

STATEMENT OF INVESTMENT PRINCIPLES

The effective date of this Statement is 10 September 2020

1. Introduction

The purpose of this Statement of Investment Principles (“**Statement**”) is to document the investment principles governing decisions by the NFU Staff Pension Trust Company Limited (the “**Trustee**”) about investments for the purposes of the NFU Staff Pension Scheme (the “**Scheme**”).

Regulations require trustees and managers to exercise their investment powers in a manner to ensure the security, quality, liquidity and profitability of a scheme’s investments. This includes investing in a manner which considers, and is appropriate to, the nature and duration of the expected future retirement benefits of the scheme; having regard to the need for diversification in the choice of investments for the scheme, making sure that the scheme assets are invested mainly in regulated markets and limiting any investments in the employer’s business.

The Trustee is responsible for setting the investment strategy of the Scheme and has delegated the day-to-day management of the Scheme’s assets to the Scheme’s Fiduciary Manager (the “**Fiduciary Manager**”) under an Investment Management Agreement (“**IMA**”).

The Fiduciary Manager is authorised and regulated by the Financial Conduct Authority under the Financial Services and Markets Act 2000.

This Statement has been prepared in accordance with Section 35 of the Pensions Act 1995, as amended by the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005.

2. Consultation and Advice

The Trustee is responsible for the investment strategy of the Scheme. It has obtained and considered advice on the investment strategy appropriate for the Scheme and on the preparation of this Statement.

The Trustee has decided to invest the Scheme’s assets in a fiduciary management arrangement. Under this arrangement, the Trustee, following advice from the Fiduciary Manager, set specific funding objectives for the Scheme and investment guidelines, with the Fiduciary Manager providing the day-to-day management of the assets in order to achieve these objectives within the guidelines specified.

The Trustee has consulted the NFU (the “**Sponsor**”), the Principal Employer, on this Statement and have taken the Sponsor’s comments into account when appropriate to do so.

Upon request, a copy of this Statement is available to the members of the Scheme.

3. Objectives

The investment objective is set in relation to the cash flows that will be paid to members from the Scheme in each future year, and is based on a self-sufficiency measure of liabilities which takes into account the Scheme’s overall objectives.

The Trustee's objective is to be 'fully funded' on the agreed measure of liabilities which is "gilts + 0.5% per annum". The aim is to achieve this by taking the minimum amount of investment risk which, when coupled with the Schedule of Contributions agreed with the Sponsor, will achieve this objective over an appropriate timeframe, with a view to minimising the likelihood of calling on the Sponsor for additional contributions.

The risk-free measure used is derived from yields on gilts and inflation-linked gilts, being financial instruments, which can appropriately match the profile of the expected benefit payments. Any excess return assumed is based on the assets invested in and the overall objectives and targets and reflects the level of risk the Trustee is comfortable with, given the covenant of the Sponsor.

The Trustee will periodically reconsider their investment objectives throughout the life of the Scheme to ensure they remain appropriate at any given point.

The Scheme's specific objectives are described in the Appendix to this Statement.

4. Investment Strategy

The Trustee and the Fiduciary Manager review the investment strategy regularly, based on the most up to date Scheme liability information and the Fiduciary Manager's most recent capital market assumptions.

The investment strategy is framed in terms of a target return relative to the Scheme's liabilities (on the agreed measure described in 3.), which is required to reach full funding by the target date. The appropriate target return at any given point over the expected journey is based on the Scheme's funding level at that point in time.

The investment strategy also encompasses a target proportion of liabilities to match (or "hedge"). The greater the proportion of liabilities hedged, the lower the expected variation in funding level, and hence the lower the funding level risk.

Further detail on the Scheme's specific investment strategy is contained in the Appendix to this Statement.

5. Investment Choice

The types of investment held and the balance between them is adjusted as necessary to meet the objectives of the Trustee. To achieve these objectives, the Scheme's assets are invested in a combination of return-seeking ("growth") assets and liability hedging ("matching") assets.

The assets of the Scheme are invested in the best interests of the members and beneficiaries and in the case of a potential conflict of interest, in the sole interests of members and beneficiaries.

The Trustee delegates its powers of investment to the Fiduciary Manager in a manner that is expected to ensure the security, quality, liquidity and profitability of the investment portfolio as a whole. The assets of the Scheme are invested predominantly on regulated markets (with investments not on regulated markets being kept to a prudent level) and properly diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings, so as to avoid accumulations of risk in the portfolio as a whole. The diversification is both within and across the major asset classes.

Assets held to cover the Scheme's liabilities are invested in a manner appropriate to the nature and duration of the expected future liabilities payable by the Scheme, but recognising also the funding objective's necessary return requirement.

Investment in derivatives are only made in so far as they contribute to the reduction of investment risks or facilitate efficient portfolio management and are managed as such to avoid excessive risk exposure to a single counterparty or other derivative operations.

The balance between different kinds of investments

The Trustee recognises that the key source of financial risk (in relation to meeting their objectives) arises from the level of target return needed to achieve the objective and the level of liability hedging that is affordable.

To this extent, the Trustee has agreed the target return and liability hedge ratio with the Fiduciary Manager, and as appropriate will agree how this target return and liability hedge ratio should evolve over time as actual experience differs from expected experience.

The Trustee has delegated responsibility for managing the underlying investments to the Fiduciary Manager, within the guidelines and constraints set out in the IMA. This allows the asset allocation and manager allocation to be adjusted quickly where needed, to best meet the investment objectives of the Scheme.

6. Risks

Regular checks are made as to whether the funding and investment strategy remain on target to achieve the objectives, within acceptable parameters. If not, then corrective action is considered (by adjusting the objectives, the investment strategy or through amendments to the Sponsor contributions).

The Trustee recognises there are a number of risks involved in investing the Scheme's assets, and monitor these risks in conjunction with the Fiduciary Manager (and other providers) where appropriate.

6.a Solvency risk (the risk of not achieving your funding target in the time frame desired)

Measured through a qualitative and quantitative assessment of the expected development of the Scheme's liabilities relative to the current and alternative investment strategies.

Managed through assessing the progress of the Scheme's assets relative to the value placed on the liabilities.

The Fiduciary Manager monitors the Scheme's assets relative to the value placed on the liabilities on a daily basis. It prepares a written report for the Trustee every quarter detailing changes over the quarter and any actions taken.

The Scheme Actuary also prepares a written report, including an estimate of buying-out the liabilities with an insurer, on a triennial basis.

6.b Investment risk

There are a number of direct risks associated with investing the Scheme's assets, including: manager risk, liquidity risk, inappropriate investments, currency risk, interest rate risk, inflation risk, political risk, corporate governance risk, counterparty risk, basis risk and legal and operational risk. Some examples of these risks include:

To reduce this risk, the Fiduciary Manager ensures the assets are diversified over different asset classes, sectors and securities. It regularly monitors the underlying investment managers' performance, processes and capabilities. It is also responsible for managing overall currency risk.

These risks are monitored by the Fiduciary Manager of the Scheme, and governed by the IMA in place and the investment guidelines specified by the Trustee.

The Trustees also acknowledge the following investment related risks and monitors these with the support from the Fiduciary Manager and their other advisors.

- The actual return on the investment portfolio vs the Target Return. The Target Return is not guaranteed, the Scheme's investment portfolio may not evolve as expected or indeed may fall in value.
- The deficit (measured as the difference between the liability value and the value of the investment portfolio) may increase as a result of long-term gilt yields falling or inflation expectations increasing.

- The probability of achieving full funding on the agreed basis and then buy-out over a given timeframe could change if annuity prices increase (for example due to changes in insurance regulations or a change in the Trustee's mortality / longevity assumptions).

6.c Custodian risk

Custodian banks provide secure safekeeping and trading of the Scheme's assets.

This risk can be measured by assessing the credit-worthiness of the custodian bank and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody.

This risk is managed by ratifying the Fiduciary Manager's trade reports and expected cashflows against the custodians. Restrictions are also applied to who can authorise transfers of cash and the account to which transfers can be made.

6.d Fraud / dishonesty

Addressed through the Fiduciary Manager having the appropriate insurance policies, and internal and external audit.

6.e Liquidity risk (ability to pay member benefits as they fall due)

The Scheme's administrator monitors benefit payments and ensures sufficient cash is available to meet payments when due. The Fiduciary Manager invests predominantly in assets that can be quickly sold for cash if necessary.

6.f Covenant risk

Risks associated with changes in the Sponsor covenant are regularly monitored by the Trustee and assessed by various means. In particular, there is a regular, open, and honest dialogue between the Trustee and the Sponsor, as well as independent review of the covenant from time to time.

7. Monitoring

The Trustee monitors the performance of the assets on a quarterly basis via investment monitoring reports prepared by the Fiduciary Manager.

The Fiduciary Manager monitors the Scheme on a daily basis, including:

1. The funding level
2. The asset allocation
3. The hedge ratio
4. The investment managers
5. The cash position (of assets held with the Fiduciary Manager excludes cash in the bank account)

Where action needs to be taken (such as a trigger breach) or is deemed to be sensible (for instance due to favourable/changing market conditions), the Fiduciary Manager will make appropriate changes, subject to the guidelines agreed with the Trustee.

Where changes cannot be made due to the guidelines specified, and the Fiduciary Manager believes the changes would be sensible, the Fiduciary Manager will work with the Trustee to explore whether the guidelines can be adjusted and how this may impact the Scheme's strategy.

In addition to the regular monitoring, the Fiduciary Manager will provide updates at Trustee meetings and provide information to other third parties at the request of the Trustee, such as administrators and auditors.

The Trustee regularly review the performance and services of the Fiduciary Manager.

8. Custody

Day to day control of custody arrangements for the Scheme's assets is delegated to State Street Bank and Trust Company, who are appointed by the Trustee and are independent of the Sponsor and Fiduciary Manager.

In addition, as the Scheme invests in pooled funds, these funds each have a custodian. The investment in pooled funds provide the Trustee with a claim on the mark-to-market cash value of the units held in such funds, rather than to the underlying assets.

9. Realisation of Investments

The Trustee have delegated the realisation of investments to the Fiduciary Manager. The Fiduciary Manager monitors the Scheme's investment portfolio on a daily basis and in accordance with the objectives set by the Trustee. The Fiduciary Manager will use contributions into and disinvestments out of the Scheme's investment portfolio to manage and if necessary rebalance the portfolio in-line with the objectives set by the Trustee.

10. Financially Material Considerations

Over the period to achieving the overall investment objective of reaching full funding on the Self Sufficiency basis, the Trustee has tasked the Fiduciary Manager with monitoring financially material risks (including ESG considerations) within the Scheme's investment portfolio. At a high level, the Scheme is expected to increase its allocation to lower risk fixed-income assets as the Scheme matures. In addition to this, the Fiduciary Manager will use active ownership (see Section 12 - Stewardship) to manage the Scheme's investment portfolio through time. The Fiduciary Manager also monitors, and where necessary reduces the financially material risks which the Scheme is exposed to as it travels through its journey to ultimately achieve its objective.

11. Environmental, Social and Governance Considerations

In accordance with the Trustee's focus on financially material considerations, it is acknowledged that Environment, Social and Governance (ESG) factors can impact security prices.

The Trustee has delegated day-to-day investment decisions to the Fiduciary Manager, and is satisfied that the Fiduciary Manager employs a well-developed ESG framework which is summarised below:

Exclusionary / Inclusionary Screening – This involves excluding companies which operate in particular sectors or areas, this includes the equity of companies involved with the manufacture of controversial weapons (namely cluster munitions) and tobacco producers from the range of funds which the Scheme invests in.

ESG Factor Integration – As part of the Fiduciary Manager's investment research process, the underlying managers used to implement investment or provide ideas receive an ESG rating which is both qualitative and quantitative in nature. Each manager's ESG factor is then considered and monitored as part of the wider manager research process.

ESG Reporting – On an annual basis the Fiduciary Manager provides the Trustees with an ESG report which provides further information on how ESG factors are monitored within the portfolio.

To further demonstrate the Fiduciary Manager's commitment to ESG issues, it has been a signatory of the UN Principles for Responsible Investment ("UN PRI" or the "Principles") since 2009. The Principles are a voluntary set of global best practices that aim to provide a framework for integrating environmental, social and corporate governance issues into financial analysis, investment decision-making and ownership practices. The Principles are voluntary and aspirational and are listed below:

1. The Fiduciary Manager will incorporate environmental, social and corporate governance issues into investment analysis and decision-making processes.
2. The Fiduciary Manager will be an active asset owner, incorporating environmental, social and corporate governance issues into its ownership policies and practices.
3. The Fiduciary Manager will seek appropriate disclosure on environmental, social and corporate governance issues from the entities in which it invests.
4. The Fiduciary Manager promotes acceptance and implementation of the Principles within the investment industry.
5. The Fiduciary Manager will work with other industry participants to enhance the effectiveness of implementing the Principles.
6. The Fiduciary Manager will report on its activities and progress toward implementing the Principles.

The Trustee believe that ESG is suitably addressed as part of the Fiduciary Manager's investment process and that the Fiduciary Manager's values and approach to ESG more generally is suitable for the Scheme's circumstances. Furthermore, the Fiduciary Manager reports back to the Trustee on an annual basis on its policies and activities in relation to ESG.

12. Stewardship – Voting and Engagement

The Trustee is aware of their role as responsible stewards of capital and the need to assess all financially material risks which include the risks with climate change as well as other ESG-related factors. The Trustee believes that having a high standard of governance, promotion of corporate responsibility and appreciation of environment factors will be additive and will help protect long term financial value.

The Trustee has reviewed and from time to time will request and review certain policies or policy statements of the Fiduciary Manager that are considered relevant by the Trustee to consider the extent to which they align with the Trustee's policies. Where the Trustee identifies any inconsistency between these policies or policy statements and the Trustee's policies, the Trustee will engage with the Fiduciary Manager to consider how to promote alignment between the Manager's approach and the Trustee's investment policies. The Trustee expect the Fiduciary Manager to: (i) be a signatory to the UN PRI Code; (ii) be a signatory to the UK Stewardship Code; and (iii) provide adequate transparency around stewardship including an annual report on stewardship activities undertaken.

The Trustee will engage with the Fiduciary Manager as necessary for more information, to ensure that robust active ownership behaviors, reflective of their active ownership policies, are being actioned. This will take the form of annual reporting which will be made available to Scheme members.

12.a Proxy voting, engagement and monitoring investee company capital structures

The Fiduciary Manager uses voting rights as an essential part of the value creation process. The Fiduciary Manager has a Proxy Voting Committee (PVC) which oversees the proxy voting policies, procedures, guidelines and voting decisions. The Fiduciary Manager has provided the Trustee with a copy of its UK Stewardship Code Statement and the 2019 Proxy and Engagement report, and provides the Trustee with an annual report on the votes which have been cast on their behalf.

The Fiduciary Manager's preferred approach to engagement is to use an integrated and inclusive approach to promote changes that protect and enhance shareholder value and shareholder rights.

When engaging with a company, the Fiduciary Manager makes a concerted effort to focus on the issues that it believes will have the most impact on shareholder value. The Fiduciary Manager also applies a collaborative approach to Engagement with the underlying investment managers which are appointed. The report provided to the Trustee on an annual basis includes examples of how the Fiduciary Manager has engaged with companies on the Trustee's behalf over the prior 12-month period.

The Fiduciary Manager monitors the underlying assets to ensure they are performing in-line with expectations. The Trustees may engage with the Fiduciary Manager, who in turn is able to engage with underlying asset managers, investee company or other stakeholders, on matters including the performance, strategy, risks, social and environmental impact, corporate governance, capital structure, and management of actual or potential conflicts of interest, of the underlying investments made. Where a significant concern is identified, the Trustees will consider, on a case by case basis, a range of methods by which it would monitor and engage so as to bring about the best long-term outcomes for the Scheme.

12.b UK Stewardship Code

The Fiduciary Manager has confirmed to the Trustee that it is a signatory to the UK Stewardship Code 2012. Furthermore, the Fiduciary Manager intends to be a signatory of the new UK Stewardship 2020 code and will be aiming to submit the stewardship reports under the new code to the Financial Reporting Council (FRC) in 2021.

12.c Conflicts of interest

The Trustee is aware that actual and potential conflicts of interest can exist across all aspects of the investment arrangements and maintain a conflicts of interest register.

The Fiduciary Manager has provided the Trustee with their Conflicts of Interest policy. The Trustee are satisfied that the conflicts that exist are managed in accordance with the regulatory requirements, a culture of integrity, and independent oversight and monitoring. The Trustee may engage with the Fiduciary Manager on matters concerning the management of actual or potential conflict of interests between the Fiduciary Manager, or the underlying managers, and the underlying investments being made. Should the Trustee identify a situation where conflict of interest is an issue, the Trustee will monitor and engage to achieve the best long-term outcome for the Scheme and its beneficiaries. Russell Investments Limited is regulated by the FCA.

13. Non-Financial Factors

The Trustees have not directly sought the views of the Scheme's members in producing this Statement of Investment Principles. However, the Trustees have reviewed the fiduciary manager's UK Stewardship Code Statement, the latest Proxy and Engagement report and the Fiduciary Manager's general beliefs and approach to ESG and stewardship (including climate change). They believe the policies currently in place are appropriate for the Scheme and they hope this would be satisfactory for the majority of the Scheme's membership. In the event the Scheme's members were to bring particular views around ESG and stewardship to the attention of the Trustees the board may give these views consideration if deemed appropriate for the Scheme's circumstances.

14. Arrangement with the Fiduciary Manager

The Trustee recognises the importance of the ensuring that the Fiduciary Manager's investment strategy aligns with the Trustee's investment policies. The Trustee's arrangements with the Fiduciary Manager, as detailed in this section 14, seek to incentivise the Fiduciary Manager to align its investment strategy and decisions with the Trustee's investment policies and to make decisions and operate in a manner that best generates medium to long-term financial and non-financial results for the Scheme and its beneficiaries.

14.a Implementation

The services provided by the Fiduciary Manager include implementing the Scheme's investment strategy, including risk management, portfolio construction and manager selection (which includes continuous monitoring of managers and revision to managers where required). The Fiduciary Manager monitors its sub-advisors and the companies held in its portfolios in accordance with its Stewardship Policy.

The Trustee expects the Fiduciary Manager, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. This includes monitoring and engaging with underlying investment managers to ensure they are aligned with the investment objectives of the Scheme. On an annual basis the Fiduciary Manager reports back to the Trustee on its engagement and stewardship practices via the annual implementation statement.

14.b Evaluation of performance, remuneration and incentivisation

The Trustee carries out periodic reviews to assess the Fiduciary Manager's performance (net of all costs) relative to the objectives set by the Trustees and against the Scheme's specific liability benchmark. The Trustee will consider both short (quarter) and longer-term horizons (3 and 5 years) when assessing the performance of the Fiduciary Manager.

The remuneration paid to the Fiduciary Manager and the fees incurred by third parties appointed by the Fiduciary Manager are provided annually by the Fiduciary Manager to the Trustee. This cost information is set out alongside the performance of the Fiduciary Manager to provide context. The Trustee monitors these costs and performance trends over time.

As part of the annual audit the Scheme's auditor also reviews the fees which have been incurred during each year to ensure the remuneration is in-line with what is specified in the IMA.

The Trustee believe that setting clear expectations to the Fiduciary Manager and by regularly monitoring the Fiduciary Managers performance versus those expectations, incentivises the Fiduciary Manager to make decisions that align with the Trustee's investment policies and are based on assessments of medium and long term financial and non-financial performance.

14.c Portfolio turnover costs

The Fiduciary Manager provides the Trustee with an annual breakdown of the portfolio turnover costs which have been incurred in-line with the Cost Transparency Initiative (CTI). The Trustee do not have a specified target portfolio turnover figure but do monitor and review the Fiduciary Manager's performance net of all transaction costs. The Trustee understands that the Fiduciary Manager will need to carry out trading within the portfolio in order to meet the return objective and properly manage risks. The Fiduciary Manager monitors the level of portfolio turnover (defined broadly as the amount of purchases plus sales) of all the investment managers appointed on behalf of the Trustee. Ultimately, the Fiduciary Manager is incentivised to manage transaction costs effectively given the adverse impact on performance.

14.d Monitoring investment performance

The Trustee receives quarterly reports and verbal updates from the Fiduciary Manager on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustee focuses on medium to longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Scheme's objectives.

The Trustee receive annual stewardship reports on the monitoring and engagement activities carried out by the Fiduciary Manager, which supports the Trustee in determining the extent to which the Scheme's engagement policy has been followed throughout the year.

The Trustee also receives annual cost transparency reporting from the Fiduciary Manager in line with the prevailing regulatory requirements for fiduciary managers. These include but are not limited to the total costs incurred by the Scheme, the fees paid to the Fiduciary Manager and underlying managers, the amount of portfolio turnover costs (in relation to section 14.c above), charges incurred through the use of pooled funds (e.g. custody, admin, audit fees etc.) and the impact of these costs on the investment return achieved by the Scheme.

14.e Duration of agreement

The Trustee's arrangement with the Fiduciary Manager is not for a fixed term but an ongoing arrangement. The Trustee has a right to terminate this arrangement on notice under the terms specified in the IMA. The periodic reviews (referred to above) is an opportunity for ongoing assessment of the arrangement with the Fiduciary Manager with particular consideration for how the Fiduciary Manager is aligning to the Trustee's investment policies.

15. Timing of Periodic Review

The Trustee will review the Statement and the Scheme's investment strategy each year and additionally whenever they believe there to be a significant change in the Scheme's circumstances.

The Appendix contains further detail of the Scheme's investment strategy and may be updated from time to time without updating this Statement.

16. Additional Voluntary Contributions ("AVCs") Arrangements

Some members obtain further benefits by paying AVCs to the Scheme. The liabilities in respect of these AVCs are equal to the value of the investments bought by the contributions. Details of AVC providers are included in the Appendix to this Statement.

From time to time the Trustee reviews the choice of investments available to members to ensure that they remain appropriate to the members' needs.

NFU Pension Scheme (the “Scheme”)

Investment Policy: Appendix to Statement of Investment Principles

This Appendix sets out further detail on the Trustee’s investment policies, and is supplementary to the Trustee’s Statement of Investment Principles (the attached “Statement”).

The Trustee has appointed Russell Investments to act as the Scheme’s Fiduciary Manager. The information contained within this Appendix provides further detail on the services provided and the Trustee’s policies, which have been developed in conjunction with the Fiduciary Manager.

Fiduciary Management Arrangement

The Trustee and Employer have agreed that the Scheme’s long-term funding objective is to gradually de-risk and thereby reduce reliance on the Employer, ultimately targeting a self-sufficiency position. (Self-sufficiency is defined as a position where the Scheme can be run with a modest level of investment risk and the expectation that there will be no further reliance on Employer contributions).

The investment strategy to achieve this has been developed with a view to reducing the level of risk in the portfolio. This will be achieved by reducing the reliance on equities as the primary driver of investment return and placing greater focus on fixed income investment, whilst still investing in a well-diversified and dynamically managed, return-seeking portfolio. The strategy also seeks to significantly reduce the variability in the funding level of the Scheme over the short term by increasing the level of liability protection (or “liability hedging”), through the use of Liability Driven Investment (or “LDI”) funds, which use controlled amounts of leverage.

- As of the date at which the Fiduciary Manager most recently reviewed the Scheme’s strategy (as at 30th September 2019), the Scheme’s strategy is to target a return of 1.2% per annum, net of fees, over the return on gilts (which are assumed to be a risk-free investment).
 - As of 30th September 2019, the liability protection level target was 80% of the interest rate and inflation sensitivities of the Scheme’s liabilities. From November 2019 onward, this target was increased to 100% of the Scheme’s funded liabilities (i.e. 100% of assets).
 - Based on the existing agreed Schedule of Contributions (annual contributions of c.£1m until 2031) and investment modelling as at 30th September 2019, we estimate that this would lead to the plan reaching full funding on the long-term self-sufficiency basis by 2027.
 - To achieve this, the Scheme will invest in:
 - Return-seeking (“growth”) assets. Growth assets are expected to grow faster than the Scheme’s liabilities over the long term. Growth assets include shares, corporate bonds, real assets, absolute return funds and other assets which are permitted under the guidelines governed by the IMA.
 - Liability-hedging (“matching”) assets. Matching assets are expected to grow broadly in line with a proportion of the Scheme’s liabilities. They include gilts and Liability Driven Investment funds appropriate to the nature and duration of the Scheme’s liabilities. The Matching assets also include some investments that generate income in order to specifically offset the expected benefit payments over the coming years.
 - The allocation to these assets to meet the target return after fees (as of 30th September 2019) is provided below.

PORTFOLIO TYPE	BROAD OBJECTIVE	% AT 30/09/2019
Growth Portfolio	To generate a return above liabilities	55%
Matching Portfolio	To manage interest rate and inflation risk	45%
Total		100%

- The allocation between the assets will vary over time to meet the objective. The Fiduciary Manager will be accountable for managing the allocation to and within growth and matching assets in order to meet the objective, within the guidelines set by the Trustee.

The Trustees have also put in place a de-risking framework. The framework automatically reduces the Target Return and increases the Target Hedge Ratio (both of these actions reducing the risk within the investment portfolio) if the Scheme were to become ahead of schedule relative to the modelling carried out by the Fiduciary Manager.

Summary of fee arrangements

The Trustee employs Fiduciary Management services. These are paid for as a set percentage of the assets under management.

These fees cover a range of services including asset management, fiduciary management and investment consultancy advice that the Scheme requires in connection with funding. The list of services included within the fees is provided in the IMA.

Cash balances

In addition to the assets managed by the Fiduciary Manager, the Trustee will run a bank account which holds a working balance of cash, held for imminent payment of benefits, expenses, etc. Under normal circumstances it is not the Trustee's intention to hold a significant cash balance and this is carefully monitored by the Scheme's administrators.

Additional Voluntary Contributions (AVCs)

The Trustee holds assets invested separately from the main investments to secure additional benefits on a money purchase basis for those members electing to pay Additional Voluntary Contributions.

- AVCs are invested with NFU Mutual Investment Services Ltd, Friends Provident, Prudential and Equitable Life.
- However, this option is closed to new members and future contributions, effective from 30 June 2008.

A policy document has been issued to the Trustee from each manager, covering the AVC investment contract. Members participating in this arrangement each receive an annual statement made up to the Scheme year-end confirming the amounts held to their account and the movements in the year.