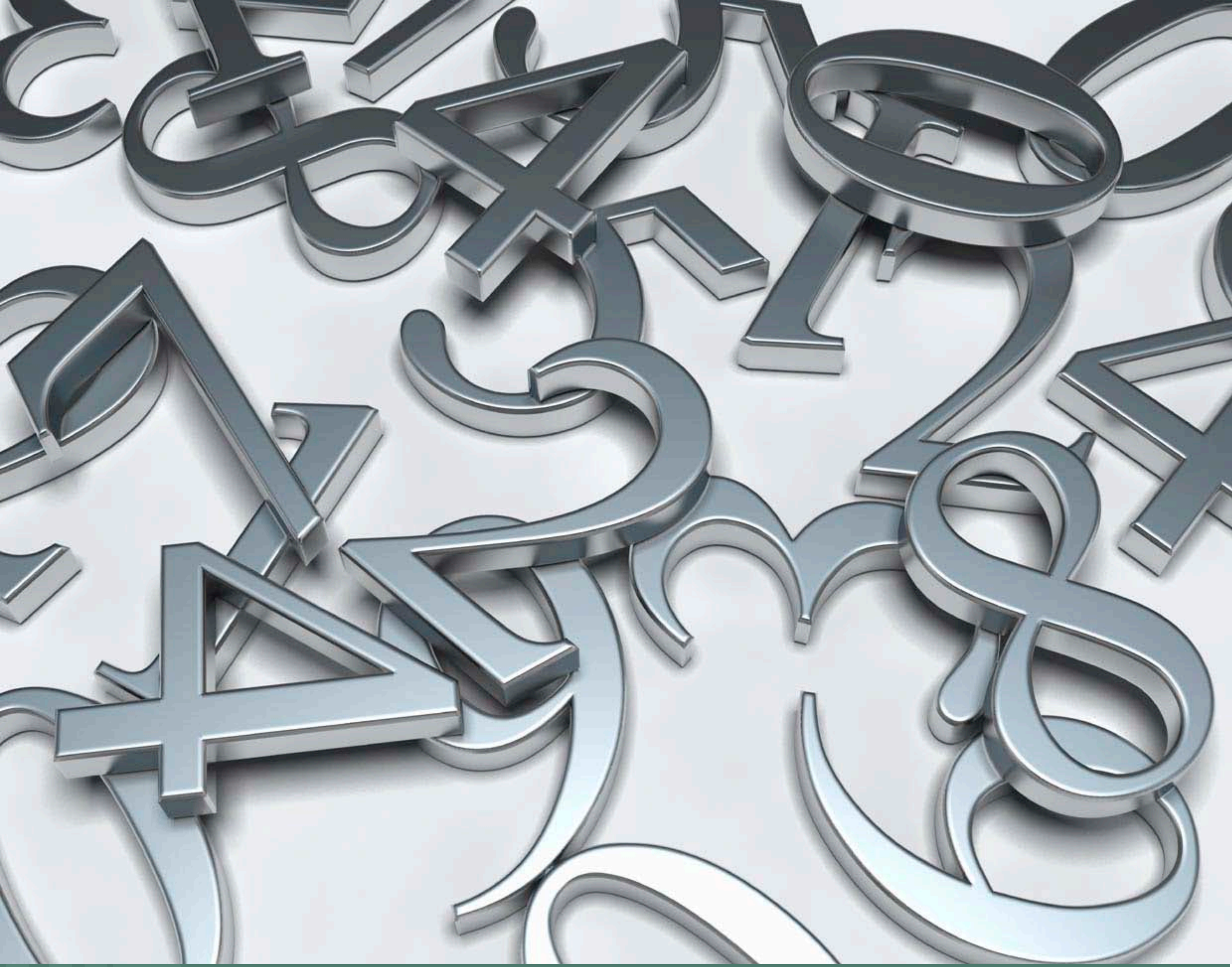


# Comet Pension Scheme

## Statement of Investment Principles

February 2011

CAMRADATA
Pension Reporting

## *Version Update*

| Version | Effective From | Note |
|---|---|---|
| 1.0 | November 2004 | Initial draft |
| 2.0 | May 2006 | Revisions to comply with The Occupational Pension Scheme (Investment) Regulations 2005 |
| 3.0 | October 2008 | Revision for investment in DAA and implementation of Liability Hedge |
| 4.0 | May 2009 | Revision for investment in Structured Equity & Corporate Bonds |
| 5.0 | February 2011 | Revision for changes to the equity and global credit portfolios plus updated objectives |

# Table of Contents

# 1.0 Introduction

This document constitutes the Statement of Investment Principles ("the SIP") required under Section 35 of the Pensions Act 1995 for the Comet Pension Scheme ("the Scheme"). It describes the investment policy being pursued for the Scheme by the Directors of Comet Trustee Company Limited ("the Trustee" of the Scheme) and is in compliance with the Government's voluntary code of conduct for Institutional Investment in the UK ("the 2001 Myners Principles"). It also reflects rule 26.2 of the Scheme's Trust Deed and Rules dated 3rd April 2006 and the requirements of Occupational Pension Schemes (Investment) Regulations 2005.

The Scheme Actuary is Steve Leake of Punter Southall & Co, the Investment Adviser is P-Solve (a division of P-Solve Investments Limited) who have delegated the Governance Adviser role to CAMRADATA Analytical Services Limited and the Scheme Lawyer is Ronald Graham of Eversheds LLP. They are collectively termed "the Advisers".

The Trustee confirms that, before preparing this SIP, it has consulted with Comet Group Plc ("the Principal Employer"), Kesa Electricals ("the Principal Employer's Parent Company") and the Scheme Actuary and has obtained and considered written advice from the Investment Adviser. The Trustee believes the Advisers to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge, and experience of the management, of the investment of arrangements such as the Scheme. The Trustee also confirms that it will consult with the Principal Employer and take advice from the Advisers as part of any review of this SIP.

Where the Trustee is required to make an investment decision, it always receives written advice from the Advisers first and believes that this, together with the Trustee Directors' own collective expertise, ensures that it is appropriately familiar with the issues concerned.

In accordance with the Financial Services & Markets Act 2000, the Trustee sets general investment policy, but has delegated the day-to-day investment of the Scheme's assets to professional fund managers ("the Managers") in accordance with Section 34(2) of the Pensions Act 1995. The Managers are authorised under the Financial Services & Markets Act 2000, provide the expertise necessary to manage the investments of the Scheme competently and will comply with the requirements of Section 36 of the Pensions Act 1995.

## 1.1 Declaration

The Trustee confirms that this SIP reflects the Investment Strategy it has implemented for the Scheme.

**Signed** Ian Edwards ...... **Date** ....23 February 2011

**For and on behalf of the Trustee of the Comet Pension Scheme**

## *2.0 Scheme Governance*

The Trustee is responsible for the governance and investment of the Scheme's assets. The Trustee considers that the governance structure set out in this SIP is appropriate for the Scheme, as it allows the Trustee to make the important decisions on investment policy, while delegating the day-to-day aspects to the Managers or to the relevant Adviser(s) as appropriate. The responsibilities of each of the parties involved in the Scheme's governance are detailed in Appendix A.

The Trustee has appointed an Investment Sub-Committee ("the ISC") to deal with investment matters on their behalf. The ISC deals with day to day investment matters and acts as a coordinator between the Investment Advisers, Managers and the Trustee. The ISC has the power to make decisions on behalf of the Trustee.

The ISC will report back to the Trustee on all decisions made. However, all investment decisions remain the sole responsibility of the Trustee. The Trustee may follow or reject any or all advice offered by the ISC and there is no obligation imposed or implied upon the Trustee to explain or account for its decision.

Details of the responsibilities delegated to the ISC and those retained by the Trustee are detailed in Appendix A.

# 3.0 Investment Objectives

The investment objective was reviewed in August 2010 following agreement of the actuarial basis for the 31st March 2010 actuarial valuation. It will be reviewed, at least, every three years in conjunction with the actuarial valuation. In general terms, the Trustee's ***qualitative*** objectives for the Scheme are:

i. To ensure that sufficient assets are available to pay out current and future members' benefits as and when they arise.

ii. To maximise the funding level on an ongoing basis. In particular, to ensure that the Scheme reaches a 100% funding level within an appropriate period of time. This is currently by May 2016 as agreed with the Principal Employer in the Recovery Plan dated March 2008 but will be reviewed again once the results of the actuarial valuation as at 31 March 2010 are agreed.

And secondarily,

iii. To minimise the risk of additional cash contribution requirements from the Principal Employer in meeting the balance of the costs in underwriting the Scheme benefits. The Funding Plan in the draft actuarial valuation at 31 March 2010 assumes a return of swaps + 1.5% p.a. and therefore the investment strategy should control the probability of underperforming that objective.

In terms of ***monitoring*** the investment arrangements, the above objectives have been translated into the following ***quantitative*** measures, which are used as the main management tool:

| | **Objective + Target** |
|---|---|
| To achieve returns equal to: | Bespoke liability cashflow benchmark* + 2.2% p.a. on the Total Fund over rolling 3 year periods |
| To aim to not breach a downside tolerance of: | Bespoke liability cashflow benchmark* – 4.4% p.a. on the Total Fund in any 12 month period. |
| Further risk tolerance measures | Target a volatility of no more than 6% relative to the liability benchmark<br>Target exposure to loss due to instantaneous market shocks of under 12% of the total asset value<br>Minimise downside loss on all economic scenarios over a 5-10 year time horizon |
| | |

* This is the estimated change in the Scheme's liabilities and is calculated by discounting the Scheme's 31 March 2010 cash flows. This calculation is performed by the liability hedge manager and will be checked regularly by the Scheme Actuary in order to maintain an element of independence from the manager. Prior to 31st March 2010, this was based on a portfolio of gilts consisting of 65% FTSE Index Linked Gilts >5 Years and 35% FTSE Fixed Interest Gilts >15 Years.

# 4.0 Asset Allocation Strategy

## 4.1 Liabilities

The Scheme provides a pension that is based on length of service up to date of leaving, retirement or 30 September 2007, whichever is earliest, and Final Salary at the time of leaving or retirement. The Rules of the Scheme further guarantee that pensions in payment are increased as follows:

| | |
|---|---|
| Service prior to April 1997 | Statutory increases to Guaranteed Minimum Pensions (GMPs). There are no increases to GMPs earned pre April 1988. Pensions in excess of the GMPs are increased by the increase in the Retail Prices Index or 5% p.a. if lower. |
| Service post April 1997 | Pensions are increased by 5% p.a. or the increase in the Retail Price Index, if lower. |
| Service post April 2005 | Pensions are increased by 2.5% p.a. or the increase in the Retail Price Index, if lower. |
| | |

The liabilities of the Scheme are linked to:

- Wage and Salary inflation up to retirement for current employees;
- Price inflation (subject to guaranteed limits) and fixed rate escalation up to retirement for deferred pensioners; and
- Price inflation (subject to guaranteed limits) once the pension comes into payment.

The Principal Employer is currently consulting with members who are currently employed to remove the salary link with effect from 30 September 2010.

The Scheme ceased accrual of benefits on 30 September 2007.

The investment of the assets will have regard to the above characteristics of the Scheme.

## 4.2 Asset Allocation

The Trustee believes that one of its most important investment decisions is the proportion of assets to be invested in each of the major asset classes. Having considered advice from the relevant Advisers, and also having due consideration for the objectives, the liabilities of the Scheme and its attitude to risk, the Trustee has decided upon the following strategic asset allocation:

| Asset Class | % | Expected Rate of Return above cash over the long term returns (% p.a.)** % |
|---|---|---|
| **Liability Hedge** | **15** | **0.0** |
| Collateral - Index Linked Gilts* | 15 | 0.0 |
| **Investment Fund** | **85** | **4.5** |
| UK Equity Structured Product* | 15 | 5.5 |
| Overseas Equities | | 5.5 |
| US | 9 | |
| Europe (ex UK) | 3 | |
| Asia Pacific (inc Japan) | 3 | |
| Emerging Markets | 5 | |
| Global Credit | 7.5 | 2.5 |
| Global Broad Bond | 10 | 3.0 |
| Dynamic Asset Allocation | 25 | 4.0 |
| Property | 7.5 | 5.0 |

* The collateral pools for the UK Equity Structured Product and the Liability Hedge have been set up so that they can be used for either product. Note also that the target for the Equity Structured Product is over three years and is therefore not comparable to the 20 year return quoted above.

** Over the very long term (20 years plus).

On a short term basis, a small allocation to cash may be held on a tactical basis.

The Trustee has decided on a revised regional allocation of the overseas equity investment, as set out above but has delayed implementation of this revision until early 2011 when the Scheme assets are rebalanced following the ETV exercise which is currently in progress.

The Scheme has entered into a series of swap contracts (liability hedge) to reduce risk by partially matching the change in asset values to the change in liabilities in terms of interest rate and inflation. This should result in a smoother level of funding over time. The Liability Hedge will cover up to 80% of the

Scheme's exposure to inflation and interest rate risk on its liabilities. Index Linked Gilts are held by a custodian to be available to provide collateral for the Liability Hedge as required by the counterparties to the Liability Hedge from time to time and are an integral part of the Liability Hedge strategy.

The Scheme has implemented a Structured Equity arrangement with a 3-year term ("an Equity Derivative Overlay Strategy or EDOS"). It is made up of option contracts on the FTSE 100 Index and Index Linked Gilts that are available to provide collateral. The option contracts have been implemented to control the Scheme's exposure to a fall in the FTSE 100 Index whilst also enhancing the return achieved, further details are provided in Appendices B and C.

## 4.3 Rebalancing

The Trustee, in conjunction with the relevant Advisers, will monitor the actual asset allocation of the Scheme. If the actual allocation moves further **than 5 percentage points from** the strategy shown above, then the Trustee will make a decision as to whether to switch funds between classes to move back closer to the strategic allocation after consideration of advice.

New money will be invested into the Cash Fund (or disinvested as required for cashflow) for the time being.

Rebalancing of the Liability Hedge and the UK Equity Structured Product will be managed by P-Solve Investment Limited after discussion with the Trustee.

Rebalancing of the developed market Overseas Equity funds will be managed by Legal and General Investment Management.

## 4.4 Rates of Return

Given the Scheme has a liability hedge in place, the assets need to generate a return relative to cash. Based on the expected real rates of return shown above for each asset class, the Trustee expects to achieve a rate of return for the total Scheme assets excluding the liability hedge of approximately 3.8% per annum in excess of cash over the long term.

## 4.5 Diversification

The choice of asset classes is designed to ensure that the Scheme's investments are adequately diversified and liquid. The Trustee monitors the strategy on an ongoing basis and will carry out a complete review from time to time to ensure that they are comfortable with the level of diversification and liquidity being achieved.

## 4.6 Suitability

The asset allocation strategy was originally set following a detailed review in October 2007 of the liabilities identified in the Actuarial Valuation at 31 March 2007 and consideration of how different investment strategies impacted the finances of the Scheme and the Principal Employer's contribution requirements. The strategy is kept under regular review and is generally considered at each quarterly ISC meeting with consideration of its ongoing suitability following each triennial Actuarial Valuation. In so doing, the Trustee considers, and takes advice on, a full range of suitable investment opportunities that could potentially meet the investment objective, paying due regard to the potential risks of investment. The Trustee believes that, on these measures, the asset allocation strategy is suitable.

## 4.7 Liquidity

The majority of the Scheme's assets are held in pooled funds and in asset classes that are sufficiently liquid to be realised easily if the Trustee so requires.

# 5.0 Strategy Implementation

The Trustee has delegated the day-to-day investment of the Scheme's assets to professional Managers. The details of the Managers are shown in Appendices B and C.

The Trustee has appointed active managers for Emerging Market Equity, Property, Global Bonds and Dynamic Asset Allocation because it believes that this is the most appropriate form of access for these types of funds.

For the developed market equity regions, Index-linked Gilts held as collateral for the Liability Hedge and Equity Structured Product, the Trustee has selected passive managers since this offers little risk of significantly under-performing the index and offers additional diversification by product and by manager. The Trustee recognises that use of a passive manager in these assets will mean that the Scheme will not significantly out-perform the relevant benchmark in these areas.

The Equity Structured Product has a UK Equity benchmark – the FTSE 100 index. It is a passively managed product that will outperform the index if the index return is greater than a predetermined level and also minimises underperformance if the index has a negative total return greater than a predetermined level, both over the life of the product.

The Liability Hedge is a passively managed product against a scheme-specific bespoke benchmark.

The Trustee has selected pooled funds for the investment of the Scheme's assets, with the exception of the Equity Structured Product and the Liability Hedge, to achieve good diversification given the size of the assets invested for each mandate. A pooled fund is one where the Trustee, along with other investors, buys units in a larger pool of investments run by the Manager. The Equity Structured Product and the Liability Hedge are bespoke structured derivative products.

## 5.1 Mandates and Performance Targets

The Trustee has received advice on the appropriateness of each Manager's targets, benchmarks and risk tolerances from the Investment Adviser and believes them to be suitable for the Scheme. Details are given in Appendices B and C.

## 5.2 Manager Appointments

The Trustee have agreed the scope of the Managers' activities, investment objectives, investment restrictions, their charging bases and other relevant matters either under an Investment Management Agreement which appoint the Manager as a discretionary investment manager or in terms of the offering documents of the investment fund provided by the Manager to the Trustee, which include the fund prospectus and subscription documents (the "Fund Offering Documents").

## 5.3 Diversification

The assets will be invested in a diverse portfolio of investments in order to reduce investment risk given the circumstances of the Scheme. The range of, and any limitation to, the proportion of the Scheme's assets held in any asset class will be determined by the Trustee who will instruct each Manager in accordance with this decision or the Manager in terms of the relevant investment management agreement, subject to the restrictions and investment objectives more fully set out in the investment management agreement. This may be revised from time to time according to appropriate investment strategy advice provided to the Trustee and having regard to the investment powers of the Trustee as defined in the Trust Deed.

## 5.4 Suitability

The Trustee has taken advice from the Advisers to ensure that the Managers are suitable for the Scheme, given its objectives.

## 5.5 Custody

Where the assets are held in pooled funds each Manager has its own custodian arrangements, which are not directly appointed by the Trustee. The Trustee has delegated the selection of a custodian for the collateral for the Liability Hedge and Equity Structured Product to the Manager, and KAS Bank has been appointed by the Trustee for this service. Details of the custodians can be found in Appendix B.

# 6.0 Monitoring

## 6.1 Managers

The Trustee will monitor the performance of the Managers against the agreed performance objectives as set out in the Investment Management Agreement or Fund Offering Documents. This process would normally consider rolling periods of 3 years.

The Trustee, and Investment Adviser on behalf of the Trustee, holds regular meetings with the Managers to satisfy themselves that the Managers continue to carry out their work competently and have the appropriate knowledge and experience to manage the assets of the Scheme. In any event the Trustee will formally review the progress and performance of the Managers every year. As part of this review, the Trustee will consider whether or not each Manager:

- Is carrying out his work competently. The Trustee will evaluate the Manager based on, amongst other things
    - The Manager's performance versus their respective benchmarks.
    - The level of risk within the portfolios given the specified risk tolerances.
- Has regard to the need for diversification of investment holdings in accordance with the Investment Management Agreement or Fund Offering Documents.
- Has regard to the suitability of each investment and each category of investment.
- Has been exercising his powers of investment with a view to giving effect to the principles contained in this SIP, so far as is reasonably practical.

## 6.2 Advisers

The Trustee will monitor the advice given by the Advisers on a regular basis.

## 6.3 Other

The Trustee will review this SIP triennially, or, without delay, following any changes to the investment strategy, and modify it together with the relevant Advisers and the Principal Employer if deemed appropriate. There will be no obligation to change this SIP, any Manager or Adviser as part of such a review.

# 7.0 Fees

## 7.1 Managers

The Trustee will ensure that the fees paid to the Managers are consistent with levels typically available in the industry and the nature of services provided. The current fee basis for each of the Managers is set out in Appendix D.

The Trustee is aware of each Manager's policy regarding soft commission arrangements. The Managers disclose their fees, commissions and other transaction costs in accordance with the Financial Services Authority ('FSA') Disclosure Code.

## 7.2 Advisers

Fees paid to the Advisers are based either on actual time spent and hourly rates for relevant individuals, or on fixed fees agreed in advance for specifically defined projects.

## 7.3 Custodian

Fees are paid to the custodian for the collateral underlying the liability hedge and the EDOS based on a percentage of assets under management and per transaction.

## 7.4 Performance Measurer

There is no performance measurer appointed by the Trustees.

## 7.5 Trustees

The directors of the Trustee company are not paid for their services, but reasonable expenses will be reimbursed.

# 8.0 Risks

The Trustee recognises a number of risks involved in the investment of assets of the Scheme. These risks, and how they are measured and managed, include:

**i.** **Funding and asset/liability mismatch risk** – the risk that the funding level is adversely affected due to a mismatch between the assets and liabilities. This risk is managed in the following ways:

- A liability benchmark portfolio or 'LBP' is used as a proxy for the liabilities (as described in Section 3) in order to measure the approximate changes in the liabilities (due to changes in inflation and interest rates only). The Trustee monitors this change relative to the change in asset values on a quarterly basis. The LBP is reviewed following each triennial Actuarial Valuation.
- The Trustee also recognises the risk of a negative impact on the funding level due to changes in the actuarial assumptions used to calculate the liabilities and variation in experience. This is managed through aiming for a higher overall investment return than implied by the Actuarial Valuation.
- When setting and reviewing investment strategy, the Trustee examines how the investment strategy impacts on downside risk. Downside risk of the investment strategy is also measured by reference to the Scheme Objective as set out in Section 3 and can therefore be assessed as part of the quarterly review process.
- This risk is also monitored through regular actuarial and investment reviews.
- A Liability Hedge has been implemented specifically to reduce this risk.

**ii.** **Underperformance risk** – the risk of underperforming the benchmarks and objectives set by the Trustee. This risk is minimised using the following techniques:

- Appropriate diversification across asset classes, within sectors and between individual stocks to minimise the effect of a particular stock or sector performing badly.
- The use of instruments and strategies designed to control the extent of downside exposure such as the UK Equity Structured Product which has been structured to reduce exposure to falls in the UK equity.
- The use of passive management for assets classes where the downside risk of active management is considered too high.
- Regular monitoring of the active Managers' performance, processes and capabilities with respect to their mandate, and by use of more than one manager to avoid over exposure to one organisation.

**iii.** **Country risk** – the risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across several countries. This is measured by ensuring that the Scheme is not overexposed to a particular country, and the asset allocations of the overseas equity Managers are examined on a regular basis.

iv. **Risk of inadequate diversification or inappropriate investment** – the risk of unsuitable investment activity by the Managers. This is managed by investing in a diversified portfolio of assets thereby avoiding concentration of assets in one particular stock or sector. The Managers' Investment Management Agreement or Fund Offering Documents contain a series of restrictions to measure and limit the risks from each individual investment and prevent unsuitable investment activity.

v. **Scheme governance structure risk** – the risk of lost return through insufficient structure around investment decision making. This has been addressed through having an ISC specifically focusing on investment decisions and appointing some of the assets on a rotational mandate basis, such that the manager is given the ability to alter the investments to take into account their views on the markets. In addition, the ISC will meet between meetings – by conference call or otherwise – in order to action decisions more quickly than the quarterly meeting cycle would allow.

vi. **Default risk** – addressed through the restrictions for the Managers through the Investment Management Agreement or Fund Offering Documents, in particular exposure to corporate, high yield or emerging market bonds are managed using diversified portfolios of such bonds and active management in order to give the manager discretion about which bonds to hold.

vii. **Organisational risk** – the risk of inadequate internal processes leading to problems for the Scheme. This is addressed through regular monitoring of the Managers and Advisers.

viii. **Counterparty risk** – the risk of the counterparty to an agreement not carrying out his side of the deal. Where derivatives are used, the risk of counterparty default is reduced through the requirement in the relevant documentation that regular collateral or margin payments be made. It is also considered in the selection of counterparties and the incorporation of protection mechanisms in the documentation in the event of a downgrade in credit quality of an existing counterparty.

ix. **Cash flow risk** – addressed through the monitoring of the cash flow requirement of the Scheme to control the timing of any investment/disinvestment of assets.

x. **Liquidity risk** – investing in sufficient assets, which are realisable with sufficient notice to meet the Scheme's cash flow requirements.

xi. **Sponsor risk** – the risk of the Principal Employer ceasing to exist or having insufficient resources to meet the agreed recovery plan, which for reasons of prudence, the Trustee has taken into account when setting the asset allocation strategy.

xii. **Transition risk** – the risk of paying unnecessary costs or being at increased risk of adverse market movements, when transitioning assets from one manager or asset class to another. This risk is mitigated by organising transitions in a structured fashion with the advice of the Investment Adviser or by using a specialist transition manager, if appropriate.

The Trustee will regularly review how these risks are measured and managed and is assisted in this by its Investment Adviser and by regular training.

# 9.0 Other Issues

## 9.1 Corporate Governance

The Trustee's policy on the exercise of rights attaching to investments, including voting rights, is that these rights should be exercised by the Manager on their behalf having regard to the best financial interests of the beneficiaries. Where this primary consideration is not prejudiced, the Trustee would expect the Manager to take account, where appropriate, of social, environmental and ethical factors in the exercise of such rights.

The Trustee has received copies of the Managers' published corporate governance policies, which explain the Managers' approaches to Socially Responsible Investing ("SRI") and voting rights and the Trustee is satisfied with the policies as described. Information on corporate governance actions is reported in the Managers' performance reports, which enables the Trustee to monitor this.

## 9.2 Social, Environmental and Ethical Issues

The Pensions Act requires Trustees to include a statement on the extent to which (if any) social, environmental and ethical considerations are taken into account in the selection, retention and realisation of investments.

The Trustee believes its duty is to act in the best financial interest of the Scheme's beneficiaries. In order to achieve appropriate diversification, the Scheme's assets and contributions are invested collectively with those of other similar pension schemes in relevant pooled funds of the Managers. This pooling of investments prevents the Trustee from setting any specific social, environmental or ethical investment policy. Information on any uses of the policies on these aspects may be reported in the Managers' performance reports, which enable the Trustee to monitor this.

## 9.3 Additional Voluntary Contributions (AVCs)

Until 30 September 2007 members of the Scheme had the opportunity to pay AVCs, which are invested and used to increase pension benefits at retirement, or in the event of death. The Trustee established the arrangements under which members may choose to invest their contributions. The Trustee's objectives are to provide members with the opportunity to maximise, as far as is reasonable and sensible, the value of the member's contributions plus investment returns, within the constraints imposed by the member's choice of investments, and to provide members with a reasonable choice of investment.

The current AVC providers are as follows:

- Abbey National plc
- Prudential Assurance
- The Standard Life Assurance Company

# *Appendix A – Responsibilities*

## Trustee

The Trustee of the Scheme is responsible for, amongst other things:

**i.** Reviewing the suitability of the investment policy following the results of each actuarial or investment review, in consultation with the Advisers.

**ii.** Assessing the quality of the performance and process of the Managers by means of regular reviews of the investment results and other information, through meetings and written reports, in consultation with the Advisers.

**iii.** Assessing the quality of the performance of the Advisers.

**iv.** Consulting with the Employer when reviewing investment policy issues.

**v.** Reviewing at least triennially the content of the SIP and for modifying it if deemed appropriate, in consultation with the Advisers.

**vi.** Monitoring compliance of the investment arrangements with the SIP on an ongoing basis.

## Investment Sub-Committee

The ISC has responsibility:

**i.** To recommend investment objectives for approval by the Trustee Board.

**ii.** To obtain advice and to make decisions in the discharge of its investment responsibilities, in accordance with the objectives stated in the Scheme’s SIP.

**iii.** To implement any changes in investment strategy, undertake consultation and ensure the implementation of the Scheme’s agreed strategy.

**iv.** To appoint, dismiss, or alter the terms of appointment of any investment manager or custodian.

**v.** To instruct transfer of assets between investment managers.

**vi.** To instruct transfer of assets into or out of the Scheme as instructed by the Trustee Board.

**vii.** To monitor and report to the Trustee Board on the investment arrangements and the performance of investments and Managers.

**viii.** To recommend the appointment and dismissal of Managers, custodians or advisers for approval by the Trustee Board.

**ix.** To recommend the Scheme's SIP final draft for approval by the Trustee Board.

**x.** To investigate and report on any specific investment related issues as requested by the Trustee Board.

**xi.** To consult with the Sponsor on a regular basis.

## Managers

The Managers will be responsible for, amongst other things:

**i.** At their discretion, but within the guidelines set out in the Investment Management Agreement or Fund Offering Documents, implementing changes in the asset mix and selecting and undertaking transactions in specific investments.

**ii.** Providing the Trustee with sufficient information each quarter to facilitate the review of its activities, including:

- A report of the strategy followed during the quarter
- The rationale behind past and future strategy
- A full valuation of the assets
- A transaction report
- Cash reconciliation
- Any corporate actions taken

**iii.** Informing the Trustee immediately of:

- Any breach of this SIP, if an Investment Management Agreement is in place
- Any material change in the knowledge and experience of those involved in the Scheme's investments
- Any breach of investment restrictions either agreed between the Trustee and the Manager from time-time or as set out in the Fund Offering Documents.

## Investment Adviser

The Investment Adviser will be responsible for, amongst other things:

**i.** Participating with the Trustee in reviews of the SIP.

**ii.** Advising the Trustee how any changes in the Scheme's benefits, membership and funding position may affect the manner in which the assets should be invested.

**iii.** Advising the Trustee of any changes in the Scheme's Managers that could affect the interests of the Scheme.

**iv.** Advising the Trustee of any changes in the investment environment that could either present opportunities or problems for the Scheme.

**v.** Undertaking reviews of the Scheme's investment arrangements including reviews of the asset allocation strategy and current Managers and selection of new Managers as appropriate.

## Governance Adviser

The Governance Adviser will be responsible for, amongst other things:

**i.** Participating with the Trustee in reviews of the SIP.

**ii.** Undertaking reviews of the performance of the Scheme's investment arrangements including reviews of the asset allocation strategy and current Managers.

**iii.** Undertaking reviews of and advising the Trustees on the investment related governance aspects of the Scheme.

## Scheme Actuary

The Scheme Actuary will be responsible for, amongst other things:

**i.** Liaising with the Investment Adviser on the suitability of the Scheme's investment strategy.

**ii.** Performing the triennial and interim "annual funding reviews" valuations and advising on the appropriate contribution levels.

**iii.** Commenting on the appropriateness of the investment strategy relative to the liabilities of the Scheme at the triennial valuations.

**iv.** Advising the Trustee and Investment Adviser of any changes to Scheme benefits, significant changes in membership, contribution levels and funding levels.

## Legal Adviser

The Legal Adviser will be responsible for, amongst other things:

**i.** Liaising with the Trustee to ensure legal compliance including, those in respect of investment matters.

# *Appendix B – Managers Performance Targets*

The Managers are as follows:

- P-Solve Investments Limited
- Legal & General Investment Management
- Wellington Management International Ltd
- Legg Mason Global Asset Management
- PIMCO Europe Ltd Global
- Barings Asset Management
- UBS Global Asset Management

The mandate and objectives of the Managers are as follows (and additional detailed information on the mandates and restrictions is provided in the Appendix C):

## P-Solve Investments Limited – Liability Hedge Mandate

The terms of engagement are set out in their Investment Management Agreement.

The investment objective of the Liability Hedge is to reduce 80% of the interest rate and inflation risk inherent in the nature of the Scheme's obligations to its members under the Scheme.

Specifically the measure of inflation used for the inflation dependent swaps will be the Retail Price Index (all items) ('RPI') as published by the Office of National Statistics in the United Kingdom.

## P-Solve Investments Limited – Structured Equity Product Mandate ("EDOS")

The terms of engagement are set out in their Investment Management Agreement.

The investment objective of the EDOS is a return of at least 6% p.a. in excess of the compounded 6 month Sterling LIBOR return, through investment of the EDOS Cash Balance and exposure to the FTSE 100 Price Index using Derivative Transactions.

Achieving this investment objective is subject to the FTSE 100 Price Index rising to the required level at the expiry date of the EDOS and the EDOS Cash Balance achieving 6 month Sterling LIBOR return.

| | **Index value** |
|---|---|
| Level at inception of product | 5723.43 |
| **Required level at expiry** | **6425.24** |

## Legal & General Investment Management – Passive Overseas Equities Mandate

The terms of engagement are set out in the Fund Offering Documents and other associated documents where relevant.

The mandate is to track a composite regional equity index. The Trustee has decided on a revised regional allocation of the overseas equity investment, as set out below, but has delayed implementation of this revision until early 2011 when the Scheme assets are rebalanced following the ETV exercise.

| Asset Class | % | Benchmark |
|---|---|---|
| North American Equities | 30.0 | FTSE All World Developed North America Index |
| North American Equities – GBP Hedged | 30.0 | FTSE All World Developed North America Index Sterling hedged |
| European Equities | 10.0 | FTSE All World Developed Europe (ex UK) Index |
| European Equities – GBP Hedged | 10.0 | FTSE All World Developed Europe (ex UK) Index Sterling hedged |
| Japanese Equities | 6.7 | FTSE All World Japanese Index |
| Japanese Equities – GBP Hedged | 6.7 | FTSE All World Japanese Index Sterling hedged |
| Pacific Basin Equities | 3.3 | FTSE All World Developed Asia Pacific (ex Japan) Index |
| Pacific Basin Equities – GBP Hedged | 3.3 | FTSE All World Developed Asia Pacific (ex Japan) Index Sterling hedged |
| | | |

Cash held during periods of transition are held in the LGIM Cash fund with a target to outperform the CAPS Cash Median over a 12 month period.

## Wellington Management International Ltd – Emerging Market Equity Mandate

The terms of engagement are set out in the Fund Offering Documents and other associated documents where relevant.

The objective of the Emerging Markets Equity Portfolio is to provide long-term returns above the MSCI Emerging Markets Index.

## Legg Mason Global Asset Management – Global Bonds Mandate

The terms of engagement are set out in the Fund Offering Documents and other associated documents where relevant.

The Fund's target is to outperform 3-month LIBOR by 3% p.a. net of fees over 3 year rolling periods. This objective will be met with an expected tracking error of 3% and using the following broad strategy:

| Asset Class | Allocation Target Range (%) |
|---|---|
| UK Gilts and Global Government Bonds & Currencies | 10 – 100 |
| Global Investment Grade Credit | 0 – 90 |
| US Mortgage - Backed Securities | 0 – 50 |
| US High Yield | 0 – 30 |
| Emerging Markets Debt | 0 – 30 |
| | |

## PIMCO Europe Ltd. – Credit Mandate

The terms of engagement are set out in the Fund Offering Documents and other associated documents where relevant.

The aim of the PIMCO Diversified Income Fund is to outperform a composite index by 1% p.a. gross of fees over 3 year rolling periods where the composite index is comprised of 100% GBP hedged:

- 1/3 Barclays Capital Global Aggregate Credit Component
- 1/3 BofA Merrill Lynch Global High Yield BB-B Rated Constrained
- 1/3 JPMorgan EMBI Global.

## Barings Asset Management – Dynamic Asset Allocation Mandate

The terms of engagement are set out in the Fund Offering Documents and other associated documents where relevant.

The aim of the fund is to outperform 3-month LIBOR by 4% p.a. net of fees over 3 year rolling periods.

## UBS Global Asset Management – Property Mandate

The terms of engagement are set out in the Fund Offering Documents and other associated documents where relevant.

The UBS Triton Property Fund aims to consistently outperform the HSBC/APUT "Pooled Property Fund Indices" All Balanced Funds Median.

## Custodian Details

| Manager | Custodian |
|---|---|
| **Legg Mason Global Asset Management** | Citibank |
| **Legal & General Investment Management** | HSBC Global Investor Services |
| **Baring Asset Management** | Northern Trust |

| | |
|---|---|
| **UBS Global Asset Management (Triton Fund)** | JP Morgan |
| **PIMCO Europe Ltd.** | Brown Brothers Harriman Trustee Services (Ireland) Limited |
| **Wellington Management International Ltd** | State Street Custodial Services (Ireland) Limited |
| **P-Solve Investment Limited** | KAS Bank |
| | |

# Appendix C – Manager Mandate Details

## P-Solve Investment Limited – Liability Hedge

The Scheme has entered into a series of swap contracts, executed with an investment bank, to reduce risk by accurately matching the change in asset values to the change in liabilities in terms of interest rate and inflation. They form a liability hedge which improves the matching ability of the Scheme's assets (relative to liabilities). This should result in a smoother level of funding over time. The strategic position is that the liability hedge covers 80% of the asset value.

The Counterparty for the Liability Hedge shall have a long term rating of at least A2 from Moody's and A from S&P (or equivalent short term rating),

The assets of the Scheme to be used as Eligible Securities under the ISDA Master Agreement entered into with the Counterparty for the swaps comprising the Liability Hedge, shall be invested in securities, deposit accounts or funds of a liquid nature and high credit quality or directly with a Counterparty.

The manager is responsible for collateral management whereby the assets will be transferred to the Counterparty in accordance with the obligations under the Collateral Management Documentation.

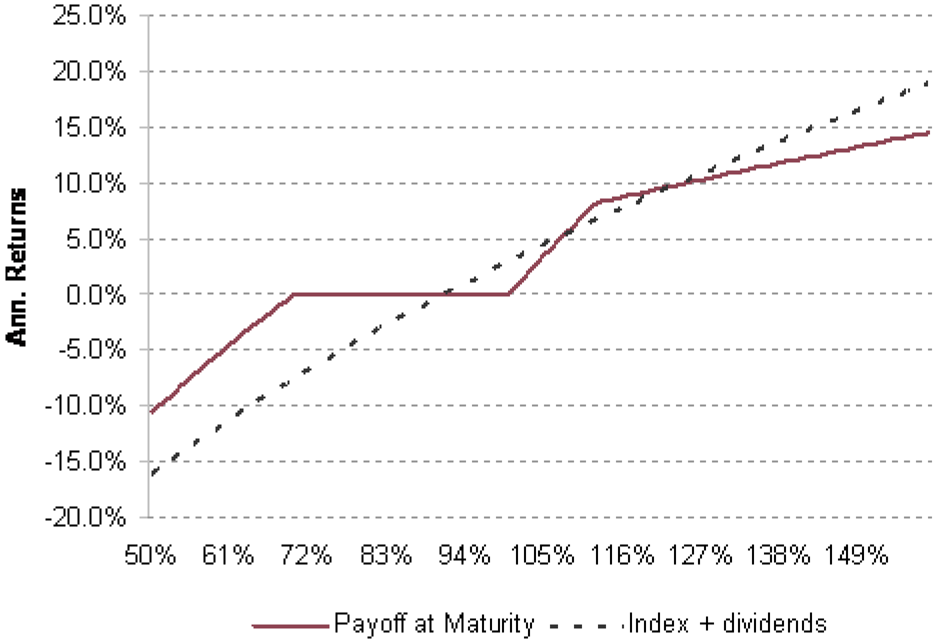
Any assets invested directly with a Counterparty above may not, immediately following a rebalancing of collateral, exceed the market value of the Liability Hedge Derivative Transactions with that Counterparty by more than 15%.

## P-Solve Investment Limited – Equity Derivative Overlay Structure

The EDOS was implemented with a 3 year term on the FTSE100 Index and at an initial index level of 5723.43 on 22 April 2010.

This means that the EDOS provides protection for the first 30% of market falls,(to an index level of the FSTE100 of 4006.4). On the upside, 2.175x gearing applies to market rises until the target of cash+6% p.a. has been achieved (at an index level of 6425.24, although this also depends on the value of cash returns over the period).

The chart below shows the pay-off profile that was achieved.




The diagram illustrates that the EDOS is expected to outperform the FTSE100 index (including dividends) if the index level at expiry is between 108% and 123% as well as below 91% and 21% (relative to the initial index level). This is assuming dividend payments on the FTSE100 are 3% p.a.

The manager is responsible for collateral management whereby the assets will be transferred to the Counterparty in accordance with the obligations under the Collateral Management Documentation.

## Legal & General Investment Management

| Asset Class | Central Benchmark Control % | Control Ranges ±% |
|---|---|---|
| North American Equities | 30.0 | 1.5 |
| North American Equities – GBP Hedged | 30.0 | 1.5 |
| European Equities | 10.0 | 1.5 |
| European Equities – GBP Hedged | 10.0 | 1.5 |
| Japanese Equities | 6.7 | 0.75 |
| Japanese Equities – GBP Hedged | 6.7 | 0.75 |
| Pacific Basin Equities | 3.3 | 0.75 |
| Pacific Basin Equities – GBP Hedged | 3.3 | 0.75 |
| Cash | - | - |
| | | |

The cash fund is managed separately to the Passive Equity funds.

**Description of Funds used**

**Japan Equity** - is invested wholly or predominantly in ordinary shares or in bonds carrying options to convert into ordinary shares. Such bonds and shares would be in companies registered in Japan. The intention of the Fund is to hold a portfolio of securities designed to match the return of the index of the FTSE World indices series relating to Japan within a specified tolerance. Futures may be used for cashflow management.

**North America Equity** - is invested wholly or predominantly in ordinary shares or in debenture and loan stocks carrying options to convert into ordinary shares.  Such stocks and shares would be in companies registered in the United States of America or Canada.  The intention of the Fund is to hold a portfolio of securities designed to match the return of the index of the FTSE World indices series relating to the United States of America and Canada within a specified tolerance. Futures may be used for cashflow management.

**Europe (ex-UK) Equity** - is invested wholly or predominantly in ordinary shares or in debenture and loan stocks carrying options to convert into ordinary shares.  Such stocks and shares would be in companies registered in the continental European (excluding the UK) countries.  The intention of the Fund is to hold a portfolio of securities designed to match the return of the index of the FTSE World indices series relating to continental Europe excluding the UK within a specified tolerance. Futures may be used for cashflow management.

**Asia Pacific (ex-Japan) Developed Equity** - is invested wholly or predominantly in ordinary shares or in bonds carrying options to convert into ordinary shares.  Such bonds and shares would be in companies registered in the Asia Pacific (excluding Japan) countries.  The intention of the Fund is to hold a portfolio of securities designed to match the return of the FTSE Asia Pacific (ex Japan) Developed Equity Index within a specified tolerance. Futures may be used for cashflow management.

**Cash Fund** - is invested wholly or predominantly in a range of high quality bank and building society deposits. The Fund's objective is to exceed the median return for Cash portfolios in the Cash section of the Russell/Mellon CAPS Pooled Pension Fund Survey over 12 months.

## Wellington Management International Ltd – Emerging Market Equity Mandate

The investment objective of the Portfolio is to seek long-term total return. The Portfolio will seek to achieve its objective by investing primarily in equity securities of companies that are either located in emerging markets, or conduct substantial business in emerging markets as described below.

Investments will be in a minimum of five countries. Typically, no one country will represent more than 35%.

The Portfolio typically will hold in excess of 80 companies. Total return, rather than income generation, will be emphasised.

The Portfolio may invest in any country which is considered to be a developing or emerging market by the World Bank or is represented in the MSCI Emerging Markets Index. The MSCI Emerging Markets Index is an unmanaged market index that is designed to measure equity markets performance in the global emerging markets. For temporary defensive purposes in case of unusual or extraordinary market conditions, the Portfolio may hold up to 100% of its assets in ancillary liquid assets.

The Portfolio will invest, either directly or indirectly, in equity securities and other securities with equity characteristics issued by entities having their seat or exercising a predominant part of their economic activities in an emerging market as determined above.

Each Portfolio may also hold ancillary liquid assets and may invest in ancillary liquid assets such as bank deposits and fixed or floating rate instruments. All such investments shall be of investment grade or, if unrated, be deemed to be of investment grade by the Investment Manager and may be denominated in any currency.

A Portfolio may invest in securities denominated both in GBP and other currencies. The Manager will seek to hedge the Dealing Currency against GBP but may hold currency on an opportunistic basis. It is expected that the extent to which such currency exposure will be hedged will, subject to the requirements and conditions of the Financial Regulator, range from 95% to 105% of the Net Asset Value of the relevant Hedged Share Class.

**Private Placements**

The Portfolio may hold private placements of freely Transferable Securities and restricted or unregistered freely Transferable Securities, the liquidity of which is deemed by the Manager to be appropriate but not more than 10% of the Portfolio's net assets will be invested in any such securities which are not listed or dealt on a market which is regulated, operating regularly, recognised and open to the public.

## Legg Mason Global Asset Management - Global Multi-Sector Fund

**Investment Objective**

To seek returns in excess of the benchmark as determined from time to time, primarily through investment in collective investment undertakings, which invest in global investment grade credit, mortgage backed securities, high yield and emerging markets fixed income and debt, traded in any geographical area or industry sector, and cash, as well as investment directly in those types of assets.

**Investment Policy**

The Manager (in conformity with the terminology of the Fund Prospectus) will primarily invest in collective investment schemes (including affiliated funds) which invest in the majority in eligible instruments indicated below. Investments in mortgage- backed securities, corporate bonds and fixed interest securities (investment grade, high yield and emerging market debt and fixed interest) will be done primarily through these collective investment undertakings. Exposure to these will likely constitute the majority of the Fund's assets.

The Manager may also invest directly in the following instruments if denominated in an eligible currency (which is the domestic currency of an Eligible Country, which is any country with a domestic sovereign debt rating of C minus or above):

- Sovereign obligations of Eligible Countries
- Provincial, state and agency issues of Eligible Countries, whether or not guaranteed or otherwise supported by sovereign or governmental credit
- Supranational issues of Eligible Countries
- Issues of corporations and financial institutions
- Mortgage-backed and asset-backed securities, either government or privately issued, including but not limited to pass-through certificates, Pfandbriefe, collateralised mortgage obligations, and stripped mortgage-backed securities; and including asset-backed commercial paper, whether fully or partly supported
- Money market instruments, including but not limited to certificates of deposit, commercial paper, time deposits and bankers' acceptances

**Investment Techniques**

Some or all of these Investment Techniques, and in particular the instruments listed below, may be used for hedging, efficient portfolio management, position management and investment purposes:

a) Futures on interest rates, fixed income securities, indices and currencies

b) Repurchase agreements, reverse repurchase agreements and buy/sell back agreements on Eligible Investments in Eligible Countries

c) Bond options and other options on Eligible Investments

d) Swaps on interest rates, fixed income securities, indices and currencies which may include total return swaps the total net commitment of which shall at no time exceed 100% of the Net Asset Value of the Fund

e) Currency forward and futures contracts such that the sum of net long currency exposures shall at no time exceed 130% of the Net Asset Value of the Fund.

The financial instruments listed under d) and e) above must be dealt on an organized market or contracted by private agreement with first class professionals specialized in this type of transactions. Please refer to the Prospectus, Section "Special Considerations and Risk Factors – Derivatives" for a description of the risks arising from these transactions.

Where Investment Techniques are used for hedging, these are used as a substitute for the buying or selling of physical securities to achieve liquidity, lower transaction costs, or when less expensive than physical securities

Investment Techniques are considered to be used for investment purposes when they do not hedge an existing quantifiable exposure or when they are not a substitute for an otherwise preferred physical security position

**Investment Restrictions**

The Fund shall observe the restrictions except those laid down in Section 1 a), b) and c) in the Prospectus and the following restrictions are complementary to and prevail over (where applicable) those laid down in the Prospectus in Section “Investment Restrictions”:

- All securities directly invested in by the Fund must carry a minimum long-term credit rating of C minus at the time of purchase. Credit ratings used in these guidelines are those given by Moody's, but in each case the equivalent rating from any other internationally recognised rating agency is also acceptable, and where such an agency has not given a rating, the security or issuer will also be acceptable if the Manager determines that it has a credit quality comparable to the Moody's rating cited.
- There is no exposure limit with respect to sovereign, semi-government, and supra-national issuers. Exposure to any other single issuer shall be limited to 10% of the net asset value of the Fund.

## PIMCO Europe Ltd. – Diversified Income Mandate

The Fund provides access to broad global credit market exposure by investing primarily in a diversified pool of corporate and emerging market fixed income securities of varying maturities. The Fund may hold up to 20% in Non-GBP currency denominated assets.

The Fund invests at least two-thirds of its assets in a diversified portfolio of Fixed Income Instruments of varying maturities. It may invest 100% in high yield securities subject to a maximum of 10% of its assets in securities rated lower than B by Moody’s or S&P (or, if unrated, determined by the Investment Adviser to be of comparable quality). In addition, the Fund may invest, without limit, in Fixed Income Instruments of issuers that are economically tied to emerging securities markets. At least 90% of the Fund’s assets will be invested in securities that are listed, traded or dealt in on a Regulated Market in the OECD.

The average portfolio duration of this Fund will normally be within two years (plus or minus) of the composite index.

## Baring Asset Management

This is a multi-asset dynamic asset allocation mandate with the following restrictions:

| Sector | Allocation Range % |
| --- | --- |
| Equities | 0-65 |
| Commodities | 0-30% |
| Bonds | 0-80% |
| Investment-Grade Corporate Bonds | 0-50% |
| High Yield | 0-15% |
| Emerging Markets | 0-15% |

| | |
|---|---|
| Property | 0-30% |
| Alternatives | 0-50% |
| Hedge Funds | 0-50% |
| Foreign Exchange | 0-40% |
| Cash/Near Cash | 0-25% |
| | |

In addition to the limits above there are the following further constraints:

- Equities & Commodities combined accounting for no more than 80% of the overall allocation
- Emerging Market Debt & High Yield combined adding up to no more than 20%.
- The Fund may not invest more than 10% of its value in the securities of any one issuer, provided that the sum of the individual holdings which make up more than 5% of the Fund is not greater than 40%. If the security in question is of sovereign grade, then this 10% restriction is raised to 50%, furthermore, the holding would not be subject to the 40% rule.
- The Fund may invest up to 80% of its assets in sovereign debt, but this is subject to the proviso that the Fund must hold securities from at least 6 different issues, and securities from one issue do not account for more than 30% of the total net assets of the Fund.
- In the case of fixed income securities which are not issued by governments or supranationals, and which have credit ratings of below AA. The Fund will not own more than 5% of any individual bond issue and not more than 5% of the debt of any individual bond issuer.
- The Fund's non-sterling exposure is limited to a maximum of 40%.

## UBS Global Asset Management - Property

**Investment Objective**

To invest in a diversified portfolio of properties that aims to deliver consistent outperformance of the HSBC/APUT "Pooled Property Fund Indices" All Balanced Funds Median.

**Investment Regulations**

- Gearing restricted to 50% of equity (current maximum 25% by agreement with National Australia Bank)
- Maximum 10% of capital assets in cash
- Unlet buildings restricted to 20% of the Fund
- 10% of the Fund may be invested in Europe
- Residential investment permitted