

Statement of Investment Principles
September 2020

Federated Pension Scheme for the Douglas Macmillan Hospice

| Contents | Page Number |
|---|--------------------|
| 1. INTRODUCTION | 3 |
| 2. GOVERNANCE | 5 |
| 3. DECISION MAKING | 7 |
| 4. INVESTMENT OBJECTIVES | 8 |
| 5. INVESTMENT POLICY | 9 |
| 6. MANAGER STRUCTURE | 12 |
| 7. ENVIRONMENTAL, SOCIAL & GOVERNANCE FACTORS | 14 |
| 8. REPORTING AND MONITORING | 16 |
| 9. COMPLIANCE WITH MYNERS' PRINCIPLES | 18 |
| 10. RISK MANAGEMENT POLICIES | 21 |
| APPENDIX A: THIRD PARTY ARRANGEMENTS | 25 |
| APPENDIX B: INVESTMENT ARRANGEMENTS | 26 |

Federated Pension Scheme for the Douglas Macmillan Hospice

1. INTRODUCTION

Legislative Requirements

Under Section 35 of the Pensions Act 1995, subsequently amended by the Pensions Act 2004, the Trustees of the Federated Pension Scheme for the Douglas Macmillan Hospice (the 'Scheme') are required to prepare, maintain, and review regularly a written Statement of Investment Principles ('SIP') governing the investment decisions of the Scheme.

This document constitutes the SIP for the Scheme, and has taken into account the Myners' Principles published by the Government in 2001.

In preparing the SIP dated 2019, the Trustees confirm that they considered written advice from XPS Investment Limited ('XPS Investment') as the Trustees' Investment Consultant, and consulted their Scheme Actuary at that time, Craig Wootton, FIA, of XPS Pensions Limited.

The Trustees believe that XPS Investment is qualified by its ability in and practical experience of financial matters and has the appropriate knowledge and expertise in the investments of pension schemes such as the Scheme.

The written advice provided by XPS Investment to the Trustees considered the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this SIP. The Regulations require all investments to be considered by the Trustees (or, to the extent delegated, by the Investment Manager) against the following criteria:

- to be in the best interests of members and beneficiaries;
- to ensure quality, security, liquidity and profitability;
- to be appropriate to the nature and duration of liabilities of the Scheme;
- to be predominantly of investments admitted to trading on regulated markets;
- to be properly diversified; and
- to meet the appropriate requirements in relation to the use of derivatives.

Updates to the SIP dated September 2019 have been made to ensure compliance with the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations. These changes have been made having considered advice from Atkin & Co as the Trustees' current Investment Consultant who are licensed by the Institute and Faculty of Actuaries to provide advice relating to the SIP.

Consultation with the Employer

In preparing the SIP, the Trustees have consulted with the Douglas Macmillan Hospice (the 'Employer'). The Trustees will consult the Employer before revising this document.

However, the Trustees understand that the ultimate power and responsibility for deciding investment policy lies solely with the Trustees.

Scheme Constitution

The Scheme commenced on 31 March 1988. The Scheme is a defined benefit scheme which has been closed to new members from 21 May 2002 and to the future accrual of benefits from 30 November 2018.

Federated Pension Scheme for the Douglas Macmillan Hospice

The Scheme is governed by the Trust Deed and Rules dated 31 October 1994 (as amended). Under the Trust Deed the Trustees are granted the power to take all decisions regarding the investments of the Scheme.

Scheme Specific Funding Requirement

The Pensions Act 2004 requires that the value of the assets of pension schemes is not less than the value of their liabilities and sets out the procedure for dealing with shortfalls. The Trustees consider that their investment policy is consistent with the current financial position of the Scheme and will review their investment policy in the light of actuarial valuations and certificates produced in order to comply with the Pensions Act 2004.

Commencement and Review of the Statement of Investment Principles

This SIP comes into force commencing September 2020 and supersedes the SIP dated September 2019.

The Trustees will review the SIP, in consultation with the Investment Consultant at least every three years, and without delay after any significant change to the investment policy.

The Trustees will refer to the SIP where necessary to ensure that they exercise their powers of investment so as to give effect to the principles set out as far as is reasonable.

Federated Pension Scheme for the Douglas Macmillan Hospice

2. GOVERNANCE

The Trustees believe that they are given sufficient time to undertake their trustee duties within normal working hours. Where appropriate Trustees may receive specific payment for fulfilling their duties as Trustees.

Given the size of the Trustee board, the Trustees believe that a formal investment subcommittee is not necessary.

This SIP constitutes a business plan for the Scheme in relation to investments.

The Trustees are responsible for the establishment of general investment policy and are supported by:

The Investment Manager

The Trustees have delegated the responsibility for the selection of investments as shown in **Appendix A**. The Investment Manager is responsible for carrying out all day to day investment decisions including acquisition and realisation of investments. The Trustees have appointed Legal & General Investment Management (the 'Investment Manager') as the investment manager of the Scheme.

The appointed Investment Manager is required to exercise their powers with a view to giving effect to the principles contained in this SIP and, in particular, must have regard to the need for diversification and suitability of investments and the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005.

The Investment Manager is also responsible for:

- the investment of the Scheme's assets in compliance with the investment mandates to which they have been appointed;
- holding portfolios as instructed from time to time by the Trustees and/or their advisers;
- security and stock selection within appropriate asset classes;
- providing the Trustees with quarterly valuations of the Scheme's assets;
- attending Trustees' Meetings at reasonable intervals;
- exercise of rights, including voting rights (as detailed in section 7); and
- Consideration of Environmental, Social and Governance issues that may affect the Scheme's assets (as detailed in section 7).

The Investment Manager is also responsible for the appointment of custodians to their pooled fund investments. Separate independent companies act as custodians of the assets which are held by them to the instructions of the Investment Manager. The custodians are responsible for their own compliance with prevailing legislation.

Investment Consultant

The Investment Consultant has been commissioned to assist the Trustees in reviewing the SIP . The Investment Consultant provides guidance and advice to the Trustees on a range of investment matters, undertaking project work as required including reviews of investment policy and asset allocation strategy.

Federated Pension Scheme for the Douglas Macmillan Hospice

Scheme Actuary

The Scheme Actuary will provide the Trustees with advice as to the liability profile of the Scheme and its funding level to aid the Trustees in balancing the short-term and long-term objectives of the Scheme.

The Scheme Actuary is also expected to raise with the Trustees any concerns regarding the investment policy that may arise due to changes in liability profile or legislation.

Appendix A contains details of the appointed advisers who assist the Trustees on investment matters.

Federated Pension Scheme for the Douglas Macmillan Hospice

3. DECISION MAKING

Where the Trustees take investment decisions they do so after receiving written advice from their investment consultant who are authorised and regulated by the FCA. They consider that this advice, together with their own expertise, gives them the appropriate familiarity to deal with the issues concerned.

Financial Services and Markets Act 2000 (FSMA)

Under the terms of the FSMA, the Trustees set the general investment policy of the Scheme. However the Trustees have delegated the responsibility for selection of specific investments to the appointed professional Investment Manager. The Scheme invests in this organisation through the use of pooled funds.

This may include the use of pooled funds managed by an insurance company or companies. Under Section 36 of the Pensions Act 1995, such investments are termed direct investments and are classed as retained investments. It is therefore the Trustees' policy to obtain appropriate advice regarding the suitability of such investments on a regular basis.

The Trustees are not authorised under the FSMA to carry out regulated activities whereas the appointed Investment Manager is so authorised and shall provide the necessary skill and expertise to manage the investments competently.

As required by the FSMA, the Trustees have entered into a signed Agreement with the Investment Manager which complies in all respects with this SIP. This agreement includes the terms on which the assets are managed, the investment briefs, guidelines and restrictions under which the Investment Manager works.

The Trustees take into account the complexity of their investment arrangements in setting their process for decision-making. If any decision the Trustees are called to make requires additional training, the Trustees will obtain it accordingly from their advisors or Investment Manager.

The Trustees distinguish between two types of investment decision:

Strategic Investment Decisions

These decisions are long-term in nature, and driven by an understanding of the objectives, needs and liabilities of the Scheme and the members.

The Trustees take all such decisions themselves after receiving advice from their Investment Consultants, and consulting with the Employer where appropriate.

Examples of such decisions include:

- Selecting the strategic asset allocation, i.e. the split between the main asset classes;
- Setting benchmarks;
- Drafting the Statement of Investment Principles; and
- Appointing and removing Investment Managers.

Tactical Investment Decisions

These decisions are mainly shorter term and based on views of future movements in securities, markets and properties, or for a passive Investment Manager, selecting securities so as to track the returns on relevant benchmarks.

The Trustees have delegated such tactical decisions in the day-to-day investment of the Scheme's monies to the Investment Manager as outlined in **Appendix A**.

Federated Pension Scheme for the Douglas Macmillan Hospice

The Investment Manager used by the Trustees is authorised and regulated by the FCA.

4. INVESTMENT OBJECTIVES

Objectives

The Trustees recognise that the investment performance of the Scheme's assets will not usually have a direct impact on the value or security of the members' benefits in the Scheme. The investments can have an indirect impact on the members' benefits if they alter the sponsoring Employer's ability and/or willingness to continue to support the Scheme.

The Trustees' primary investment objective is to ensure that they hold suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with contributions from members and the Employer, the cost of current and future obligations to the beneficiaries both in the short and long term.

The Trustees take the nature of the Scheme's liabilities into account when making decisions about the Scheme's investments.

With that in mind, the Trustees have set the following specific objectives regarding the manner in which the primary objective is to be achieved, which are ranked in order of priority:

1. To meet the liabilities as they fall due
2. To minimise the long term cost of providing the benefits
3. To minimise the likelihood of unacceptable increases in the contribution rate
4. To achieve and maintain a funding level on an ongoing basis of not less than 100%

It is recognised that the objectives above may conflict and prioritising is required if the primary objective is to be achieved in the desired manner.

It is recognised that the Statutory Funding Objectives (SFO) requirement is a principal consideration in setting the Trustees' objectives and investment strategy, which is reviewed following completion of each triennial Actuarial Valuation of the Scheme.

The Trustees' policy is to seek to achieve the objectives through investing in a diversified portfolio of assets. Details of the current investment strategy are outlined in the next section and in **Appendix B**.

Federated Pension Scheme for the Douglas Macmillan Hospice

5. INVESTMENT POLICY

In order to ensure that an appropriate investment strategy is in place, the Trustees reviewed the assets and liabilities of the Scheme based on the actuarial valuation of the Scheme undertaken as at 31 March 2017.

The Scheme's strategic asset allocation was agreed following an assessment of all major asset classes, and some alternative asset classes.

The strategic asset allocation of the Scheme has been decided after considering the financial characteristics of the Scheme, in particular, the liabilities, and the covenant of the Employer, together with the risk tolerance of the Trustees and the Employer.

Strategic Benchmark

Based on the investment strategy advice provided by XPS Investment Limited, the Trustees consider that the following distribution of assets represents a suitable overall asset allocation benchmark for the Scheme (with further details being provided in **Appendix B**).

The Trustees have agreed to utilise LDI Funds and Corporate Bonds to target a hedge ratio of interest rate and inflation protection of 50% of the Scheme's liabilities on the Technical Provisions basis. The secondary benchmark composition of the assets invested in are as follows:

| Asset Class | | Central Benchmark Allocation % |
|------------------------------------|-------------------------|--------------------------------|
| Return-seeking Asset Types: | | 70.5% |
| | UK Equity | 17.25 |
| | Overseas Equity | 17.25 |
| | Diversified Growth | 36.0 |
| Matching Asset Types: | | 29.5% |
| | Corporate Bonds | 15.5 |
| | Matching Core LDI range | 14.0 |
| | Total | |
| TOTAL | | 100.0% |

Federated Pension Scheme for the Douglas Macmillan Hospice

The Trustees will review the level of interest rate and inflation protection, and the allocation and mix of return seeking assets, alongside the actuarial valuation as at 31 March 2020 or before.

The Trustees will continue to monitor the strength of the covenant between the Employer and the Scheme.

The Investment Manager has been given the role of managing the Scheme's assets.

The Trustees believe that these arrangements ensure that the Scheme's asset portfolio is sufficiently diverse that the risks of failure of any individual investment will not significantly impact their ability to pay the benefits promised under the Trust Deed.

The Trustees will review the relative strategic weighting of each asset class at least every three years in conjunction with the actuarial valuation or more frequently as advised by the Scheme Actuary or Investment Consultant. As part of the review the Trustees will examine the impact on volatility in the Scheme's funding level arising from the decisions made about the investment arrangements. Each review will also take into account the risk of changes in the Scheme's position arising from changes in the Scheme's liabilities.

Rebalancing

The Trustees are mindful of the need to rebalance the assets of the Scheme in line with the Scheme's strategic central benchmark asset allocation. The Trustees will monitor the asset allocation from time to time to ensure the allocations do not fall outside the bounds detailed in **Appendix B**. The Trustees have noted that they require regular disinvestments to cover benefit payments and therefore consider the strategic central benchmark asset allocation at the point that these disinvestments are being made. The Trustees may decide to rebalance according to these parameters at least annually.

Federated Pension Scheme for the Douglas Macmillan Hospice

Cash Flow

The Trustees have agreed the following:

- Any funds which are released from the LDI funds as a consequence of a lower hedging multiple rebalancing point being reached will be initially invested in a Cash Fund, currently the Sterling Liquidity Fund. This fund will then be disinvested to use for cashflow purposes or invested in such a way as to maintain as close as reasonably practicable an asset distribution in line with the Central Benchmark Allocation as shown in the table below. The same will apply if there are any surplus funds for investment. The decision for where the cash will be invested will ultimately fall to the trustees following the relevant investment advice. The cash will then be invested into the most appropriate funds based on the needs of the Scheme.
- Any funds which are required to top up the LDI funds as a consequence of an upper rebalancing point being reached, or funds required for cashflow purposes, will be disinvested in such a way as to maintain as close as reasonably practicable an asset distribution in line with the Central Benchmark Allocation as shown in the table below.

| LGIM Sub account 1 Central benchmark allocation (excluding LDI funds) | |
|--|---------------|
| UK Equity | 20.0% |
| Overseas Equity | 20.0% |
| Diversified Growth | 42.0% |
| Corporate Bonds | 18.0% |
| Total | 100.0% |

Federated Pension Scheme for the Douglas Macmillan Hospice

6. MANAGER STRUCTURE

The Trustees have considered whether passive management (where the Investment Manager's performance target would be to match the benchmark return) or active management (where the Investment Manager's performance target would be greater than the benchmark return) was appropriate for each asset class separately. The Trustees have used a mixture of both active and passive management for the Scheme's assets.

The Trustees' decision was based on the following matters:

- The opportunities within each asset class to generate returns in excess of the benchmark return.
- The ability of an active Investment Manager to generate returns above the benchmark.
- The difference in cost between active and passive management.

They have decided, specifically on the basis of expected returns and Investment Manager fees, that:

- Management of the UK and overseas equities will be carried out on a passive basis.
- Corporate bonds will be managed on an active basis.
- The diversified funds are invested primarily in passively managed funds, although active management may be used. The asset allocations are managed actively – typically annually for the Diversified Fund and more frequently for the Dynamic Diversified Fund.

In managing the active bond mandate, the Investment Manager is expected to demonstrate that the skill they exercise on the portfolio is consistent with the targets detailed in **Appendix B** given the level of risks adopted.

The Scheme invests via a range of pooled vehicles which each have specific benchmarks and performance objectives as outlined in **Appendix B**.

The Trustees believe that the size of the Scheme's assets is not sufficient to justify investment in a segregated fund.

Federated Pension Scheme for the Douglas Macmillan Hospice

Appropriate Benchmarks

On advice from XPS Investment Limited, the Trustees believe that the benchmarks used in the funds offered by their Investment Manager are appropriate.

Please also refer to **Appendix B** for further details.

The Trustees focused on the following criteria for passive management:

- Tracking methodology
- Coping with index changes
- Historic tracking error
- Funds under management
- Administration/client servicing
- Value for money

The Trustees focused on the following criteria for active management:

- Philosophy
- Process
- People
- Research
- Risk Controls
- Past Performance

Where appropriate, the Trustees took advice on the proposed form of agreement from XPS Investment Limited, before entering into the contracts with their Investment Manager.

Federated Pension Scheme for the Douglas Macmillan Hospice

7. ENVIRONMENTAL, SOCIAL AND GOVERNANCE FACTORS

Policy on Environmental, Social and Governance (“ESG”) Factors

The Trustees have considered their approach to environmental, social and corporate governance (“ESG”) factors for the long term time horizon of the Scheme and believes there can be financially material risks relating to them. The Trustees have delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Scheme’s Investment Manager. The Trustees requires the Scheme’s Investment Managers to take ESG and climate change risks into consideration within their decision-making in relation to the selection, retention or realisation of investments, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest.

The Trustees will seek advice from the Investment Consultant on the extent to which its views on ESG and climate change risks may be taken into account in any future investment manager selection exercises. Furthermore, the Trustees, with the assistance of the Investment Consultant, will monitor the processes and operational behaviour of the Investment Managers from time to time, to ensure they remain appropriate and in line with the Trustees’ requirements as set out in this Statement. When considering the selection, retention or realisation of investments, the Trustees have a fiduciary responsibility to act in the best interests of the beneficiaries of the Scheme, although they have neither sought nor taken into account the beneficiaries’ views on risks including (but not limited to) ethical, social and environmental issues.

Policy on Voting and Corporate Governance

The Trustees have delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme’s investments to the Investment Managers and requires them to engage with investee companies and vote whenever it is practical to do so on financially material matters including those deemed to include a material ESG and/or climate change risk in relation to those investments.

The Trustees are responsible for reviewing on a regular basis the Investment Manager’s performance against established benchmarks, and satisfying themselves as to the Manager’s expertise and the quality of its internal systems and controls.

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations which expands further the requirements for Statement of Investment Principles to address ESG factors. These areas are set out in more detail as follows:

Aligning the investment strategy and decisions of the Scheme’s Investment Managers with the Trustees’ investment policies

When choosing an Investment Manager, the Trustees select the funds that most closely align with their own investment strategy. Consideration is also given to funds which follow the Trustees’ view on ESG and climate risk where possible (noting that by investing in pooled funds there is limited scope to influence the Investment Manager’s strategy and decisions).

Federated Pension Scheme for the Douglas Macmillan Hospice

Incentivising Investment Managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.

The Scheme's active Investment Managers are expected to achieve adequate medium to long-term performance and performance targets are set to monitor such performance. The Trustees believe that non-financial factors, such as ESG and climate risk, may have a long-term impact on returns and therefore Investment Managers should take this into account when making decisions.

The Scheme's passive Investment Managers are not expected to make assessments about the financial or non-financial performance of the issuers of debt or equity they invest in.

How the method and time horizon of the evaluation of manager's performance and remuneration are in line with the Trustees' policies

The Trustees monitor the performance of their Investment Managers over the medium to long-term. The Trustees receive quarterly reports from the Investment Managers and twice-yearly analysis from their Investment Consultant.

Details of the fee structures for the Scheme's Investment Managers are contained in Appendix B of this document. The appropriateness of the annual management charges are considered from time to time in conjunction with the Trustees' Investment Consultant.

How the Trustees monitor portfolio turnover cost incurred by the Investment Managers and how they define and monitor targeted portfolio turnover or turnover range

The Trustees acknowledge that portfolio turnover costs can impact on the performance of their investments, both negatively and positively (e.g. active management could add value through turnover of investments). However, the Trustees do not believe that it would be cost effective to micro manage portfolio turnover and associated costs unless it was felt that it was a significant contributor to underperformance.

The duration of the arrangement with the Investment Manager

All of the Scheme's investments are in open-ended pooled funds with no pre agreed timeframes for investments. Investments are retained for as long as the funds held help to achieve the overall investment objectives of the Scheme and the Trustees continue to believe that the Investment Managers can deliver in a cost-effective manner.

Federated Pension Scheme for the Douglas Macmillan Hospice

8. REPORTING AND MONITORING

Investment Manager Reports

The Investment Manager will prepare regular reports for the Trustees including:

- Valuations of all investment holdings
- Performance data and comprehensive statistics in respect of the Scheme
- A review of recent actions taken on behalf of the Scheme, together with a summary of their stated policy.

Monitoring Investment Manager

The Trustees will monitor the performance of their Investment Manager, at least twice per year, against agreed performance objectives and will consider regularly whether they are satisfied that the Investment Manager has the appropriate knowledge and experience and is carrying out the work competently and complying with the given benchmarks.

In the event that the Trustees are not satisfied with the Investment Manager they will require the Investment Manager to take requisite steps to correct this position or will remove their Investment Manager and appoint another Investment Manager.

The Investment Manager has been provided with a copy of this SIP and the Trustees will monitor the extent to which they give effect to the policies set out in it. As part of this ongoing review the Trustees will have regard to whether the Investment Manager is:

- carrying out their functions competently;
- having regard to the need for diversity in relation to investments;
- having regard to the suitability of investments; and
- exercising their investment powers in line with this SIP.

The Trustees have considered the policies of the Scheme's Investment Manager on transaction costs (including commissions) and are comfortable with them. The Trustees will continue to monitor this from time to time.

The Trustees will seek a report from their Investment Manager providing assurances on the description, design and operating effectiveness of their internal control procedures in accordance with AAF 01/06.

Monitoring Investment Consultants

The Trustees will monitor the advice provided by Atkin & Co on a qualitative basis at least every three years. However, the Trustees are sceptical that a practical methodology can be developed for assessing the strategic investment decisions (taken by the Trustees with advice from their Investment Consultants).

At the end of 2018, the Competition and Markets Authority (CMA) published a report following a review of the investment consulting and fiduciary management markets. Following this review, the CMA set out the requirement for pension scheme trustees to set objectives for their investment consultant. These have been set and agreed by the Trustees and recorded in a separate document.

Federated Pension Scheme for the Douglas Macmillan Hospice

Policy on Dissemination of Investment Information

The Trustees will review this SIP at least every three years and without delay after any significant change in investment policy having taken advice from its Investment Consultant and consulted with the Employer.

The Trustees will provide summary information on any changes to the Scheme's investment arrangements and on the Scheme's investment performance in the annual report. The annual report also informs members that the SIP is available for inspection on request together with other information relating to the investment of the Scheme's assets.

Federated Pension Scheme for the Douglas Macmillan Hospice

9. COMPLIANCE WITH MYNERS' PRINCIPLES

Paul Myners' review, "Institutional Investment in the United Kingdom" was published on 6 March 2001. The review contained 10 Principles for Defined Benefit (DB) schemes and 11 Principles for Defined Contribution (DC) schemes that represented Myners' view on 'best practice'. Following a period of consultation, the Government published its response to the review in October 2001. The response includes a voluntary code for pension scheme investment based on the principles contained within the review.

The Myners' Principles are set out below.

1. Effective decision making

- Decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.
- Trustees should ensure that they have sufficient in-house staff to support them in their investment responsibilities.
- Trustees should also be paid, unless there are specific reasons to the contrary
- It is good practice for trustee boards to have an investment subcommittee to provide the appropriate focus.
- Trustees should assess whether they have the right set of skills, both individually and collectively, and the right structures and processes to carry out their role effectively. They should draw up a forward-looking business plan.

2. Clear Objectives

- Trustees should set out an overall investment objective for the Scheme that:
 - represents their best judgement of what is necessary to meet the Scheme/s liabilities given their understanding of the contributions likely to be received from Employer(s) and employees; and
 - takes account of their attitude to risk, specifically their willingness to accept underperformance due to market conditions.
- Objectives for the overall Scheme should not be expressed in terms which have no relationship to the Scheme's liabilities, such as performance relative to other pension Schemes, or to a market index.

3. Focus on asset allocation

- Strategic asset allocation decisions should receive a level of attention (and, where relevant, advisory or management fees) that fully reflect the contribution they can make towards achieving the Scheme's investment objective.
- Decision-makers should consider a full range of investment opportunities, not excluding from consideration any major asset class, including private equity.
- Asset allocation should reflect the Scheme's own characteristics, not the average allocation of other Schemes.

4. Expert advice

- Contracts for actuarial services and investment advice should be opened to separate competition.
- The Scheme should be prepared to pay sufficient fees for each service to attract a broad range of kinds of potential providers.

Federated Pension Scheme for the Douglas Macmillan Hospice

5. Explicit mandates

- Trustees should agree with both internal and external Investment Managers an explicit written mandate covering agreement between trustees and Investment Manager on:
 - An objective, benchmark(s) and risk parameters that together with all the other mandates are coherent with the Scheme's aggregate objective and risk tolerances;
 - The Investment Manager's approach in attempting to achieve the objective; and
 - Clear timescale(s) of measurement and evaluation, such that the mandate will not be terminated before the expiry of the evaluation timescale for underperformance alone.
- The mandate and trust deed and rules should not exclude the use of any set of financial instruments, without clear justification in the light of the specific circumstances of the Scheme.
- Trustees, or those to whom they have delegated the task, should have a full understanding of the transaction-related costs they incur, including commissions. They should understand all the options open to them in respect of these costs, and should have an active strategy - whether through direct financial incentives or otherwise - for ensuring that these costs are properly controlled without jeopardising the Scheme's other objectives.
- Trustees should not without good reason permit soft commissions to be paid in respect of their Scheme's transactions.

6. Activism

- The mandate and trust deed should incorporate the principle of the US Department of Labor and Interpretative Bulletin on activism.
- Trustees should also ensure that Investment Manager have an explicit strategy, elucidating the circumstances in which they will intervene in a company; the approach they will use in doing so; and how they measure the effectiveness of this strategy.

7. Appropriate benchmarks

Trustees should:

- explicitly consider, in consultation with their Investment Manager, whether the index benchmarks they have selected are appropriate; in particular, whether the construction of the index creates incentives to follow sub-optimal investment strategies;
- if setting limits on divergence from an index, ensure that they reflect the approximations involved in index construction and selections;
- consider explicitly for each asset class invested, whether active or passive management would be more appropriate given the efficiency, liquidity and level of transaction costs in the market concerned; and
- where they believe active management has the potential to achieve higher returns, set both targets and risk controls that reflect this, giving the Investment Manager the freedom to pursue genuinely active strategies.

8. Performance measurement

- Trustees should arrange for measurement of the performance of the Scheme and make formal assessment of their own procedures and decisions as trustees.
- They should also arrange for a formal assessment of performance and decision-making delegated to advisers and Investment Manager.

Federated Pension Scheme for the Douglas Macmillan Hospice

9. Transparency

A strengthened Statement of Investment Principles should set out:

- who is taking which decisions and why this structure has been selected;
- the Scheme's investment objective;
- the Scheme's planned asset allocation strategy, including projected investment returns on each asset class, and how the strategy has been arrived at;
- the mandates given to all advisers and Investment Manager; and
- the nature of the fee structures in place for all advisers and Investment Manager, and why this set of structures has been selected.

10. Regular reporting

- Trustees should publish their Statement of Investment Principles and the results of their monitoring of advisers and Investment Manager.
- They should send key information from these annually to members of these Schemes, including an explanation of why the Scheme has chosen to depart from any of these principles.

Summary of compliance with Myners' Principles

The Trustees believe that they comply with the spirit of the Myners' Principles. There are some instances of deviation from the detail of the Principles where the Trustees believe this to be justified.

These are set out below:

- (Principle 1) – There is no investment sub-committee, i.e. the Trustees do not believe this is necessary given the size of the Trustee board.
- (Principle 6) – The investment mandates and the Trust Deed do not currently incorporate the US Department of Labor Interpretative Bulletin on activism as the cost of making this change would exceed any likely benefit to the Scheme from improved performance. However a later amendment to the original principle suggested that Principle 6 should refer instead to the Institutional Shareholders' Committee (ISC) 'Statement of Principles' (SoP). The ISC SoP is aimed at furthering the application of best practice to the relationship between institutional investors and the companies in which they invest. This principle is mainly aimed at the larger pension schemes.
- (Principle 8) – There is currently no formal quantitative assessment of the performance of the decisions made by either the Trustees or the advice given by their Investment Consultants. The Trustees are doubtful that a practical, useful and objective measurement can be made. The danger of such an assessment is that it may focus on the factors that are easy to measure rather than the factors that are important. If this were to occur it could distort the advice given and the Trustees' decisions to the detriment of the Scheme's beneficiaries. They await further guidance from the Government.

Since the investment principles which were published by the government in 2001, HM Treasury has published its response to its consultation on updating the Myners' Principles. The Trustees are mindful of these revised principles and will look to seek guidance from their Investment Consultants in order to ensure compliance as well as to promote best practice in relation to running the Scheme's assets.

Federated Pension Scheme for the Douglas Macmillan Hospice

10. RISK MANAGEMENT POLICIES

Risks

The Trustees have identified a number of risks that may affect their ability to meet the Investment Objectives detailed earlier. These are:

- That the Principal Employer becomes insolvent or fails to make adequate contributions to meet the benefit promises.
- That the funding levels of the Scheme may fall through lower than expected investment returns on the assets held. This risk applies to any of the bases on which the Scheme's funding is assessed.
- The funding level of the Scheme may change because of the decline in the value of its assets or the increase in the Scheme's liabilities, or more onerous legislative demands.
- That the Investment Manager appointed may under-perform their benchmarks.
- That an individual investment, constituting a large part of the Scheme's assets, may fail.
- That assets may be lost through the failure of procedures for safekeeping.
- The cost of securing a member's pension may rise in the period prior to retirement.
- That the Trustees are forced to sell assets at depressed prices to meet benefit payments.
- That the Trustees make inappropriate decisions.
- That the Trustees' advisers give poor advice.

The Trustees have implemented the following policies in order to measure and manage the investment risk that the Scheme faces. The current arrangements entered into by the Trustees are set out in the Appendices to the SIP. **Appendix B** contains details of the disposition of the Scheme assets, performance benchmarks, and performance tolerances.

Policy on Investment Manager Risk

The Trustees have taken advice on the capabilities of the Investment Manager prior to the mandate being awarded.

The Trustees will consider the effect of the appointment of any single Investment Manager on the likely volatility of returns of the Scheme's assets as a whole before making that appointment.

The Trustees will not enter into any agreement with an Investment Manager prior to receiving advice on the proposed form of agreement from their Investment Consultant.

Policy on Stock selection Risk

The Trustees are not authorised under the Financial Services and Markets Act, 2000 to manage pension scheme assets. The Trustees delegate all stock selection decisions to their appointed Investment Manager and monitor the Investment Manager in conjunction with their advisers.

Policy on Suitability and Diversification risk

The Trustees have taken advice when setting investment strategy for the Scheme and have decided to invest in a range of pooled funds. These arrangements may include qualifying insurance policies that satisfy the Trustee's requirements for proper diversification.

Federated Pension Scheme for the Douglas Macmillan Hospice

The Trustees believe that the arrangements detailed in **Appendix B** ensure that the Scheme's portfolio is sufficiently diverse 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 Trustees may review their arrangements if they become aware of any individual security within the pooled investment exceeding 5% of the total value of the pooled fund assets. The Trustees do understand that individual stocks may represent more than 5% of the benchmark index – in this circumstance the Trustees are unlikely to review its arrangement. For this purpose, the Trustees will not count a pooled fund as a single investment, rather they will look through to the value of the underlying assets in any pooled fund.

Policy on Custody Risk

The Trustees are not directly responsible for the appointment of the custodian to the pooled funds in which the Trustees invest. This responsibility falls on the Trustees of the pooled funds or the Investment Manager.

Policy on Use of Derivatives

The Trustees have obtained confirmation from the Investment Manager on their policy towards the use of derivatives and on whether the Investment Manager engages in stock lending and underwriting. Investment in derivative instruments will only be made in so far as they contribute to a reduction of risks or facilitate efficient portfolio management and any such investment must be made and managed so as to avoid excessive risk exposure to a single counterparty and to other derivative operations.

Policy on Counterparty Risk

The Trustees recognise that the Scheme may be exposed to counterparty risk via the brokers and custodians used by the Investment Manager and have reviewed and accepted the policies implemented by the Scheme's Investment Manager.

Policy on Investment in Regulated Markets

The assets of the Scheme will consist solely of investments admitted to trading on regulated markets, including collective investment schemes and qualifying insurance policies.

Policy on Liquidity Risk

Together with the Scheme's administrators, the Trustees will ensure that sufficient cash is held to meet anticipated benefit payments. The Trustees' policy is to ensure that there should be sufficient investments in liquid or readily realisable assets to meet unexpected 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.

The Trustees have an investment strategy consisting of pooled investment vehicles managed by a large and experienced investment management house. The Trustees believe that the Scheme holds sufficient assets with a good degree of liquidity so that any disinvestment could be achieved quickly and cost effectively should any short-term cash-flow requirements arise.

Policy on Sponsor Risk

The Trustees have in place a policy to regularly review the Employer's covenant regarded as the ability and willingness of the Employer to financially support the Scheme. The Trustees will review the investment strategy should there be any material change in the Employer's covenant.

If the Principal Employer becomes insolvent or fails to make contributions as expected, the Trustees will immediately review the investment strategy, taking advice from the Investment Consultant and Scheme Actuary

Federated Pension Scheme for the Douglas Macmillan Hospice

Policy on Self Investment

The Trustees have a policy that there will not be any direct investment in the shares or assets used by the Employer. This does not preclude the Investment Manager including such investment in a pooled managed fund in which the Trustees have invested.

Policy on Borrowing and Guarantees

The Trustees and Fund Manager will not borrow money or act as a guarantor in respect of the obligations of another person where the borrowing is liable to be repaid or liability under a guarantee is liable to be satisfied out of assets of the Scheme except for borrowing made only for the purpose of providing liquidity for the Scheme on a temporary basis.

Policy on Currency Risk

The Trustees recognise that the Scheme may be exposed to currency risk via its investments in overseas assets and have reviewed and accepted the degree of currency exposure hedged by the Scheme's Investment Manager.

Policy for minimising the likelihood of the Scheme being unable to meet its technical provisions

The Trustees will review the Scheme's funding position on the ongoing valuation basis at the next actuarial valuation and at each triennial valuation thereafter, or more frequently if in the opinion of the Scheme Actuary a review is required. Following such a review they will take investment advice on whether the investment policy remains appropriate.

Policy for minimising the volatility of the ongoing funding position

The Trustees will review the Scheme's funding position at each triennial valuation or more frequently if in the opinion of the Scheme Actuary a review is required. Following such a review they will take investment advice on whether the investment policy remains appropriate for maintaining an acceptable funding level.

Policy for minimising the impact of the Scheme on the Employer's accounts

The Trustees believe that the asset allocation provides sufficient interest rate protection so as to minimise the likelihood of extreme volatility in the Employer's accounting valuations.

Policy for minimising the volatility of the buy-out cost position

The Trustees are aware that the prices of annuities will ultimately determine the proportion of the Scheme's liabilities that could be 'bought out'. One of the main influences on annuity prices is corporate bond yields. Therefore, by holding a proportion of the Scheme's assets in corporate bonds and gilts, the Trustees are satisfied that movement in the Scheme's assets can help stabilise any differences that might arise.

Federated Pension Scheme for the Douglas Macmillan Hospice

**SIGNED BY THE TRUSTEES OF THE FEDERATED PENSION SCHEME FOR THE DOUGLAS
MACMILLAN HOSPICE**

Signed: ANN L MITCHELL (MRS)

Signed: VICTORIA V DEAN (MRS)

Signed: LAURA ROWLEY (MRS)

Signed: TERRY STANWAY (MR)

Date:

Signed by the Trustees on the 22nd September 2020

Federated Pension Scheme for the Douglas Macmillan Hospice

APPENDIX A: THIRD PARTY ARRANGEMENTS

Advisors

The following advisors assist the Trustees:

| | |
|--|---|
| Pension Consultants | Scheme Actuary |
| Atkin & Co Nelson House Central Boulevard Blythe Valley Business Park Solihull B90 8BG | Emma Rogers FIA Nelson House Central Boulevard Blythe Valley Business Park Solihull B90 8BG |
| Investment Consultants | Auditors |
| Atkin & Co Nelson House Central Boulevard Blythe Valley Business Park Solihull B90 8BG | JW Hinks 19 Highfield Road Edgbaston Birmingham B15 3BH |
| Administrator | |
| Atkin & Co Nelson House Central Boulevard Blythe Valley Business Park Solihull B90 8BG | |

Investment Manager

The Trustees have appointed the following Investment Manager for the Scheme's assets:

Legal & General Investment Manager Limited

One Coleman Street
London
EC2R 5AA

Federated Pension Scheme for the Douglas Macmillan Hospice

APPENDIX B: INVESTMENT ARRANGEMENTS

Asset Allocation, Active / Passive Management and Control Limits

The Trustees have agreed to utilise LGIM's Matching Core funds (Fixed Short Duration Fund, Fixed Long Duration Fund, Real Short Duration Fund and Real Long Duration Fund) and Active Corporate Bond All Stocks Fund to target a hedge ratio of interest rate and inflation protection of 50% of the Scheme's liabilities on the Technical Provisions basis.

Maintaining the 50% hedge target is the primary strategic objective for the Matching Core Fund range. The Scheme assets are expected to be maintained in line with the following allocations:

| Asset Class | | Central Benchmark Allocation % |
|------------------------------------|-------------------------|--------------------------------|
| Return-seeking Asset Types: | | 70.5% |
| | UK Equity | 17.25 |
| | Overseas Equity | 17.25 |
| | Diversified Growth | 36.0 |
| Matching Asset Types: | | 29.5% |
| | Corporate Bonds | 15.5 |
| | Matching Core LDI range | 14.0 |
| | Total | |
| TOTAL | | 100.0% |

Federated Pension Scheme for the Douglas Macmillan Hospice

The assets not being utilised in the Matching Core funds have benchmarks relating to their value which are used to monitor the strategic allocation from time to time. These benchmarks are represented in the following table as a percentage of the non-Matching Core asset range.

| Asset Class | Fund Manager | Fund Name (Active/Passive Management) | Strategic Allocation (%) | Control Limits (%) |
|------------------------------------|--------------|---|--------------------------|--------------------|
| Return-seeking Asset Types: | | | | |
| UK and Overseas Equity | LGIM | LGIM Global Equity Fixed Weights (50:50) Index (Passive) | 40.0 | 30.0 - 50.0 |
| Diversified Growth | LGIM | LGIM Diversified Fund (Active) | 21.0 | 16.0 – 26.0 |
| | | LGIM Dynamic Diversified Fund (Active) | 21.0 | 16.0 – 26.0 |
| Matching Asset Types: | | | | |
| Corporate Bonds | LGIM | Active Corporate Bond All Stocks Fund (Active) | 18.0 | 13.0 - 23.0 |

Federated Pension Scheme for the Douglas Macmillan Hospice

Performance Benchmarks and Targets

The Trustees have received details of the objectives, benchmarks and constraints for each fund comprising the investment structure

| Fund Name | Benchmark | Performance Target |
|---|---|--|
| LGIM Global Equity Fixed Weights (50:50) Index | 50% FTSE All-share Index 17.5% FTSE W North America Index 17.5% FTSE W Europe (ex-UK) Index 8.75% FTSE W Japan Index 6.25% FTSE W Asia Pacific (ex-Japan) Index | To track the index to +/- 0.50% in two of every three years |
| LGIM Diversified Fund | FTSE Developed World Index (50% hedged to GBP) | To perform in line with the benchmark over the long-term (gross of fees) |
| LGIM Dynamic Diversified Fund | Bank of England Base rate | To outperform the benchmark by 4.5% per annum (gross of fees) over a full market cycle |
| LGIM Fixed Short Duration Fund LGIM Fixed Long Duration Fund | Provide leveraged exposure to changes in fixed interest rates | N/A |
| LGIM Real Short Duration Fund LGIM Real Long Duration Fund | Provide leveraged exposure to changes in real interest rates | N/A |
| LGIM Active Corporate Bond All Stocks Fund | Markit iBoxx £ Non-Gilts (All Stocks) Index | To outperform the benchmark by 0.75% per annum (gross of fees) over rolling three year periods |
| LGIM Sterling Liquidity Fund | 7 day LIBID | To provide diversified exposure and a competitive return in relation to the benchmark |

Federated Pension Scheme for the Douglas Macmillan Hospice

Fee Structure

Investment Manager

The following fees are levied by the Scheme's Investment Manager with respect to the amount invested in each fund.

| Fund Manager | Fund | Fee per annum % |
|---------------------------------------|--|---|
| Legal & General Investment Management | LGIM Global Equity Fixed Weights (50:50) Index | 0.165 for the first £2.5 million invested, then 0.155 for the next £10 million invested |
| Legal & General Investment Management | LGIM Diversified Fund | 0.3 for the first £25m invested |
| Legal & General Investment Management | LGIM Dynamic Diversified Fund | 0.38 |
| Legal & General Investment Management | LGIM Fixed Short Duration Fund LGIM Fixed Long Duration Fund LGIM Real Short Duration Fund LGIM Real Long Duration Fund | 0.24 for the first £25m invested |
| Legal & General Investment Management | LGIM Active Corporate Bond All Stocks Fund | 0.20 |
| Legal & General Investment Management | LGIM Sterling Liquidity Fund | 0.125 for the first £5m invested, then 0.100 for the next £5m invested |

In addition, LGIM has the following Scheme charges:

| Size | Fee (per annum) £ |
|--|----------------------|
| Under £10m, | £1,500 |
| Under £10m (asset allocation managed by L&G) | £2,250 |
| Over £10m, | £1,000 |
| Over £10m (asset allocation managed by L&G) | £1,500 |
| Over £25m | Nil |

The transition costs charged by the Investment Manager will vary over any given time period. The transition costs over 2018 were around 0.2% of assets. The majority of this came from fees relating to the Matching Core Fund range. We expect these funds to continue being the main driver of additional transition costs.

Advisers

For work undertaken by the Scheme's Investment Consultants, both a time cost fee basis and a fixed cost fee basis are used. The exact fee basis utilised depends on the nature and type of investment work carried out. No commission arrangements are used. The Trustees believe that this approach ensures that all advice is impartial and independent.