

**The Jockey Club Racecourses Pension Scheme**  
**31 July 2018**  
**Chair's Statement**

**The Jockey Club Racecourses Pension Scheme ("the Scheme")**

**Chair's Statement – 31 July 2018**

In accordance with the requirements of the Occupational Pension Schemes (Charges and Governance) Regulations 2015 ('the Regulations'), the Trustees are required to provide a statement relating to the governance of the defined contribution benefits within the Scheme. This statement covers the period from 1 August 2017 to 31 July 2018 and has been prepared by the Chair of the Trustees – William Medicott.

**Introduction**

The Scheme is a defined benefit scheme which means that the benefits are calculated on a pre-determined basis specified in the Scheme Rules. The Scheme contracted-out using the protected rights method in respect of service accrued after 6 April 1997 (providing each member with a protected rights account). These protected rights accounts act as an underpin to the defined benefits payable under the Scheme Rules. Upon retirement, death or transferring out of the Scheme, the value of the defined benefit is checked against the value of the protected rights account and the higher benefit is provided to the member.

The assets in relation to these protected rights benefits are invested within the defined benefit (DB) assets of the Scheme. Members therefore have a notional protected rights account, which is valued in line with the value of the Scheme's DB assets.

Where members had less than 2 years' service and left the Scheme prior to 6 April 2012, their protected rights accounts were retained within the Scheme and form a defined contribution only benefit. The Trustees are currently in the process of discharging these benefits.

In addition, members are able to make additional voluntary contributions (AVCs) on a defined contribution basis to provide additional benefits at retirement.

**Governance of the default investment arrangement**

*Protected rights accounts*

The assets in relation to the protected rights benefits are invested within the defined benefit (DB) assets of the Scheme. As such, this is the Scheme's default investment arrangement for defined contribution benefits, as defined in the Regulations.

As at 31 July 2017 (the date of the last actuarial valuation), the value of the protected rights accounts was c£0.2m.

The Trustees do not formally review the investment strategy of the defined contribution assets attributed to the protected rights accounts to assess its appropriateness for members but regularly review the investment strategy and performance of the assets of the defined benefit section which gives the notional return for the protected rights accounts. The last review of the investment strategy for the Scheme's DB assets was June 2015, although the Trustees are currently reviewing this strategy.

## The Jockey Club Racecourses Pension Scheme Chair's Statement (continued)

### The Jockey Club Racecourses Pension Scheme ("the Scheme")

#### AVCs

As at 31 July 2018, the AVC funds under management were:

Fund	Funds under Management
Equitable Life (AVCs)	£101,138
Royal London (formerly Scottish Life) (AVCs)	£504,389

The Scheme currently offers a range of AVC investment choices with both Equitable Life and Royal London. The Scheme's deemed default investment arrangement for the AVCs, as defined in the Regulations, is the Cautious Retirement Investment Strategy with Royal London under which funds are invested more cautiously as members near retirement age. The majority of the AVC funds held under management with Equitable Life are invested in the With-Profits Fund.

The Trustees have considered the available information about the investment performance of the AVC funds in which members of the Scheme are currently invested. The Trustees are satisfied that the investment performance (net of fees) remain consistent with the stated objectives for these funds.

During the 2016/17 Scheme year, the Trustees considered the investment strategy of the AVCs to assess its appropriateness for members. This review was undertaken in the knowledge that the majority of members use their AVC funds to provide additional tax free cash at retirement. Having reviewed the AVC options, the Trustees decided not to make any changes to the options available. However, they have communicated details about the current fund options with Equitable Life and Royal London to members, recommending that members consider whether the way in which their AVCs are invested remains appropriate.

Communications will be issued to members during 2019 with regards to changes to the Equitable Life AVCs. Details of these changes can be found on page 3 of this statement.

The Trustees have prepared a Statement of Investment Principles which sets out the Trustees' aims and objectives relating to investment strategy. A copy of this SIP is appended to this statement. The Trustees have made changes to the investment strategy during the year and are currently in the process of preparing a revised Statement of Investment Principles.

#### Charges and transaction costs

##### *Protected rights accounts*

The investment returns on the Scheme's DB assets (used to notionally value the protected rights accounts) take into account annual fund management charges of 0.15% to 0.70% of assets under management (depending on investment fund). These charges are therefore incurred by members when valuing their protected rights accounts to assess whether this underpin bites.

#### AVCs

Members are able to self-select the AVC investment funds. However, most members are invested in the Cautious Retirement Investment Strategy with Royal London which gradually moves members' funds into a cash fund and funds suitable to buy an annuity, such as fixed interest investments.

## The Jockey Club Racecourses Pension Scheme Chair's Statement (continued)

### The Jockey Club Racecourses Pension Scheme (“the Scheme”)

The total annual charge for the Royal London funds is 0.53% pa, with the exception of the M&G Recovery Fund where the annual charge is 1.39% pa (although only one member is invested within this fund).

The majority of the AVC funds under management with Equitable Life are invested in the With-Profits Funds. These funds are subject to an ongoing investment management charge of 1.0% per annum. This charge is taken into account when declaring annual interest rates rather than being an explicit charge deducted from members' funds. Other Equitable Life funds incur charges of 0.5% or 0.75% per annum.

The Appendix to this Statement provides an illustration of the cumulative effect of charges.

In addition to these explicit member charges, members may also incur transaction costs (incurred as a result of buying, selling, lending or borrowing investments). We have been unable to obtain full details about transaction costs from Equitable Life and Royal London, and have therefore asked them to consider providing further information to us.

A Market Value Reduction may be applied to the With Profits Fund on transfer or encashment before maturity. This ensures that members who choose to leave the fund before their normal retirement date do so on terms that properly reflect the underlying value of their policy.

For the With-Profits Fund, members are also eligible to receive a terminal bonus at maturity. The amount of terminal bonus may be lower, or nil, on transfer or encashment before maturity.

During the Scheme year, Equitable Life announced that it had signed an agreement to transfer all of its policies to another company, Reliance Life. Before this transfer can go ahead there will need to be a vote on the proposal. The vote is expected to take place in mid-2019 and if the transfer is approved it is expected to take place towards the end of 2019, after High Court approval. Further details of this transfer will be made available to members once information is provided to the Trustees.

In addition to the above member-borne costs and charges, the sponsoring employer meets the cost of ongoing governance and administration services. In assessing value-for-money, the Trustees have only considered the costs and charges met by members.

The Trustees wish to ensure that the Scheme provides good value for members. Within its latest draft DC Code of Practice, the Pensions Regulator has set out its expectations of trustee boards in a number of areas including the assessment of value for members. The Trustees have taken these expectations into account when considering value for members of the Scheme.

The Trustees have also considered the services and charges that might be available from alternative providers and the Trustees are satisfied that the Scheme's value for members is broadly average and satisfactory compared to similar schemes of a comparable size.

#### Core financial transactions

The Trustees receive and review reports from the Scheme's administrators on a 6-monthly basis in order to monitor the level of administration services being provided to members.

The processing of core financial transactions is monitored by the administrators, who have implemented internal control procedures to help ensure that such transactions are processed promptly and accurately (including a relevant review process). These activities include

## The Jockey Club Racecourses Pension Scheme Chair's Statement (continued)

### The Jockey Club Racecourses Pension Scheme ("the Scheme")

procedures to ensure the accuracy of benefit calculations and settlements and the prompt resolution of any inconsistencies identified. Activities covered include controls and procedures to manage the settlement of benefits and individual transfers out.

The Trustees are satisfied that during the period of this statement, there have been no significant delays in processing these transactions.

#### Trustee Knowledge & Understanding

It is important that the Trustees continue to have sufficient knowledge and understanding to fulfil their duties. This is complemented by having a professional trustee (Capital Cranfield Trustees) on the trustee board. All new Trustees are required to undertake training following their appointment, including use of the Pensions Regulator's Trustee Toolkit. All Trustees have also been provided with and have a working knowledge of the Scheme's documents including the Trust Deed and Rules, SIP and other informal policies.

The Trustees are supported by independent and professional advisers who ensure that they are kept abreast of the latest legislative, regulatory and market developments that apply to the Scheme. These advisory appointments are also periodically reviewed.

Training is delivered during Trustee meetings when the Trustees are considering issues, the understanding of which is enhanced through training. Relevant training materials are included in Trustee meeting packs. All training received by the Trustees is recorded and the training needs of the Trustees are regularly reviewed by the Trustees and their advisers to identify any relevant gaps in knowledge. Recent training received (specifically in relation to DC issues) includes the governance requirements for occupational DC schemes.

In addition, Capital Cranfield Trustees is subject to AAF audit requirements which require its Professional Trustees to attend regular technical updates in order that they maintain a high level of knowledge and understanding which they are able to use when exercising discretion and setting the Scheme's strategic direction.

#### How to contact the Trustees

If you have any further queries regarding the Scheme, please contact:

First Actuarial LLP  
2nd Floor  
Mayesbrook House  
Lawnswood Business Park  
Leeds  
LS16 6QY  
Tel: 0113 818 7300  
Email: leeds.admin@firstactuarial.co.uk



William Medlicott

Chair of the Trustees of the Jockey Club Racecourses Pension Scheme

[Date] 21/1/2019

## The Jockey Club Racecourses Pension Scheme Chair's Statement (continued)

### Appendix – Cumulative impact of costs and charges

The tables below show the cumulative impact of costs and charges (as set out in the main body of this Statement). The assumptions on which these projections have been made are set out on the following page.

#### Funds used in the Scheme's default

Projected Pension Pot in today's money								
Years	Managed		Defensive Managed		Fixed interest		Deposit	
	Before charges	After all costs and charges	Before charges	After all costs and charges	Before charges	After all costs and charges	Before charges	After all costs and charges
1	£10,355	£10,302	£10,260	£10,207	£10,030	£9,977	£10,000	£9,947
3	£11,102	£10,932	£10,801	£10,634	£10,090	£9,931	£10,000	£9,842
5	£11,903	£11,601	£11,370	£11,079	£10,151	£9,886	£10,000	£9,738
10	£14,167	£13,459	£12,928	£12,275	£10,304	£9,772	£10,000	£9,482
15	£16,863	£15,614	£14,699	£13,600	£10,460	£9,660	£10,000	£9,234
20	£20,072	£18,114	£16,712	£15,068	£10,617	£9,550	£10,000	£8,992
25	£23,891	£21,014	£19,002	£16,694	£10,778	£9,441	£10,000	£8,756
30	£28,436	£24,379	£21,605	£18,496	£10,940	£9,333	£10,000	£8,526
35	£33,847	£28,282	£24,564	£20,492	£11,105	£9,226	£10,000	£8,303
40	£40,287	£32,811	£27,930	£22,704	£11,273	£9,120	£10,000	£8,085

#### Other funds available to members

Projected Pension Pot in today's money				
Years	M&G Recovery (highest charged)		Equitable Life Deposit (lowest charged)	
	Before charges	After all costs and charges	Before charges	After all costs and charges
1	£10,450	£10,311	£10,000	£9,950
3	£11,412	£10,962	£10,000	£9,851
5	£12,462	£11,655	£10,000	£9,752
10	£15,530	£13,583	£10,000	£9,511
15	£19,353	£15,831	£10,000	£9,276
20	£24,117	£18,451	£10,000	£9,046
25	£30,054	£21,504	£10,000	£8,822
30	£37,453	£25,062	£10,000	£8,604
35	£46,673	£29,210	£10,000	£8,391
40	£58,164	£34,043	£10,000	£8,183

## The Jockey Club Racecourses Pension Scheme Chair's Statement (continued)

### Appendix – Cumulative impact of costs and charges

#### Assumptions:

1. Projected pension pot values are shown in today's terms and do not need to be reduced further for the effect of future inflation
2. The starting pot size is assumed to be £10,000
3. Inflation is assumed to be 2.5% each year
4. No further contributions have been assumed
5. Values shown are estimates and are not guaranteed
6. The projected growth rate for each fund are as follows:

Manged	3.6%	above inflation
Defensive Managed	2.6%	above inflation
Fixed Interest	0.3%	above inflation
Deposit	0.0%	above inflation
M&G Recovery	4.5%	above inflation
Equitable Life Money	0.0%	above inflation

**The Jockey Club Racecourses Pension Scheme  
Chair's Statement (continued)**

**Jockey Club Racecourses Pension Scheme**

**Statement of Investment  
Principles**

**February 2016**

The Trustees have made changes to the investment strategy during the year and are currently in the process of preparing a revised Statement of Investment Principles.

## The Jockey Club Racecourses Pension Scheme Chair's Statement (continued)

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## The Jockey Club Racecourses Pension Scheme Chair's Statement (continued)

### 1 INTRODUCTION

#### 1.1 PURPOSE OF THIS STATEMENT

This statement sets out the principles and policies that govern investments made by the Trustees of the Jockey Club Racecourses Pension Scheme.

#### 1.2 STATUTORY REQUIREMENTS

This statement is made in accordance with the requirements of the Pensions Act 1995 and the Occupational Pensions (Investment) Regulations 2005 made under the Pensions Act 2004.

#### 1.3 INVESTMENT ADVICE

As required by legislation, in the preparation and maintenance of this statement and when considering the suitability of any investments, the Trustees have obtained and considered written advice from their investment adviser.

The Trustees are advised on investment matters by First Actuarial LLP. First Actuarial LLP is regulated by the Institute and Faculty of Actuaries and is qualified to provide the required advice through knowledge and practical experience of financial matters relating to pension schemes.

#### 1.4 EMPLOYER CONSULTATION

Under legislation, the ultimate responsibility for determining the investment strategy rests with the Trustees. However, the Trustees must consult with the sponsoring employer and consultation must comprise a sharing of views, not simply notification of intent.

The Trustees have consulted with the sponsoring employer as part of the work preparing this statement.

#### 1.5 REVIEWING THIS STATEMENT

This statement will be reviewed at least every three years and without delay after any significant change in circumstances or investment policy.

A copy of this statement and any amendments made to it are available to the Scheme Actuary and to the managers of the pooled investment vehicles used by the Trustees.

## The Jockey Club Racecourses Pension Scheme Chair's Statement (continued)

### 2 OBJECTIVES AND STRATEGIC ALLOCATION

#### 2.1 INVESTMENT OBJECTIVES

The Trustees have set an investment strategy that reflects the following primary investment objectives:

- **Generating strong investment returns** – to improve the financial position of the Scheme thereby improving security for the members.
- **Managing cash flow requirements** – to ensure that sufficient assets and cash flows are available to pay members' benefits as and when they arise.
- **Protecting the financial position** – to limit the scope for adverse investment experience reducing security for members.

It is recognised that targeting strong levels of investment return introduces investment risk which increases the volatility of the financial position.

#### 2.2 SETTING THE STRATEGIC ASSET ALLOCATION

The Trustees' strategic asset allocation is determined after considering written advice from the investment adviser and is designed to strike a balance between the above objectives. The strategic asset allocation takes into account:

- the nature and timing of liability payments;
- expected levels of investment return on the different asset classes;
- expected levels of investment return variability and, specifically, the expected level of short-term volatility of the Scheme's financial position;
- the sponsoring employer's ability to withstand the additional contribution requirements that may arise from such volatility in the financial position; and
- the full range of available investments (within the bounds of practicality).

In determining the strategic asset allocation, the Trustees view the investments as falling into two broad categories:

1. *Growth Assets* Assets that are expected to deliver long-term returns in excess of liability growth. The use of growth assets is expected to generate strong investment returns.
2. *Liability Matching Assets* Assets that are expected to react to changes in market conditions in a similar way to the liabilities. The use of liability matching assets is expected to protect the financial position.

The Trustees' strategic asset allocation is detailed in Appendix 1.

## The Jockey Club Racecourses Pension Scheme Chair's Statement (continued)

### 3 IMPLEMENTATION

#### 3.1 IMPLEMENTATION OF THE INVESTMENT STRATEGY

Day-to-day management of the assets is delegated to one or more investment managers. The mandates set for the investment managers are intended to implement the Trustees' investment objectives within an acceptable level of risk.

Details of the mandates set for the investment managers are provided in Appendix 1.

The Trustees are satisfied that the investment managers have the appropriate knowledge and experience for managing the investments.

The Trustees consider each investment manager's mandate carefully to ensure it is appropriate. Where pooled investment vehicles are used, it is recognised that the mandate cannot be tailored to the Trustees' particular requirements. However, the Trustees ensure that any pooled investment vehicles used are appropriate to the circumstances of the Scheme.

The Trustees, in conjunction with their investment adviser, regularly review each of the investment managers to ensure that the manager remains competent and that the assets continue to be managed in accordance with the manager's mandate.

#### 3.2 SAFEKEEPING OF ASSETS

To ensure safekeeping of the assets, ownership and day to day control of the assets is undertaken by custodian organisations which are independent of the sponsoring employer and the investment managers. Where pooled investment vehicles are used, the custodians will typically be appointed by the investment manager.

#### 3.3 REGULATED MARKETS AND DERIVATIVES

Assets are invested predominantly on regulated markets, as so defined in legislation. Any investments that do not trade on regulated markets are kept to a prudent level.

The investment managers are permitted to use derivative instruments only in so far as they contribute to the reduction of investment risks or facilitate efficient portfolio management.

## The Jockey Club Racecourses Pension Scheme Chair's Statement (continued)

### 4 RISKS AND OTHER MATTERS

#### 4.1 INVESTMENT RISKS

Identification, measurement and management of risk form an integral part of the process adopted by the Trustees to determine the strategic asset allocation. The principal investment risks are listed in Appendix 2 together with an explanation of how those risks are managed.

#### 4.2 EMPLOYER-RELATED INVESTMENT

The proportion of the Scheme's investments which can be related to the sponsoring employer (as defined within legislation) is limited to 5% of the value of total assets.

The Trustees do not hold any direct employer-related assets and any indirect exposure is expected to be less than 5% of total assets.

#### 4.3 SUSTAINABLE INVESTING AND CORPORATE GOVERNANCE

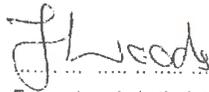
The Trustees invest primarily through pooled investment vehicles. It is therefore accepted that the extent to which corporate governance, socially responsible practices and ethical behaviour are used in the selection of suitable investments will be determined by the investment managers' own policies on these matters.

Similarly, it is accepted that ongoing engagement with companies in which investments are made (including the exercise of voting rights) will also be determined by the investment managers' own policies.

#### 4.4 ADDITIONAL VOLUNTARY CONTRIBUTIONS

Additional Voluntary Contributions (AVCs) are held separately from the main assets and the Trustees aim to make a variety of funds available with the member choosing which funds to use. From time to time the Trustees review the range of available funds to ensure the choice remains appropriate for members' needs.

Details of the current AVC arrangements are provided in Appendix 1.



Date 22/2/16 ..

For and on behalf of the Trustees of the Jockey  
Club Racecourses Pension Scheme

## The Jockey Club Racecourses Pension Scheme Chair's Statement (continued)

### APPENDIX 1 CURRENT INVESTMENT STRATEGY

#### Fund Manager – Main Scheme Assets

The Trustees have appointed Aviva Investors Pensions Limited (Aviva), BlackRock Investment Management (UK) Limited (BlackRock) and Standard Life Investments Limited (Standard Life) to manage the assets of the Scheme. Further details of the specific arrangements in place with Aviva, BlackRock and Standard Life are contained in this Appendix.

The mandate the Trustees have given to Aviva, BlackRock and Standard Life reflect the principles and policies as set out in the main body of this Statement.

The Scheme's assets are invested in the following underlying pooled funds and the intention is for allocations to remain consistent with the proportions shown.

Pooled Investment Vehicle	Approximate Allocation
<b>Liability matching assets</b>	
Aviva Long-Dated Corporate Bond Fund	8.0%
BlackRock Leveraged 2040 Index-Linked Gilt Fund	2.5%
BlackRock Leveraged 2050 Index-Linked Gilt Fund	2.5%
BlackRock Leveraged 2062 Index-Linked Gilt Fund	2.5%
Standard Life Absolute Return Global Bond Strategies Fund	12.5%
<b>Total liability matching assets</b>	<b>28.0%</b>
<b>Growth assets</b>	
BlackRock Aquila Life (50:50) Global Equity Fund	23.0%
BlackRock Dynamic Diversified Growth Fund	15.0%
BlackRock Emerging Markets Fund	8.0%
Aviva Lime Property Fund Unit Trust	11.0%
Standard Life Global Absolute Return Strategies (GARS) Fund	15.0%
<b>Total growth assets</b>	<b>72.0%</b>

The allocation shown above is not automatically rebalanced but is monitored and rebalanced at the discretion of the Trustees.

#### Investment / Disinvestment Policy

Any disinvestments or investments are made at the discretion of the Trustees, but are likely to be taken from the Scheme's growth assets.

#### Additional Voluntary Contribution Facility

The Trustees have appointed Equitable Life Assurance Society to manage the Additional Voluntary Contributions.

## The Jockey Club Racecourses Pension Scheme Chair's Statement (continued)

### APPENDIX 1 CURRENT INVESTMENT STRATEGY (CONTINUED)

#### Expected Returns

The liability matching assets have been selected by the Trustees having regard for the nature of the Scheme's liability profile. These funds are therefore expected to change in value broadly in line with the Scheme's liabilities as market conditions change.

The Trustees' expectation is that the growth assets will provide returns in line with each individual pooled fund's return objectives.

The objectives and annual management charges for all funds are set out in the tables below:

Aviva Long-Dated Corporate Bond Fund	
Objective	To outperform the iBoxx Sterling Non-Gilt over 15 years Index by 0.75% per annum (gross of fees) over rolling three year periods.
AMC	0.30% pa

StateStreet Leveraged Index Linked Gilt Fund	
Objective	To provide leveraged exposure to changes in real interest rates with a specific duration.
AMC	0.20% pa

Standard Life Absolute Return Global Bond Strategies Fund	
Objective	To outperform 3 month LIBOR + 3% per annum (gross of fees) over rolling three year periods.
AMC	0.45% pa

StateStreet Absolute Life (50:50) Global Equity Fund	
Objective	To provide returns in line with a benchmark of 50% FTSE All-Share Index and 50% Overseas Equity Indices.
AMC	0.15% pa

## The Jockey Club Racecourses Pension Scheme Chair's Statement (continued)

### APPENDIX 1 CURRENT INVESTMENT STRATEGY (CONTINUED)

BlackRock Dynamic Diversified Growth Fund	
Objective	To achieve a return of 3 month LIBOR +3% per annum (net of fees) on a three year rolling basis.
AMC	0.65% pa

BlackRock Emerging Markets Fund	
Objective	To maximise long-term returns by investing in emerging economies. Investments will be made in Latin America, Eastern and Southern Europe, Asia and Africa.
AMC	0.60% pa

Aviva Life Property Fund Unit Trust	
Objective	To deliver a return of 1.5% per annum (net of fees) over a 50:50 benchmark of FTSE 5-15 Years Gilt Index and the FTSE 15 Years+ Gilt Index.
AMC	0.40% pa

Standard Life GARS Fund	
Objective	To deliver returns of at least 5% per annum (gross of fees) above 6 month LIBOR on a three year rolling basis.
AMC	0.70% pa

AMC = Annual Management Charge

## The Jockey Club Racecourses Pension Scheme Chair's Statement (continued)

### APPENDIX 2 INVESTMENT RISKS

The table below lists the principal investment risks and includes commentary on how these risks are managed. The risks are not necessarily stated in order of importance and the potential consequences of different risks may vary over time as conditions change.

Risk	Market Risk
Definition:	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market Risk comprises three types of risk:
Risk:	<i>Currency Risk</i>
Definition:	Market Risk arising from changes in foreign exchange rates.
Management:	Currency Risk arises because some of the Scheme's investments are held in overseas markets via pooled investment vehicles. When selecting a pooled investment vehicle, the Trustees consider the exposure of that investment vehicle to overseas markets and the investment manager's approach towards currency hedging.
Risk:	<i>Interest Rate Risk</i>
Definition:	Market Risk arising from changes in market interest rates.
Management:	Interest Rate Risk arises principally from the Scheme's allocation to Liability Matching Assets. These assets are invested in bonds via pooled investment vehicles. However, these assets are held because their sensitivity to interest rates acts to reduce the volatility of the Scheme's funding position. If interest rates fall, the value of the Liability Matching Assets will rise to help match the increase in the actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, the Liability Matching Assets will fall in value as will the actuarial liabilities because of an increase in the discount rate. The structure of the Liability Matching Assets is designed to ensure that these assets will respond to changes in market interest rates in a similar way to the liabilities

## The Jockey Club Racecourses Pension Scheme Chair's Statement (continued)

### APPENDIX 2 INVESTMENT RISKS (CONTINUED)

<b>Risk:</b>	<b>Other Price Risk</b>
<b>Definition:</b>	Market Risk arising from changes in market prices (other than those arising from Currency Risk or Interest Rate Risk), whether those changes are caused by factors specific to the financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.
<b>Management:</b>	Other Price Risk arises principally from the Scheme's allocation to Growth Assets and, to manage this risk, a diversified portfolio of Growth Assets is held. This is designed to avoid excessive reliance on a single asset class or region and, in particular, to reduce the impact of a large fall in equity markets.

<b>Risk:</b>	<b>Credit Risk</b>
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<b>Definition:</b>	The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
<b>Management:</b>	<p>Credit Risk arises directly from the Scheme's investments in pooled investment vehicles. It also arises indirectly from some of the investments made by the investment managers. The two sources of credit risk are considered separately below.</p> <p><i>Direct Credit Risk</i></p> <p>The Trustees diversify the Scheme's investments amongst a number of pooled investment vehicles which provides mitigation of Direct Credit Risk.</p> <p>The Trustees, in conjunction with the investment adviser, carry out due diligence checks on the appointment of new pooled investment vehicles and, on an ongoing basis, monitor any changes to the regulatory and operating environment of the investment manager.</p> <p>The investments are held in a combination of open-ended investment companies (OEICs) and unit-linked insurance contracts.</p> <p>For these OEICs Direct Credit Risk is mitigated as consequence of the underlying assets of the pooled investment vehicles being ring-fenced from the assets of the investment manager. The regulatory environment in which the investment managers operate provides an additional control on the risk.</p> <p>For unit-linked insurance contracts the assets backing those contracts are commingled with the insurer's own assets. For these investments, Direct Credit Risk is mitigated by capital requirements and the Prudential Regulatory Authority's regulatory oversight.</p>

## The Jockey Club Racecourses Pension Scheme Chair's Statement (continued)

### APPENDIX 2 INVESTMENT RISKS (CONTINUED)

#### *Indirect Credit Risk*

Credit Risk also arises indirectly from some of the financial instruments held by the pooled investment vehicles. This risk is mitigated through the investment manager mandates which require the majority of counterparties to be investment grade. From time to time, credit investments may be chosen by the investment managers to deliberately take Credit Risk if the return is considered appropriate for the risk. This risk is controlled through diversification, risk limits applied by the investment manager and, in some cases, the investments may also have the benefit of security.

Risk	Inflation Risk
Definition:	The risk that a change in the expected level of future inflation will adversely impact the funding position.
Management:	The value of a proportion of the Liability Matching Assets will react to changes in expectations of future inflation in a similar way to the liabilities. This acts to reduce the volatility of the Scheme's funding position.
Risk	Real Return Risk
Definition:	The risk that the assets do not deliver a long-term return in excess of inflation.
Management:	The Growth Assets are expected to provide real returns over the longer term.
Risk	Solvency and Employer Covenant Risk
Definition:	The risk that the assets fall short of the amount required to pay all benefits and expenses as they fall due and that insufficient assets are recoverable from the sponsoring employer to meet the shortfall.
Management:	In determining the funding and investment strategy, the Trustees consider the strength of the sponsoring employer's covenant.

## The Jockey Club Racecourses Pension Scheme Chair's Statement (continued)

### APPENDIX 2 INVESTMENT RISKS (CONTINUED)

Risk	Longevity Risk
Definition:	The risk that unexpected improvements in the longevity increase the value of the liabilities.
Management:	Advice is sought from the Scheme Actuary on suitable longevity assumptions for funding purposes. The Trustees have decided to retain longevity risk for the time being but will monitor any changes in longevity expectations through the actuarial valuation process and will consider the merits of investments that provide protection against this risk as appropriate.
Risk	Realisation of Investments / Illiquidity risk
Definition:	The risk of having to make a large realisation of assets at depressed prices
Management:	The majority of the investments held are liquid and can be realised for cash at relatively short notice without incurring high costs. However, it is recognised that the liabilities are long-term in nature and that less liquid investments can have a place in the portfolio if they are considered to be sufficiently attractive.
Risk	Fund Manager Risk
Definition:	The risk that a fund manager does not deliver returns in line with expectations.
Management:	The Trustees take independent advice on the selection of fund managers and the ongoing suitability of the chosen fund managers is regularly monitored. The assessment of ongoing suitability includes consideration of qualitative factors in addition to analysis of the manager's performance.