Chair's DC Governance Statement, covering the 12 months to 30 June 2019

1. Introduction

Governance requirements apply to defined contribution ("DC") pension arrangements like the McCain Foods (GB) Limited Pension & Life Assurance Scheme (the "Scheme"), to help members achieve a good outcome from their pension savings. The Trustees are required to produce a yearly statement (which is signed by the Chair of Trustees) to describe how these governance requirements have been met in relation to:

- the investment options in which members can invest (this means the "default arrangement" and other funds members can select);
- the requirements for processing financial transactions;
- the charges and transaction costs borne by members;
- an illustration of the cumulative effect of these costs and charges;
- a 'value for members' assessment; and
- Trustee knowledge and understanding.

This Statement covers the period from 1 July 2018 to 30 June 2019.

2. Default arrangements

The Scheme is used as a Qualifying Scheme for auto-enrolment.

The default investment arrangement, the Lifecycle Fund, (the "default arrangement") is designed for members who join the Scheme and do not choose an investment option. The Trustees are responsible for investment governance, which includes setting and monitoring the investment strategy for the default.

When deciding on the Scheme's investment strategy, the Trustees recognise that most members do not make active investment decisions and instead invest in the default arrangement. After taking advice, the Trustees decided to make the default arrangement a lifecycle strategy, which means that members' assets are automatically moved between different investment funds as they approach their target retirement date.

Details of the objectives and the Trustees' policies regarding the default arrangement can be found in a document called the 'Statement of Investment Principles' ("SIP"). The Scheme's SIP covering the default arrangement is attached to this Statement.

The Trustees' objective is to make a default arrangement available to members that the Trustees believe is in the best interest of the majority members. In broad terms, the investment objective of the default is, as stated in the SIP, to offer members a method of investing their contributions to help manage risk, via a default investment option which is a lifecycle.

This default lifecycle option invests in shares and other types of growth assets when a member is younger. This lifecycle automatically changes the allocation as members approach their selected retirement age in order to reduce the different investment risks as a member approaches retirement.

The Trustees monitor the performance of the default arrangement on a quarterly basis.

The default arrangement was not reviewed during the period covered by this Statement, but was reviewed after this period, in November 2019. The default arrangement was last reviewed beginning on 18 August 2015 and concluding on 17 February 2016.

As part of the reviews, the performance and strategy of the default arrangement were reviewed to ensure that investment returns (after deduction of any charges) have been consistent with the aims and objectives of the default arrangement as stated in the SIP, and to check that it continues to be suitable and appropriate given the Scheme's risk profiles and membership.

The Trustees are currently reviewing the future provision of the members' DC benefits remaining within the Scheme or whether to transfer to a Master Trust. If the DC benefits are not transferred to a Master Trust, the Trustees will consider making changes which were highlighted in the default arrangement review in November 2019. Further to this, the Trustees would continue to review the default arrangement at least every three years or immediately following any significant change in investment policy or the Scheme's member profile.

3. Requirements for processing core financial transactions

Processing core financial transactions (such as the investment of contributions, processing transfers in and out of the DC Section of the Scheme, and payments to members/beneficiaries) is carried out by the administrators of the DC Section of the Scheme, McCain's Limited (GB) ("DC administrator"), Prudential and the Old Mutual Wealth investment-only platform.

The DC administrator has confirmed to the Trustees that there are adequate internal controls to ensure that core financial transactions relating to the Scheme are processed promptly and accurately.

The Scheme has a service level agreement ("SLA") in place with the DC administrator which covers the accuracy and timeliness of all core financial transactions. In terms of the targets for the SLAs, the DC administrators target replying or processing all actions within 10 working days of receipt. The average number of days for all work relating to both the DC and DB Sections of the Scheme is 7.23 days over the year. If considering this for just DC (as well as including all DC and DB address changes), the average is 5.34 days.

The key processes adopted by the DC administrator to help it meet the SLA are as follows:

- Bank account monitored daily;
- Contributions processed by one team member and checked by another.
- Two Trustee signatures or one Trustee and one authorised signatory are required to complete DC investment or disinvestment.

- On receipt of the completed investment contract note, the prices are input into profund by one team member and checked by a separate team member.
- All payments are set up by one team member, checked by a separate team member and authorised by an authorised team member. The team members who authorise payments, do not have access to set up payments. These team members are not able to authorise payments. A DC investment spreadsheet is updated after each investment, disinvestment or switch of funds.
- After checking, the paperwork is passed to one of three authorisers to authorise the payment to be released.

The Scheme also has Additional Voluntary Contributions ('AVCs') which are held with Prudential. Prudential is responsible for processing the core financial transactions for the AVCs and ensuring there are adequate internal controls in place so that core financial transactions relating to the Scheme are processed promptly and accurately. The Trustees have requested this information from Prudential. However, this information was not available for inclusion in this Statement. The Trustees will continue to liaise with Prudential to obtain this information.

4. Member-borne charges and transaction costs

The Trustees are required to set out the on-going charges incurred by members in this Statement, which are annual fund management charges plus any additional fund expenses, such as custody costs, but excluding transaction costs; this is also known as the total expense ratio ("TER"). The TER is paid by the members and is reflected in the unit price of the funds. The stated charges exclude administration costs since these are not met by the members.

The Trustees are also required to separately disclose transaction cost figures. In the context of this Statement, the transaction costs shown are those incurred when the Scheme's fund managers buy and sell assets within investment funds but are exclusive of any costs incurred when members invest in and switch between funds. These transaction costs are borne by members.

The charges and transaction costs have been supplied by the Old Mutual Wealth, which is the Scheme's investment platform provider, and Prudential, who administers the AVCs. When preparing this section of the Statement, the Trustees have taken account of the relevant statutory guidance. Due to the way in which transaction costs have been calculated it is possible for figures to be negative; since transaction costs are unlikely to be negative over the long term the Trustees have shown any negative figure as " -* ".

4.1. Default arrangements

The default arrangement is the Lifecycle Fund. The default arrangement has been set up as a lifestyle approach, which means that members' assets are automatically moved between different investment funds as they approach their target retirement date. This means that the level of charges and transaction costs will vary depending on how close members are to their target retirement age and in which fund they are invested.

For the period covered by this Statement, annualised charges and transaction costs are set out in the table below.

Default arrangement charges and transaction costs

Years to target retirement date	TER	Transaction costs
10 or more years to retirement	0.53% pa	0.09%
5 years to retirement	0.34% pa	0.06%
At retirement	0.16% pa	0.01%

4.2. Self-select options

The level of charges for each self-select fund (including those used in the default arrangement) and the transaction costs over the period covered by this Statement are set out in the following table. The underlying funds used within the default arrangement are shown in bold.

Self-select fund charges and transaction costs

Manager – Fund name	TER	Transaction costs
McCain Growth Fund	**0.53%**	**0.09%**
McCain Annuity Fund	**0.15%**	**0.01%**
McCain World Shares Fund	0.18%	0.00%
McCain Sharia World Shares Fund	0.40%	0.03%
McCain UK Shares Fund	0.15%	-*
McCain Emerging Markets Shares Fund	0.45%	0.04%
McCain Diversified Growth Fund	0.89%	0.17%
McCain Corporate Bond Fund	0.16%	-*
McCain Fixed-interest Government Bond Fund	0.15%	-*
McCain Index-linked Government Bond Fund	0.15%	0.05%
McCain Cash Fund	**0.18%**	**0.00%**

Source: Old Mutual Wealth as at 30 June 2019.
Transaction costs shown as "-" where they were calculated as being negative.

4.3. Additional Voluntary Contributions

Members of the Scheme's Defined Benefit Section are able to make AVCs, on a money purchase basis, to an insurance policy held with Prudential. The charges levied by Prudential on these members' benefits cover both investment management and administration, unlike in the DC Section, where the cost of administration is met by the Company.

The charges on the funds in which members are invested are detailed in the table below.

Manager – Fund name	AMC (% pa)
BlackRock Aquila All Stocks Corporate Bond Index	0.75%
BlackRock Aquila Consensus	0.75%
BlackRock Aquila (50:50) Global Equity Index	0.75%
HSBC Islamic Global Equity Index	0.90%
Prudential Cash	0.55%
Prudential Ethical	0.75%
Deposit	N/A[1]

Source: Prudential as at 30 June 2019.

[1]The Prudential Deposit Fund is backed by the assets held within Prudential With-Profits Fund. Any interest is declared monthly and there are no explicit charges. Interest once added is guaranteed and withdrawals from this fund are not subject to a Market Value Reduction (MVR).

The Trustees have requested transaction costs from Prudential. However, this information was not available for inclusion in this Statement. The Trustees will continue to liaise with Prudential to obtain this information.

4.4. Illustration of charges and transaction costs

The following table sets out an illustration of the impact of charges and transaction costs on the projection of an example member's pension savings.

- The "before costs" figures represent the savings projection assuming an investment return with no deduction of member borne fees (ie the TER) or transaction costs. The "after costs" figures represent the savings projection using the same assumed investment return but after deducting member borne fees and an allowance for transaction costs.
- The transaction cost figures used in the illustration are those provided by the managers, subject to a floor of zero (so the illustration does not assume a negative cost over the long term).
- The illustration is shown for the default option: the Lifecycle Funds, since this is the arrangement with the most members invested in it, as well as four funds from the Scheme's self-select fund range. The four self-select funds shown in the illustration are:
  - the fund with the highest before costs expected return – this is the McCain Emerging Markets Shares Fund
  - the fund with the lowest before costs expected return – this is the McCain Cash Fund
  - the fund with highest annual member borne costs – this is the McCain Diversified Growth Fund
  - the fund with lowest annual member borne costs – this is the McCain Fixed-interest Government Bond Fund

Projected pension pot in today's money

	Default option		McCain Emerging Markets Shares Fund		McCain Cash Fund		McCain Diversified Growth Fund		McCain Fixed-interest Government Bond fund	
Years invested	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs
1	£10,500	£10,500	£10,700	£10,700	£10,100	£10,100	£10,400	£10,300	£10,200	£10,100
3	£17,200	£17,000	£17,900	£17,800	£15,600	£15,500	£16,800	£16,400	£15,700	£15,600
5	£24,200	£23,700	£25,800	£25,400	£20,800	£20,700	£23,400	£22,600	£21,000	£20,900
10	£43,000	£41,400	£48,500	£47,100	£32,800	£32,500	£40,400	£37,900	£33,400	£33,100
15	£63,900	£60,500	£76,500	£73,200	£43,600	£42,900	£58,500	£53,400	£44,600	£44,100
20	£87,300	£81,200	£110,800	£104,400	£53,100	£52,100	£77,800	£69,000	£54,800	£53,900
25	£113,300	£103,600	£152,900	£141,900	£61,600	£60,200	£98,200	£84,700	£63,900	£62,700
30	£142,400	£127,800	£204,600	£186,900	£69,100	£67,300	£119,800	£100,500	£72,200	£70,600
35	£165,300	£146,600	£268,200	£240,900	£75,800	£73,600	£142,800	£116,400	£79,700	£77,700
40	£171,800	£152,000	£346,300	£305,700	£81,800	£79,200	£167,200	£132,500	£86,500	£84,100

Notes

- Values shown are estimates and are not guaranteed. The illustration does not indicate the likely variance and volatility in the possible outcomes from each fund. The numbers shown in the illustration are rounded to the nearest £100 for simplicity.
- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.

- Annual salary growth and inflation is assumed to be 2.5%. Salaries could be expected to increase above inflation to reflect members becoming more experienced and being promoted. However, the projections assume salaries increase in line with inflation to allow for prudence in the projected values.
- The starting pot size used is £7,300, being the median pot value of members, rounded to the nearest £100.
- The projection is for 40 years, being the approximate duration that a member aged 25 has until they reach the Scheme's Normal Pension Age of 65.
- The starting salary is assumed to be £33,700, which is the median salary for active members of the Scheme, rounded to the nearest £100.
- Total contributions (employee plus employer) are assumed to be 9.0% of salary per year, which is the total contribution of active members when they are enrolled in the Scheme.
- The projected annual returns used are as follows:
  - Default option: 2.2% above inflation for the initial years, gradually reducing to a return of 1.9% below inflation at the ending point of the lifestyle.
  - McCain Emerging Markets Shares Fund: 4.2% above inflation
  - McCain Cash Fund: 2.3% below inflation
  - McCain Diversified Growth Fund: 1.2% above inflation
  - McCain Fixed-interest Government Bond Fund: 2.0% below inflation
- No allowance for active management has been made.

5. Value for members assessment

The Trustees are required to assess the extent to which member borne charges and transaction costs represent good value for members. There is no legal definition of 'good value' which means that determining this is subjective. The general policy of the Trustees in relation to value for member considerations is set out below. The assessment was undertaken taking account of the Pensions Regulator's Code of Practice No.13 (Governance and administration of occupational trust-based schemes providing money purchase benefits).

The Trustees' review all member-borne charges (including transaction costs where available) annually, with the aim of ensuring that members are obtaining value for money given the circumstances of the Scheme. The Trustees note that value for money does not necessarily mean the lowest fee, and the overall quality of the service received has also been considered in this assessment. In considering value for members, the Trustees have commented on the following criteria as suggested by the Pensions Regulator:

- **Charges borne by members** – members only pay for investment arrangements. The Trustees' investment advisers have confirmed that the fund charges are not the most competitive for the types of funds available to members, given the size of the DC Section of the Scheme. Should the Scheme not be moved to a Master Trust arrangement, the Trustees will consider negotiating these terms.

  The Trustees had their investment advisers undertake a review of the Scheme's AVC arrangement in September 2019. This review concluded that members were receiving reasonable value for the charges they pay.

- **Administration services** – members do not pay for administration services. However, as detailed in the earlier section covering processing of financial transactions, the Trustees are comfortable with the quality and efficiency of the administration processes.

- **Communications** – the Trustees issue annual benefit statements and a newsletter to members, which are issued in a timely fashion.

- **Governance** – the Trustees spend a proportionate amount of time discussing the DC Section ensuring the Scheme is compliant with relevant legislation, such as the charge cap, and holding regular meetings to monitor the Scheme and address any material issues that may impact members. However, the DC Section of the Scheme is growing and governance requirements are increasing. The Trustees and Company are reviewing the DC provision in the context of the wider market.

- **Investment arrangements** – the Scheme offers a range of investment options covering a range of markets and risk exposures. The funds options are all clearly labelled for members. The Trustees' assessment also included a review of the performance of the Scheme's investment funds (after all charges) in the context of their investment objectives. The returns on the investment funds members can choose during the period covered by this statement have been consistent with their stated investment objectives. The Trustees reviewed the design of the default arrangement and how this reflects the membership as a whole in November 2019 but have not yet implemented any strategic changes.

Overall, the Trustees believe that members of the Scheme are receiving reasonable value for money for the charges and cost that they incur. The Trustees and McCain Foods (GB) have reviewed the DC provision in the context of the wider market to assess whether better value for money could be sought for members. Following this review, the Trustees and McCain Foods (GB) are likely to be setting up an alternative arrangement for DC members of the Scheme which will be concluded in 2020.

The Trustees note that the Scheme's assets will be transferred to a commercial master trust in the next Scheme Year, which they believe will offer improved value for members, by providing a greater range of retirement choices and professional member engagement support.

6. Trustee knowledge and understanding

The Scheme's Trustees are required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively. The Trustees have measures in place to comply with the legal and regulatory requirements regarding knowledge and understanding of relevant matters, including investment, pension and trust law. Details of how the knowledge and understanding requirements have been met during the period covered by this Statement are set out below.

The Trustees, with the help of their advisers, regularly consider training requirements to identify any knowledge gaps. The Trustees' investment advisers proactively raise any changes in governance requirements and other relevant matters as they become aware of them. The Trustees' advisers would typically deliver training on such matters at Trustee meetings if they were material. During the period covered by this Statement, the Trustees received five training sessions, covering the following DC-related topics:

- Requirements arising from the CMA Review around setting objectives for investment advisors (DB and DC);
- Sustainability and requirements around incorporating beliefs in the SIP (DC);

- Investments;
- Internal controls; and
- Cyber Security

Additionally, the Trustees receive quarterly updates on topical pension issues from their advisers.

All the Trustees are familiar with and have access to copies of the current Scheme governing documentation, including the Trust Deed & Rules (together with any amendments) and SIP. In particular, the Trustees refer to the Trust Deed and Rules as part of considering and deciding to make any changes to the Scheme, and the SIP is formally reviewed every three years (last review was in September 2019) or as part of making any change to the Scheme's investments if sooner. Further, the Trustees believe they have sufficient knowledge and understanding of the law relating to pensions and trusts and of the relevant principles relating to the funding and investment of occupational pension schemes to fulfil their duties.

All the new Trustees are expected to complete the Pensions Regulator's Trustee Toolkit (the Trustee Toolkit is a free online learning programme from the Pensions Regulator aimed at trustees of occupational pension schemes and designed to help trustees meet the minimum level of knowledge and understanding required by law). All Trustees have completed this training. In addition, all new Trustees are provided with access to training courses run by professional advisors, designed to provide the basic knowledge required upon taking on the role.

New Trustees also meet with the Chairman who provides an introduction to the Scheme including recent history, current ongoing business and key Scheme documents. A training log is maintained in line with best practice and the training programme is reviewed annually to ensure it is up to date.

Taking into account the knowledge and experience of the Trustees with the specialist advice (both in writing and whilst attending meetings) received from the appointed professional advisors (eg investment consultants, legal advisors), the Trustees believe they are well placed to exercise their functions as Trustees of the Scheme properly and effectively.

Date: 13 January 2020

Signed by the Chair of Trustees of the McCain Foods (GB) Limited Pension & Life Assurance Scheme

STATEMENT OF INVESTMENT PRINCIPLES FOR THE McCAIN FOODS (GB) LIMITED PENSION & LIFE ASSURANCE SCHEME September 2019

Introduction

This Statement of Investment Principles ("SIP") has been drawn up by the Trustees of the McCain Foods (GB) Limited Pension & Life Assurance Scheme (the "Scheme") to comply with section 35 (as amended) of the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005 and the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

In preparing this SIP the Trustees consulted with McCain Foods (GB) Limited ("the Sponsor") and considered written investment advice from Lane Clark & Peacock LLP ("LCP") (in respect of the DC Section only) and Willis Towers Watson (in respect of the DB Section only). The ultimate power and responsibility for deciding investment policy, however, lies solely with the Trustees.

The Trustees review this SIP every three years, or earlier if there is a significant change in investment policy.

The Scheme has defined benefit and defined contribution sections.

DEFINED BENEFIT SECTION

Investment objectives

The Trustees' objectives for the DB section are that:

- the Scheme should be able to meet benefit payments as they fall due;
- the Scheme's funding position (i.e. the value of its assets relative to the assessed value of its liabilities) aims to be fully-funded on a self-sufficiency basis (liabilities gilts basis) by 2028; and
- the Scheme should continue to benefit from the long-term support of the Sponsor.

Investment strategy

The Trustees have received advice to determine an appropriate investment strategy for the Scheme. The Trustees have agreed to target a strategy that generates a return of gilts+2.6% per annum (net of fees). This, together with contributions from the Sponsor, is expected to achieve full-funding on a self-sufficiency basis by 2028 (the "Journey Plan").

The Trustees have appointed a Fiduciary Manager to manage the Scheme's assets on a discretionary basis and to provide advisory services to the Trustees (Willis Towers Watson, the "Fiduciary Manager"), with the objectives of maximising the probability of achieving the Journey Plan set by the Trustees. The Fiduciary Manager's discretion is subject to guidelines set by the Trustees.

Risk

Given the ongoing commitment of the Sponsor to the Scheme, the Trustees believe that a degree of investment risk can be taken with the objective of higher returns. The Trustees have a desire to diversify risk exposures and to manage its investments effectively, with close consideration of the Scheme's liabilities. In setting the appropriate level of investment risk the Trustees considered a number of risks involved in the investment of the Scheme's assets:

- Funding level and solvency risk
    - is measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies.
    - is managed through assessing the progress of the actual growth of the liabilities relative to the selected investment policy.

- Manager risk:
  - is measured by the expected deviation of the return relative to the benchmark set.
  - is managed by consideration of the appropriate amount of the Scheme to allocate to each active portfolio and by monitoring the actual deviation of returns relative to the benchmark and factors supporting the managers' investment process.
- Liquidity risk:
  - is measured by the level of cashflow required by the Scheme over a specified period.
  - is managed by the Scheme's pensions administration team and Fiduciary Manager assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy and through holding assets of appropriate liquidity.
- Currency risk:
  - is measured by the level of exposure to non-Sterling denominated assets.
  - is managed by the implementation of a currency hedging programme (with currency hedging being carried out by some of the Scheme's investment managers) which reduces the impact of exchange rate movements on the Scheme's asset value.
- Interest rate and inflation risks:
  - are measured by comparing the likely movement in the Scheme's liabilities and assets due to movements in inflation and interest rates.
  - are managed by holding a portfolio of matching assets (physical bonds and/or derivatives) that enable the Scheme's assets to better-match movements in the value of the liabilities due to inflation and interest rates.
- Political risk:
  - is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention.
  - is managed by regular reviews of the actual investments relative to policy and through the level of diversification within the existing policy.
- Sponsor risk:
  - is measured by receiving regular annual updates from the Sponsor and undertaking a detailed triennial covenant assessment.
  - is managed through an agreed contribution and funding schedule.
- Derivatives risk

- Counterparty risk – this risk is mitigated through collateral management, diversifying exposure across counterparties, and the investment manager's use of robust ISDA, GMRA or other relevant derivatives documentation.

- Basis risk – the returns from backing assets used to meet the payable leg of a derivative contract may not match exactly. This risk is addressed through the investment policy adopted for the backing assets and the investment managers' asset management capabilities.

- Liability risk – pension liabilities can only be estimated and there is a risk of divergence between the performance of the derivatives and the actual value of the liabilities (for example, due to changes in assumptions or demographics). This risk is mitigated by updating the liability hedging benchmark at appropriate regular intervals.

Asset allocation

The Scheme may invest in quoted and unquoted securities of UK and overseas markets including shares, fixed interest and index-linked bonds, cash and property, either directly or through pooled funds. It may also invest through pooled funds in alternative assets including commodities, infrastructure, hedge funds and private equity. It may also use derivatives and contracts for difference (either directly or through pooled funds) for the purpose of efficient portfolio management or to hedge specific risks.

The initial portfolio allocation (which delivered an expected return of gilts+2.6% pa based on 31 March 2018 asset return assumptions) together with the maximum allocation limit from the Fiduciary Manager's guidelines is set out below. The Fiduciary Manager will manage the portfolio on an ongoing basis, within the objectives and restrictions set out in the agreed investment guidelines.

Asset class	Initial allocation %	Maximum allocation %
Global shares	**24**	**40**
Real assets	**15**	**17**
- Global REITS	5	
- Listed infrastructure	4	
- Secure income assets	6	
Diversifying strategies	**21**	**25**
Alternative credit	**3**	**8**
- High yield	1	
- Loans	2	
Investment grade credit	**6**	**40**
- Global corporate credit	2	
- Sovereign	4	
Liability matching and cash*	**31**	**80**
Total	**100**	

Note: numbers may not sum due to rounding.*Expected to provide a liability hedge ratio of 96% (as a % of assets) and 64% (as a % of liabilities).

The maximum total allocation to diversifying strategies, alternative credit and secure income assets is 35% of the portfolio. The Trustees have instructed the Fiduciary Manager not to invest in sub-investment grade bonds other than high yield debt and leveraged loans. They have also instructed the manager not to invest in assets other than the classes listed above.

The Fiduciary Manager will maintain exposure to sterling at between 50% and 100% of the value of the total portfolio. The Fiduciary Manager may use currency derivatives to do this.

In monitoring the performance of the Fiduciary Manager, the Trustees consider performance relative to liabilities and also against a secondary benchmark of delivering a return equivalent to 60% globally diversified equities (measured against the FTSE All World (local) index and 40% sterling denominated investment grade bonds (with a duration consistent with the UK market) (measured against the iBoxx GBP non-gilts index).

The Trustees hold all of the Scheme's assets in collective investment schemes or cash accounts. Investments in collective investment schemes are made by the Fiduciary Manager on behalf of the Trustees under power of attorney. The Fiduciary Manager has full discretion over the choice of managers and is expected to maintain diversified portfolios, subject to guidelines agreed with the Trustees. The Trustees are satisfied that these arrangements are consistent with the Scheme's objectives and risk management, particularly in terms of diversification, expected return and liquidity.

Investment manager arrangements

The Trustees have delegated decisions for individual manager appointments to the Fiduciary Manager. As at June 2019, the Scheme's assets were split between investment managers as follows:

Asset class	**Current fund/ manager %**	**Type of holding**
Global shares	Towers Watson Global Equity Focus Fund	Actively managed listed equity
Real assets		
- Global REITS	Legal & General Investment Management Heitman Global Prime Property Securities	Actively managed listed property company equities
- Listed infrastructure	Legal & General Investment Management Infrastructure Equity MFG Fund	Passively managed listed infrastructure companies
- Secure income assets	Towers Watson Secure Income Fund	Various approaches – actively managed
Diversifying strategies	Towers Watson Diversifying Strategies Fund	Various approaches – actively managed and smart beta
Alternative credit		
- High yield	Legal & General Investment Management Global High Yield Fund	Sub-investment grade corporate bonds – actively managed
Investment grade credit		
- Global corporate credit	Robeco Global Multi-factor Credits Ffund	Investment grade bonds –smart beta
- Sovereign credit	State Street Multi-factor Premia Emerging Markets Bond Fund	Listed sovereign bonds – smart beta
Liability matching and cash	Insight Investments pooled leveraged liability driven investment funds, Insight ILF GBP liquidity Fund, State Street GBP liquidity Fund	Government bonds, derivatives and cash

The Fiduciary Manager receives a flat annual fee, which is fixed until October 2019 (increasing with inflation annually), covering the cost of its discretionary management and advisory services provided to the Trustees. The Fiduciary Manager invests in 'zero-fee' share classes for any In-House Funds used within the portfolio (eg global equities, diversifying strategies and secure income assets). The Scheme pays fees to the other underlying managers, including those within any In-House Funds, calculated as a percentage of assets under management, and to the global custodian (State Street).

Liquidity of holdings

Given the long-term nature of the Scheme's liabilities, the Trustees believe that they can to a certain extent take advantage of the premium which may be available for holding illiquid assets. However they will also need to draw down assets to pay pensions and other benefits and increasingly to invest in liability matching assets. Therefore they have agreed with the Fiduciary Manager that the following liquidity provisions will apply:

Time frame	% of total assets
Assets with at least 4 dealing dates per month*	Minimum 50
Realisable within 50 days	Minimum 65
Lock up greater than 3 years	Maximum 17

*including those with only 3 dealing dates in certain months.

The initial portfolio has the following liquidity:

Dealing frequency	% of total assets	Asset classes

Daily	63	Liability matching and cash, global equity, global corporate credit, high yield, sovereign credit
Weekly	9	Global REITS, Listed infrastructure
Monthly	23	Loans, diversifying strategies
Annual (initial 5 year lock)	6	Secure income assets

Note: numbers may not sum due to rounding

Social, environmental and ethical factors

The Trustees have delegated responsibility for the selection, retention and realisation of investments to the Fiduciary Manager and in turn to the Scheme's investment managers. However, the Trustees and Fiduciary Manager recognise that an investment's long-term financial success is influenced by a range of financially material factors including Environmental, Social and Governance (ESG) issues.

Consequently the Trustees (through the selection of the Fiduciary Manager and its associated approach to environmental, social and governance issues, as set out in the following two paragraphs below) seeks to be an active long-term investor. The Trustees' focus is explicitly on financially material factors. The Trustees' policy at this time is not to take into account non-financial matters.

The Fiduciary Manager has a dedicated Sustainable Investment resource and a network of subject matter experts. The consideration of ESG issues is fully embedded in the investment manager selection and portfolio management process, with oversight undertaken on an ongoing basis. Whilst noting there may be limitations for each investment manager and asset strategy, the Fiduciary Manager expects investment managers to have ESG processes that align with the investment risk and return characteristics of the strategy. Where an investment manager's processes are deemed insufficient by the Fiduciary Manager and the investment manager does not take steps to improve their approach, the investment manager's position in the portfolio may be reviewed and/or a decision may be taken not to proceed with an investment.

The Fiduciary Manager considers a range of sustainable investment factors, such as, but not limited to, those arising from ESG considerations, including climate change, in the context of a broader risk management framework. The degree to which these factors are relevant to any given strategy is a function of time horizon, investment style, philosophy and particular exposures which the Fiduciary Manager takes into account in the assessment.

Exercise of voting rights

The Fiduciary Manager encourages and expects the Scheme's investment managers to sign up to local or other applicable Stewardship Codes, in-keeping with good practice, subject to the extent of materiality for certain asset classes. The Fiduciary Manager itself is a signatory to the Principles for Responsible Investment (PRI) and the UK Stewardship Code and is actively involved in external collaborations and initiatives.

The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers. The Fiduciary Manager has appointed Hermes EOS to undertake public policy engagement on its behalf as well as company-level engagement and the provision of voting advice for the Scheme's equity investments.

Additional Voluntary Contributions ("AVCs")

The Trustees have selected Prudential Assurance Company Limited as the Scheme's AVC provider.

DEFINED CONTRIBUTION SECTION

Risk

The Trustees believe that there are a number of investment risks for DC section members, including risk of inadequate long-term returns, risk of deterioration in investment conditions near retirement, annuity conversion risk, risk of lack of diversification, risk of unsuitable investments, ESG risks and risk from excessive charges.

The Trustees believe that the range of investment arrangements they offer and the fees they have negotiated on the members' behalf mitigate much of these risks.

Investment objectives

The Trustees's primary objectives for the DC Section are to offer members a choice of two methods for investing their contributions to help manage risk, via: a default investment option which is a lifecycle; and an appropriate range of investment options reflecting the membership profile of the DC Section. They recognise that members may have differing investment needs and that these needs may change during a members' working life. They also recognise that members may have differing attitudes to risk.

<u>Lifecycle</u>

The Trustees offer a default lifecycle option, which invests in shares and other types of growth assets when a member is younger. This lifecyle has been designed to be in the best interests of the majority of the members based on the demographics of the DC Section's membership. It automatically changes the allocation as members approach their selected retirement age in order to reduce the different investment risks. It uses the blended Growth Fund, Annuity Fund and the Cash Fund (as described below).

<u>Do it yourself funds</u>

The Trustees also realise that no single option will be sufficient to manage the various risks and that some members may wish to choose their investments to fit in with their own personal financial plans and tolerance to risk. These members can choose to invest in up to nine different funds covering all major asset classes, namely: equities, bonds, cash and diversified growth funds.

Investment manager arrangements

In determining these investment arrangements for the DC Section the Trustees considered:

- the kinds of investments to be held together with how these are realised – funds covering all major asset classes (equities, bonds, cash and diversified growth funds) which are daily dealt pooled funds to ensure liquidity for members;
- the balance between different kinds of investments – offering a choice to members via the self-select fund range; and
- risks and expected return on investments – a range of asset classes with different risk and expected return profiles together with a lifecycle which manages risk for members based on their retirement date.

The Trustees offer the following funds to DC section members:

<u>Lifecycle fund</u>

More than 10 years before retirement

Fund name	**Underlying funds**
McCain Growth Fund	25% Pyrford Global Total Return Fund/ 25% Newton Real Return Fund/ 50% L&G Global Equity (50:50) Index

Within 10 years of retirement

The Trustees arrange for the members' accounts to switch gradually every 6 months so that after 10 years members' accounts are invested as follows:

Fund name	Underlying funds
75% McCain Annuity Fund	25% L&G 6A Corporate Bond All-Stocks Index/ 25% L&G Over 15 Year Gilts Index/ 50% L&G Over 5 Year Index-linked Gilts Index
25% Cash Fund	L&G Cash Fund

Do it yourself funds

Fund name	Underlying funds	Benchmark index/ target
McCain World Shares Fund	L&G Global Equity (50:50) Index	50% FTSE All Share/ 50% overseas shares (as measured by sub-divisions of the FTSE World Index, divided 35% in Europe (excluding UK), 35% in North America, 17.5% in Japan and 12. 5% in Asia Pacific (excluding Japan)
McCain Sharia World Shares Fund	HSBC Amanah	Dow Jones Islamic Titans 100 Index
McCain UK Shares Fund	L&G UK Equity Index	FTSE All Share Index
McCain Emerging Markets Shares Fund	L&G World Emerging Markets Equity Index	Standard & Poor's/ IFC Investable Composite Global Emerging Markets Index
McCain Diversified Growth Fund	50% Pyrford Global Total Return Fund/ 50% Newton Real Return Fund	RPI +5% p.a. (Pyrford)/ 1 month LIBOR + 4% p.a. (Newton) (both before fees)
McCain Corporate Bond Fund	L&G 6A Corporate bond All-Stocks Index	iBoxx £ Non-Gilts (ex-BBB) Index
McCain Fixed-interest Government Bond Fund	L&G Over 15 Year Gilts Index	FTSE-A Government (Over 15 Year) Index
McCain Index-linked Government Bond Fund	L&G Over 5 Year Index-linked Gilts Index	FTSE A Index-linked (Over 5 Year) Index
McCain Cash Fund	L&G Cash Fund	7 day London Inter-bank rate

All managers receive fees calculated as a percentage of assets under management.

The Legal & General and HSBC funds are all invested on an index-tracking basis. The Pyrford and Newton funds are actively managed. They both seek to achieve capital returns above UK price inflation over the long term.

Financially material considerations and non-financial matters

The Trustees have considered how ESG and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Scheme and its members.

The Trustees have limited influence over managers' investment practices where assets are held in pooled funds but expect their investment managers to take account of financially material considerations (including climate change and other ESG considerations) as the managers consider appropriate. The Trustees seek to appoint managers that have appropriate skills and processes to do this.

The Trustees do not take into account any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

Voting and engagement

The Trustees recognise their responsibilities as owners of capital, and believe that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments. The Trustees have delegated to their investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations.

The Trustees do not monitor or engage directly with issuers or other holders of debt or equity. They expect the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustees from time to time, considering the long-term financial interests of the beneficiaries. The Trustees have limited influence over managers' stewardship practices where assets are held in pooled funds, but they encourage their managers to improve their practices where appropriate.