

Industry-Wide Coal Staff Superannuation Scheme ('the Scheme')

Appendix I to Statement of Investment Principles

The Appendix sets out the Trustee's current investment strategy and is supplementary to the Statement of Investment Principles (the Statement') and may be updated from time to time without updating the Statement. The effective date of the Appendices is October 2021.

1. Asset Allocation Strategy

Individual Sections of the Scheme are categorised from 1 to 4 based on the outcome of their Actuarial Valuation discussions. Sections assigned to Category 1 are deemed to have the greatest capacity to take risk, with this capacity diminishing as the category number increases. Sections assigned to Category 4 are deemed to have the lowest capacity to take risk.

Growth and Matching Split

The assignment to a category dictates a Section's default allocation between assets defined as growth and matching. Within a category an individual Section has certain scope to 'flex' this split within pre-defined ranges as illustrated in the table below.

Table 1: Default and Ranges for Growth and Matching Split by Actuarial Valuation Category

Category	Default Allocation		Maximum 'flex' allocation	
	Growth	Matching	Growth	Matching
1	70%	30%	90%	10%
2	50%	50%	70%	30%
3	25%	75%	50%	50%
4	0%	100%	25%	75%

Growth Allocation – Asset Split

The growth allocation targets a return of 4% p.a. above cash and is consistent with the Actuarial Valuation assumptions. A growth portfolio manager has been provided with discretion to invest in the following asset classes (excluding Property) within the stated ranges:

LGIM – Asset Class Restrictions

Asset Class Restrictions (% of Portfolio)	Minimum	Maximum
Equities	0%	50%
Listed Alternatives	0%	15%
Developed market sovereign and corporate bonds	0%	35%
High Yield bonds & EM Debt	0%	20%
Commodities	0%	5%
Absolute return funds	0%	35%
Other	0%	10%

A standalone UK property mandate is managed outside of the growth portfolio manager.

Matching Allocation - Asset Split and Hedging Approach

The Matching Allocation asset split is based on each individual Section's liability duration and Category.

- **Category 4 Section** – Must target a weighted average asset duration* equal to 100% of its individual Section Technical Provision liability duration*
- **Category 3 Section** – Must target an asset duration* equal to 90% of its individual Section Technical Provision liability duration*
- **Category 2 Section** – Must target a weighted average asset duration* equal to 95% of its individual Section Technical Provision liability duration*
- **Category 1 Section** – Must target an asset duration* equal to 100% of its Technical Provision liability duration* or, if this is not possible, the maximum possible duration* it can achieve from its Matching Allocation

*Duration is a measure of the sensitivity of the price to a change in interest rates

The following assets are used to build a Matching Allocation.

- Sterling Liquidity Fund
- All Stocks Index Linked Gilt Fund
- Profile Liability Driven Investment ('LDI') Fund

2. Investment Management Arrangements

The following describes the mandates given to the fund managers within each asset class.

Asset Class	Manager	Fund	Benchmark	Target
Growth Assets				
Growth portfolio	LGIM	Discretionary Growth Portfolio	Sterling Overnight Index Average	Outperform the benchmark by +4% p.a. (net of fees) over the long-term
UK Property	BlackRock	UK Property Fund	IPD UK All Balanced Property Fund	Outperform the index
Matching Assets				
Index-linked Gilts	LGIM	All Stocks Index-Linked Gilts Fund	FTSE-A Index Linked (All Stocks) Index	Track the index
Liability Driven Investment	LGIM	Long Real Matching Core Fund	Generic Liability Profile	N/A
Cash	LGIM	Sterling Liquidity Fund	7 Day LIBID	Provide capital stability, liquidity and diversification while providing a competitive level of return

3. Fee Structure for Advisers and Managers

3.1 Advisers

The Trustee's investment advisers are paid for advice received on the basis of the time spent by the adviser, with the exception of agreed core services which are covered under a fixed fee agreement. For significant areas of advice (e.g. one off special jobs, or large jobs) the Trustee will agree a project budget.

These arrangements recognise the bespoke nature of the advice given and that no investment decisions have been delegated to the adviser

3.2 Investment Managers

LGIM are remunerated based on the asset under management within the discretionary growth portfolio. The fees levied are broken down into underlying pooled fund fees and a separate fee for discretionary management of the assets.

BlackRock charge an all-in fee based on assets under management.