DB (UK) 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 Scheme's 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 strategy or policy. A separate Investment Policy Implementation Document ("IPID"), detailing the specifics of the Scheme's investment arrangements is available upon request.

The Scheme currently has three benefit Sections:

- **Defined Benefit Section -** benefit entitlements calculated by reference to a formula set out in the Scheme's Trust Deed based on each member's pensionable earnings and length of pensionable service;
- **Defined Contribution Section** – "pure" money purchase benefits transferred in to the Scheme from the Bankers Trust UK Pension Plan ("BT Plan") in April 2003. For investment purposes this Section also includes the Additional Voluntary Contributions ("AVC") benefits transferred in to the Scheme from the BT Plan in April 2003 (from which benefits will also be provided on a money purchase basis); and
- **Defined Contribution Section with Guaranteed Minimum Pension (GMP) underpin** – money purchase benefits transferred in to the Scheme from the BT Plan in April 2003 for the period of contracted service a GMP is required. For investment purposes this Section also includes the Additional Voluntary Contributions ("AVC") benefits transferred in to the Scheme from the BT Plan in April 2003 (from which benefits will also be provided on a money purchase basis).

Together, the **Defined Contribution Section** and **Defined Contribution Section with GMP underpin** are referred to in the remainder of this statement as the "Defined Contribution Section".

For the purposes of this statement, AVC benefits other than those transferred into the Scheme from the BT Plan in April 2003 technically sit within the Defined Benefit Section, but as part of this SIP will be considered to form a separate Section ("the AVC Section").

Policies applicable to the Defined Contribution Section throughout typically apply to these AVC benefits unless stated otherwise.

Responsibility for the Scheme's investment strategy

The Trustee is responsible for the investment strategy of the Scheme. They have 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 ("AIL") as the Trustee's appointed Investment Adviser (the "Investment Adviser") 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.

The day to day management of the Scheme's surplus assets has been delegated to investment managers which are authorised and regulated by the Financial Conduct Authority. The day to day management of the Scheme's Annuity Policies has been delegated to the Annuity Providers, Legal & General Assurance Society ("LGAS") and Aviva. These Annuity Policies insure the past-service liabilities for all of the members of the Scheme. Any future accruals from the remaining active members of the Scheme will be uninsured by these Annuity Policies. Aviva and LGAS pay the Scheme a monthly amount equal to the pension payment in respect of the members underlying the respective Annuity Policy. These insurance contracts are assets of the Scheme and the pension liability remains within the Scheme.

A copy of this Statement will be; provided to the investment managers appointed, available to the members of the Scheme and published on a publicly accessible website.

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 objectives for the Defined Benefit Section of the Scheme are:

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

  To ensure a prudent investment approach in relation to the surplus assets. These are invested to meet expected ongoing and future expenses, and any future accrued benefits.

The objectives take into account the strength of the employer's covenant.

The Trustee's investment objectives for the Defined Contribution Section, which also apply to the AVC Section, are:

- To make available a range of pooled funds in which members of the Scheme are able to invest;
- 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; and
- The Trustee's objectives regarding the default arrangements is to aim to provide capital preservation whilst achieving cash deposit returns before the application of charges.

Risk

The Trustee recognises that the key risk to the Defined Benefit Section of the Scheme is that it has insufficient assets to make provisions for 100% of its liabilities ("funding risk"). The Trustee has identified a number of risks which have the potential to cause deterioration in the Scheme's funding level and therefore contribute to funding risk. The Trustee has put measures in place to manage these risks. The risks and measures taken are as follows:

- The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors ("mismatching risk"). The Trustee and its Investment Adviser considered this mismatching risk when setting the investment strategy and continue to monitor the factors and their potential impact on the Scheme, however this risk has reduced significantly with the Annuity Policies in place;
- The risk of a shortfall of liquid assets relative to the immediate liabilities of the Scheme ("cashflow risk"). The Trustee and its Investment Adviser will manage the cashflow requirements taking into account the timing of future payments. The assets are sufficiently liquid to allow disinvestments at short notice. The Investment Adviser in conjunction with

the Scheme's administrator monitors and manages cashflow requirements on behalf of the Trustee as per the agreed cashflow policy. LGAS and Aviva are responsible for providing the cash for benefit payments covered by the Annuity Policies, the risk that they default on this obligation is covered under 'Annuity Policy default risk' below;

- The failure by the fund managers to achieve the rate of investment return assumed by the Trustee ("manager risk") in relation to future expenses and liabilities. This risk is considered by the Trustee and its Investment Adviser both upon the initial appointment of the fund managers and on an ongoing basis thereafter. The Trustee and its Investment Adviser review manager performance quarterly and meet with the fund managers regularly as part of their ongoing monitoring;

- The failure to spread investment risk ("risk of lack of diversification"). The Trustee and its advisers considered this risk when setting the surplus assets investment strategy and have also mandated its fund managers that a suitably diversified portfolio of assets should be maintained at all times. The Trustee continues to seek the advice of its advisers before considering any changes to the investment strategy;

- The risk of fraud, the safe keeping of assets, poor advice and acts of negligence ("operational risk"). The Trustee has sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received. The Trustee has appointed a custodian to hold the Scheme assets in custody, in addition to undertaking and processing the settlement of transactions. The Trustee receives regular reporting from the custodian;

- The largest risk underlying the Annuity Policies is that of LGAS or Aviva defaulting. The Trustee considered the credit strength of the insurers 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 these to be appropriate investments for the Scheme. In extreme circumstances the Trustee has additional provisions including a termination right should LGAS or Aviva not be able to meet their obligations; and

- The risk that LGAS or Aviva fail to make the pension payments covered by the Annuity Policies as they fall due ('Annuity Policy default risk'). This risk is mitigated the ongoing consideration of LGAS's and Aviva's covenant by the Trustee and its advisers, and protections offered due to LGAS and Aviva being regulated by the Financial Conduct Authority and The Prudential Regulation Authority.

Due to the complex and interrelated nature of these risks, the Trustee considers the majority of these risks in a qualitative rather than quantitative manner as part of ongoing investment strategy reviews. Some of these risks may also be modelled explicitly during the course of such reviews.

The Trustee's policy is to monitor, where possible, these risks periodically. The Trustee receives quarterly reports showing:

- Performance of its fund managers versus their respective targets; and

- Any significant issues with the fund managers that may impact their ability to meet the performance targets set by the Trustee.

The Trustee's policy is to monitor the Annuity Policies with LGAS and Aviva on an annual basis. The policies pay monthly income to the Scheme, matching all of the Scheme's pensioner payroll.

There are a number of risks specifically associated with the Defined Contribution Section of the Scheme, which are also applicable to the AVC Section:

- 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 primary assets for the Scheme are the annuity policies.

There are some surplus assets which the Trustee invests appropriately based on the liability profile of the Scheme, its cashflow requirements, the funding level of the Scheme and the Trustee's objectives.

Investment management responsibility is delegated to the investment managers who were appointed by the Trustee. With regards to the review and selection of its investment managers, the Trustee takes expert advice.

AIL has been selected as Investment Adviser to the Trustee. AIL operates under an agreement to provide a service which ensures the Trustee is fully briefed to take decisions itself and to monitor those it delegates. The current investment managers, their benchmark, target and ongoing management fees are set out in the IPID.

II. Defined Contribution Section

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.

Where the Trustee is holding unallocated funds that are attributable to a member, and does not have a valid investment instruction from this member, it will invest these funds into the default arrangement. Members can also choose to invest in the default arrangement.

The objective of the default arrangement is defined in the Scheme's Trust Deed and Rules as "*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*".

For the Defined Contribution Section of the Scheme, the default arrangement is the Standard Life Deposit and Treasury Pension Fund ("the Deposit and Treasury Pension Fund "), which was appointed by the Trustee in June 2022.

For the AVC Section of the Scheme, the default arrangement is the Standard Life Money Market Pension Fund ("the Money Market Pension Fund"), which was implemented on 24 March 2016. This default arrangement was most recently reviewed by the Trustee in October 2022 and was deemed appropriate to remain as the default arrangement for the AVC Section.

In addition to this Main SIP, the Trustee has also appended a document entitled "Default Arrangements for the Defined Contribution Section" to this document, which provides further information on the DC Section's default arrangements.

Asset Allocation Strategy

I. Defined Benefit Section

The asset allocation has been determined with regard to the actuarial characteristics of the Scheme, in particular the strength of the funding position, the assumptions used to assess the funding position, the liability profile and the Sponsoring Employer's covenant. When choosing the Scheme's planned asset allocation in relation to the surplus investment strategy the Trustee considered written advice from its Investment Advisers and, in doing so, addressed the following:

- The need to consider a full range of asset classes;
- The risks and rewards of a range of alternative asset allocation strategies;
- The suitability of each asset class; and
- The need for appropriate diversification.

Following the purchase of the final Annuity Policy, the Trustee invests the surplus assets across a range of asset classes which it has agreed with the Company.

The Trustee will consider advice from their investment advisor and consult the Company before implementing a new strategy.

II. Defined Contribution Section

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 the appointed investment 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.

Defined Contribution Section (not applicable to the AVC Section)

Members of this Section have money purchase benefits which were transferred in to the Scheme from the Bankers Trust Plan in April 2003. For investment purposes, this Section also includes the AVC benefits transferred from the BT Plan in April 2003. Both these categories of benefits are broadly linked to the value of particular investments.

The Scheme's Trust Deed obliges the Trustee (so far as is reasonably practicable) to maintain the assets attributable to the Defined Contribution Section in the form in which they were held immediately prior to the transfer-in from the BT Plan in April 2003, until a valid Investment Instruction is given in respect of a member's assets in such arrangements.

Within the Defined Contribution Section, the Trustee has arrangements with the following providers:

- Legal & General Investment Management Limited;
- Standard Life Investments (abrdn);
- Standard Life Assurance Limited (part of Phoenix Group);
- Prudential Assurance Company Limited;
- Utmost Life and Pensions;

- Zurich Assurance Limited; and
- Abbey Life Assurance Company Limited

Where money purchase benefits were transferred into the Scheme from the BT Plan in April 2003, for the period of contracted out service, a GMP is required. For investment purposes investment for members with GMP underpin follows the same asset allocation strategy as the rest of the Defined Contribution Section.

The Defined Contribution Section receives no new contributions.

Separate arrangements for the AVC Section

The Trustee has arrangements with the following providers:

- Standard Life Assurance Limited (part of Phoenix Group);
- Aberdeen Asset Management Life and Pensions Ltd (abrdn);
- Aberdeen Unit Trust Managers Limited (abrdn);
- Janus Henderson; and
- Utmost Life and Pensions

Environmental Social and Governance considerations

The Trustee believes that environmental, social and governance ("ESG"), including climate change, are important factors when making investment decisions. At the stock level, the Trustee has delegated these considerations to the investment managers, having first agreed an appropriate benchmark and investment restrictions.

The Trustee undertakes an annual review of the entirety of the Scheme's investments assessing ESG and related issues. This is set in the context of guidance provided by the Group's Reputational Risk Procedure, which sets out a number of areas of concern to the Group in undertaking its commercial activities.

The Trustee encourages the investment managers to engage on ESG issues, including climate change. We expect managers to adopt the Financial Reporting Council's UK Stewardship code and adhere to the UN Principles for Responsible Investment or similar codes relevant to the particular asset class.

Defined Benefit Section

In setting the Scheme's investment strategy, the Trustee agrees a target level of return taking account of the Scheme's liabilities and consistent with a prudent and appropriate level of risk, taking into consideration the actuarial assumptions that have been set.

Consideration is given to financially material factors, including ESG and climate change. The Trustee appoints managers that it believes have the relevant skills and processes to do this when assessing valuations and sustainability of business models. The Trustee periodically reviews managers and how they take issues such as ESG and climate change into account. The Trustee expects managers to adopt the Financial Reporting Council's UK Stewardship code and adhere to the UN Principles for Responsible Investment or similar codes relevant to the particular asset class.

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 and Aviva invests. ESG considerations were a contributing factor in the selection of LGAS and Aviva.

Defined Contribution Section

The Scheme's Trust Deed restricts the powers of the Trustee in relation to changing the way in which a member's assets are invested without the member's consent. The Trustee's primary concern is to provide a selection of prudent investment vehicles covering the principal liquid asset classes, from which members can select and thus construct an investment strategy appropriate for their individual objectives. The Trustee is aware of the importance of ESG issues but it has limited ability to influence investment managers of the pooled funds, but encourages them to improve their ESG coverage and the parameters in their funds.

Stewardship – Voting and Engagement

Defined Benefit Section

The Trustee recognises the importance of their role as a steward of capital and the need to ensure high standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Scheme invests, as this ultimately creates long-term financial value for the Scheme and its beneficiaries.

The Trustee regularly reviews the suitability of the Scheme's appointed investment managers and takes advice from their Investment Adviser with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. If an incumbent manager is found to be falling short of the voting, engagement or stewardship standards the Trustee has set out in this policy, the Trustee will engage with the manager, via different mediums such as emails, phone calls and meetings, to seek a more sustainable position, but it may look to replace the manager.

The Trustee delegates all stewardship activities, including voting and engagement, to their appointed investment managers. The Trustee accepts responsibility for how the Scheme's investment managers steward assets on their behalf, including the casting of votes in line with each manager's individual voting policies.

That said, the Trustee reviews the stewardship activities of their investment managers on an annual basis, covering both engagement and voting actions. The Trustee will review the alignment of the Trustee's policies, as set out in this SIP, to those of the Scheme's investment managers. The Trustee will engage with their investment managers where necessary for more information. Prospective managers are required to provide this information in advance of their appointment.

The Trustee also ensures their managers, or other third parties, use their influence as major institutional investors to carry out the Trustee's rights and duties as a responsible shareholder and asset owner. This will include voting, along with – where relevant and appropriate – engaging with underlying investee companies and assets to promote good corporate governance, accountability, and positive change.

The Trustee will engage with their investment managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of the investment managers' active ownership policies, are being actioned. This will take the form of annual reporting which will be made available to Scheme members on request.

From time to time, the Trustee will consider the methods by which, and the circumstances under which, it would monitor and engage with an issuer of debt or equity, an investment manager or another holder of debt or equity, and other stakeholders. The Trustee may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.

Following the purchase of the Annuity Policies, the Trustee has delegated the management of the assets notionally backing the policies to LGAS and Aviva, respectively. This includes responsibility for stewardship activities, including voting and engagement. The Trustee accepts responsibility for how LGAS and Aviva manage 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 or Aviva in managing these assets but did consider the policies of the insurer as part of the due diligence process to select LGAS and Aviva.

Defined Contribution Section

The Trustee recognises the importance of its role as a steward of capital and 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. While these risks are considered when assessing the Scheme's default arrangements, they are secondary relative to the main objective of the default arrangements, as set out within the 'Arrangements with Investment Managers' section below.

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. The Trustee accepts responsibility for how the investment managers steward assets on its behalf, including the casting of votes in line with each manager’s individual voting policies.

The Trustee reviews its managers’ voting and engagement policies and activities on an annual basis. The Trustee reviews these factors to check they are aligned with expectations and can reasonably be considered to be in the Trustee’s, and therefore the members’, best interests.

The Trustee expects that their investment managers will provide details of their stewardship activities on an annual basis and will monitor this with input from their investment adviser. The Trustee will engage with their investment managers where necessary for more information.

If the Trustee’s monitoring reveals that an investment manager’s voting or engagement policies, or its stewardship actions are not aligned with the Trustee’s expectations, the Trustee will engage with the manager, via different medium such as emails and meetings.

However, 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.

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]).

The underlying funds that make up the default arrangements and other self-select funds should not apply personal ethical or moral judgements as the basis for an investment decision.

In relation to the AVC section (which excludes the AVCs transferred into the Scheme from the BT Plan), the Trustee has made Ethical and Shariah compliant funds available to members who

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

would like to invest in funds with these specific considerations. In relation to the DC Section, the Trustee has made available the Future World Fund for members wishing to integrate ESG factors into their investment decision-making.

Arrangements with Investment Managers

Defined Benefit Section

The Trustee regularly monitors the Scheme's investments to consider the extent to which the investment strategy and decisions of the investment managers are aligned with the Trustee's policies, as set out in this SIP, 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.

The Trustee receives quarterly reports and verbal updates from the Investment Adviser on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustee focuses on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Scheme objectives and assess the investment managers over longer periods.

The Trustee also receives annual stewardship reports on the monitoring and engagement activities carried out by their investment manager, which supports the Trustee in determining the extent to which the Scheme's engagement policy, as set out in this SIP under "Stewardship – Voting and Engagement" has been followed throughout the year.

The Trustee shares the policies, as set out in this SIP, with the Scheme's investment managers, and requests that the investment managers review and confirm whether their approach is in alignment with the Trustee's policies.

Before appointment of a new 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 as set out in this SIP. Where possible, the Trustee will seek to amend that documentation so that there is more alignment. Where it is not possible to make changes to the governing documentation, for example if the Scheme invests in a collective vehicle, then the Trustee will express their expectations to the investment managers in by other means (such as through a side letter, in writing, or verbally at Trustee meetings). Ultimately, if the investment manager's policies do not align with those of the Trustee, the Trustee would look to appoint an alternative manager.

The Trustee believes that having appropriate governing documentation, setting clear expectations to the investment managers by other means (where necessary), and regular monitoring of investment managers' performance and investment strategy, is in most cases sufficient to incentivise the investment managers to make decisions that align with the Trustee's policies and are based on assessments of medium- and long-term financial and non-financial performance.

Where investment managers are considered to make decisions that are not in line with the Trustee's policies, expectations, or the other considerations set out above, the Trustee will typically first engage with the manager but could ultimately replace the investment manager where this is deemed necessary.

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.

Defined Contribution Section

When setting the Defined Contribution Section's investment strategy, the Trustee's primary concern is to act in the best financial interests of the Scheme and its beneficiaries. However, in certain circumstances, the Scheme's Trust Deed restricts the Trustee (so far as is reasonably practicable) from changing the way in which members' assets are invested without the member's consent.

The Trustee's powers are therefore limited, and do not include the power to move members' funds without their prior consent other than in very 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 the case that the Trustee is in receipt of members' funds and have not received valid investment instructions from the members in question, the Trustee will invest these funds in the relevant Section's default arrangements Members can also choose to invest in the relevant Section's default arrangement.

The specific objective of the default arrangements for both the Defined Contribution Section and the AVC Section, 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 arrangements. 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 financial and non-financial performance of debt/equity issuers, engagement with such issuers and portfolio turnover in order to improve performance in the medium to long-term.

The Trustee is supported in monitoring the default arrangements' investment activity by the Investment Adviser. The Investment Adviser 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 in within the Defined Contribution Section (including the default arrangements).

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 arrangements).

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 arrangements, 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 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. The Trustee is also aware of the costs in changing investment arrangements.

Data Collection

The Trustee collects annual cost transparency reports covering all of their investments and ask that the investment managers provide this data in line with the appropriate Cost Transparency Initiative (“CTI”) template for each asset class. This allows the Trustee to understand exactly what they’re paying their investment managers.

Manager Relationships

The Trustee will only appoint investment managers who offer full cost transparency via the CTI templates to manage assets of the Scheme. This will be reviewed before the appointment of any new managers and includes the existing managers held by the Scheme.

Portfolio Turnover

Targeted portfolio turnover is defined as the expected frequency with which each underlying investment managers’ fund holdings change over a year. 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 performance and that the level of these costs varies across asset classes and by manager style within an asset class. 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.

Analysis of manager performance and remuneration

The Trustee assesses the investment performance of the investment managers on a quarterly basis and the remuneration of the investment managers on at least an annual basis via collecting cost data in line with the CTI templates.

The Trustee assesses how their investment managers are remunerated as part of the appointment process. The Trustee takes into consideration the asset class, performance objective and the fee proposal as part of their decision. The Trustee has also reviewed the remuneration of their existing managers to ensure consistency with the remuneration policy.

Defined Contribution Section and AVC Section

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 in both the annual Defined Contribution Section review as well as the annual Chairman's DC Governance and Charges Statement, the latter of which contains illustrations highlighting the potential impact that these costs could have on different members' potential returns.

Overall the Scheme's review and Chairman's DC Governance and Charges Statement clearly sets out:

- 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 the funds in the Defined Contribution Section 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 Adviser. This cost information is set out alongside the performance of the investment managers to provide context as part of the Defined Contribution Section 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 arrangements 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).

The Trustee’s policy is not to invest in illiquid investments on behalf of members within the default arrangements across the Defined Contribution and AVC Sections.

The Scheme's Trust Deed and Rules require that the default arrangements be held in an Investment Vehicle that has an objective to preserve capital, while also 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.

The Trustee feels it can meet these objectives by investing in readily realisable money market funds, thereby reducing the risk of members not being able to realise their funds on any particular day, for example if there was a notice period applied to redemptions or if trading in the fund were to be suspended as a result of holdings in illiquid assets.

The Trustees will keep this policy under review in future.

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.
- 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 Defined Contribution Section

A. Introduction

1. The DB (UK) Pension Scheme (the "**Scheme**") has identified the following investment vehicles as "default arrangements" for the Scheme:

1.1 the Standard Life Money Market Pension Fund[2] in relation to additional voluntary contributions ("**AVCs**") (other than AVCs transferred into the Scheme from the Bankers Trust UK Pension Plan (the "**BT Plan**") in April, 2003).

1.2 the Standard Life Deposit and Treasury Pension Fund[3] in relation to the Defined Contribution Section.

B. Aims and objectives of the Trustee of the Scheme in respect of the default arrangements

1. In relation to the Scheme's default arrangements:

1.1 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**".

1.2 **Clause 6(K)** of the Trust Deed provides that:

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

(i) any deposit account with Halifax plc, or

(ii) any deposit or share account with a building society as defined in the Building Societies Act 1986 or any deposit account with an institution authorised under Part 1 of the Banking Act 1987, 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."

1.3 therefore, the Trustee's aims and objectives in respect of the default arrangements 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. Explanation of how the Trustee's aims, objectives and policies are intended to ensure that the default arrangements assets are invested in the best interests of the relevant members and beneficiaries

1. In relation to the Scheme's default arrangements:

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[2] An investment option under a unit-linked life policy issued by Standard Life Assurance (part of Phoenix Group).

[3] An investment option under a unit-linked life policy issued by Standard Life Investments (abrdn).

1.1 as noted at **B.1** above (and taking account of the policies in **D.1.1** 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 arrangements aim 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.1.7** below).

1.3 within the restrictions of the definition set out in **B.1.2** above, and with the benefit of investment advice, the Trustee has determined that:

(A) the Standard Life Money Market Pension Fund is the appropriate investment vehicle for the AVCs (other than AVCs transferred into the Scheme from the Bankers Trust UK Pension Plan (the "BT Plan") in April, 2003); and,

(B) the Standard life Deposit and Treasury Pension Fund is the appropriate investment vehicle for the Defined Contribution Section.

2. It is the policy of the Trustee to notify members in the default arrangements periodically that they 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. <u>Compliance with Regulation 2(3)(b) of the Investment Regulations</u>

1. In relation to the Scheme's default arrangements:

1.1 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, as noted in section **B.1** above.

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) financially material considerations over the appropriate time horizon of the investments, including how those considerations are taken into account in the selection, retention and realisation of investments;

must comply with the definition of "**Default Investment Vehicle**" in **Clause 6(K)** of the Trust Deed, as noted in section **B.1** above.

1.3 the Trustee's policies in relation to the kinds of investments to be held also align to the "Choosing Investments, II Defined Contributions Section" section of the main SIP.

1.4 the Trustee's policies in relation to the balance between different kinds of investments also align with the Trustee's policies set out within the "Asset Allocation Strategy, II Defined Contributions Section" section of the main SIP

1.5 the extent to which social, environmental or ethical considerations are taken into account by the Trustee in the selection, retention and realisation of the Scheme's default arrangements must comply with the definition of "**Default Investment Vehicle**" in **Clause 6(K)** of the Trust Deed, as noted in section **B.1** above, and are also aligned with the Trustee's policies set out "Environmental Social and Governance considerations" section of the Main SIP.

1.6 the Trustee's policy towards risks, including the ways in which risks are to be measured and managed, the Trustee, with the support of its Investment Advisers, monitors the extent to which the default arrangements:

(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.

1.7 the realisation of investments associated with the Scheme's default arrangements is to hold the relevant assets in the default arrangement until:

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

Unless the context otherwise requires, words and expressions used in this default arrangements 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) Pension Scheme at the 10 September 2024 Trustee Board meeting. It should be noted that the Trustee consulted with the Company before finalising the SIP.