Markel International Pension Scheme

Statement of Investment Principles – July 2017

1. **Introduction**

In compliance with the Pensions Act 1995 (“the Act”) and subsequent pensions legislation, the Trustees of the Markel International Pension Scheme (the “Scheme”) have drawn up this Statement of Investment Principles (“the Statement”). As required under the Act, the Trustees have consulted a suitably qualified professional advisor by obtaining written advice from Mercer. In preparing this Statement, the Trustees have also consulted the Principal Employer, Markel International Services Limited.

2. **Background**

The Markel International Pension Scheme is an Occupational Pension Scheme providing benefits on a defined contribution basis. It is not contracted out of the State Earnings Related Pension Scheme.

Overall investment policy falls into two parts. The first part is the strategic management of the assets, which is driven by the investment objectives as set out in Section 3. This is the responsibility of the Trustees acting on expert advice.

The second part of the policy represents the day-to-day management of the assets. This part is delegated to a professional investment manager and is described in Section 4.

3. **Overall Policy**

3.1 **Investment Objectives**

The Trustees’ main aim is to ensure they are able to meet their obligations to the members of the Scheme, while providing an appropriate balance between flexibility/member choice and simplicity/cost control.

The Trustees achieve this by adopting the following objectives:

- Ensuring there is an appropriate number of investment options available to members enabling them to plan for retirement.
- Providing a range of investment options to members that will satisfy the needs of the majority of them.
- Providing appropriate general information to members, as to the purpose of each investment option.
- Monitoring performance against benchmarks and reviewing investment managers and, if appropriate, custodians regularly.
- Considering regular Administration Reports to ensure timely investment of contributions.
- Encouraging the member to seek independent financial advice from an authorised advisor in determining the profile of their own investments.

3.2 Risk

The Trustees have considered risk from a number of perspectives. These risks are:

- *Benefit adequacy risk.* The investment returns over a member's working life may not secure adequate level of benefits at retirement.

- *Risk of capital loss in nominal terms.* The protection of capital, in the approach to retirement, in supporting the provision of benefits to be funded from the members' individual accounts.

- *Risk of erosion by inflation.* If investment returns lag inflation over the period of membership, the purchasing power of the members' individual accounts will decrease.

- *Market risk.* The value of securities, including equities and interest bearing assets, can go down as well as up. Members may not get back the amount invested. However, the Trustee realises that this risk is implicit in trying to generate returns above that earned by cash and accept this by investing in assets other than cash.

- *Manager risk*. The performance of the investment vehicles used falls short of the Trustee's expectations and the funds' benchmarks. This will lead to lower than expected returns to members. The Trustee recognises that the use of active investment management involves such a risk.

- *Liquidity risk.* This refers to the risk of members not being able to realise their investments. The Trustee has invested in unitised pooled funds which are daily dealt to facilitate the availability of assets to meet benefit outflows.

- *Default risk.* The value of interest bearing securities would be at risk if a bond issuer or licensed deposit taker defaults on their commitments.

- *Conversion risk.* The costs of converting a member's accumulated defined contribution account into benefits at retirement is influenced by a number of factors such as future investment growth, price volatility, long-term interest rates and life expectancy.

- *Mismatch risk.* The risk that members are invested in funds/an investment strategy that is not in line with the way they intend to take benefits at retirement.

- *Contribution risk.* The risk of contributions not being invested promptly.

The Trustees will continue to consider these risks as part of any investment discussions.

3.3 Investment Strategy

3.3.1 Default Investment Option

In view of the new pensions freedoms included in the 2014 budget, members will be offered three lifestyle strategies catering for the conversion of pension savings into:

- cash or

- fixed income by the purchase of an annuity or

- variable income by income drawdown.

While a proportion of members will elect for the default investment option as the most appropriate for them, many do not make an active investment decision. In the absence of a member decision contributions are invested in accordance with the default investment option.

The Drawdown Lifestyle is the default investment option for members joining after October 2015 and for members who were more than eight years from their Target Retirement Age or the Scheme's default retirement age if a target age has not been nominated by the member ("TRA") as at the same date.

In the growth phase, contributions are invested 100% in the DC Aquila (30:70) Currency Hedged Global Equity Index Fund until members are twelve years away from their TRA. Between twelve and eight years, 50% of assets are progressively switched into the MIPS Diversified Growth Fund. When the member reaches eight years prior to TRA, their fund is progressively switched into the DC Aquila Corporate Bond All Stocks Index Fund (20%), DC Cash Fund (30%) with a 50% allocation maintained in the MIPS Diversified Growth Fund.

The Annuity Lifestyle is the default investment option for members who were within eight years of their TRA as at October 2015. The Annuity Lifestyle is designed for members planning to take 25% of their Member's Account as tax-free cash, using the balance to purchase an annuity to provide an income for life. In the growth phase, contributions are invested 100% in the DC Aquila (30:70) Currency Hedged Global Equity Index Fund until members are twelve years away from their TRA. Between twelve and eight years, 50% of assets are progressively switched into the MIPS Diversified Growth Fund. When the member reaches eight years prior to TRA, their fund is progressively switched into the Over 15 year UK Gilt Index Fund (75%) and DC Cash Fund (25%).

The aims of the default investment option

The default investment option manages investment and other risks through a diversified asset allocation consisting of traditional and alternative assets. Risk is not considered in isolation but in conjunction with expected investment returns and outcomes for members. Investment in derivative instruments contributes either to risk reduction or to efficient portfolio management. Members can choose their own investment strategy ("Self-Select") or an alternative lifestyle strategy on joining and at any time thereafter.

The Trustees' aims for the default investment option are detailed below:

- To provide a strategy that is broadly appropriate for a typical member's requirements for income when they access their pension savings based on the Trustees' understanding of the Scheme's membership and historical member behaviour at retirement. Consequently, the default investment option targets income drawdown when members access their pension savings but this does not mean that members have to take their benefits in this way.

- To balance the trade-off between risk and expected returns.

- To provide some downside protection and some protection against inflation erosion, as a member approaches their TRA by investing in equities and other growth assets.

- To counter the greater impact on member outcomes of investment risk as a Member's Account grows, to ensure the default investment option seeks to reduce investment risk as the member approaches TRA.

Taking into account the demographics of the Scheme's membership and the Trustees' views of how the membership will behave when accessing their pension savings, the default investment option targets income drawdown but this does not mean that members have to take their benefits in this way. The Trustees believe that the current default investment option is appropriate and will review this at least triennially or sooner if there is a significant change to the Scheme's demographic.

Policies in relation to the default investment option

In addition to the aims above, the Trustees have adopted the following policies:

- To balance the trade-off between risk and expected returns.
- To invest in the interests of members and beneficiaries taking account the profile of members.
- To ensure the security, quality, liquidity and profitability of a member's portfolio as a whole.
- To invest mainly on regulated markets with asset invested in non-regulated markets kept to a prudent level.

Assets in the default investment option are invested in daily traded pooled funds which hold highly liquid assets. The pooled funds are commingled investment vehicles which are managed by various Investment Managers. The selection, retention and realisation of assets within the pooled funds are delegated to the respective Investment Managers in line with the mandates of the funds. Likewise, the Investment Managers have full discretion (within the constraints of their mandates) on the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments.

3.3.2 Other lifestyle Strategies

The Annuity Lifestyle is designed for members planning to take 25% of their Member's Account as tax-free cash, using the balance to purchase an annuity to provide an income for life.

The Cash Lifestyle is designed for members planning to withdraw their entire Member's Account as cash. As such, this strategy is 100% invested in a cash fund at retirement.

3.3.3 Self-Select Strategy

In addition to offering the lifestyle options, the funds underlying the default investment option are made available to members as separate investment vehicles, along with separate UK and overseas equity funds, an additional diversified growth fund and an index-linked gilt fund. These options are made available to allow members to tailor their investments to reflect their own risk tolerances.

The Trustees believe that adopting a passive approach where the Investment Manager aims to track the performance of the respective markets in each region is appropriate in most circumstances. The Trustees expect the benefits of this approach to outweigh the higher costs associated with active management of all funds. The diversified growth funds are the only actively managed funds.

The Trustees believe that the range of funds offered meet the investment objectives outlined in Section 3.1 and control the risks identified in Section 3.2 for the membership as a whole. The Trustees will continue to review the range of funds on a regular basis to ensure they remain appropriate.

4. Day-to-Day Management of the Assets

4.1 Main Assets

The Trustees have established an insurance policy with BlackRock Life Limited ("BLL") for the investment of the Scheme's assets. The day-to-day responsibility for the investment management of the underlying assets of the insurance policy is delegated to the underlying Investment Managers, who are regulated by the Financial Conduct Authority ("FCA").

Most of the Scheme's assets are managed on a passive basis by BlackRock. The two diversified growth funds, BlackRock DC Diversified Growth Fund and MIPS Diversified Growth Fund are actively managed. The target for the BlackRock Diversified Growth Fund is to outperform the benchmark by 3.5% p.a. over rolling three year periods (gross of fees). The target for the MIPS Diversified Growth Fund (50% Newton Real Return, 50% Insight Broad Opportunities Fund) is to outperform the target of 3.0% p.a. over rolling three year periods (net of fees). The benchmarks for each of the funds available to Scheme members are set out below:

Investment Manager	**Fund**	**Benchmark**	**Performance Objective**
BlackRock	DC Aquila Global Equity (70:30) Fund	70% FTSE All-Share Index 30% ABI 40-85 Sector Index (ABI Survey) [1]	Track benchmark within +/-0.4% p.a.
BlackRock	DC Aquila (30:70) Currency Hedged Global Equity Index Fund	30% FTSE All-Share Index 60% FTSE All-World Developed ex-UK Index (hedged back to sterling) 10% MSCI Emerging Markets Index	Track benchmark within +/-0.4% p.a.
BlackRock	DC Aquila World (ex UK) Equity Index Fund	FTSE All-World Developed ex UK Index	Track benchmark within +/-0.4% p.a.
BlackRock	DC Aquila UK Equity Index Fund	FTSE All Share Index	Track benchmark within +/-0.2% p.a.
BlackRock	DC Diversified Growth Fund	Bank of England official Bank Rate	+3.5% p.a. (gross of fees)[2]
BlackRock	DC Aquila Over 15 year UK Gilt Index Fund	FTSE UK Gilts Over 15 Years Index	Track benchmark within +/-0.2% p.a.
BlackRock	DC Aquila Over 5 years Index-Linked Index Fund	FTSE UK Gilts Index-Linked Over 5 years Index	Track benchmark within +/-0.2% p.a.
BlackRock	DC Aquila Corporate Bond All Stocks Index Fund	iBoxx £ Non-Gilts Index	Track benchmark within +/-0.3% p.a.
BlackRock	DC Cash Fund	7 Day LIBID	To outperform the benchmark
50% Newton 50% Insight	MIPS Diversified Growth Fund	50% 1 Month LIBOR 50% 3 Month GBP LIBID	3.0% p.a. (net of fees)[2]

[1] According to the ABI 40-85 Sector Index (ABI Survey) overseas equity weights
[2] Over rolling three year periods

4.2 **Investment Management Fees**

The fees levied by BlackRock on each of the funds offered to members of the Scheme are set out below:

Fund	Charging Structure (TER % p.a.) *
DC Aquila Global Equity (70:30) Fund	0.16
DC Aquila Global Equity (30:70) Fund	0.20
DC Aquila World (ex UK) Equity Index Fund	0.16
DC Aquila UK Equity Index Fund	0.11
BlackRock DC Diversified Growth Fund	0.71
DC Aquila Over 15 year UK Gilt Index Fund	0.11
DC Aquila Over 5 years Index-Linked Index Fund	0.11
DC Aquila Corporate Bond All Stocks Index Fund	0.17
DC Cash Fund	0.18
MIPS Diversified Growth Fund	0.93

** TERs shown as at 31 December 2016*

This fee arrangement is subject to a minimum fee of £15,000 p.a. in respect of the assets managed under the Agreement with BlackRock. If the total fee paid by the members is less than the minimum fee, then the Trustees will pay the shortfall.

The Scheme's investment advisors, Mercer, are remunerated on a time and disbursements basis.

4.3 **Other Assets**

Members have access to the same range of funds for investments in relation to their Additional Voluntary Contributions.

The Trustees also have a bank account to deal with routine income and expenditure.

4.4 **Monitoring the Investment Managers**

The Trustees monitor the Investment Managers regularly to discuss performance, activity and wider issues. The Trustees also retain Mercer as investment consultants to assist the Trustees in fulfilling their responsibility for monitoring the investment manager.

4.5 **Custody**

The custodian is responsible for the safekeeping of the Scheme's assets and for performing the associated administrative duties such as trade settlement, dividend collection, corporate actions, tax reclamation and proxy voting. As the Scheme's investments are ultimately held in pooled funds the custodian used has been appointed by the Investment Managers. As such, the custodian relationship is of an indirect nature. The Trustees accept this to be a satisfactory arrangement.

5. Buying and Selling Investments

The responsibility for buying and selling the underlying investments has been delegated to BlackRock. However, both the Trustees and the Administrator are involved in the process behind the buying and selling of investments. The day-to-day activities that BlackRock carry out for the Scheme are reviewed from time to time to ensure that the operating instructions, guidelines and restrictions remain appropriate.

6. Social, Environmental, and Ethically Responsible Investment & Corporate Governance

The Trustees' policy is that BlackRock should take account of social, environmental and ethical considerations to the extent to which they are material to the value of any particular investment. The Trustees' policy in relation to the exercise of any rights (including voting rights) attaching to investments is that they should be exercised for the benefit of the Scheme. However, the Trustees recognise that as the Scheme's assets are invested in pooled funds, the assets are subject to BlackRock's policy on social, environmental and ethical considerations relating to the selection, retention and realisation of investments. Further, the Trustees accept that the assets are subject to BlackRock's policy on corporate governance.

7. Review of this Statement

The Trustees will review this Statement at least every three years and without delay following any material changes to any aspects of the investment policy detailed above. Any such review will again be based on expert investment advice and the Principal Employer will be consulted. The Trustees will supply BlackRock with a copy of the Statement in the event of any amendment or replacement.

Signed for and on behalf of the Trustees of Markel International Pension Scheme, by Ron Northedge on 3 August 2017.