The International Personal Finance plc Pension Scheme

Statement of Investment Principles

September 2020 (Replaces September 2019)

1. Introduction

The Trustee Directors (the “Trustees”) of the International Personal Finance plc Pension Scheme (“the Scheme”) have drawn up this Statement of Investment Principles (“the Statement”) to comply with the requirements of the Pensions Act 1995 (“the Act”) and the Occupational Pension Schemes (Investment) Regulations 2005, subsequent legislation and associated requirements. The Statement is intended to affirm the investment principles that govern decisions about the Scheme’s investments. This Statement supersedes the previous version, dated September 2019.

Before preparing the Statement, the trustees have consulted the Sponsoring Company and obtained and considered written professional advice from Mercer, (“the Investment Consultant”), which is regulated by the Financial Conduct Authority (“FCA”) in relation to investment services. The Trustees believe that the Investment Consultant meets the requirements of Section 35(5) of the Pensions Act (as amended).

Overall investment policy falls into two parts; the strategic management of the assets, which is fundamentally the responsibility of the Trustees acting on expert advice and is driven by their investment objectives (as set out in Section 3), and the day-to-day management of the assets, which is delegated to a professional investment manager (“Investment Manager”) (described in Section 7).

2. Process for Choosing Investments

The Trustees have considered their investment and funding objectives and the strength of the Sponsoring Company covenant to ensure that the two are compatible and supportable. The Trustees have then constructed a portfolio of investments consistent with these objectives and which they hope will deliver the maximum level of return (net of all costs) for the level of risk taken (taking into account limitations on the overall complexity of arrangements to the size of assets under management).

The Trustees take into account what they believe to be financially material considerations over an appropriate time horizon, which can include risk and return expectations as well as Environmental, Social and Governance (“ESG”) issues where these are considered to have a material impact on income, value or volatility of an investment held or the overall portfolio of investments held by the Scheme. Specific considerations are detailed throughout this Statement.

In considering the appropriate investments for the Scheme, the Trustees have obtained and considered the written advice of the Investment Consultant whom the Trustees believe to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustees’ opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3. Investment Objectives and Time Horizon

The Investment objectives set out here are those that the Trustees determine to be financially material considerations in relation to the Scheme.

To guide them in their strategic management of the assets and control of the various risks to which the Scheme is exposed, the Trustees have considered their objectives and adopted the following:

i. To ensure the Scheme's obligations to its beneficiaries can be met;

ii. To achieve an asset return above the return from bonds over the longer term, whilst recognising the need to balance risk and control return generation;

iii. To pay due regard to the sponsoring company's interests in the size and incidence of employer contribution payments.

Given the nature of the liabilities, the investment time horizon of the Scheme is potentially long-term (i.e. several decades). However, any future opportunities to transfer liabilities (fully or partially) to an insurance company (e.g. through the purchase of bulk annuities with an insurance company) may shorten the Scheme's investment horizon significantly.

4. Risk Awareness, Measurement and Management

There are various risks to which any pension scheme is exposed, which the Trustees believe may be financially material to the Scheme. The Trustees recognise that whilst increasing risk may increase potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's liabilities as well as increasing the short-term volatility in the Scheme's funding position. The Trustees have taken advice on the matter and (in light of the objectives noted previously) considered carefully the implications of adopting different levels of risk.

The risks the Trustees' have considered and their policy on risk management and measurement over the Scheme's anticipated lifetime is set out below:

- The primary investment risk upon which the Trustees have focused is a deterioration in the value of assets relative to the value of the liabilities, as assessed on the Trustees' funding basis, beyond the level that the Sponsoring Company is comfortable rectifying through additional payments. The Trustees have established an investment policy designed to reduce this risk, whilst remaining compatible with the Scheme's long term funding assumptions, using asset-liability modelling conducted by Mercer.

- The Trustees are aware of **equity market risk** i.e. the risk that equity valuations fluctuate in an uncorrelated way with the value of the liabilities.

- The Trustees are aware of both **interest rate and inflation risk**:

    - Interest rate risk exists if the changes in the value of the assets do not move in line with changes in the value placed on the Scheme's liabilities in response to changes in interest rates.

    - Inflation risk exists if the projected cash flows from the assets have different linkages to the inflation from the projected liabilities.

    - To partially mitigate these risks, the Trustees have developed a Liability Driven Investment ("LDI") framework which seeks to reduce the mismatch between the sensitivity of the assets and the liabilities to changes in interest rates and inflation. The Trustees recognise that the target LDI portfolio will not produce a perfect match for the liability values.

- The Trustees are also aware of **credit risk** – the risk that one party to a financial instrument will cause a financial loss to the Scheme by failing to discharge an obligation. The Trustees partially mitigate this risk by investing in corporate bonds that are rated as A or higher i.e. higher quality bonds.

- The Trustees recognise that it is important to consider **liquidity risk** which arises from holding assets that are not readily marketable and realisable. It is important for the Scheme to have sufficient liquid assets to meet payments. To partially mitigate against this risk, there is a regular comparison of the level of cashflow required by the Scheme over a specified period with the level of cash actually held. The Trustees invest in assets of sufficient liquidity such that cash can be raised to pay benefits as they fall due.

The Trustees recognise the following additional risks and take the following steps to manage risk:

- The risk of the Scheme winding up with **insufficient assets** to secure accrued liabilities in full with an insurance company.

- Risks may arise from the **lack of diversification of investments**. Subject to managing the risk from a mismatch of assets and liabilities, the Trustees aim to ensure the asset allocation policy in place results in an adequately diversified portfolio. Due to the size of the Scheme's assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles.

- Investment in foreign markets introduces **currency risk** which is managed through the total allocation to these markets and currency hedging.

- The risk that the day-to-day management of the assets will not achieve the **rate of return expected** by the Trustees. As well as having exposure to the market risks outlined above, the Trustees recognise that the use of active management involves such a *risk*. The Trustees believe that this risk can be outweighed by the potential gains from successful active management in appropriate asset classes.

- Across all of the Scheme's investments, the Trustees are aware of the potential for **regulatory and political risks**. Regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those environments subject to unstable regimes.

- The Trustees are aware that **custodian risk** is measured by assessing the creditworthiness of the custodian bank and the ability of the organisation to settle trades on time and provide secure safekeeping of assets under custody. The safe custody of the Scheme's assets is delegated to professional custodians (either directly or via the use of pooled vehicles).

The Trustees consider the above risks when setting the Scheme's investment strategy.

Arrangements are in place to monitor the Scheme's investments to help the Trustees check that nothing has occurred that would bring into question the continuing suitability of the current investments. The Trustees meet periodically with and receive regular reports from their Investment Manager.

Considerations specific to Environmental, Social and Governance issues are addressed in Section 9.

Overall, the Trustees primarily measure and manage investment risk through the investment strategy (outlined below) and review the appropriateness of this strategy on a regular basis. 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, in particular whether the current risk profile remains appropriate.

5. Investment Strategy

Given the investment objectives, the Trustees have determined, based on expert advice, a Scheme specific investment strategy as shown in the table below (excluding any cash held separately to meet day to day cashflow requirements).

Asset Class	Allocation %	Control Range (%)
Diversified Growth	15.0	+/- 2.5%
Corporate Bonds/ Liability Driven Investment ("LDI")	85.0	+/- 2.5%
Total	**100.0**	

The investment strategy hedges around 100% of funded interest rate risk (nominal and real) resulting from movements in the Scheme's Long Term Funding Target (gilts plus 0.35% p.a.).

The Investment Manager monitors actual asset allocation on a quarterly basis. If this lies outside the control ranges the Investment Manager will rebalance the asset class that has moved outside its control ranges back towards the central benchmark.

6. Portfolio Construction Principles

The Trustees have adopted the following principles subject to the overriding constraint that at the total Scheme level the expected level of risk is consistent with that detailed in Sections 3 and 4 and subject to the Trust Deed & Rules:

- There is a role for both active and passive management. **Passive management** involves employing investment managers who aim to deliver a return equal to a chosen benchmark appropriate to the asset class held. **Active management** involves employing investment managers who aim to outperform a benchmark but with a risk that they will underperform. By employing both the Trustees aim to take advantage of active management where they believe it is likely to lead to outperformance net of fees, while using passive management in other areas or alongside active management to control overall manager risk and to manage overall fee levels.

- Decisions on **segregated vs pooled** investments will be taken based on the particular circumstances, including the available vehicle, investment restrictions contained in pooled funds, the need for and availability of an independent custodian, ease of administration and portability of underlying investments.

- **Specialist managers** are preferred over generalists because of the potential to access a higher level of expertise.

- At the total Scheme level investments should be broadly **diversified** to ensure there is not a concentration of exposure to any one issuer, to the extent that this is not protected (e.g. by collateral). This restriction does not apply to investment in UK Government debt. Appropriate diversification between markets will also be ensured.

- The amount invested in highly **concentrated portfolios** will take into account the level of risk this represents taking into account the Scheme's assets overall.

- The amount invested in **illiquid investments**, such as property or pooled property funds, will take into account the implications of not being able to readily liquidate a proportion of the Scheme's investment on the operation of the Scheme.

- Investment in **derivatives** is permitted directly or within pooled funds for risk reduction purposes or to facilitate efficient portfolio management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk).

- Investment may be made in securities that are not traded on **regulated markets**. Recognising the risks (in particular liquidity and counterparty exposure) such investments will normally only be made with the purpose of reducing risk or to facilitate efficient portfolio management. In any event the Trustees will ensure that the assets of the Scheme are predominantly invested on regulated markets.

- The Trustees will not invest directly in the **Scheme sponsor** or any associated companies but acknowledge that indirect investment is possible as a result of the investment policies of the Scheme's pooled investment managers.

- **Direct Borrowing** (such as the use of an overdraft facility) is not permitted except to cover short term liquidity requirements. The use of **borrowing within pooled funds** is reviewed by the Trustees as part of the onboarding process for new investments.

7. Day-To-Day Management Of The Assets

7.1 Main Assets

Day-to-day management of the assets, including selection, retention and realisation, is delegated to a professional Investment Manager who is regulated by the FCA. The Investment Manager has full discretion to buy and sell investments on behalf of the Scheme subject to agreed constraints and applicable legislation. The Trustees have taken steps to satisfy themselves that the Investment Manager has the appropriate knowledge and experience for managing the Scheme's investments and is carrying out its work competently.

The Trustees invest the main assets of the Scheme in separate Growth and Matching Portfolios using a range of pooled funds operated by Legal & General Investment Management ("LGIM"). The Trustees are satisfied that the spread of assets by type and the Investment Manager's policies on investing in individual securities within each type provides adequate diversification of investments.

The documents governing the Investment Manager appointment include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme. The Trustees regularly review the continuing suitability of the Scheme's investments, including the appointed Investment Manager. They do so via regular reports and periodic presentations from the appointed manager with the assistance of the Investment Consultant. Any adjustment would be done with the aim of ensuring consistency with this Statement.

Section 12 sets out how the Trustees incentivise the Scheme's Investment Manager, where applicable, to operate in line with the Trustees' objectives.

7.2 Investment Benchmarks and Performance Objectives

LGIM's investment benchmark is set out below, with relevant investment ranges where applicable. LGIM automatically rebalances the portfolio within the stated ranges as part of their Enhanced Service.

Growth Portfolio (15.0% of total assets)

Asset Class	**Index**	**Weighting %**
Diversified Fund	FTSE Developed World Index (50% hedged to GBP)	100.0
Total		**100.00**

The LGIM Diversified Fund aims to produce returns in line with global equities over the long term with 2/3rds of the volatility of equity markets.

Matching Portfolio (85.0% of total assets)

- *Corporate Bonds* (40.0% of total assets)

Asset Class	**Index**	**Weighting %**
Corporate bonds	iBoxx Sterling Non-Gilt (ex BBB) Index	100.0
Total		**100.0**

LGIM are targeted to manage 40.0% of the Scheme's total assets in their AAA-AA-A Corporate Bond All Stocks Index Fund. The investment objective of the fund is to track the performance of the Markit iBoxx £ Non Gilts (ex BBB) Index to within +/ 0.5% for two years out of three.

- *LDI Portfolio* (45.0% of total assets)

Asset Class	**Index**	**Weighting %**
Liability Driven Investment ("LDI")	Bespoke Benchmarks (see below)	100.0
Total		**100.0**

LGIM are targeted to manage 45.0% of the Scheme's total assets in a Liability Driven Investment ("LDI") framework.

The LDI framework is invested so as to change in value in a similar way as (i.e. to "hedge") a proportion of the Scheme's liabilities in response to changes in interest rates and inflation. This is achieved by investing in a range of pooled unleveraged and leveraged gilt funds that, in aggregate, have a similar level of sensitivity to changes in interest rates and inflation as the Scheme's liabilities.

The target hedge ratio is set to 100% of funded liabilities.

LDI includes investment across LGIM's "Matching Plus" range of leveraged gilt and index-linked gilt pooled funds and investment in their Sterling Liquidity Fund.

The LGIM 'Matching Plus' funds in which the Scheme is invested are designed to provide leveraged exposure to the Underlying Reference Gilt, primarily through investing in Gilt repos, reverse gilt repos, gilts and/or index-linked gilts and gilt total return swaps. The funds have individual target levels of leverage which LGIM aims to maintain. The funds are monitored against bespoke benchmarks which reflect underlying gilt holdings and account for the level of leverage employed within the fund.

The LDI investment is via LGIM's 'Enhanced Service', which includes the following key features:

- Monitoring of the Bond/LDI portfolio allocations, and rebalancing within agreed tolerances (+/- 2.5%);
- Adjustment of the LDI pooled unleveraged and leveraged gilt funds to remain in line with the target level of hedging, allowing for various elements of experience;
- Collateral management services, including recapitalisation and releveraging processes; and
- More comprehensive reporting than included in LGIM's standard service.

As mentioned above, under LGIM's Enhanced Service, LGIM provide collateral management services. In the event of recapitalisation or re-leveraging, LGIM would aim to manage the cash call or cash released in the most efficient manner while maintaining the Scheme's hedging objectives. Where possible, this would be managed within the matching portfolio by altering the allocations to the unleveraged and leveraged gilt funds held.

Should the leveraged gilt or index-linked gilt funds held by LGIM require recapitalisation, LGIM may switch a portion of the unleveraged funds to leveraged equivalents in order to release cash. Any cash released as a result of a re-leveraging event may be used to switch out of leveraged funds and into unleveraged funds. In-specie fund switches would be used where possible to reduce transaction costs.

The Sterling Liquidity Fund aims to provide capital stability, liquidity and income through investment in a diversified portfolio of high credit quality short term fixed income and variable rate securities. In addition, the Sterling Liquidity Fund will seek to obtain and maintain a triple-A Money Market Fund rating from at least one internationally recognised rating agency (for example, AAAm by Standard & Poor's). The investment objective of the fund is to provide diversified exposures and a competitive return in relation to 7 Day LIBID.

7.3 Return on the Investments

The return on the Scheme's assets will be determined by LGIM's performance against the performance benchmarks set out in 7.2. The Trustees expect the assets to deliver a return above bonds and to meet or exceed the Actuary's assumptions over the longer term. Short-term performance may deviate significantly from longer-term expectations.

7.4 Investment/Disinvestment of Funds

LGIM has responsibility for maintaining the allocations within their ranges as set out above via the investment/disinvestment of cash flow and rebalancing.

7.5 Selection, Retention and Realisation of Investments

The selection, retention and realisation of assets is carried out in a way consistent with maintaining the Scheme's overall strategic allocation and consistent with the overall principles set out in this Statement.

In general, the Investment Manager has discretion in the timing of selection, retention and realisation of investments and in considerations relating to the liquidity of those investments stipulated in the relevant appointment documentation and pooled fund prospectuses.

7.6 Additional Assets

Under the terms of the Trust Deed the Trustees are responsible for the investment of Additional Voluntary Contributions ("AVCs") paid by members. AVCs are invested in insurance policies with AEGON Scottish Equitable and Friends Life and the Trustees review the investment performance of the providers periodically.

8. ESG, Stewardship (including Engagement Activities) and Climate Change

The Trustees believe that environmental, social, and corporate governance (ESG) issues may have a financially 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 taken into account the expected time horizon of the Scheme when considering how to integrate these issues into the investment decision making process.

The Scheme's assets are invested in pooled vehicles and the day-to-day management of the Scheme's assets has been delegated to the Investment Manager, including the selection, retention and realisation of investments within its mandates. In doing so, the Investment Manager is expected and encouraged to undertake engagement activities on relevant matters including ESG factors (including climate change considerations) and to exercise 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 engage with the Investment Manager on these issues through periodic review and will monitor the Investment Manager's engagement activity at least annually. This applies to both equity and debt investments, as appropriate, and covers a range of matters including the issuers' performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance.

Notwithstanding the above, the Trustees recognise that in pooled vehicles that the Trustees have chosen to invest in, the use of passive funds largely dictates the underlying assets held by the Investment Manager and that the manager has limited freedom to take account of factors that may be deemed to be financially material as part of stock selection decision-making. The Trustees accept that the primary role of its Investment Manager is to deliver returns in line with their stated targets and believe this approach is in line with the basis on which the current strategy has been set.

The Trustees consider, amongst other factors, how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers, monitoring existing investment managers and retaining or withdrawing from investment managers. The relative importance of these factors compared to other factors will depend on the asset class being considered.

The Trustees have not set any investment restrictions on the appointed Investment Manager in relation to particular products or activities but may consider this in the future.

In considering their responsible investment policies, the Trustees will consider relevant policies from the Sponsoring Company, for example its sustainability policy.

9. Non-Financial Matters

Non-financial matters (where "non-financial matters" includes members' ethical views) are not explicitly taken into account in the selection, retention and realisation of investments. The Trustees would review this policy in response to significant member demand. The Trustees regularly update members via newsletters and by making a copy of the Statement of Investment Principles available online.

10. Advisors

10.1 Custodian

The role of a custodian is to ensure the safe keeping of the assets and facilitate all transactions entered into by the appointed Investment Manager. The Trustees are not responsible for the appointment of the custodian of the assets contained within the various pooled fund investments managed by LGIM.

10.2 Actuary

The actuary performs a valuation of the Scheme at least every three years, in accordance with regulatory requirements. The latest Actuarial Valuation was performed as at 31 May 2017 by the Scheme Actuary. The main purpose of the Actuarial Valuation is to assess the extent to which the assets cover the accrued liabilities and agree employer contributions.

10.3 Investment Consultant

Whilst the day-to-day management of the Scheme's assets is delegated to the Investment Manager, other investment decisions, including strategic asset allocation, is taken by the Trustees after taking advice from the Investment Consultant. Mercer Ltd has been appointed for this purpose.

10.4 Performance Measurement

LGIM provides information on the performance of the pooled funds in which the Scheme is invested on a quarterly basis.

11. Fee Structures

LGIM levy fees based on a percentage of the value of the assets under management. In addition, LGIM also levy a fixed fee in respect of enhanced matching service which the Scheme uses.

The Scheme Actuary and the Investment Consultant work on a combination of fixed fee and time cost basis.

12. Investment Manager Arrangements

12.1 Aligning Investment Manager Objectives and Incentivisation

Investment managers are appointed based on their perceived capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics for the asset class or specific investment strategy they are selected to manage over a suitably long time horizon. This includes, in relation to active management, appropriate levels of outperformance, and in relation to passive management suitable levels of "tracking error" against a relevant benchmark.

The Trustees seek expert advice in relation to these appointments. This advice may consider factors such as the manager's idea generation, portfolio construction, implementation and business management, as well as the investment manager's approach to ESG and engagement activity, as they apply to the specific investment strategy considered.

The Trustees invest in multi-investor pooled investment vehicles and accept that they have little or no ability to specify the risk profile and return targets of the manager other than through the choice of specific vehicles. The Trustees will therefore select vehicles that best align with the Trustees' own policy in terms of investment objectives and guidelines (as set out in relevant governing documents) and, once appointed, will review the appointment should there be any material changes in these terms.

The Trustees make appointments with the view to them being long term (to the extent this is consistent with the Trustees' overall investment time horizon) and there is no set duration for manager appointments. However, manager appointments can typically be terminated at short notice.

For each appointment, retention is dependent upon the Trustees having ongoing confidence that the Investment Manager will achieve its investment objectives. The Trustees make this assessment taking into account various factors which includes performance to date as well as an assessment of future prospects.

Investment managers are therefore incentivised both to achieve the objectives set for them, which are consistent with the Trustees' policies and objectives, and to ensure that they remain capable of doing so on a rolling basis. This encourages investment managers to take a suitably long-term view when assessing performance prospects of, and engaging with, the equity and debt issuers in which they invest or seek to invest.

12.2 Performance Assessment & Fees

The Trustees receive reporting on asset class and investment manager performance on a regular basis, via reports and presentations from the Investment Manager.

Investment returns (and volatility) are measured on an absolute basis and considered relative to one or more suitable benchmarks and targets. Returns are considered net of fees and ongoing transaction costs.

As well as assessing investment returns the Trustees will consider a range of other factors, with the assistance of their Investment Consultant, when assessing the Investment Manager, which may include:

- Personnel and business change;
- Portfolio characteristics (including risk and compatibility with objectives) and turnover;
- Engagement activity;

- Service standards;
- Operational controls; and
- The Investment Consultant's assessment of ongoing prospects based on their research ratings.

The Investment Manager is remunerated by way of a fee calculated as a percentage of assets under management, combined with a fixed fee. The principal incentive is for the Investment Manager to retain their appointment (in full), by achieving their objectives, in order to continue to receive the associated fee. The Investment Manager is not remunerated based on portfolio turnover.

Portfolio Turnover Costs

Turnover costs arise from a) "ongoing" transactions within an investment manager's portfolio and b) "cashflow" costs incurred when investing in or realising assets from a mandate.

The Trustees have not historically monitored investment managers' ongoing transaction costs explicitly but measure these implicitly through ongoing performance assessments which are net of these costs. The Trustees will now seek explicit reporting on ongoing costs for the appointed Investment Manager.

The Trustees do not monitor regular cashflow costs (but seek to minimise them through ongoing cashflow policy). The Trustees consider the costs of implementing strategic change via their Investment Consultant.

13. Compliance With This Statement

The Trustee Directors of the International Personal Finance plc Pension Scheme and Mercer, the Investment Consultant, each have duties to perform to ensure compliance with this Statement.

These are:

The Trustees, will monitor compliance with this Statement annually and will periodically check that the Investment Manager has given effect to the investment principles in this Statement, so far as reasonably practicable.

The Trustees, will review this Statement every three years to coincide with the Actuarial Valuation and immediately after any significant change in investment policy. Any such review will be based on written advice from Mercer and will be in consultation with the Sponsoring Company. The Trustees note that the Occupational Pension Schemes (Investment) Regulations 2005 require this Statement to be reviewed at least every three years and immediately after any significant change in investment policy.

Mercer will provide the advice needed to allow the Trustees to review and update this Statement every three years (or more frequently if required).

For and on behalf of the Trustee Directors of the International Personal Finance plc Pension Scheme

David Bowman, Chair of Trustees, 25 September 2020