

# BRITISH STEEL PENSION FUND

## Summary of Statement of Investment Principles

The investment policy of the Fund is governed by two guiding principles, the central principle of **appropriateness** and the subsidiary principle of **simplicity**. Assets should be appropriate for all the circumstances of the Fund, and should be kept as straightforward as possible for the benefits of lower costs and better control. These principles determine the Fund's approach to all decisions about investments, including the nature of the investments made, the selection and timing of the investments and the way in which they are carried out.

### The kind of Investments to be held, the balance between Investments and Risk

Four major factors govern the investment policy of the Fund:

- (a) The **inflation linked** nature of the Scheme's liabilities to pay pensions and other benefits.
- (b) The **maturity** of the Scheme as a long established scheme with a large number of pensioners relative to active members.
- (c) The **nature of the Company's business**, which is closely related to the economic cycle.
- (d) The **value of the Fund** relative to the Company

The inflation linked nature of the liabilities means that the bulk of the Fund's resources should be invested in real assets such as equities, index linked securities, and property, which can be expected to give an investment return which keeps pace with inflation. The maturity of the Scheme means that for security, the investment policy should be conservative, and a high proportion of index linked securities is held for this reason. The nature of the Company's business and the value of the Fund relative to the Company also point to a conservative investment policy, and the Fund's approach can therefore be summarised as a **conservative investment policy strongly orientated towards real assets**. A balanced approach is taken recognising that lower risk investments generally yield lower returns.

Risk is addressed by the maintenance in accordance with the recommendation of the Actuary of a Maturity Portfolio, which is currently envisaged to comprise around 70% of the total Fund, consists of cash, fixed interest, and index linked investments to cover a large part of the pensioner liabilities of the Scheme, by an appropriate approach to the prudent diversification of the Fund's investments, by the quality of those investments, and by their liquidity. Risk is also limited by frequent review of policies and investments by management, adapting as appropriate to new circumstances. Asset/liability modelling has been, and will in the future, be used as appropriate to assist in the development of investment policy.

The Fund's investment in unquoted securities is very small, and the Fund does not invest in overseas property, investments such as paintings and antiques, speculative property investments, or undertake mandatory currency hedging. Derivatives are used only in a controlled manner to facilitate the timely implementation of significant asset allocation moves, for the purposes of efficient portfolio management, to reduce investment risk and to facilitate closer asset/liability management and are subject to prior approval by the Investment Committee (a committee of the Trustee board acting under terms of reference approved by the Trustee board). Social, environmental and ethical considerations are taken into account in the selection, retention or realisation of investments to the extent that they are expected to affect long term financial performance. Obligations and rights attached to investments are strictly enforced for the benefit of the Fund. The Fund acts to maintain

shareholder rights, and engages with companies as appropriate to protect or enhance its investments. Care is exercised to ensure that no investment activity puts at risk the Fund's as a registered Pension Scheme.

The custody of the Fund's assets is undertaken by the Corporate Trustee ("Trustee" - B.S. Pension Fund Trustee Limited), with custody of securities delegated to JP Morgan Chase Bank. A list of high quality financial institutions approved by the Investment Committee is operated for UK cash deposits. Top quality triple 'A' rated money market funds may also be used.

### **Investment Objective**

The investment objective of the Fund is to provide a high level of security of pension benefits at the lowest reasonable cost, taking account of the nature of the Scheme's liabilities, the maturity of the Scheme, and the characteristics of the Company's business. This leads to two sub-objectives; security for the Maturity Portfolio, which seeks to match a large part of the Scheme's pensioner liabilities with secure bonds, and performance for the Growth Portfolio, which seeks to achieve a higher level of long term investment return from an equity orientated investment policy.

Risk appetite is codified via the longer term Strategic Asset Allocation and annual Scheme Specific Benchmarks together with asset class allocation guideline ranges which are modified from time to time and approved by the Investment Committee. Once amended these are appended to the Investment Management Agreement with the Investment Manager. The Investment Manager has tactical discretion to allocate the assets of the Fund within the guideline ranges.

### **Expected Returns on Investments**

For the purpose of the most recent actuarial valuations of the Scheme in 2008 a real return on investments of about 2.5% per annum was assumed. This rate of return has been achieved in the past over long periods, and the assets of the Fund overall are invested to give a reasonable expectation of achieving that return over the long term. Given the lower risk associated with the Maturity Portfolio, however, the expected return on that part of the Fund will be somewhat lower than the expected long term return on the Growth Portfolio.

The principal investment performance objective is to exceed the Scheme Specific Benchmark as measured by HSBC and WM Company (WM).

Returns are also compared with the returns of other major UK pension funds provided by WM. Because of the conservative nature of the Fund's investment policy, overall returns are unlikely to exceed average or median returns in the long term.

### **Realisation of Investments**

The Fund undertakes all investments with a view to them being long term investments, and only exceptionally when circumstances change radically or long term objectives are achieved in a short space of time will consideration be given to realising assets on a shorter time scale. Investments will be realised on a planned basis to cover the requirements of the Scheme to pay benefits, and will be realised from time to time to facilitate asset allocation changes.

## **Scheme Specific Funding**

The Pensions Act 2004 has introduced a new Scheme Specific Funding requirement for valuations with an effective date after September 2005. The actuarial valuation of the Scheme carried out at 31 March 2008 was subject to these requirements. The Trustee reviews its policies regularly to ensure continuing compliance with the Act.

## **Policy for Compliance**

The Trustee's policy for compliance with the Pensions Acts is through a dedicated internal investment management operation staffed by qualified professionals, reporting to the Investment Committee. The Investment Committee is advised by three external advisers, one on property and two on general investments, who are experts of high standing in their respective areas. All investment policy matters are determined by the Investment Committee, which meets quarterly, with major issues requiring endorsement by the Trustee.

The Investment Committee reviews policy formally from time to time as appropriate, and reviews the Fund's portfolio asset allocation guidelines annually. The Committee approves asset allocation moves on a quarterly basis, and monitors their implementation including any derivative positions, reviewing all investment transactions quarterly in arrears, and major transactions in advance, always having regard to suitability and diversification. The Committee monitors investment performance quarterly, and reviews performance annually based on the reports of the independent external performance measurers, HSBC and WM.

In specialised areas where internal expertise is not retained, external managers who report quarterly are employed to select investments and to keep all investments under review.

The suitability of individual investments, their diversification, and the review of existing investments is the responsibility of the internal investment management operation, and external managers where appropriate, within the framework laid down by the Investment Committee. The internal management company, Pension Services Limited (a wholly owned subsidiary of the Trustee which is authorised and regulated by the Financial Services Authority).

It is the policy of the Trustee and the Investment Committee to refer to the statement as and when necessary to ensure that they perform their duties so as to give effect to the principles set out in this statement so far as reasonably practicable.

4 May 2011.