

GLOSSARY OF INVESTMENT TERMS

More information on the Group's investments

The Group invests in a range of different investments which are managed by third-party investment managers on the Group's behalf. The Group's investments include:

- Bonds
- Equities
- Property
- Hedge funds
- Cash.

The Group also has a liability driven investment (LDI) strategy and a longevity swap. More information is provided below.

Bonds	The Group invests in bonds (referred to as 'unconstrained bonds' in recent member communications) issued by governments and companies around the world, with the aim of generating returns to support the Group's funding. Bonds are also generally held to generate regular income and are expected to broadly follow movements in the value of pension scheme liabilities, therefore reducing risk.
Global equities	The Group invests in publicly traded shares issued by companies around the world, with the aim of generating long term returns above those of pension scheme liabilities and bonds.
Property	The Group invests in property in the UK. Like equity, property is generally held to generate long term returns above that of pension scheme liabilities and bonds.

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Hedge funds	<p>The Group invests in hedge funds (referred to as ‘absolute return fund of funds’ in recent member communications) with the aim of diversifying the Group’s assets across a wider range of investments compared to bonds, equities and property.</p>
Liability Driven Investment (LDI)	<p>The Group invests in an LDI strategy. LDI strategies aim to invest in assets that change in value in the same way as pension scheme liabilities as interest rates and inflation change over time. These assets are typically government bonds and/or swaps.</p>
Longevity swap	<p>The Group has taken out an insurance policy, called a longevity swap, to protect itself against the possibility that pensioners live longer than anticipated in future, as this would put a strain on the Group’s funding.</p> <p>The Group makes predetermined payments to the insurance company, so that its liabilities are known and can be planned for, and the insurance company makes payments to the Group for the pensioners’ lifetimes, allowing pensions to continue to be paid.</p> <p>Both the Group and the insurance company earmark assets to be used as collateral (referred to as ‘longevity swap collateral portfolios’ in recent member communications), to provide confidence that they will be able to make the payments when due. The Group’s collateral is made up of bonds and cash.</p>
Cash	<p>The Group holds a small amount of cash to help meet ongoing benefit payments.</p>