
- The selection, retention and realisation of assets within the With Profits fund are delegated to Clerical Medical in line with its Principles and Practices of Financial Management guidelines. Clerical Medical has full discretion on the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments.

#### 4. Risk

4.1 The Trustee has set out a number of risks in the main Statement of Investment Principles, as required by (b) (iv) of the Regulations. The means by which those relevant for the default arrangement are managed or mitigated is set out below:

- **Investment return risk** – the risk that low investment returns over members' working lives will be lower than expectation. The Trustee has sought to reduce this risk by offering a fund that invests in assets with long term growth expectations, noting this cannot be guaranteed.
- **Manager risk** – the risk that the decisions taken by an investment manager may have a detrimental impact on the returns of a fund. The Trustee is aware that it is reliant on the manager to take appropriate investment decisions in pursuit of the investment objective.
- **Benefit Conversion Risk** – the risk that the value of the member's pre-retirement investment fund does not keep pace with the 'value' of the retirement benefits they intend to secure. This risk is not specifically mitigated within the default but fund options are available to members to manage this risk outside of the default.
- **Inflation risk** - this is the risk of investment returns not keeping pace with inflation. The Trustee has sought to address this risk by offering a fund that is across a range of asset classes that are expected to achieve a real rate of return over inflation. This may be further enhanced by returns paid in the form of discretionary bonuses.
- **Market Value Adjustment** – this is the risk that Clerical Medical impose a penalty on members' investments should they transfer their benefits or take 'non-standard' retirement. The Trustee does not have the direct ability to mitigate this risk but will look to communicate with members so as to manage member expectations in the event of this adjustment.
- **Solvency Risk** – this is the risk that the Clerical Medical becomes insolvent which prevents them paying the returns across to members. The Trustee expects Clerical Medical to be setting aside sufficient solvency capital to ensure benefits can be paid in this event.
- **Risk of operational costs** - The members who invest in the Clerical Medical with profits fund bear profits and losses arising from expenses and there is a risk that these will increase. The Trustee has noted that Clerical Medical's policy states that they plan to deduct no more than 1% in any one year, but in very adverse market conditions, may have to deduct more than this to ensure that guarantees are met.
- **Transparency** – the Trustee has noted that it will not necessarily have access to the methodology used to calculate investment returns and bonuses.
- **Timing risk** – this is the risk that members invested who leave the Clerical Medical With Profits Fund later are impacted by less favourable returns than those who left earlier. The Trustee expects Clerical Medical to adopt a fair mechanism for the distribution of returns across all members.

#### 5. Suitability of the Default

5.1 Based on their understanding of the Plan's membership, the Trustee believe that the above objectives and policies reflect their needs:

- The aim of achieving a smooth steady return is deemed to be in the best interest for members to provide growth to their contributions to achieve better outcomes in retirement.
- Investing in a fund that may apply bonus returns (noting that these are discretionary) will also have a positive impact of member outcomes, which is also in the best interests of members.
- Investing in a fund that mitigates risk through diversification, for which the kind of assets and the balance between these has been delegated to a professional manager, is believed to improve the chances of achieving a smooth and steady return, which is in members' best interests.

**Appendix 1:**  
**Statement of Investment Principles**

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5.2 The default arrangement is aimed largely at members who have elected not to make investment decisions. The Trustee is aware that the default may not be suitable for all members.

**6. Review of this Statement**

6.1 The Trustee will review this Statement at least once every three years and without delay after any significant change in the membership profile or investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustee reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

Signed:  .....

Date:..... 28 March 2018 .....