Standard Life
DC Master Trust

Statement of Investment Principles

Date signed: June 2016

Standard Life

Contents

Statement of Investment Principles

1. Introduction

1.1. This is the Statement of Investment Principles prepared by Standard Life Master Trust Co. Ltd (the Trustee), the Trustee of the Standard Life DC Master Trust (the Trust). This statement sets down the principles which govern the decisions about investments that enable the Trust to meet the requirements of:

- the Pensions Act 1995, as amended by the Pensions Act 2004;
- the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010 and the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

1.2. In preparing this statement the Trustee has obtained advice from Barnett Waddingham LLP, the Trustee's investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority (FCA) and licensed by the Institute and Faculty of Actuaries for a range of investment business activities.

1.3. The Trust has been set up to service multiple employers. The Trustee has consulted with the employers in the preparation of this statement.

1.4. The Trust is currently a wholly-insured scheme as defined in the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010. This is because it is a trust-based scheme, which has no invested assets other than specified qualifying insurance policies.

1.5. This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates).

1.6. The Trustee will review this statement at least every three years or if there is a significant change in any of the areas covered by the statement or the profile of members.

1.7. The investment powers of the Trustee are set out in Clause 9 of the Trust Deed and General Rules, the current terms of which are dated April 2015. This statement is consistent with those powers.

2. Choosing investments

2.1. The Trustee carefully considers its Investment Objectives, shown in the appendices, when designing the default investment option and an appropriate range of alternative investment options to offer to its members. The Trustee also acknowledges that members will have different attitudes to risk and different aims for accessing their retirement savings – and therefore, whilst aiming to maximise member outcomes net of fees, it also considers the level of risk that is appropriate to those investments based on the anticipated needs of the membership profile across the Trust as a whole.

2.2. The Trustee's policy is to offer a range of "off-the-shelf" default investment arrangements suitable for the Trust's membership profile plus a core range of investment solutions into which members can choose to invest contributions. Details of these are given in the appendices. In doing so, the Trustee considers the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.

2.3. There are some groups of members to whom different fund options are made available. The Trustee has in each case obtained professional advice on the suitability of the options for that group of members.

2.4. As the Trust is currently a wholly-insured scheme, the insurer is responsible for the management of the investment arrangements. The insurer may invest in underlying funds run by other fund managers, who are responsible for the management of the underlying fund(s). The Trust's investment arrangements are detailed in the appendices to this statement. The investment managers will either be authorised and regulated by the FCA, or if non-UK domiciled will be recognised by the FCA. The investment managers are responsible for stock selection and the exercise of voting rights.

3. Investment objectives

3.1. The Trustee has discussed and agreed the key investment objectives for the Trust, suitable for the membership profile, as well as the constraints the Trustee faces in achieving these objectives. Further information is provided in the appendices..

4. Kinds of investments to be held

4.1. The Trust is permitted to invest in a wide range of assets including equities, bonds, cash, property and alternatives. The Trustee currently invests via policies of insurance and, in deciding the types of assets to include, considers investment returns, net of fees, and an appropriate level of risk based on the anticipated needs of the membership profile across the Trust as a whole.

5. The balance between different kinds of investments

5.1. The Trustee has made available a range of funds to suit the individual needs of the Trust's members – taking into account the Investment Objectives set out in the appendices. For example, a range of equity funds is available for those members willing to accept a greater level of volatility in pursuit of higher expected retirement savings. Bond and deposit and treasury funds are also offered for those members who are less comfortable with the likely greater volatility of the equity funds.

5.2. Alternatively, the Trustee has made available a range of lifestyle arrangements, whereby a member's assets are automatically invested in line with a pre-determined strategy that changes as the member gets closer to accessing their retirement savings. Emphasis is placed on medium to higher risk funds (i.e. investment largely in growth assets) in search of long-term, inflation-protected growth whilst the member is a long way off accessing their retirement savings, switching progressively to "protection" assets over the years preceding the member's target retirement date so as to protect the retirement savings of the member relative to the way in which they are expected to access these savings.

5.3. Members can choose to invest in a range of funds or can elect to invest in a lifestyle strategy. Where members do not choose where their contributions, and those made on their behalf by their employer, are invested, the Trustee will invest these contributions according to one of the default investment strategies set out in the appendices.

5.4. The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and the asset allocation may change as the membership profile evolves.

5.5. The Trustee considers the merits of both active and passive management and may select different approaches for different arrangements and asset classes.

6. Risks

6.1. Risk in a defined contribution scheme lies with the members themselves. The Trustee has considered a number of risks when designing and providing suitable investment choices to members. A comprehensive list of risks is set out in the Trustee risk register, however, the main investment risks affecting all members are:

Inflation risk	The risk that the investments do not provide a return at least in line with inflation, thus eroding the purchasing power of the retirement savings. The Trustee makes available investment options that are expected to provide a long-term real rate of return.
Conversion risk	The risk that fluctuations in the assets held, particularly in the period before retirement savings are accessed, lead to uncertainty over the benefit amount likely to be received. In the lifestyle arrangements made available to members, the Trustee increases the proportion of assets that more closely match how they expect members to access their retirement savings.
Retirement income risk	The risk that a member's retirement income falls short of the amount expected, whether this is due to lower investment returns than expected. The Trustee reviews the appropriateness of the fund range offered to members. Communications to members will seek to encourage them to regularly review the level of their contributions, but ultimately this is a risk which lies with each member. It is not part of the Trustee's role to ensure that the retirement income for any member is adequate for his or her needs.
Investment manager risk	The Trustee receives reports on performance from the insurer and reviews the performance of the funds used. The insurer monitors the performance of each of the investment managers on a regular basis in addition to having meetings with each manager from time to time as necessary, and reports to the Trustee on a regular basis. The insurer has a written agreement with each investment manager, which sets out the terms and conditions on which the insurer invests on behalf of the Trustee in the investment manager's fund(s). In the event that the Trustee is unhappy with the performance of one of the funds, the Trustee may choose to replace that fund with another fund within the range offered by the insurer.
Concentration/ Market risk	Each investment manager is expected to manage properly diversified portfolios and to spread assets across a number of individual shares and securities.
Currency risk	The Trust may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management.
Loss of investment	The risk of loss of investment by the insurer and custodian is assessed by the Trustee. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud). The insurer will also undertake a review of the internal controls and processes of each of the investment managers where necessary. The insurer will provide regular reports to the Trustee and advise of any material concerns arising from its due diligence. The Trustee also has a discontinuance plan in place and is considering the role of the Financial Services Compensation Scheme as part of this.

Some of these risks will be more relevant to particular cohorts of members. Some risks specific to individual sections are detailed in the relevant appendices.

7. Expected return on investments

7.1. The Trustee has regard to the relative investment return net of fees, and the risk, that each asset class is expected to provide. The Trustee is advised by their professional advisers on these matters, who it has assessed to be appropriately qualified. However, the day-to-day selection of investments is delegated to the investment managers.

7.2. The Trustee recognises the need to distinguish between nominal and real returns and to make appropriate allowance for inflation and charges when making decisions and comparisons.

8. Realisation of investments

8.1. The investment managers have responsibility for buying and selling investments. The Trustee has considered the risk of liquidity as referred to in the appendices.

9. Socially Responsible Investment, Corporate Governance and Voting Rights

9.1. The Trustee believes that environmental, social and corporate governance ('ESG') issues can affect the performance of investment portfolios and should therefore be taken into account as part of the Trust's investment process.

9.2. The Trustee delegates full discretion to the insurer to agree with the investment managers how they evaluate ESG issues and exercise rights and stewardship obligations relating to the Trust's investments.

9.3. It is accepted that pooled vehicles will be governed by – and constrained by – the individual investment policies of the investment managers.

9.4. The Trustee is supportive of the UK Stewardship Code published by the Financial Reporting Council and encourages the insurer to ensure that the Trust's investment managers are asked to comply with the UK Stewardship Code. Such managers are expected to report to the insurer on their adherence to the code on an annual basis.

10. Monitoring

10.1. Investment Performance: The Trustee reviews the performance of each fund in which the Trust invests against the stated performance objective for that fund and, in doing this, the Trustee receives a performance monitoring report on a quarterly basis. This monitoring takes into account both short-term and long-term performance. The insurer meets the investment managers as frequently as is appropriate in order to review performance. A manager's overall suitability for each mandate will be monitored as frequently as the Trustee considers appropriate in light of both its performance and other prevailing circumstances.

10.2. Objectives: The Trustee monitors the suitability of the objectives for each section of the Trust (as detailed in the appendices) and its performance (net of fees) against these objectives at least every three years and also when there is any significant change in the investment policy, underlying economic conditions or the profile of the members.

10.3. Investment Choices: The Trustee monitors the ongoing appropriateness of the investment choices offered on a periodic basis.

10.4. Charges: The Trustee monitors the overall level of costs periodically to ensure members are receiving good value.

11. Agreement

11.1. This statement was agreed by the Trustee, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the employers, the investment managers and the Trust auditor upon request.

Signed:

Date: 1 June 2016

On behalf of the Standard Life Master Trust Co. Ltd., Trustee of the Standard Life DC Master Trust

Appendix 1

Note on investment policy for the default section in relation to the current Statement of Investment Principles

1. Investment objectives

The Trustee's main investment objectives are:

- to provide a suitable default investment option that is likely to be suitable for members within the section who do not make an active choice;
- to offer an appropriate range of alternative investment options so that members who wish to make their own investment choices have the freedom to do so, recognising that members may have different needs and objectives;
- to achieve good member outcomes net of fees and subject to acceptable levels of risk;
- that the expected volatility of the returns achieved is managed through appropriate diversification of the use of asset types in order to control the level of volatility and risk in the value of members' pension pots;
- to help manage Conversion risk as explained in the main body of this Statement.

The Trustee is responsible for the design of the default investment option and for choosing which funds to make available to members. Members are responsible for their own choice of investment options (including where the default investment option is selected for them because they have not selected other funds).

2. Default option

The Trustee acknowledges that members will have different attitudes to risk and different aims for accessing their retirement savings, and so it is not possible to offer a default investment option that will be suitable for all. However, the Trustee decided that the lifestyle arrangement set out below represents a suitable default investment option for members who do not make a choice about how their contributions (and those made on their behalf by their employer) are invested, taking into account:

- Kinds of investments to be held
- Balance between different kinds of investments
- Investment risks
- Expected return on investments, net of fees
- Realisation of investments
- Socially Responsible Investment, Corporate Governance and Voting Rights

Further information on the Trustee's policies in regard to the above is detailed in the main body of this statement.

These aspects have also been considered in the choice of self-select funds and solutions that the Trust has made available to members that wish to choose their own investment strategy.

The Trustee acknowledges the uncertainty in choosing at outset the strategy that will deliver the best solution for a particular group of members. Taking into account the objectives and policies mentioned in this statement, the Trustee is comfortable that there is a range of possible appropriate "default" options and is willing to be guided by an employer as to which option within the range is most appropriate for a particular cohort.

3. Range of default strategies

The default strategies are part of Standard Life's range of Strategic Lifestyle Profiles ("SLP") and are split into two main sections. The Active Plus suite of strategies are predominantly actively managed whereas the Passive Plus suite predominantly makes use of funds that aim to track an index. Both suites invest in a range of asset classes including equities, bonds, and absolute return funds. Each suite has a range of risk levels that can be chosen; the lower the number, the lower the expected risk. For example, Passive Plus III Universal SLP is expected to invest in a way that is more risky than Passive Plus II Universal SLP.

The Universal SLPs are specifically designed to be an appropriate arrangement for the membership profile across the Trust as a whole where members have yet to make a decision regarding how they will access their pension benefits, rather than targeting a specific method of accessing pension savings.

The current range of defaults is shown in the table below:

Passive Plus	Active Plus
Passive Plus II Universal SLP	Active Plus II Universal SLP
Passive Plus III Universal SLP	Active Plus III Universal SLP
Passive Plus IV Universal SLP	Active Plus IV Universal SLP

4. Choosing investments

The Trustee is responsible for the selection of the range of default strategies, and for deciding which other lifestyle profiles and funds are made available to the members. The investment choices available are structured into a passive range, an active range, and a hybrid range comprising both passive and active choices. The insurer is responsible for the management of the investment arrangements. The insurer may invest in underlying funds run by other fund managers, who are responsible for the management of the underlying fund(s). In terms of the Strategic Lifestyle Profiles and core fund range, as at the date of this statement, the main underlying managers were:

- Standard Life;
- Vanguard;
- HSBC;

The investment managers are either authorised or recognised by the FCA.

The full list of lifestyle strategies that members are able to choose from is shown below, with the range of risk levels ranging from I (being the least risky) to V (representing the option with the highest expected risk)::

SLP	Passive Plus	Active Plus
Universal	II - V	II - V
Annuity	I - V	I - V
Lump Sum	I - V	I - V
Active Retirement	II - V	II - V

A list of the core self-select funds is shown below:

- Standard Life Active UK Equity (MT) Pension Fund
- Standard Life Active Overseas Equity (MT) Pension Fund
- Standard Life Active Gilt (MT) Pension Fund
- Standard Life Active Emerging Markets Equity (MT) Pension Fund
- Standard Life Active Corporate Bond (MT) Pension Fund
- Standard Life Active Global Equity 50:50 (MT) Pension Fund
- Standard Life Shariah Global Equity (MT) Pension Fund
- Standard Life Property (MT) Pension Fund
- Standard Life Passive UK Equity (MT) Pension Fund
- Standard Life Passive Overseas Equity (MT) Pension Fund
- Standard Life Passive Gilt (MT) Pension Fund
- Standard Life Passive Emerging Markets Equity (MT) Pension Fund
- Standard Life Passive Corporate Bond (MT) Pension Fund
- Standard Life Passive Global Equity 50:50 (MT) Pension Fund
- Standard Life Deposit & Treasury (MT) Pension Fund
- Standard Life Global Absolute Return Strategies (MT) Pension Fund
- Standard Life Ethical (MT) Pension Fund
- Standard Life Annuity Purchase (MT) Pension Fund

5. Fee agreements

The insurer has negotiated fee arrangements with the investment managers for the management of the Trust's investments.

As well as the annual management charges, additional fund expenses will apply (and vary from quarter to quarter) taking account of custodian, legal, accounting and auditing fees for each fund.

6. Risks specific to this section

- The Trustee has considered the risk of liquidity in the default section and is looking into how this risk might be mitigated.
- The Trustee notes Standard Life's ability to suspend redemptions in certain circumstances