Investment Guide 2021

Helping you invest your pension account

L&Q Housing Trust Staff Benefits Plan (DC section)

Welcome

Your pension might be one of your biggest investments.

Choosing the right investment fund to suit your circumstances is an important part of retirement planning.

This guide provides you with a summary of the different investment options available through the Defined Contribution section of the L&Q Housing Trust Staff Benefits Plan (or 'the Plan' for short).

Please remember that neither the Trustees nor the Plan administrator are authorised to give you investment advice – they can only provide factual information. If you feel you need advice, you can find an independent financial adviser in your area by going to www.unbiased.co.uk.

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1. Your investments

How does it work?

Both you and L&Q make regular savings into your pension account. This builds up a pot of money to provide you with an income in retirement.

The amount of retirement income isn't guaranteed and depends upon how much money is in your pension account at retirement. This is affected by various factors including:

- ✓ How much you and L&Q contribute into the Plan
- ✓ The investment returns achieved on your pension account
- ✓ The choices you make when accessing your pension account at retirement

How you invest your pension account is a big factor in determining the amount of retirement benefits you receive.

What are my investment options?

1. You can invest in one of our lifecycle options

A lifecycle option is an investment strategy which invests your pension account in different funds and manages the transition towards retirement without you having to worry about actively managing your investments.

For more detail on exactly how this works, please see section 3.

OR

2. You can invest in a range of self-select funds

With the self-select option, you choose the funds you would like your pension account to be invested in. Your investments will remain in these funds until you choose to move them. There is no automatic switching of your investments as you approach retirement as there is in the lifecycle option, so you will need to actively manage your investments.

Can I mix and match?

No, you must choose **either** a lifecycle option **or** the self-select funds.

What is the 'default fund'?

If you don't select an investment choice on your application form, your pension account will be invested in the default fund.

The default fund is one of the lifecycle strategies and has been designed for an investor who is comfortable with moderate risk (not cautious, but not adventurous). When you access the money in your pension account at retirement you have several options (single cash payment, series of cash payments or a guaranteed income for life). The default option provides members with flexibility over these options.

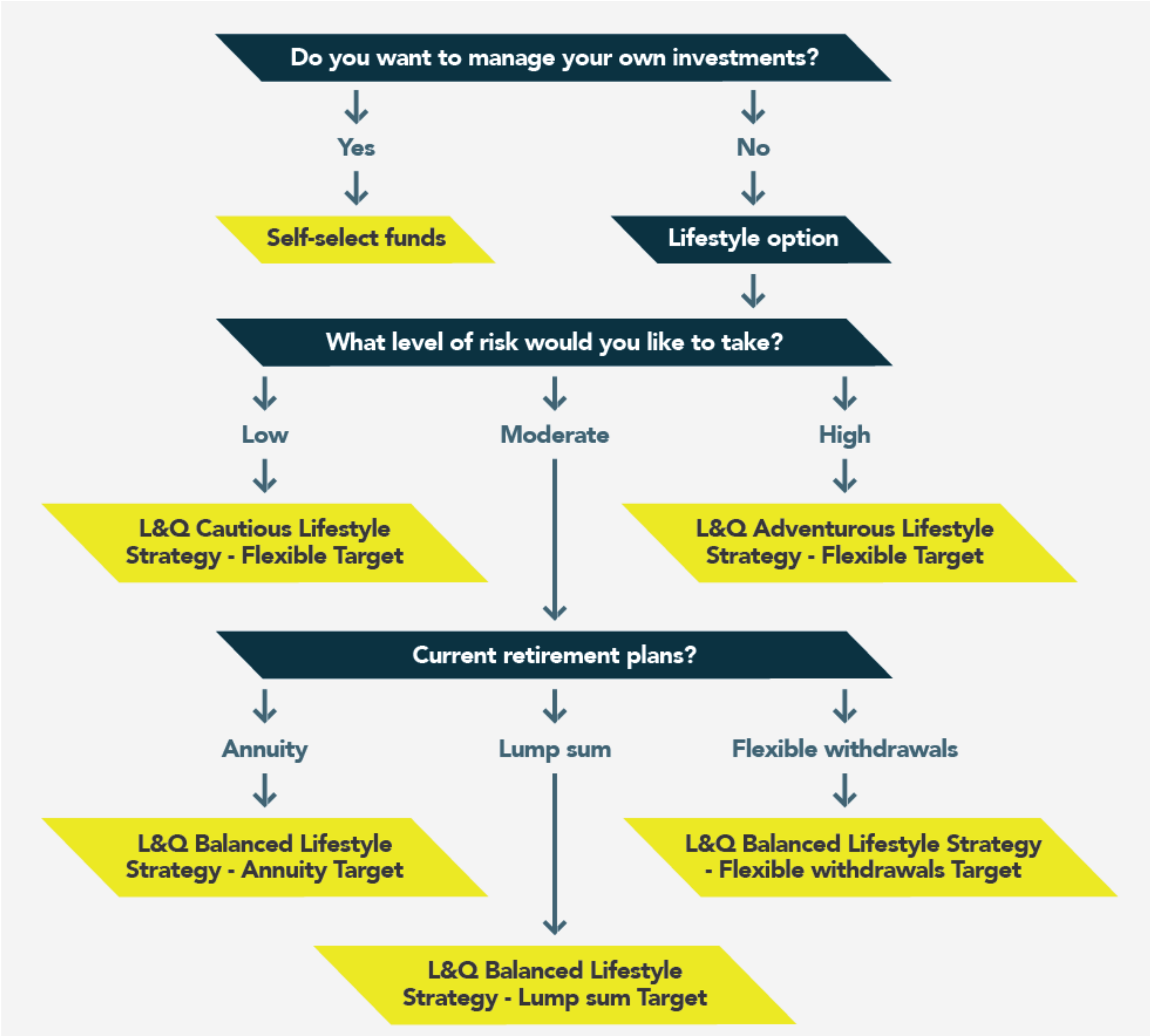
The default fund is the **L&Q balanced lifecycle strategy – flexible withdrawals target**.

The default fund is based on a target retirement age of 65. If you invest in the default fund and are considering retiring earlier or later than this, you should let the Plan's administrators know at LQpensions@hymans.co.uk.

2. Which option should I choose?

Your experience and knowledge of pensions will probably be different from your co-workers and not everyone will know which option is best for them.

The decision tree below will help answer some of the questions which come with making investment choices and breaks down the steps you may need to take when finalising your choices.



For an explanation of the options available at retirement, see the separate booklet 'An Employee Guide to Pensions 2021'.

3. The lifecycle options

What is a lifecycle option?

A lifecycle option is an investment strategy which invests your pension account in different funds and manages the transition towards retirement without you having to worry about actively managing your investments.

Each strategy provides a pre-determined path of how your contributions and existing savings will be invested, starting out in higher risk funds during the ‘Growth’ phase (up until 10 years prior to your target retirement date) to lower risk funds during the switching period or ‘Consolidation’ phase’ (the 10-year period prior to your retirement date).

How have the lifecycle options been designed?

Each of the lifecycle options has been carefully designed so that you get the most out of your investments to maximise your income at retirement.

The lifecycle options are based on:

- your attitude to risk; and
- your current plans for your pension account at retirement.

There are 5 lifecycle options; 1 lower risk (cautious), 3 moderate risk (balanced) and 1 higher risk (adventurous).

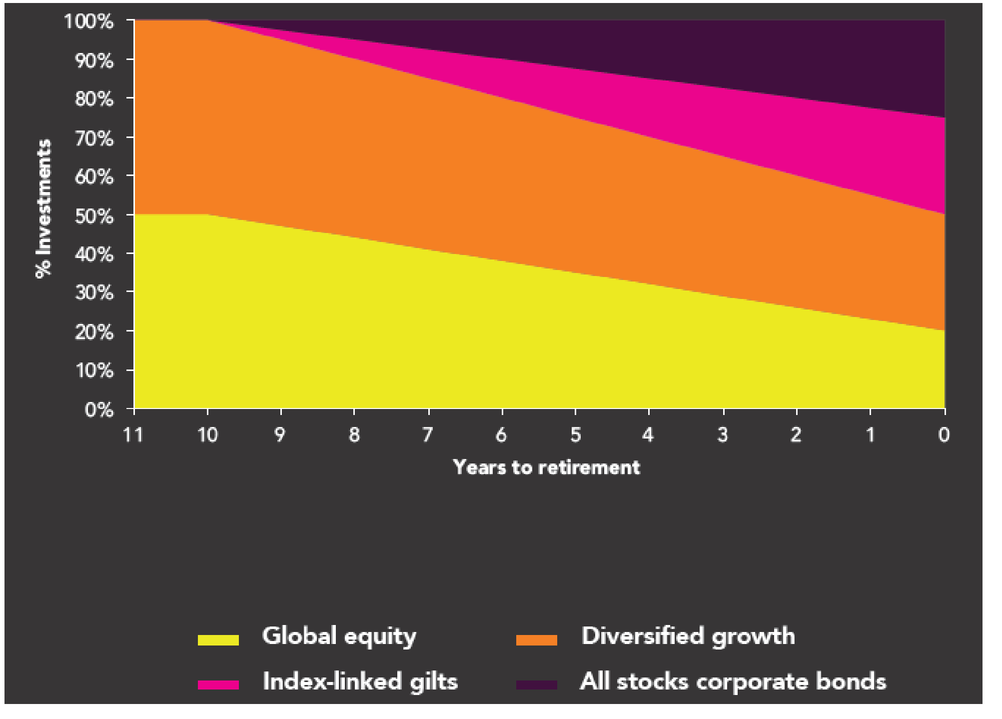
The way each lifecycle strategy switches your funds during the countdown to your retirement date differs depending on your plans for using your pension account at retirement. For example, you might use your pension account at retirement to:

- purchase a guaranteed income for life, known as an annuity (‘Annuity Target’); or

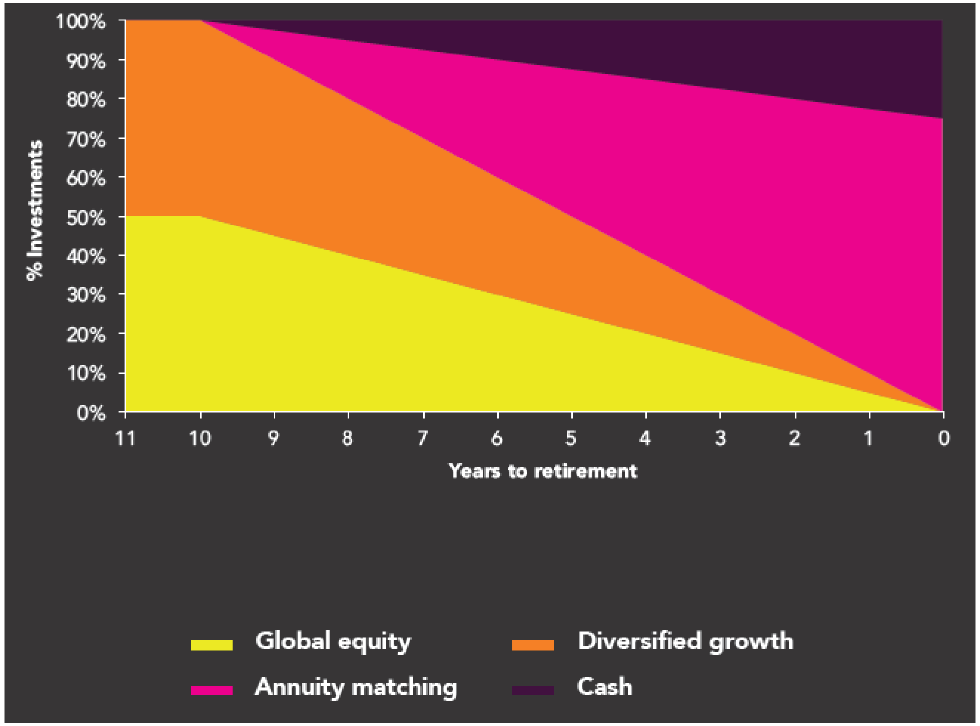
- remain invested and take a series of lump sums or set up a ‘drawdown’ arrangement (‘Flexible Target’); or
- take your pension account in the form of cash (‘Lump sum Target’)

The graphs below provide you with an idea of how each lifecycle option works.

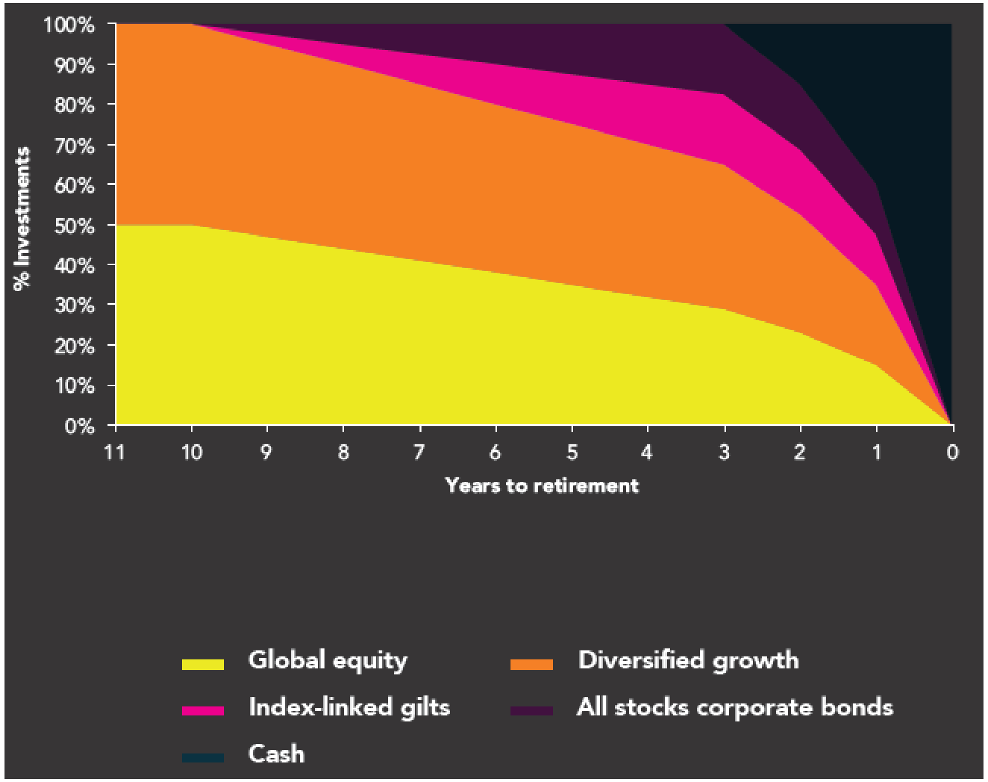
L&Q balanced lifecycle strategy – flexible target (default option)



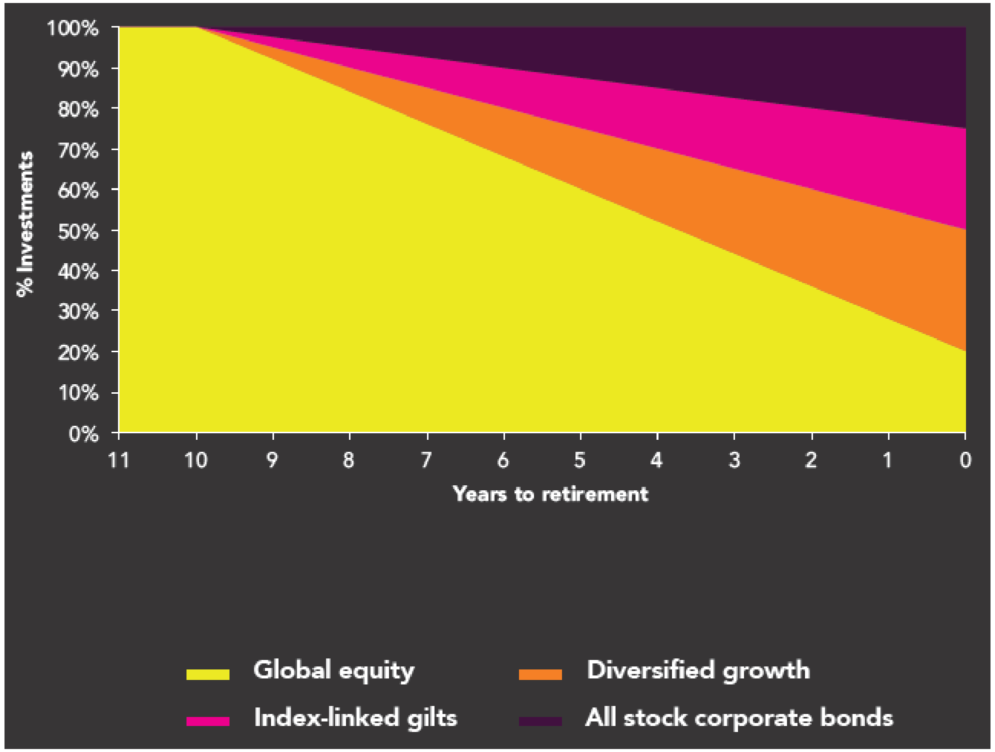
L&Q balanced lifecycle strategy – annuity target



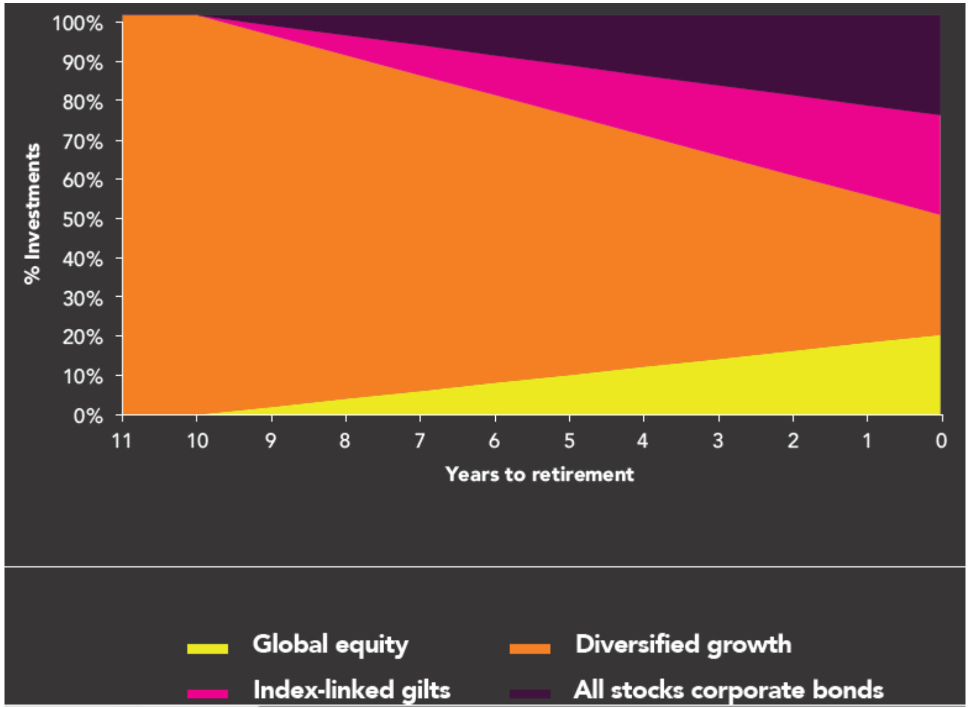
L&Q balanced lifecycle strategy – lump sum target



L&Q adventurous lifecycle strategy – flexible target



L&Q cautious lifecycle strategy – flexible target



Can I invest in more than 1 lifecycle strategy?

No, if you opt for a lifecycle strategy rather than the self-select funds, you must choose **one** of the five available lifecycle options for the investment of your entire pension account.

Can I switch lifecycle options in the future?

Yes, you can change your investment choice online at any time www.lqpensionplan.co.uk or by contacting LQpensions@hymans.co.uk.

You will notice from the **balanced** lifecycle strategy graphs that, for all three options, your pension account will be invested equally between the Global Equity Fund and the Diversified Growth Fund until 10 years before your target retirement age. Therefore changing between the three options before the switching starts will not affect how your personal account is invested.

Can I switch from lifecycle to self-select in the future?

Yes, you can change your investment choice online at any time www.lqpensionplan.co.uk or by contacting LQpensions@hymans.co.uk.

Not retiring at 65?

The lifecycle strategies are based on a target retirement age of 65 and switching starts 10 years before this. If you are intending to retire earlier or later than age 65, you should let the Plan's administrators know at LQpensions@hymans.co.uk.

Are there any charges?

Fund management charges applied prior to accessing your pension are currently paid for by L&Q.

There are no charges for switching investments, provided this is done via your online account.

4. The self-select funds

There are 18 self-select funds to choose from and you can invest in more than one fund.

Fund name	Description	Investment style	Investment manager
UK Equity Index Fund	**The investment objective of the Fund is to track the performance of the FTSE All-Share Index** to within +/-0.25% p.a. for two years out of three.	Passive	Legal & General
Ethical UK Equity Index Fund	**Investments are made within ethical sources.** The investment objective of the Fund is to track the performance of the FTSE All Share Index to within +/-0.5% p.a. for two years out of three.	Passive	Legal & General
Global Equity Blended Fund	**This Fund is a blend of two funds, 90% in the Global Equity (50:50) Fund and 10% in the World Emerging Market Equity Fund.** The Global Equity (50:50) Fund aims to capture the sterling total returns of the UK and overseas equity markets as represented by the FTSE All-Share Index in the UK and appropriate subdivisions of the FTSE World Index overseas, with fixed asset allocation between the UK (50%) and overseas (50%). The overseas exposure of 50% is divided 17.5% in Europe (excluding UK), 17.5% in North America, 8.75% in Japan and 6.25% in Asia Pacific (excluding Japan). The investment objective of the Fund is to track the performance of the benchmark (minus withholding tax if applicable) to within +/-0.5% p.a. for two years out of three.	Passive	Legal & General
Amanah Global Equity Index Fund	**This Fund aims to create long term appreciation of capital through investment in a diversified portfolio of securities as defined by a relevant world index, which meets Islamic investment principles as interpreted and laid down by the Shariah Committee and provided to the Board of Directors.** The investment objective of the Fund is to perform in line with the Dow Jones Islamic Titans 100 Index.	Passive	HSBC

North American Equity Index Fund	**This Fund invests in a broad mix of US and Canadian shares with the aim of capturing the returns of the North American equity market.** The investment objective of the Fund is to track the performance of the FTSE World North America Index (minus withholding tax if applicable) to within +/-0.5% p.a. for two years out of three.	Passive	Legal & General
Europe (ex-UK) Equity Index Fund	**This Fund invests mainly in European equities (excluding the UK).** The investment objective of the Fund is to track the performance of the FTSE World Europe ex UK Index (minus withholding tax if applicable) to within +/-0.5% p.a. for two years out of three.	Passive	Legal & General
Asia Pacific (ex-Japan) Equity Index Fund	**This Fund aims to capture the returns of the equity market in Asia Pacific.** The investment objective of the Fund is to track the performance of the FTSE AW-World Asia Pacific (ex-Japan) Developed Index (minus withholding tax if applicable) to within +/-0.75% p.a. for two years out of three.	Passive	Legal & General
Japan Equity Index	**This Fund aims to capture the returns of the FTSE AW-Japan Index.** The investment objective of the Fund is to track the performance of the FTSE AW Japan Index (minus withholding tax if applicable) to within +/-0.5% p.a. for two years out of three.	Passive	Legal & General
World Emerging Markets Equity Index	**This Fund aims to track the return of the FTSE AW-All Emerging Markets Index,** which provides access to key emerging economies including Brazil, China, India and Russia. The investment objective of the Fund is to track the performance of the FTSE Emerging Index (minus withholding tax if applicable) to within +/-1.5% p.a. for two years out of three.	Passive	Legal & General
World (ex UK) Equity Index	**This Fund aims to track the return of the FTSE AW-World (excluding UK) Index.** The investment objective of the Fund is to track the performance of the FTSE World (ex UK) Index (minus withholding tax if applicable) to within +/-0.5% p.a. for two years out of three.	Passive	Legal & General
Managed Property	**This Fund aims to get the best return from various commercial and industrial properties; it is actively managed and invests only in UK property.** It invests in a range of property, which is selected after in-depth research. This research places great emphasis on quality, location and ease of letting. The investment objective of the Fund is to outperform the MSCI/AREF UK Quarterly All Balanced Property Funds Index over three and five-year periods.	Active	Legal & General

Diversified Growth Blended Fund	**This Fund comprises two funds, 40% in the BlackRock Dynamic Diversified Growth Fund and 60% in the Schroder Dynamic Multi Asset Fund.** The BlackRock Dynamic Diversified Growth Fund's objective is to seek capital growth. The Fund will seek to achieve its investment objective by investing globally in a diversified portfolio of assets which may include, but are not limited to, equities, fixed income securities (both corporate and government), units in collective investment schemes, cash, near cash, deposits, property and commodities. Exposure to property and commodities will only be obtained indirectly through investment in derivatives, collective investment schemes and transferable securities. The Fund will utilise a variety of investment strategies and instruments. For this purpose, derivatives may be used for investment purposes to gain exposure to the asset classes listed above and for hedging purposes. The Schroder Dynamic Multi Asset Fund's investment objective is to deliver positive returns over a market cycle based on long-term capital growth and income through investment in collective investment schemes as well as directly held transferable securities, derivatives, cash, deposits, warrants and money market instruments. The fund may gain exposure to alternative asset classes including but not limited to property, commodities, hedge funds and private equity directly where permitted or through investment in transferable securities and other permitted assets which themselves invest in these asset classes. The investment objective of the Fund is to perform in line with the composite benchmark.	Active	BlackRock & Schroder
Multi Asset Fund	**This Fund combines the long-term growth potential offered through UK and oversees equities with the relative security provided by gilts, bonds and cash.** The investment objective of the Fund is to provide diversified exposure to a range of securities excluding property. The Fund aims to maintain an asset distribution close to that of the average Balanced Fund, excluding property.	Passive	Legal & General
Flexible Pre-Retirement Blended Fund	**This Fund comprises of the following funds: 20% Global Equity Blended Fund, 30% Diversified Growth Blended Fund, 25% Over 5 Year Index-Linked Gilts Fund, 25% Active Corporate Bond All Stocks Fund.** This blended Fund is a balanced fund and its investments include equities, fixed interest securities and property. The fund invests in the same underlying assets as the Flexible Target Lifecycle strategies are invested in at a member's Target Retirement Date.	Active/ passive	Legal & General, BlackRock & Schroder
Corporate Bonds – all stocks	**This Fund aims to outperform the iBoxx Sterling Non-Gilt All Stocks Index.** The investment objective of the Fund is to exceed the benchmark by 0.75% p.a. (before fees) over a three year rolling period.	Active	Legal & General

Over 5 Year Index-Linked Gilts	**This Fund is designed to capture the returns of the UK gilt market. It tracks the FTSE A Index-Linked (Over 5 Year) Index and invests in medium to long term gilts.** The investment objective of the Fund is to track the performance of the FTSE A Index-Linked (Over 5 Year) Index to within +/-0.25% p.a. for two years out of three.	Passive	Legal & General
Cash	**This Fund provides capital protection by investing in cash deposits and other short-term investments.** It provides protection against stock market falls but sacrifices the potential for long-term growth from equity type investments. The investment objective of the Fund is to perform in line with the 7 Day London Interbank Bid Rate (LIBID), without incurring excessive risk.	Active	Legal & General
Annuity Matching Blended Fund	**This Fund carefully matches investment funds for someone who wishes to take a 25% cash lump sum and purchase an annuity.** Your funds will be invested 75% within the Pre-retirement fund and 25% within the Cash fund. The pre-retirement fund aims to provide diversified exposure to sterling assets that reflect the broad characteristics of investments underlying the pricing of a typical non-inflation linked annuity product. The investment objective of the Fund is to perform in line with the composite benchmark.	Active/ passive	Legal & General

What is active and passive investment?

A passive investment approach aims to achieve returns in line with a specified Index. The investment manager will usually pick investments that replicate the Index as far as possible.

Active investment attempts to outperform a benchmark (usually a market Index). There will usually be more buying and selling of investments than under a passive approach, as the investment manager identifies short term fluctuations in the market.

Can I switch between self-select funds in the future?

Yes, you can change your investment choice online at any time www.lqpensionplan.co.uk or by contacting LQpensions@hymans.co.uk.

Can I switch from self-select to lifecycle in the future?

Yes, you can change your investment choice online at any time www.lqpensionplan.co.uk or by contacting LQpensions@hymans.co.uk.

Are there any charges?

Fund management charges applied prior to accessing your pension are currently paid for by L&Q.

There are no charges for switching investments, provided this is done via your online account.

Where can I find historical investment performance figures?

Factsheets for each of the funds can be found in the documents and links section at www.lqpensionplan.co.uk .

5. Investment risks

You might want to think about the following risks when choosing your investments:

The risk of poor investment returns over the long term

Whilst being cautious with your investment choices could mean a steady growth, it may result in a lower investment return over the longer term. This could mean you end up having to either increase your pension contributions as you near retirement, or have a smaller fund value when you reach your retirement age.

Market prices

Your pension account is invested in units, and the price per unit is dependent on how that particular market is performing. The value of the units can go down as well as up. We have seen in recent years (property crash of 2008, Brexit in 2016) that unit prices can be affected overnight.

But you risk losing out if you choose a bad time to switch in terms of market pricing. This risk could be reduced by staging the switch over a period of time (which is what happens within the lifecycle option) rather than switching all in one go.

Putting all your eggs in one basket

Diversification is the mixing of different types of investments in a fund. This way, when one type of investment is doing poorly, another may be doing well. The winners help offset the losers, and the value of the overall portfolio doesn’t move up and down so much.

Annuity conversion risk

When you retire, the part of your pension fund not taken as a lump sum may be used to buy an annuity. An annuity is a guaranteed income provided to you by an insurance company for the rest of your life. The cost of buying an annuity rises as long-term rates of interest fall. The risk is that should long-term rates of interest fall as retirement approaches, it will increase the cost of buying an annuity and therefore reduce your income from the annuity.

External factors

Your attitude to the risks associated with your pension investment might also depend on how large the investment is in relation to your other savings and investments and to other pension benefits you can expect to receive from elsewhere (including State Pension benefits). If you also have a pension from a previous employer, or substantial savings, for example, you may feel more relaxed about your pension fund investment risks than you might otherwise be.

Still unsure how to invest your personal account? You might want to seek financial advice from an independent financial adviser. Details of an adviser in your area can be found at www.unbiased.co.uk.

6. Some useful terms

Bonds

Both companies and governments borrow money by selling bonds to investors and promising to pay interest at a specified rate during the lifetime of the bond plus (usually) a capital sum at the end. Bonds issued by the UK Government and highly-rated companies are typically more valuable because of the lower risk of downgrade or default. Bonds may be short-dated (typically five years away or less) or long-dated (typically 15 years away or more). The returns from bonds are made up of the interest received whilst they are held, and the change in their market price over the period they are held. However, bonds have historically tended to be less volatile than equities over the long term. They have also tended to produce lower returns than other investment choices.

Cash

This generally means deposits but may also include very short-dated bonds (i.e. with maturity dates within the next few months). Returns on cash will generally vary in line with bank lending rates.

Currency hedging

Several funds have some currency hedging. The best way to explain this hedging is by an example. If you invest directly in US equities, your return as an investor based in the UK will consist of both the return of US equities and the difference between US dollars and Sterling over the period. If the investment is currency hedged, then the return received is primarily the return on US equities – the currency movement is mitigated.

Equities

Equities are company shares and are bought and sold on a stock market. The return from equities will be made up of the dividends received whilst they are held, and the change in their stock market price over the period they are held. This return may be negative for some time periods, but equities have historically produced stronger returns than other alternatives over longer periods of time.

Gilts

Gilts are bonds issued by the Government and because of this are considered a low risk.

Volatility

Volatility refers to the amount of uncertainty or risk regarding the degree and size of changes in the value of a security. A higher volatility means that the price of a security can change dramatically over a short period of time in either direction.

6. Contact us

If you have any questions about the funds available, please feel free to contact the Plan administrator:

Hymans Robertson
45 Church Street
Birmingham
B3 2RT

Telephone: 0121 210 4334

Email: LQpensions@hymans.co.uk

Online**:** www.lqpensionplan.co.uk