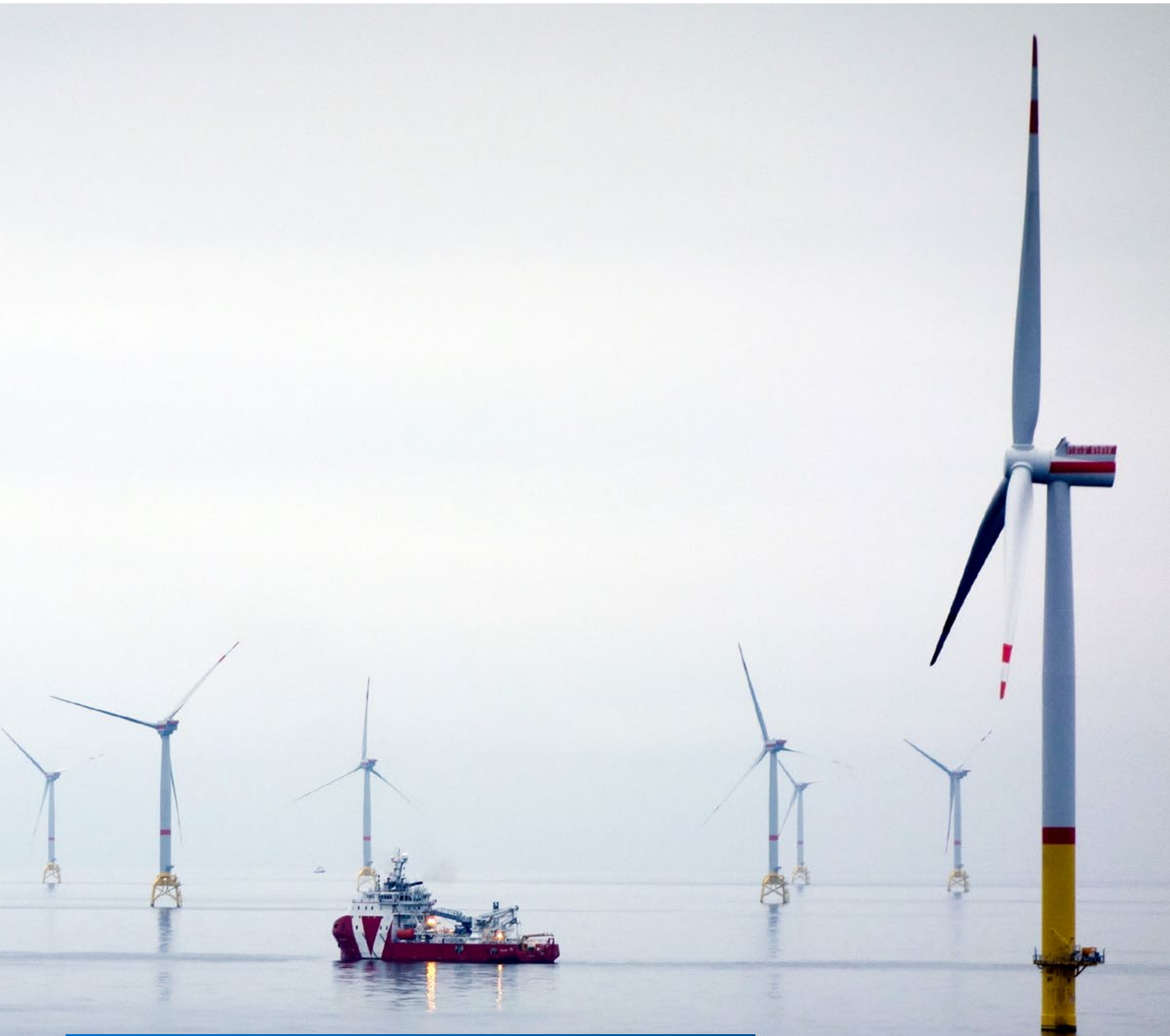
MASTERTRUST
Independent Board of Trustees



Legal & General WorkSave Mastertrust
Legal & General WorkSave Mastertrust (RAS)

Statement of Investment Principles

October 2021

Legal & General WorkSave Mastertrust and
Legal & General WorkSave (RAS) Mastertrust

Statement of Investment Principles

Introduction

As trustees of the above two Mastertrusts, we're responsible for making sure that the investment options they offer are appropriate for the employers who participate in them and ultimately for our members.

To make this Statement of Investment Principles as easy as possible for you to read while also fulfilling our legal and regulatory duties, we've split this document into six sections. These sections cover aspects such as how we select and monitor investments, how we take into account our members' needs and feedback in the investment options we offer.

To simplify the information, we've set out the investment principles for both the Legal & General WorkSave Mastertrust and the Legal & General WorkSave (RAS) Mastertrust in this one document. Therefore, the term 'Mastertrust' is used throughout to refer to both arrangements.

Whether you're an employer or a member, we hope this document gives you clear and helpful information on the principles we apply in managing the Mastertrust investments.

Background

As the trustees of the Legal & General Mastertrust, we're required by law to prepare this Statement of Investment Principles (SIP) for the default and other investment options we offer to our members. Default arrangements are the investment fund or funds that we've chosen for members who haven't actively selected an investment fund for themselves.

This SIP sets out what we aim to achieve with the investment options we offer and shows how our investment policies guide the way in which members' money is invested. We also cover some technical points to comply with both the law and the guidance set out by The Pensions Regulator. This also includes how we've complied with the climate-related requirements introduced by the Taskforce for Climate Related Financial Disclosures. These are included in the 'for the record' boxes.

This SIP was published to show the position of our investment arrangements as they stood at 2 October 2021 and we issue a separate implementation statement as part of the Mastertrust's annual report and accounts each year, which started from 1 October 2020. This describes how we've followed the principles set out in our SIP in the previous year. Unless indicated otherwise, all the content of this SIP applies to both default and other investment options offered to our members ('non-default arrangements').

To make this Statement more easily readable, we've split the main body of this document into six sections:

1. Investment beliefs
2. The aims and objectives for the default arrangements
3. The aims and objectives for investment options outside the default arrangement
4. Risks and policies
5. Governance and operational framework
6. Who's who? – a summary of all the parties involved in managing or advising the Mastertrust

As well as this Statement, we've produced a Sole Governance Default Strategies Document which gives you further details on the investment strategies and funds that are currently in place. The Sole Governance Default Strategies Document will be updated when any changes are made to our investment funds or strategies.

We review this Statement every three years, or more frequently if there have been changes to the investment strategy or significant changes to the demographics of the Mastertrust's membership.

For the record (*)

This Statement has been prepared in accordance with:

- Pensions Act 1995
- The Occupational Pension Scheme (Investment) Regulations 2005 as amended by subsequent regulations
- The Occupational Pension Schemes (Charges and Governance) Regulations 2015
- The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes Investment and Disclosure) (Amendment and Modification) Regulations 2018
- The Occupational Pension Schemes (Investment and Disclosure) (Amendment)Regulations 2019

The trustees have taken proper written advice in accordance with their legal obligations under section 36 of the Pensions Act 1995 and consulted Legal and General Resources Limited as the principal employer in the preparation of this Statement of Investment Principles.

1 Investment beliefs

The trustees believe that good governance is crucial in ensuring the best possible outcome for our members. Having strong investment beliefs is a critical part of good governance.

Investment beliefs are informed by what we know about the risks and rewards of investment opportunities and how they contribute to outcomes for members. They are a collection of high-level principles that guide investment decision-making.

The investment beliefs on which the Mastertrust's strategy is based are summarised in the table below:

Timeframe	Our investment horizon should be very long term given that investment risk and return can extend beyond 50 years for some members.
Risk and return balance	There's a link between investment risk and return. Achieving the 'best possible outcome' means that while we may pursue investments with the potential for maximum returns after all costs and charges have been taken into account, we balance this against the risks involved in the investment.
Diversification	Diversification, through investment in a range of sources of return, reduces risk and is therefore important in achieving the 'best possible outcome' in the long run.
Asset allocation	Asset allocation is the main driver of investment returns. Investments in company shares (equities) can be reasonably expected to generate better investment returns relative to fixed income assets over the long term, given their link to economic growth.
Responsible investment	Strong stewardship plays a key role in ensuring the long-term sustainability of an investment and good outcomes for members, this includes incorporating environmental, social and governance matters.
Environmental, social and governance (ESG)	The trustees believe that investments that take into account a range of ESG factors are better able to manage risk and maximise opportunities than those that do not.

We expand further on these beliefs in the following sections:

Investment types

The trustees consider the following asset classes (investment types) as appropriate for the investment of members' pension savings:

- equities (company shares);
- bonds (debt issued by governments or companies); and
- other suitable assets (such as commercial property, listed private equity, real estate investment trusts, and listed infrastructure companies).

The Sole Governance Default Strategies Document sets out how these asset classes are allocated, diversified and balanced in respect of the default arrangements and non-default arrangements.

Expected returns on investments

The trustees believe that it's important to balance investment risks with the likely long-term returns from different types of assets in which funds invest (taking the funds' costs and charges into account).

In the table below, we show how well each of the major asset classes is expected to deliver returns higher than the rate of inflation over the long term. For example, an asset class with a dark green rating is expected to provide returns comfortably above inflation in the long term.

It also shows how much the asset class is likely to move up and down in the short term. For example, an asset class with a dark red rating is likely to show significant rises and falls in the short term. We refer to this measure as 'volatility'.

Asset class	Expected long-term investment returns relative to inflation	Expected short-term volatility in fund values
Equities (company shares etc.)		
Property (offices, shops, warehouses etc.)		
Multi-asset funds		
'Alternative' assets (infrastructure, private equity etc.)		
Corporate bonds (loan stocks issues by companies etc.)		
Fixed interest government bonds (all stock gilts etc.)		
Index-linked government bonds (UK index linked gilts etc.)		
Cash (and other short-term interest-bearing investments)		

Keys to colours in the above table:

	Expected long-term return v inflation	Short-term ups and downs
Dark green	Returns significantly in excess of inflation	Stable returns
Light green	Returns in excess of inflation	Some short-term ups and downs
Amber	Return slightly above inflation	Frequent ups and downs
Red	Returns broadly in line with inflation	Meaningful moves up and down
Dark red	Returns at or below inflation	Significant moves up and down

Financially material considerations

The trustees recognise that many members have a long time until their retirement and therefore investment(s) should usually be considered over a period of at least 50 years.

The trustees' long-term focus leads to the belief that for investors, the most effective way of enforcing a strong ESG policy is through responsible ownership and proactive engagement with companies rather than avoiding investment in them. Therefore, in general, a promising investment opportunity should not be automatically excluded from consideration on ESG grounds only.

The trustees recognise that the consideration of financially material considerations, including (but not limited to) ESG factors which include climate risk, are relevant to the development, selection, monitoring and realisation of the Mastertrust's investment options. The trustees have developed their principles on ESG matters which they take into account in the monitoring and selection of investment managers and they expect their investment managers to make decisions and align their stewardship activities and engagement with investee companies, based on the trustees' investment policies. The trustees expect that Legal & General and the Mastertrust's fund managers will have the members' financial interests as a key priority.

Further information on how this is implemented is covered in section 5.

ESG investment beliefs

The Mastertrust's approach factors in the following beliefs about ESG:

1. **Climate change, and its direct and indirect impact, poses a significant macro-economic risk for long-term investors.**

2. **In the long term, investments which consider a range of environmental, social and governance (ESG) factors, including climate change, will likely be more able to manage risk and maximise opportunities without compromising returns.**

3. **Climate risk is a significant risk which should be taken into account to ensure all risks and opportunities are captured in terms of the impact on investments.** The trustees have a separate climate policy and set of climate beliefs which can be viewed here.

4. **Consideration of ESG factors can help to mitigate investment risk.**

   The trustees believe that given the long-term nature of pension investments, considering ESG issues is important in managing risks and ensuring an investment's long-term sustainability. Reliable ESG data can provide valuable insight into how well a company is run and what the key emerging risks are for that business.

The trustees recognise that there are currently some limitations in the ability to systematically measure ESG factors and welcome developments in the areas of measuring, monitoring and influencing behaviours in relation to them. For example, while there's a common understanding of what we mean by strong governance and there's both guidance and a code of best practice around it, there are different perspectives as to what should be included under the terms 'environmental' and 'social' in the context of ESG-related policies.

5. **Investment managers should apply ESG considerations across all asset classes where sufficiently reliable ESG data can be sourced.**

   The trustees recognise that this is a developing process and that the data managers can provide is currently limited; however, the trustees expect this to improve over time.

6. **The varying timeframes within which the effects of climate change materialise can mean that the risk implications are often sector and region-specific, and ultimately dependent on the type of the portfolio.**

   As such, the climate-related risks and opportunities may differ across the default arrangements, depending on asset allocation and stage of retirement journey.

7. **Stewardship of assets is critical.**

   The trustees believe that a policy of engagement with companies to manage expectation and encourage change is preferable to a policy of divestment. However, the trustees recognise that there may be circumstances where divestment is appropriate where engagement has not produced the desired impact.

Stewardship

The trustees take their responsibilities as stakeholders seriously and, through their fund managers, seek to improve governance standards within companies to enhance the long-term sustainability of members' pension investments.

The trustees' voting decisions on stocks are delegated to the fund managers. There is an expectation that the managers will exercise that voting power and engage with companies to preserve and enhance long-term value. The fund managers are expected to exercise voting rights and use their influence with the interests of the Mastertrust's members in mind, although it's appreciated that the wider investor base of pooled funds will be considered. The trustees expect fund managers to be able to evidence their own governance practices on request. How the trustees monitor stewardship is covered further in section 5.

The trustees have appointed Legal & General Investment Management (LGIM) as their primary asset manager. LGIM's stewardship policies, including its conflict of interest policies can be found here: https://www.lgim.com/uk/en/capabilities/corporate-governance/stewardship-and-integration/

Non-financial factors

The trustees recognise that some members will have strong personal views or religious convictions (including ethical views, views on social and environmental impact and present and future quality of life of members and beneficiaries of the Mastertrust) that influence where they believe their savings should or should not be invested.

The trustees continue to conduct periodic surveys to learn more about our members' views on a range of subjects relating to investments, including non-financial factors such as ethical or religious considerations. The trustees aim to bear members' views in mind when reviewing the suitability and selection of the investment options and choice of funds as well as the retention and realisation of investments. However, the trustees won't be bound by members' views. For instance, it may be impractical to try to reflect every viewpoint due to the many different opinions that are likely to exist across the very large membership of our Mastertrust.

In addition to funds which consider the investment risks related to ESG factors, the trustees offer a choice of ethical and faith-based funds for members who are likely to hold stronger views in these areas than the majority of members.

The trustees note that non-financial factors can affect various investment risks for members and these funds may underperform other funds with broader-based investment approaches. The trustees are first and foremost concerned with ensuring members have the best chance at achieving good long-term investment outcomes; as such, it is the trustees' belief that managers should consider the investment case ahead of non-financial factors in the selection, retention and realisation of investments. Further details on the implementation of governance factors are considered in section 5.

Asset managers' policy

The trustees invest Mastertrust assets in pooled funds via an investment platform operated by Legal & General Assurance Society Limited. The trustees have appointed LGIM as their primary asset manager to make day-to-day investment decisions in relation to the pooled funds. LGIM appoints underlying asset managers to make decisions in respect of certain elements of some portfolios it manages. In addition, members may access external fund managers on the platform for some of the funds. The day-to-day management and monitoring of portfolio costs is delegated to the investment managers, as is the level of turnover within the portfolios. The trustees, with the help of their investment adviser, will periodically consider these factors, among others, when they review a fund or strategy to ensure they remain appropriate.

The trustees do not expect investment managers to take excessive short-term risk and will monitor the investment manager's performance against the benchmarks and objectives on a short, medium and long terms basis.

When selecting actively managed funds, the trustees will consider, with the help of their investment advisers, the expected level of turnover commensurate with a fund's investment objectives, the investment manager's investment processes and the nature of the fund's assets.

Whilst the trustees expect performance to be delivered net of costs, including the costs of trading within the portfolio, the trustees will ask the investment platform provider or investment managers on the platform to report on at least an annual basis the underlying assets held within fund with details of any transactions and turnover costs incurred over the Scheme's reporting year.

The trustees invest some assets with external fund managers. LGIM conducts due diligence prior to adding new funds to their platform and on an ongoing basis, including a questionnaire exploring the fund managers' approach to matters including their ESG policies.

The trustees have policies in place with their asset managers, which govern the trustees' relationship with the asset manager, including specifics around managers' remuneration, performance, strategy, approach to engagement with investee companies and integration of the trustees' investment policies including their climate policy into their decision-making.

The policies incentivise those managers to:

(a) align their investment strategy and decisions with the trustees' policies as set out in this statement;

(b) make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer or debt or equity; and

(c) engage with issuers of debt or equity to improve their performance in the medium to long-term.

This is achieved in the following ways:

(i) Asset managers are paid based on a percentage of assets under management. This incentivises an alignment of interests with the ultimate of goal of the trustees, that of the best member outcomes achieved through positive long-term performance.

(ii) In addition, no contract with asset managers is under a fixed term and asset managers can be replaced if at any point the trustees and their investment adviser believe they are not acting in members' best interests.

(iii) The primary asset manager is made aware of the trustees' investment objectives, strategy and approach to ESG and other financially material considerations to ensure that they are accurately reflected. The trustees review LGIM's investment strategy and approach (as the primary asset manager) to ensure they are aligned with their own. Among other factors, this review considers beliefs, processes and investment horizon, to ensure that LGIM remains a suitable primary investment manager.

(iv) Investment performance and continued appropriateness for the default options are monitored and evaluated at least quarterly and reviewed in more depth at least annually by the investment adviser on behalf of the trustees. This ensures that performance and strategy is in line with the trustees' policies and expectations and offered at a suitable cost level. Other factors taken into account by the review include, but are not limited to, whether the defaults continue to reflect members' beliefs and requirements as the trustees as understand these to be, and whether alternative products are available in the wider market that might suit members better.

The trustees are comfortable that LGIM takes the issues of responsible investing seriously and that its beliefs in how to make decisions based on medium to long-term financial and non-financial performance of companies are aligned with those of the trustees.

LGIM's policies on corporate governance and responsible investment can be found here: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-global-corporate-governance-and-responsible-investment-principles.pdf.

2 Aims and objectives for the default arrangements

The Mastertrust has default arrangements which are designed to allow members who don't want, or don't feel able, to make their own decisions on their investments to have an appropriate place for their pension contributions to be invested.

Why do we have default arrangements?

As well as believing that it's helpful for members, the trustees are required by law to have default investment arrangements for the Mastertrust. This is because:

- the Mastertrust is a qualifying scheme for auto-enrolment purposes so it must have default arrangements;
- we believe it should be easy for someone to become a member of the Mastertrust and start building retirement benefits without the need to make any investment decisions; and
- we believe that a majority of the Mastertrust's members are expected to have broadly similar investment needs.

The default arrangement for your employer will depend on the governance model they have selected.

When an employer decides to offer its pension arrangement through the Mastertrust, it will select one of two governance models depending on how involved it wants to be in the running of its pension scheme, and in particular, the setting of the investment strategy.

Sole governance

Your employer delegates all the fiduciary and governance responsibilities to the Mastertrust trustees. For example, the design of the default arrangement and other investment funds. Under sole governance there is a choice of pre-designed investment strategies. In addition, upon request, the Mastertrust trustees will also consider the creation of a bespoke default under their 'sole flexibility' policy using a pre-approved range of funds.

Shared governance

Your employer is actively involved in the pensions arrangement and takes investment advice, both initially and on an ongoing basis, from its own adviser. It reviews its tailored investment strategy and its ongoing appropriateness to its membership at least every three years. The employers are expected to take into account and align with key principles laid out in the Mastertrust SIP The trustees approve the investment strategy and any changes to it. The ongoing fiduciary responsibility remains with the Mastertrust trustees.

In addition to the above accumulation models, the Mastertrust offers an At-retirement solution for members and employers and a section that accepts deferred members only:

At-retirement

The At-retirement section of the Mastertrust offers an appropriate vehicle for members to invest into at the point of, and following, their retirement. It's also available to members of other occupational pension schemes which offer their members a suitable post-retirement vehicle.

Deferred Liability

This section is for deferred members, transferred in from own trust arrangements with no on-going participating employer. As standard the default arrangements will be the pre-designed investment strategies under the sole governance model. The Mastertrust trustees will approve an alternative strategy if they think it in the best interest of members and review them on a regular and ongoing basis according to the sole governance principles

Objectives for the default arrangements for the sole governance model

The main objective of the default arrangements for the sole governance model is to help deliver good member outcomes at retirement. The defaults for the sole governance model currently invest in a wide range of asset classes. You can find full details of the current default arrangements, including asset allocation, in the Sole Governance Default Strategies Document.

To achieve their objective, the trustees believe that it's in the interests of the majority of members to offer default arrangements which:

- manage the main investment risks members face during their membership of the Mastertrust;
- target a long-term investment return above the rate of inflation while taking a level of risk which is considered appropriate for the majority of members who do not make investment choices;
- reflect members' likely benefit choices at retirement; and
- provide good value for members given that they pay the investment costs within the Mastertrust.

The trustees have agreed that any funds used within the default arrangement and more widely within the Mastertrust should be among the 'best of breed' within their asset class or compared with their peers. This means that the manager who provides the fund or funds within the default arrangement will be a well-resourced and stable asset manager with a reputation for being consistently good over a long period of time in the fund's sector or asset class.

A good manager will meet expectations in terms of long-term track record and/or confidence and ability in controlling risk and delivering return. The manager should have robust operational capability and provide outstanding service, allied with competitive costs and charges.

The levels of investment return that we expect to see after charges are removed, and the risks for the funds used in the default arrangement, are consistent with the trustees' objectives. You can find out more about expected investment returns and our approach to managing investment risks, including financially material considerations in section 4.

The trustees regularly review the ESG and stewardship policies of the default arrangements to ensure that they're aligned with the trustees' own policies, which in turn are informed but not bound by the trustees' best understanding of the membership's belief, to the extent that this is possible. Where there is noticeable misalignment, the trustees question, and, where necessary, exert pressure on the manager or consider the continued appropriateness of the fund or funds.

Overview of default arrangements for the sole governance model

Employers under the sole governance model have a choice of four pre-approved default arrangements that they can choose from. These are:

Target Date Funds previously known as Pathway Funds – These enable groups of pension savers that are all targeting a similar retirement date to save together in a single investment fund. The mix of assets within the fund changes over time to reflect the needs of scheme members as they approach and go beyond their target retirement date. They aim to generate a return above the rate of inflation while members are a relatively long way from retirement and then gradually reduce 'risk' (the short-term ups and downs in value of the pension pot) as they get nearer to when they expect to retire. Target Date Funds are constructed in five-year date periods, each beginning and ending at the start of July, and members' savings are invested in the fund that matches most closely when they expect to retire. Therefore, a member with target retirement date of 2048, for example, will be defaulted into the 2045-2050 Target Date Fund. Legal & General changed the name of these funds in 2021 at our request, to avoid confusion with investment pathways.

The Multi-Asset Fund – The investment objective of the fund is to provide long-term investment growth through exposure to a wide range of asset classes at a risk level that's suitable for a member of any age. The Multi-Asset fund mostly puts money into investments which aim to track market performance. The trustees believe this 'one size fits all fund' is suitable for members who don't yet know how they wish to access their retirement savings.

Future World Multi-Asset Fund – Some employers may wish to offer members a default arrangement that takes a positive stance towards matters that affect the environment, the way people are treated, and the way organisations are run. These are generally known as environment, social and governance factors or ESG for short. To accommodate this, the trustees offer the option of the Future World Multi-Asset Fund. The investment objective of the fund is to provide long-term investment growth through exposure to a wide range of asset classes while reflecting significant ESG considerations in the fund's investment strategy. The fund invests mostly through funds which aim to track market performance with the exposure to stocks and bonds influenced by the ESG scores of eligible stocks and bonds. Where an ESG approach is not likely to be feasible or meaningful, the fund uses traditional index funds to gain exposure to the asset class. The employer will choose the fund or funds or lifestyle strategy that they believe are most appropriate for their members.

The Drawdown Lifestyle – This strategy invests in a wide range of assets throughout a member's career with the aim of generating a return above the rate of inflation while members are still a relatively long time away from their retirement. It then reduces 'risk' (the short-term ups and downs in value of the pension pot) three years before the member's selected retirement date. The trustees believe that the fund used in the last three years of the strategy is suitable for members who intend to leave their pension pot invested through their retirement and opt to draw their money down flexibly after retirement, a practice known as 'income drawdown'. The key difference between this strategy and the Target Date Funds for the sole governance model is that risk is reduced in the three years leading up to a member's selected retirement date.

For the record

Cash Fund – As explained above, under the sole governance model, employers can select one of the four defaults for their employees. There is an additional default fund, the Cash Fund Default, which the trustees oversee in the same manner as the other four, but which isn't available for the employer to select for their employees. The Cash Fund falls within the definition of a default fund because members' contributions may be re-directed to it without their consent. For example, if members' self-selected choice of funds, such as property funds, have been suspended, their contributions may be diverted to this Cash Fund Default. The Cash Fund will be treated as a default and overseen by the trustees accordingly, regardless of whether it is receiving active contributions. You may see further references to cash funds in the Sole Governance Default Strategies Document. This is because the Legal & General PMC Cash Fund 3 features in different investment strategies. The Cash Fund Default is a ring-fenced section within the Legal & General PMC Cash Fund 3.

Objectives for the default arrangements for the shared governance model

Under the shared governance model, the investment strategy for both the default strategy and the self-select funds is determined by the employer's own independent investment adviser, prior to being reviewed by the Mastertrust investment adviser and approved by the trustees.

The main objective of the default arrangements in the shared governance model is to help deliver good outcomes for members at retirement specific to the employer's membership.

In the shared governance model, we expect participating employers to take into account a range of criteria which reflect those that the trustees use under the sole governance model as outlined above. We also expect them to review any feedback they've received in relation to their members' views on pension investments.

Any employer-designed strategies under the shared governance model are presented to the Mastertrust trustees and require our approval before they're introduced. We also require participating employers who design their own investment strategy to review this with their own investment adviser at least every three years or when there are any significant changes to the membership. Any changes must be agreed with the Mastertrust trustees who may receive advice from their own investment adviser regarding any proposed strategy.

Deferred liability

Employers or trustees who manage own trust arrangements sometimes seek to transfer pension pots for their deferred members into the Mastertrust. Under these arrangements there's no requirement for the employer to participate in the Mastertrust on an on-going basis.

Typically, the employer or ceding trustees will select one of the sole governance defaults for their deferred members. However, there are some scenarios where the Mastertrust trustees oversee default arrangements under the sole governance model that differ to the pre-designed investment strategies available for employers to select. The Mastertrust trustees will approve these strategies if they think they're in the best interest of members and review them on a regular and ongoing basis according to the sole governance principles. The trustees will make changes to these sole governance strategies if they believe they are no longer in the members' best interests.

At-retirement

This section of the Mastertrust offers its members and members of other trust-based pension schemes with defined contribution benefits (including schemes which also offer defined benefits) the opportunity to join the Mastertrust after the point of retirement. It's intended to meet the needs of:

- members who want to access their pension pots in a way that they can't do in their current pension scheme; and
- trustees of other occupational pension schemes seeking to provide their members with access to a post-retirement solution that's designed to mirror their current scheme arrangement.

The Mastertrust can accept applications directly from members and there's no requirement for employers to formally participate in the Mastertrust by way of a deed. A simple service agreement between an employer and/or the trustees and Legal & General Resources Limited is all that's needed before members apply to join.

The At-retirement section of the Mastertrust does not have a regulatory default but instead offers 'Investment Pathways' as the initial investment option for taking drawdown.

A single fund has been selected as a 'default' for members who do not take drawdown but instead take partial uncrystallised funds pension lump sums (UFPLS).

Details of these arrangements can be found in the Sole Governance Default Strategies Document.

Some employers choose to offer bespoke investments for members under this proposition and can do so on completion of an investment protocol that requires them to follow the same governance as under the shared governance model. This means they have to review their investment strategy with their own investment adviser at least every three years or when there are any significant changes to the membership. Any changes must be agreed with the Mastertrust trustees who will receive advice from their own investment adviser.

3 Aims and objectives for investment options outside the default arrangement

As well as the default arrangements for the different governance models above, the Mastertrust offers members a choice of self-select investment options. In designing this ‘self-select’ fund range, the trustees take into account aspects such as members’ likely pot sizes at retirement, how members are likely to access their pension pots at retirement, different levels of investment risk, and members’ likely demand for specialist funds. In particular, in creating a suitable fund range, certain considerations are taken into account:

- While the default arrangement is intended to meet the needs of a majority of the Mastertrust’s members, it may not meet the needs of all. The self-select fund range is designed to complement the default arrangement and to be suitable for those members who wish to actively choose their own funds.
- Attitudes to investment risks and the need for investment returns not only vary between members, but also for an individual member during the lifetime of their pension plan. Particularly, as members approach retirement, they will generally have a smaller appetite for risk and the range of funds available to them should reflect this.
- Members have differing investment needs which change during their working lives.
- Some members will want to be able to access faith-based and ethical funds.
- The output from industry and other relevant surveys. For example, surveys on member choice generally suggest that:
    - too little choice is viewed negatively by members;
    - too much choice can prove confusing and deter members from taking action; and
    - some members will not regularly review their choices.

We recognise that the self-select fund range can’t be expected to cover all the investment needs of all members.

Within the shared governance model, employers, supported by advice from their own investment advisers, can request a bespoke self-select fund range. However, all funds involved must be approved by the trustees who may take advice from their own investment adviser.

Costs of investment options

It’s important to note that some specialist funds may be more costly to invest in than the default fund. Therefore, a balance needs to be struck between choice and costs.

Risk and return

The investment returns we expect to see after charges are taken off and risks for the funds used are consistent with the trustees’ objectives for these investment options. The expected investment returns and approach to managing investment risks, including financially material considerations such as climate change, are described in Section 4.

Full details of the current investment options are provided in the Sole Governance Default Strategies Document.

4 Risks and policies

Introduction

This section sets out the risks and policies which guide the trustees' decision-making.

Risks

The trustees have developed and maintain a framework for assessing the impact of investment and asset risks on long-term investment returns.

Principal investment risks

The trustees believe there are three principal investment risks that most of our members face. These are set out below along with the actions that we, as trustees, take to mitigate these risks:

Risk	What is this?	What do the trustees do to mitigate this risk?
Inflation risk	The risk that investment returns over our members' working lives may not sufficiently exceed inflation and, as a result, may not produce adequate retirement benefits.	Within our selectable default arrangements, members are invested in funds that are expected to produce returns well in excess of inflation over the long term. There are funds under the self-select fund range which have been made available to provide specific investment options to members which may not exceed inflation, for example the L&G PMC Cash Fund 3.
Converting pension pots into an income in retirement	The risk that members' asset allocation just before their selected retirement dates is not aligned with their retirement plans and will increase the cost of turning their pension pots into an income in retirement.	At the point of retirement, members can invest in a broad selection of investments which are designed to be suitable for members who wish to access their pension flexibly after retirement. We recognise that not all members will do this and therefore we also offer members the choice of taking 100% of their pension pot in cash, or 75% in bonds and 25% in cash at the point of retirement for those wishing to buy a guaranteed income for life (called an 'annuity'
Market risk	The risk that members' pension pots will fall in value at any point during their membership, especially as they approach retirement when there's less time to recoup losses.	Our default arrangements use a mix of higher and lower risk assets and we seek to manage the risk of large falls in markets just before a member's selected retirement date. The self-select fund range offers options with different levels of return and risk that members can choose from.

Other investment risks

The trustees believe that members may face other investment risks:

Risk	What is this?	What do the trustees do to mitigate this risk?
Active management risk	The risk that an actively managed fund (where a manager chooses specific stocks or investments with the aim of beating a pre-determined target) may not meet its target in the medium to long-term. This is often known as stock selection risk.	The trustees monitor the performance of all actively managed funds as well as any other relevant changes affecting the fund manager, on a quarterly basis. Most of the funds offered by the Mastertrust are index-tracking funds where there is no stock selection risk.
Concentration Risk	The risk that a member will be overexposed to a single asset class, stock, issuer, geography, currency or other source of risk.	Within the default options this risk is managed through strategies that are suitably diversified. Members wishing to increase exposure to certain factors may self-select to if they desire through the self-select range that has been made available to them.
Counterparty risk	Also referred to as reinsurance credit risk, this is the probability that the other party in an investment may not fulfil its part of the deal and may default on the contractual obligations. Depending on the fund selections made by members, some of the assets held by PMC are invested with external providers outside the Legal & General Group. When one insurance company (LGAS) invests its assets with another (PMC), this is known as reinsurance. This reinsurance arrangement has its own rules and impacts members' rights to claim compensation.	Where applicable, this is highlighted as a fund specific risk included with the fund literature.
Currency risk	The risk that the value of the British pound sterling changes against foreign currencies, affecting the returns on funds.	Some fund managers consider currency exposure as a source of returns although it could increase the volatility of returns. The trustees consider the way in which the protection against currency fluctuations is managed for the sole governance range on a fund by fund basis.
Interest rate and default risk	The risk that changes in interest rates in the UK and/or abroad will affect the value of bond holdings, and the risk that there may be companies or governments which fail to pay the agreed interest on the bonds and/or repay the capital.	The default arrangements invest in a range of asset classes and the self-select fund range offers members a wide choice of funds. Most of the bond funds offered are index-tracking and hence, investments are spread across many different bonds.

Risk	What is this?	What do the trustees do to mitigate this risk?
Liquidity risk	The risk that the assets within the funds that members hold cannot be bought or sold when members wish to invest or disinvest.	There is no investment directly in individual stocks, bonds or any other assets. Members' pension savings are invested in daily priced pooled funds only. The trustees make best endeavours to ensure that all funds fulfil the legal requirements for liquidity (assets readily available to be bought and sold) and avoid offering funds that hold assets that by design can't be readily traded. It's acknowledged that property funds could encounter some liquidity issues in abnormal market conditions.
Suspension risk	The risk that assets within the funds cease to trade as a result of market conditions.	The trustees have implemented a Cash Fund Default as a low risk, 'liquid' option (one that's backed by assets that are readily-available to be traded) in which to invest self-select members' future contributions if any funds such as property funds, cease to trade due to market conditions or otherwise.
ESG risks	The extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision-making, leading to underperformance relative to expectations.	The trustees have a clear set of ESG beliefs, as set out in this document and their separate climate policy, which are reflected in the funds they choose to offer to members.
Climate change risk	The extent to which climate change causes a major fall in asset values because of factors including, but not limited to, policy change, physical impacts and the expected transition to a low-carbon economy. This includes the extent to which investment decisions made by the trustees, as an asset owner, could play a role in influencing climate outcomes when combined with the actions of other asset owners.	The trustees' ESG beliefs cover climate change risk and they receive regular training on the possible long-term impacts on the funds offered to members.
Changes in law/regulation	Changes in government policy or the tax regime may impact on certain sectors of the economy or on pension schemes and, hence, the appropriateness of investment strategies.	The trustees' advisers keep us informed of any changes in the law and regulations that may affect the appropriateness of our investment strategies for members.

Security of assets

The funds we offer to members are provided through a policy of insurance issued to the trustees by Legal & General. As a result, the value of members' funds may be affected in the event of the provider getting into financial difficulties.

The trustees have considered in detail the financial strength of Legal & General and believe that it offers members a high degree of security. This position will be reviewed at least annually by the Governance, Risk and Audit Committee. As part of the process to become an authorised master trust, Legal & General had to fulfil very stringent requirements including its financial sustainability. The Mastertrust is now fully authorised and subject to ongoing supervision by The Pensions Regulator.

The underlying funds offered on the provider's platform are managed within a variety of different investment structures and by a range of different fund managers. In the event of a fund manager getting into financial difficulties, the values in these underlying funds will depend on the nature of the contract between Legal & General and the fund manager. The trustees have reviewed the structure of the funds that we offer to members and are comfortable that the structure is appropriate when compared with other options available in the market.

As noted above, the Mastertrust only invests in funds offered through policies of insurance with Legal & General. These unit-linked funds have to meet the regulatory 'permitted links rules' which control the risk and quality characteristics of the funds. In practice, this means investments are generally made in mainstream assets such as bonds, and listed equities traded on recognised and regulated stock exchanges and markets, and there is limited use of derivatives (something which gets its value from an underlying source) and leverage (the use of borrowed money to finance the purchase of assets).

Funds are held in pooled funds through a policy of insurance with a reputable insurer and members are afforded Financial Services Compensation Scheme ('FSCS') protection*. The valuations are reflected in the audited pooled funds which reflect the daily priced underlying securities.

* The FSCS has not made any pay-outs for asset managers or insurers and will not state the conditions under which pay-outs will be made. However, legislation requires a 100% pay-out in the case of insolvency of an insurer. In any case the assets and liabilities of the insurer are ring-fenced to provide protection for members.

5 Governance and operational framework

Investment horizon

The Mastertrust is open to new members from age 16 on a voluntary basis. As a result, given the likelihood of increases in retirement ages in the future, investment risks need to be considered over a time horizon exceeding 50 years.

Implementation

The Mastertrust uses pooled funds offered through the Legal & General platform. This means that the trustees cannot adopt an approach to managing financially material considerations specific to the Mastertrust. The trustees nevertheless seek to manage financially material considerations to protect long-term returns by:

- choosing fund managers that have clearly articulated policies for managing financially material considerations (including climate change) for the selection, retention and realisation of investments;
- considering the extent to which ESG issues, including climate risk where relevant, are integrated in the fund managers' investment processes;
- expecting the fund managers for actively managed funds (where the fund manager decides where to invest) to take financially material considerations into account when selecting which companies and markets to invest in;
- recognising that for index-tracking funds, the funds' objectives are to deliver returns in line with their benchmarks which may or may not take into account ESG factors;
- expecting fund managers for all funds to engage with companies in which the fund manager invests to encourage business strategies and governance frameworks which should improve or protect the value of those investments; and
- preferring fund managers who are signatories to the Financial Reporting Council's Stewardship Code in the UK and the United Nations supported Principles for Responsible Investment.

The trustees have made available to members within the sole governance model and within the self-select fund range, an ESG-based multi-asset fund which systematically incorporates ESG factors when allocating investment to debt and equities issued by companies.

Delegation of investment decisions

As we highlighted above, the Mastertrust uses funds provided through an investment platform. This means that the trustees have delegated day-to-day investment decisions, including the management of financially material considerations, to the fund managers of the chosen funds.

Realisation of investments

The trustees expect that the investment platform provider and the fund managers will normally be able to sell the funds within a reasonable timescale. There may, however, be occasions in some market conditions where the investment platform or fund managers need to impose restrictions on the timing of sales and purchases of funds (most notably for funds investing in property) to protect the interests of all investors in that fund.

Nevertheless, the trustees recognise that most members' pension pots have a long investment timeframe during which assets which are less easily traded, such as property or infrastructure, can be managed to deliver good long-term returns while avoiding the impact of liquidity issues at retirement.

Monitoring

The trustees are responsible for monitoring the appropriateness and performance of the default arrangement and other funds on a regular basis. We've outlined below the areas that we monitor, how we do this and how often.

Funds

The trustees monitor the performance of funds offered to members in terms of both returns and risk, against the agreed or appropriate performance objectives. The performance is reviewed net of all costs including transaction costs, which means that the trustees can see if the funds are meeting their objectives, taking into consideration explicit costs. This is to ensure that they remain fit to deliver the expected return or the risk management objective of the investments.

Funds are monitored on a quarterly basis with a formal review taking place of each investment fund annually. Our investment adviser informs us of any changes to the way funds are managed and any other relevant news or issues (such as changes to the teams managing funds, unexpectedly high costs, large outflows of cash) on a timely basis following the change.

As the Mastertrust invests in insured pooled funds only, the fund managers are responsible for appointing custodians (firms which ensure the safe-keeping of the Mastertrust's assets) for the funds they are managing on behalf of all investors in their funds. The trustees recognise their role in engaging with their managers on this topic.

The trustees monitor the extent to which fund managers have taken into account financially material considerations in the selection, retention and realisation of investments. This forms part of the manager review process conducted by the trustees' investment adviser to ensure fund managers adhere to their ESG and engagement policies (including their policies on climate related risks and opportunities) including the exercise of voting rights.

Default arrangements

An in-depth review of the default arrangements within the sole governance models is conducted every year. Under the shared governance model, confirmation is required from the participating employers that their own investment advisers have carried out a three-yearly review. The trustees' investment adviser may also be asked to review shared governance default funds as and when deemed necessary.

If the trustees aren't satisfied with a fund, they will instruct the investment adviser to find possible alternatives. In replacing any fund, the trustees take into account the transition cost to members of switching to the new fund and seek to minimise these costs.

Charges and transaction costs

The trustees have a responsibility to make sure that charges and transaction costs incurred by members are reasonable and represent good value for money. We review these costs on all default funds (and the individual underlying funds, if relevant), as well as the self-select fund range at least once a year.

In addition, the trustees expect Legal & General to monitor compliance with the charge cap for auto-enrolment purposes no less frequently than quarterly, and the trustees monitor compliance based on this information.

Employer-related investments

There is no direct employer-related investment in relation to the principal and participating employers. The funds which are made available by the trustees for members of the Mastertrust to invest in may have underlying investments in securities of those participant employers which are quoted on the relevant stock exchanges. It's impractical to estimate the percentage of such indirect employer-related investments due to the number of funds and employers in the Mastertrust. Every year the trustees obtain an analysis of the underlying securities in the top 15 funds which account for 95% of the Mastertrust's net assets and check that there are no employer-related investments exceeding 5% of the Mastertrust's assets.

Stewardship - engagement

The trustees do not directly select companies for investment or give stock level guidance to fund managers. Neither do they directly liaise with, or give guidance to, their asset managers to engage with specific companies for investment (such as issuers of debt or equity) or other stakeholders including other holders of debt or equity.

The trustees therefore delegate to their investment manager responsibilities including, but not limited to, engagement with any and all relevant parties connected with investments and the monitoring of the capital structure, risks, social and environmental impact and governance structure of the companies in which they invest. The trustees have shared their beliefs with the primary investment manager and retain them with an understanding that their interests and beliefs are aligned.

However, the trustees monitor their asset managers by regularly reviewing the voting and engagement policies of their fund managers. They receive regular reports from managers on their voting records to ensure that:

- the managers are acting in the best interests of members;
- the managers' voting practices reflect the trustees' approach to voting across all asset classes;
- the managers' definition of significant vote aligns with the trustees' approach to voting; and
- the managers' engagement with, and assessment of, investee companies is aligned with the trustees' investment policies.

The trustees meet the Mastertrust's largest fund managers annually to discuss how they are engaging with companies and other relevant parties, including other stakeholders or other holders of debt or equity and to consider the results of this activity. This also allows the trustees to understand developments in this part of the market that may provide opportunities for members in the future.

Managing conflicts of interest

The trustees avoid potential or actual conflicts of interest both with engagement and other parties with an interest in companies in which they invest by deferring the direct engagement to the investment managers. The trustees, with the help of their investment adviser, review the investment managers regularly to ensure that they continue to believe they are appropriate for investing members' funds in. As the primary asset manager, the trustees have reviewed the relevant policies of Legal & General Investment Management (LGIM) and have confirmed that they are comfortable that these are both adequate and suitable.

Industry developments

The trustees want to ensure that they offer a fund range that's among the best in relation to the current market background. They also aim to keep abreast of industry developments in relation to new strategies and funds that become available for investment. The trustees receive regular updates from our investment adviser on market and fund developments.

Reporting

The trustees arrange for the preparation of:

- the Mastertrust's audited Annual Report and Accounts (which includes the Annual Governance Statement);
- the Annual Governance Statement by the Chair of trustees, describing the Mastertrust's investment costs, value for members and governance during the previous year;
- publication of an extract from the Annual Governance Statement by the Chair of trustees in a publicly searchable location online;
- an annual return to The Pensions Regulator; and
- an annual Implementation Statement (starting from October 2020) describing how the trustees have complied with the terms of this Statement of Investment Principles.

The trustees advise the participating employers of any changes to the Statement of Investment Principles.

The trustees also make available, through the platform provider, information to members including fund fact sheets which detail the asset mix of funds and the performance against benchmarks. These are available online for members to view and are updated on a quarterly basis. The trustees also report to members through the Annual Governance Statement by the Chair of trustees on the progress of investments (including performance) and the ongoing suitability of the default arrangements.

Exercising the trustees' powers

The trustees will always act in the interests of the members.

The trustees delegate the day-to-day work on the Mastertrust's administration and investments. The current service providers to the Mastertrust together with how they are paid is set out in Section 6 of this document.

Conflicts of interest

In the event of a conflict of interests, the trustees will ensure that contributions are invested in the sole interests of members and beneficiaries.

General

The trustees' approach to investment governance complies with the provisions of the Mastertrust's Trust Deed and Rules as well as legislative requirements.

The Mastertrust's investment governance is also intended to meet the expectations set out in The Pensions Regulator's 2016 Code of Practice 13.

6 Who's who and what do they do for the Mastertrust?

The table below shows the key players involved in the successful running of the Mastertrust and describes the roles they play. It also shows how they are paid.

Service provided	What do they do?	Who provides this to the Mastertrust?	How are they paid?
Mastertrust trustees	The role of the trustees is to make sure the Mastertrust is well run, that it meets all its legal and regulatory requirements and is run in accordance with its rules and in the best interests of our members.	The Trustee Board is made up of four corporate trustees: Legal & General Trustees Limited The Law Debenture Pension Trust Corporation plc 2020 Trustee Services Limited PLC BESTrustees Limited	There are currently five trustees on the Trustee Board, two of whom serve in that role in their capacity as directors of Legal & General Trustees Limited. The directors of Legal & General Trustees Limited are paid a fixed fee for carrying out their duties. Fee agreements are in place with the three independent trustee firms which are made up of fixed and variable fee elements. You can find details of the members of the Trustee Board at www.legalandgeneral.com/mastertrust
Principle fund manager	The principal firm that manages the investment of funds' assets. Decisions on the day-to-day management of the funds are delegated to the fund managers.	Legal & General Investment Management (LGIM)	Percentage of fund value included within funds' charges.
External fund managers	The external firms that manage the investment of funds' assets. Decisions on the day-to-day management of the funds are delegated to the fund managers.	A variety of managers - these are outlined in the Sole Governance Default Strategies Document.	Percentage of fund value included within funds' charges.
Pension administrator (administration platform)	The firm that carries out the day-to-day administration for the Mastertrust, including investing contributions and managing switches between funds.	Legal & General Assurance Services (LGAS)	Percentage of fund value included within funds' charges.

Service provided	What do they do?	Who provides this to the Mastertrust?	How are they paid?
Investment platform provider	This is the structure through which the Mastertrust's investment funds are offered to members.	Legal & General Assurance (Pensions Management) Limited (PMC)	Percentage of fund value included within funds' charges.
Auditor	The firm that carries out independent checks on the Mastertrust's report and accounts.	KPMG LLP	Fixed fee.
Investment adviser	The firm that advises the trustees on appropriate investment funds and strategies for members.	Hymans Robertson LLP	As periodically agreed.
Legal advisers	The firm that provides legal advice to the trustees.	Pinsent Masons	Time cost fees.

For the record

The trustees obtain and consider proper advice from suitably experienced and qualified people when choosing investments and preparing the Statement of Investment Principles.

Funds are chosen by the trustees to give an expected level of return with an appropriate level of investment risk which meets the objectives of each default arrangement and other investment options.

The funds in the default arrangement are intended to deliver good member outcomes at retirement from an appropriate balance of investment growth relative to inflation, and any pertinent investment risks.

The investment platform uses a life insurance company-based legal vehicle for its funds. The fund managers used by the platform use a variety of different legal vehicles for their funds. The funds may invest in quoted and unquoted securities traded in regulated UK and overseas markets:

- Equities (company shares)
- Fixed interest and index-linked bonds issued by governments and companies
- Cash and other short-term interest-bearing deposits
- Commercial and residential property
- Illiquid assets including infrastructure, forestry, private equity and private debt
- Commodities through collective investment vehicles
- Derivatives to facilitate changes in where funds are invested or to help control investment risks

Funds provided through a life insurance company must comply with the Financial Conduct Authority ('FCA') 'Permitted Links' rules, which place limits on the degree of leverage a fund can use. Fund managers using other fund vehicles subject to the European 'UCITS IV' and the FCA's 'Non-UCITS' regulations must meet requirements on the security and concentrations of assets. Exchange Traded Funds may be used directly or indirectly to gain access to less easily traded and illiquid asset classes.

Subject to the funds' benchmarks and guidelines, the fund managers are given full discretion over the choice of securities and, for multi-asset funds, choice of asset classes. Fund managers are expected to maintain well-diversified and suitably liquid portfolios of investments.