

Statement of Investment Principles for The Law Debenture Pension Plan

15 August 2019

Page 1 of 14

1. Introduction

This Statement of Investment Principles ("SIP") sets out the policy of Open Trustees Limited ("the Trustee") on various matters governing decisions about the investments of the Law Debenture Pension Plan ("the Plan"), a Defined Benefit ("DB") Plan. This SIP replaces the previous SIP dated November 2017.

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 ("the Act"), the Occupational Pension Plans (Investment) Regulations 2005, and the Occupational Pension Plans (Charges and Governance) Regulations 2015.

This SIP has been prepared after obtaining and considering written professional advice from LCP, the Plan's investment adviser, whom the Trustee believes to be suitably qualified and experienced to provide such advice. The advice takes into account the suitability of investments including the need for diversification, given the circumstances of the Plan, and the principles contained in this SIP. The Trustee has consulted with the relevant employers in producing this SIP.

The Trustee will review this SIP from time to time and, with the help of its advisers, will amend it as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy, and at least once every three years.

Appendix 1 contains brief details of the respective responsibilities of the Trustee, investment advisers and investment managers. It also contains a description of the basis of remuneration of the investment adviser and the investment managers.

2. Investment objectives

The Trustee's primary objectives are that:

- the Plan should be able to meet benefit payments as they fall due; and
- that the Plan's funding position (ie the value of its assets relative to the assessed value of its liabilities) should remain at an appropriate level. The Trustee is aware that there are various measures of funding, and has given due weight to those considered most relevant to the Plan.

3. Investment strategy

The Trustee, with the help of its advisers and in consultation with the employers, last considered the Plan's investment strategy in January 2019, taking into account the objectives described in Section 2 above.

The result of the review was that the Trustee agreed that the investment strategy of the Plan should be based on the allocation below.

Page 2 of 14

Asset class	Benchmark allocation (%)	Control range (%)
UK equities	18.0	15-21
Overseas equities	22.0	
<i>North American equities</i>	6.0	3-9
<i>European equities</i>	4.0	2-6
<i>Japanese equities</i>	3.0	1-5
<i>Pacific basin equities</i>	3.0	1-5
<i>Emerging market equities</i>	6.0	3-9
Total equities	40.0	
Diversified Growth Funds	15.0	12.5-17.5
Infrastructure	10.0	7.5-12.5
US index-linked bonds	10.0	8-12
UK corporate bonds	10.0	8-12
UK index-linked bonds	15.0	13-17
Total bonds	35.0	
Total	100.0	

The Trustee is aware that the allocation to Infrastructure is subject to a drawdown process managed by the selected infrastructure manager, the timing of which is not known in advance with certainty. As a result, the Plan's actual allocation is expected to be outside of the permitted control range for infrastructure until the drawdown process is complete, and there will be a corresponding overweight to other asset classes.

The Trustee's rebalancing policy is set out in Appendix 3.

4. Considerations in determining the investment arrangements

When deciding how to invest the Plan's assets, the Trustee considers a number of risks including, but not limited to, those set out in Appendix 2. Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each risk.

The Trustee has considered a wide range of asset classes for investment, and the expected returns and risks associated with those asset classes. The central estimates of the expected returns from the main

asset classes, as at 31 December 2018, are set out below. Returns are quoted in excess of the return on long-dated government bonds:

UK equities	5.0% pa
Overseas equities	5.0% pa
Emerging market equities	6.0% pa
Corporate bonds	1.1% pa
Diversified growth	3.0% pa
US / UK index linked bonds	0.0% pa
Infrastructure	4.0% pa

In setting the investment strategy the Trustee also from time to time takes into account:

- the best interests of members and beneficiaries;
- the circumstances of the Plan, including the profile of the benefit cash flows, the funding level, and the strength of the employer covenant;
- the risks, rewards and suitability of a number of possible asset classes and investment strategies; and
- the need for appropriate diversification between different asset classes.

5. Implementation of the investment arrangements

Before investing in any manner, the Trustee obtains and considers proper written advice from its investment adviser on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

Details of the investment managers, their objectives, investment guidelines, and custody arrangements are set out in Appendix 3.

The Trustee has signed agreements with the investment managers, setting out in detail the terms on which the portfolios are managed. The investment managers' primary role is the day-to-day investment management of the Plan's investments. The managers are authorised under the Financial Services and Markets Act 2000 (as amended) to carry out such activities.

The Trustee has limited influence over managers' investment practices because all the Plan's assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

The Trustee's view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.