National Trust Retirement and Death Benefits Scheme ("the Scheme")
Statement of Investment Principles (SIP)

Investment Objectives and Strategy

The Trustee sets the investment strategy using a Pension Risk Management Framework ("PRMF"). The PRMF sets out the key investment objectives of the Scheme, the metrics used to measure these objectives and the constraints within which the objectives will be targeted. The agreed objectives and constraints are:

- Primary investment objective: to reach full funding by 2030 on a Gilts Flat basis.
- Secondary investment objective: to reach full funding by 2026 on the Technical Provisions basis.
- Primary Risk Constraint: the investment strategy aims to not risk the deficit increasing by more than £100m in a year, as and when affordable, in a 1-in-20 downside scenario on the Gilts Flat basis.
- Secondary Risk Constraint: the investment strategy aspires to not risk the funding level declining by more than 4% in a year, as and when affordable, in a 1-in-20 downside scenario on the Gilts Flat basis.
- Hedging Strategy: interest rate / inflation hedge ratios to be maintained in line with the funding ratio on the Gilts Flat basis.
- Liquidity Constraint: sufficient eligible collateral to be maintained to cover potential collateral calls in a downside scenario.
- The asset return required to achieve the investment and funding objectives ("required return") is assessed on an ongoing basis against the expected return on the Scheme's assets.

If expected return is below required return, the Trustee may adjust the strategic asset allocation to ensure that the Scheme remains on course to achieve its objective. Similarly, if expected return is above required return, the Trustee may reduce expected return and investment risk to enable the Scheme to progress on a less volatile path towards the funding objective.

Required return, expected return, value at risk, funding ratio at risk and collateral requirements are calculated and reported to the Trustee on a quarterly basis by the Scheme's investment advisor, while the funding position is calculated by the Scheme's actuary.

The Trustee monitors the actual allocation of Scheme assets on a quarterly basis and will adjust the allocation as needed to bring the strategy in line with the PRMF.

The Trustee considers it appropriate to assume that growth assets will outperform government bonds over the long term. The growth portfolio is therefore expected to deliver a long-term investment return in excess of the liabilities of the Scheme, contributing to recovery of the deficit (as measured on the Gilts Flat basis).

As advised by its investment advisor and where added value outweighs the associated costs, the Trustee will consider employing active managers where pricing inefficiencies in the market persist, where greater due diligence in selecting investments is needed or warranted and where sufficient expertise exists.

The liability matching portfolio is designed to match the movements in specified portions of the Scheme's liabilities. The portfolio is expected to deliver a long-term investment return broadly in line with the return on government bonds for the amount and nature of the

Scheme's liabilities it is replicating. It aims to reduce the Scheme's exposure to movement in the Scheme's liabilities.

The Trustee recognises the potential volatility in returns from growth assets, both in absolute terms and relative to the Scheme's liabilities, and the risk that the fund managers do not achieve the targets set. When choosing the Scheme's target asset allocation, the Trustee considered written advice from its investment advisers and, in doing so, addressed the following:

- The need to consider a full range of asset classes
- The risks and rewards of a range of alternative asset allocation strategies including the use of gilts, index-linked gilts, gilt repo and swaps to reduce interest rate, inflation and longevity risks.
- The suitability of each asset class.
- The need for appropriate diversification.

In addition, the Trustee also consulted with the sponsoring employer when setting this strategy.

The Trustee, on advice from its investment advisers, will vary the mix from time to time in order to retain the best possible balance between risk reduction and return potential.

The actual balance of assets in the Scheme will tend to move because the performances of the various investment markets and of the investment managers will differ. The Trustee monitors this and has a policy on when and how to rebalance assets based on the expected return of the portfolio compared to the required return within the PRMF. This is considered on at least a quarterly basis.

In addition to the above, the Trustee recognises its obligations to comply with the Statutory Funding ("scheme-specific funding") requirements of the Pensions Act 1995 (as amended) and the Trustee policy is set out in its Statement of Funding Principles.

The investment strategy will be reviewed as required and at least every three years.

This Statement of Investment Principles is produced to meet the requirements of the Pensions Act 1995 and to comply with the Government's Voluntary code of conduct for Institutional Investment in the UK. The Trustee also complies with the requirements to maintain and take advice on the Statement and with the disclosure requirements.

Environmental Social and Governance (ESG)

The Trustee seeks to incorporate all financial considerations which are relevant and material to the Scheme into its decisions on the selection, retention and realisation of investments through strategic asset allocation decisions and the appointment of investment managers, so far as possible.

The Trustee believes that ESG factors (including but not limited to climate risk) will be financially material over the time horizon of the Scheme and should therefore be considered as part of investment strategy and implementation decisions. This will have varying levels of importance for different types of assets invested in by the Scheme. These factors may, in particular, be of limited application for the Scheme's investment strategy comprising gilts and hedging instruments.

The Trustee's investment advisors incorporate environmental, social and governance factors into their manager research process, which informs advice provided to the Trustee on selecting, reviewing and changing individual managers. Each time a new active manager is selected, or an existing active manager is reviewed, integration of environmental, social and governance factors is (to the extent relevant to the asset class) one of the key factors considered by the Trustee. The Trustee has also developed with its investment advisors a process for monitoring periodically managers' approach to these factors, which includes requesting relevant information from the managers. The Sponsor has been consulted throughout the process of developing the Trustee's approach to incorporating ESG considerations.

Having delegated responsibility for the selection, retention and realisation of investments to the investment managers, the Trustee expects the Scheme's investment managers to take account of environmental, social and governance considerations insofar as they believe such considerations will benefit performance and/or reduce risk.

The Trustee does not factor non-financial factors (such as members' ethical views) into its investment decision-making.

Stewardship and Engagement

The Trustee practises effective stewardship as part of its fiduciary duty to act in the best financial interests of its members.

The Trustee understands good stewardship to be the responsible allocation, management, and oversight of capital to create long-term value for the Scheme's members, leading to sustainable benefits for the economy, the environment and society. The Trustee will aim to use its influence as an owner of assets to ensure that as far as possible best practices are reflected in terms of environmental, social and governance ("ESG") factors. The Trustee will hold its investment managers to account for the effective use of its influence as an owner of assets.

Resourcing stewardship

The Trustee's approach to stewardship reflects its broad investment approach: the Trustee's role is to hire appropriately skilled investment managers, set clear expectations, assess the quality of their performance, and hold them to account where the Trustee identifies deficiencies or areas for further improvement. The Trustee, via the Investment Committee (IC), carries out stewardship through oversight and challenge of its investment managers rather than the Trustee itself operating as an active steward directly of the underlying assets in which it invests.

The Trustee's key areas of focus

To best channel stewardship efforts, the Trustee believes that it should focus on a selection of key themes. Key themes have been selected by assessing their relevance to the Scheme and its members, the financially material risks that they pose, and the maturity and development of thinking within the industry that allows for ease of integration into the Trustee's approach. The key themes are:

- Climate Change
- Biodiversity

Significance of stewardship in appointment and monitoring of investment managers

When selecting, monitoring and de-selecting asset managers, stewardship is factored into the decision-making process to the appropriate level for the specific asset class in question. It is the responsibility of the IC to lead the Trustee's engagements with investment managers. The Trustee will not appoint new investment managers that cannot demonstrate the standards to which they hold existing investment managers. These expectations can be summarised as:

- Effective processes for and delivery of stewardship activity, alignment with leading standards, and evidence of positive engagement outcomes related to the Trustee's key themes;

- Provision of tailored reporting on stewardship activities and outcomes;

- Participation as appropriate in public policy debates and the development of best practices.

The Trustee expects its investment managers to provide specific evidence they have acted in accordance with these expectations. This should provide the Trustee with enough insight to ascertain whether its investment managers are practising effective stewardship that is best aligned with the Scheme's long-term interests. The Trustee's investment advisor assesses the ability of each investment manager to engage with underlying companies in order to promote the long-term success of the investments, and reports to the Trustee on an annual basis covering how the investment managers have acted in line with this policy. Where the Trustee identifies deficiencies it will escalate accordingly, with the ultimate response being the removal of mandates where the Trustee believes it is in the interests of the Scheme's members to do so. The Trustee views incremental improvements by its investment managers as the key success measure of its own stewardship activities.

Engagement: expectations and process

The Trustee expects investment managers to engage with issuers to maintain or enhance the long-term value of the Scheme's investments and limit negative externalities on the planet and society. The Trustee recognises that there is no 'one-size-fits-all' stewardship approach and instead encourages its investment managers to prioritise stewardship opportunities and apply the most suitable/influential engagement strategies based on their in-depth knowledge of a given asset class, sector, geography and/or specific company or other asset.

Investment managers are expected to have robust ESG, climate change, and stewardship policies and processes in place. These are used to define how underlying companies are monitored and engaged with, how progress is measured, and when escalation is required. The Trustee expects manager engagement with companies to be underpinned by engagement on public policy matter where relevant. The Trustee expects that these assessments and progress in stewardship activities are tracked over time, to maintain continuity of activity and to assess the effectiveness of stewardship delivery. The Trustee challenges its investment managers when it feels their engagements are not sufficiently focused on decision-makers such as management or board.

In order to drive corporate change, and where initial engagement has made little progress, the Trustee expects its investment managers to escalate engagement accordingly. The Trustee allows its investment managers discretion over the appropriate tools to deploy; however, it expects these to be communicated with issuers' management teams. Should there still be little progress made after escalation, The Trustee expects its investment managers to consider disinvestment as a final course of action.

Voting: expectations and process

The Trustee expects its managers to use as appropriate all the tools arising from the Scheme's investments, including the rights (such as voting rights) and responsibilities associated with the instruments or other assets in which they invest. The Trustee monitors and discloses the voting records of its managers on an annual basis. While the Trustee does not currently have any equity investments and so does not have the voting rights that are associated with such instruments, it recognises that there are rights and responsibilities associated with other asset classes. Should the Trustee make equity investments in the future, it will review this part of its stewardship policy.

Asset Manager Policy

For any segregated arrangements, the terms of the long-term relationship between the Trustee and its managers are set out in separate Investment Management Agreements (IMAs). These document the Trustee's expectations of its managers alongside the investment guidelines they are required to operate under.

The investment guidelines are based on the policies set out in this document (the SIP). The Trustee shares its SIP with the managers and meets with its managers periodically, with the aim of ensuring managers invest in line with the Trustee's policies.

Due to the benefits of cost and ease of implementation, the Trustee primarily invests in pooled investment vehicles. These investments are managed according to standardised fund terms, which are reviewed by the Scheme's legal and investment advisors at the point of investment to ensure that they are aligned with the Scheme's long-term investment strategy and market best practice. These terms are reviewed at the point of investment and following any material changes notified by the manager.

When relevant, the Trustee requires its investment managers to invest with a medium- to long-term time horizon, and use any rights associated with the investment to drive better long-term outcomes. For some asset classes, the Trustee does not expect the respective asset managers to make decisions based on maximising long-term performance. These may include investments that provide risk reduction through diversification or through hedging, consistent with the Trustee's strategic asset allocation.

The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. When assessing a manager's performance, the focus is on longer-term outcomes and is assessed over a medium- to longer-term timeframe, subject to an anticipated minimum of three years.

The Trustee would not expect to terminate a manager's appointment based purely on short-term performance. However, a manager's appointment could be terminated within a shorter timeframe than three years due to other factors, such as a significant change in structure of the investment team or investment process.

Managers are typically paid an ad valorem management fee for a defined set of services. For mandates where it is deemed appropriate a performance fee may also be charged for outperformance versus a benchmark or target. The Trustee reviews the fees triennially to confirm they are in line with market practices.

The Trustee expects the manager to take an active ownership approach and consider long-term ESG risk factors.

The Trustee reviews the portfolio transaction costs and managers' portfolio turnover ranges, where the data is disclosed and available. The Trustee will then determine whether the costs incurred were within reasonable expectations.

Risk

The Trustee recognises that the key risk to the Scheme is that it has insufficient assets to make provisions for 100% of its liabilities ("funding risk"). The Trustee has identified a number of risks which have the potential to cause a deterioration in the Scheme's funding level and therefore contribute to funding risk. These are as follows:

Solvency risk and mismatching risk

- are measured through a qualitative and quantitative assessment of the expected development of the assets relative to the liabilities under current and alternative investment policies;
- are managed through assessing the progress of the actual growth of the assets relative to the liabilities under current and alternative investment policies.

Manager risk

- is measured by the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy;
- is managed by the ongoing monitoring of the performance of the investment managers as well as a number of qualitative factors supporting the managers' investment process.

Liquidity risk

- is measured by the level of cashflow required by the Scheme over a specified period;
- is managed by assessing the level of cash held to limit the impact of the cashflow requirements on the investment policy; The Trustee's policy is that there should be sufficient investments in liquid or readily realisable assets to meet unexpected cashflow requirements in most foreseeable circumstances so that realisation of assets will not disrupt the Scheme's overall investment policy where possible;
- The Trustee has made available a cash fund with Schroders to manage this risk.

Currency risk

- is measured by the level of overseas investment denominated in local currency leading to the risk of an adverse influence on investment values;
- is managed by hedging the overseas investments' currency exposures for those overseas currencies that can be hedged efficiently.

Custodial risk

- is addressed through investment in pooled vehicles, with the investment manager responsible for selecting suitable custodians. In addition, restrictions are applied as to who can authorise transfers of cash and the accounts to which transfers can be made. Where the Trustee is required to appoint a custodian as part of a segregated mandate, the Trustee ensures that selected custodians are reputable providers with a large, global footprint.

Political risk

- is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention;

- is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.

Sponsor risk

- is measured by the level of ability and willingness of the sponsor to support the continuation of the Scheme and to make good any current or future deficit;

- is managed by assessing the interaction between the Scheme and the sponsor's business, as measured by the number of factors, including the creditworthiness of the sponsor and the size of the pension liability relative to the financial strength of the sponsor.

Derivatives risk

- Counterparty risk – is addressed through the investment manager guidelines with respect to cash management.

- Basis risk – the returns from backing assets used to meet the payable leg of a derivative contract may not match exactly. This risk is addressed through the investment policy adopted by the Trustee for the backing assets and the investment managers' asset management capabilities.

- Liability risk – pension liabilities can only be estimated and there is a risk of divergence between the performance of the derivatives/matching assets and the actual value of the liabilities (for example, due to changes in assumptions or demographics). This risk is mitigated by updating the liability hedging benchmark at appropriate regular intervals.

- Legal and operational risk – the successful operation of derivatives depends on the various legal documents governing the derivative contracts and the correct completion of some operational tasks. Where relevant, the Trustee takes appropriate advice when putting in place legal documents, reviewing legal documents already in place and appointing and monitoring providers capable of carrying out the required operational tasks.

- The Trustee is also aware of the risks relating to the initial terms of entry in derivative contracts (for example, purchasing the contracts at a competitive price) and the valuation of the derivatives on an ongoing basis. With the help of its advisors, the Trustee monitors these positions on a regular basis.

These measures do not render the investment policy free of risk. Rather, the measures endeavor to balance the need for risk control and the need for assets which are likely to achieve the required performance target.

The Trustee continues to monitor the risks mentioned above. On behalf of the Trustee, the Investment Committee (IC) considers the impact of downside risks of adverse scenarios on the Scheme, monitors the level of interest rate and inflation hedging and tracks performance of the Scheme's investment managers relative to their benchmarks, all of which is presented in the quarterly reporting to the wider Trustee Board.

Implementation

As and when required, the Investment Committee (IC) of the Trustee meets with the investment managers to satisfy itself that the managers continue to carry out their work competently and have the appropriate knowledge and experience to manage the investments of the Scheme. Please refer to the Investment Policy Implementation Document (IPID) for further details.

Governance

The Trustee is responsible for the investment of the Scheme's assets. The Trustee takes some decisions itself and delegates others. When deciding which decisions to take itself and which to delegate, the Trustee has taken into account whether it has the appropriate training and expert advice in order to make an informed decision.

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager with a written contract and those where a product is purchased directly, e.g. the purchase of an insurance policy or units in a pooled vehicle. The latter are known as direct investments.

The Trustee's policy is to review its direct investments and to obtain written advice about them at regular intervals. These include vehicles available for members' AVCs. When deciding whether or not to make any new direct investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the fund managers.

The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this Statement. The regulations require all investments to be considered by the Trustee (or, to the extent delegated, by the fund managers) against the following criteria:

- The best interests of the members and beneficiaries.
- Security.
- Quality.
- Liquidity.
- Profitability.
- Nature and duration of liabilities.
- Tradability on regulated markets.
- Diversification.
- Use of derivatives.

The Trustee has established the following decision-making structure:

Trustee	**Investment Committee**
• Setting objectives to be included in the Pensions Risk Management Framework (PRMF). • Strategic direction including high level asset allocation. • Investment Risk. • Statement of Investment Principles. • Appointing the Investment Committee. • Setting parameters for the Investment Committee. • Considering recommendations from the Investment Committee. • Monitoring investment performance relative to the strategic goals of the Scheme.	• Making recommendations to the Trustee on: – Asset allocation; – Investment management structure consistent with overall investment objectives; – SIP, Myners compliance and other investment-related compliance issues; – Any other investment related issues. • Implementation of policy decisions approved by the Trustee Board. • Deciding on appointment and removal of investment managers, custodians and investment advisers. • Monitoring investment advisors and fund managers. • Deciding on performance benchmarks and investment guidelines to be set for each manager. • Within high-level strategic asset allocation and constraints set by the Trustee, deciding on tactical asset allocation. • Reporting to the Trustee on the work undertaken by the IC. • Consider climate change and biodiversity issues in investment decisions.
Investment Advisers • Advising on the suitability of the overall investment strategy. • Advising on the selection, retention and disinvestment from the fund managers used to implement the strategy. • Advising on the content of this Statement.	**Fund Managers** • Operating within the terms of this Statement and their written contracts. • Selecting individual investments with regard to their suitability and diversification. • Making recommendations on appropriate investment strategy.

The Trustee's investment advisors have the knowledge and experience required under the Pensions Act 1995.

The Trustee expects the fund managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this Statement so far as is reasonably practicable. In addition, fund managers pay commissions to third parties on many trades they undertake in the management of the assets and also incur other ad hoc costs.

Appropriate arrangements are in place for custody of the investments, collective investments and pooled funds managed by the investment managers. The custodians provide safekeeping and settlement facilities for the Scheme's assets.

The Trustee will review this SIP at least every three years and immediately following any significant change in investment policy. The Trustee will take investment advice and consult with the Sponsor over any changes to the SIP.

Section 2

Version Control Record

The following table records changes to this document:

Version	**Document Name**	**Nature of Change**	**Implemented**
2005	s:\client\National Trust\040mrmg SIP	11 August 2005	
2008	s:\client\National Trust\051mrmg SIP	9 December 2008	
2009	s:\client\National Trust\051mrmg SIP revised	7 May 2009	
2009	s:\client\National Trust\051mrmg SIP (highlighted version with link)	29 May 2009	
2010	g:\client\National Trust\Investment\SIP NT revised	5 May 2010 – Schroders LDI mandate adjustment	
2010	g:\client\National Trust\Investment\SIP NT revised	29 July and 17 August and 10 Sept 2010 - comments about strategic weights and synthetic credit overlay	
2012	g:\client\National Trust\Investment\SIP\NT SIP 24.09.2012	29 August to 24 September – comments about the derisking strategy, updated the allocation and rebalancing ranges and Risk section included	
2016	g:\client\National Trust\Investment\SIP\NT SIP 2016	Updated the SIP to include new managers Winton, BlackRock and Standard Life	
2019		Updated SIP to reflect agreed long term objective, Pensions Risk Management Framework and revised investment strategy and ESG considerations	
2020		Updated SIP to comply with EU Shareholder Rights Directive II	

2023		Updated SIP to reflect agreed long term objective, primary risk objective, revised investment strategy and updated stewardship and engagement policy	

Appendix

Glossary of Terms used in this SIP

Absolute return

An investment approach which aims to achieve a positive return whether or not the wider market is rising or falling. The exact opposite of index tracking.

Return to report

Active management (see also Index tracking)

The opposite of index tracking. The fund manager will build a portfolio that varies in structure from the benchmark index with the aim of outperforming it. There is nevertheless a risk that a poor choice of holdings will result in performance lower than that of the index.

Actuarial characteristics

A way of describing the profile of the Scheme in terms of the expected relative change in its assets and liabilities over time. The proportion of the liabilities represented by pensions actually being paid is an example of an actuarial characteristic. Such liabilities are more predictable than the future benefits of members who are still working.

Return to report

Actuarial valuation basis

The assumptions used in estimating the Funding Level. The assumptions will be influenced by the Scheme's actuarial characteristics.

Return to report

Actuary

A professionally qualified advisor to the Trustees, who is required by law to calculate and certify the Scheme's funding level at regular intervals and to help the Trustees in determining the appropriate level of contributions to the Scheme.

Return to report

Ad hoc costs

Minor out of pocket expenses sometimes charged by the fund managers, but very unlikely to be significant in amount.

Return to report

Asset

An investment made on behalf of the Scheme, normally selected by fund managers appointed by the Trustees to perform this role. The investments may include a range of asset classes, including (but not limited to) equities, bonds or cash.

Return to report

Asset classes

A term which describes a group of investments which share common characteristics. For example UK equities, global equities or government bonds.

Return to report

AVCs

Separate investments chosen by members of the Scheme to supplement their pension benefits but actually held by the Trustees within the Scheme on behalf of those members.

Return to report

Benchmark index

A market index selected by the Trustees as a basis against which to measure a fund manager's performance.

Bonds

A term which describes a loan obligation, normally with a fixed repayment date and a fixed rate of interest (or "coupon"). A bond issued by a company is known as a corporate bond and will always be more secure than equity in the same company since the bond will rank for repayment ahead of equity (or shares) if the company goes into liquidation.

Cash fund

A fund which invests in bank deposits and other types of money market "instruments" with short maturity. Cash funds are a way of spreading risk

	or diversifying, whilst offering the chance of a slightly higher return than can be expected from a simple bank deposit.
Cashflow profile	A projection of expected movements of cash into and out of the Scheme as a result of pension contributions paid in and pension benefits paid out. *Return to report*
Collective investment vehicles/pooled funds	These terms are interchangeable and describe a method of "packaging" investments, allowing multiple investors to hold units in the same fund. The value of the units will fluctuate strictly in line with movements in the price of the underlying holdings. A unit trust is an example of a pooled fund. *Return to report*
Commissions	A fee paid to a broker for arranging transactions and sometimes also for providing research material to the fund managers. Commissions are incurred by the fund managers but are charged to the Scheme. *Return to report*
Contributions	Money paid into the Scheme to provide for future pension benefits. Such contributions are paid in part by members (as a deduction from salary) and in part by the Employer.
Custodian	A service provider (normally a bank) which is responsible for the safekeeping of the Scheme's assets and for arranging settlement of all purchases and sales of holdings. *Return to report*
Custody	The service provided by a custodian. This includes the safekeeping of the Scheme assets. *Return to report*
Debt	Another term describing bonds, reflecting the fact that a company or government issuing a bond in effect owes the money to the investors, or is in debt to the investors. *Return to report*
De-risking strategy	A strategy whereby a Scheme moves its assets out of more volatile, return seeking classes into less risky assets as the funding level of the Scheme increases. *Return to report*
Derivative	A type of investment whose performance is "derived" from a particular class of investment. Typically (unlike equities and bonds), derivatives are issued by financial institutions rather than by governments or companies and can be created without limit as to amount. They can be highly volatile (and therefore risky) when bought in isolation, but can be used to reduce risk when combined with conventional holdings. Examples of derivatives are futures contracts, credit default swaps and interest rate swaps. *Return to report*
Direct investments	Investments made for the Scheme by the Trustees as opposed to investments made by the Fund Managers. *Return to report*
Discount rate (see also Government Bond Yield)	A rate of interest normally related to or based on bond yields that is used by the Actuary to discount the future liabilities of the Scheme in order to arrive at their present value. *Return to report*
Discretionary pension	Improvements in pension benefits granted at the Trustees' discretion.

increases	These will increase the Scheme's liabilities and therefore will affect its funding level unless extra contributions are made by the Employer to offset them. *Return to report*
Diversified/ diversification	A term which describes an approach to investment that aims to reduce risk by holding a range of different assets whose performance is not closely correlated (in other words they are not expected to move in the same direction at the same time). Diversification aims to reduce the volatility of performance of the portfolio as a whole. *Return to report*
Emerging market	Areas of the world where capital markets are relatively underdeveloped. Investments in such markets are potentially very rewarding, but tend involve greater risks than those in developed markets. *Return to report*
Employer	The National Trust. *Return to report*
Enhanced	A reference to increasing the return expected from a particular investment by combining it with another complementary investment. *Return to report*
Equities	Another word for shares in a company. Each holding represents a "share" in the company's ownership and is entitled to a share of any profit achieved by that company after all expenses have been paid. Equally, the holding shares in any losses and, if the company goes into liquidation, the holding may lose its entire value. *Return to report*
Exposures	The opportunity for (or exposure to) return and risk associated with investment in a particular asset or asset class. *Return to report*
Fund Manager	An organisation to which management of a portfolio is delegated by the Trustees. *Return to report*
Funding level	A measure of the financial strength of the Scheme arrived at by comparing the current valuation of the Scheme's assets and liabilities. The Employer is committed to paying contributions into the Scheme in order to cover the growth in pension benefits and to make up any shortfall in the funding level over a period of years. A shortfall (or deficit) in the Funding Level is not unusual (or a particular matter for concern) given the extended period over which the benefits are normally payable, as well as the financial strength of the Employer. *Return to report*
Gilt (or gilt edged security)	A term used to describe bonds specifically issued by the UK government.
Global Equities (see also Equities)	Shares in companies drawn from a wide range of countries worldwide, thereby improving diversification. *Return to report*
Government bond yield	The yield (or percentage return) available from investment in a particular government bond. Government bonds are issued with a particular fixed interest rate for their entire life. If market yields rise, bonds will fall in value; conversely their value will increase when yields fall. Government bond yields are used by the Scheme Actuary as the basis for the discount

rate used to value the liabilities. The value of the liabilities will therefore move in the same direction as that of bonds.

Government bonds

A bond issued by a government. Government bonds are normally considered to be low risk since repayments are guaranteed (a government can if necessary repay existing obligations by issuing additional bonds, albeit at the risk of causing inflation). The performance of government bonds may nevertheless be volatile at times.

Hedge funds (see also Absolute Return)

A term describing a wide range of different strategies that make use of derivatives to hedge their exposure to market movements. The manager aims to make money out of the relative performance of selected assets, irrespective of whether the market as a whole is rising or falling.

Return to report

Hedging

A risk management term referring to the reduction or elimination of certain risks. In investments this can involve purchasing financial instruments which offset the risks included in a portfolio.

Return to report

High yield

Bonds which offer an above average yield, normally reflecting the fact that they are below investment grade and therefore perceived as more risky.

Return to report

Index tracking/passive investment

A method of investing in a way which closely tracks the performance of a particular asset class. At its simplest, such a portfolio will track an index (e.g. the FTSE100 index) by holding every constituent of the index in the same proportion in which it is represented in the index. This approach can be automated and is therefore a low cost approach.

Return to report

Inflation

A measure of the cost of living, of which the Retail Price Index (RPI) is an example. Pension benefits are partly linked to RPI so that maintaining a link between the performance of the assets and changes in RPI represents an important aim of the Trustees

Return to report

Infrastructure

Investment in projects such as hospitals, schools, toll roads etc. which are long term in character. They are usually invested in via pooled funds and involve long term commitments.

Return to report

Instrument

Another word for an investment, for example a share, or bond, or units in a pooled fund.

Interest rate swap (see also Derivative)

A derivative contract that allows an investor to swap a fixed rate of interest for a variable rate (or vice versa).

Investment grade (see also Bonds)

An investment grade bond is a bond judged sufficiently likely to be able to meet its payment obligations that banks are allowed to invest in it. All bonds are given ratings and the rating system is used to determine whether or not a particular bond is regarded as being of investment grade.

Return to report

Liabilities

The liabilities of the Scheme are the value of the Scheme's pension benefits to which members will be entitled when they retire. These benefits typically stretch many years into the future. A current or "present" value is estimated by the Scheme Actuary to enable that value to be compared directly with the current value of the Scheme assets.

Return to report

Liability hedge

This describes an approach which aims to create a mix of holdings,

	usually including derivatives, whose performance investment will closely replicate the performance of the liabilities. The effect is to reduce the risk of volatility in the Scheme's funding level. Success in achieving this aim will partly depend on the proportion of the liabilities matched by the hedge. Return to report
Liquid focussed assets	Holdings of cash, or assets with cash like characteristics. Return to report
Liquidity	This term refers to how easily an asset can be bought or sold at its market price. Liquid assets can be quickly and easily converted into cash without significantly altering the price of the asset in the process. Return to report
Market cycle	A term describing the normal economic pattern of growth and recession which tends to extend over periods of several years and is usually reflected in the performance of equity and bond markets, the former doing well when the economy is expanding and the bonds providing a cushion when the economy is slowing. Return to report
Maturity	The date when a bank deposit or bond is due to be repaid.
Occupational Pension Schemes (Investment) Regulations 2005	See Pensions Act 1995. Return to report
Pension benefits	See liabilities. Return to report
Pensions Act 1995	UK legislation which, among other things, lays down the powers and duties of the Trustees and the responsibilities of the Employer. In particular it sets out specific areas in which the Trustees are obliged to take professional advice from suitably qualified sources. The Act provides a framework, more detailed provisions being laid down in the Occupational Pension Schemes (Investment) Regulations 2005. Return to report
Pooled fund	See collective investment vehicle. Return to report
Portfolio	A term describing a collection of investments for which a particular fund manager is responsible. The trustees may select more than one fund manager and will have written agreements with each. The agreements will include details of the portfolio's investment objectives. These will in turn dictate the type of investment included in each portfolio. Return to report
Private equity	Another word for venture capital, or equity provided to businesses to help them to establish themselves or to expand. Typically available for investment via pooled funds and normally less easy to sell than quoted equity. Return to report
Return seeking	Assets which are expected to grow through a mixture of capital appreciation and income, as opposed to cash which offers no growth potential. Return to report
RPI	See inflation.

	Return to report
Safekeeping	See custody.
	Return to report
Scheme	The National Trust Retirement & Death Benefits Scheme.
	Return to report
Sensitivity	The extent to which the present value of the Scheme's liabilities can be expected to change in response to a specific change in interest or inflation rates. The most relevant changes are those in government bond yields and inflation. Sensitivity tends to increase with the maturity of a bond or liability.
	Return to report
Settlement	The process of settling trades, in other words paying the vendor and receiving the investment, or delivering the investment to a buyer and collecting the payment for it.
	Return to report
Tradability	A term describing the ease with which investments can be bought and sold. For example quoted shares and bonds are easily tradable, whereas private equity or infrastructure investments usually need to be held for the long term and therefore should not represent a high proportion of the Scheme assets.
	Return to report
Trades	A term describing a contract for the purchase or sale of equities or bonds.
	Return to report
Trustees	A group of individuals granted collective responsibility for the overall conduct of the Scheme. They are the legal owners of the assets, but hold them for the exclusive benefit of members of the Scheme.
	Return to report
UK Equities (see also Equities)	Shares in UK companies only. A portfolio of UK equities will be less diversified than a global equity portfolio given that the UK stock market represents less than 10% of the global market by value.
Vehicles	Another name for a collective investment vehicle or pooled fund.
	Return to report
Volatility	A measure of the rate of change in asset values. Sharp movements in one direction may be followed by equally sharp reversals. An investment with low volatility is expected to produce relatively stable returns over time.
	Return to report