MASTERTRUST
Independent Board of Trustees

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

Statement of Investment Principles

October 2022

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.

The Trustees have taken appropriate 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.

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 arrangement 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 SIP was published to show the position of our investment arrangements as they stood on 1 October 2022, and we issue a separate implementation statement as part of the Mastertrust's annual report and accounts each year. 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 the default arrangement and other investment options offered to our members (non-default arrangements).

The main body of this document is split into six sections:

1. Investment principles
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 annually, or more frequently if there have been any significant changes to the investment strategy or significant changes to the demographics of the Mastertrust's membership.

1 Investment principles

Good governance is crucial in ensuring the best possible outcome for our members. Having strong investment principles is a critical part of good governance and outlines the foundations on which the Trustees have agreed to build the Mastertrust.

Investment principles 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 principles on which the Mastertrust's strategy is based are summarised in the table below:

Timeframe	Our investment horizon should be 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. The Trustees believe it is important to balance investment risks with the likely long-term returns from different types of assets in which funds invest.
Stewardship	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 into voting decisions.
Environmental, social and governance (ESG)	Investments that take into account a range of ESG factors are expected to be better able to manage risk and maximise opportunities than those that do not. The Trustees see ESG as an important factor which is central to their investment decision making. As well as the advantages of ESG factors, a key principle is that members should be no worse off from a risk/return perspective by investing in funds that take into account a range of ESG factors.
Climate change and net zero	Climate change is a financially material risk and as such the Trustees are overseeing progress against the net zero commitments that have been agreed with Legal & General Investment Management (LGIM), the Trustees' primary fund manager. This includes reaching net zero in certain funds by 2050.

We expand further on these principles 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).

When deciding on the investment options available to members, the Trustees acknowledge the expected return on such investments and are mindful to offer a range of funds with varying levels of expected risk and return for members to choose from.

The available investment options cover a variety of asset classes, with many (including the sole governance default strategies) expected to keep pace with inflation in the long-term.

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 long period of around 20-30 years (this timescale being chosen in line with research provided by Legal & General Investment Management (LGIM), the Trustees' primary fund manager).

The Trustees recognise that 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 continued to engage pro-actively with Legal and General's Investment Management business, LGIM, to ensure the scheme's investment managers apply ESG considerations across all asset classes where sufficiently reliable ESG data is available. The Trustees expect that Legal & General and the Mastertrust's fund managers will have the members' financial interests as a key priority.

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. It should however be noted that both the Target Date Fund and the Future World Multi-Asset Fund have exclusion criteria that automatically exclude controversial weapons and UN Global Compact violators.

Further information on how this is implemented is covered in section 5. Further details can also be found in the Mastertrust's TCFD Report.

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 fund manager. LGIM's stewardship policies, including its conflict of interest policies can be found here.

The Trustees recognise the importance for all external (non-LGIM) managers who hold Mastertrust assets to apply their stewardship appropriately and ensure that our beliefs are being accurately implemented. We intend to increase accountability on these managers to encourage consistency with our beliefs and are developing a plan with our advisers to review, manage and monitor these managers more closely. External managers not currently rated by the end of Q1 2023 by the Hymans Robertson investment research team will require further review. Responsible investment ratings exist separately to manager ratings and again where there are any gaps, Hymans Robertson will assign ratings over the course of 2022/23.

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 most 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 primarily then assess non-financial factors in the selection, retention and realisation of investments. Further details on the implementation of governance factors are considered in section 5.

Fund managers' policy

The Trustees invest Mastertrust assets in pooled funds through an investment platform operated by Legal & General Assurance Society Limited. LGIM appoints underlying fund 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 fund 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 fund managers to take excessive short-term risk and will monitor the fund manager's performance against the benchmarks and objectives on a short, medium and long term basis.

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

The Trustees invest some assets with fund managers other than LGIM. 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 such as their ESG policies.

The Trustees have oversight and engage with LGIM, as primary fund manager, on policy in relation to managers' remuneration, performance, strategy, approach to engagement with investee companies and integration of the Trustees' investment principles including their climate principles 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 of 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) Fund 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 fund managers is under a fixed term and fund 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 fund 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 fund 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 fund 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 understand these to be, and whether alternative products are available in the wider market that might suit members better.

The Trustees consider 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.

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. The Trustees' independent investment adviser reviews the default investment strategies and their ongoing appropriateness for members at least every three years.

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 this document. The Mastertrust Trustees approve the investment strategy proposed by the employer and its advisers 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 only members:

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 fund 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' managers 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 to change to align with the Trustees' beliefs 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. 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, 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 utilise the 2045-2050 Target Date Fund.

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 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 more focussed 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 factors 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 and focussed 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 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 only in the three years leading up to a member's selected retirement date.

Inadvertent Default Arrangement

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.

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 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 must 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 risk 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 the Trustees expect to see after charges are taken off and the risk for the various 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. Investment risks are reviewed quarterly by the Investment Committee of the Mastertrust.

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.	Over our members' working lives, members in default arrangements are invested in strategies that are expected to produce returns 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.	Within the default arrangements, the principal fund manager supplements demographic and retirement behaviour analysis alongside traditional risk and return analysis to design its de-risking glidepath approaches where relevant and to justify non-lifestyling approaches where relevant. At the point of retirement, members can also invest in a broad selection of self-select funds that may be suitable for their circumstances at and beyond the point of retirement.
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 as a member approaches their 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 predetermined target) may not meet its target in the medium to long-term.	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 active management 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 arrangements this risk is managed through strategies that are suitably diversified. Members wishing to increase exposure to certain factors may use 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.	The principal fund manager considers currency risk primarily in the strategic asset allocation design of the default arrangements used within the Mastertrust. The investment adviser will assess the way currency risk is managed as part of its review of the suitability of the default arrangements. There are also certain self-select funds within the Mastertrust fund range where currency risk is one of a number of risks managed within the fund by the fund manager.

Risk	What is this?	What do the Trustees do to mitigate this risk?
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 principal fund manager considers interest rate and default risk in both the strategic asset allocation design of the default arrangements used within the Mastertrust and also as one of a number of risks within the default's underlying funds. The investment adviser will assess the way interest rate and default risk is managed as part of its review of the suitability of the default arrangements. There are also certain self-select funds within the Mastertrust fund range where interest rate risk is one of a number of risks managed within the fund by the fund manager.
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. This risk is brought to the attention of members on fact sheets.
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 which are reflected in the funds they choose to offer to members. Their approach to climate is outlined within their published TCFD report and in their climate policy.

Risk	What is this?	What do the Trustees do to mitigate this risk?
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. The Trustees have a separate climate policy.
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 regarding 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 for self-select funds by a range of different fund managers. In the event of a fund manager getting into financial difficulties, the values of these underlying funds will depend on the nature of the contract between Legal and 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.

As noted above, the Mastertrust only invests in funds offered through policies of insurance with Legal & General. These unit linked funds have met 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 fund valuations which reflect the daily priced underlying securities.

* The FSCS has not made any pay-outs for fund 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

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, ESG-based funds 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 the default investment funds 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

A high level review of the default arrangements within the sole governance models is conducted every year, with a more in-in-depth review performed triennially. 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 is 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 and they are included in the Mastertrust's annual Chair's Statement.

In addition, the Trustees expect Legal & General to monitor compliance with the charge cap for auto-enrolment purposes, and the Trustees monitor compliance based on this information on an annual basis through the disclosures made in the annual Chair's Statement.

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 approximately 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 fund 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 fund 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 fund manager and retain them with an understanding that their interests and beliefs are aligned.

However, the Trustees monitor their fund 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' views; 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 manager 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 in companies in which they invest by deferring the direct engagement to the fund managers. The Trustees, with the help of their investment adviser, review the fund managers regularly to ensure that they continue to believe they are appropriate for investing members' funds in. As the primary fund 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.

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 six Trustees on the Trustee Board, three 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 legalandgeneral.com/mastertrust
Principal 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.
	Ad-hoc legal project work.	Eversheds	Fixed fee per project