

Trustee Investment Strategy

The following is an abridged version – the full text is available on request.

The pension arrangements provided by The Pensions Trust (the Trust) all require individual investment strategies. The investment strategies include consideration of the mix between the main asset classes (equities, bonds and property) after looking at the specific liability and risk profile individually for each scheme.

The funds outlined below are structured after considering expected risk and return characteristics of the sub-asset classes and the individual investment managers. The construction of these funds follows investment advice received from the Trust's investment consultants. These funds are also monitored and reviewed on a continuous basis.

In order for schemes to tailor investment strategies to their own liability and risk profiles, they receive a notional allocation in the appropriate funds.

I. Global Equity Fund

Objective

+1.8% per year outperformance compared to the following composite benchmark measured over annualised rolling five-year periods.

Indices	Weighting (%)
FTSE All Share UK	30.0
FTSE World – North America	18.6
FTSE World – Europe excl. UK	18.7
FTSE World – Japan	11.4
FTSE All-World Developed – Asia Pacific excl. Japan	6.3
FTSE AW – All Emerging	3.0
LIBOR	12.0
Total	100.0

Manager and asset allocation ranges	%
BlackRock	4.5 – 7.0
BlueBay Asset Management*	0.0
King Street Capital*	0.0
Lazard Asset Management	11.5 – 16.5
Legal & General Investment Management	31.0 – 35.0
Marathon Asset Management	8.5 – 11.5
RCM (UK)	11.5 – 16.5
Ruffer	8.5 – 13.5
TT International	9.5 – 12.5

* BlueBay and King Street Capital are single sum investments, and as such do not have a benchmark allocation within this fund.

Currency Hedging

A currency hedge is applied to a proportion of the overseas assets in the Global Equity Fund. Individual investment managers are not required to hedge currency exposure; instead, a passive currency overlay is used in respect of the major currencies (US Dollar, Euro and Yen) applied to the total benchmark weights.

2. Passive Equity Fund

Objective

To match the annualised return from the following composite benchmark index calculated over rolling five-year periods, with no more than 1% underperformance in any one year.

Indices	Weighting (%)
FTSE All Share UK	40.0
FTSE World – North America	20.0
FTSE World – Europe excl. UK	20.0
FTSE World – Japan	12.0
FTSE All-World Developed – Asia Pacific excl. Japan	5.0
FTSE AW – All Emerging	3.0
Total	100.0

Manager and asset allocation	%
Legal & General Investment Management	100.0

3. Fund of Hedge Funds

The aim of this fund is to invest in a diversified portfolio of hedge funds.

Objective

+3.0% per year outperformance compared to the return on cash, as measured by UK 3 month LIBOR, after all fees, expressed in Sterling over rolling three-year periods. In addition, this fund is expected to have a low correlation to traditional asset classes (e.g. equity and bond markets), tending to a market neutral position.

Manager and asset allocation	%
Mesirow Advanced Strategies	100.0

4. Fixed Interest Bond Fund

Objective

+0.45% per year outperformance compared to the return from the following composite benchmark index measured over annualised rolling five-year periods.

Indices	%
FTSE – Government (All Stocks) Index	40.0
iBoxx Sterling Non-Government (All stocks)	60.0
Total	100.0

Manager and asset allocation ranges	%
Legal & General Investment Management	28.0 - 32.0
Royal London Asset Management	28.0 - 32.0
Standard Life Investments	38.0 - 42.0

5. Index-Linked Bond Fund

Objective

To match the annualised return from the FTSE – A index-linked (All Stocks) index calculated over rolling five-year periods.

Manager and asset allocation	%
Legal & General Investment Management	100.0

6. Property Fund

Objective

+3.0% per year outperformance compared to UK five-fifteen year index-linked Government bonds (gilts) measured over annualised rolling seven-year periods.

Manager and strategic allocation	%
CB Richard Ellis Investors (UK discretionary)	70.0
CB Richard Ellis Global Multi Manager (Europe ex UK)	15.0
Standard Life Investments (High-Lease-to-Value)	15.0
Total	100.0

7. Money Market Fund

Objective

0.25% per year outperformance compared to the return from seven-day LIBID annualised over rolling three-year periods.

Manager and asset allocation	%
Aviva Investors	100.0

8. SRI (Socially Responsible Investment) Fund

The FTSE4Good Indices are comprised of companies that are viewed as operating in a socially responsible way. The equity component of the SRI Fund (the Fund) tracks the UK and Global FTSE4Good Indices. The bond component of the Fund tracks conventional UK Government fixed interest and index-linked gilt indices.

Objective

A return in line with the benchmark (i.e. the appropriate index or composite index) annualised over rolling five-year periods, with no more than -1% underperformance in any one year.

Manager and asset allocation	%
Legal & General Investment Management	100.0

Asset class	Indices
UK Equities	FTSE4Good UK Equity
Global Equities	FTSE4Good Global Equity
UK Government Fixed Interest	FTSE – A Government (All Stocks)
UK Government Index-Linked	FTSE – A Index-Linked (All Stocks)

9. Ethical Fund – F&C Stewardship Fund

The F&C Stewardship Fund (the Fund) seeks to invest in UK companies which make a positive contribution to society.

The negative ethical screening and investment in a single asset class (UK equities) results in this fund being highly volatile against the benchmark.

Objective

Performance will be compared to the FTSE All Share Index annualised over rolling five-year periods. Over rolling five-year periods, returns would typically be within $\pm 3\%$ per year of the index. However, it is recognised that due to ethical constraints applied to the Fund, this relative performance could be significantly different over some periods.

10. Long Dated Fixed Interest Bond Fund

Objective

To produce a return in line with that from the Treasury 4.25% – 7 December 2055 gilt.

Manager and asset allocation	%
Legal & General Investment Management	100.0

11. Long Dated Index-Linked Bond Fund

Objective

To produce a return in line with that from the Treasury 2% – 7 December 2035 gilt.

Manager and asset allocation	%
Legal & General Investment Management	100.0

12. Growth Plan Fund

Objective

To gain exposure to the increase on a basket of equity indices up to a predefined level, and also provide some degree of downside protection for the Growth Plan (the Plan).

To achieve this, the Trust has entered into a series of derivative contracts that allow the above objective to be achieved at a zero premium. Underlying the exposure to the derivative contracts the Plan is invested in a passive corporate bond fund that tracks the Barclays Capital Global Aggregate Sterling 5+ ex BBB Index.

To produce a return that protects the corporate bond fund from the first 15% of equity market losses through investing in a basket of call options.

Manager and asset allocation	%
Legal & General Investment Management	100.0

This Strategy was approved by the Investment Committee on 7 June 2010.