

The CARE Scheme (the Scheme)

Unlisted Infrastructure Investment

1. Background

- 1.1. For some time now, we've been developing the investment service that we provide to our defined benefit (DB) pension schemes, including the Scheme.
- 1.2. The purpose of developing our investment service is to continue our parallel themes of getting good ideas into the Scheme's portfolio as quickly as possible and getting the best possible risk-adjusted returns for the Scheme; that is, increasing the expected return without increasing exposure to risk, or reducing the volatility without impacting on expected return.
- 1.3. Specifically, over the next few months our aims are as follows:
 - we're introducing a new asset class, which is to be added to the Scheme's growth portfolio; and
 - we will implement a strategy to reduce the inflation and interest rate risks to which the Scheme is exposed.
- 1.4. The rest of this Annex covers the new asset class, providing you with an overview of the new growth asset structure and how the new asset class fits into this. **Annex D** includes details about the inflation and interest rate hedging policy.

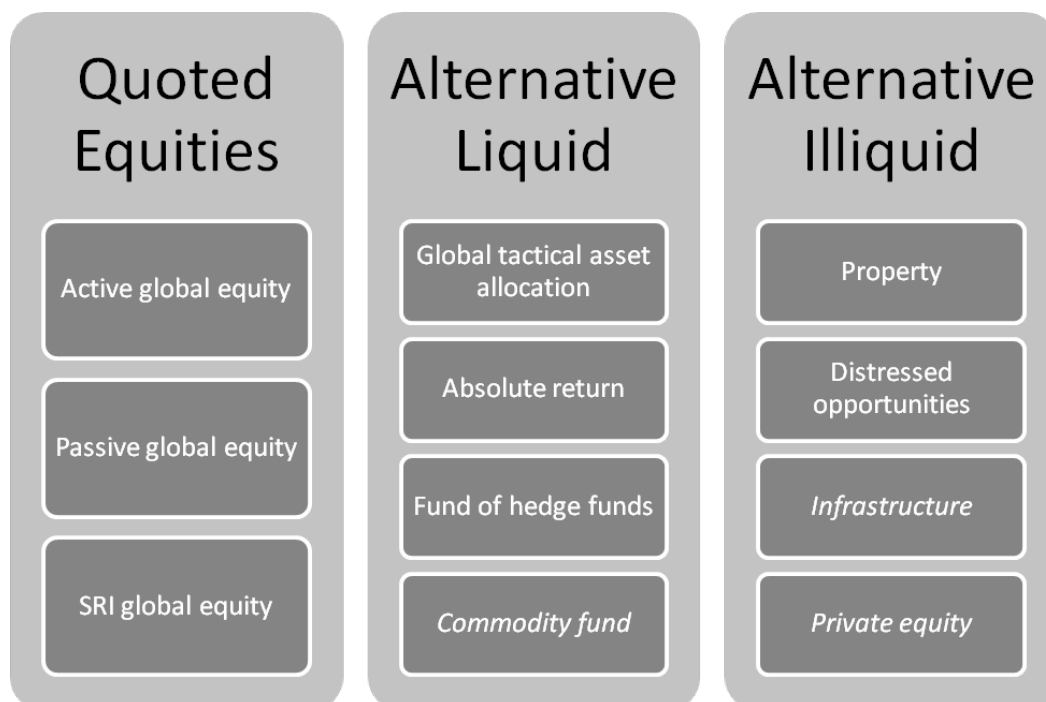
2. The 'bucket' structure

- 2.1. A feature of our new investment service is that all growth assets of the Scheme will be placed within a number of asset class 'buckets'. These asset 'buckets' are divided into two types: **growth** assets and **liability focussed** assets. The Scheme's assets have already been moved to this new structure.
- 2.2. As part of the Scheme's 2010 actuarial valuation, our Chief Investment Officer, David Adkins, has carried out a detailed review of the Scheme's investment strategy. David has recommended that the existing split of assets between the **growth** and **liability focussed** categories should remain unchanged and this was agreed by the Trustee's Investment Committee on 7 June 2011.

3. New investment opportunities

- 3.1. One aspect of our new service is that over time, The Pensions Trust will look to add to the asset classes held within our three **growth** 'buckets', the names of which are:
 - Quoted Equities
 - Alternative Liquid
 - Alternative Illiquid

- 3.2. The asset classes that can be held in each of the three **growth** 'buckets' are summarised below. The assets shown in *italics* are those which are currently being considered for inclusion in the relevant 'bucket'.



More details about the fund managers and investment performance objectives for each asset class can be found in our Investment Strategy document, which is available on request.

- 3.3. The new structure has been designed so that assets with similar characteristics are combined within one 'bucket'. This means that any new investments that add diversity to the Scheme's **growth** assets can also be included within the appropriate 'bucket'.
- 3.4. For instance, this year the Trust has agreed to the appointment of two new fund managers (subject to due diligence) to manage assets in **unlisted infrastructure**. These funds will be held within the Alternative Illiquid 'bucket'.
- 3.5. Information about the **unlisted infrastructure** fund managers can be found in the 'Unlisted Infrastructure Fact Sheet', which can be found on our website at www.thepensiontrust.org.uk > Document Library > Scheme Literature > CARE > Consultation Documents.

4. What now?

- 4.1. The due diligence on the two new **unlisted infrastructure** fund managers is expected to be completed soon. We intend to make an investment of around 3% of the Scheme's assets in **unlisted infrastructure** later this year. The Trustee believes that this investment is in the best interests of members, without requiring any additional contributions from participating employers.
- 4.2. **Once you have considered the details of this new investment, please complete 'Feedback Form 1' by 14 October 2011. In this respect, please let us know if you believe there are any specific reasons why you think this investment should not go ahead for the Scheme.**