

WESLEYAN

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Terms of Reference Investment Committee

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1. Purpose

The Investment Committee is a sub-committee of the Board.

The purpose of the Investment Committee is to provide independent oversight of the Group's investment performance and monitor that the investments are in line with the Group Investment strategy. (For reference, the Group's Investment beliefs are attached as Appendix A).

The Investment Committee oversees the performance and operation of the Society's Investments Business Unit including:

Investment strategy:

- Review of the strategy for all funds (including With Profits and Estate) in light of the Board's risk appetite and risk framework
- Review of appropriateness of benchmarks

Investment monitoring:

- Examination and attribution of investment performance across all funds
- Review Investment performance with use of external benchmarks as appropriate. Selection of which benchmarks is a matter reserved to the Investment Committee.
- Ascertain outlook on key markets
- Review and assessment of effectiveness of the investment process, appointing independent advisors if necessary.

Investment governance and reporting:

- Consideration of the best interests of members and policyholders
- Reporting to the With Profits Committee and Board on any issues which impact the interests of members and policyholders
- Consideration and examination of governance / audit and compliance issues

The Board sets the policy for the acceptable level of risk within the investment portfolios of the Society's funds. The risk will be mitigated by asset allocation between a range of assets including equities, fixed interest stocks, derivatives, property and cash, by geographical spread and by sector spread.

The Board sets strategy on Investment Operations with regards to the appointment of external fund manager mandates and/or outsourcing.

The Board sets the policy for strategic asset allocation (via a Statement of Investment Principles (SIPs)) for the With Profits, non-profit and unit-linked funds, delegating implementation to the Managing Director of Investments. The Investment Committee monitors adherence to these asset allocations and makes comments to the Board as necessary in conjunction with the Risk function and Risk Committee.

Any recommendations relating to risk appetite and strategic asset allocation are discussed at the Investment Committee before presentation to the Board.

The Board receives a written summary of the Investment Committee's recommendations at the next Board meeting.

2. Membership

Members

The Investment Committee members shall be appointed by the Board from time to time and its composition shall be reviewed at least every three years. It shall consist of not less than three members comprising of non-executive and executive members.

The executive members shall be the Chief Executive Officer and Chief Financial Officer. Membership is the decision of the Board based on recommendations of the Nominations Committee.

Attendees

The Company Secretary (or their nominee, to be agreed with the Chair of the Committee) shall be the secretary of the Committee.

The Chief Actuary, Chief Risk Officer, Managing Director of Investments and Head of Investments shall normally attend meetings. Other members of management may attend by invitation of the Chair.

External members may be invited to join the Committee should it be considered appropriate and these Terms of Reference will be updated to reflect this as necessary.

3. Ownership

The Chair has responsibility for overseeing the performance of the Committee. The Chair will appoint a deputy in their absence or if unable to nominate a deputy, the Chairman of the Board will deputise.

In the event of prolonged absence of the Chair, the Committee will revert to the Board for direction.

4. Frequency

The Investment Committee will meet at least four times per annum. Should more frequent meetings be deemed necessary, additional ad-hoc meetings will be scheduled but this is at the discretion of the Chair.

Matters may also be covered by email where appropriate.

5. Key responsibilities

The Investment Committee has responsibility for considering in detail, insofar as Investment management and performance is concerned:

- Customer Outcomes
- Performance across all funds (and benchmarking activity as appropriate)
- Any compliance, risk and audit issues
- Fund management strategy
- Resource issues and requirements
- Any system issues and requirements
- Customer requirements / feedback
- Statement of Investment principles
- Key Risk Indicators including TCF issues

The Investment Committee will be made aware of the Group Asset and Liability Committee (Group ALCO) recommendations and in any circumstance that Group ALCO recommendations are inconsistent with Investment Committee decisions, the matter shall be referred to the Board for resolution. The main purpose of Group ALCO is as follows:

To monitor the asset & liability position of the Wesleyan Group and Society within agreed risk limits and risk appetite and with a view to managing the Society's own capital in an efficient and effective manner within agreed Statement of Investment Principles (SIPs).

6. Escalation of Issues

Matters reviewed and recommended at the Investment Committee which require Board and its associated committees' approval will be taken forward using the practice employed by the Society at that point.

7. Inputs / Output

The following sections confirm the inputs and outputs of the Investment Committee which will be prepared and recorded in accordance with the Society's current process at that time.

Inputs

Each Committee will require inputs in relation to the scope and remit of the meeting, as applicable:

- Minutes, Actions Log/Matters Arising of the last meeting
- Reports showing progress against the annual plans in place at that time and any key issues which may affect the achievement of the same
- Proposals relating to Investment strategy
- Reports and proposals relating to Risk, Audit and Compliance matters
- Fund performance documentation (customer facing)
- Documentation pertaining to fund outlook

Outputs

The outputs from the Committee will be minutes and actions as well as any papers which are to be submitted to the Society Board / sub-committees to provide direction to the Society.

8. Review

The members of the Committee will review the Terms of Reference at least annually to review its appropriateness and membership. The outcome of the review and any revisions to the terms of reference will be presented to committee and sent to the Board for approval.

Version Control

No.	Amendment Details	Author	Amendment Date	Issue Date
1.1		Ahmed Farooq	18 July 2016	18 July 2016
1.2	Amended post PG feedback	Ahmed Farooq	1 August 2016	1 August 2016
1.3	Amended post all stakeholder feedback	Ahmed Farooq	23 August 2016	24 August (to KPMG)
1.4	Amended post KPMG feedback	Ahmed Farooq	29 August 2016	29 August (to Chair)
1.5	Amended post NM feedback	Ahmed Farooq	15 September 2016	15 September (to GEM)
1.6	Amended post tele-meeting with Committee Chair	Ahmed Farooq	26 September 2016	
1.7	Amended post final review meeting with Committee Chair	Ahmed Farooq	28 September 2016	28 September 2016 (to Board)

Approvals History

Version	Forum/Committee	Approval Date	Caveats	Next Review
1.5	GEM	19 September 2016		
1.7	Board	29 September 2016		September 2017

Appendix A

Investment Beliefs

The Society has a long-standing strategic investment approach as follows:

- We are long-term investors and portfolio turnover is extremely low by industry standards. Our general 'buy and hold' approach applies across all asset classes
- We have a managed approach to risk, maintaining diverse portfolios both across and within asset classes
- We are generally contra-cyclical investors, looking to identify long term value in sectors and stocks which are temporarily out of favour with other investors
- We believe income is an important component of investment return and that for 'real' assets growth in income will ultimately lead to capital appreciation

This strategic approach applies generally across all of our activities, although each individual fund is managed in line with an agreed "Statement of Investment Principles".

More specifically our approach to equity, fixed interest and property investment is described in more detail below.

Approach to Equity Investment

- The vast majority of our equity portfolios are managed in-house
- The Society has, in the past, invested mainly in the UK although some overseas exposure has been obtained both directly and indirectly via investment trusts, collective investment schemes and UK-listed investments. Our plan is to continue to increase direct exposure to overseas markets over time
- The Society is a long term investor. We believe increasing levels of turnover and the associated expenses tend to hold back performance and hence large-scale switching is discouraged
- Initial yield is an important consideration although this should be viewed in conjunction with the long-term outlook for dividend growth. If these are satisfactory then capital growth and hence total return should follow in due course
- Realised gains are subject to tax (in relation to Life business) and therefore returns should be maximised on a net of tax basis. As a result Capital Gains Tax considerations may influence the sale of investments
- The Society prefers to formulate its own policy rather than be 'one of the herd'. In general a contra-cyclical approach is favoured. The equity portfolio may exhibit significant variation in sector weightings when compared to the appropriate indices but these should not become structural unless there are very specific reasons
- The Society is relatively risk averse and as a result does not run overly-concentrated portfolios

Approach to Fixed Interest Investment

- The vast majority of the bond portfolios are managed in-house
- The general approach is "buy and hold" resulting in very low levels of portfolio turnover although at times of extreme volatility we may take shorter term trading opportunities in very liquid government bond markets
- We are natural buyers of corporate bonds and therefore we rarely sell holdings, although we have a steady flow of normal and early redemptions

- We tend not to take large risks in the corporate bond portfolio and therefore focus almost entirely on investment grade (BBB- and above) although we do not automatically sell if bonds are downgraded below this level The Society is relatively risk averse and as a result does not run overly-concentrated portfolios

Approach to Property Investment

- The vast majority of our property exposure is through internally managed directly held Real Estate although we also own shares in quoted Real Estate companies (REITs and REISs) and open-ended property companies
- Direct property holdings are only suitable for our larger funds – specifically the With Profits Fund, Estate, Pensions Managed Fund and Wesleyan Staff Pension Scheme (although this is being sold down due to the de-risking flight plan). Other funds will have exposure to property (if any) through some form of pooled investment
- Our direct holdings are managed on a long-term low turnover basis in line with the overall Society investment approach. We will, however, sell specific assets where it is felt that the longer term prospects are unattractive or where significant additional value can be realised in the short-term (e.g. change of use, strategic value to an alternative buyer)
- Properties are held primarily to produce an attractive investment income and, over the long term, capital appreciation
- We do not normally undertake new build development activities but may do a small proportion via external development management partners should compelling opportunities arise. We will further invest in individual properties to preserve or create value where there is a clear return to be made on such investment. These are dealt with on a case-by-case basis
- Our internal team of Chartered Surveyors are tasked with maximising long-term rental income and minimising voids
- We maintain a wide distribution of investments both by location and property type and these are monitored against the key benchmark, the IPD All-Property index
- We take our social responsibility as landlord to many tenants very seriously

Approach to Other asset classes

- The Society has relatively modest exposure to “alternative” asset classes – mainly Infrastructure, private equity and renewable energy
- Investment in such assets will generally be in line with our overall contra-cyclical strategic approach
- We have a preference to maintain a degree of liquidity in what is, fundamentally, a set of illiquid assets. This is normally achieved through investing in some form of investment trust or other pooled fund
- As with other assets; we look for an attractive income stream and/or a significant level of asset backing