

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 July 2020.

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.

The Growth Allocation is split across the following asset classes:

- Property
- Passive Global Equities
- Multi Asset Credit
- Diversified Growth Funds

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*
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- **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				
Global Equities	LGIM	Equity Index Funds	See table below	Track the index
Multi Asset Credit	PIMCO	Diversified Income Duration Hedged	1/3 each JPM EMBIG / BofA ML Global HY BB ex EMD / Barclays Global Credit ex EMD. Duration hedged, FX hedged	+ 1.0 – 1.5% p.a.
Diversified Growth Fund	Invesco	Global Targeted Return	3 Month GBP Libor	+5% p.a. on a rolling 3 year basis (gross of fees)
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.

LGIM - Strategic Equity Benchmark Allocation

Fund	Strategic Allocation
UK Equities	30%
North American Equities	26%
<i>GBP Hedged</i>	13% (50%)
<i>Unhedged</i>	13% (50%)
European (ex UK) Equities	22.5%
<i>GBP Hedged</i>	11.25% (50%)
<i>Unhedged</i>	11.25% (50%)
Japanese Equities	8.50%
<i>GBP Hedged</i>	4.25% (50%)
<i>Unhedged</i>	4.25% (50%)
Asia Pacific (ex Japan) Equities	4.50%
<i>GBP Hedged</i>	-
<i>Unhedged</i>	4.50%
World Emerging Markets	8.50%
<i>Unhedged</i>	8.50%

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

For passive mandates, or mandates where the manager is seeking to add incremental value in excess of the performance benchmark, the investment manager is remunerated as a set percentage of the assets under management. This is in keeping with market practice.

3.3 Summary of Investment Management Fee Arrangements

Manager	Fee Scale (%pa)	Performance Fee (%pa)
LGIM	UK Equity – 0.05%	
	North America Equity – 0.10%	
	North America Equity (GBP Hedged) – 0.125%	
	Europe (ex UK) Equity – 0.125%	
	Europe (ex UK) Equity (GBP Hedged) – 0.15%	
	Japan Equity – 0.125%	
	Japan Equity (GBP Hedged) – 0.15%	
	Asia Pac (ex Japan) Developed – 0.125%	
	World Emerging Markets – 0.45% on first £5m; 0.35% on £5m - £10m; 0.30% over £10m	
	Gilts Index Linked All Stocks – 0.03%	
	Sterling Liquidity – 0.10%	
	Matching Core Real Long – 0.21% on the first £25m; 0.17% over £25m	
PIMCO	0.69%	-
Invesco	0.55% Fixed Fee	-
	0.10% of the Excess Return Performance Fee	-
BlackRock	1.00%	-