

Industry-Wide Coal Staff Superannuation Scheme

Statement of Investment Principles for the Mines Rescue Service Limited Defined Contribution Section default arrangement

This document, effective from 31 March 2017, describes the investment principles governing decisions about the default investment strategy adopted by the Mines Rescue Service Limited Defined Contribution ('DC') Section of the Industry-Wide Coal Staff Superannuation Scheme (the Scheme), funds, as required by the Occupational Pension Schemes (Investment) Regulations 2005.

The Trustee has a separate Statement of Investment Principles for the Defined Benefit Sections of the Scheme.

In preparing this Statement the Trustee has obtained and considered relevant advice from its professional advisers, Aon Hewitt Limited.

Aims & Objectives

The Trustee has designated a default investment strategy for members of the DC Section who do not make their own investment decisions.

The Trustee has designated an investment strategy designed by Legal & General as the default investment strategy and has no influence on the investment aims of each underlying fund or how the investment managers choose the underlying investments within the fund, as the assets are pooled with many other investors to obtain economies of scale. The Trustee can designate an alternative Legal & General investment strategy as the default at any time if it sees fit.

When selecting the default investment strategy for the DC Section, the Trustee considered the following:

- The need for appropriate diversification of asset classes.
- The suitability of each asset class for a defined contribution scheme
- The differing investment priorities for members, depending upon their term to retirement
- The format in which members are deemed likely to access their benefits

In setting and implementing the DC Section's investment strategy the Trustee does not explicitly take into account the views of Scheme 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"¹).

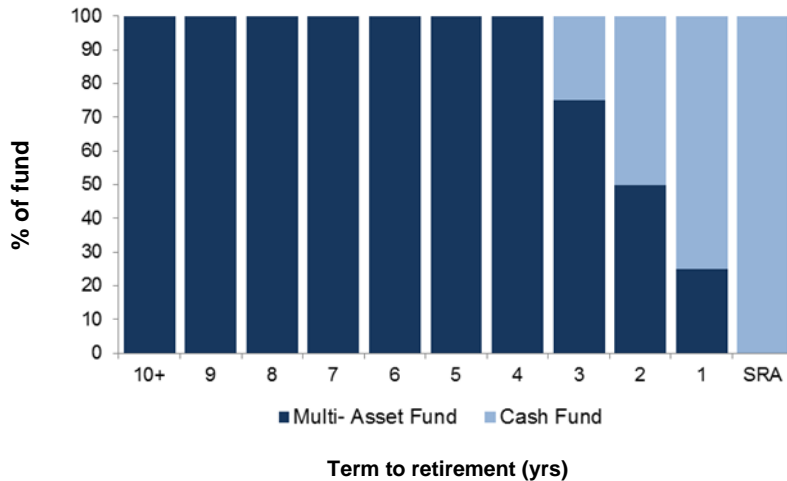
The key aim for the default investment strategy is to provide an investment approach that is suitable for meeting members' long and short-term investment objectives, considering the differing investment priorities for members depending upon their term to retirement and the format in which members are deemed likely to access their DC benefits.

Members who are a number of years from retirement can withstand the volatility associated with a higher allocation to equities as their fund has sufficient time to recover stock market losses. The default investment strategy therefore aims to provide members with potential for higher levels of growth during the accumulation of their retirement savings through exposure to growth assets, whilst spreading risk by investing in a range of asset classes.

From three years before selected retirement age, funds are gradually switched to cash to reduce the risk of volatility on the fund and to target the format in which the Trustee expects members to access their DC benefits i.e. as a cash lump sum.

The structure of the default investment strategy is shown in the chart overleaf:

¹ The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.



Risk

DC members accrued final salary benefits in the Scheme before the Mines Rescue Service Section changed to DC accrual. The Trustee recognises the key risk is that DC members will build up a fund value that does not meet their expectations.

The Trustee considers the following sources of risk:

- **Risk of unsuitability of default investment strategy** – the risk that the default investment strategy will be unsuitable for the requirements of some members. The Trustee seeks to mitigate this risk by regularly reviewing the suitability of the default investment strategy, in view of the format in which members can take their DC benefits, and investment options available at the time.
- **Market risk** –the value of members' policies in the DC Section fluctuate with the movement in the underlying asset values. This means that, at a member's retirement, there is a possibility that the fund will have to be realised to provide retirement benefits when the value of underlying assets has fallen. The default investment strategy automatically switches into lower risk funds as members approach retirement with the aim of reducing volatility.
- **Manager risk** - the failure of the fund managers to meet their objectives. The Trustee has sought to minimise this risk by using passively managed funds wherever feasible in the default investment strategy.
- **Inflation risk** – the absolute return on investments, and hence the value of the members' policy may be diminished by inflation. To help mitigate this risk, a significant proportion of the fund used during the growth phase invests in equities with the aim of providing real growth (in excess of inflation) over the long term.
- **Environmental, social and governance risks including climate change** - these risks may negatively impact the value of members' policies if not understood and evaluated properly. The Trustee accepts that the assets invested in the default investment strategy are subject to Legal & General's own policies on environmental, social and governance factors. The Trustee considers this risk by taking advice from its investment adviser when reviewing the default investment strategy.
- **Operational risk** - the risk of fraud, poor advice or acts of negligence. The Trustee has sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced.
- **Annuity purchase risk** – the default investment strategy switches to cash as members approach retirement because the Trustee expects most members to take their DC funds as a cash lump sum. If members choose to use their DC funds to purchase an annuity, annuity rates may be more expensive than anticipated and the Cash Fund is unlikely to provide protection against changes in annuity rates.

Due to the complex and interrelated nature of these risks, the Trustee considers these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review.

The Trustee's policy is to monitor these risks regularly, where possible. The Trustee receives reports from Legal & General on a quarterly basis showing the performance of the funds in the default investment strategy, compared to their benchmarks.

Implementation

The DC assets of the Scheme are invested in an insurance policy issued by Legal & General Assurance Society Limited ('Legal & General'). Legal & General is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Investment in the insurance contract is under the control of the Trustee and it is the Trustee's policy to review the investments and to obtain written advice about them periodically.

In accordance with the Financial Services and Markets Act 2000, the Trustee is able to set general investment policy, but has delegated this and all day-to-day decisions about the investments that fall within each mandate, including the realisation of investments, to Legal & General and the relevant fund managers through a written contract. Legal & General and the investment managers shall provide the skill and expertise necessary to manage the investments of the DC Section competently.

When choosing investments, the Trustee, Legal & General and the fund managers (to the extent delegated) are required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 (regulation 4).

The managers' duties also include taking into account social, environmental or ethical considerations in the selection, retention and realisation of investments and voting and corporate governance in relation to the Scheme's assets.

As part of their delegated responsibilities, the Trustee expects Legal & General and the fund managers to:

- engage with investee companies where appropriate with the aim to protect and enhance the value of assets; and
- exercise the Trustee's voting rights in relation to the DC Section's assets. The investment objectives¹ for each fund used in the default investment strategy are set out below.

Fund	Benchmark	Total Expense Ratio (% p.a.)	Investment objective
Legal & General (PMC) Multi-Asset Fund	ABI Mixed Investments 40-85% shares sector average	0.50	To provide long-term investment growth through exposure to a diversified range of asset classes.
Legal & General Cash Fund	ABI Money Market sector average	0.47	To provide capital protection with growth at short term interest rates.

¹ as at 31 March 2018

Governance

The Trustee is responsible for the investment of the Schemes' DC assets. The Trustee takes some decisions itself and delegates others. When deciding which decisions to take itself and which to delegate, the Trustee has taken into account whether it has the appropriate training and expert advice in order to make an informed decision.

Reviewing the Default Investment Strategy

The Trustee policy is to review the suitability of the default investment strategy every three years or without delay after any significant change in investment policy or the demographic profile of the membership.

Signed on behalf of the Trustee of the Industry-Wide Coal Staff Superannuation Scheme

**J M STORER
SECRETARY TO TRUSTEE**
