MASTERTRUST
Independent Board of Trustees

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

Statement of Investment Principles

30 September 2024

Introduction

As Trustees, we're responsible for making sure that the investment options offered are appropriate for the employers who participate in them and ultimately for the Mastertrust's members. We've split this document into six sections to make it easy for you to read. These sections fulfil the Trustees' legal and regulatory duties. The document covers things like how the Trustees select and monitor investments and take members' needs into account.

To simplify the information, the document sets out the investment principles for both the Legal & General WorkSave Mastertrust and the Legal & General WorkSave (RAS) Mastertrust. 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 & 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 the Trustees 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 investment options and other investment options offered to members of the Mastertrust. Default investment options are the investment fund or funds that the Trustees have chosen for members who haven't actively selected an investment fund for themselves.

This SIP sets out what the Trustees aim to achieve with the investment options offered and shows how the Trustees' investment policies guide the way in which members' money is invested. The SIP also covers 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 the Mastertrust investment arrangements as they stood on 30 September 2024. The Trustees issue a separate Implementation Statement as part of the Mastertrust's annual report and accounts each year. This describes how the Trustees have followed the principles set out in the SIP in the previous year. Unless indicated otherwise, the content of this SIP applies to both the default investment options and other investment options offered to the Mastertrust's members.

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

1. Investment principles
2. The aims and objectives for the default investment options
3. The aims and objectives for investment options outside the default investment options
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

The Trustees aim to 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.

As well as this statement, the Trustees have produced a Sole Governance Default Investment Options document. This details the investment strategies and funds in place if your employer has delegated their governance responsibilities to the Trustees. This document is updated whenever changes are made.

1. Investment principles

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

Investment principles are informed by what the Trustees 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	The Mastertrust's investment horizon should be long term, but the Trustees also consider a member's age and how many years they have until retirement. The Trustees also take into account the point at which they are able to access their benefits and when they have indicated they will do so.
Risk and return balance	There's a link between investment risk and return. The concept of risk will be dependent on where a member is in their savings journey – it should not be defined purely as market volatility. To deliver good member outcomes, the Trustees will aim to maximise returns after costs and charges are taken into account and balance this against the risks involved to members.
Diversification	Sufficient growth is one of the main drivers of member outcomes over the long term. Diversification becomes more important as a member approaches retirement, and they have less opportunity to recover any potential loss.
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.
Manager selection	The Trustees have appointed Legal & General, through the asset management division, as the primary investment manager for the Mastertrust. The Trustees carefully appoint managers, both the primary investment manager and investment managers external to Legal & General, with the expectation that they align with these investment principles. The Trustees believe that acting in line with these principles is important for achieving good member outcomes in the long run.
Universal ownership	Universal ownership is a concept that suggests that large investors like the Mastertrust own a part of the global economy. Because of this, the Trustees and the members of the Mastertrust have a vested interest in the health and sustainability of the economy and environment. The Trustees invest in highly diversified assets, across global markets and over the long term. Some risks exist across markets and will be impossible to avoid through asset allocation alone. The Trustees believe that considering the Mastertrust's real-world impact on, and exposure to, the entire market is essential for good member outcomes.

Stewardship and engagement	Strong stewardship and stakeholder engagement play 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 consider a range of ESG factors are expected to be better able to manage risk and maximise opportunities. The Trustees see ESG as an important factor which is central to investment decision making and is linked to the principle of universal ownership. As well as the advantages of ESG factors, a key principle is that members should be no worse off from a risk and return perspective by investing in funds that consider a range of ESG factors. Climate change is an important systemic and financially material risk. As such the Trustees are overseeing progress against the net zero commitments that have been agreed with Legal & General, the Trustees' primary fund manager. This includes reaching net zero, for Scope 1 and 2 emissions, in certain funds by 2050.

The following sections expand further on these principles:

Investment types

In continually seeking investment opportunities for pension members, the Trustees monitor and respond to the changing investment landscape for Defined Contribution (DC) schemes and consider different investment ideas and opportunities as they arise. The Trustees consider the following asset classes (investment types) appropriate for the investment of members' pension savings:

- Equities (company shares);
- Bonds (debt issued by governments or companies);
- Money Market (cash and/or short-dated debt instruments); and
- Alternatives (including but not limited to liquid alternatives like listed private equity, real estate investment trusts, and listed infrastructure companies as well as opportunities in the private markets such as private equity, private debt, physical property, and infrastructure).

The Sole Governance Default Investment Options document sets out how these asset classes are allocated, diversified and balanced in respect of the default investment options and wider investment choice.

Investing in private markets (illiquid) assets

Private market assets are unlisted, meaning they are not on a recognised trading venue, such as a stock exchange. Private market assets can be considered to be ‘illiquid’ in nature, which means that they may not be readily sold or exchanged for cash.

The Trustees believe that investing in private markets can offer benefits for pension members, including diversification of risks and access to a broader range of investment opportunities. Certain private market investments can also have a positive influence on society and support important changes like energy transition and new technologies, providing opportunities to generate positive long-term investment returns. Private markets investments also have the potential to provide higher returns for members than other assets the Trustees could invest in as part of the diversified investment strategy, such as corporate bonds.

While the Trustees are positive on the benefits of investing in private markets, we recognise that there are also risks and potentially additional costs. The Trustees have regular oversight of these assets through the Investment Committee, and are supported by independent investment advice. The Trustees will continue to review the investment strategy of the default investment options, including illiquid allocation, at least annually.

The Trustees have worked closely with the principal fund manager – Legal & General – to invest in appropriate private markets investments at various stages of the default investment options, balancing risk and return, through investment in pooled vehicles. The Trustees have regular oversight and keep this under review through the Investment Committee.

Having considered the nature of the default investment options, the demographics of the Scheme’s membership and the requirements of members at various stages of the savings journey, the Trustees have invested in the following:

- Growth phase: the default investment options invest in a diversified range of growth orientated private markets asset classes during the growth phase of the glidepath. This includes private equity, private debt, physical property, and infrastructure. The Trustees believe that diversifying the allocation across several types of illiquid investments should enhance overall portfolio return and reduce the risks of investing in one type of asset class only. As members reach 15 years before retirement, the allocation to illiquid assets begins to reduce. A typical retirement age for Mastertrust members is between 62-65.

- Approaching retirement: the default investment options invest in short-dated private debt and commercial property just prior to and into retirement to support investment returns and regular withdrawals over the potentially long retirement of members.

Illiquid assets will be included in the core sole governance default investment options – the Target Date Funds (TDF) and Lifetime Advantage Funds (LAF), with a higher allocation in LAF. Further detail on the planned asset allocation can be found in the Sole Governance Default Investment Options document.

During the growth phase of the strategies, the allocation to some of the illiquid assets will be via a pooled fund called the L&G Private Markets Access Fund. This is a unit-linked life company fund structure holding a Long-term Asset Fund (LTAF) and consists of investments in a diversified blend of private market assets. Illiquid investments are not held directly by the Trustees. The structure of the fund facilitates daily trading for DC members.

Legal & General will closely monitor the allocation of illiquid assets. The Trustees have regular oversight of this through the Investment Committee. Attention is particularly focused on current and projected cash flows to ensure there is sufficient liquidity to meet unforeseen demands for cash. These could come from unexpected member or market activity.

The Trustees will review the allocation to illiquid assets as part of the annual review of default investment options and may increase or decrease investment in these assets in the future, if appropriate.

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 investment options) expected to keep pace with inflation in the long term.

Financially material considerations

The Trustees usually consider investments over a long period of around 20-30 years. This is in line with research provided by Legal & General which recognises the fact that many members have a long time until retirement.

Financially material considerations, including (but not limited to) environmental, social and governance (ESG) factors, 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 & General's asset management division, 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.

In line with Legal & General, the Trustees believe that actions to manage financially material ESG factors must target real-world systemic change on a global scale. The Trustees believe that 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. The Target Date Funds however do automatically exclude controversial weapons and UN Global Compact violators. The Climate Impact Pledge outlines Legal & General's commitment to tackling climate change and is a policy which is applied to the Target Date funds.

Further information on how this is implemented is covered in section 5. Further details can also be found in the TCFD report (please note: the TCFD report will be replaced by the Sustainability report in 2024).

Stewardship

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

Voting decisions on stocks are delegated to the Mastertrust's fund managers. The Trustees expect them to exercise their voting rights and use their influence with the interests of the Mastertrust's members in mind. The Trustees do appreciate that they will need to consider their wider pool of investors. The Trustees expect fund managers to be able to evidence their own governance practices on request. Further detail about how the Trustees monitor stewardship is in section 5.

Legal & General's stewardship policies, including its conflict of interest policies can be found here. These policies are available for everyone to view but were created with investment professionals in mind. This means the communication style and terminology used is more technical than the standard communications a member might receive.

The Trustees also expect external fund managers to apply their own stewardship policies appropriately and to ensure that these reflect the Trustees' beliefs.

Responsible investment ratings have been applied to the funds used in the Mastertrust and action is taken where the rating is deemed to be 'weak'. No funds at this time have a 'weak' rating.

Non-financial factors

Some members will have strong personal views or religious convictions that influence where they believe their savings should or should not be invested. This may include ethical views, views on social and environmental impact and present and future quality of life of members and beneficiaries of the Mastertrust.

The Trustees conduct periodic surveys to learn more about members' views on these subjects. The Trustees also use tools like Tumelo and the regular research of members undertaken by Legal & General. 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, it may not be practical to try to reflect every viewpoint due to the many different opinions that are likely to exist across the very large membership of the 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. This includes the planned introduction of the L&G Islamic Lifestyle Profile, that aims to grow investors' money while fulfilling the principles of the Islamic faith and adhering to Sharia law – for example by avoiding investment in alcohol, weapons-manufacturing and interest-bearing securities. Separate Shariah-compliant self-select funds are also available for members to choose.

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 administration platform operated by Legal & General Assurance Society Limited. Legal & General appoints underlying fund managers to make decisions in respect of certain elements of some portfolios it manages. The Trustees also offer some funds within the investment choices and some shared governance arrangements which are managed by external third-party fund managers. 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. With the help of the Trustees' investment adviser, the Trustees will periodically consider these factors, among others, when reviewing 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 consider, with the help of the Trustees' investment advisers, 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 Legal & General. Legal & General 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 Legal & General, as primary fund manager, on policy in relation to managers' remuneration, performance, strategy, approach to engagement with investee companies and integration of the investment principles. This includes the Trustees' climate principles.

The policies incentivise those managers to:

(a) Align their investment strategy and decisions with the 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 goal that the best member outcomes are achieved through positive long-term performance.

(ii) For liquid investments, fund managers can be replaced if at any point the Trustees, along with the Trustees' 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 Legal & General'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 Legal & General remains a suitable primary fund manager.

The Trustees consider that Legal & General takes the issue 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 theirs.

Legal & General's policies on corporate governance and responsible investment can be found here.

2. Aims and objectives for the default investment options

The default investment options 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 does the Mastertrust have default investment options?

The Trustees are required by law to have default investment options in place. This is because the Mastertrust is a qualifying scheme for auto-enrolment.

The Trustees believe it is helpful for members to have a default as 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. The Trustees expect the majority of the Mastertrust's members to have broadly similar investment needs. The Trustees expect these to be met by the default investment options.

The default investment option for each 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. This will depend 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

The employer delegates all the fiduciary and governance responsibilities to the Mastertrust Trustees. For example, the design of the default investment options and other investment funds. Under sole governance there is a choice of pre-designed default investment options. The Trustees' independent investment adviser reviews the default investment options and their ongoing appropriateness for members at least every three years.

Shared governance

The 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, taking advice from their advisers, 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, 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 don't 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 investment options 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 an ongoing basis according to the sole governance principles.

Objectives of the default investment options for the sole governance model

The main objective of the default investment options for the sole governance model is to help deliver good member outcomes at retirement. The default investment options for the sole governance model currently invest in a wide range of asset classes. Full details of the current default investment options, including asset allocation, are in the Sole Governance Default Investment Options document.

The Trustees believe that it's in the interests of the majority of members to offer default investment options 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 investment options 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 investment option 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.

Investment performance and continued appropriateness for the default investment options are monitored and evaluated at least quarterly and reviewed in more depth at least annually by Legal & General on behalf of the Trustees. The Trustees are supported in assessing the outcome of these reviews by the Trustees' independent investment adviser. Other factors taken into account by the review include, but are not limited to, whether the default investment options 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.

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 the Trustees expect to see after charges are removed, and the risks for the funds used in the default investment options, are consistent with the Trustees' objectives. More about expected investment returns and the approach to managing investment risks, including financially material considerations, are in section 4.

The Trustees regularly review the ESG and stewardship policies of the default investment options' managers to ensure that they're aligned with the Trustees' policies. Find out more about the Trustees' approach in the stewardship section of this document.

Overview of default investment options for the sole governance model

As a result of the 2023 triennial default investment options review, the Trustees decided to remove the Multi-Asset Fund (MAF), Future World Multi-Asset Fund (FWMAF) and the Drawdown Lifestyle as default investment options. Members will gradually be moved to one of the two approved default investment options as noted below.

Employers under the sole governance model have a choice of two pre-approved default investment options. These are:

Target Date Funds – the Target Date Funds (TDF) 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 cash while members are a relatively long way from retirement and then gradually reduce 'risk' (the volatility causing 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 using in five-year cohorts, 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 Fund.

Lifetime Advantage Funds – The Lifetime Advantage Funds (LAF) follow a very similar structure to the TDF, grouping together pension savers that are all targeting a similar retirement date. These funds include a higher allocation to private market investments while members are a relatively long way from retirement. Investing in private markets not only increases the number of asset classes within the funds, known as diversification, but also means the funds are able to take advantage of the potential illiquidity premium associated with private assets, while carefully balancing risk and return.

As members get nearer to when they expect to retire, the private market investments are removed so that members are invested in assets that are easily able to provide retirement income when needed. At this point the asset allocation mirrors that of the TDF range.

Legacy default investment options

Some members will remain in legacy default investment options until the end of Q1 2025. The Trustees continue to apply the same governance to these defaults until all members have been moved to the new pre-approved defaults.

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 (MAF) mostly puts money into investments which aim to track market performance. The fund is designed to be 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 investment option that takes a more focused stance towards matters that affect the environment, the way people are treated, and the way organisations are run. These are generally known as environmental, social and governance factors, or ESG for short. To accommodate this, the Trustees offered the option of the Future World Multi-Asset Fund (FWMAF).

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 focused 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 fund used in the last three years of the strategy is designed to be 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.

Additional default investment options

There are two additional funds which the Trustees oversee in the same way as the pre-approved default investment options. These are not available as standard for an employer to select for their employees.

Cash Fund – the Cash Fund falls within the definition of a default investment option 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. The Cash Fund will be treated as a default investment option and overseen by us, regardless of whether it is receiving active contributions. Further references to cash funds are in the Sole Governance Default Investment Options document.

Cash Target Date Funds – The Trustees have approved, in limited circumstances, the use of Target Date Funds which target cash at retirement. This default investment option may be selected by an employer for members contributing to Additional Voluntary Contribution (AVC) arrangements, Pension Risk Transfer (PRT) members, and those where members are able to transfer DC benefits back into the DB section of a participating Scheme at retirement (DB Switchback).

Objectives of the default investment options for the shared governance model

Under the shared governance model, the investment strategy for both the default investment option and the self-select funds is determined by the employer's own independent investment adviser.

These defaults are designed to deliver good outcomes for members at retirement specific to the employer's membership.

The Trustees expect participating employers to take into account a range of criteria which reflect those that are used under the sole governance model as outlined above. The Trustees also expect participating employers 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 Trustee approval before they're introduced. The Trustees 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 default investment options for their deferred members. However, there are some scenarios where the Trustees oversee default investment options under the sole governance model that differ to the pre-designed investment strategies available for employers to select. The Trustees will approve these strategies if they're thought to be 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 investment option but instead offers investment pathways as the initial investment option for taking drawdown within the sole governance arrangement.

A single fund has been selected as a default investment option 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 Investment Options document.

The Retirement Income Multi-Asset Fund (RIMA) is used within the at-retirement allocations of the TDF and LAF default investment options and aims to provide long-term investment growth up to and during retirement, and to facilitate the drawdown of retirement income. The fund is also available for Mastertrust members to self-select. The fund is not offered as a standalone default investment option for members in the growth phase of their savings journey. The Trustees review the fund annually and triennially as part of the review of TDF and LAF.

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 wider investment choices

As well as the default investment options 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 consider 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. The Trustees also consider:

- While the default investment option 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 investment option 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.

The Trustees 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 the Trustees' 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 investment option. 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 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 Investment Options 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 class 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 the Mastertrust's members face. These are set out below along with the actions that the 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 the Mastertrust's members' working lives may not sufficiently exceed inflation and, as a result, may not produce adequate retirement benefits.	The default investment options are expected to produce returns in excess of inflation over the long term. Some of the funds available for members to self-select may not exceed inflation. This is because they have been designed to meet specific investment objectives, 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 investment options, the principal fund manager uses 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.	The default investment options use a mix of higher and lower risk assets, and the Trustees 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

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 investment options this risk is managed through strategies that are suitably diversified. To ensure good governance in this area the Trustees have agreed a monitoring process with Legal & General. 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 in 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 investment options 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 investment options. There are also certain self-select funds within the Mastertrust fund range where currency risk is one of a number of risks that members may be exposed to. Where this is the case, this risk is disclosed to members in the fund information. This allows members to make informed decisions.

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 investment options 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 investment options. 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 (please note: underlying investments in the private markets are not daily priced). 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 and private market 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 Suspension 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 and private market funds, cease to trade due to market conditions or otherwise. This risk is brought to the attention of members on fact sheets. Detailed modelling has been undertaken to ensure that the risk of suspension within the L&G Private Markets Access Fund (used within the default investment options only) is very small.
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 chosen to be offered to members. The approach to climate scenario modelling and its impact on asset allocation is outlined in the published TCFD report (please note: the TCFD report will be replaced by the Sustainability report in 2024).
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	The ESG beliefs cover climate change risk and the Trustees receive regular training on the possible long-term impacts on the funds offered to members. The approach to climate is outlined

	change, physical impacts and the expected transition to a low carbon economy. This includes the extent to which investment decisions made by us, as an asset owner, could play a role in influencing climate outcomes when combined with the actions of other asset owners.	in the TCFD report (please note: the TCFD report will be replaced by the Sustainability report in 2024).
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 inform the Trustees of any changes in the law and regulations that may affect the appropriateness of the investment strategies for members.

Security of assets

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 an authorised master trust, Legal & General has to fulfil very stringent requirements, including with regards to its financial sustainability, and is subject to ongoing supervision by The Pensions Regulator.

The underlying funds offered via Legal & General's unit-linked insurance 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 & General and the fund manager. The Trustees have reviewed the structure of the funds offered to members and are comfortable that the structure is appropriate.

As noted above, the Mastertrust only invests in funds offered through a unit-linked insurance platform provided by Legal & General. These unit linked funds have met the regulatory 'permitted links regime' which control certain investment characteristics such as the risk, quality, and type of assets a fund may invest in.

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).

Some of our funds may also invest in private market assets, which are not listed on a public exchange. Where necessary, private market assets may be held in a Long-Term Asset Fund (LTAF) to meet the requirements of the 'permitted links regime' which provides additional controls that must be met to help protect investors.

The funds the Trustees 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 that Legal & General gets into financial difficulties. However, members are afforded Financial Services Compensation Scheme (FSCS) protection via the Mastertrust Trustees* in relation to failure of Legal & General.

All unit-linked fund valuations are updated daily and reflected in the unit-price. Insolvency of individual securities within a unit-linked fund are not covered and would be reflected in the daily unit price.

*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 bespoked to the Mastertrust. The Trustees do however 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 sole governance model, and the self-select fund range, offers members ESG integrated funds which systematically incorporate ESG factors when allocating investment to debt and equities issued by companies.

The Mastertrust, where appropriate, will use data and scoring of companies to influence the allocation of capital to 'tilt' towards opportunities that score positively and tilt away from opportunities that do not.

Where necessary, the Mastertrust may use funds that divest from opportunities not aligned with long-term sustainable ownership and inclusive capitalism.

Delegation of investment decisions

As 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 and private markets) to protect the interests of all investors in that fund.

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 investment options and other funds on a regular basis. Outlined below are the areas that the Trustees monitor, how this is done 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 options annually. The Trustees' 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 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 investment options

A high-level review of the default investment options 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 investment options as and when deemed necessary.

If the Trustees aren't satisfied with a fund, the Trustees' investment adviser is instructed 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. The Trustees review these costs on all default investment options (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.

The Trustees also expect Legal & General to monitor compliance with the charge cap for auto-enrolment purposes. 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 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 and engagement

The Trustees do not directly select companies for investment or give stock level guidance to fund managers. Neither do the Trustees directly liaise with, or give guidance to, the 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 delegate responsibilities to the fund manager, including, but not limited to, engagement with 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 the manager's interests and beliefs are aligned with the Trustees'. The Trustees monitor the fund managers by regularly reviewing their voting and engagement policies. The Trustees 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 have agreed a stewardship monitoring framework with the primary fund manager, Legal & General. The Trustees meet Legal & General twice annually to discuss how it is planning to engage with companies and other relevant parties, including other stakeholders or other holders of debt or equity, and to review 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 the Mastertrust invests by deferring direct engagement to the fund managers. With the help of the Trustees' investment adviser the Trustees review the fund managers regularly to ensure that they are appropriate for investing members' funds in. The Trustees have reviewed Legal & General's policies and have confirmed that these are both adequate and suitable.

Industry developments

The Trustees want to ensure that the Mastertrust offers a fund range that's among the best in relation to the current market background. The Trustees 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 the Trustees' investment adviser on market and fund developments.

Exercising Trustee 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 the members.	The Trustee Board is made up of four corporate trustees: Legal & General Trustees Limited The Law Debenture Pension Trust Corporation plc Vidett Limited Independent Governance Group (trading name of Independent Trustee Services 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 https://www.legalandgeneral.com/workplace/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	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 Investment Options 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 Society Limited (LGAS)	Percentage of fund value included within funds' charges.
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.