DB (UK) Senior Group Pension Scheme (the "Scheme”)

Statement of Investment Principles (the "Statement")

Scope of Statement

This Statement has been prepared in accordance with section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005). The members' assets are held in trust by the Trustee who is responsible for the Scheme. The Trustee will review this Statement annually and prior to any significant change in investment policy. A separate Investment Policy Implementation Document ("IPID"), detailing the specifics of the Scheme's investment arrangements is available upon request.

For the purposes of this statement, AVC benefits will also be considered to form a separate Section.

Responsibility for the Scheme's investment strategy

During the first quarter of 2020 the Scheme invested in a Bulk Purchase Annuity Agreement with Legal & General Assurance Society ("LGAS"). This policy insures the members' liabilities. LGAS pays the Scheme an amount equal to the pension payment in respect of the members underlying the policy. These insurance contracts are assets of the Scheme and the pension liability remains within the Scheme. Except for cash (or cash-like/liquidity fund) balances, this is the sole asset of the Scheme.

The Trustee has obtained written advice on the investment strategy appropriate for the Scheme and on the preparation of this Statement. This advice was provided by Aon Investments Limited (the “Investment Adviser”, “Aon”) who are authorised and regulated by the Financial Conduct Authority.

The Trustee has consulted with the Principal Employer, prior to writing this Statement and will take the employer’s comments into account when they believe it is appropriate to do so.

Objectives

The Trustee's objectives for the investment strategy of the Scheme have been set with regard to the Scheme’s Statutory Funding Objectives as set out in the Statement of Funding Principles.

The Trustee's primary objective for the Defined Benefit Section of the Scheme is:

- To pay the pension benefits as they fall due. The Scheme is already largely hedged via a substantial buy-in and is expected to transition to buy-out when there are no more active members.

The objective takes into account the strength of the employer's covenant.

The Trustee’s investment objectives for the AVC benefits are:

- To make available a range of pooled funds in which members of the Scheme are able to invest; and
- To make available a sufficient range of asset classes which the Trustee believes will enable members to invest in a manner which reflects their attitude to risk and proximity to retirement.

The Trustee's objectives regarding the default arrangement is to aim to provide capital preservation whilst achieving cash deposit returns before the application of charges.

Risk

As the Scheme's sole asset is a Bulk Purchase Annuity Agreement with LGAS, the key risk to the Defined Benefit Section of the Scheme is that of the insurer defaulting. The Trustee considered the credit strength of the insurer as part of its due diligence process. Having considered this, in addition to several other factors such as the regulatory environment and other protections available (e.g. the Financial Services Compensation Scheme), the Trustee considered this to be an appropriate investment for the Scheme.

There are a number of risks specifically associated with the Scheme's AVC benefits:

- The risk that the investment return over members' working lives does not keep pace with inflation – "inflation risk";
- The risk that relative market movements in the years just prior to retirement lead to a substantial reduction in the pension or cash lump sum secured – "conversion risk";
- The risk that the chosen investment manager underperforms the benchmark against which the investment manager is assessed – "manager risk"; and
- The risk of a fall in the value of the members fund – "capital risk".

Choosing Investments

I. Defined Benefit Section

The sole asset of the Scheme, aside from any cash-like or liquidity fund balances, is the Bulk Purchase Annuity Agreement from LGAS.

Aon has been selected as Investment Adviser to the Trustee. They operate under an agreement to provide a service which ensures the Trustee is fully briefed to take decisions itself and to monitor those it delegates.

II. AVC benefits

The key source of financial risk (in relation to members meeting their objectives) normally arises from asset choice. The Trustee therefore retains responsibility for the investment fund options made available to the membership and takes expert advice as required from its professional advisers.

The Scheme provides an extensive list of investment options for members through which a number of different investment managers and funds can be accessed. The full list and the associated charges are detailed in the IPID.

Members for whom the Trustee has no valid investment instruction will have their funds invested in the default arrangement. The default arrangement is the Standard Life Money Market Pension Fund ("the Money Market Pension Fund") which was implemented in 24 March 2016. The default arrangement was reviewed in September 2019 and it was determined that the Money Market Pension Fund remained appropriate as the default arrangement for the Scheme.

Asset Allocation Strategy

I. Defined Benefit Section

The long-term strategic allocation of the assets is shown below:

Asset Class	Target Weighting (%)	Range (%)
Bulk Purchase Annuity Agreement	100.0	-
Cash	0.0	-
Total	**100.0**	-

In addition to the Bulk Purchase Annuity Agreement, the Scheme may hold cash (or cash-like/liquidity fund) balances, for which there is no target weighting.

The above ranges have been agreed with the Trustee and reflects the long-term strategic asset allocation for the Scheme. The Trustee also consulted with the sponsoring employer when setting this strategy.

II. AVC benefits

In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policy, but will delegate the responsibility for selection of specific investments to an appointed investment manager or managers. The investment managers shall provide the skill and expertise necessary to manage the investments of the Trust competently.

The Trustee is not involved in the investment managers' day-to-day method of operation and does not directly seek to influence attainment of their performance targets. The Trustee will maintain processes to ensure that performance is assessed on a regular basis against a measurable objective for each manager, consistent with the achievement of the Scheme's long term objectives, and an acceptable level of risk. As part of this process, the Trustee has delegated the monitoring of the Scheme's investment managers to its Investment Adviser.

The liabilities in respect of the AVC benefits are equal to the value of the investments bought by the contributions. The Trustee has arrangements with the following providers:

- Aberdeen Asset Management Life and Pensions Ltd (Aberdeen Standard Investment);
- Standard Life Assurance Company (Aberdeen Standard Investment); and

Environmental Social and Governance considerations

Defined Benefit Section

In setting the Scheme's investment strategy, the Trustee's primary concern is to pay the benefits as they fall due taking into consideration the actuarial assumptions that have been set.

The risks to this objective includes the risk that environmental, social and governance ("ESG") factors including climate change negatively impact the value of investments held if not understood and evaluated properly. The Trustee considers this risk where applicable by taking advice from their Investment Adviser when selecting and monitoring managers.

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustee has elected to purchase annuities and therefore have limited ability to influence the ESG policies and practices of the companies in which LGAS invests. ESG considerations were a contributing factor in the selection of LGAS. Residual assets are invested in cash with LGIM where the Trustee considers ESG and climate to not present material risks.

AVC benefits

When setting the investment strategy of the AVC benefits, the Trustee's primary concern is to act in the best financial interests of the Scheme and its beneficiaries.

Whilst the Trustee is aware of the risks that environmental, social and governance ("ESG") factors pose to the value of members' investment, the Scheme's Trust Deed restricts the powers of the Trustee in relation to changing the way in which a member's AVCs are invested without the member's consent. As a result, the Trustee's ability to incorporate specific ESG factors when setting the investment strategy is itself correspondingly limited.

Stewardship – Voting and Engagement

Defined Benefit Section

Following the purchase of the Buy-in Policy, the Trustee has delegated the management of the assets notionally backing the policy to LGAS. This includes responsibility for stewardship activities, including voting and engagement. The Trustee accepts responsibility for how LGAS manages assets on its behalf, including the casting of votes in line with its voting policies. The Trustee does not attempt to influence the ESG integration or stewardship policies and practices of LGAS in managing these assets but did consider the policies of the insurer as part of the due diligence process to select LGAS.

LGAS are signatories to relevant initiatives such as the UN Principles for Responsible Investment, the UN-convened Net-Zero Asset Owner Alliance and the Financial Reporting Council's UK Stewardship Code.

The Scheme's residual assets are invested in cash with LGIM. Given the relatively small proportion of Scheme assets invested with LGIM and the limited materiality of stewardship to these asset classes, the Trustee does not have a formal stewardship policy in place for these assets.

AVC benefits

The Trustee, generally, does not have the power to move member assets, and is limited in its ability to take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors") when setting the investment strategy. The Trustee has, however, made Ethical funds available to members who would like to invest in funds with these specific considerations.

The Trustee is aware of the risks that environmental, social and governance factors, including climate change, pose and how they could negatively impact the value of investments held if not understood and evaluated properly, and these risks are considered when assessing the Scheme's Default Arrangement – however, these risks are secondary relative to the main objective of the Default Arrangement, as set out above.

The Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, risks, capital structure, conflicts of interest and ESG considerations. The Trustee does not monitor or engage directly with issuers or other holders of debt or equity.

Members' Views and Non-Financial Factors

In setting and implementing the Scheme’s investment strategy the Trustee does not explicitly take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors"[1]).

Arrangements with Investment Managers

Defined Benefit Section

Almost all of the Scheme's assets are invested with LGAS in the form of a Buy-in policy, with the exception of any cash in excess of the premium valued held in a Liquidity fund and in the Trustee's bank account. The aim of the buy-in policy is to wholly cover the benefits to all members of the Scheme.

Following the purchase of the buy-in policy, the responsibility for managing arrangements with managers is with LGAS. This responsibility may include ensuring that arrangements with appointed asset managers are aligned to achieving the long-term objectives of LGAS and the Scheme.

The Trustee regularly monitors the Scheme’s investments, held outside of the Buy-in policy, to consider the extent to which the investment strategy and decisions of the investment managers are aligned with the Trustee's policies, including those on non-financial matters. This includes monitoring the extent to which investment managers:

- make decisions based on assessments about medium- to long-term financial and non-financial performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

The Trustee is supported in this monitoring activity by their investment adviser.

Before making any changes to the arrangements with the investment manager, the Trustee reviews the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee’s policies. Where possible, the Trustee will seek to amend that documentation so that there is more alignment.

There is typically no set duration for arrangements with investment managers, although the continued appointment all for investment managers will be reviewed periodically, and at least every three years.

[1] The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018

AVC benefits

When setting the investment strategy for AVC benefits, the Trustee's primary concern is to act in the best financial interests of the Scheme and its beneficiaries.

The Trustee's powers are limited however, in relation to moving members' funds without their prior consent other than in certain specific circumstances. As a result, the Trustee's ability to incentivise the asset managers to align investment strategy with the Trustee's investment policies are limited, and the duration of the arrangements with asset managers are correspondingly set by individual member elections.

In respect of the Default Arrangement, the specific objective, as set out in the Trust Deed, is:

- *to preserve capital whilst aiming to provide return on investments similar to that which might be achieved on cash deposits in a bank or building society or money market funds*

The Trustee, in appointing an investment manager, will seek to ensure that the investment strategy aligns with this objective so far as is reasonably practical. The Trustee, however, has limited influence over the manager's investment practices because all assets would be expected to be held in pooled funds.

The Trustee’s view is that the fees paid to the investment manager ensure it is incentivised to provide a service that meets the stated objective of the Default Arrangement. However, in practice, the investment manager cannot fully align its strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

The Trustee is supported in monitoring the Default Arrangement's investment activity by the Investment Consultant. The Investment Consultant provides annual reviews to the Trustee that assess the performance and the costs associated with all funds of the various managers in which members are invested (including the Default Arrangement).

If the Trustee determines that the appointed manager does not meet the specific objective set out above, and is therefore unsuitable, the Trustee, with the support of the investment adviser, will assess the necessary action that needs to be taken (including the selection of an alternative manager for the Default Arrangement).

The Trustee evaluates investment manager performance by considering performance over both shorter and longer-term periods as available. There is typically no set duration for the appointment of an investment manager as provider of the Default Arrangement, however, the Trustee selects the provider with the expectation of a longer-term appointment.

Monitoring of Investment Managers Costs

Defined Benefit Section

Ongoing reporting and compliance

The Trustee paid a premium to LGAS when the policy was initiated, and as a result there are no ongoing fees in respect of the Buy-in policy, where the majority of the Scheme's assets are held.

In relation to assets that remain outside of the Buy-in policy, the Trustee is aware of the importance of monitoring their investment managers' total costs and the impact these costs can have on the overall value of the Scheme's assets. The Trustee recognises that in addition to annual management charges, there are a number of other costs incurred by their investment managers that can increase the overall cost incurred by their investments.

Portfolio Turnover

Targeted portfolio turnover is defined as the expected frequency with which each underlying investment managers’ fund holdings change over a year. Following the purchase of the Buy-in policy, the responsibility for monitoring costs is with LGAS. This may include monitoring turnover costs and remuneration with respect to the underlying appointed asset managers.

For the Scheme's asset that remain outside of the Buy-in policy, the Scheme’s investment adviser monitors this on behalf of the Trustee as part of the manager monitoring they provide to the Trustee and flags to the Trustee where there are concerns.

The Trustee accepts that transaction costs will be incurred to drive investment returns and that the level of these costs may vary over time. In both cases, a high level of transaction costs is acceptable as long as it is consistent with the asset class characteristics and manager’s style and historic trends. Where the Trustee’s monitoring identifies a lack of consistency the mandate will be reviewed.

AVC benefits

The Trustee is aware of the importance of monitoring its investment managers' total costs and the impact these costs can have on the overall value of the Scheme's assets. The Trustee recognises that in addition to annual management charges, there are other costs incurred by investment managers that can increase the overall cost incurred by their investments.

The Trustee regularly reviews the investment managers' total costs, and as part of this review takes into account:

- The base-level fees paid to the asset managers and whether any additional fees or discounts apply to those base-level fees; and
- The amount of portfolio turnover costs (transaction costs) incurred by the investment managers appointed by the Trustee.

The Trustee defines portfolio turnover costs as costs incurred within the day to day management of the assets by the asset manager. This covers such things as the cost of buying and selling securities within the funds of the asset managers. Transaction costs are incurred on an on-going basis and are implicit within the performance of the fund.

The Trustee acknowledges that portfolio turnover costs are a necessary cost to generate investment returns and that the level of these costs varies across asset classes and manager.

In terms of evaluation of performance and fees, the Trustee assesses the gross performance of all funds over a one-year, three-year and five-year basis against the ABI sector average.

The fees incurred by investment managers are provided annually by the Investment Consultant. This cost information is set out alongside the performance of the investment managers to provide context as part of the annual AVC review. The Trustee monitors both the costs and performance trends over time.

The Trustee also assesses whether the gross performance and the fees associated with the Default Arrangement are in line with the objective for this arrangement.

The Trustee believes that the fees for the open investment arrangements in place are generally appropriate for the types of arrangement held. However, if the Trustee, with the support of its investment adviser, believe a fund fee to be inappropriate for the scheme, they may choose to close the fund to new investments – action that has been taken on a number of occasions in the past.

Realisation of Investments/Liquidity

The Trustee recognises that there is a risk in holding assets that cannot be easily realised should the need arise.

The majority of the assets held are realisable at short notice (either through the sale of direct holdings of stocks, bonds etc. or the sale of units in pooled funds).

Compliance with Section 36 of the Pensions Act

The Trustee's policy for securing compliance with Section 36 of the Pensions Act 1995, to the extent applicable, is as follows:

- Any applicable requirements of Section 36(2) (Diversification and suitability) are considered above;
- Before investing in any manner, other than in one where appropriate advice is not required under the Pensions Act, the Trustee's policy, having regard to the investment restrictions set out in the Trust Deed, is to obtain and consider proper advice on the question whether the investment is satisfactory having regard to the matters referred to above;
- The Trustee's policy in relation to continued retention of investments of the Scheme is periodically (and if possible annually) to obtain and consider proper advice as to whether, having regard to the investment restrictions set out in the Trust Deed, and to the circumstances of the Scheme, the investments remain satisfactory having regard to the principles set out in this Statement and to the need for diversification and suitability; and
- The Trustee's policy is to exercise their investment powers in respect of direct investments with a view to giving effect to the principles contained in this statement so far as reasonably practicable.

Default Arrangements for the AVC benefits

A. Introduction

1. The DB (UK) Senior Group Pension Scheme (the "**Scheme**") has identified the following arrangement under the Scheme which is or may be a "default arrangement":

   1.1 the Standard Life Money Market Pension Fund[2] in relation to additional voluntary contributions ("**AVCs**").

   Note: The references to AVCs in this document include contributions paid to the Scheme in respect of the member as a result of a salary sacrifice made by a member under the employer's flexible benefit arrangement.

2. The arrangement referred to in **1.1** is referred to in this document as the "**Default Arrangement**".

3. If and to the extent that the Default Arrangement constitutes a "default arrangement" for the purposes of the Occupational Pension Schemes (Investment) Regulations 2005 (the "**Investment Regulations**") (as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015 (the "**C&G Regulations**"), then this document sets out the statement of investment principles (the "**Default Arrangement SIP**") governing decisions about investments in relation to the Default Arrangement

[2] An investment option under a unit-linked life policy issued by Standard Life Assurance Company.

for the purpose of complying, if required, with Regulation 2A of the Investment Regulations.

B. <u>Aims and objectives of the Trustee of the Scheme in respect of the Default Arrangement</u>

1. In relation to the Default Arrangement:

1.1 the Default Arrangement relates only to AVCs[3] to which **Clause 6(J)(x)** of the Scheme's Trust Deed applies.

1.2 where **Clause 6(J)(x)** of the Scheme's Trust Deed applies, the Trustee is obliged to use its reasonable endeavours to invest (or make arrangements to invest) the "**Member's Fund**", as defined in the Scheme's Trust Deed and Rules (see **Part III, Section 1**, of the Trust Deed) in the "**Default Investment Vehicle**".

1.3 so far as is relevant, **Clause 6(K)** of the Trust Deed provides that:

"'***Default Investment Vehicle****' means one of:*

(i) any deposit account with Halifax (a division of Bank of Scotland plc), or

(ii) any deposit or share account with a building society or any deposit account with a bank, or

(iii) an Investment Vehicle with an investment objective which aims to preserve capital whilst aiming to provide a return on investments similar to that which might be achieved on cash deposits in a bank or building society or money market funds

as selected by the Trustee and which may be changed from time to time by the Trustee as it sees fit."

1.4 therefore, the Trustee's aims and objectives in respect of this Default Arrangement are for the investment vehicle selected as the "**Default Investment Vehicle**" to comply with the definition in **Clause 6(K)** of the Trust Deed.

C. <u>Explanation of how the Trustee's aims, objectives and policies are intended to ensure that the Default Arrangement assets are invested in the best interests of the relevant members and beneficiaries</u>

1. In relation to the Default Arrangement:

1.1 as noted at **B.1** above (and taking account of the policies in **D.1** below), the Trustee must invest the relevant assets in a manner which complies with the definition of "**Default Investment Vehicle**" in **Clause 6(K)** of the Trust Deed.

1.2 the Default Arrangement aims to preserve the capital value of the relevant Member's Fund, until the member gives a valid Investment Instruction to the Trustee, or it is required to be realised (see **D.1.4** below).

1.3 within the restrictions of the definition set out in **B.1.3** above, and with the benefit of investment advice, the Trustee has determined that the Standard Life Money Market Pension Fund is the appropriate investment vehicle for these purposes.

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[3] i.e. voluntary contributions and Additional Contributions made on behalf of a member by his Employer following on from the member's salary sacrifice.

2. It is the policy of the Trustee to notify members in the Default Arrangement periodically that the Default Arrangement may not be suitable to meet the member's objectives.

3. However, any such notice is only sent to those members for whom the Trustee holds a current address.

D. Compliance with Regulation 2(3)(b) of the Investment Regulations

1. In relation to the Default Arrangement:

   1.1 as noted at **B.1** above, the Trustee must invest the relevant assets in a manner which complies with the definition of "**Default Investment Vehicle**" in **Clause 6(K)** of the Trust Deed.

   1.2 the Trustee's policies in relation to:

   (A) the kinds of investments to be held;

   (B) the balance between different kinds of investments;

   (C) the expected return on investments; and

   (D) the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments,

   are therefore to invest the relevant assets in a manner which complies with the definition of "**Default Investment Vehicle**" in **Clause 6(K)** of the Trust Deed.

   1.3 in terms of the Trustee's policy on risks, including the ways in which risks are to be measured and managed, the Trustee, with the help of its investment advisers, monitors the extent to which the Default Arrangement:

   (A) preserves the capital value of the relevant Member's Fund; and

   (B) allows the Trustee to invest the relevant assets in a way which complies with the definition of "**Default Investment Vehicle**" in **Clause 6(K)** of the Trust Deed.

   1.4 the Trustee's policy on the realisation of investments is to hold the relevant assets in the Default Arrangement until either:

   (A) the Trustee receives an Investment Instruction from the member; or

   (B) in the ordinary course, the investments must be realised to comply with the Trustee's obligations to a member when all or part of the member's benefits from the Scheme:

   (i) become payable; or

   (ii) are to be transferred out of the Scheme.

E. Revision of this Default Arrangement SIP

1. The Trustee intends to review this Default Arrangement SIP and the performance of the Default Arrangement:

   1.1 at least every 3 years, and

   1.2 without delay after any significant change in:

   (a) investment policy, or

   (b) the demographic profile of relevant members.

2. Where the Trustee undertakes a review of this Default Arrangement SIP, the Trustee intends to review the extent to which the return on the investments relating to the Default Arrangement (and after deduction of any charges relating to those investments) is consistent with the aims and objectives of the Trustee in respect of the Default Arrangement.

3. The Trustee intends to revise this Default Arrangement SIP after every review, unless the Trustee decides that no action is needed as a result of the review.

F. <u>Words and expressions used and other matters</u>

Unless the context otherwise requires, words and expressions used in this Default Arrangement SIP have the same meanings as in the Investment Regulations (as amended by the C&G Regulations).

Agreed and approved by DB Trustee Services Limited as Trustee of the DB (UK) Senior Group Pension Scheme