



Terms of Reference
Investment Committee

Last updated
18 March 2019

1.0 Objective

- 1.1 The Investment Committee (the "Committee") is responsible to the Managing Board for providing oversight and challenge regarding investment responsibilities.
- 1.2 The Investment Committee's objective is to provide assistance in the discharge of the Managing Board's investment responsibilities as detailed in the document for the Life Fund, Stakeholder Pension Fund and Child Trust Funds. In doing so it should take due account of solvency requirements – including the regulatory, tax and accounting implications, the investment strategy principles set out in the Society's Principles and Practices of Financial Management, the Prudent Person Principle, the Police Mutual brand and reputation.
- 1.3 The Investment Committee should be responsible for setting the framework under which the Relationship Management Group/Chief Finance Officer and external investment managers are to operate and will provide oversight and challenge to them.

2.0 Composition

- 2.1 The members of the Committee shall be appointed by the Managing Board. Membership of the Committee shall normally consist of an equal number of non-executive and executive directors.
- 2.2 The Managing Board will appoint one of the non-executive members to chair the Committee.
- 2.3 In the absence of the Committee Chair, the remaining members present shall elect one of their number to chair the meeting, which must be a non-executive director.
- 2.4 Additionally, the Chief Executive Officer and the Chief Finance Officer will be appointed to the Committee.
- 2.5 The Company Secretary or his/her nominee (as shall be agreed with the Committee Chairman) shall be the Secretary of the Committee. With the exception of references in section 3.7, further references to the Company Secretary in these Terms of Reference will, where appropriate, refer to the nominee.
- 2.6 Only members of the Committee have the right to attend Committee meetings. However, other individuals such as members of the Executive or Managing Board, may attend meetings at the invitation of the Committee Chair as and when appropriate. The Head of Actuarial, the Head of Investments, and the Chief Risk Officer will be invited to attend meetings of the Committee on a regular basis and other non-members may be invited to attend all or part of any meeting as and when appropriate and necessary.
- 2.7 The Head of Actuarial will be present to consult on any decisions that could have a significant effect on solvency and/or capital requirements. It is noted that there may be a conflict of interest for the Head of Actuarial in providing guidance to the Committee on solvency issues.
- 2.8 Attendees are not members of the Committee and they may be collectively or individually requested to withdraw from meetings of the Committee if required to do so by the Chair of the Committee.

- 2.9 The Chair of the Committee is responsible, supported by the Company Secretary and the Head of Investments, for agreeing and setting agenda items and for challenging the level of detail and format of Committee submissions. Matters reported should be summarised in a way which allows the Committee members to understand any key issues.

3.0 Meetings

3.1 Quorum

- 3.1.1 The quorum necessary for the transaction of business shall be three members present in person or in communication with each other by telephone or video conference, consisting of at least one executive member and two non-executive members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee. To count in the quorum a person who is in communication with the others by telephone or video conference must be able to hear fully, and participate in, the proceedings.
- 3.1.2 Questions arising at a meeting of the Committee will be decided by a majority of votes and (in the event of a tie) the Chair of the meeting will have a second or casting vote unless the issue is material in which case it should be escalated to the Managing Board for a decision in line with the escalation requirements in section 5.0 of these terms of reference.

3.2 Frequency

- 3.2.1 The Committee will meet no less than four times in one calendar year. Additional ad-hoc/event-driven meetings may be convened by the Chairman or the Company Secretary at the request of any member of the Committee.
- 3.2.2 Outside of formal meetings, the Committee Chair will maintain a dialogue with key individuals involved in operational Investment management, i.e. the Relationship Management Group, as they consider it necessary.

3.3 Notice

- 3.3.1 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee no later than five working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate at the same time.
- 3.3.2 Ad hoc meetings to deal with unexpected or unusual events may be called at short notice. However no acts of any meeting of the Committee shall be invalid merely because less than five days' notice of any meeting was given.
- 3.3.3 It shall not be necessary to give notice of a meeting of the Committee to a Committee member who is absent from the United Kingdom.

3.4 Minutes

- 3.4.1 The Company Secretary shall keep appropriate records of all meetings with appropriate minutes of the proceedings and resolutions so as to provide evidence that the Committee is discharging its responsibilities.

- 3.4.2 Committee minutes are to be circulated by the Company Secretary to all members of the Committee and Managing Board. Any member of the Committee of Management can request copies of the records and minutes at any time.

3.5 **Decisions made outside of meetings**

- 3.5.1 The Committee may reach decisions outside of meetings in writing (invariably by email) at the discretion of the Chair of the Committee, taking into account the materiality and timeliness of the decision required and provided all members of the Committee respond to confirm their approval of the decision. In exercising this authority the Chair must balance the need for urgency with the overriding principle that each Committee member has a right to participate in the decision and has responsibility for the outcome, should be given as much information as possible, the time to consider it properly and an opportunity to discuss the matter prior to the conclusion of a decision.
- 3.5.2 It shall not be necessary to receive a response for a decision made in writing from a Committee member who is absent from the United Kingdom at the time the decision is concluded through the responses of all other Committee members.
- 3.5.3 The decision will be valid and effectual as if it had been approved at a meeting of the Committee that had been duly convened and held, on the basis that all those entitled to participate in the decision and responsible for the outcome have had the opportunity to consider the matter and confirm their position.
- 3.5.4 Unless the Chair of the Committee exercises their discretion otherwise due to time being of the essence, decisions made outside of meetings should be put to members of the Committee with at least five clear working days' notice to respond.
- 3.5.5 Examples of when decisions may be made outside of meetings include, but are not limited to, to discuss matters which are outside of the authority of the Relationship Management Group/ Chief Finance Officer or, to discuss any matters which fall within the Relationship Management Group/Chief Finance Officer's delegated authority but are considered to be material in nature.

3.6 **Record keeping**

- 3.6.1 Records of all Committee meetings including but not limited to committee packs and minutes will be kept at Alexandra House, Lichfield in hard and soft copy and maintained by the Company Secretary.
- 3.6.2 A copy of any decisions made outside meetings in writing, any supporting documentation provided and all Committee member responses will be presented to the next formal meeting of the Committee following the decision and noted in the minutes of that meeting as a formal record of the decision.
- 3.6.3 All Committee records will be retained in perpetuity.

3.7 **Maintaining Terms of Reference**

- 3.7.1 These terms of reference are reviewed on an annual basis and at any time a change is identified as required. The Committee is responsible for this periodic review and submitting any recommended changes to the Managing Board for approval. The Managing Board or Company Secretary may also recommend changes to the terms of reference at any time.

- 3.7.2 No changes to the terms of reference may be submitted for approval to the Managing Board without the prior consideration of the Company Secretary in order that any implications for the Delegated Authority Matrix can be assessed and no amendments are made to the standardised aspects of the terms of reference that apply to all sub-committees without the Company Secretary's approval. The Company Secretary is responsible for executing the required changes and presenting the updated version to the Committee for review and to the Managing Board for approval.
- 3.7.3 The Company Secretary will maintain records of each approved version of the terms of reference for a period of 10 years in line with regulatory requirements for the retention of Governance Map records.

3.8 Effectiveness & Training

- 3.8.1 The Committee shall arrange for periodic reviews of its own effectiveness and recommend any changes it considers necessary to the Managing Board.
- 3.8.2 The Chair of the Committee is responsible for ensuring Committee members are provided with appropriate and timely training, both in the form of induction arrangements for new Committee members and an ongoing basis for all members.
- 3.8.3 The capabilities of the Investment Committee members will be monitored annually, with regards to the Investment Capabilities Matrix shown in Appendix 3. It is noted that although there are minimum targeted skill levels, it will be expected that the skill levels will differ between Investment Committee members and not all members will always attain this minimum. Other Investment Committee attendees will not normally be expected to achieve all minimum capability levels.
- 3.8.4 In respect of new members of the Investment Committee, it is acknowledged that their skill levels may be below the minimum targeted skill levels during a probationary period when inductions and training will be undertaken.

3.9 Conflicts of Interest

- 3.9.1 Each member of the Committee should consider whether they have any conflicts of interest prior to participating in meetings of the Committee and making decisions regarding the business of the Police Mutual Group. In the event an actual or potential conflict of interest exists the Committee member should discuss the matter with the Committee Chair, if and how the conflict should be managed or mitigated, confirm the conclusion of that discussion at the affected meeting and report the conflict to the Chief Risk Officer in order that it can be recorded in the Conflicts of Interest register.

4.0 Duties

The following duties are allocated to the Committee within which it will consider any matters that it determines as being appropriate:

- 4.1 Matters that are specifically reserved for the Managing Board are shown in Appendix 1. These may be amended from time to time by the Managing Board and notified to the Committee.
- 4.2 The Committee will be permitted to act within the scope of the Investment Strategy documents. Any potential action or activity that will fall outside of these permissions must be approved by the Managing Board in advance.

- 4.3 The roles and responsibilities of the Committee are set out in Appendix 2 to this document including the respective roles and responsibilities of others in Committee related activities. Appendix 2 is split into four tables reflecting Group, Investment Related and Operational responsibilities. Each table includes commentary which gives the scope of responsibility that the Committee has in each area.
- 4.4 The Investment Committee will recommend new asset classes in line with the Prudent Person Principle, and in doing so, provide the Managing Board with appropriate and sufficient detail to enable them to understand the risks and rewards, and to ensure that there are systems and processes that properly identify, measure, monitor, manage, control and report the investments.
- 4.5 In the event that a new asset class is recommended the Investment Committee will be required to confirm that they have the relevant level of asset class capabilities and skills, or that they are undertaking to achieve them.

5.0 Reporting and Escalation

5.1 Reporting

- 5.1.1 The Investment Committee receives various reports throughout the year although regular reporting includes:
- Monthly Investment Performance and MI
 - Annual Performance Review
 - Quarterly and Annual Investment Manager Monitoring
- 5.1.2 In addition, the Investment Committee considers annual governance reporting and provides recommendations on investment related subjects to the Managing Board and Audit Committee, namely:
- Annual Review of Investment Risk Policies
 - Annual Compliance Report
 - Annual Review of Investment Committee Terms of Reference
 - Investment Committee Competency Review
 - Investment Committee Effectiveness
 - Annual FX Hedging Review
 - Year-end Assumptions
- 5.1.3 The Chair of the Committee shall report its proceedings to the Managing Board and attend Committee of Management and general meetings of Police Mutual Assurance Society Limited prepared to respond to any questions on the Committee's activities.
- 5.1.4 The Committee shall make whatever recommendations it deems appropriate on any area within its remit where action or improvement is needed.

5.2 Escalation

- 5.2.1 The Committee will escalate to the Managing Board any decision or action required which is in excess of authority limits allocated to it and any other issue which the

Committee deems material and or escalation is required in order for the Managing Board and the Committee of Management to effectively exercise their duties.

- 5.2.2 The Relationship Management Group/Chief Finance Officer will escalate to the Investment Committee, any decision or action required which is in excess of authority limits allocated to the individual, function or sub-committee and any other issue which is deemed material and or escalation is required in order for the Committee to effectively exercise its duties.

6.0 Authority

- 6.1 The Committee is authorised by the Managing Board, when the fulfilment of its duties requires and at the Police Mutual Group's expense, to obtain independent legal or professional advice and secure the attendance of external advisers at its meetings on any matters within its terms of reference. The Committee shall have full authority to commission any reports or surveys it reasonably deems necessary to help fulfil its obligations.
- 6.2 The Committee is authorised to seek any information it requires from any employee of the Police Mutual Group in order to perform its duties.
- 6.3 The Committee is authorised to call any officer or employee to be questioned at a meeting of the Committee.
- 6.4 The Committee shall have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required.
- 6.5 The delegations set out in the duties of the Committee and the duties allocated to other sub-committees are also set out in the Delegated Authority Matrix which provides an aggregated picture of the delegation of authority to all corporate committees and the individuals to which those committees have in turn delegated specific responsibilities.

Matters reserved for the Managing Board

APPENDIX 1

The following table provides detail of items that are specifically reserved for the Managing Board and are therefore outside of the scope of the Investment Committee's authorities. However, the Investment Committee may provide information and recommendations for the Managing Board's consideration in these areas.

Area of Responsibility	Specific Reserved Responsibility	Extent of Delegation / Range of Responsibility that Investment Committee can exert
Investment Strategy	Defining, updating and amending of strategic asset allocation benchmark and degree of freedom that the Investment Committee can exert.	Limited to authorities shown in Investment Strategy documents.
	Setting of counterparty and concentration risks including any subsequent amendments.	Limited to authorities shown in Investment Strategy documents.
Capital Management	Defining, setting and amending of capital policy.	None
Risk Policy	Setting, updating and amending of hedging policy and approach.	Limited to authorities shown in Investment Strategy documents.
	Setting, updating and amending of trigger points strategy and trigger points.	Limited to authorities shown in Investment Strategy documents.
PPFM	All new items added or amendments made to the PPFM document.	Limited to authorities shown in PPFM.

Investment Committee – roles and responsibilities

Appendix 2

Group Responsibilities

The Areas of Responsibility section shown in the table below reflect the areas where the responsibility is wider than the Investment Committee's overall remit. For these items the Investment Committee's responsibility in providing recommendations and information will be limited to investment related activities. It is likely that other Committees will also have responsibilities in these areas and that they will provide additional input to the Managing Board as appropriate.

Area of Responsibility	Who is responsible?	Who produces / provides recommendations and / or information?		Who is consulted?				Who performs the task / provides the information?	
Investment Strategy Approval	MB	IC		WPC	WPA	HOA	GRMC	E	E
Capital Management	MB	IC		WPC		HOA		E	E
Risk Policy	MB	IC	GRMC			HOA		E	E
PPFM	MB	IC		WPC	WPA			E	E
Investment Strategy Documents	MB	IC						E	E
Annual Report and Accounts	MB	IC						E	E
Asset Valuation Methodology	MB	AC	IC	CA	HOI	CA		E	E

Investment Related Responsibilities & Oversight – Investment Committee

In the table below the Area of Responsibility section is largely or entirely related to investment activities. For these items the Investment Committee will take the responsibility for being the lead in overseeing the execution and implementation of policy and processes in accordance with overall Group policies and the agreed risk appetite of Police Mutual.

Area of Responsibility	Who is responsible?	Who produces / provides recommendations and / or information?			Who is consulted?			Who performs the task / provides the information?	
Investment Strategy Monitoring and Development	IC	E	IA	IM	WPC	WPA	HOA	E	IA
Setting investment risk limits in line with overall investment risk appetite	IC	E	IA		E	IA	HOA	E	IA
Reporting to Managing Board on Investment Risks and Issues	IC	E						E	
Approval of Investment Manager Selection	IC	E	IA		E	IA		E	

Monitoring Compliance with Mandates	IC	E		E
Custody	IC	E	E	E
Oversight of Investment Performance	IC	E		E

Investment Related Responsibilities - CFO (through the RMG)

In the table below the Area of Responsibility section is largely or entirely related to investment activities. For these items the CFO will take the responsibility for being the lead in ensuring the execution and implementation of policy and processes is in accordance with overall Group policies and the agreed risk appetite of Police Mutual. In order to assist in discharging this responsibility the CFO will chair the monthly Relationship Management Group which will consider materials provided by the internal Investment Team and the external managers with relevant input from other functions within Police Mutual.

Area of Responsibility	Who is responsible?	Who produces / provides recommendations and / or information?					Who is consulted?		Who performs the task / provides the information?	
Monitoring Investment Managers	CFO (RMG)	E	HOI						E	
Tactical Asset Allocation (oversight of external managers)	CFO (RMG)	E	HOI	ICM	IA	IM			E	
Investment Manager Selection (vetting and recommending to the Investment Committee for their approval, and setting up mandates)	CFO (RMG)	E	HOI		IA		E	IA	E	
De-risking / Hedging (in-line with Risk Policy) – oversight of external managers	CFO (RMG)	E	HOI		IA	IM	HOA		E	IM
Investment Asset Pricing Basis (in line with Asset Valuation Methodology)	CFO (RMG)	CA	HOI						E	
Cashflow management	CFO (RMG)	E	HOI				IC		E	

Investment Related Responsibilities – HOI; and Operational Responsibilities

Appendix 2

In the table below the Area of Responsibility section is related to investment activities and, for completeness, the responsibilities in executing investment strategy at an operational level. For these items the HOI will take the responsibility for being the lead, with the CFO retaining oversight through the Relationship Management Group.

Area of Responsibility	Who is responsible?	Who produces / provides recommendations and / or information?					Who is consulted?		Who performs the task / provides the information?		
Investing in line with the Prudent Person Principle	HOI	E	ICM	CFO (RMG)	IA	IM	WPC	HOA	E	IA	
Monthly investment performance and monitoring against benchmarks	HOI	E		CFO (RMG)		IM	IC		E		
Instructing Investment Managers	HOI	CFO (RMG)					CFO (RMG)		E		
Unit pricing and fund pricing	HOI	CFO (RMG)					CFO (RMG)		E		
Monthly operational updates	HOI	E		CFO (RMG)			IC		E	CFO (RMG)	HOI
Information for Other Areas	HOI	E		CFO (RMG)			IC		E	CFO (RMG)	HOI

Key

← The arrows shown in the tables above indicate the flow of recommendations and information between parties when more than one is involved in a process.

Acronym	Full Name	Acronym	Full Name
MB	Managing Board	WPA	With Profits Actuary
IC	Investment Committee	AC	Audit Committee
ICM	Investment Committee Members	HOA	Head of Actuarial
CA	Chief Actuary	E	Executive & the business
WPC	With Profits Committee	IA	Investment Advisors
GRMC	Group Risk Management Committee	IM	Investment Managers
RMG	Relationship Management Group	HOI	Head of Investments
CFO	Chief Finance Officer		

Investments Capabilities Checklist		Administration	
Investment Market		Administration	
	Knowledge Basic - Advanced (0-5)		Oversight
Investment Committee member key skills: <i>Expected level of capability such that the Investment Committee can provide recommendations to the Managing Board on Investment Strategy, Currency and Hedging, and Derivative protection strategies; and such that the Investment Committee can provide effective oversight and challenge to external managers.</i>		Back Office / Support Capability: <i>Skills required by the support functions (including HSBC)</i> <i>Investment Committee - skills required such that they can provide effective oversight.</i>	Are there any areas below where you would like additional training/ development in order to carry out your oversight function?
Investment Strategy knowledge		Fund accounting & Unit pricing:	
- Strategy construction		Asset valuation (bid-mid-offer)	
- Balancing risks		Swinging prices	
- Risk oversight		Fund accounting and production of a fund Net Asset Value	
- Governance oversight		Box management / creations / cancellations	
- Correlations		Unit pricing	
Investment Markets		Performance measurement	
Bond knowledge		Assets:	
Equity knowledge		Segregated mandates	
Property knowledge		Pooled Vehicles	
Commodity knowledge		Listed investment trusts	
Currency & hedging		Unlisted equity	
Derivatives and protection strategies		Custody & Safekeeping:	
Tactical Asset Allocation factors		Cash management	
- Economic		Custody transaction processing	
- Political		Breaks and break resolution	
- Market forces & sentiment		Safekeeping	
- Current Issues		Nominee names / registers	
		Other:	
		Regulatory and internal limit monitoring	
		Securities lending	
		Derivatives - margins, clearing, leveraging	
Wider skills: <i>Investment Committee - Sufficient awareness to understand the effect of manager permissions in relation to the overall portfolio and to provide effective challenge to external managers.</i>		Experience - Administration	Y/N
Detailed bond knowledge		Have you had direct, practical industry experience through being involved in day to day decision making and management of a strategy or portfolio; or have you had oversight and responsibility for others who have?	
- Types of bonds			
- Duration			
- Yield			
- Risk			
- Portfolio management			
- Fixed interest derivatives			
- Fixed interest derivatives - advanced			
Detailed equity knowledge		Risk Management/ Prudent Person Principle	
- Stock selection			
- Value & Growth stocks			
- Market cap & size factors			
- Passive vs. Active			
- Market risk			
- Portfolio management			
- Alternative equity strategies			
Detailed property knowledge			
Detailed commodity knowledge			
- The commodities market			
- Risk factors			
- Commodity strategies			
Alternative asset classes			
Experience - Investment Market	Y/N	Key	
Have you had direct, practical industry experience through being involved in day to day decision making and management of a strategy or portfolio; or have you had oversight and responsibility for others who have?		Knowledge	
		0 - No knowledge of factor	
		1 - Limited knowledge of factor	
		2 - General understanding of skill area	
		3 - Broad understanding	
		4 - Broad understanding and some in depth knowledge	
		5 - Advanced knowledge and understanding of the majority of aspects	