Mencap Pension Trustee Limited
Statement of Investment Principles

July 2023

Contents

The Mencap Pension Plan

Statement of Investment Principles – July 2023

1. Introduction

Mencap Pension Trustees Limited, as Trustee of the Mencap Pension Plan (the "**Trustee**" and the "**Plan**" respectively) have drawn up this Statement of Investment Principles (the "**Statement**") to comply with the requirements of the Pensions Act 1995 (the "**Act**") and subsequent legislation. The Statement is intended to affirm the investment principles that govern decisions about the Plan's investments.

In preparing this Statement, the Trustee has consulted the Royal Mencap Society (the "**Employer**") to ascertain whether there are any material issues, which the Trustee should consider in determining the Plan's investment arrangements. The Trustee seeks to maintain a good working relationship with the Employer and will discuss any proposed changes to the Statement with the Employer. However, the Trustee's fiduciary obligation is to the members of the Plan and will take precedence over the Employer's wishes.

2. Defined Benefit Section ("DB Section")

2.1 Investment Objectives

The primary objective of the Trustee is to invest the Plan's assets in the best interest of the members and beneficiaries. The Trustee has agreed to a number of objectives to help guide them in their strategic management of the assets and control of the various risks to which the Plan is exposed. The Trustee's objectives are as follows:

- Restore the funding position of the Plan on an ongoing basis to at least 100%;
- Ensure that the Plan can meet its obligations to the beneficiaries of the Plan;
- Achieve a return on the total Plan that is compatible with the Trustee's risk tolerance; and
- Pay due regard to the Employer's interest in the size and incidence of contribution payments.

2.2 Investment Management/Strategy

The strategic management of the DB assets is the responsibility of the Trustee, acting on expert advice. In 2016, the Trustee together with the Employer reviewed its investment manager. The Trustee concluded that the fiduciary management approach continues to be appropriate for the Plan and, having gone through an extensive tendering process, appointed Van Lanschot Kempen Investment Management(the "**Fiduciary Manager**") in March 2017. Van Lanschot Kempen Investment Management is regulated by the Financial Conduct Authority.

The day-to-day management of the main assets of the Plan is delegated to independent investment managers who execute the investment strategy under the direction of the Fiduciary Manager.

The Fiduciary Manager should consider the Trustee's overall objectives above and, in doing so, will give due consideration to relevant circumstances of the Plan including, but not limited to, the Employer's contributions policy, perceived strength of covenant, mortality and longevity experience, developments in the funding of the Plan from whatever cause, the tolerance for investment risk of the Trustee and the Employer, economic and market conditions and outlook, and ancillary objectives and requirements including the responsibilities of the Trustee to consider environmental, social and governance (ESG) factors (including climate change) and stewardship risks.

The Plan closed to future accrual with effect from 1 April 2009, having previously been closed to new members in 2002. Following the completion of the 2020 actuarial valuation, the Trustee, acting on advice from the Plan Actuary, agreed a new recovery plan. In January 2022, taking advice from their advisors, the Trustee executed a 'pensioner buy-in' contract with Canada Life, an insurance company; this essentially insures the financial equivalent of the benefits due to the majority of the existing pensioners at that time, providing added security and significantly reducing longevity risk within the Plan.

In considering appropriate investments for the Plan over time, the Trustee has obtained and considered the written advice of the Fiduciary Manager, who the Trustee believes to be suitably qualified to provide such advice. The Fiduciary Manager provides the Trustee with both Section 35 and Section 36 letters under the requirements of the Act (as amended).

The agreed investment objective is to target returns to achieve the long-term objective of being fully funded on a low-risk basis by 2028, with appropriate allowances for reducing risk and target returns as the funding level improves. Should there be a material change to the Plan's circumstances, the Trustee will review whether and to what extent the investment strategy should be altered.

The Fiduciary Manager should guide the Trustee in determining appropriate investment objectives, appropriate levels of investment risk, and designing an appropriate and diversified investment strategy. In addition, the Fiduciary Manager should advise/train the Trustee on new investment opportunities and emerging risks and periodically propose amendments to the investment strategy where appropriate. Investment Strategy advice should contribute to the Trustee's overall objective by way of either improved performance and/or of management of investment risk over the long term and be in accordance with the Trustee's investment beliefs. The Fiduciary Manager should work closely and openly with the Trustee's other professional advisers (such as the Scheme Actuary) when the Trustee's investment objectives are also key elements of their objectives.

The Fiduciary Manager determines the underlying asset allocation, from time to time, subject to the constraints agreed in advance with the Trustee, taking into considering the effects of the buy-in contract in place with Canada Life. The target asset allocation for the remaining assets managed by the Fiduciary Manager as at the effective date of this agreement is shown in the table below:

	TARGET WEIGHT (%)
Matching Portfolio	50.0 – 90.0
Return Portfolio	0-20
Alternatives Portfolio	10.0 – 50.0

The Trustee has further agreed that the Plan should aim to minimize the volatility of the funding level with respect to the liabilities. They have therefore agreed with the Fiduciary Manager a target hedge ratio of 85 – 100% with respect to interest rates and inflation risks stemming from the total liabilities.

The funding position is reviewed periodically by the Plan Actuary, with a full actuarial valuation at least every three years. The Trustee considers with the Professional Advisors whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the statutory funding requirement.

The Trustee delegates responsibility for the hiring, firing and ongoing monitoring of the Plan's investment managers to the Fiduciary Manager. Manager selection, therefore, should contribute to implementing the investment strategy of the Plan by way of either managing risk and/or achieving the long-term return expected.

VLK will monitor the performance of the investment strategy to ensure it continues to perform in a manner which is consistent with the agreed objectives and risk tolerances in alignment with the Trustee's investment policy.

This will include The Trustee's policy is to delegate to VLK the responsibility for the selection, appointment, monitoring and removal of the underlying investment managers.

VLK's role includes:

- Agreeing the terms of appointment for underlying managers;
- Putting in place fee arrangements which incentivise the manager to align its strategy to the Trustee's policies generally (to the extent possible);
- Monitoring the underlying investment managers, to ensure they continue to perform in a competent manner and have the appropriate knowledge, skills and experience to manage the assets of the Plan. ;
- Monitoring the extent to which the underlying investment managers (i) make decisions based on assessments about medium to long-term financial performance of an issuer of debt or equity; and (ii) engage with issuers of debt or equity in order to improve their performance in the medium to long-term; and
- Assessing the duration of any appointments of asset managers and, where appropriate terminating managers that are no longer aligned with the Trustee's investment strategy.

This will involve quarterly assessments against criteria such as strength of organisation and their operating capabilities, adherence to and the success of their designated strategies, and reviews of portfolio characteristics including responsible investment factors. VLK evaluates the performance of the underlying investment managers stated in the investment managers' performance objective against the Trustee's investment strategy and policies generally over an appropriate time horizon .

The Trustee, or any other suitably qualified adviser on behalf of the Trustee, will regularly review the activities of VLK to satisfy themselves that they continue to carry out their work competently and have the appropriate knowledge and experience to advise on and implement the agreed strategy. Typically, this is reviewed on an annual basis.

Arrangements are in place to monitor the continuing suitability of the Plan's investments. To facilitate this, the Trustee aims to meet periodically, but at least annually. The Fiduciary Manager will carry out an Annual Investment Review with the Trustee and provide quarterly Investment Management Reports. In addition, the Fiduciary Manager should provide training for the Trustee on current and emerging issues in the pensions and investments environment.

2.3 Risk Management and Measurement

All pension schemes are exposed to various risks. The over-riding risk of which the Trustee take cognisance is that arising through the mismatch between the Plan's assets and its liabilities.

In addition, the Trustee's policy on the management of other risks is as follows:

- The Trustee understands that the use of active, rather than passive, management introduces additional risk. Where active management is adopted, the Trustee considers the risk acceptable in the context of the Plan's overall investment risk profile.
- The Trustee recognises the advantages of diversification and, subject to managing the risk from a mismatch of assets and liabilities; the Fiduciary Manager aims to ensure that the investment plan in place results in an adequately diversified portfolio. To help diversify manager specific risk, the Trustee understands that the Fiduciary Manager may make multiple manager appointments within some asset classes.
- The Trustee recognises that there is a currency risk associated with holding securities denominated in foreign currencies, due to movements in exchange rates. The Fiduciary Manager will partially mitigate this currency risk as part of their investment strategy.
- The Trustee recognises that even if a portion of the Plan's assets are invested with the aim of matching the returns on the Plan's liabilities, there may still be a mismatch between the interest-rate and inflation sensitivity of the Plan's matching assets and the Plan's liabilities. This is due to the mismatch in duration between these matching assets and the actuarial liabilities, as the actuarial liabilities cannot be perfectly replicated in the financial markets.
- Investment in derivatives is permitted as long as it contributes to a reduction in risk, facilitates efficient portfolio management, or is otherwise permitted as part of the Plan's investment strategy.
- The Fiduciary Manager, Trustee, and administrator will seek to ensure that the Plan holds sufficient cash to meet the likely benefit outgo from time to time. The Plan's policy is that there should be sufficient investments in liquid or readily realisable assets to meet unexpected cash flow requirements in the majority of foreseeable circumstances so that realisation of assets will not disrupt the Plan's overall investment policy where possible.

- There are risks associated with actions of the Fiduciary Manager and the managers selected by the Fiduciary Manager. The Trustee will monitor the continuing suitability of the Fiduciary Manager.
- Responsibility for the safe custody of the Plan's DB assets is delegated to the Fiduciary Manager who have appointed Northern Trust Corporation ("**Northern Trust**") as custodian of the assets. The Fiduciary Manager is responsible for keeping the suitability of Northern Trust under ongoing review.

2.4 Stewardship and the Trustee's policy on financially material considerations and non-financial matters

The Trustee recognises its responsibilities as owners of capital, and believe that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments. The Trustee has delegated to their Fiduciary Manager and investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. The Trustee expects the Fiduciary Manager to exercise ownership rights and undertake monitoring and engagement in line with its own corporate governance policies and taking account of current best practice including the UK Corporate Governance Code 2018 and the UK Stewardship Code 2020.

The Fiduciary Manager supports and expects the underlying managers, who are regulated in the UK, to comply with the UK Stewardship Code 2020, including public disclosure of compliance via an external website. For an underlying manger to be appointed they must also abide by the Fiduciary Managers' Responsible Investment and Exclusions policy.

The Trustee will review annual reports on the voting undertaken by the underlying managers during the period to get assurance that it remains broadly consistent with the Trustee's view of good stewardship standards. However, the Trustee is conscious that the underlying manager may not be able to provide voting records for all investment held within certain pooled structures.

Since 2021, the Trustee has included information in the Annual Report of the Plan about how the stewardship policy has been followed and describing the voting behaviour on their behalf during the year.

The Trustee has considered how ESG, climate change and other ethical factors should be considered in the selection, retention and realisation of investments, given the time horizon of the Plan. The Trustee believe that if these factors are considered and managed within the investments the Plan holds, it is expected to produce better financial (and therefore member) outcomes.

In setting and implementing the Plan's investment strategy, the Trustee does not explicitly consider the views of Plan members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as non-financial factors).

The Trustee believes that ESG and climate change factors within an investment context can be financially material and that by considering these financial factors within the investment plan can yield different returns and/or risks. The Trustee also recognises that ESG factors, and particularly climate change factors, are more likely to influence risk adjusted returns over the long term.

Without prejudice to the Trustee's legal obligations, the Trustee delegates full discretion to the Fiduciary Manager around the evaluation of ESG and climate change factors within the investment process and assets. The Fiduciary Manager, who is responsible for the appointment and removal of the underlying investment managers, exercises discretion when evaluating ESG issues considering ESG related risks and making sure the investment strategy is aligned with the Trustee's investment policy and ESG beliefs.

The Fiduciary Manager has limited influence over underlying investment managers' investment practices where assets are held in pooled funds, but ESG factors and associated risks are managed because of the following:

- ESG criteria is assessed based on international conventions and initiatives, such as UN Global Compact and the Principles for Responsible Investment (PRI)
- All asset managers are screened against ESG criteria before inclusion in the fiduciary managers approved manager list. For example:
    - does the fund manager have a responsible investment policy?
    - is the manager open for a dialogue on ESG criteria? and
    - does the manager have exposure to companies that are on the fiduciary manager's exclusion list?
- All asset managers are reviewed against ESG criteria on an ongoing basis. For example:
    - are responsible investing considerations continue to be integrated into their investment process?
    - is the fund manager making progress?
    - is the fund manager well informed and up-to-speed of ESG criteria and initiatives?
    - screening of all underlying equity and debt securities during quarterly monitoring cycle to check for exclusion candidates.

- The Fiduciary Manager encourages their chosen managers to improve their practices where appropriate.
- The Fiduciary Manager uses a "Sector Avoidance Framework", which ensures exclusion of companies involved in the production, trade and maintenance of controversial weapons.

As a result, the Trustee is satisfied that the Fiduciary Manager is providing advice and implementation services that are aligned with the Trustee's investment policy and beliefs, and that a responsible approach is being taken which is consistent with the long-term financial interests of the Plan.

The Trustee includes a standing item on the agenda for the Trustee meetings to review the Plan's policies and progress concerning ESG and climate change factors, each year.

2.5 Actuary

The Plan's Actuary, XPS Pensions Group , performs a valuation of the Plan at least every three years, in accordance with regulatory requirements. The main purpose of the actuarial valuation is to assess the extent to which the assets cover the accrued liability and agree future Employer contributions.

2.6 Fee Structures

The Trustee recognises that the provision of investment management, dealing and advisory services to the Plan results in a range of charges to be met, directly or indirectly, by deduction from the Plan's assets.

The Fiduciary Manager levies a fee based on the value of the assets managed by the Fiduciary Manager, which covers the design, implementation, monitoring and annual review. In addition, the underlying investment managers also levy fees based on a percentage of the value of the assets under management. The fee rates are believed to be consistent with the managers' general terms for institutional clients and are considered by the Trustee to be reasonable when compared with those of other similar providers. Fees and costs are disclosed to the Trustee annually in line with the FCA's Cost Transparency Initiative format for the Total Cost of Ownership.

The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustee's view as to the most appropriate arrangements for the Plan. However, the Trustee will consider revising any given structure when it is considered appropriate to do so.

3. Defined Contribution Section ("DC Section")

3.1 Investment Objectives

The Trustee's main objectives are:

- To make available a range of investment options so members can choose an investment strategy tailored to their personal investment needs and attitudes;
- To encourage members to seek independent financial advice from an appropriate person in determining the profile of their own investments; and
- To regularly review the suitability of the options provided, including the default fund, and to change managers or introduce additional investment options when appropriate.

3.2 Investment Management

The Trustee are responsible for the appointment and performance monitoring of the investment managers for the Plan's DC Section. The DC Investment Consultant, Hymans Robertson LLP, supports the Trustee.

Since 1 April 2013, the assets of the DC Section consist of an insurance policy issued by BlackRock Life Limited, where the underlying management is delegated to individual investment managers. On 1 July 2018, BlackRock sold the DC Platform to Aegon. Therefore, currently, the Plan uses standard pooled funds offered by Aegon UK and the underlying managers. No changes to funds were made due to the transition from BlackRock to Aegon.

The Trustee has made a range of funds available to the members, so that they may reduce their concentration risk by choosing to invest in a well-diversified portfolio. The range of funds enables diversification:

- by asset class (equity, bonds, cash)
- by region (UK, overseas)
- by style of investment (ethical)
- within each asset class, by the use of diversified pooled funds

Due to the new pension freedoms that came into force from 6 April 2015, the Trustee reviewed the Plan and replaced the Lifestyle option with four new Lifestyle choices, from 1 June 2015, which are designed to align with the different ways members are able to take their DC account at retirement. As part of this review, the Trustee agreed that the Standard Income Drawdown Lifestyle Fund would be the default fund.

The Trustee reviewed the DC investment options again in 2017 to ensure they continue to be fit for purpose and are providing good value. Based on this review the Trustee agreed to update how the Mencap Diversified Growth Fund is invested and delay the start of de-risking in the four lifestyle strategies by 5 years, i.e., start 15 years before members' Target Retirement Age rather than 20 years. These changes came into effect on 30 March 2018.

The DC funds were reviewed again, and, on 23 March 2020, the Trustee agreed to change the make-up of the 30/70 Global Equity Fund to ensure better performance during the growth phase of the lifestyle cycle. The change involved replacing the current fund with a blend of 50% BlackRock MSCI Currency Hedged World Index Fund plus 50% Aegon Schroder Sustainable Multi-Factor Equity Fund. This blended fund has been named as the Mencap Global Equity fund and, due to the Covid-19 pandemic, was implemented later in the year, on 28 September 2020.

The Trustees brought forward the most recent investment strategy to June 2022. The outcome of this review resulted in the membership having access to 4 ESG funds (including the existing Ethical Fund) on a freestyle basis, strengthening the ESG element of the default strategy by including 100% ESG funds within the Global Equity Fund and Diversified Growth fund and changing the glidepath where de-risking starts to 10 years (rather than 15 years). These changes were implemented in November 2022.

3.3 Risk Management and Measurement

Any defined contribution pension scheme is exposed to various risks. The Trustee's policy on risk management of the Plan's Defined Contribution assets is as follows:

Funds offered

- The Trustee recognises the risks that may arise from the mismatch of members' investments and the cost of their retirement options including taking a retirement lump sum. The Trustee have made a range of asset classes available to members, so that members may tailor their portfolio to suit their individual needs and switch from higher risk assets (equities) into lower risk assets (cash and bonds) as they approach retirement, should they so choose.
- The Trustee has chosen to make a range of passive equity and bond funds available to members. The use of passive management reduces the risk of the investment manager underperforming the benchmark and is likely to be less costly than active management. The Plan's fund range also offers an actively managed diversified growth fund and a cash fund. The Trustee has considered the benefits of both styles of management and decided that there is likelihood that active management will add value within the diversified growth fund offering.
- The pooled funds through which the Trustee allows members to invest provide the required level of liquidity.
- The Trustee recognises that it is important that members' contributions can be invested promptly in selected investment funds and that these can be sold promptly, for example when members wish to change where they are invested, transfer to another arrangement or if they wish to draw on their pension pot. The Trustee manages this risk by selecting pooled investment funds, which can be dealt on a daily basis. Aegon is responsible for monitoring the ability for members to invest and disinvest promptly and is expected to notify the Trustee if a situation develops whereby there is any restriction on the ability for members to do so. For example, this situation could occur in the event of significant economic uncertainty affecting the ability for fund managers to value the underlying assets.

Financially material considerations

- The Trustee also recognises that the financial materiality of any factor, including ESG factors and climate risk, may be relevant to different degrees according to the asset class or classes in which a fund invests.
- The Trustee will consider financially material considerations, including ESG factors and climate risk in the development and implementation of the Plan's investment arrangements for the purposes of determining the selection, retention and realisation of investments where there is sufficient data or evidence to allow them to systematically do so.
- The Trustee will also seek to engage with the investment managers to ensure they consider such factors within their decision-making, and challenge where appropriate.
- The Trustee has considered the risk that the Employer may be unwilling or unable to continue to contribute to the DC Section in the future (sponsor risk). The Trustee concluded that this risk is low and that no further action is necessary to mitigate this risk, especially since this would only affect the accrued defined contribution benefits to the extent that any payments due had not yet been paid into the Plan.

Other Investment risks

- The Trustee will discuss the potential impact of climate risk with its adviser when reviewing the investment strategy and with managers on a periodic basis and will monitor developments in this area including the availability of solutions to mitigate climate-related risks.

3.4 Fund Options

The fund options offered to members of the DC Section are set out in detail in the Investment Guide issued to all members and prospective members.

Structure of the investment arrangements

The Plan invests contributions for members through Aegon's investment platform. Contributions buy units in the funds offered via the platform. Aegon, in turn backs the value of its funds by buying units in funds from a selection of fund managers where investments are pooled with other investors. This enables the Plan to invest in a range of funds giving a good spread of investments in a cost-effective manner.

The Plan's assets, and the Trustee's contract with Aegon, is the policy of insurance issued by the provider. As a result, the Trustee does not have any contractual arrangement with the investment managers or title to the underlying funds' assets.

Selection of funds

The Trustee will invest in funds on the Aegon platform, which in turn invest in the investment managers' pooled funds. The objectives of the funds and the policies of the investment managers will be evaluated by the Trustee to ensure that they are appropriate for the needs of the Plan.

The Trustee agreed a set of investment beliefs in November 2020 and, in the future, will work with Aegon to obtain funds which meet these criteria. Whilst the Trustee believes that investment beliefs are expected to improve outcomes for members, it recognises that this is subject to being commercially viable for the provider and consistent with the charge cap for the default arrangements. The Trustee expects Aegon to encourage the investment managers to adopt appropriate practices for responsible investment and shareholder engagement.

The Trustee's choice of funds, and hence choice of approaches to aspects such as responsible investment and shareholder engagement, are constrained by the choice of funds available on the Aegon' platform. While the Trustee will endeavour as far as possible to select a platform provider and funds on that provider's platform which are consistent with the Plan's investment objectives and investment beliefs, this needs to be balanced against the wider benefits of access to other funds on the platform and the other services from the platform provider as well as taking into consideration the costs of change to the Plan and its members.

The Trustee will periodically review the choice of platform provider, at which time the suitability of the provider's fund range and effectiveness of its governance of the investment managers on its platform will be key criteria.

Manager incentives

The basis of remuneration of the investment managers by the platform provider may be subject to commercial confidentiality, however, the Trustee will seek transparency of all costs and charges borne by members. Nevertheless, the Trustee expects that it will be in the interests of both the platform provider and the investment managers on the provider's platform to produce growth in asset values in line with the funds' investment objectives. For passively managed funds, this should be within an acceptable margin of the index the fund tracks. For actively managed funds, the investment return should be commensurate with the level of investment risk implied by the fund's objectives.

When selecting funds, the Trustee will ask its investment advisor to consider the investment managers' remuneration strategies, appropriateness of each fund's investment guidelines to ensure that there is no inducement or scope to take an undue level of risk, and that the investment managers will act in line with the interests of the Plan's members.

In accordance with the 2015 Regulations, the Trustee conducts an annual Value for Members assessment and will act should the provider be found to be giving poor value. In addition, in accordance with guidance from the Pensions Regulator, the Trustee will periodically review the Plan's choice of provider to ensure their charges and services remain competitive. The Trustee believes that these steps are the most effective way of incentivising the provider to deliver Value for Members, of which investment management charges and investment performance are key considerations.

The Trustee also undertakes a review at least every three years in which the appropriateness of the investment options at which time the suitability of the Plan's investment management arrangements is also considered.

The Trustee monitors the investment managers against a series of metrics on a quarterly basis and over a long-term time horizon of 3 to 5 years including:

- Short term performance and since inception of their funds' respective benchmarks or performance targets;
- Relative tracking error where appropriate;
- The exercise of stewardship responsibilities (including engagement with issuers); and
- The management of risks.

Aegon or investment managers are expected to provide explanations for any significant divergence from a fund's objectives. A material deviation from performance and risk targets or approach to portfolio management is likely to result in the fund being formally reviewed.

Portfolio turnover

The Trustee does not expect investment managers to take excessive short-term risk and will monitor the investment manager's performance against the benchmarks and objectives on a short, medium and long-term basis.

For passively managed funds the turnover of holdings is driven by changes in the index a fund seeks to track and hence is outside the control of the investment manager (except where a fund's total assets under management are relatively small where the investment manager does not fully replicate the index or where a fund invests in less liquid stocks). When selecting actively managed funds, the Trustee will consider, with the help of its investment advisers, the expected level of turnover commensurate with a fund's investment objectives, the investment manager's investment processes and the nature of the fund's assets.

Whilst the Trustee expects performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustee will ask the investment platform provider or investment managers to report on at least an annual basis on the underlying assets held within the fund with details of any transactions and turnover costs incurred over the Plan's reporting year. The Trustee will seek to compare portfolio turnover and the resultant costs against peer groups or portfolio turnover and costs for an appropriate index. Where a fund has significantly under or outperformed its benchmark, the Trustee will seek to ascertain where necessary whether higher or lower than normal turnover has been a contributory factor. The Trustee will challenge the platform provider and/or investment managers if there is a sudden change in portfolio turnover or if the level of turnover seems excessive.

Portfolio duration

The Trustee recognises the long-term nature of defined contribution pension investments and chooses funds that are expected to deliver sustainable returns over the members' investment horizon. The Trustee will carry out necessary due diligence on the underlying investment decision making process, to ensure the manager makes investment decisions over an appropriate time horizon aligned with the objectives for the related investment option.

The Trustee expects that each fund will be used for at least three years, this being the period over which performance of the fund can be appropriately evaluated and the costs of change amortised. However, all funds are subject to ongoing review against various financial and non-financial metrics in addition to their continued appropriateness within the investment strategy.

3.5 Default Arrangement

Reasons for the Default Arrangement

The Trustee has decided that the Plan should have a default investment arrangement because:

- The Plan is a qualifying scheme for auto-enrolment purposes and so must have a Default Arrangement;
- It should be easy to become a member of the Plan and start building retirement benefits without the need to make any investment decisions; and
- A majority of the Plan's members are expected to have broadly similar investment needs.

Objectives for the Default Arrangement

The main objective of the Default Arrangement is to provide a suitable investment strategy to help deliver good member outcomes at retirement.

The Trustee believes that it is in the best interests of the majority of members to offer a Default Arrangement which:

- Manages the main investment risks members face during their membership of the Plan;
- Gives good member outcomes at retirement by maximising investment returns relative to inflation while taking an appropriate level of risk for the majority of members who do not make investment choices; and
- Reflects members' likely benefit choices at retirement.

Choosing the Default Arrangement

The Trustee believes that understanding the Plan's membership is essential to designing and maintaining a Default Fund, which meets the needs of the majority of members.

The Trustee has considered a number of aspects of the Plan's membership including:

- The age and salary profile;
- The level of income in retirement that members are likely to need; and
- Members' likely benefit choices at and into retirement.

3.6 Expected Return

The funds in the DC Section are expected to achieve returns in line with their respective performance objectives as set out in the Investment Guide.

3.7 Additional Voluntary Contributions ("AVCs")

Under the terms of the Trust Deed, the Trustee are responsible for the investment of AVCs paid by members. The Trustee reviews the investment performance of the chosen providers on a regular basis and take advice as to the providers' continued suitability.

Assets in respect of members' AVCs under the DB Section are invested in a range of 'with profits' and 'not with profits' investment options with Standard Life. These AVC arrangements will be reviewed periodically to ensure that the investment profile of the options available remains consistent with the objectives of the Trustee and the needs of the members.

In late 2014, the Trustee of the Plan reviewed the AVC arrangement and have introduced the Standard Life Money Market Pension Fund, from 1 June 2016, under this policy. The Trustee has introduced this fund to ensure that members, if they wish to, can de-risk into a cash type fund as they approach retirement in order to protect their tax-free cash entitlement. A review is currently underway and will be concluded by the end of 2021.

AVCs paid under the DC Section are invested in pooled funds within the Aegon DC Platform.

3.8 Realisation of Investments

The investment managers have discretion in the timing of realisation of investments, and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation and pooled fund prospectuses.

Conflicts of interest

When appointing platform providers and choosing investment managers' funds on the provider's platform, the Trustee will seek to establish that the platform provider and each investment manager has an appropriate conflicts of interest policy in place. This includes any provisions to disclose any potential or actual conflict of interest in writing to the Trustee.

When given notice the Trustee will consider the impact of any conflicts of interest arising in the management of the funds used by the Plan.

Responsibility for investment decisions has been delegated to the investment managers, which includes consideration of the capital structure of investments and the appropriateness of any investment made. Where managers are investing in new issuance, the Trustee expects the investment manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors.

The Trustee will consider any conflicts of interest arising in the management of the funds used by the Plan and will ensure that the platform provider and each investment manager has an appropriate conflicts of interest policy in place. Platform providers and investment managers are required to disclose any potential or actual conflict of interest in writing to the Trustee.

3.9 Responsible Investment and Corporate Governance

The Trustee apply the same principles regarding Responsible Investment in respect of the DC Section. The Plan uses standard pooled funds offered by Aegon and the underlying managers. This gives access to a range of funds while keeping down costs to members. The Trustee seek to manage financially material considerations to protect long-term returns.

For all funds, the Trustee expect the fund managers to engage with companies, in which the fund invests in order to encourage business strategies, including RI issues, which should improve or protect the value of those investments.

Aegon applies ESG principles through the fund managers of the funds available to members and has integrated them into its governance process when selecting both managers and funds. It requires that all fund managers must apply the UK Stewardship code and unless exceptional circumstances apply, are signatories to the UN Principles for Responsible Investment (UN PRI). The Stewardship code embodies a set of principles that set out how a manager should discharge its stewardship responsibilities. UN PRI works to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. The Trustee will expect that Aegon ascertain that managers will actively engage with companies on business strategies and performance, including ESG concerns and use shareholders power to influence positively corporate behaviour. The Trustee will also expect that Aegon has assessed those managers will have integrated climate and other ESG risk factors into their investment process and be able to explain fully how it influences their investment decisions.

The Trustee does not engage directly in voting but believe it is appropriate that Aegon engages with its fund managers to ensure the UK Stewardship code is followed and how ESG factors are considered in their investment decisions. On an annual basis, the Trustee will request that Aegon and fund managers provide details of any change in their house policy as well as expect them to evidence their own governance practices on request.

The Trustee expects Aegon to monitor adherence of their investment managers to stated voting and engagement policies, engage with managers where concerns are identified and report on these issues. The Trustee receives reports from Aegon on the fund managers' voting activity on a six-monthly basis. The Trustee will monitor the fund managers voting activity on a periodic basis. The Trustee will also periodically review the fund managers voting patterns and may monitor voting on particular companies or issues affecting more than one company.

The Trustee aims to meet with all major fund managers (funds that the majority of members invest in) on a periodic basis. The Trustee will provide the fund managers with an agenda for discussion, including issues relating to individual holdings voting record and, where appropriate, ESG issues. Managers are challenged both directly by the Trustee and by their investment advisers on the impact of any significant issues including shareholder voting record, conflicts of interests and, where appropriate, ESG issues that may affect the prospects for return from the portfolio.

The Trustee does not currently explicitly consider members' views when selecting the investment options. However, the Trustee does expect that the investment options available are suitable for most Plan members.

Aegon Asset Management is a signatory to the Principles for Responsible Investment (PRI), receiving its top rating of A+.

3.10 Fee Structures

Within the DC section, Aegon levies a fee based on a percentage of the value of the assets under management for each of the funds. The Trustee negotiated a fee reduction on all the funds from 30 April 2018. There was a further reduction to the Diversified Growth Fund, which came into effect from 23 August 2021. The revised TER for the funds currently in place range from 0.37% to 0.83%.

AVCs of the DB Section are held with Standard Life. The fees levied are based on a percentage of the value of the assets under management for each of the funds and the total annual fund charges for the funds are between 1.009% and 1.75%.

4. Compliance with this Statement

The Trustee monitors compliance with this Statement annually and will obtain confirmation from the investment managers that they have complied with it so far as reasonably practicable and that in exercising any discretion the investment managers have done so in accordance with Section 4 of the Occupational Pension Plan (Investment) Regulations 2005.

5. Review of this Statement

The Trustee will review this Statement at least once every three years and immediately after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustee reasonably believe to be qualified by their ability in and practical experience of financial matters and have the appropriate knowledge and experience of the management of pension scheme investments.

Sally Pococke
Chair of the Board of Trustees
Mencap Pension Trustee Limited
31 July 2023