Investment Policy Implementation Document for the Halcrow Pension Scheme (No.2)

November 2021

1. Introduction

This Investment Policy Implementation Document ("IPID") for the Halcrow Pension Scheme (no.2) (the "Scheme") sets out details of the Scheme's investment arrangements, based on the principles set out in its Statement of Investment Principles ("SIP") dated November 2021.

The IPID should be read in conjunction with the SIP. The IPID has been prepared by the Trustee of the Scheme, and the Trustee is responsible for ensuring it reflects the current investment arrangements.

2. Asset allocation policy

The table below set out the Scheme's target asset allocations allowing for the de-risking policy as noted in the Statement of Investment Principles, which includes funding level triggers to consider reducing investment risk.

Trigger - Required level of return / Asset class	Current strategy (Gilts+ 0.5% pa)	Indicative strategy if trigger is reached (Gilts +0.25% pa)
Equities	10%	-
Private Credit	5%	5%
Long lease property	5%	5%
Growth	**20%**	**10%**
Matching	**80%**	**90%**
Total	**100%**	**100%**
Target level of interest rate and inflation hedging (TP Basis)	**90%**	**100%**

The de-risking triggers have been calculated to be broadly equivalent to reaching the indicated required level of investment return to reach a low dependency funding level by 31 December 2026.

3. Matching Portfolio

The Trustee has selected BlackRock Investment Management UK Limited ("BlackRock") as the investment manager for the Scheme's Matching Portfolio. BlackRock manages the investments of the Matching Portfolio with an objective of achieving investment returns of 0.75% pa (before fees) in excess of the benchmark, over rolling three-year periods, as set out below. The Trustee has also specified minimum and maximum percentages that BlackRock may hold of the various types of bonds.

Asset Class	Benchmark (%)	Ranges (%)	Index
Sterling corporate bonds	50	30-70	iBoxx Sterling Non Gilts Index
LDI gilt portfolio	50	30-70	Bespoke cashflow benchmark such that the Matching Portfolio's benchmark portfolio hedges 80% of Scheme's interest rate and inflation exposure on the Technical Provisions basis
Non Sterling bonds	0	0-25	
Cash	0	0-10	
Total	100		

The Trustee has signed an agreement with Bank of New York Mellon (International) Limited as custodian for the Matching Portfolio to ensure safe keeping of the assets and facilitate all transactions.

The Trustee's policy is to meet its net cash flow requirements by disinvesting from BlackRock Matching Portfolio.

4. Growth Portfolio

The Trustee has selected Legal and General Investment Management ("LGIM"), Baillie Gifford & Co ("Baillie Gifford"), M&G Investments ("M&G") and Barings Asset Management Limited ("Barings") as the investment managers for the Growth Portfolio.

The strategic allocation to global equities (as shown in the table in Section 2) is 40% to Baillie Gifford and 60% to LGIM equities.

4.1. LGIM – Low carbon global equities

LGIM manages a portfolio of global low-carbon equity investments on a passive basis in line with benchmark indices as set out below.

Asset Class	Target benchmark	Index (Overseas developed allocations are currency hedged)
UK equities	30%	Solactive L&G Low Carbon Transition UK Index
US equities	21%	Solactive L&G Low Carbon Transition North America Index
Europe (ex-UK) equities	21%	Solactive L&G Low Carbon Transition Europe ex UK Index
Japan equities	14%	Solactive L&G Low Carbon Transition Japan Index
Asia Pacific (ex-Japan)	7%	Solactive L&G Low Carbon Transition APAC ex Japan Index
Emerging Market equities	7%	Solactive L&G Low Carbon Transition Emerging Markets Index
Total	100%	

4.2. Baillie Gifford – Global equities

Baillie Gifford manages a portfolio of actively managed global equity investments. The objective is to achieve an overall investment return of 2.0% to 2.5% pa (before fees) in excess of the benchmark indices over rolling four year-periods as set out below.

Asset Class	Target benchmark	Index
UK equities	27%	FTSE All Share
Overseas equities	73%	MSCI All Country World
Total	100%	

The global equities fund (the Baillie Gifford Global Alpha Paris-Aligned Fund) also aims to have a weighted average greenhouse gas intensity that is lower than that of the MSCI ACWI EU Paris Aligned Requirements Index. Baillie Gifford receive a performance related fee based on their investment performance relative to the agreed benchmark over rolling four year periods.

4.3. M&G - Property

M&G's Secured Property Income Fund invests primarily in UK commercial real estate with fixed or inflation-linked rental uplifts, with the objective to deliver a secure long term income stream.

4.4. Barings – Private Credit

Barings' European Private Loan Fund III targets a return of 6.5 - 7.5% pa (in EUR), which it aims to deliver via a senior loan portfolio which is well diversified across sector, geography and issuer.

While the capital committed to the Baring's European Private Loan Fund III is being drawdown, it will remain invested in the Baillie Gifford's Diversified Growth Fund (DGF). The Baillie Gifford DGF has an objective to outperform the UK base rate (as defined by the Bank of England's Bank Rate) by 3.5% pa (after fees) over rolling five year periods with an annual volatility of less than 10%.

5. DC and AVC providers

As a result of Halcrow Pension Scheme's merger with the Crouch Hogg Waterman Scheme, the Scheme holds an investment policy with Aviva (formerly Friends Life). This policy includes assets allocated to individual members in respect of their DC benefits.

In the past, members could pay additional voluntary contributions (AVCs) under Halcrow Pension Scheme. These investments are held through insurance policies with:

- Aviva (formerly Friends Life)
- NPI
- Phoenix Life

- Prudential
- Aviva
- Utmost Life

6. Risk exposures

The table below summarises the risk exposures of the Scheme's investment mandates.

	Credit risk	Currency risk	Interest rate risk	Other price risk
BlackRock (bonds)	●	○	●	○
LGIM (equities)	○	●	○	●
Baillie Gifford (equities)	○	●	○	●
Baillie Gifford (DGF)	●	●	●	●
M&G (property)	●	○	○	●
Barings (private credit)	●	○	○	○

Key: The risk noted affects the fund materially (●) or hardly/ not at all (○).

Further information on these risks and the Trustee's approach to risk management is set out below. This does not include DC or AVC investments or annuity policies, as these are not considered significant in relation to the overall investments of the Scheme.

6.1. Credit risk

The Scheme's investments are directly exposed to credit risk in relation to the solvency of the custodian of those funds. The Scheme's holdings in pooled investment vehicles are unrated. Direct credit risk arising from pooled funds is mitigated by the underlying assets of the pooled funds being ring-fenced from the investment managers, the regulatory environments in which the pooled fund managers operate and diversification of the scheme's investments across a number of pooled funds.

The Trustee carries carry out due diligence checks prior to the appointment of any new investment manager or fund and on an ongoing basis monitors any changes to the operating environment of the funds.

BlackRock's mandate is on a segregated basis and the Trustee uses the custodian services offered by Bank of New York for this mandate. The Scheme is subject to direct credit risk within the BlackRock portfolio, where BlackRock invests in bonds or financial cash and derivatives.

The Scheme is indirectly exposed to credit risks arising from the underlying investments held by the pooled funds, for example where they invest in bonds. The indirect exposure to credit risk arises from the Scheme's investments in diversified growth funds. The amount invested in each of these mandates is shown in the Statement of Net Assets.

The managers manage credit risk by having a diversified exposure to bond issuers, conducting thorough research on the probability of default of those issuers, and having only a limited exposure to bonds rated below investment grade. The magnitude of credit risk within each fund will vary over time, as the manager changes the underlying investments in line with its views on markets, asset classes and specific bonds.

6.2. Market risk: Currency risk

As the Scheme's liabilities are denominated in Sterling, any non-Sterling currency exposure within the assets presents currency risk.

Whilst the majority of the currency exposure of the Scheme's assets is to Sterling, the Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets. The Trustee considers the overseas currency exposure in the context of the overall investment strategy, and believes that the currency exposure that exists diversifies the strategy and is appropriate. Furthermore, the Trustee manages the amount of currency risk by investing in mandates that hedge some or all of their currency exposure.

Within the segregated BlackRock bond mandate, where it invests in non-Sterling denominated securities these are hedged back to Sterling. All of the Scheme's pooled funds are accessed via a Sterling share class. Therefore the Scheme is not subject to direct currency risk through the pooled investments. However, there is some indirect currency risk in relation to the Scheme's pooled investments, where they invest in overseas assets.

The exposure to foreign currencies within the pooled funds will vary over time as the manager changes the underlying investments, but is not expected to be a material driver of returns over the longer term. Decisions about the exposure to foreign currencies within the pooled funds held are at the discretion of the appointed fund managers.

6.3. Market risk: Interest rate risk

Some of the Scheme's assets are subject to interest rate risk. However, the overall interest rate exposure of the Scheme's assets hedges part of the corresponding risks associated with the Scheme's liabilities. The net effect will be to reduce the volatility of the funding level, and therefore the Trustee believes that it is appropriate to have exposure to interest rate risk in this manner.

The BlackRock bond mandate has significant exposure to changes in interest rates. The diversified growth funds may also have some sensitivity to changing interest rates, but this sensitivity will vary over time as the underlying investments change, and it is not expected to be a significant driver of returns due to the investment approaches of these funds.

6.4. Market risk: Other price risk

The Scheme's assets are exposed to risks of market prices other than currencies and interest rates, such as the equity pooled fund holdings being subject to movements in equity prices.

The Trustee monitors this risk on a regular basis, looking at the performance of the Scheme as a whole as well as each individual portfolio. The Trustee believes that the Scheme's assets

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