

LPA INDUSTRIES LIMITED SECTION OF THE DELOITTE PENSIONS MASTER PLAN

STATEMENT OF INVESTMENT PRINCIPLES – 2021

April 2021

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1 INTRODUCTION

This Statement of Investment Principles (“the Statement”) has been prepared by the Trustees of the LPA Industries Limited Section of the Deloitte Pensions Master Plan (“the Section”) in accordance with Section 35 of the Pensions Act 1995, as amended, and its attendant Regulations. The Statement outlines the principles governing the investment policy of the Section and the activities undertaken by the Trustees to ensure the effective implementation of these principles.

In preparing the Statement, the Trustees have:

- obtained and considered written advice from a suitably qualified individual, employed by their investment consultants, Deloitte Total Reward and Benefits Limited (“DTRB” or the “Investment Adviser”), whom they believe to have a degree of knowledge and experience that is appropriate for the management of their investments; and
- consulted with the Sponsoring Employer, although they affirm that no aspect of their strategy is restricted by any requirement to obtain the consent of the Sponsoring Employer.

The advice and the consultation process considered the suitability of the Trustees’ investment policy for the Section.

The Trustees will review the Statement formally at least every three years to coincide with the triennial Actuarial Valuation or other actuarial advice relating to the statutory funding requirements. Furthermore, the Trustees will review the Statement without delay after any significant change in investment policy. Any changes made to the Statement will be based on written advice from a suitably qualified individual and will follow consultation with the Sponsoring Employer.

2 INVESTMENT OBJECTIVES

The Trustees' primary investment objective for the Section is to achieve an overall rate of return that is sufficient to ensure that assets are available to meet all liabilities as and when they fall due.

In doing so, the Trustees also aim to maximise returns at an acceptable level of risk taking into consideration the circumstances of the Section.

The Trustees have also received confirmation from the Scheme Actuary during the process of revising the investment strategy that their investment objectives and the resultant investment strategy are consistent with the actuarial valuation methodology and assumptions used in calculating the technical provision liabilities.

3 INVESTMENT RESPONSIBILITIES

3.1. TRUSTEES' DUTIES AND RESPONSIBILITIES

The Trustees are responsible for setting the investment objectives and determining the strategy to achieve the objectives. They carry out their duties and fulfil their responsibilities as a single body.

The duties and responsibilities of the Trustees include, but are not limited to, the following tasks and activities:

- The regular approval of the content of the Statement
- The appointment and review of the Investment Manager and investment adviser
- The assessment and review of the performance of each investment manager, including ESG and stewardship considerations
- The setting and review of the investment parameters within which the investment managers can operate
- The assessment of the risks assumed by the Section at total scheme level and manager by manager
- The approval and review of the asset allocation benchmark for the Section
- The compliance of the investment arrangements with the principles set out in the Statement

3.2. INVESTMENT ADVISER'S DUTIES AND RESPONSIBILITIES

The Trustees have appointed DTRB as the independent Investment Adviser to the Section. DTRB provides advice as and when the Trustees require it, as well as raising any investment-related issues, of which it believes the Trustees should be aware. Matters on which DTRB expects to provide advice to the Trustees include the following:

- Setting of investment objectives
- Determining investment strategy and asset allocation, including impact of ESG
- Determining an appropriate investment structure
- Framing investment manager mandates
- Advising on the selection of investment managers
- Setting cashflow management (investment and withdrawal) policies (see Appendix 2)
- The integration of ESG factors within the Section's investment strategy and across individual investment manager arrangements.

The Trustees may seek advice from DTRB with regard to both strategic and tactical investment decisions (see Section 4 - Investment Strategy); however, they recognise that they retain responsibility for all such decisions, including those that concern investments and disinvestments relating to cashflows (see Appendix 2). DTRB may be proactive in advising the Trustees regarding tactical investment decisions; however, there is no responsibility placed on DTRB to be proactive in all circumstances.

DTRB monitors the performance of the Section's investment managers against their benchmarks. It also monitors the performance of the Section's assets at an aggregate level in relation to the Section's liabilities to assess the success, or otherwise, of the Trustees' investment strategy. It also monitors the investment managers' charges, as well as the integration of its ESG and stewardship policies.

DTRB is remunerated primarily on a time-cost basis. DTRB does not receive commission or any other payments in respect of the Section that might affect the impartiality of their advice. The Trustees believe that this is the most appropriate adviser remuneration structure for the Section.

DTRB is authorised and regulated by the Financial Conduct Authority (“FCA”).

3.3. INVESTMENT MANAGERS’ DUTIES AND RESPONSIBILITIES

The Trustees, after considering appropriate investment advice, have appointed professional, authorised investment managers to manage the assets of the Section.

The details of each manager’s mandate and the basis of the contracts between the Trustees and their investment managers are set out in Appendix C.

In particular, the investment managers are responsible for all decisions concerning the selection and de-selection of the individual securities within the portfolios they manage.

In the case of multi-asset mandates, the investment managers are responsible for all decisions concerning the allocation to individual asset classes and changes in the allocations to individual asset classes.

All of the investment managers engaged by the Trustees are authorised and regulated by the FCA.

The investment managers are remunerated by ad valorem charges based on the value of the assets they manage on behalf of the Section. The Trustees believe that this is the most appropriate basis for remunerating managers.

Section 6.2 of this document provides more detail regarding how the investment managers are monitored.

3.4. SUMMARY OF RESPONSIBILITIES

A summary of the responsibilities of all relevant parties, including the Scheme Actuary and the scheme administrators, so far as they relate to the Section’s investments, is set out at Appendix 4.

4 INVESTMENT STRATEGY

4.1. SETTING INVESTMENT STRATEGY

The Trustees have determined their investment strategy after considering the Section's liability profile and requirements of the Statutory Funding Objective, their own appetite for risk, the views of the Sponsoring Employer on investment strategy, the Sponsoring Employer's appetite for risk, and the strength of the Sponsoring Employer's covenant. The Trustees have also received written advice from their Investment Adviser.

The basis of the Trustees' strategy is to divide the Section's assets between a "growth" portfolio, comprising assets such as equities, and a "stabilising" portfolio, comprising assets such as bonds. The basis of the split between these two portfolios is that growth assets are to generate returns and stabilising assets are held to mitigate interest rate and inflation risk. The growth-stabilising allocation is also set with regard to the overall required return objective of the Section's assets, which is determined by the funding objective and current funding level.

The Trustees have established a benchmark allocation to each asset class. This strategic asset allocation is set out in Appendix 1.

The Trustees recognise the benefits of diversification across growth asset classes, as well as within them, in reducing the risk that results from investing in any one particular market. Where they consider it advisable to do so, the Trustees have appointed investment managers to select and manage the allocations across growth asset classes, in particular where it would not be practical (or appropriate) for the Trustees to commit the resources necessary to make these decisions themselves.

In respect of the investment of contributions and any disinvestments to meet member benefit payments, the Trustees have decided on a structured approach to rebalance the assets in accordance with their overall strategy. This approach is set out in Appendix 2.

4.2. INVESTMENT DECISIONS

The Trustees distinguish between three types of investment decision: strategic, tactical and stock-level.

Strategic Investment Decisions

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

The Trustees take all such decisions themselves. They do so after receiving written advice from the Investment Adviser and consulting with the Sponsoring Employer. Examples of such decisions and of tasks relating to the implementation of these decisions include the following:

- Setting investment objectives
- Determining the split between the growth and the stabilising portfolios
- Determining the allocation to asset classes within the growth and stabilising portfolios
- Reviewing the investment objectives and strategic asset allocation

Tactical Investment Decisions

These decisions are short-term and based on expectations of near-term market movements. Such decisions may involve deviating temporarily from the strategic asset allocation and may require the timing of entry into, or exit from, an investment market or asset class.

These decisions are the responsibility of the Trustees. However, where such decisions are made within a pooled fund, they are the responsibility of the investment manager of the fund.

Stock Selection Decisions

All such decisions are the responsibility of the investment managers of the pooled funds in which the Section is invested.

4.3. TYPES OF INVESTMENTS TO BE HELD

The Trustees are permitted to invest across a wide range of asset classes, including, but not limited to, the following:

- UK and Overseas Equities
- UK and Overseas Government Bonds, Fixed and Inflation-linked
- UK and Overseas Corporate Bonds
- Convertible Bonds
- Property
- Commodities
- Hedge Funds
- Private Equity
- High Yield Bonds
- Emerging Market debt
- Diversified Growth
- Liability Driven Investment Products
- Cash

The use of derivatives is as permitted by the guidelines that apply to the pooled funds.

4.4. FINANCIALLY MATERIAL CONSIDERATIONS

The Trustees understand that they must consider all factors that have the ability to impact the financial performance of the Section's investments over the appropriate time horizon. This includes, but is not limited to, environmental, social and governance (ESG) factors.

The Trustees recognise that ESG factors, such as climate change, can influence the investment performance of the Section's portfolio and it is therefore in members' and the Section's best interests that these factors are taken into account within the investment process.

As noted earlier, the Section's assets are invested in pooled funds. The Trustees accept the fact that they have very limited ability to influence the ESG policies and practices of the companies in which their managers invest. The Trustees will therefore rely on the policies and judgement of their investment managers.

4.5. NON-FINANCIAL CONSIDERATIONS

The Trustees will only consider factors that are expected to have a financial impact on the Section's investments. Non-financial considerations, such as ethical views, will be left to the discretion of the Investment Managers.

4.6. CORPORATE GOVERNANCE AND VOTING POLICY

The Trustees have concluded that the decision on how to exercise voting rights should be left with their investment managers, who will exercise these rights in accordance with their respective published corporate governance policies. These policies, which are provided to the Trustees from time to time, take into account the financial interests of shareholders and should be for the Section's benefit.

Where the Trustees are specifically invited to vote on a matter relating to corporate policy, the Trustees will exercise their right in accordance with what they believe to be the best interests of the majority of the Section's membership.

4.7. STEWARDSHIP

The Trustees expect the investment manager to engage with investee companies and other relevant bodies on aspects such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, corporate governance, social and environmental issues concerning the Trustees' investments. The Trustees believe that such engagement will protect and enhance the long-term value of its investments.

DTRB will monitor these aspects on behalf of the Trustees each year. If the Trustees have any concerns, they will raise them with DTRB, verbally or in writing.

5 RISK

The Trustees are aware, and seek to take account of a number of risks in relation to the Section's investments, including the following:

Under the Pensions Act 2004, the Trustees are required to state their policy regarding the ways in which risks are to be measured and managed. These are set out below.

Solvency Risk and Mismatching Risk

- These are measured through a qualitative and quantitative assessment of the expected development of the assets relative to the liabilities.
- These are managed by setting a scheme-specific strategic asset allocation with an appropriate level of risk.

Manager Risk

- This is assessed as the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy.
- It is measured by monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment process.

Liquidity Risk

- This is monitored according to the level of cashflows required by the Section over a specified period.
- It is managed by holding an appropriate amount of readily realisable investments. The majority of the Section's assets are invested in quoted markets and are as readily realisable as the Trustees feel appropriate given the cashflow position of the Section and the expected development of the Section's liabilities, both of which are monitored by the Trustees.

Political Risk

- This is measured by the level of concentration in any one market leading to the risk of adverse influence on investment values arising from political intervention.
- It is managed by regular reviews of the investments and through assessment of the levels of diversification within the investment policy.

Corporate Governance Risk

- This is assessed by reviewing the Section's investment managers' policies regarding corporate governance.
- It is managed by delegating the exercise of voting rights to the managers, who exercise this right in accordance with their published corporate governance policies. Summaries of these policies are provided to the Trustees from time to time and take into account the financial interests of the shareholders, which should ultimately be to the Section's advantage.

Sponsor Risk

- This is assessed as the level of ability and degree of willingness of the sponsor to support the continuation of the Section and to make good any current or future deficit.
- It is managed by assessing the interaction between the Section and the sponsor's business, as measured by a number of factors, including the creditworthiness of the sponsor and the

size of the pension liability relative to the sponsor. Regular updates on employer covenant are provided to the Trustees by senior staff of the sponsor.

Legislative Risk

- This is the risk that legislative changes will require action from the Trustees so as to comply with any such changes in legislation.
- The Trustees acknowledge that this risk is unavoidable but will seek to address any required changes so as to comply with changes in legislation.

Credit Risk

- This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
- The Trustees acknowledge that the assessment of credit risk on individual debt instruments is delegated to the investment manager. The Trustees will however ensure that they are comfortable with the amount of risk that the Section's investment manager takes.

Market Risk

- This is the risk the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of the following three types of risk: currency, interest rate and other price risk

Currency Risk

- This is the risk that occurs when the price of one currency moves relative to another (reference) currency. In the context of a UK pension scheme, the scheme may be invested in overseas stocks or assets, which are either directly or indirectly linked to a currency other than Sterling. There is a risk that the price of that overseas currency will move in such a way that devalues that currency relative to Sterling, thus negatively impacting the overall investment return.
- The Trustees acknowledge that currency risk related to overseas investments is hedged appropriately by the underlying investment managers.
- The Trustees acknowledge that currency risk is delegated to the underlying investment managers where the manager is responsible for the decision of whether or not to hedge.

Interest rate risk

- This is the risk that an investment's value will change due to a change in the level of interest rates. This affects debt instruments more directly than growth instruments.
- The Trustees acknowledge that the interest rate risk related to individual debt instruments, and particularly long dated bonds, are managed by the underlying investment managers through a combination of strategies, such as diversification, duration and yield curve management, and hedging via swaps, particularly where LDI is involved.

Other Price risk

- This is the risk that principally arises in relation to the return seeking portfolio, which invests in equities, equities in pooled funds, equity futures, hedge funds, private equity and property.

- The Trustees acknowledge that a scheme can manage its exposure to price risk by investing in a diverse portfolio across various markets.

Environmental, social and governance (ESG) risk

- This is the risk that ESG factors can have a financially material impact on the future returns on its investments. The Trustees' actions to mitigate these is detailed within Section 4 and Section 6.2 of this document.

6 MONITORING OF INVESTMENT ADVISER AND MANAGERS

6.1. INVESTMENT ADVISER

The Trustees continually assess and review the performance of their adviser in a qualitative way.

6.2. INVESTMENT MANAGERS

The Trustees receive monitoring reports on the performance of their investment managers periodically from DTRB. DTRB provides an independent performance monitoring service that reviews the performance of the Section's individual funds against their benchmarks. The Trustees monitor the impact of the movements in investment markets on the valuation of the Section's liabilities and on the Section's funding level using a liability benchmarking service provided by DTRB. Other methods the Trustees use to monitor the investment managers are shown below. The Trustees will review and replace the investment managers if net of fees investment performance and ESG practices are not in line with the Trustees' expectations and views. This incentivises the investment manager to act responsibly.

Monitoring fees and other costs

The remuneration of the investment managers is not directly linked to performance, given the absence of performance related fees, or to ESG practices.

The Trustees review the fees charged by its investment managers on a regular basis as part of its monitoring framework to ensure fees remain reasonable in the context of the Section's size and complexity.

The Trustees review investment manager costs and charges regularly (including costs incurred as a result of buying, selling, lending or borrowing of investments), to ensure that they are appropriate and competitive for the service being provided. The Trustees monitor the portfolio turnover (the frequency that assets are bought and sold) in the context of what the Trustees expect to be reasonable given the nature of each mandate. By also monitoring performance net of costs, the investment managers are incentivised to consider the impact of portfolio turnover on investment performance.

The Trustees invest in passively-managed funds which replicate benchmark indices and therefore require assets to be bought and sold when the constituents of the underlying index change. To avoid being a forced buyer/selling of stocks and to reduce transaction costs when the index changes, investment managers give themselves some flexibility on exactly when to buy and sell and what proportions of each asset in the index to hold to minimise transaction costs.

Monitoring ESG factors

The Trustees recognise the importance of ESG factors on long term investment performance and both immediate and future downside risks. The Trustees have set an appropriate monitoring framework to ensure the Section's investment managers are regularly reviewed. This is to promote greater transparency in understanding the reasons behind performance trends and key risk exposures, and also engagement activity and compliance with the Trustees' stated ESG policy. Regular monitoring, with specific reference to ESG and engagement factors should incentivise the Section's investment managers to assess and improve the medium to long-term performance of investee companies, both financial and non-financial.

Reviewing investment managers

If the Trustees believe that the Section's investment managers are no longer acting in accordance with the Trustees' policies, including those regarding ESG and engagement with investee organisations, the Trustees will take the following steps:

- engage with the investment manager in the first instance, in an attempt to influence its policies on ESG and stewardship; and
- if necessary, look to appoint a replacement investment manager or managers which are more closely aligned with the Trustees' policies and views.

The Trustees believe that this approach will incentivise the investment manager to align its actions with the Trustees' policies.

Investment timescale of funds

The Trustees, with guidance from their Investment Advisor, have chosen to invest in open-ended pooled funds. For these funds the Trustees' policy is to enter arrangements with no fixed end date. However, in this case the Trustees will seek to enter arrangements where it has the power to terminate these in line with the liquidity of the underlying assets and as agreed in the mandate. The Section's open ended investments are weekly dealt. The Trustees will determine whether to terminate such arrangements on an ongoing basis through its regular monitoring of managers' performance against objectives. The Trustees may also elect to terminate the arrangement with an asset manager when performing ongoing reviews of the suitability of the Section's asset allocation over time.

7 CODE OF BEST PRACTICE

The Trustees note that in March 2017, the Pensions Regulator released 'Investment Guidance for Defined Benefit Pension Schemes.'

The Trustees have received training in relation to this guidance prior to the signing of this statement and are satisfied that the investment approach adopted by the Section is consistent with the guidance so far as it is appropriate to the Section's circumstances.

The Trustees meet with their investment advisor periodically and monitor developments both in relation to the Section's circumstances and in relation to evolving guidance. They will revise the Section's investment approach if considered appropriate.

8 COMPLIANCE

The Section's Statement of Investment Principles and annual report and accounts are available to members on request.

A copy of the Section's current Statement plus Appendices is also supplied to the Sponsoring Employer, the Section's auditors and the Scheme Actuary.

This Statement of Investment Principles, taken as a whole with the Appendices, supersedes all others and was approved by the Trustees.

Signed on behalf of the Trustees by		
On	20 April 2021	20 April 2021
Full Name	Peter Pollock	Chris Buckenham
Position	Director	Director

APPENDIX 1: ASSET ALLOCATION BENCHMARK

The Section's initial strategic asset allocation benchmark is set out below.

Asset Class	Strategic Allocation
Growth Assets	37%
UK Equities	7%
Global Equities	20%
Diversified Growth	10%
Stabilising Assets	63%
Corporate Bonds	25%
Index-Linked Gilts	38%
Total	100%

Note: Four out of the five currently invested funds are held with Legal and General Investment Management ("LGIM"), therefore the Section has implemented a cashflow policy that details 'Central Benchmark Allocations' and 'Control Ranges' which the manager monitors the Section to. In addition, the Trustees monitor the allocation to DGF (Newton Real Return Fund) and will decide whether or not to rebalance if the actual allocation deviates materially from the benchmark weighting.

As covered in Section 4.1, the strategic asset allocation may change over time to reflect different required rates of investment return required by the Section.

The policy for rebalancing and investment / disinvestment of cashflows is set out in Appendix 2.

Appendix 3 provides information about the funds in which the assets are invested.

APPENDIX 2: CASHFLOW AND REBALANCING POLICY

Where possible, cash outflows will be met from cash balances held by the Section and from income from the Section's investments in order to minimise transaction costs.

As stated in the footnotes to the table in Appendix 1, investments or disinvestments will primarily be applied in such a way to adhere to the central benchmarks as dictated by the current cashflow policy that the Investment Manager (LGIM) has on file. The Trustees continue to individually monitor the allocation to the Newton Real Return Fund.

The Trustees will review the cashflow policy from time to time to ensure that it remains appropriate taking into account changes in the Section's cashflow requirements.

For avoidance of doubt, this Statement will not be revised purely in relation to a change in cashflow policy.

APPENDIX 3: INVESTMENT MANAGER INFORMATION

The Section invests with the below managers, whose key responsibility it to manage the respective strategies to the benchmark/targets detailed in the table below. The tables below show the details of the mandate(s) with each manager.

GROWTH ASSETS

Manager / Fund	Benchmark	Objective	Dealing Frequency	SORP / IFRS Class
UK Equities				
LGIM UK Equity Index	FTSE All-Share Index	Track the total return of the benchmark to within +/- 0.25% p.a.	Daily	(b) / 2
Overseas Equities				
LGIM World (ex UK) Equity Index Fund	FTSE Wold (ex UK) Index	Track the total return of the benchmark to within +/- 0.25% p.a.	Daily	(b) / 2
Diversified Growth Funds				
Newton Real Return Fund	1 Month GBP LIBOR	To outperform the benchmark by 4% p.a. gross of fees over rolling three year periods	Daily	(b) / 2

STABILISING ASSETS

Manager / Fund	Benchmark	Objective	Dealing Frequency	SORP / IFRS Class
Corporate Bonds				
LGIM AAA-AA-A Corporate Bond Over 15 Year Index Fund	iBoxx £ Non-Gilts (ex BBB) Over 15 Year Index	Track the total return of the benchmark to within +/- 0.5% p.a.	Daily	(b) / 2
Gilts				
LGIM Over 15 Year Index Linked Gilts Fund	FTSE A Index Linked Over 15 Year Index	Track the total return of the benchmark to within +/- 0.25% p.a.	Daily	(b) / 2

For avoidance of doubt, this statement will not be updated solely in response to a replacement of one of the underlying investment managers.

APPENDIX 4: RESPONSIBILITIES OF PARTIES

TRUSTEES

The Trustees' responsibilities include the following:

- Reviewing at least triennially, and more frequently if necessary, the content of this Statement in consultation with the Investment Adviser and modifying it if deemed appropriate
- Reviewing the investment strategy following the results of each actuarial review, in consultation with the Investment Adviser and Scheme Actuary
- Appointing the Investment Manager(s) and custodian (if required)
- Assessing the quality of the performance and processes of the Investment Manager(s) by means of regular reviews of investment returns, consideration of ESG factors, engagement with investee companies and other relevant information, in consultation with the Investment Adviser
- Consulting with the sponsoring employer regarding any proposed amendments to this Statement
- Monitoring compliance of the investment arrangements with this Statement on a continuing basis

INVESTMENT ADVISER

The Investment Adviser's responsibilities include the following:

- Participating with the Trustees in reviews of this Statement of Investment Principles, including advising the Trustees of any relevant legislative changes.
- Production of performance monitoring reports
- Advising the Trustees, at their request, on the following matters:
 - Through consultation with the Scheme Actuary, how any changes within the Section's benefits, membership, and funding position may affect the manner in which the assets should be invested
 - How any significant changes in the Investment Managers' organisation could affect the interests of the Section
- How any changes in the investment environment could present either opportunities or problems for the Section Undertaking project work, as requested, including:
 - Reviews of asset allocation policy
 - Research into and reviews of Investment Managers
- Advising on the selection of new managers and/or custodians

INVESTMENT MANAGERS

The Investment managers' responsibilities include the following:

- Providing the Trustees on a quarterly basis (or as frequently as required) with a statement and valuation of the assets and a report on their actions and future intentions, and any changes to the processes applied to their portfolios
- Informing the Trustees of any changes in the internal performance objectives and guidelines of any pooled fund used by the Section as and when they occur
- Having regard to the need for diversification of investments, so far as appropriate for the particular mandate, and to the suitability of investments
- Giving effect to the principles contained in the Statement as far as is reasonably practicable

SCHEME ACTUARY

The Scheme Actuary's responsibilities include the following:

- Liaising with the Investment Adviser regarding the suitability of the Section's investment strategy given the financial characteristics of the Section
- Assessing the funding position of the Section and advising on the appropriate response to any shortfall
- Performing the triennial (or more frequent, as required) valuations and advising on the appropriate contribution levels

ADMINISTRATOR

The Administrator's responsibilities include the following:

- Ensuring there is sufficient cash available to meet benefit payments as and when they fall due
- Paying benefits and making transfer payments
- Investing contributions not required to meet benefit payments with the Investment Managers according to the Trustees' instructions.