Babcock International Group Pension Scheme

Statement of Investment Principles – September 2024

1. Introduction

The Babcock Pension Trust Limited ("the Trustee") of the Babcock International Group Pension Scheme ("the Scheme") has drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Pensions Act 1995 ("the Act") and subsequent legislation. The Statement sets out the investment principles that govern decisions about the Scheme's investments.

In preparing this Statement, the Trustee has consulted[1] Babcock International Group PLC ("the Sponsoring Company") to ascertain whether there are any material issues of which the Trustee should be aware in agreeing the Scheme's investment arrangements.

The Scheme provides two types of benefit, one linked to final salary (the "Defined Benefit (DB) Section") and the other is a money purchase arrangement (the "Defined Contribution (DC) Section"). These are covered separately in this Statement in Sections 3 and 4 respectively.

In preparing this Statement, the Trustee has considered written advice on the DB Section received from the Scheme's investment adviser, Mercer Ltd., and on the DC Section from the Scheme's investment adviser, Willis Towers Watson Limited. Both are considered to be suitably qualified and are authorised under the Financial Services and Markets Act 2000 (as amended). The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

2. Process For Choosing Investments

The process for choosing investments is:

- The Trustee identifies appropriate investment objectives and considers its own investment beliefs.
- The Trustee sets the investment strategy based on a level of risk that is consistent with meeting the Scheme's objectives.
- The Trustee is responsible for the investments of the Scheme. However, the implementation of the investment strategy determined by the Trustee has been delegated to the Scheme's Investment Committee ("IC") and Defined Contribution Committee ("DC Committee") as outlined below.

---

[1] *Consultation will be via minuted discussions at the Investment Committee or Trustee meeting for minor revisions, for more significant changes consultation will be in writing.*

For the Defined Benefit Section, the IC has been created in order to ensure that investment matters receive a sufficient degree of attention. Its responsibilities are set out in its Terms of Reference, under which the IC operates. The IC will regularly monitor the performance of appointed investment managers and the continued appropriateness of the asset classes used by the Scheme to achieve the investment objectives.

Both the IC and DC Committees table reports for discussion on their respective works at each Trustee Board meeting.

For the Defined Contribution Section, the DC Committee has been created to manage its operation under the oversight of the Trustee. Its responsibilities are set out in its Terms of Reference, under which the DC Committee operates.

The Trustee sets formal performance objectives for its investment advisers (for the DB and DC sections) and these objectives are subject to regular monitoring by the IC and the DC Committee respectively.

3. Defined Benefit Section

3.1 Investment Objectives

The Trustee's objective is to invest the Scheme's assets in the best interests of the members and beneficiaries. The Trustee has agreed a number of investment objectives to help guide its strategic management of the assets and control the various risks to which the Scheme is exposed. The Trustee's primary objectives are:

- To ensure that the Scheme's benefit obligations can be met.
- That, overall, there is a high level of security of benefits.

While security of benefits is paramount, the Trustee recognises that a "least risk" approach to investment strategy would substantially increase the cost of the Scheme (possibly to unacceptable levels). The Trustee has thus decided to pursue a strategy which takes on some investment risk in a controlled fashion and which is consistent with the Trustee's assessment of the financial strength of the Sponsoring Company.

This leads to three further specific objectives:

- To target full funding on a self-sufficiency (gilts +0.5% p.a.) basis by 31 March 2026.
- To aim for a long term return which, if achieved, should improve and then maintain the Scheme's funding level.
- To adopt a strategy which aims to limit the level of investment risk, and the resulting funding level, deficit and contribution volatilities, to an acceptable level.

This has led to the adoption of an investment strategy, which is monitored by the IC on behalf of the Trustee and components of which are implemented on a day to day basis by the investment managers. The Trustee has also decided to adopt a long-term funding target which would reduce, in the long term, dependence on the Sponsoring Company.

The Trustee will continue to monitor the appropriateness of the strategy and the path towards the long-term funding target, and revisit this approach should it be necessary to do so.

3.2 Risk Management and Measurement

The risks affecting the Scheme can be split out into those that could directly affect the funding position of the Scheme and investment risks that could specifically affect the Scheme's assets. The Trustee's policy on risk management is as follows:

3.2.1 Funding Level Risks

- The primary risk arises through a mismatch between the Scheme's assets and its liabilities. The Trustee recognises that increasing the potential for additional returns through increasing investment risk also increases the risk of a shortfall in assets required to cover the Scheme's liabilities as well as producing short-term volatility in the Scheme's funding position. The Trustee has taken advice on the matter and (in light of the objectives noted previously) considered carefully the implications of adopting different investment strategies with different levels of risk.

- The Trustee recognises the risks that may arise due to the sensitivity of the value of the Scheme's liabilities to changes in interest rates and inflation. The Trustee has considered these risks and has decided to hedge the interest rate and inflation risk associated with the Scheme's liabilities up to funding level (i.e. 100% of assets) on the gilts +0.5% basis, such that the funding level is broadly unaffected by changes in interest rates and inflation.

- In order to manage the overall risk of the Scheme, the Trustee has established a 1-year 95% Value at Risk ceiling of £103m measured on an IAS19 basis. The Trustee has appointed an independent party to measure the risk of the Scheme relative to this ceiling on a quarterly basis. Should risk increase above this level, it will be reduced back to being below the ceiling at the earliest opportunity unless otherwise agreed.

- The Trustee recognises the risks that may arise from changes in the value of the Scheme's liabilities due to improving life expectancy and took an appropriate risk mitigation measure in 2009 for pensions in payment at that time.

3.2.2 Investment-Specific Risks

- Arrangements are in place to monitor the Scheme's investments and to ensure their ongoing suitability. To facilitate this, the Trustee meets regularly and receives regular reports from the IC and Mercer.

- The Trustee has delegated appropriate powers to the IC to enable the IC to manage Investment-Specific Risks.

- The use of active management gives rise to the risk that the performance achieved within each asset class may be lower than expected. However, the Trustee believes that this risk is outweighed by the potential gains from successful active management if the manager's skills have been carefully assessed. The Trustee believes there is a role for both active and passive management. Passive management may be used for a number of reasons, including investment in markets deemed "efficient", where the scope for active management to add value is limited.

- The Trustee recognises the risks that may arise from a lack of diversification of investments and aims to ensure the strategy in place results in an adequately diversified portfolio.

- The Trustee and IC recognise that short and medium term investment opportunities will arise throughout the lifetime of the Scheme. The IC will generally only look to take advantage of medium to long term investment opportunities, whilst shorter term decisions regarding the investment and selection of specific stocks are delegated to the Scheme's investment managers.

- Where the Scheme holds investments denominated in foreign currencies, there is the risk that fluctuations in foreign exchange rates may reduce the returns on these investments. The Trustee hedges a proportion of currency risk.

- The Trustee plans for the future liquidity needs of the Scheme in making pensioner payments, funding transfers and other contingencies. This process also involves stress testing these needs against extreme market conditions to ensure that appropriate capacity is always available.

- The Trustee has to post collateral in relation to the longevity swap and other derivative instruments in which the Scheme invests. The Trustee understands the collateral requirements will change and these are reviewed regularly. The collateral requirement will be managed within the Scheme's Matching portfolio.

- The safe custody of the Scheme's assets is delegated to professional custodians via the use of pooled vehicles. Northern Trust is the global custodian for the Scheme.

- There should be no investment in securities issued by the Sponsoring Company or affiliated companies (other than any such securities held within a pooled fund in which the Scheme invests).

- Borrowing is only permitted to cover short term liquidity requirements and for hedging purposes.

In addition, the Trustee is required to provide narrative disclosures on the credit and market risks arising from its investment arrangements in the Trustee Annual Report and Accounts. These risks are defined as follows:

- **Credit risk:** this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

- **Market risk:** this is 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 four types of risk: currency risk, interest rate risk, environment, social & governance risk and other price risk, each of which is further detailed as follows:

    - **Currency risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.

    - **Interest rate risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.

    - **Environmental, Social and Governance ("ESG") risk:** ESG issues including climate change may have substantive impacts on the global economy and subsequently investment returns. The Trustee seeks to minimise this risk by monitoring and regularly reviewing that advisers and investment managers to the Scheme (via the IC) are suitably experienced to consider these risks in the service they provide to the Scheme.

- **Other price risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

- The Trustee is also assessing, managing and reporting ESG-related climate risks in line with the Task Force on Climate-Related Financial Disclosures ("TCFD") recommendations.

The above items are in relation to what the Trustee considers to be 'financially material considerations'. The Trustee believes the appropriate time horizon for which to assess these considerations will be dependent on the maturity of the Scheme and the Trustee's view of the financial strength of the Sponsoring Company.

3.3 Investment Strategy

The Trustee has adopted a strategy with the aim of generating sufficient investment returns to achieve the Scheme's investment objectives. Should there be a material change in the Scheme's circumstances, the Trustee will review whether and to what extent the investment strategy should be altered.

The investment strategy takes account of:

- the maturity profile of the Scheme (in terms of the relative proportions of liabilities in respect of pensioners and non-pensioners);
- the funding level;
- the expected financial strength of the Sponsoring Company;
- and the Scheme's liquidity requirements (which includes collateral requirements arising from the Scheme's investments in Liability Driven Investment ("LDI") assets). The Trustee monitors the Scheme's liquidity and collateral requirements on a regular basis (via the IC).

The Strategic Asset Allocation ("SAA") of the Scheme is as follows:

SAA	Target Allocation	Tolerance ranges
Growth Portfolio	**14.0%**	**±2.0%**
- Equity	5.5%	±1.5%
- Growth fixed income	6.5%	±1.5%
- Property (including debt)	2.0%	±1.0%
Low Risk and Income Portfolio	**44.0%**	**±6.5%**
- Buy and maintain credit	20.0%	±3.0%
- Absolute return bonds	0.0%	±1.0%
- HLV property	10.0%	±3.0%
- Secured finance	9.0%	±3.0%
- Private debt	5.0%	±3.0%
Matching Portfolio	**42.0%**	**±6.5%**
Total	**100.0%**	**-**

The SAA reflects the Scheme's current allocation to illiquid holdings which cannot be easily reduced in the short term. In the medium term, the Trustee will decide where to invest the proceeds from these holdings as they are realised, reflecting risk and return requirements, and will reassess the SAA accordingly.

The Growth Portfolio is designed to generate a long-term return of at least 3.5% p.a. above that from Sterling Overnight Index Average ("SONIA") after fees, by allocating assets to a range of asset classes, such as equities, with higher expected returns, but also higher expected volatility. It is intended that this additional return is generated in an efficient manner (i.e. such that expected returns are maximised relative to expected risk). The Trustee delegates the design of the Growth Portfolio to the IC.

The Low Risk and Income Portfolio is designed to reduce risk and generate a long-term return of at least 1.5% p.a. above that from SONIA after fees. The primary aim for a significant part of the portfolio is to generate positive returns over the longer term with low volatility while generating some income to meet benefit payments. Where applicable, the avoidance of default risk is an objective. The Trustee delegates the design of the Low Risk and Income Portfolio to the IC.

The Matching Portfolio is a very low risk portfolio relative to the liabilities, which consists of gilts, gilt repos, network rail bonds, cash and swaps. Its primary aim is to hedge the liabilities, such that the funding level on a gilts +0.5% basis is immunised against the impact of changes in interest rates and inflation.

The Trustee delegates the design of the Matching Portfolio to the IC.

The Trustee recognises that market movements may cause the Scheme's allocations to these asset classes to drift outside the tolerance ranges specified above. Should the asset allocation breach the ranges, the Trustee/IC will consider whether/how to rebalance the assets back to target; rebalancing is not automatic. Deviations outside of the limits above will be reported to the Trustee as part of the IC's regular reporting to the Trustee.

The IC would request Trustee authorisation (and consult with the Sponsoring Company) if any new investment was considered 'illiquid' e.g. with a lock up of greater than 3 years. Further, the IC would only invest in new asset classes having taken appropriate advice from the Trustee's investment advisors.

3.4 De-risking of assets

The Trustee has agreed to maintain the current investment strategy until pre-agreed funding level triggers are reached, at which point the Trustee will consider de-risking options.

At any time, the IC may propose de-risking or re-risking to the Trustee if they deem this to be appropriate beyond a discretion framework that has been agreed with the Trustee. Sponsoring Company consultation could be required if the Trustee supports the proposal. The Trustee can suspend discretion at any time and, at the date of the SIP, this discretion has been suspended.

The de-risking framework will be reviewed regularly by the Trustee.

4. Defined Contribution Section

4.1 Investment Objectives

The Trustee recognises that members have differing investment needs and that these may change during the course of members' working lives. The Trustee also recognises that members have different attitudes to risk. The Trustee believes that members should make their own investment decisions based on their individual circumstances but acknowledges that few members do take active decisions regarding their investments.

The following encapsulates the Trustee's objectives:

- To make available a range of investment funds that enable members to tailor their own investment strategy to meet their own personal and financial circumstances.
- Offer funds that facilitate diversification and long-term capital growth (i.e. in excess of price and wage inflation) in order to maximise the value of members' assets.
- Offer a range of funds that allow members to manage the different risks that they can be exposed to, dependent upon how they draw their benefits.
- Offer funds that provide members good value-for-money both in terms of financial cost and administrative, operational and other relevant features.
- To restrict the number of funds to avoid unnecessarily complicating members' investment decisions.

- To provide a default investment option for members who do not make their own investment decisions.

- To offer funds that appropriately reflect the Trustee's investment beliefs.

The Trustee is responsible for deciding the range of funds to offer, but has no influence on how the investment managers choose the underlying investments within the funds as the assets are pooled with many other investors to obtain economies of scale. Nevertheless, notwithstanding how the assets are managed, the Trustee has taken investment advice regarding the suitability of the relevant investment vehicles.

The Trustee regularly obtains professional advice and through the DC Committee monitors and reviews the suitability of the funds provided. The DC Committee may change the managers or investment options.

The Trustee prepares a Chair's Statement on an annual basis for the DC section of the Scheme. Amongst other things it covers the Trustee's assessment of the Scheme's default fund and the charges and costs associated with all the funds available for members. A copy can be accessed at www.myoneday.co.uk

4.2 Risk

The Trustee has considered risk from a number of perspectives. These are:

- *Risk of capital loss in nominal terms.* The protection of capital, over at least the medium-term (i.e. periods over 3 years), is fundamental in supporting the long-term growth of the members' individual accounts.

- *Risk of erosion by inflation.* If investment returns lag inflation over the period of membership, the real (i.e. post inflation) value of the members' individual accounts will decrease.

- *Annuity pricing risk.* This refers to the risk of a downturn in markets in the period leading up to retirement resulting in a reduction in the amount of pension that can be purchased.

- *Conversion risk.* The risk arising from market movements, relative to a member's retirement objective (i.e. annuity purchase, cash lump sum, etc.)

- *Market risk.* The value of securities, including equities and interest-bearing assets, can go down as well as up. Members may not get back the amount invested. However, the Trustee realises that this risk is implicit in trying to generate returns above that earned by cash and accepts this by investing in assets other than cash.

- *ESG risk.* See sections 3.2.1 and 8 for the Trustee's overall view on ESG. With regard to the DC funds the Trustee writes periodically to the Fund managers to assess how they meet the Trustee's principles.

- *Liquidity risk.* The Scheme must be able to meet its liabilities as and when they become due. Members invest in a range of pooled investment vehicles that facilitate the availability of assets to meet benefit outflows.

The Trustee has considered these risks when setting the investment strategy and ultimately when choosing the funds to make available to members as detailed in the following section.

4.3 Investment Strategy

The Trustee believes, having taken expert advice, that it is appropriate to offer a range of investment funds to allow members to tailor their own investment strategy if they wish. Other members may prefer to use the packaged Lifestyle strategies or to remain in the default option.

4.3.1 Lifestyle Strategies (including default)

The Trustee recognises that, while the fund range should help members choose funds, from an administrative and practical perspective there is merit in providing a default option and self-select Lifestyle strategies for members who are unlikely to want to make their own choice of funds. With the introduction of auto-enrolment there is also a requirement to have a default option available. The Trustee has decided that this default should take the form of Lifestyle strategies which are also available for members to choose voluntarily. In reviewing the default, the Trustee gave due consideration to the profile of the Scheme membership and its likely needs in accordance with the Pensions Regulator's Code of Practice.

All the Lifestyle strategies progressively and automatically switch members from higher risk/higher returning funds to lower risk/lower returning funds as the member approaches their selected retirement date.

The Trustee has decided to offer the following Lifestyle strategies to members:

Target Lump Sum – for members likely to draw the whole pot as cash at retirement (default option).

Having taken appropriate advice, the Trustee has decided that the Target Lump Sum (default) Lifestyle strategy will be:

- Invested in the Global Equity Fund until 20 years before retirement
- Gradually switched from the Global Equity Fund to the Diversified Growth Fund for the period from 20 to 10 years before retirement
- Invested in the Diversified Growth Fund for the period 10 to 5 years before retirement
- Gradually switched to hold 40% in the Diversified Growth Fund and 60% in the Money Market Fund over the final five years before retirement.

The expected return of the fund is to achieve returns similar to the underlying funds and their respective benchmarks set out in section 4.3.2.

The Trustee and DC Committee will review the appropriateness of the default option periodically.

Target Flexibility – for members likely to facilitate drawdown of capital at retirement (self-select option).

Having taken appropriate advice, the Trustee has decided that the Target Flexibility Lifestyle strategy will be:

- Invested in the Global Equity Fund until 20 years before retirement

- Gradually switched from the Global Equity Fund to the Diversified Growth Fund for the period from 20 to 10 years before retirement
- Invested in the Diversified Growth Fund for the period 10 to 5 years before retirement
- Gradually switched to hold 70% in the Diversified Growth Fund, 20% in the Target Level Annuity Fund and 10% in the Money Market Fund over the final five years before retirement.

The expected return of the fund is to achieve returns similar to the underlying funds and their respective benchmarks set out in section 4.3.2.

Target Annuity – for members likely to purchase an annuity at retirement (self-select option).

Having taken appropriate advice, the Trustee has decided that the Target Annuity Lifestyle strategy will be:

- Invested the Global Equity Fund until 20 years before retirement
- Gradually switched from the Global Equity Fund to the Diversified Growth Fund for the period from 20 to 10 years before retirement
- Gradually switched to hold 50% in the Diversified Growth Fund and 50% in the Target Level Annuity Fund for the period from 10 to 5 years before retirement
- Gradually switched to hold 75% in the Target Level Annuity Fund and 25% in the Money Market Fund over the final five years before retirement.

The expected return of the fund is to achieve returns similar to the underlying funds and their respective benchmarks set out in section 4.3.2.

The Trustee is aware that no default fund or Lifestyle strategy can be appropriate for all members because of their varying needs and attitudes to risk. The Trustee therefore encourages members to periodically consider whether how they are invested continues to be appropriate for their circumstances.

4.3.2 Additional single asset class fund options

The Trustee has decided to offer the following self-select funds:

Funds	Benchmark / Comparator
Emerging Market Equity Fund	MSCI Emerging Markets
Global Equity Fund	10% FTSE All-Share Index 75% FTSE All-World Developed (ex UK) Index 15% MSCI Emerging Markets
Diversified Growth Fund	60% MSCI World, 40% iBoxx £ Non-Gilts
Target Increasing Income Fund	FTSE UK Gilts Index-Linked Over 5 Years Index
Target Level Income Fund	60% iBoxx Sterling Non-Gilts, 40% FTSE A Gilts Over 15 Years
Shariah Fund	Dow Jones Islamic Market Titans 100 Index
Stewardship Fund	FTSE All-Share Index
Money Market Fund	7 Day GBP LIBID
Climate Focused Fund	MSCI ACWI

Day-to-day management of the assets is at the discretion of the managers of the pooled funds.

Members should not make investment decisions on the basis of this document.

The Trustee believes that this strategy meets the investment objectives outlined in section 4.1 and controls the risks identified in section 4.2.

5. Day-to-Day Management of the Assets

The day-to-day management of the assets has been delegated to a number of investment managers. The IC and DC Committee have taken steps to satisfy themselves that the managers have the appropriate knowledge and experience for managing the Scheme’s investments and that they are carrying out their work competently.

For the DB section assets, the IC has determined, based on expert advice, a benchmark mix of asset types and ranges within which each appointed investment manager may operate.

The IC and DC Committee regularly review the continuing suitability of the Scheme's investments, including the appointed managers and the balance between active and passive management, which may be adjusted from time to time and reported to the Trustee. However, any such adjustments would be done with the aim of ensuring the overall levels of risk and return are consistent with those being targeted by the Trustee.

6. Additional Assets

Additional Voluntary Contributions ("AVCs") are invested in the same fund options as the DC Section through a bundled arrangement with Aviva. In addition, a small number of members retain investments with Utmost Life & Pensions (previously via policies with Equitable Life).

7. Realisation of Investments

The investment managers have discretion in the timing of realisation of investments.

For the DB section the IC monitors the allocation between the appointed managers and between asset classes.

8. Environmental, Social, and Corporate Governance, Stewardship, and Climate Change

The Trustee believes that environmental, social, and corporate governance ("ESG") factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration. The Trustee takes a pragmatic approach to ESG issues and considers the materiality in terms of both risk and return.

The Trustee has given appointed investment managers full discretion in evaluating ESG factors and exercising voting rights and stewardship obligations attached to the investments (including those in relation to the Default Lifecycle), in accordance with their own corporate governance policies and current best practice[2]. The Trustee encourages the Scheme's DB and DC managers to comply with the UK Stewardship Code.

The Trustee has communicated to the DB section managers (via the IC) clear expectations that the Scheme's investment managers consider the risks and return opportunities that may arise by considering ESG factors within their overall investment processes. The Trustee (via the DC Committee) undertakes annual ESG monitoring of several of the DC Section managers and will consider how to extend this to other DC Section managers in future.

The Trustee considers how ESG, climate change and stewardship are integrated within investment processes in appointing new investment managers and monitoring existing investment managers. Investment managers are expected to provide reporting to the Trustees on a regular basis, on ESG integration progress, stewardship monitoring results, and climate-related metrics where relevant and where data is available.

---

[2] *Includes the UK Corporate Governance Code and UK Stewardship Code.*

The Trustee has identified some key themes to use to engage with investment managers, including climate change; human rights (including modern slavery); executive remuneration; voting against chair when the board is not sufficiently diverse; and voting which has the potential to substantially impact financial or stewardship outcomes (for example through over-leveraging the business or through implementing proposals that would weaken the corporate governance). The Trustee has also considered broad alignment with the Sponsoring Company's sustainability priorities when defining these themes.

The Trustee has established a TCFD Working Group, a sub-committee to support and guide the Trustee's work on compliance with the TCFD recommendations, which specifically focusses on climate-related issues for the DB and DC sections of the Scheme**.** The Trustee is also assessing, managing and reporting ESG-related climate risks in line with the TCFD recommendations.

The Trustee also considers the investment adviser's assessment of how each of the DB section investment managers embed ESG into their investment process and how the managers' responsible investment philosophy aligns with the Trustee's responsible investment policy. This includes the investment managers' policy on voting and engagement. The Trustee will use this assessment in decisions around selection, retention and realisation of manager appointments.

The Trustee can regularly review the decisions made by their managers, including voting history (in respect of equities) and engagement activity, and can challenge such decisions to try to ensure the best long-term performance over the medium to long-term. In addition, the Trustee carries out regular reviews of the DB managers' ESG policies and actively engages with DB managers to better understand their processes.

Monitoring is undertaken on a regular basis. The Trustee has not currently set any investment restrictions on the appointed investment managers in relation to particular products or activities. Investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustee is dissatisfied, then they may look to replace the manager.

Member views are not taken into account in the selection, retention and realisation of investments. DC members have the opportunity to choose from a range of funds which includes an ESG focussed fund and a Shariah fund to allow them to express their views in this regard.

Illiquid Assets Policy

The default strategy does not include a direct allocation to illiquid assets i.e. investments which cannot easily or quickly be sold or exchanged for cash. However, at the discretion of the investment manager there may be an allocation to illiquid assets within the L&G Diversified Growth Fund (a core component of the default strategy which holds a significant amount of the DC assets). Currently, the L&G Diversified Growth Fund has some exposure to illiquid assets through investments in property and private debt which collectively make up c.7% of the fund. The level of illiquid assets held within the fund may increase or decrease depending on the views of the manager, although it is important to note that the fund remains daily dealt, allowing members to realise their investments quickly when requested.

The age profile of members investing in illiquid assets through the L&G Diversified Growth Fund will vary depending on their term to retirement. Members invested in the default investment lifestyle strategy will start to invest in this Fund from 20 years before their retirement age and will continue to hold a portion of their total investments in this Fund through to retirement (further details on the allocations can be found in section 4.3.1).

The Trustee believes long-term risk-adjusted net investment returns may be improved by investing in illiquid assets. It is comfortable with the indirect exposure through investing in the L&G Diversified Growth Fund as members may experience some of the likely benefits of investing in these assets whilst still retaining daily liquidity. However, the Trustee is mindful of the Company's intention to move to a master trust arrangement for future DC provision with effect from 1 October 2024. On that basis, the Trustee will not be actively introducing illiquid investments into the default strategy.

9. Investment Manager Appointment, Engagement and Monitoring

In line with sections 2-4 of this Statement, investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class for which they are selected.

DB Section

The Trustee looks to its investment adviser for their forward-looking assessment of a manager's ability to outperform over a full market cycle. For DB section assets, this view will be based on the adviser's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the Scheme invests in. The adviser's manager research ratings assist with due diligence and questioning managers during presentations to the IC/Trustee and are used in decisions around selection, retention and realisation of manager appointments.

As part of the IC's regular reporting to the Trustee, the Trustee receives investment manager performance reports on a quarterly basis, which present performance information over and the short and medium terms as well as since inception. The Trustee reviews the absolute performance, relative performance against a suitable index used as the benchmark, and against the manager's stated target performance (over the relevant time period) on a net of fees basis. The Trustee's focus is on long term performance but will put a manager 'on watch' if there are short term performance or operational concerns. Additionally, the IC will regularly meet with managers to discuss performance and approach to meeting the Trustee's overall objectives.

If a manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the Trustee will review the fund appointment to ensure it remains appropriate and consistent with the Trustee's wider investment objectives and may ask the manager to review their fees – either the Annual Management Charge or the performance related fee element.

Some appointments are actively managed and the managers are incentivised through remuneration (via performance related fees, noting that some have hurdle rate structures in place to avoid the Trustee paying additional fees during periods of long-term underperformance) and performance targets (an appointment will be reviewed following periods of sustained underperformance). The Trustee will review the appropriateness of using actively managed funds (on an asset class basis) regularly.

As the Trustee invests in some pooled investment vehicles, they accept that they have no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy.

For DB section assets, the Trustee does not currently monitor portfolio turnover costs but are looking to do this by adhering to the Cost Transparency Initiative, under which data will be collected on the costs of the Scheme's investment managers, and as part of regular governance reviews. The Trustee will engage with a manager if portfolio turnover is higher than expected. This is assessed by comparing portfolio turnover as reported by the investment managers, across the same asset class, on a year-for-year basis for the same manager fund, or relative to the manager's specified portfolio turnover range in the investment guidelines or prospectus (where applicable).

The Trustee is a long-term investor and is not looking to change the investment arrangements on a frequent basis.

With regard to the DB section, for open-ended funds in which the Scheme invests, there is no set duration for the manager appointments. The Trustee will retain an investment manager unless there is a change to the overall strategy that no longer requires exposure to that asset class or manager; or the manager appointment has been reviewed and the Trustee has decided to terminate – see policy statement on realisation of assets. For closed-ended funds, the Scheme is invested in a manager's fund for the lifetime of the fund. At the time of appointment, the investment managers provided an indication of the expected investment duration of their funds and have the discretion to extend the lifetime of the fund in line with the Investment Management Agreement. In order to maintain a strategic allocation to such asset classes, the Trustee may choose to stay with a manager in a new closed fund for that asset class or appoint a different manager.

DC Section

Alignment between an investment manager's management of the DC Section's assets and the Trustee's policies and objectives is a fundamental part of the appointment process of a new investment manager. As the DC Section only invests in pooled investment funds, the Trustee cannot directly influence or incentivise investment managers to align their management of the funds with the Trustee's own policies and objectives.

However, the Trustee will seek to ensure that, in aggregate, its portfolio is consistent with the policies set out in this Statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). The Trustee will also seek to ensure that the investment objectives and guidelines of any particular investment fund used are consistent with its own policies and objectives. Furthermore, the Trustee will seek to understand the investment manager's approach to sustainable investment (including engagement).

The Trustee is responsible for monitoring the investment funds and managers. As part of this, the Trustee will provide investment managers with the most recent version of this SIP on an annual basis and ask managers to explicitly confirm whether they believe there is any misalignment between the objectives and guidelines of the fund(s) they manage on behalf of the Scheme, or the manager's approach to sustainable investment, and the Trustee's policies as documented in the SIP.

Should the Trustee's monitoring processes reveal that an investment fund's objectives and guidelines, or an investment manager's approach to sustainable investment, do not appear to be sufficiently aligned with the Trustee's policies, the Trustee will engage with the investment manager to ascertain the reasons for this and whether closer alignment can be achieved. If this is not possible the Trustee may look to replace the fund.

The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. For most of the DC Section investments, the Trustee expects the investment managers to invest with a medium to long-time horizon, and to use their engagement activity to drive improved performance over these periods.

When assessing an investment manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate an investment manager's appointment based purely on short term performance. However, an investment manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team

Investment managers are paid a fee expressed as a percentage of assets managed, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement.

The Trustee reviews the costs incurred in managing the Scheme's assets on an annual basis, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual investment manager level, the Trustee will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that type of fund.

10. Review of this Statement

The Trustee will review this Statement regularly, and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustee reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments. The Sponsoring Company will also be consulted regarding any change to this Statement.

11. Compliance with this Statement

The Trustee monitors compliance with this Statement on a regular basis or after any review.

Signed Chair of Trustee

Dated 20th September 2024