Agility Pension Plan (“the Plan”) – LUFS Section
Statement of Investment Principles (“the Statement”)

1. Scope of Statement

This Statement has been prepared in accordance with Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005).

The effective date of this Statement is 30 September 2020. The Trustee will review this Statement and the Plan’s investment strategy annually and without delay after any significant change in investment policy.

The Plan is comprised of three sections: one providing defined benefits (LUFS), a section providing Money Purchase benefits (LUMP), both of which have been closed to new members and future accrual since 2006, and the third is a Defined Contribution Section (2006 Plan). There is no cross-subsidy between the different sections. This statement relates only to the LUFS Section of the Plan ("LUFS Section").

2. Consultations Made

The Trustee has consulted with the Sponsoring Employer prior to writing this Statement and will take the Employer’s comments into account when it believes it is appropriate to do so.

The Trustee is responsible for the investment strategy of the LUFS Section of the Plan. It has obtained written advice on the investment strategy appropriate for the LUFS Section and on the preparation of this Statement. This advice is provided by its investment adviser, Aon Solutions UK Limited, who are authorised and regulated by the Financial Conduct Authority.

The Trustee has decided to invest the LUFS Section's assets in the Aon Pension Solution (“APS”). Under the APS, the Trustee, following advice from their investment adviser, set specific funding objectives for the LUFS Section. Russell Investments Limited (the “Manager”) manage the LUFS Section's assets in a range of funds which can include multi-asset, multi-manager and specialist third party liability matching funds. The Manager conducts the necessary day to day management of the LUFS Section's assets required to meet the LUFS Section's objectives.

A copy of this Statement is available to the Manager and/or the members of the LUFS Section on request.

3. Objectives and Policy for Securing Objectives

The Trustee’s primary objectives for setting the investment strategy of the LUFS Section are:

- “funding objective” – to ensure that the LUFS Section is fully funded using assumptions that contain a margin for prudence. Where an actuarial valuation reveals a deficit, a recovery plan will be put in place which will take into account the financial covenant of the Employer;

- “stability objective” – to have due regard to the likely level and volatility of required contributions when setting the LUFS Section's investment strategy; and

- "security objective" – to ensure that the solvency position of the LUFS Section (as assessed on a gilts basis) is expected to improve. The Trustee will take into account the strength of the Employer's covenant when determining the expected improvement in the solvency position of the LUFS Section.

The Trustee decided to invest the LUFS Section's assets in a bundled investment service through the APS because it provides the framework for a risk-management strategy that better helps the Trustee meet its primary objectives above. The three key components of the Trustee's risk-management strategy are:

- Appropriate diversification of the growth portfolio;

- Efficient liability hedging; and

- Frequent funding level monitoring and triggers to automatically de-risk the LUFS Section when the opportunity arises.

The Trustee selected the APS because it considered it to provide such a bundled service that is easy to access and that is cost-effective.

Under the APS, the funding objective is set in relation to the liability cash flows that are required to be met from the LUFS Section in each future year. In each future year the annual cash flow is made up from a mixture of pensioners' and (current) non-pensioners' benefits.

The funding objective is based on a measure of the liabilities which takes into account risk free returns plus an explicit allowance for excess return derived from the growth assets. The risk free measure used is based on yields on fixed interest and index-linked gilts, being the financial instruments which can most appropriately match the profile of the expected benefit payments. The excess return is based on the proportion of growth assets that the LUFS Section holds and an anticipated return that the Trustee is comfortable with in the context of the covenant of the Sponsoring Employer and is reviewed on a regular basis. The Trustee's funding objective for the LUFS Section is to be fully funded on an actuarial basis that assumes returns in line with the yields on gilts +0.3% per annum both pre-retirement and post-retirement.

Details of the LUFS Section's current funding objective are described in the Appendix to this Statement.

4. Choosing Investments

This Statement sets out the Trustee's policies for securing compliance with Section 35 of the Pensions Act 1995.

The types of investments held and the balance between them is deemed appropriate given the liability profile of the LUFS Section, its cashflow requirements, the funding level of the LUFS Section and the Trustee's objectives.

It is the Trustee's intention to ensure that the assets of the LUFS Section are invested in the best interests of the members and beneficiaries.

The Trustee delegates its powers of investment in a manner that is expected to ensure the security, quality, liquidity and profitability of the portfolio as a whole. The assets of the LUFS Section are invested predominantly in regulated markets (with investments not in regulated markets being kept to a prudent level) and properly diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings so as to avoid accumulations of risk in the portfolio as a whole. The diversification is both within and across the major asset classes.

Assets held to cover the LUFS Section's technical provisions (the liabilities of the LUFS Section) are invested in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the LUFS Section but recognising also the return requirement in order to meet the funding objective.

Investment in derivatives is only made in so far as they contribute to the reduction of investment risks or facilitate efficient portfolio management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk) and are managed so as to avoid excessive risk exposure to a single counterparty or other derivative operations.

5. The Balance between Different Kinds of Investments (LUFS section)

The Trustee recognises that the key source of financial risk (in relation to meeting its objectives) arises from asset allocation.

Under the APS, the LUFS Section will have an allocation to a diversified growth fund ("the Growth Portfolio") and an allocation to specific liability matching funds ("the Matching Portfolio") based on gilts. Within this structure:

- The allocation to the Growth Portfolio is set so that the expected return, together with the planned contributions, is expected to be sufficient to meet the funding objective by the target date. The Growth Portfolio will be well diversified and will be managed actively between asset classes. Within the Growth Portfolio, fixed income securities may be held as a source of return and as a diversifier.

- The Matching Portfolio's asset profile is selected to provide protection against movements in interest rates and inflation. The Matching Portfolio will be tailored to match the LUFS Section's liability cash flows as far as is practically possible and will use leveraged gilt funds to extend the matching characteristics where appropriate.

A plan (the "Road Map") has been put into place to reduce the required return systematically as the funding level improves from the starting allocation to the target allocation implicit in the funding objective. The Road Map reduces the required return as the funding level improves but maintains sufficient assets in the Growth Portfolio so that the funding objective is still expected to be achieved. This aims to lock in favourable increases in assets (or falls in liability value not match by the liability hedging in place) to the greatest extent possible, without jeopardising the LUFS Sections' funding objective.

The Road Map is currently suspended pending review.

Under the APS, the Trustee delegates responsibility for managing its asset allocation to the Manager. This allows the asset allocation of the LUFS Section to be adjusted quickly, where needed, in response to changes in the funding level, to best meet the investment objectives of the LUFS Section.

The Trustee reviews its investment strategy in conjunction with each formal actuarial valuation of the LUFS Section (or more frequently should the circumstances of the LUFS Section change in a material way). The Trustee takes written advice from its professional advisers regarding an appropriate investment strategy for the LUFS Section. The investment strategy for the APS (set out in the Appendix) was implemented following a review of the LUFS Section's liabilities, investment strategy and manager structure which was carried out following the actuarial valuation with an effective date of 31 December 2017.

Following finalisation of the latest actuarial valuation, the Trustee is in the process of reviewing the investment strategy and Road Map.

Details of the LUFS Section’s Road Map and of the Growth and Matching Portfolios are described in the Appendix to this Statement.

6 Investment Risk Measurement and Management

The Trustee recognises that the key risk to the LUFS Section is that it has insufficient assets to meet its liabilities ('funding risk'). The Trustee has identified a number of key risks which have the potential to cause a deterioration in the funding level of the LUFS Section. These are as follows:

- **Asset allocation risk** – the risk of below expected returns from the LUFS Section's assets. The Trustee has put in place a Road Map (currently suspended pending review) to systematically reduce the required return as the funding level improves over time.

  Regular checks are made as to whether the funding and investment strategy, including the Road Map, remain on target to achieve the original objectives, and within acceptable parameters. If not, then corrective action is considered by adjusting the investment strategy, or through amendments to the contribution plan.

  The Manager monitors the funding level on a daily basis and has been instructed by the Trustee to invest the assets to deliver the required return in accordance with the Road Map. If the funding level falls through a trigger point then no automatic re-risking takes place through an increase in the required return.

- **Covenant risk** – the possibility of failure of the LUFS Section's Sponsoring Employer. The Trustee and its advisers considered this risk when setting the investment strategy and have consulted with the Sponsoring Employer as to the suitability of the proposed strategy.

  Risks associated with changes in the Employer covenant are assessed on a regular basis using a number of methods including monitoring the Failure Score (as defined for the purposes of calculating the risk-based element of the Pension Protection Fund levy) and taking independent covenant assessment advice. The Trustee also has an agreement with the Employer to receive notification of any events which have the potential to alter the creditworthiness of the Sponsoring Employer. In particular, the Trustee will be informed of Type A events, as defined in appropriate guidance issued by the Pensions Regulator, and Employer-related Notifiable Events. On receipt of such notification, the Trustee will re-consider the continued appropriateness of the LUFS Section's existing investment strategy.

- **Mismatching risk** – the risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors. The Trustee and its advisers have considered this risk when setting the investment strategy and have specifically structured the LUFS Section's assets so as to minimise this risk as far as is practical. The asset profile of the Matching Portfolio is tailored to meet the LUFS Section's liability cash flows as far as is practically possible and will use leveraged gilt funds to extend the matching characteristics where appropriate.

- **Diversification risk** – the failure to spread investment risk. The Trustee and its advisers have considered this risk when setting the investment strategy of the LUFS Section. The LUFS Section's assets are invested in the APS, which provides exposure to a diversified growth fund and specialist third party liability matching funds.

- **Cash flow risk** – the risk of a shortfall of liquid assets relative to the LUFS Section's immediate liabilities. The Trustee, its advisers and the Manager will manage the LUFS Section's cash flows taking into account the timing of future payments in order to minimise the probability that this occurs.

- **Manager risk** – the failure by the fund managers to achieve the rate of investment return expected by the Trustee. This risk is considered by the Trustee and its advisers both upon the initial appointment of the fund managers and on an ongoing basis thereafter, through quarterly investment reports prepared by its advisers.

- **Operational risk** – the risk of fraud, poor advice or acts of negligence. The Trustee has sought to minimise such risk by ensuring that all advisers and third-party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.

Due to the complex and interrelated nature of these risks, the Trustee considers the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review and in conjunction with the actuarial valuation of the LUFS Section, following which the Trustee takes advice on the continued appropriateness of the existing investment strategy.

Having set and implemented an investment objective which relates directly to the LUFS Section's liabilities, the Trustee's policy is to monitor, where possible, these risks on a regular basis. The Trustee monitors these risks through quarterly reports which detail the latest financial position of the LUFS Section including the actual funding level versus the expected funding level, an analysis of investment performance and risk versus return.

The Trustee monitors the performance of the assets on a quarterly basis via investment monitoring reports prepared by its investment adviser.

The Trustee acknowledges that investment returns achieved outside the expected deviation (positive or negative) maybe an indication that the Manager is taking a higher level of risk than expected.

The Trustee has established a separate Investment Sub-Committee to consider matters with regard to investment, including performance monitoring.

8. Custody

Investment in pooled funds gives the Trustee a right to the cash value of the units rather than to the underlying assets.

Day to day control of custody arrangements for the LUFS Section's assets is delegated to State Street Bank and Trust Company, who are independent of the Sponsoring Employer.

9. Expected Returns on Assets

The Growth Portfolio aims to deliver equity like returns in the medium to long term with around half to two thirds of the expected volatility (defined in terms of standard deviation of returns) of equity markets.

The Matching portfolio is expected to move in a way that matches the sensitivity of the liabilities to interest rates and inflation.

10. Realisation of Investments/Liquidity

The Trustee recognises that there is a risk in holding assets that cannot be easily realised should the need arise. Given the long-term nature of the LUFS Section, this is not expected to be a major problem.

The majority of the assets held are realisable at short notice (either through the sale of direct holdings of stocks, bonds etc. or the sale of units in pooled funds).

11. Responsible Investment Considerations

In setting the investment strategy, the Trustee's primary concern is to act in the best financial interests of the Plan and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. The Trustee believes that, in order to fulfil this commitment and to protect and enhance the value of the Plan's investments, it must act as a responsible steward of the assets in which the Plan invests.

Environmental, Social and Governance considerations: The Trustee further acknowledges that an understanding of financially material considerations including environmental, social and corporate governance ("ESG") factors (such as climate change) and risks related to these factors can contribute to the identification of investment opportunities and financially material risks.

As part of their delegated responsibilities, the Trustee expects the Plan's Manager and underlying investment managers to take into account corporate governance, social, and environmental considerations (including long-term risks posed by sustainability concerns including but not limited to climate change risks) in the selection, retention and realisation of investments. Any decision should not apply personal, ethical or moral judgments to these issues, but should consider the sustainability of business models that are influenced by them.

The Trustee is taking the following steps to monitor and assess ESG related risks and opportunities:

- The Trustee will have periodic training on Responsible Investment to understand how ESG factors, including climate change, could impact the Plan's assets and liabilities.

- When reviewing the investment strategy and strategic risks, the Trustee considers the implication of ESG risks, including climate change, using the available modelling tools, including deterministic scenarios.

- As part of the ongoing monitoring of the Plan's investments, the Trustee will use ESG ratings information on the underlying investment managers provided by the Plan's Manager, where relevant and available, to monitor the level of integration of ESG on a regular basis.

- The Trustee will include ESG-related risks, including climate change, on the Plan's risk register as part of ongoing risk assessment and monitoring.

Members' views and non-financial factors: In setting and implementing the Plan's investment strategy the Trustee will ensure that the investments comply with the appropriate regulations but does not explicitly take into account the views of Plan members and beneficiaries, in relation to ethical views, social and environmental impact matters and present and future quality of life of the members and beneficiaries of the Plan (defined as "non-financial factors"). The Trustee will review its policy towards this at least every three years.

Initiatives and industry collaboration: In recognition of the commitment of the Plan's Manager to environmental, social and corporate governance issues, the Manager is a signatory of the UN Principles for Responsible Investment ("UN PRI" or the "Principles"). The Principles are a voluntary set of global best practices that aim to provide a framework for integrating environmental, social and corporate governance issues into financial analysis, investment decision-making and ownership practices. The UN PRI are voluntary and aspirational. Where consistent with their fiduciary responsibilities, the Manager will aim to pursue each of the six Principles, these being:

- Incorporating environmental, social and corporate governance issues into investment analysis and decision-making processes.

- Being active owners and incorporating environmental, social and corporate governance issues into their ownership policies and practices.

- Seeking appropriate disclosure on environmental, social and corporate governance issues by the entities in which they invest.

- Promoting acceptance and implementation of the Principles within the investment industry.

- Working together to enhance their effectiveness in implementing the Principles.

- Reporting on their activities and progress toward implementing the Principles.

The Plan's Manager has also signed up to the UK Stewardship Code. This Code aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities. It sets out good practice on engagement with investee companies to which the Financial Reporting Council believes institutional investors should aspire and operates on a 'comply or explain' basis.

Disclosure and reporting: The Trustee will report to its stakeholders on its responsible investment activities on an annual basis.

12. Arrangements with the Manager

The Trustee has appointed Russell Investments Limited ("the Manager") as its fiduciary manager, which it considers to be its investment manager. References in this policy to ‘underlying investment managers’ refers to those investment managers which the Manager in turn appoints, directly or indirectly, to manage investments on behalf of the Trustee.

The Trustee recognises that the arrangements with its fiduciary manager, and correspondingly the underlying investment managers, are important to ensure that interests are aligned. In particular, the Trustee seeks to ensure that the fiduciary manager is incentivised to operate in a manner that generates the best long-term results for the Plan and its beneficiaries.

The Trustee receives quarterly reports and verbal updates from the Manager on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustee focuses on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Plan’s objectives and assesses the Manager over rolling 3- and 5-year periods.

The Trustee also receives annual stewardship reports on the monitoring and engagement activities carried out by the Manager, which supports the Trustee in determining the extent to which the Plan’s engagement policy has been followed throughout the year.

The Trustee shares the policies, as set out in this SIP, with the Manager and requests that they review and confirm whether their approach is in alignment with the Trustee’s policies.

The Trustee delegates the ongoing monitoring of underlying investment managers to the Manager. The Manager monitors the Plan’s investments to consider the extent to which the investment strategy and decisions of the underlying investment managers are aligned with the investment objectives of the Plan. This includes monitoring the extent to which the underlying investment managers:

- Make decisions based on assessments about medium- to long-term financial and non-financial performance of an issuer of debt or equity; and

- Engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

Before appointing a new fiduciary manager or investment manager, the Trustee will review the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee's policies. Where possible, the Trustee will seek to amend that documentation so that there is more alignment. Where it is not possible to make changes to the governing documentation, for example if the Plan invests in a collective vehicle, then the Trustee will express its expectations to the investment manager by other means (such as through a side letter, in writing, or verbally at Trustee meetings).

The Trustee believes that having appropriate governing documentation, setting clear expectations to the Manager, and regular monitoring of the Manager's performance and investment strategy, is sufficient to incentivise the Manager to make decisions that align with the Trustee's policies and base those decisions on assessments of medium- and long-term financial and non-financial performance.

Where the Manager is considered to make decisions that are not in line with the Trustee's policies, expectations, or the other considerations set out above, the Trustee will typically first engage with the Manager but could ultimately replace it where this is deemed necessary.

The Trustee has not set a duration for its arrangements with the Manager, although its continued appointment is reviewed periodically, and at least every 5 years. Similarly, there are no set durations for arrangements with the underlying asset managers that the Manager invests in, although this is regularly reviewed as part of the manager research and portfolio management processes in place.

13. Costs and Performance

The Trustee is aware of the importance of monitoring their investment managers' total costs and the impact these costs can have on the overall value of the Plan's assets. The Trustee recognises that in addition to annual management charges, there are other costs incurred by investment managers that can increase the overall cost incurred by their investments.

The Trustee receives annual cost transparency reports from the Manager. These reports present information in line with prevailing regulatory requirements for fiduciary managers. They clearly set out on an itemised basis:

- The total amount of investment costs incurred by the Plan;
- The fees paid to the Manager;
- The fees paid to the investment managers appointed by the Manager;
- The amount of portfolio turnover costs (transaction costs) incurred by the investment managers appointed by the Manager;
    - The Trustee defines portfolio turnover costs as the costs incurred in buying and selling underlying securities held within the funds of the investment managers appointed by the Manager;
- Any charges incurred through the use of pooled funds (custody, admin, audit fees etc.);
- The impact of costs on the investment return achieved by the Plan.

The Trustee acknowledges that portfolio turnover costs are a necessary cost to generate investment returns and that the level of these costs varies across asset classes and manager. The Manager monitors the level of portfolio turnover (defined broadly as the amount of purchases plus sales) of all the investment managers appointed on behalf of the Trustee.

The Trustee delegates the management of the underlying manager cost transparency relationships to the Manager, however the Trustee expects full compliance with the provision of the cost transparency disclosure templates and that the Manager reports back any non-compliance.

The Trustee benefits from the economies of scale provided by the Manager in two key cost areas:

- The ability of the fiduciary manager to negotiate reduced annual management charges with the appointed investment managers;

- The ability of the fiduciary manager to monitor ongoing investment costs (including additional fund expenses and portfolio turnover) incurred by the investment managers and achieve efficiencies where possible.

Evaluation of performance and remuneration:

The Trustee assesses the (net of all costs) performance of the Manager on a rolling three-year basis against the Plan's specific liability benchmark and investment objective. The remuneration paid to the Manager and the fees incurred by third parties appointed by the Manager are provided annually by the Manager to the Trustee. This cost information is set out alongside the performance of the Manager to provide context. The Trustee monitors these costs and performance trends over time.

14. Stewardship – Engagement and the Exercise of the Rights Attaching to Investments

The Trustee recognises the importance of its role as a steward of capital and the need to assess all financially material risks in its investment decision making process. This includes risks associated with climate change, as well as other ESG-related factors. To this end, the Trustee strives to maintain a high standard of governance, promotion of corporate responsibility and respect of environmental factors throughout the Plan’s portfolio. The Trustee believes that doing so ultimately creates long-term financial value and reduces risk for the Plan and its beneficiaries.

The Trustee carefully reviews the Manager’s approach to stewardship, and other ESG-related matters, and communicates its expectations and standards to the Manager. These standards include:

- The Trustee expects the Manager to be a signatory to the PRI.

- The Trustee expects the Manager to be a signatory to the UK Stewardship Code.

- The Trustee expects the Manager to ensure that, where appropriate, underlying investment managers use their influence as major institutional investors to exercise the Plan's rights and duties as a shareholder.

- The Trustee expects the Manager to provide adequate transparency around stewardship activities, including an annual report on the stewardship activities of the underlying managers.

The Trustee will engage with the Manager as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned. This will take the form of annual reporting.

Where possible, the transparency for voting should include voting actions and rationale with relevance to the Plan, in particular where: votes were cast against management; votes against management generally were significant; votes were abstained; voting differed from the voting policy of the underlying investment manager. Furthermore, where voting is concerned, the Trustee expects underlying investment managers to recall stock lending, as necessary, in order to carry out voting actions.

The disclosures offered for engagements should include the objectives and relevance to the fund, methods of engagement, progress and perspectives around shortcomings and outcomes to date, as well as escalation points and procedures as necessary.

The Trustee reviews the Manager's stewardship activity on an annual basis to ensure the Plan’s stewardship policy is being appropriately implemented in practice. The Trustee does so to ensure that the Manager acts in a manner that is consistent with the Trustee’s policies and objectives. If the Manager is found to fall short of the standards set by the Trustee, it is expected to provide satisfactory explanations as to why it is not. While the Trustee may seek to engage with the Manager if it is deemed to be falling short of its standards to reach a more sustainable position, failure to comply may result in a decision to replace it.

In line with its commitment to transparency and disclosure, the Trustee reports its responsible investment activities to the Plan’s stakeholders on an annual basis within the Trustee's report and accounts.

The Trustee may engage with the Manager, who in turn is able to engage with underlying asset managers, investee company or other stakeholders, on matters including the performance, strategy, risks, social and environmental impact, corporate governance, capital structure, and management of actual or potential conflicts of interest, of the underlying investments made. Where a significant concern is identified, the Trustee will consider, on a case by case basis, a range of methods by which it would monitor (examples include via the manager, media, personal and professional dealings) and engage (examples include via the manager and directly with underlying companies) so as to bring about the best long-term outcomes for the Plan.

13. Additional Voluntary Contributions (“AVCs”) Arrangements

In addition to the main LUFS Section benefits, some members obtain further benefits by paying Additional Voluntary Contributions (AVCs) to the Plan. The liabilities in respect of historic AVC arrangements are equal to the value of the investments bought by the members.

From time to time the Trustee reviews the choice of investments available to members to ensure that they remain appropriate to the members’ needs.

This Statement replaces the former Statement of Investment Principles which had an effective date of 29 May 2019.

Kim Nash	....	24 September 2020
Name (Print)	Signature	Date
Michael Woodmore	....	24 September 2020
Name (Print)	Signature	Date

Agility Pension Plan
Appendix to Statement of Investment Principles – LUFS Section

This Appendix sets out the Trustee’s current investment strategy and is supplementary to the Trustee’s Statement of Investment Principles (the “attached Statement”).

1. Long Term Funding Objective

The Trustee’s funding objective for the LUFS Section is to be fully funded on an actuarial basis that assumes returns in line with the yields on gilts + 0.3% per annum for both pre-retirement and post-retirement. The Trustee's intention is that, if the funding level improves to certain pre-determined trigger points, the LUFS Section will:

- de-risk from the starting allocation by reducing the expected return required to meet the funding objective. If growth assets reduce to 50%, the Trustee will review the Road Map; and

- reduce the expected end date of the Recovery Plan by a proportionate amount.

This target assumes Employer contributions will continue at a rate of £2.3m pa increasing with the Retail Prices Index (RPI). This was implemented following the actuarial valuation with an effective date of 31 December 2017.

Current asset allocation

The allocation of the LUFS Section's assets between the Growth Portfolio and the Matching Portfolio will depend on the return and hedging ratio required, which is dictated by the funding position of the LUFS Section. At the date of the attached Statement, the target return for the LUFS Section was gilts + 2.5% per annum (net of fees) with a target hedge ratio of 100% of the funded liabilities.

As at 31 March 2020, the total assets were invested as follows:

APS Growth Portfolio	66.1%
APS Matching Portfolio	33.9%
Total	**100%**

2. Road Map

Following a period of consultation and review post the finalisation of the actuarial valuation, effective date of 31 December 2017, a Road Map has been set for the LUFS Section. The Road Map was set on the basis that the required return is reduced by 0.5% p.a. at each trigger point. This is predicated on the fact that following each switch and allowing for transaction costs, the portfolio, together with agreed contributions, continues to be expected to reach the funding objective by the target date. In practice, the trigger points in this Road Map will change over time as the recovery period passes and as the LUFS Section's assets and liabilities develop (e.g. through cashflow variations).

The Manager will monitor the funding level on a daily basis and has been instructed by the Trustee to operate a soft trigger policy. When monitoring indicates that the funding level has increased above a trigger point, the Manager will notify the Trustee, although will not make any immediate change to the target return and hedge ratio.

Growth Portfolio

The allocation of the Growth Portfolio held by the LUFS Section in the APS is set out in the table below.

Manager	Asset Class	Actual Allocation as at 31 March 2020 (%)
Russell Investments Limited (Russell Investments Limited adopt a multi manager approach to investing, whereby they utilise a number of “best of breed” Manager products to create a single composite fund)	Equities	30.1
	Fixed Income	52.3
	Real Assets (commodities, real estate and listed infrastructure	4.4
	Alternatives (hedge funds, active currency, absolute return)	0.0
	Cash	13.2

The objective of the Growth Portfolio is to generate capital appreciation over the course of a complete economic and market cycle through a diversified portfolio of investments.

The performance target will be cash plus 4.5% per annum.

Total portfolio volatility (defined in terms of standard deviation of returns) is expected to be between 50% and 75% of that of equity markets. Whilst the Manager will normally seek to operate within these bands, from time to time market circumstances may mean that the portfolio proves to have a higher or lower volatility than this range. The performance of the Growth Portfolio may vary considerably from the performance target over the short-term.

The Growth Portfolio may invest in collective investment vehicles and other securities including, but not limited to, equity and fixed income securities.

The Growth Portfolio will be subject to the following restrictions:

- The exposure to publicly listed equities will be between 0% and 80% of the Growth Portfolio;

- The exposure to fixed income securities, including cash, cash equivalent and other money market securities, will be between 0% and 80% of the Growth Portfolio;

- The exposure to real assets, being assets that are linked to inflation rates (including but not limited to commodities), will be between 0% and 30% of the Growth Portfolio;

- The exposure to all other asset classes and strategies not covered above (for example but not limited to: portable alpha funds, active currency funds, hedge funds, PFI funds) shall not exceed 40% of the Growth Portfolio; and

- The maximum exposure to collective investment vehicles that have less than weekly liquidity is 20%.

The limits on investments shall apply at the time of the purchase of the investments. If the limits referred to are exceeded for reasons beyond the control of the Manager, the Manager shall ensure that the fund will adopt as a priority objective for its sales transactions the remedying of that situation taking due account of the interests of the Plan.

The Growth Portfolio may employ investment techniques and financial derivative instruments for investment purposes or for efficient portfolio management purposes, such as to reduce risk, reduce cost and for hedging purposes and/or to alter currency exposure.

Overall, 88% of the Plan’s total assets are to be denominated in Sterling, with the remaining 12% denominated in Euros; the exposure to Euro denominated assets is to be achieved through the Growth Portfolio.

Matching Portfolio

The Matching Portfolio held by the LUFS Section in the APS will change from time to time based on:

- The target hedge ratio, which is subject to the expected return requirement. This will constrain the available capital that can be used to hedge the liabilities with an appropriate level of leverage. As at the date of this Statement, the target hedge ratio was 100% of the Plan's funded liabilities;

- The target hedge ratio is also based on the views of the Trustee on the advice from its investment adviser, Aon;

- The advice of the LUFS Section's Scheme Actuary on the portfolio required to match the liabilities;

- The Manager's use of discretion; and

- Changing market conditions.

The Manager will use reasonable endeavours to maintain the interest rate sensitivity of the Matching Portfolio within the following limits:

- The total interest rate sensitivity of the Matching Portfolio may vary to within -2 to +3 percentage points of the target hedge ratio.

- The total interest rate sensitivity of the real portion of the Matching Portfolio may vary to within -2 to +3 percentage points of the real portion of the target hedge ratio.

- The total interest rate sensitivity of the nominal portion of the Matching Portfolio may vary to within -2 to +3 percentage points of the nominal portion of the target hedge ratio.

- The contribution to the target hedge ratio arising from assets defined as being in the Matching Portfolio is limited to 100% in interest rate swaps, 100% in inflation swaps, 100% in gilt based derivatives and instruments and 50% in other assets.

- The Matching Portfolio will comprise primarily of fixed income securities, inflation-linked securities, money market securities, derivatives and collective investment vehicles that invest in the foregoing instruments.

Gilts, swaps and other derivatives may be used to create leverage within the Matching Portfolio and the Matching Portfolio may also be invested in collective investment schemes that use derivatives to create leverage. The overall degree of underlying leverage in the Matching Portfolio will vary with market movements.

With effect from 22 January 2019, the benchmark for the Matching Portfolio assets has been based on projected fixed and real cashflows for the Plan as provided to Russell Investments. This will be updated after each actuarial valuation to allow for changes in the membership.

APS cash balances

In addition to the Growth and Matching Portfolios, the Manager may hold Residual Cash from time to time that is not invested in either the Growth or Matching Portfolios.

The primary purpose of a Residual Cash allocation will be to meet anticipated disbursements and expenses and to facilitate any short-term cash flows.

Residual Cash will not exceed 5% of the LUFS Section's APS Portfolio in normal circumstances. Residual Cash will be held on deposit or invested in short term money market funds.

Other cash balances

In addition to the assets managed by the Manager, the Trustee will run a bank account which holds a working balance of cash, held for imminent payment of benefits, expenses, etc. Under normal circumstances it is not the Trustee’s intention to hold a significant cash balance and this is carefully monitored by the LUFS Section’s administrators.

3. Fee structure for advisers and managers

3.1 Advisers

Any advisory work that falls out of the APS is paid for on the basis of the time spent by the advisor. For significant areas of advice (e.g. one off special jobs, or large jobs, such as asset and liability modelling), the Trustee will endeavour to agree a project budget.

These arrangements recognise the bespoke nature of the advice given and that no investment decisions have been delegated to the adviser.

3.2 Investment managers

APS

A fee (based on the value of the assets invested) is deducted from the assets managed under APS to cover a range of services. The costs are reviewed regularly.

4. Additional Voluntary Contributions

The Trustee has appointed Standard Life and Royal London as the provider of AVC services.