

STATEMENT OF INVESTMENT PRINCIPLES

MONMOUTHSHIRE BUILDING SOCIETY PENSION AND ASSURANCE SCHEME

1. Introduction

The purpose of the Statement of Investment Principles (the “Statement”) is to document the principles and policies governing decisions about the investment of the assets of the Monmouthshire Building Society Pension and Assurance Scheme (the “Scheme”).

This Statement has been prepared by the Trustees of the Scheme (the “Trustees”). It sets out the Trustees’ policy for complying with the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005 and subsequent legislation. The Trustees in preparing this Statement have consulted Monmouthshire Building Society (the “Sponsor”). As required under this legislation, the Trustees have received written advice from the Scheme’s investment consultants, Mercer Limited (“Mercer”), which is regulated by the Financial Conduct Authority (“FCA”) in relation to investment services.

The Trustees seek to maintain a good working relationship with the Sponsor and will discuss any proposed changes to the Statement with the Sponsor. However, the Trustees’ fiduciary obligation is to the Scheme’s members and this will take precedence over the Sponsor’s wishes.

The Scheme is governed by its Trust Deed and Rules which sets out all of the benefits in detail and specifies the Trustees’ investment powers. The investment powers do not conflict with this Statement.

Mercer has confirmed in writing to the Trustees that it has the appropriate knowledge and experience to give the advice required by the Pensions Act 1995, the Occupational Pension Schemes (Investment) Regulations 2005 and any subsequent legislation.

The Trustees will review this Statement at least every three years and without delay upon a material change to the Scheme’s investment strategy, or to the Sponsor.

Overall investment policy falls into two parts. The strategic management of the assets is fundamentally the responsibility of the Trustees acting on advice from their investment consultant, Mercer, and is driven by their investment objectives as set out in Section 2.1 below. The remaining elements of policy are part of the day-to-day management of the assets, which is delegated to professional investment manager as set out in Section 4.

2. Investment Objectives and Risk

2.1 Investment Objectives

The Trustees' objective is to invest the Scheme's assets in the best interests of the members and beneficiaries. Within this framework, to help guide it in the strategic management of the assets and control the various risks to which the Scheme is exposed, the Trustees (in consultation with the Sponsor) have agreed a number of key investment objectives. In pursuit of the main objectives, the Trustees will aim:

- To achieve, over the long term, a return on the investments which is consistent with the long term assumptions of the Scheme Actuary in determining the funding of the Scheme.
- To consider the interests of the Sponsor in relation to the size and volatility of the Sponsor's contribution requirements.
- To achieve a favourable return from the growth portfolio.

The appropriateness of this approach will be reviewed at least annually or following any significant and unforeseen change in the financial circumstances of the Scheme.

2.2 Investment Risk

There are various risks to which any pension scheme is exposed. The Trustees have considered the following risks:

- The risk of deterioration in the Scheme's funding level, caused by underlying risks which include interest rate, inflation, credit, currency and equity market risks.
- The Trustees recognise that while holding growth assets increases potential returns over a long period, it also increases the risk of a shortfall in expected investment return relative to that required to cover the Scheme's liabilities as well as producing more short-term volatility in the Scheme's funding position.
- The risk of changes in the value and profile of the liabilities in relation to the value and profile of the assets.
- In setting the return-oriented objectives, the Trustees have not lost sight of risk. In particular, they are well aware that there exists solvency risk - the risk that economic circumstances force the winding-up of the Scheme at a time when asset values are depressed and the sponsor cannot afford to make good the deficiency. Severe recession combined with deflation could have serious consequences for the Scheme.

Should there be a material change in the Scheme's circumstances, the Trustees will review whether and to what extent the investment arrangements should be altered, and in particular whether the current risk profile remains appropriate.

3. Investment Strategy

The Trustees have set the Scheme's investment strategy with regard to the expected return assumed in the actuarial valuation and the recovery plan, and with an acceptable level of risk relative to the liabilities. The Scheme is invested in growth asset classes (through the allocation to the Diversified Growth Fund), with potentially high volatility relative to the

Scheme’s liabilities with a target weighting to such asset classes of 50%. The remaining 50% target allocation is to matching asset classes (long-dated corporate bonds and index-linked gilts) that exhibit lower volatility relative to the Scheme’s liabilities to provide some protection against shorter-term equity volatility, interest rate volatility and inflation risk.

The Trustees believe that the resulting asset mix is consistent with the investment objectives set out in 2.1.

The Trustees regularly review the Scheme’s investment strategy and asset allocation to ensure an appropriate balance between risk and return.

4. Day-to-Day Management of the Assets

The Trustees regard the choice of asset allocation policy as the decision which has most influence on the likelihood that they will achieve their investment objectives. In deciding the asset allocation strategy, the Trustees have taken advice from Mercer and made their decisions in consultation with the Sponsor. The Trustees are satisfied that the spread of assets provides adequate diversification of investment for risk purposes.

The Trustees delegate the day-to-day management of the assets to an external investment manager. The Trustees have taken steps to satisfy themselves that the manager has the appropriate knowledge and experience for managing the Scheme’s investments and it is carrying out their work competently.

The Trustees invest the main assets of the Scheme in pooled fund arrangements operated by Legal & General Assurance (Pensions Management) Limited (“LGIM”).

LGIM invest assets according to the investment strategy detailed in the table below:

Asset Class	Target Benchmark Allocation (%)	Rebalancing Range (+/- %)
Growth Assets	50.00	-
Diversified Growth Fund	50.00	3.0
Matching Assets	50.00	-
Investment Grade Corporate Bond – Over 15 Year	16.67	3.0
Index – Linked Gilts - Over 15 Year	33.33	3.0
Total	100.00	

Details of the assets benchmarks and objectives can be found in Appendix A.

5. Rebalancing Policy

- Objectives of Rebalancing Policy:
 - To maintain the actual allocation as close to the benchmark as possible subject to market conditions.
 - To use cashflow to minimise transaction costs and the extent of necessary intervention by the Trustees.

- Rebalancing Policy:
 - LGIM are responsible for monitoring the Scheme’s allocation relative to the target allocation.
 - LGIM monitor the allocation weekly and will rebalance on the next weekly dealing date if any allocations are outside of the rebalancing ranges.
 - The rebalancing ranges are set out in the table above.

6. Monitoring the Investment Manager

The Trustees meet the investment manager as necessary to review their actions together with the reasons for and background to the investment performance. Mercer is retained as investment consultant to assist the Trustees in fulfilling their responsibility for monitoring the manager. Mercer alerts them to any significant developments at the manager.

7. Realisation of Investments

The investment manager has discretion in the timing of realisation of investments and in consideration relating to the liquidity of those investments, within parameters stipulated in the relevant appointment documentation.

8. Corporate Governance

The Trustees wish to encourage best practice in terms of activism. The Trustees accept that by using pooled funds the assets are subject to the manager’s own policy on corporate governance and the exercise of rights (including voting rights) attaching to investments.

9. Socially Responsible, Environmental and Ethical Investment (“SRI”) and Corporate Governance

ESG, Stewardship, and Climate Change

The Trustees believe that environmental, social, and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustees have given the appointed investment manager full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustees consider how ESG, climate change and stewardship is integrated within investment processes in appointing any new investment managers and monitoring the existing investment manager. Monitoring is undertaken on a regular basis.

Equity managers who are registered with one of the appropriate UK regulators (currently the Financial Conduct Authority (“FCA”) or the Prudential Regulation Authority (“PRA”)) are expected to report on their adherence to the UK Stewardship Code on an annual basis.

Member views

Member views are not taken into account in the selection, retention and realisation of investments.

Investment Restrictions

The Trustees have not set any investment restrictions on Mercer or the underlying investment manager in relation to particular products or activities.

9.1 Engagement with the Investment Manager

The policy in relation to the Trustees' arrangements with their investment managers are set out below.

A Incentivising the asset manager to align its investment strategy and decisions with the Trustee policies:

In line with section 9.0 of the SIP, investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected for.

The Trustees look to its investment consultant for their forward-looking assessment of a manager's ability to outperform over a full market cycle. This view will be based on the consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the scheme invests in. The consultant's manager research ratings assist with due diligence and questioning managers during presentations to the Trustees and are used in decisions around selection, retention and realisation of manager appointments.

If the investment objective of a particular fund changes, the Trustees will review the fund appointment to ensure it remains appropriate and consistent with the Trustees' wider investment objectives.

The Scheme's investment mandates with LGIM are reviewed following periods of sustained tracking error from their respective benchmarks. The Trustees will review the appropriateness of using active and passive managed funds (on an asset class basis) on an ad-hoc basis.

As the Trustees invest in pooled investment vehicles they accept that they have no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy.

B Incentivising the asset manager to make decisions based on assessments about medium to long-term financial and non-financial performance of a holding company, and to engage with holding companies in order to improve their performance in the medium to long-term:

The Trustees will consider the investment consultant's assessment of how the investment manager embeds ESG into its investment process and how the manager's responsible investment philosophy aligns with the Trustee's responsible investment policy. This includes the investment managers' policy on voting and engagement.

STATEMENT OF INVESTMENT PRINCIPLES

MONMOUTHSHIRE BUILDING SOCIETY PENSION AND ASSURANCE SCHEME

Page 6

The Trustees meet with the investment manager at Trustee meetings as required and may challenge decisions made including voting history (in respect of equities) and engagement activity.

The Trustees delegate all voting and engagement activities to the investment manager. When required the Trustees will question managers' voting decisions if they deem them out of line with the investment fund's objectives or the objectives / policies of the scheme.

The Investment manager is aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustees are dissatisfied, then they will look to replace the manager.

C Aligning the evaluation of the asset manager's performance and the remuneration for asset management services with the Trustees' policies:

The Trustees receive investment manager performance reports on a quarterly basis, which present performance information over 3 months, 1 year, 3 years, 5 years and since inception. The Trustees review the absolute performance, relative performance against a suitable index used as the benchmark, and against the manager's stated tracking error (over the relevant time period) on a net of fees basis.

If the manager is not meeting their investment objectives for the mandate have changed, the Trustees may review the mandate and review the annual management charge levied by the manager.

D Monitoring portfolio turnover costs incurred by the asset manager:

The Trustees receive MiFID II reporting from their investment manager but do not analyse the information.

The Trustees do not currently monitor portfolio turnover costs but may look to do so in the future.

E The duration of the arrangement with the asset manager:

The Trustees are long term investors and are not looking to change the investment arrangements on a frequent basis.

The funds invested in are open-ended funds and therefore there is no set duration for the manager appointments. The Trustees will retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;
- The manager appointment has been reviewed and the trustees have decided to terminate.

10. Fee Structures

The Investment Manager is paid management fees which are detailed in Appendix B.

The Scheme Actuary and Investment Consultant typically work on the basis of a time-cost basis or on pre-agreed budgets.

11. Compliance with this Statement

The Trustees will monitor compliance with this Statement annually.

In line with the Occupational Pension (Investment) Regulations (2005), the Trustees are required to review the Statement at least every three years and without delay upon a material change to the Scheme's investment strategy, or to the Sponsor.

The Trustees will review this Statement in response to any material changes to any aspects of the Scheme, its liabilities, finances and the attitude to risk of the Trustees and the Sponsor which they judge to have a bearing on the stated Investment Policy.

This statement has been agreed by the Trustees on

19th June 2020

Signed on behalf of the Trustees by



M.J. PRIOR.

(Trustee chair)

APPENDIX A

Investment Manager Performance Benchmarks and Objectives

LGIM

Asset Class	Benchmark Allocation (%)	Benchmark Index	Outperformance Target	Tracking Error Target
Diversified Growth Fund	50.00	FTSE Developed World Index (50% hedged to GBP)	To achieve a return broadly in line with the benchmark ¹	2/3 of Benchmark Index Volatility ²
Investment Grade Corporate Bond – Over 15 Year	16.67	Markit iBoxx Sterling Non-Gilts Over 15 Year Index	To match the benchmark	Up to ±0.50% p.a.
Index – Linked Gilts - Over 15 Year	33.33	FTSE A Over 15 Year Index-Linked Gilts Index	To match the benchmark	Up to ±0.25% p.a.
Total	100.00			

¹ Over a full market cycle.

² The nature of the Diversified Growth Fund means that it does not have a formal tracking error target. Instead it targets 2/3 of the volatility of returns from equities, represented by the FTSE Developed World Index (50% hedged to GBP).

APPENDIX B

Investment Manager Fees- LGIM

Funds	Charging Structure
Diversified Growth Fund	0.300% p.a. on the first £25m 0.250% p.a. thereafter
Investment Grade Corporate Bond – Over 15 Year	0.150% p.a. on the first £5m 0.125% p.a. on the next £5m 0.100% p.a. on the next £20m 0.080% p.a. thereafter
Index – Linked Gilts - Over 15 Year	0.100% p.a. on the first £5m 0.075% p.a. on the next £5m 0.050% p.a. on the next £20m 0.030% p.a. thereafter