Defined Benefit (DB) section

Introduction

Before describing the Trustee's investment beliefs for the DB section, here's a quick recap of:

- **What you get from the DB section:** broadly speaking you get a pension at retirement that is based on your length of service and salary when you worked for the Partnership. A pension may also be paid to your loved ones when you die and if you become too ill to work.
- **What you need to do**: you do not need to do anything. It is the Trustee's responsibility to make sure there is enough money to pay for your DB section pension.

Investment beliefs

Money has been put aside to pay for pensions when our members (current and former Partners) retire. How this money is invested is the responsibility of the Trustee. The money could all be put in cash or bonds. This is likely to be safer but, because the return is lower, the Partnership may need to pay more. Alternatively, the money could all be put in stocks and shares. The return is likely to be higher, but it involves more risk. So the Trustee needs to balance risk and return. To help them do this, the Trustee has the following investment beliefs when making investment decisions:

- When making an investment, there is normally an estimate of the return we expect it to achieve. For example, the profit we expect to make or the interest we'll get. However, we can't predict the future and investments involve risk. So there is a chance that we get a lower return than what we were expecting. We make such investments because we believe that the Partnership is able to stand behind the investments and make up the difference compared to what we were expecting over a reasonable time frame.
- However, as our members get closer to retirement, there is less time to make up any reduction in the value of the investments. So, as time goes on and our members get closer to drawing their pension, we will take less risk. By doing this, the value of our investments will be more stable when compared to the money needed to pay for pensions.
- Another way of reducing risk is to not put all of your eggs in one basket. So, we will invest in different types of investments - different asset classes, different ways of providing a return and different strategies to make a return - to reduce our risk.
- Some risks are easier to measure. For example, we can consider whether we have put all of our eggs in one basket, whether climate change will change the value of our investments and how the return we get could change. Other risks are harder to measure. For example, it's difficult to predict political risk and the risk of regulation change. In managing risk, the Trustee will look at both individual risks and step back to look at the big picture.
- Some investments, for example, shares in a company, are quick and easy to sell. Some investments, for example, property, can take longer to sell or can lose value if sold early. The Trustee is willing to have investments that are harder to sell because an extra return can often be made if the Trustee is able to hold onto the investment for a longer period without needing the money.

- Passive investment is where money is invested in a way that matches an external, often publicly available, market index. For example, the FTSE 100 is a publicly available market index. Passive investment is often cheaper because there are fewer investment decisions to be made - the job is to track the index. The Trustee will use passive investment as a low-cost way of investing in certain asset classes.
- Active management is different and aims to get a return higher than an index. The Trustee believes that active management can be worth the higher fees, especially if there are opportunities to improve balance of risk and return of the money that's invested. The Trustee will consider the fees for active management carefully, making sure that we get the best return after taking into account all of the fees paid.
- When considering the risk of an investment, the Trustee will invest responsibly. This is because the Trustee believes that environmental concerns (including climate change), being socially responsible and the way the investment is governed can impact how much the investments are worth in the long-term.