

Pilkington Superannuation Scheme

**Asset allocation,  
benchmark indices and  
performance objectives**

Effective date: August 2016

## Strategic asset allocation

The table below shows the strategic asset allocation for the Scheme's assets as at the date of this document. The split between the asset classes shown here is expected to change over time as the De-risking Plan progresses. The target expected return for the Scheme's assets is 1.25% pa above the Scheme's Gilt based liabilities.

Asset Class and Investment Manager	Strategic Asset Allocation (%)	Tolerance Range
<b>Return-seeking assets</b>	<b>21.25</b>	<b>-6.5% / +2.5%</b>
UK equities (SSgA)	1.50	-1.5% / +1.5%
North America equities (SSgA)	5.00	-2.5% / +2.5%
Europe (ex UK) equities (SSgA)	2.00	-1.0% / +1.0%
Asia Pacific (inc Japan) equities (LGIM)	1.50	-0.75% / +0.75%
Emerging market (EM) equities (LGIM)	1.75	-0.75% / +0.75%
Property* (CBRE GIP)	2.50	-2.5% / +1.5%
Listed infrastructure (LGIM)	5.00	-1.5% / +1.5%
Reinsurance (Nephila)	2.00	-2.0% / +2.0%
<b>Liability matching assets</b>	<b>78.75</b>	<b>-2.5% / +6.5%</b>
UK corporate bonds (over 15 years) (Henderson)	8.00	-8.0% / +2.5%
UK corporate bonds (all stocks) (SSgA)	8.00	-8.0% / +2.5%
LDI portfolio** (Insight)	45.00	-2.5% / +17.0%
Cash (JP Morgan)	1.00	-1.0% / +4.0%
Secure Income Alternatives (Alpha Real and Aviva)	5.00	-5.0% / +2.5%
Buy-in*** (Pension Insurance Corporation)	11.75	-

\* The Trustee is gradually reducing this allocation towards zero.

\*\* Please note that the LDI portfolio includes an allocation to index-linked gilts held with JP Morgan as collateral for the Scheme's longevity swap transaction

\*\*\* The buy-in target was calculated using value of the liabilities hedged and a rolled forward total Scheme valuation as at 8 August 2016.

## Benchmark indices and performance objectives

Manager	Benchmark index	Performance objective
State Street Global Advisors Limited ('SSgA') UK Equities	FTSE All-Share	In-line with index (gross of fees)
N. American Equities	FTSE AW North America	In-line with index (gross of fees)
European (ex UK) Equities	FTSE AW Developed Europe ex UK	In-line with index (gross of fees)
Legal & General Assurance (Pensions Management) Limited Asia Pacific incl Japan Equities	FTSE AW Asia Pacific (50% of exposure to Japanese equities is currency hedged from yen back to sterling)	In-line with index (gross of fees)
Legal & General Assurance (Pensions Management) Limited Emerging Market Equities	FTSE AW – All Emerging Markets	In-line with index (gross of fees)
Legal & General Assurance (Pensions Management) Limited Infrastructure Equity MFG – GBP Hedged Fund	FTSE MFG Core Infrastructure – GBP Hedged	In-line with index (gross of fees)
CBRE Global Investment Partners Limited ('CBRE GIP') Pan-European property funds	No Index	RPI + 5% p.a. on rolling 3 year periods (net of costs, fees and taxes)
Nephila Capital Ltd Reinsurance	Swiss Re Catastrophe Bond Index	In-line with index (gross of fees)
SSgA UK Corporate Bonds	Barclays Sterling Aggregate 100mm Non Gilts Index	In-line with index (gross of fees)
Henderson Global Investors Limited ('Henderson') UK Corporate Bonds	iBoxx sterling Non-Gilts 15+ yrs	+1.0% p.a. (before fees)
J.P. Morgan Asset Management (Europe) S.à r.l ('J.P. Morgan') Liquidity fund	7 day Sterling LIBID	To achieve a competitive level of total return in sterling (GBP) consistent with the preservation of capital and a high degree of liquidity
SSgA Passive currency hedging overlay	See notes below	See notes below
Insight Investment Management (Global) Limited Portfolio of liability hedging instruments	See notes below	See notes below
Alpha Real Capital LLP Indexed Linked Income Fund	FTSE Actuaries UK Index-Linked Gilts Over 15 Years Index	+2.0% p.a. over the benchmark (net of fees)
Aviva Investors Lime Property Fund	Benchmark weighted 50% FTSE Actuaries UK Conventional Gilts 5-15 Years Index and 50% FTSE Actuaries UK Conventional Gilts Over 15 Years Index	+1.5% over gilt benchmark over medium to long term
Pension Insurance Corporation	n/a	Bulk annuity mandate with the aim of hedging a proportion of pensioner liabilities (not covered by longevity swap)

**Notes:**

- i. 50% of exposure to euro within SSgA European (ex UK) equities is hedged from euro back to sterling and 50% of exposure to US dollar within SSgA North American equities is currency hedged from US dollar back to sterling. This is achieved using a segregated strategic currency hedging overlay implemented by SSgA but this does not affect the indices or target returns of the equity manager's funds. Furthermore, 100% of the Nephila reinsurance portfolio is hedged from US dollar back to sterling using the SSgA segregated strategic currency hedging overlay.
- ii. The LGIM Japanese equities (within the Asia Pacific equities portfolio) are 50% currency hedged from yen back to sterling. This is reflected in the index for LGIM.
- iii. The Trustee has appointed CBRE GIP to manage a pan-European property mandate via unlisted funds. CBRE GIP hedges all of the euro investments and at least 85% of all non-sterling denominated investments (including euro investments) back to sterling. The Trustee will also monitor this investment against a secondary benchmark of the IPD Monthly Property Index.
- iv. The assets managed by Henderson are long dated sterling bonds with some use of derivative contracts. The investment is in the Henderson Long Dated Credit Fund.
- v. The investment with JPMorgan Asset Management (Europe) S.à r.l ('JPMorgan AM') is in its sterling Liquidity Fund sweep.
- vi. The Trustee will also monitor the investment with Nephila Capital Ltd in the Iron Catastrophe Fund Ltd against a secondary absolute performance measure of 3 month US T-bills + 5% pa (net of fees) – this is consistent with the standard performance objective of the Iron Catastrophe Fund Ltd which is 3 month US T-Bills + 4-6% pa (net of fees).
- vii. The Trustee invests in a portfolio ("the Portfolio") of liability hedging instruments with Insight Investment Management (Global) Limited ("Insight"):
  - The Portfolio shall be constructed to match portions of the Scheme's interest rate and inflation exposure using the Permitted Assets (as set out in Guidelines - Schedule 3 Part B of the Investment Management Agreement (IMA) between the Scheme and Insight). The Portfolio shall be actively managed, with the aim of adding value relative to the agreed benchmark. The Manager has discretion to take these views subject to the constraints set out under the Investment Restrictions in the IMA.
  - The assets of the Portfolio will be used, subject to the provisions set out in the Guidelines, with the aim of meeting the Scheme's collateral requirements (including those arising under the Insurance Agreement for the Scheme's longevity swap transaction) and net payment obligations in respect of Repurchase Transactions or swap transactions undertaken within the Portfolio.
  - The Permitted Assets include (but are not limited to) interest rate and real rate swaps, RPI and LPI swaps, SONIA/LIBOR basis swaps, asset swaps and exchange traded futures on physical instruments permitted under the guidelines, swaptions, total return swaps, credit default swaps that give exposure to any of the Permitted Assets, foreign exchange instruments including spot and forward contracts and cross currency swaps, conventional and index-linked bonds which are issued or explicitly guaranteed by the UK Government (this includes Network Rail index-linked bonds) and Repurchase Transactions on such bonds, cash and shares in ILF and ILF Plus (the ILF GBP Liquidity Fund and ILF GBP Liquidity Plus Fund respectively, which are sub-funds of Insight Liquidity Funds plc).
  - Details of the Scheme's Liability Cash Flows were provided to Insight by Willis Towers Watson. To facilitate hedging the Liability Cash Flows against changes in fixed rate and real rate expectations separately, Insight has converted the Liability Cash Flows into (i) a series of zero-coupon cash flows (the "Fixed Liability Notionals") and (ii) a series of RPI-linked cash flows (the "RPI-linked Notionals"). The benchmark for the Insight portfolio has been calculated excluding the pensioners covered by the buy-in and is:

83% of the Fixed Liability and RPI-linked Notionals

**Plus**

100% of the exposure provided by the Scheme's Network Rail Bond holdings

**Minus**

100% of the Fixed and RPI-linked External Exposure Notionals (ie in respect of the Scheme's UK Corporate Bond holdings and initial collateral held in relation to the Scheme's longevity swap)

The target hedge ratio including buy-in is 85% of the total liability benchmark.

- viii. On 8 August 2016, a proportion of pensioner liabilities not covered by the longevity swap were bought in using Pension Insurance Corporation plc. Gilts and cash were transferred across in specie from Insight to fund the buy-in.