# EE Pension Scheme

**Scheme Registration Number: 10249705**

Trustee's Annual Report and Financial Statements
For the Year Ended 31 December 2022

# Contents

# Management and Advisers

**Trustee***
EE Pension Trustee Limited
One Braham
1 Braham Street
London E1 8EE

**Trustee Directors**
JMRC Pensions Limited * *(Chairman)*
Roger Waymouth *
Antony Gara**
Rachel Willis*
Joseph Ward**
Christopher Gray ** *(appointed 15 December 2022)*
Adrian Collier ** *(appointed 1 March 2022 and resigned 15 December 2022)*
**Company Nominated*
*** Member Nominated*

**Investment Consultants**
Aon Investments Limited *(Defined Benefit Section)*
The Leadenhall Building
122 Leadenhall Street
London EC3V 4AN

Mercer Limited *(Defined Contribution Section)*
The Paragon
Counterslip
Bristol BS1 6BX

**Auditors**
Ernst & Young LLP
The Paragon
Counterslip
Bristol BS1 6BX

**Benefits Administrator**
Capita Pension Solutions Limited
*(Defined Benefit Section)*
145 Morrison Street
Edinburgh EH3 8FJ

Scottish Widows Limited *(Defined Contribution Section)*
UK Life Centre
Station Road
Swindon SN1 1EL

**Scheme Actuary**
Simon Head
Aon Hewitt Limited
Prospect House
Abbey View,
St Albans AL1 2QU

**Fiduciary Manager**
BT Pension Scheme Management Limited
(appointed 31 March 2023)
One America Square
17 Crosswall
London EC3N 2LB

**Employer Covenant Advisers**
Penfida Limited
1 Carey Lane
London EC2V 8AE

**Medical Advisers**
Health Management Limited
Ash House
The Broyle
Ringmer BN8 5NN

**Legal Advisers**
Eversheds Sutherland
One Wood Street,
London EC2V 7WS

**Life Cover Insurers**
Ellipse
58 Fenchurch Street
London EC3M 4BE

**Bankers**
National Westminster Bank PLC *(Defined Benefit Section)*
42 High Street
Sheffield S1 1QG

National Westminster Bank PLC *(Defined Contribution Section)*
15 Bishopsgate
London EC2P 2AP

Lloyds Bank *(Defined Contribution Section)*
10 Gresham Street
London EC2V 7AE

**Custodian**
The Northern Trust Company
(appointed 21 September 2021)
50 Bank Street
London E14 5NT

## Management and Advisers (continued)

**Investment Managers**
**(Defined Benefit Section)**

UBS Global Asset Management (UK) Limited
5 Broadgate
London EC2M 2QS

Abrdn (formerly Standard Life Investments)
1 George Street
Edinburgh, EH2 2LL

PIMCO Europe Limited
11 Baker Street
London W1U 3AH

Insight Investment Management (Global) Ltd
160 Queen Victoria Street
London EC4V 4LA

Aviva Investors Jersey Unit Trusts
Management Limited
Lime Grove House
Green Street
St Helier
Jersey JE1 2ST

Deutsche International Corporate Services (Ireland) Limited
Pinnacle 2
Eastpoint Business Park
Dublin 3

M&G Real Estate (Luxembourg) S.A.
34-38 Avenue De LA
Liberté
Luxembourg, 1930

Legal & General Investment Management Limited
One Coleman Street
London EC2R 5AA

Chorus Capital Management Limited
34 Bruton Street
London Q1J 6QX

Basalt Infrastructure Partners LLP
25 Golden Square
London W1F 9LU

I Squared Capital
600 Brickell Ave Penthouse
Miami, FL
33121, United States

Kohlberg Kravis Roberts & Co. Partners LLP
30 Hudson Yards
New York, NY
10001, United States

**(Defined Contribution Section)**

Utmost Life and Pensions Limited
PO Box 175
Walton Street
Aylesbury
Bucks HP21 7YN

Scottish Widows Limited
(formerly Zurich Assurance Limited)
UK Life Centre
Station Road
Swindon
Wiltshire SN1 1EL

**Investment Managers and administrators**
**(AVC Investments)**

Scottish Widows Workplace Savings
Barnwood 1, Barnett Way
Gloucester GL14 3RL

# Trustee Report

EE Pension Trustee Limited (the "Trustee") has pleasure in presenting the annual report and audited financial statements for the year ended 31 December 2022.

The Statement of Trustee's Responsibilities, Summary of Contributions, Auditor's Opinions and Statement about Contributions are made with reference to the Fund Account and Statement of Net Assets for the Scheme as a whole.

## Scheme Management

### Constitution of the Scheme

The EE Pension Scheme ('the Scheme') is a Hybrid Scheme, with a Defined Benefit Section and a Defined Contribution Section, established to provide benefits for the employees of EE Limited and Mobile Broadband Network Limited (together 'the Employers') and their dependants.

The Scheme is governed by the Constitutional Rules and the Final Salary Rules, both made under a Deed of 24 July 2007. The Scheme is registered for tax purposes with Her Majesty's Revenue and Customs (HMRC) in accordance with the Finance Act 2004. Consolidated Rules were executed 9 November 2015.

The Scheme is established as a Trust under English Law.

### Appointment of Trustee

The current Trustee to the Scheme is EE Pension Trustee Limited ('the Trustee') and is the Scheme administrator for the purposes of the Finance Act 2004. In accordance with the Constitutional Rules the Principal Employer, EE Limited, has the power to appoint and remove the Trustee. As the Trustee is the sole Trustee to the Scheme, the appointment and removal of Trustee Directors is made in accordance with the requirements of the Pensions Act 2004 with regard to member nominated trustee directors.

### Principal and Participating Employers

The Principal Employer is EE Limited and Mobile Broadband Network Limited is the participating employer.

### Scheme Advisers

The names of the professional advisers to the Trustee and other individuals and organisations who acted for or were retained by the Trustee during the year are listed on pages 2 and 3.

# Trustee's Report – Scheme Management (continued)

## Pension Increases

Pensions in payment and deferred pensions under the Scheme are increased each year at the rates specified in the Scheme rules, subject to any legal requirements to increase pensions. The cost of doing so is met by the Scheme. At 1 January 2022 pensioners were granted a 3.00% increase on their post 1988 GMP, a 4.90% increase on their excess pension accrued prior to 6 April 2006 and a 2.50% increase on their pension accrued since 6 April 2006, with pensioners who retired during the previous 12 months receiving proportionate increases.

Deferred pensions receive statutory increases each year, with deferred pensions for that element of such deferred pension accruing after 5 April 2009 receiving a maximum increase of 2.5% per annum during deferment.

## Scheme Membership

### Membership and Beneficiaries – Defined Benefit Section

| | Deferreds (including suspended members) | Pensioners | Totals |
|---|---|---|---|
| At 1 January 2022 | 7,381 | 1,121 | 8,502 |
| Prior year adjustment * | (6) | 4 | (2) |
| **At 1 January – as amended** | **7,375** | **1,125** | **8,500** |
| | | | |
| **Leavers** | | | |
| Commuted | (6) | (2) | (8) |
| Transfers out | (18) | - | (18) |
| Retirements | (67) | 75 | 8 |
| Deaths | (8) | (12) | (20) |
| Suspended | - | (1) | (1) |
| Child pension ended | - | (4) | (4) |
| **31 December 2022** | **7,276** | **1,181** | **8,457** |

* Prior year adjustments relate to the late notification of member movements from the prior year.

# Trustee's Report – Scheme Management (continued)

## Scheme Membership (continued)

**Membership and Beneficiaries – Defined Contribution section**

| | Actives | Deferreds (including suspended members) | Totals |
|---|---|---|---|
| At 1 January 2022 | 8,185 | 22,660 | 30,845 |
| Members deferring benefits | (2,599) | 2,599 | - |
| New entrants | 2,221 | - | 2,221 |
| **Leavers** | | | |
| Refunds and Not Taken Up | (55) | (55) | (110) |
| Transfers out | (2) | (567) | (569) |
| Retirements | (1) | (5) | (6) |
| Deaths | (9) | (25) | (34) |
| Uncrystallised Fund Pension Lump Sum | (8) | (117) | (125) |
| **31 December 2022** | **7,732** | **24,490** | **32,222** |

On retirement members of the Defined Contribution Section can choose to purchase an annuity, or with the consent of the Trustee, take a lump sum or mixture of both.

## Review of the Financial Development of the Scheme

As at 31 December 2022 the accumulated fund stood at £1,433,259,000 (2021: £1,874,481,000). The audited financial statements, which appear on pages 65 to 94, record the financial transactions of the Scheme during the year.

The financial statements have been prepared and audited in compliance with regulations made under Sections 41 (1) and (6) of the Pensions Act 1995.

## COVID-19 Statement

Covid-19 was still a concern in 2022, mainly in other parts of the world such as China, though thanks to a successful vaccine roll-out and the relaxing of restrictions it was of smaller concern to developed economies such as the US and the UK.

Separate global issues such as supply chain issues and heightened inflation have created challenges that outweigh the effects of Covid-19, but the Trustee continues to monitor the situation closely and is ready to adapt where appropriate.

# Trustee's Report – Scheme Management (continued)

### Going Concern

The Trustee is responsible for making a formal assessment as to whether the 'going concern' basis is appropriate for preparing these financial statements the Trustee has carefully assessed the long-term prospects of the Scheme taking into account our current position, the main risks faced and the measures in place to monitor and manage these risks. The Trustee believes there is a reasonable expectation that the Scheme will continue to operate successfully for a period of twelve months from the date of approval of these financial statements. This expectation is based on an understanding and analysis of our long-term risks and the associated risk management processes.

In addition, the Trustee is continuing to engage with their investment advisor to implement the agreed long-term strategy which includes the target of when the Scheme will become fully funded.  The employer plays an essential role in communication which has supported the country during the pandemic, so has remained operational.  The employer continues to meet the agreed funding to the Scheme which was formally agreed in 2020 and payments have been made in line with the Schedule of Contributions.  The Scheme continues to pay all member benefits in full.

### Transfer values

All cash equivalent transfer values paid by the Scheme on behalf of members who have left the Scheme have been calculated and verified as prescribed in Section 97 of the Pension Schemes Act 1993.  Discretionary benefits are not included in the calculation of transfer values.  No transfers were reduced to less than their cash equivalent value.

### Capita Cyber Incident

The Trustee was formally advised by the scheme's administrator, Capita Pension Solutions Limited ('CPSL), on 17 May 2023 that Capita plc ('Capita') identified a cyber incident which resulted in unauthorised access to its IT systems, which Capita confirmed to the Trustee included member data that had been exfiltrated by an external 3rd party.

Upon initial discovery, Capita had interrupted and restricted the cyber-incident promptly on 31 March 2023.

Capita investigated that incident and that investigation found that a third party, unauthorised by Capita, got access to Capita's IT systems on 22 March 2023.

Since that date, CPSL has advised the Trustee that it has employed internal and third-party advisors to establish what data had been exfiltrated during this incident, although it confirmed that it's HartLink pension administration platforms were not affected.

CPSL wrote to the Trustee on 17 May 2023 that pensioner data including name, member ID number, NINO, pension amount, tax code, tax paid, date of birth and date of retirement, had been exfiltrated during the cyber breach. A further update on 3 June 2023 confirmed address and bank details for some pensioners had also been accessed.

The Trustee has reported this breach to the Information Commissioners Office (ICO) on 19 May 2023 and has been advised that Capita has made appropriate notifications to all relevant regulators and authorities, including the ICO, and remains in regular contact with them.

### Capita Cyber Incident (continued)

The Trustee has complied with the requirements and recommendations of the Pensions Regulator in relation to the cyber incident and wrote to the affected membership on 2 June 2023 to advise them of the data breach and warn them to be vigilant to any scams that may arise from the exfiltrated data potentially being publicly available. Capita has offered to provide an Experian credit monitoring service free of charge for one year to members whose data was exfiltrated in the cyber incident.

As far as the Trustee is aware, the incident has not resulted in any financial impact on the Scheme nor on members’ benefits at this time and therefore there is minimal risk of material misstatement as a direct result of the cyber incident. However, the Trustee is aware that there is a possibility that some of the exfiltrated data could be used at a future date to create fraudulent transactions resulting in loss to members and claims on the Scheme, although there are identity and verification controls in place at Capita. Whilst it is hoped that this possibility is remote, the Trustee continues to work closely with its legal and other advisers, and with Capita, to mitigate any further risk resulting from the cyber incident and to ensure that the Scheme members affected are protected as far as possible.

Capita has taken extensive steps to recover and secure the data contained within the impacted servers, and also has no evidence that information resulting from this incident is available for sale on the dark web or otherwise. Capita has also appointed, since the earliest days of this incident, a third-party specialist adviser who continues to monitor the dark web to confirm that data compromised as a result of this incident is not being circulated or available for sale online.

### GMP Equalisation

On 26 October 2018 the High Court handed down a judgement involving the Lloyds Banking Group’s defined benefit pension schemes. The judgement concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgement arise in relation to many other defined benefit schemes. The Trustee is aware that the issue will affect the Scheme and has estimated that the total GMP equalisation liability is immaterial and therefore no provision has been included within these financial statements.

The High Court has since determined that the Trustee owes a duty to a transferring member to make a transfer payment which reflected the member’s right to equalised benefits. Where the initial transfer payment was inadequate on this basis the Trustee is under an obligation to make a top-up payment to the receiving scheme on behalf of the transferred member.

The Trustee is reviewing, with their advisers, the implication of these rulings in the context of the Scheme rules and the value of any liability. On completion of the review the Trustee will put together a plan for correcting past benefits as well as inequalities in benefits coming into payment.

### Conflict in Ukraine

The ongoing conflict in Ukraine has continued to exacerbate supply chain issues globally. How those events might develop, the scale of those developments and the wider impacts are hard to predict, though a period of heightened uncertainty remains likely. The amount of exposure to Russia is regarded as trivial to the scheme. The Trustee has not identified any further material risks to the Scheme or employer covenant because of Russian Sanctions although the Trustee will continue to closely monitor the situation.

## Trustee's Report – Scheme Management (continued)

### Summary of Contributions

During the year ended 31 December 2022 the contributions payable to the Scheme by the Employers, under the Scheme Rules and the Schedule of Contributions dated 20 March 2020, were as follows:

| | Defined Benefit Section 2022 £'000 | Defined Contribution Section 2022 £'000 |
|---|---|---|
| **Contributions paid under the Schedule of Contributions** | | |
| Employer normal contributions | - | 19,815 |
| Deficit funding contributions | 20,000 | - |
| Employee normal contributions | - | 1,422 |
| **Contributions payable under the Schedule (as reported on by the Scheme Auditor)** | **20,000** | **21,237** |
| **Contributions paid not under the Schedule of Contributions** | | |
| Employee additional voluntary contributions | - | 676 |
| **Contributions receivable per Fund Account** | **20,000** | **21,913** |

## Investment Matters

### Overview

Responsibility for the administration and management of the Scheme's assets is vested in the Trustee which is responsible for the overall investment policies of the Scheme and is partially delegated by the Investment Committee which acts in accordance with its Terms of Reference.

### Investment managers

The names of those who have managed the Scheme's investments during the year are listed on page 3. The Trustee has delegated the day-to-day management of investment to its appointed fund managers. A written agreement between the Trustee and each manager sets out the terms on which the manager will act.

Following a rise in government bond yields over the year, the Scheme took action to raise collateral to support its LDI mandate and chosen hedging strategy. The Insight Bonds Plus 400 mandate and the LGIM Multi Factor Equities Fund were fully redeemed over a number of tranches with the final redemptions being made on 20 June 2022 and 14 October 2022, respectively. Other assets were also partially redeemed in order to support the Insight LDI collateral pool. The Scheme put in place £100m of synthetic equity exposure on 14 October 2022 to retain flexibility, managed by Insight, the Scheme's LDI manager.

Following year end, the Scheme has fully redeemed from the Standard Life Pooled Property Fund, to reduce the increasing overweight to illiquid assets following the rise in government bond yields.

### Investment principles

In accordance with Section 35 of the Pensions Act 1995, the Trustee has prepared a Statement of Investment Principles which includes the Trustee's policy relating to ethical investment and the exercise of the rights attaching to investments. Any member may request a copy, and the statement is published online. This Statement may change from time to time according to advice received from the investment manager or consultants. The Statement of Investment Principles is included in the Appendix on page 95. Details of the Trustee's policy in respect of financially material considerations – including environmental, social and governance matters, how investment managers are remunerated and voting behaviours are disclosed in the Statement of Investment Principles and the Implementation Statements.

### Departures from investment principles

To the best of its knowledge, the Trustee can report that there has not been any departure from the SIP by the Scheme's investment managers during the year ended 31 December 2022.

### Custodial arrangement

The Trustee has appointed Northern Trust as the custodian of the Scheme's investments.

The Custodian is responsible for the safe keeping, monitoring and reconciliation of documentation relating to the ownership of listed investments. Investments are held in the name of the Custodian's nominee company, in line with common practice for pension scheme investments.

The Scheme also holds individual insurance policies in respect of the defined benefit AVC investments, custody of which is arranged by the providers of those policies.

The Scheme holds its defined contribution section investments in the form of units in pooled vehicles, and custody of Scheme assets is arranged by Scottish Widows.

### Employer-related investments

There were no directly held employer related investments either during the Scheme year or at the year end. The Trustee considers that any indirect holdings are unlikely to exceed 5% at any time in the Scheme year. The Schemes investments comply with restrictions prescribed by regulations made under section 40(2) of the Pensions Act 1995.

### Asset allocation

The table below details the Scheme asset allocation for the Defined Benefit Section, along with the benchmark asset allocation as at the start and end of 2022.

| Investment Fund | Allocation (%) | Illustrative Ranges (%) | 31 December 2022 (%) | 31 December 2021 (%) |
|---|---|---|---|---|
| Illiquid alternatives | **35.0** | **30.0 – 40.0** | **39.0** | **27.1** |
| Global Equities (1) | **25.0** | **20.0 – 30.0** | **-** | **25.1** |
| Absolute Return | **10.0** | **5.0 – 15.0** | **6.7** | **17.3** |
| Fixed Interest Bonds (2)<br>Index-Linked Bonds (2) | **30.0** | **25.0 – 35.0** | **51.9** | **29.6** |
| Cash in Trustee Bank Account (3) | **0.0** | **0.0 – 10.0** | **2.4** | **0.9** |
| **Total** | **100.0** | **100.0** | **100.0** | **100.0** |

Note: (1) This amount only represents the mark to market on the synthetic equities, rather than the £100m of synthetic equity exposure, which is obtained via the Insight LDI portfolio. (2) Fixed and index-linked bond investments may include gilts, investment grade and higher yield corporate bonds and debt, cash and money-market investments and other cash-like collateral for supporting as required, interest and inflation swaps or other agreed derivative contracts. (3) Includes cash in the Northern Trust Cash Account.

The benchmark allocation represents a target asset allocation which is monitored by the Trustee against the allocation and illustrative ranges set out in the Statement of Investment Principles. The actual asset allocation as at 31 December 2022 was out of line with target, largely as a result of volatility experienced in gilt markets over Q3 and Q4 2022 and associated portfolio changes: synthesizing the equities allocation and increasing the allocation to matching assets. The Trustee is in the process of reviewing the Scheme's investment strategy to determine what level of return is attainable given the reduced amount of leverage LDI managers are willing to accommodate

# Trustee's Report – Investment Matters (continued)

**Asset allocation (continued)**

The table below details the Defined Contribution Section investments as at 31 December 2022:

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | £,000 | % | £,000 | % |
| Annuity Retirement | 2,049 | 0.29 | 2,654 | 0.34 |
| Cash and Money Market | 1,388 | 0.20 | 1,.372 | 0.18 |
| Cash Retirement | 1,162 | 0.17 | 653 | 0.08 |
| Growth | 486,850 | 69.85 | 551,838 | 70.59 |
| High Growth | 2,197 | 0.32 | 2,416 | 0.31 |
| Asia Pacific (ex-Japan) Equity | 3,757 | 0.54 | 3,980 | 0.51 |
| Pre-Retirement | 12 | - | 16 | - |
| Shariah | 1,876 | 0.27 | 2,276 | 0.29 |
| Property | 1,810 | 0.26 | 2,174 | 0.28 |
| Emerging Markets Equity | 1,770 | 0.25 | 2,078 | 0.27 |
| European (ex UK) Equity | 842 | 0.12 | 1,046 | 0.13 |
| Fixed Interest Gilt | 2,175 | 0.31 | 3,875 | 0.50 |
| Global Equity (60/40) | 10,510 | 1.51 | 11,418 | 1.46 |
| Index Linked Gilt | 195 | 0.03 | 312 | 0.04 |
| Japanese Equity | 1,532 | 0.22 | 1,793 | 0.23 |
| Moderate Growth | 1,012 | 0.15 | 1,175 | 0.15 |
| UK Equity | 25,111 | 3.60 | 27,050 | 3.46 |
| US Equity | 2,880 | 0.41 | 3,231 | 0.41 |
| Overseas Equity | 25,529 | 3.66 | 30,575 | 3.91 |
| Defensive | 1,579 | 0.23 | 1,887 | 0.24 |
| Diversified Growth | 5,769 | 0.84 | 6,512 | 0.84 |
| Diversified Retirement | 97 | 0.01 | 204 | 0.03 |
| Drawdown Retirement | 7,412 | 1.06 | 4,080 | 0.52 |
| Target Annuity 2022 Retirement | - | - | 857 | 0.11 |
| Target Annuity 2023 Retirement | 548 | 0.08 | 544 | 0.07 |
| Target Annuity 2024 Retirement | 322 | 0.05 | 877 | 0.11 |
| Target Annuity 2025 Retirement | 162 | 0.02 | - | - |
| Target Annuity 2027 Retirement | 172 | 0.02 | 209 | 0.03 |
| Target Annuity 2028 Retirement | 17 | - | 97 | 0.01 |
| UK Corporate Bond | 441 | 0.06 | 505 | 0.06 |
| Ethical | 4,618 | 0.66 | 5,777 | 0.74 |
| Target Drawdown 2022 Retirement | - | - | 8,509 | 1.09 |
| Target Drawdown 2023 Retirement | 8,159 | 1.17 | 10,002 | 1.28 |
| Target Drawdown 2024 Retirement | 11,149 | 1.60 | 13,054 | 1.67 |
| Target Drawdown 2025 Retirement | 9,445 | 1.36 | 11,626 | 1.49 |
| Target Drawdown 2026 Retirement | 12,299 | 1.76 | 13,566 | 1.74 |
| Target Drawdown 2027 Retirement | 12,870 | 1.85 | 15,720 | 2.01 |
| Target Drawdown 2028 Retirement | 14,499 | 2.08 | 15,596 | 2.00 |
| Target Drawdown 2030 Retirement | 16,186 | 2.32 | - | - |
| Target Cash 2022 Retirement | - | - | 474 | 0.06 |
| Target Cash 2023 Retirement | 636 | 0.09 | 648 | 0.08 |
| Target Cash 2024 Retirement | 524 | 0.08 | 498 | 0.06 |

# Trustee's Report – Investment Matters (continued)

### Asset allocation (continued)

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | £,000 | % | £,000 | % |
| Target Cash 2025 Retirement | 108 | 0.02 | 118 | 0.02 |
| Target Cash 2026 Retirement | 334 | 0.05 | 387 | 0.05 |
| Target Cash 2027 Retirement | 303 | 0.04 | 380 | 0.05 |
| Target Cash 2028 Retirement | 556 | 0.08 | 558 | 0.07 |
| SW Mercer Global Listed Infrastructure | 196 | 0.03 | 8 | - |
| SW Target Annuity 2029 Retirement | 27 | - | 30 | - |
| SW Target Annuity 2030 Retirement | 18 | - | - | - |
| SW Target Cash 2029 Retirement | 294 | 0.04 | 371 | 0.05 |
| SW Target Cash 2030 Retirement | 332 | 0.05 | - | - |
| SW Target Drawdown 2029 Retirement | 15,164 | 2.18 | 18,598 | 2.38 |
| | **696,893** | **100.00** | **781,624** | **100.00** |

### Development of the investment strategy

In June 2022 the F&ISC agreed to an updated Investment Management Agreement with Insight to implement increases to the interest rate and inflation hedge ratios. These are currently scheduled to take place periodically over the next three years to increase the hedge ratio to 80% of Technical Provisions liabilities. As at 31 December 2022, the Scheme hedged approximately 65% of interest rate and inflation risk.

Approximately 31% of the target interest rate exposure was achieved through the use of swap contracts and the remainder through fixed and index-linked gilt holdings (including repurchase agreements). This is based on Insight's analysis of the portfolio.

Approximately 5% of the target inflation exposure was achieved through the use of swap contracts and the remainder through index-linked gilt holdings (including repurchase agreements). This is based on Insight's analysis of the portfolio.

The Trustee is in the processing of reviewing the Scheme's investment strategy to determine what level of return is attainable given the reduced amount of leverage LDI managers are willing to accommodate.

### Review of investment performance

The Scheme's annual, 3 year and 5 year returns for the Defined Benefit Section are set out in the table below, along with the benchmark returns over the same period.

Note: The Scheme return is an asset-weighted return using the actual performance of the fund managers. The liability benchmark is calculated using the estimated values of the Scheme's liabilities.

| | 2018 (%) | 2019 (%) | 2020 (%) | 2021 (%) | 2022 (%) | 3 Year (% p.a.) | 5 Year (% p.a.) |
|---|---|---|---|---|---|---|---|
| Scheme Return (%) | **-2.5** | **9.2** | **11.9** | **8.6** | **-33.9** | **-7.1** | **-3.1** |
| Benchmark Return (%) | **-2.1** | **10.6** | **12.5** | **10.3** | **-35.1** | **-7.2** | **-2.8** |
| Liability Benchmark (%) [1] | **-0.8** | **11.8** | **17.7** | **1.4** | **-46.5** | **-14.1** | **-6.8** |

[1] Annual figures for the 2019, 2020 and 2021 liability benchmark performance have been restated following the sign off of the valuation as at 31 December 2018.

**Review of investment performance (continued)**

Overall the Scheme achieved a negative return of -33.9% over the year ending 31 December 2022. The returns for 2022 are broken down into quarterly returns as follows:

| | Q1 2022 (%) | Q2 2022 (%) | Q3 2022 (%) | Q4 2022 (%) | 1 Year (%) |
|---|---|---|---|---|---|
| Scheme Return (%) | **-7.2** | **-15.5** | **-11.3** | **-7.0** | **-33.9** |
| Liability Benchmark (%) | **-10.9** | **-23.2** | **-14.3** | **-8.8** | **-46.5** |

The Scheme’s annual and since inception returns for the Defined Contribution Section, are set out in the table below, along with the benchmark returns over the same period. The Growth performance reflects the default option which relates to the majority of member investments. Members are notified directly on their individual investment performance.

| | Q4 2022 (%) | 1 Year (%) | Since inception * (% p.a.) |
|---|---|---|---|
| Growth 3 1 | | | |
| Scheme return (%) | **4.6** | **-8.8** | **7.4** |
| Benchmark return (%) | **1.7** | **5.5** | **4.6** |
| High Growth 3 1 | | | |
| Scheme return (%) | **4.8** | **-9.1** | **7.6** |
| Benchmark return (%) | **1.8** | **6.0** | **5.1** |

* date of inception 24 October 2012.

# EEPS Implementation Statement

## Scheme Year End – 31 December 2022

The purpose of the Implementation Statement is for us, the Trustee of the EE Pension Scheme, to explain what we have done during the year ending 31 December 2022 to achieve certain policies and objectives set out in the Statement of Investment Principles ("SIP"). It includes:

1. A summary of any review and changes made to the SIP over the year
2. How our policies in the SIP have been followed during the year; and
3. How we have exercised our voting rights or how these rights have been exercised on our behalf, including the use of any proxy voting advisory services

### Our conclusion

**Based on the activity we have undertaken during the year, we believe that the policies set out in the SIP have been implemented effectively.**

In our view, most of the Scheme's material investment managers were able to disclose adequate evidence of voting and/or engagement activity, and this activity was in line with our expectations. Several managers, as outlined below, did not provide any requested engagement information, and the information provided by others was limited and often not in line with the best practice Investment Consulting Sustainability Working Group ("ICSWG") industry standard engagement reporting template.

We will engage with these managers, as set out in our engagement plan, to encourage them to provide detailed and meaningful disclosures about its engagement and voting activities, and learn how they consider financially material Environmental, Social and Governance ("ESG") factors into their voting policies.

### Changes to the SIP during the year

No changes have been made to the SIP over the year.

The Scheme's latest SIP can be found here:
https://pensioninformation.aon.com/ee/fileviewer.aspx?FileID=13418&FileName=2022-11%20EE_Statement_of_Investment_Principles_(cle

Please note Aon were replaced in May 2023 as investment advisor. Brightwell have taken over as investment advisor and fiduciary manager and they will review the SIP going forward. Where this statement references future activity, we have replaced Aon with "The investment advisor"

### What is stewardship?

Stewardship is investors using their influence over current or potential investees/issuers, policy makers, service providers and other stakeholders to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

This includes prioritising which ESG issues to focus on, engaging with investees/issuers, and exercising voting rights.

Differing ownership structures means stewardship practices often differ

## How the policies in the SIP have been followed

In the table below we set out what we have done during the year to meet the policies in the SIP.

| | |
|---|---|
| **Investment Objective** | *The overall return objective has been determined by the Trustee after an assessment of the Defined Benefit section's liabilities and associated risks of the Defined Benefit section of the Scheme and consultation with the Employer and is, based on the Actuarial Valuation date of 31 December 2018, as follows:*<br><br>*"To implement an investment strategy which targets an expected return over fixed interest gilts of at least 2.0% per annum (net of fees) until 31 December 2030, declining to 0.5% ahead of fixed interest gilts at 31 December 2040"*<br><br>*The Trustee recognises that targeting outperformance of the Defined Benefit section's liabilities requires the adoption of an asset mix that will perform differently from the liabilities. This implies that the funding level will be subject to volatility. The Trustee will measure and monitor this volatility using Value at Risk (VaR). The Trustee will aim to keep the VaR within an acceptable range determined by the Trustee after consultation with the Employer.*<br><br>Through its quarterly investment monitoring report the Trustee receives updates on the funding level of the Scheme, the performance of the Scheme’s assets and how future expected returns and risk (VaR) compare to those stated in the investment objective. |

| | |
|---|---|
| **Strategy** | ***When choosing the Defined Benefit section's asset allocation strategy the Trustee considered written advice from its investment advisers and, in doing so, addressed the following:***<br>***• The need to consider a full range of asset classes.***<br>***• The risks and rewards of a range of alternative asset allocation strategies.***<br>***• The suitability of each asset class.***<br>***• The need for appropriate diversification.***<br>The current investment strategy set out in the SIP was set following a detailed review and advice from the Trustee's investment adviser, Aon, and following consultation with the Employer regarding the change of investment strategy.<br>▪ The Trustee reviewed its property allocation over the year and it was found that diversifying the property portfolio globally could add value to the Scheme's assets in terms of enhancing returns and reducing risk.<br>▪ Aon reviewed the Scheme's strategy in Q4 2022 following a change in the investing landscape for Defined Benefit Pension Schemes, including a reduction in the amount of leverage LDI managers are willing to accommodate,<br>▪ The Trustee redeemed from various funds throughout the year in order to meet the strategic objectives of the scheme. The Scheme fully redeemed from the LGIM Factor Equities Index Fund, Insight Bonds Plus 400 Fund and Standard Life Property Fund, proceeds were invested with Insight to support the hedging mandate.<br>▪ The Scheme implemented Synthetic Equities with Insight in October 2022.<br>▪ During the gilts crisis, the Trustee was able to maintain collateral in the LDI portfolio in order to maintain the liability hedge. |
| **Risk** | *Due to the complex and interrelated nature of these (the Scheme's) risks, the Trustee considers the majority of risks in a qualitative rather than quantitative manner as part of each formal investment strategy review (normally triennially). Some risks may also be modelled explicitly during the course of such reviews.*<br>*Having set an investment objective which relates directly to the Scheme's liabilities and implemented it using a range of fund managers, the Trustee's policy is to monitor, where possible, these risks quarterly.*<br>Please refer to "Investment Objective" and "Implementation" for further details on how risks within the Scheme are monitored and reported. In addition to the regular monitoring, the Trustee reviews the risk within the investment strategy as part of the investment strategy review carried out triennially alongside the actuarial valuation. |

## EEPS Implementation Statement (continued)

**Implementation**

*The Trustee has delegated all day-to-day decisions about the Defined Benefit section investments that fall within each mandate, including the realisation of investments, to a range of carefully selected and monitored fund managers through written contracts.*

Over the year the Trustee has implemented a number of changes to the portfolio largely to maintain the liability hedge:

- full redemption from the LGIM Factor Equities Index fund in a number of tranches;
- full redemption from the Insight Bonds Plus 400 fund;
- full redemption from the Standard Life Pooled Property fund;
- the proceed from these redemptions were invested in the LDI portfolio managed by Insight.

*Arrangements with asset managers*

*The Trustee regularly monitors the Scheme's investments to consider the extent to which the investment strategy and decisions of the asset managers are aligned with the Trustee's policies.*

The Trustee is supported in this monitoring activity by its investment adviser. Some of the detailed monitoring is often delegated to the F&ISC. This typically includes updates from the investment adviser on various items, including the investment strategy, assessment of fund managers, performance and longer-term positioning of the portfolio.

Investment performance monitoring

The Trustee receives, typically on a quarterly basis, monitoring reports from its investment adviser outlining the valuation of all investments held, the performance of these investments and any significant transactions made during the quarter. Investment returns are compared against appropriate performance objectives. The asset allocation is also monitored and compared to the strategic asset allocation for the Scheme.

Within this report, the Trustee receives an overview of each "buy" rated manager produced by Aon's manager research team giving a quarterly update on the rating of the manager. This includes an ESG rating for equity and fixed income managers where available.

The investment advisor continues to monitor the asset managers and report to the Trustee via the quarterly report, at meetings and through regular correspondence outside of meetings.

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

The investment advisor will share the SIP with future Scheme's asset managers for their awareness of the Scheme's expectations and gather responses and raise any material concerns with the Trustee.

| | |
|---|---|
| | *Before appointment of a new asset 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.*<br>When assessing investment managers, both at initial appointment and on an ongoing basis, the Trustee ensures appropriate governing documentation is in place and sets clear expectations with investment managers.<br>The Trustee along with its advisors will review governing documentation associated with any new investment to ensure consistency with Trustee policies and look to amend governing documentation where necessary. |
| **Stewardship – Voting and Engagement** | *As part of its delegated responsibilities, the Trustee expects the Scheme's investment managers to:*<br>*• Where appropriate, engage with relevant parties, such as investee companies; and*<br>*• Exercise the Trustee's voting rights in relation to the Scheme's assets, with an aim to protect and enhance the long term value of Scheme assets.*<br>*The Trustee regularly reviews the continuing suitability of the appointed managers and takes advice from its 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.*<br>The investment advisor collates annual stewardship reports containing details of activities of each manager, for example voting records. These voting records are outlined below in the Voting and Engagement section. |
| **Cost and Transparency** | *The Trustee is aware of the importance of monitoring its asset manager's 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 the asset manager that can increase the overall cost incurred by their investments.*<br>Over the year the Trustee received the ClearGlass cost and transparency report for 2021. The statement provided a consolidated summary of all the investment costs incurred in having assets invested with the Scheme's investment managers over 2021. A breakdown of the costs into their various component parts was also provided, including the costs of buying and selling assets (transaction costs) incurred by the underlying managers. The Trustee used McLagan to benchmark the cost data for the Scheme and found that in aggregate, based on the ongoing charges that have been benchmarked, the Scheme was paying 3bp lower than the median (35bp v 38bp).<br>The Trustee along with its advisors will continue to gather cost data for the Scheme's asset managers, including turnover costs, annually. |

**EEPS Implementation Statement (continued)**

## Our managers' voting activity

Good asset stewardship means being aware and active on voting issues, corporate actions and other responsibilities tied to owning a company's stock. Understanding and monitoring the stewardship that investment managers practice in relation to the Scheme's investments is an important factor in deciding whether a manager remains the right choice for the Scheme.

Voting rights are attached to listed equity shares, including equities held in multi-asset funds. We expect the Scheme's equity-owning investment managers to responsibly exercise their voting rights.

### Why is voting important?

Voting is an essential tool for listed equity investors to communicate their views to a company and input into key business decisions. Resolutions proposed by shareholders increasingly relate to social and environmental issues as well.

*Source: UN PRI*

### Voting statistics

The table below shows the voting statistics for the Scheme's material fund with voting rights for the year to 31 December 2022.

| | Number of resolutions eligible to vote on | % of resolutions voted | % of votes against management | % of votes abstained from |
|---|---|---|---|---|
| **LGIM Developed Balanced Equity Factor Index Fund** | 11,634 | 99.7% | 20.3% | 0.2% |

*Source: Manager*

### Use of proxy voting advisers

Many investment managers use proxy voting advisers to help them fulfil their stewardship duties. Proxy voting advisers provide recommendations to institutional investors on how to vote at shareholder meetings on issues such as climate change, executive pay and board composition. They can also provide voting execution, research, record keeping and other services.

Outsourcing voting activities to proxy advisers enables managers that invest in thousands of companies to participate in many more votes than they would without their support. But responsible investors will dedicate time and resources towards making their own informed decisions, rather than solely relying on their adviser's recommendations.

The table below describes how the Scheme's manager uses proxy voting advisers.

| | Description of use of proxy voting adviser(s) |
|---|---|
| **LGIM Developed Balanced Equity Multi Factor Index Fund** | LGIM's Investment Stewardship team uses Institutional Shareholder Services ("ISS")'s 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions. To ensure their proxy provider votes in accordance with their position on ESG, they have put in place a custom voting policy with specific voting instructions. |

*Source: Manager(s)*

### Significant voting examples

To illustrate the voting activity being carried out on our behalf, we asked the Scheme's investment manager to provide a selection of what it considers to be the most significant votes in relation to the Scheme's fund. A sample of these significant votes can be found in the appendix

**EEPS Implementation Statement (continued)**

## Our managers' engagement activity

Engagement is when an investor communicates with current (or potential) investee companies (or issuers) to improve their ESG practices, sustainability outcomes or public disclosure. Good engagement identifies relevant ESG issues, sets objectives, tracks results, maps escalation strategies and incorporates findings into investment decision-making.

The table below shows some of the engagement activity carried out by the Scheme's material managers over the year. Some of the engagement information provided is at a firm level i.e. is not necessarily specific to the fund invested in by the Scheme

| **Funds** | **Number of engagements** | | **Key themes engaged on at a firm-level** |
|---|---|---|---|
| | Fund specific | Firm level | |
| PIMCO Diversified Income Fund (UK DB PLD) (V)[1] | >4000 | >4000 | Delivery on Business & Balance Sheet Strategy, ESG Bonds, Product Safety & Quality, Greenhouse Gas Emissions, Transparency & Reporting, Product Innovation & Wellness, Governance, Physical Risks and Resilience, Land use and Biodiversity, Human & Labour Rights and Health & Safety and others |
| Insight High Grade ABS Fund (formerly LIBOR Plus) | 40 | 948 | Climate change, Natural resource use/impact (e.g. water, biodiversity), Human capital management (e.g. inclusion & diversity, employee terms, safety), Board effectiveness - Independence or Oversight, Board effectiveness – Other, Leadership - Chair/CEO, Capital allocation, Financial performance, Strategy/purpose, Risk management (e.g. operational risks, cyber/information security, product risks) and others |
| LGIM Developed Balanced Equity Multi Factor Index Fund | 279 | Not provided | Climate change, Human and labour rights (e.g. supply chain rights, community relations), Human capital management (e.g. inclusion & diversity, employee terms, safety), Inequality, Public health, Board effectiveness - Diversity, Board effectiveness - Other, Remuneration, Reporting (e.g. audit, accounting, sustainability reporting), Strategy/purpose, and others |
| UBS Global Asset Management Triton | 0 | 435 | Climate change, Pollution, Waste, Human and labour rights (e.g. supply chain rights, community relations), Human capital management (e.g. inclusion & diversity, employee terms, safety), Remuneration, and others |
| Basalt Infrastructure Partners III | Not provided | 120 | Climate change, Human capital management (e.g. inclusion & diversity, employee terms, safety), Human and labour rights (e.g. supply chain rights, community relations), Human capital management (e.g. inclusion & diversity, employee terms, safety), Diversity Strategy, Reporting (e.g. audit, accounting, sustainability reporting), Financial performance, Strategy, Risk management (e.g. operational risks, cyber/information security, product risks) and others |
| KKR Global Infrastructure Partners | Not tracked | >4 | Themes for 2021 set out in KKR's engagement report at kkresg.com |
| Aviva Investors - REaLM Multi Sector Fund | Not provided | Not provided | Not provided |
| Abrdn – Property Pooled Funds[2] | Not provided | Not provided | Not provided |
| M&G Investments - UK Residential Property Fund | Not provided | Not provided | Not provided |
| Hayfin Direct Lending Fund II | Not provided | Not provided | Not provided |
| Chorus Capital Credit Fund IV | Not provided | Not provided | Not provided |
| I Squared Capital - Global Infrastructure Fund III | Not provided | Not provided | Not provided |

**EEPS Implementation Statement (continued)**

*Source: Manager(s)*

[1]*Engagement information is over year 2021. PIMCO has advised that engagement information for the year to 31 December 2022 will be available in Q3 2023.*

[2]*Abrdn has flagged full engagement information will be available later in Q1.*

## Data limitations

At the time of writing, the following manager(s) did not provide all the information we requested:

- Aviva Investors, M&G Investments, Hayfin Capital Management, Chorus Capital, and I Squared Capital did not provide any requested engagement information as of the time of writing.
- PIMCO and Abrdn noted that they would provide engagement information for the requested period but have not provided this as of the time of writing.
- LGIM and KKR did provide fund level engagement reporting but not in the ICSWG industry standard.
- LGIM did not provide firm level engagement information.
- UBS and Basalt did not provide fund specific engagement information.

We will engage with the managers above to encourage improvements in reporting.

This report does not include commentary on the Scheme's liability driven investments and/or cash, gilts etc because of the limited materiality of stewardship to these asset classes. Further this report does not include the additional voluntary contributions ("AVCs") due to the relatively small proportion of the Scheme's assets that are held as AVCs.

# Appendix – Significant Voting Examples

In the table below are some significant vote examples provided by the Scheme's managers. We consider a significant vote to be one which the manager considers significant. Managers use a wide variety of criteria to determine what they consider a significant vote, some of which are outlined in the examples below

| | | |
|---|---|---|
| **LGIM Developed Balanced Equity Factor Index Fund** | **Company name** | Eli Lilly and Company |
| | **Date of vote** | 2-May-22 |
| | **How the manager voted** | For |
| | **Did the manager communicate its intent to the company ahead of the vote?** | Yes |
| | **Summary of the resolution** | Require Independent Board Chair |
| | **Approximate size of fund's holding as at the date of the vote (as % of portfolio)** | 0.93% |
| | **Outcome of the vote** | Fail |
| | **Rationale for the voting decision** | A vote in favour is applied as LGIM expects companies to establish the role of independent Board Chair |
| | **Implications of the outcome** | LGIM will continue to engage with its investee companies, publicly advocate its position on this issue and monitor company and market-level progress. |
| | **Criteria on which the vote is considered significant?** | LGIM considers this vote to be significant as it is in application of an escalation of vote policy on the topic of the combination of the board chair and CEO (escalation of engagement by vote) |

*Source: Manager(s)*

# Annual Statement of Investment Principles Implementation Statement

## EE Pension Scheme ('the Scheme') – DC Section

## Introduction

This statement, prepared by the Trustee of the Scheme ("the Trustee"), sets out how, and the extent to which, the Statement of Investment Principles ("SIP") has been followed during the year to 31 December 2022 ("the Scheme year"). This statement covers the DC Section of the Scheme and should be read in conjunction with the Defined Contribution Section of the Scheme's SIP.

This statement also describes any reviews and changes to the SIP during the Scheme year and sets out details of voting behaviour that has been carried out, on behalf of the Trustee, by the investment managers during the Scheme year.

## Investment objectives of the Scheme

The Trustee believes it is important to consider the policies in place in the context of the investment objectives it has set. The objective of the Scheme included in the DC Section of the SIP is as follows:

*"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. The Trustee's objective is therefore to make available a range of investment options for this purpose.*

*For members who do not wish to take an active role in investment decisions, the Trustee offers a **default option** ("Do it for me") which includes lifestyling arrangements to de-risk investments to an asset allocation designed to be appropriate for a typical member who intends to access their benefits via income drawdown at retirement. More details regarding the default options are available in Appendix B (DC Members) and Appendix C (AVCs) of this Statement."*

## Investment Structure

The DC Section of the Scheme has a delegated investment arrangement in place. The DC Section invests in a range of funds on the Scottish Widows insurance platform. These funds are made available through the Trustee's arrangement with Mercer Workplace Savings ("MWS"). Members are able to access funds managed by Mercer Global Investments Europe Limited ('MGIE'), BlackRock, BMO, LGIM and HSBC. MGIE operates on a 'manager of managers' basis, appointing underlying fund managers to its funds under management. MGIE has discretion on the allocations to the underlying fund managers and the selection of those managers.

The Trustee has ultimate oversight responsibility of this delegated arrangement and monitors this arrangement regularly and the performance of the funds on a quarterly basis.

**EEPS Implementation Statement (continued)**

## Review of the SIP

The Trustee reviewed the Scheme's SIP during the Scheme year but no changes were made. The latest SIP can be found at: https://pensioninformation.aon.com/ee

## Assessment of how the policies in the SIP have been followed for the year to 31 December 2022

The information provided in the following table highlights the work undertaken by the Trustee during the year, and longer term where relevant, and sets out how this work followed the Trustee's policies in the SIP. The SIP sets out the policies referenced below.

In summary, it is the Trustee's view that the policies in the SIP have been followed during the Scheme year to 31 December 2022.

**EEPS Implementation Statement (continued)**

| | Requirement | Section of the SIP where the policy can be found | In the year to 31 December 2022 |
|---|---|---|---|
| **1** | Securing compliance with the legal requirements about choosing investments | DC Section<br>2. Investment Policies | The Trustee has established a Funding & Investment Committee which meets regularly to monitor the controls and processes in place in connection with the Scheme's investments. The Scheme's investment advisors attended all Funding & Investment Committee Meetings during the year and provided updates on Scheme performance.<br>Over the year to 31 December 2022, the following investment changes were made:<br>- The Emerging Market Equity Fund was modified so that it would receive additional governance from the MWS arrangement. To achieve this, the underlying fund switched from a passive index fund managed by BlackRock to a passive index fund managed by Irish Life Investment Management. Both funds follow the same strategy and track the same benchmark (MSCI Emerging Markets Index).<br>- The following funds were moved to equivalent funds that would be overseen by the MWS arrangement: HSBC Amanah Fund, Over 5 Year Gilt Index Fund, Sterling Liquidity Fund, Pre-Retirement Fund, UK Equity Fund, UK Corporate Bond Fund, Overseas Equity Fund and Fixed Interest Gilt Fund.<br>- A triennial default investment strategy review was conducted between June and September 2022 with the at-retirement position changing from 75% Mercer Diversified Return Fund (DRF)/25% Cash Fund to 90% Mercer DRF/10% Cash Fund, and the Cash Fund being introduced 2 years from retirement instead of 3 years from retirement.<br>In considering appropriate investments for the Scheme, the Trustee has obtained and considered the written advice of a suitably-qualified investment advisor. 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). |

**EEPS Implementation Statement (continued)**

| | Requirement | Section of the SIP where the policy can be found | In the year to 31 December 2022 |
|---|---|---|---|
| **2** | Kinds of investments to be held | DC Section<br>2. Investment Policies | -The Emerging Market Equity Fund was modified so that it would receive additional governance from the MWS arrangement. To achieve this, the underlying fund switched from a passive index fund managed by BlackRock to a passive index fund managed by Irish Life Investment Management. Both funds follow the same strategy and track the same benchmark (MSCI Emerging Markets Index).<br>The arrangements in place are consistent with the policies in the SIP. |
| **3** | The balance between different kinds of investments | DC Section<br>2. Investment Policies | The default investment option was reviewed in September 2022 to consider whether it remains appropriate for members invested in the DC Section.<br>The Trustee agreed to amend at-retirement position changing from 75% Mercer Diversified Return Fund (DRF)/25% Cash Fund to 90% Mercer DRF/10% Cash Fund, and the Cash Fund being introduced 2 years from retirement instead of 3 years from retirement. These changes were implemented during the Scheme year.<br>The next review is due to be completed by September 2025.<br>The MWS arrangement in place is a delegated investment arrangement. The delegated investment manager regularly monitors the arrangements in place and produces a more formal review annually. A review was produced in June 2022 that considered the ongoing suitability of the strategies and funds used. However, no changes as a result of this review required updates to the SIP. |

**EEPS Implementation Statement (continued)**

| | Requirement | Section of the SIP where the policy can be found | In the year to 31 December 2022 |
|---|---|---|---|
| **4** | Risks, including the ways in which risks are to be measured and managed | DC Section<br>Section 3. Risk Management and Measurement | There were no changes to this policy during the Scheme year.<br>As detailed in the risk table in the SIP, the Trustee considers both quantitative and qualitative measures for risks when deciding investment policies, strategic asset allocation and the choice of delegated investment manager / fund managers / funds / asset classes.<br>Environmental, Social and Governance ("ESG") risk was also managed throughout the year, with considerations given to the climate-related disclosures as requested by the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations. During the Scheme year, analysis was carried out for the first TCFD report for the Scheme with the year ending 31 December 2022.<br>The Trustee also reviews the quarterly investment reports, which monitor the volatility of the investment strategy. The risk associated with the Russia/Ukraine conflict was monitored over the year.<br>The Trustee has delegated to the Funding & Investment Committee responsibility for assessing (in conjunction with the investment advisor) the performance delivered by the delegated investment arrangements and their ongoing suitability for the Scheme's membership. The Committee reviewed the measurement of these risks on a quarterly basis during the year as part of their regular investment performance monitoring. The investment performance monitoring reports were provided by the Scheme's investment advisor. Any issues identified / discussed with the Committee were raised and discussed with the Trustee, however no issues warranted a change in investments / managers.<br>The Trustee is comfortable with the manager ratings applied by the investment advisor and continues to closely monitor the ratings and any significant developments at each of the underlying investment managers.<br>In member-facing communications, the Trustee highlights a number of risks that a member may face as a result of investing in any particular funds. |

**EEPS Implementation Statement (continued)**

| | Requirement | Section of the SIP where the policy can be found | In the year to 31 December 2022 |
|---|---|---|---|
| **5** | Expected return on investments | DC Section 2. Investment Policies | There was no change to this policy during the Scheme year. The investment performance was reviewed by the Funding & Investment Committee on a quarterly basis. Any issues identified / discussed with the Committee were raised and discussed, however no issues warranted a change in investments / managers.<br><br>Investment performance reports are provided on a quarterly basis to the Trustee, including how each fund or strategy were delivering against their specific mandates. The Trustee reviews performance on an ongoing basis – including additional monitoring of the Scheme's main investments as a result of heightened market volatility since the Covid-19 pandemic and more recently, the Russia/Ukraine conflict and the UK Chancellor's 'mini-budget' in September 2022. |
| **6** | Realisation of investments | DC Section 7. Implementation and Engagement Policy | There were no changes during the year to the liquidity of the funds used by the Scheme. All assets are daily-dealt pooled investment arrangements, with assets mainly invested in regulated markets, and therefore should be realisable at short notice in response to member demand.<br><br>The funds used by the Scheme are accessed via an investment platform and are held through a long-term insurance policy issued by Scottish Widows. The investment funds are blended investment vehicles that are managed by various investment managers. The selection, retention and realisation of assets within the pooled funds are managed by the respective investment managers in line with the mandates of the funds. There were no liquidity issues over the year. |

**EEPS Implementation Statement (continued)**

| | Requirement | Section of the SIP where the policy can be found | In the year to 31 December 2022 |
|---|---|---|---|
| **7** | 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 | DC Section Section 3. Risk Management and Measurement | There were no updates to this policy during the year.<br><br>The Trustee's focus is on longer-term performance but shorter-term performance is monitored to ensure any concerns can be identified in a timely manner.<br><br>The Trustee believes the appropriate time horizon over which to assess these considerations should be viewed at a member level (depending on their need to fund future benefits by investments of the Scheme). This will be dependent on the member's age and when they expect to retire.<br><br>The investment performance report is reviewed by the Trustee on a quarterly basis – this includes ratings (both general and specific ESG) from the investment advisers. All of the managers remained highly rated during the year. The investment performance report also includes detail on how each investment manager is delivering against their specific mandates. |
| **8** | The extent (if at all) to which non-financial matters are taken into account in the selection, retention and realisation of investments | DC Section 2. Investment Policies | No changes during the Scheme year to this policy and the policy reflects current practice.<br><br>Non-financial matters, such as member and beneficiary ethical views, views in relation to social and environmental impact, and their present and future quality of life, are not explicitly taken into account in the selection, retention and realisation of investments. However, the Trustee does make available an Ethical Fund and a Shariah Fund, which consider the views of members and their non-financial concerns. |

**EEPS Implementation Statement (continued)**

| | Requirement | Section of the SIP where the policy can be found | In the year to 31 December 2022 |
|---|---|---|---|
| **9** | The exercise of the rights (including voting rights) attaching to the investments | DC Section 7. Implementation and Engagement Policy | The Trustee does not use the direct services of a proxy voter. The delegated investment manager and underlying fund managers have discretion over exercising voting rights and stewardship obligations. The delegated investment manager has a responsible investment framework in place and reviews the underlying investment managers and funds in line with this framework on an annual basis.<br>The Trustee has requested key voting activities from MWS during the Scheme year in order to consider this, and the information received is summarised in the Engagement Policy Statement that follows.<br>The Trustee annually receives and reviews MWS's Stewardship policies.<br>There we no changes made to the stewardship policies over the Scheme year.<br>The voting records of the investment managers are summarised in the voting activity that follows. No direct action was needed or taken in relation to challenging managers.<br>Following the DWP's consultation response and outcome regarding Implementation Statements on 17 June 2022 updated guidance was produced which is effective for all scheme year ends on or after 1 October 2022.<br>The updated guidance requires trustees to include a description of what they believe to be a significant vote within the Implementation Statement. The voting information should also include details explaining why each vote has been categorised as most significant, what the vote was, and why the manager voted in the way it did.<br>The Trustee has considered what the Scheme's stewardship priorities should be as a result of the new requirements introduced this year for the SIP Implementation Statement in relation to 'significant votes' and has decided the following ESG factors should have most focus:<br>- Environmental: Climate change with a focus on low carbon transition and physical damages resilience.<br>- Governance: Diversity, equity and inclusion in terms of governance and decision making. |
| **10** | Undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, Trustee would monitor and engage with relevant persons about relevant matters) | DC Section 7. Implementation and Engagement Policy | |

**EEPS Implementation Statement (continued)**

| | Requirement | Section of the SIP where the policy can be found | In the year to 31 December 2022 |
|---|---|---|---|
| **11** | How the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with the trustee's policies | DC Section 7. Implementation and Engagement Policy | As the Trustee invests in pooled investment vehicles it accepts it has no ability to influence the delegated investment manager and investment managers to align their decisions with the Trustee policies set out in this Statement. However, appropriate mandates are selected to align with the overall investment strategy.<br>The Trustee reviewed the performance of the Plan's funds quarterly. There were no concerns over 2022. |
| **12** | How the arrangement incentivises the asset manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term | DC Section 7. Implementation and Engagement Policy | At regular monitoring meetings, the Trustee receives information on investment decisions taken over the recent period. |
| **13** | How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the Trustee's policies | DC Section 7. Implementation and Engagement Policy | The Trustee has reviewed both short term and longer term investment performance on a quarterly basis during the year and informally intra-meeting. There were no performance concerns raised in 2022.<br>During the Scheme year (Q2 2022), the Trustee negotiated a reduction in the investment management fees paid by members of 0.04% p.a. for the following funds: Growth Fund (default), Target Drawdown 2023-2030 (default), Target Annuity 2023-2030, Target Cash 2023-2030, Defensive Fund, Moderate Growth Fund and High Growth Fund. |

**EEPS Implementation Statement (continued)**

| | Requirement | Section of the SIP where the policy can be found | In the year to 31 December 2022 |
|---|---|---|---|
| **14** | How the Trustee monitors portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range | DC Section 7. Implementation and Engagement Policy | The Trustee considers the level of transaction costs as part of their annual Value for Members assessment, last carried out as at 31 December 2022 and by publishing this information as part of the costs and charges disclosures mandated by regulations governing the Chair's Statement.<br>As the Scheme invests through pooled funds, the Trustee is unable to define target portfolio turnover ranges for funds. However, it will engage with an underlying investment manager if portfolio turnover is higher than expected. |
| **15** | The duration of the arrangement with the asset manager | DC Section 7. Implementation and Engagement Policy | The Trustee reviewed the performance of the Scheme's funds quarterly. There were no concerns over 2022. |

**EEPS Implementation Statement (continued)**

## Engagement Policy Statement

Section 4 of the DC Section of the SIP sets out the Trustee's policy on environmental, social, and corporate governance ("ESG") factors, stewardship and climate change. The Trustee believes that ESG factors 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 require explicit consideration.

The Trustee considers how ESG, climate change and stewardship is integrated within Mercer's (MWS) investment processes and those of the underlying managers in the monitoring process.

## Voting Activity during the Scheme year

The Trustee has delegated its voting rights to the investment managers. The SIP states:

*"The Trustee and the Delegated Investment Manager expect investment managers to incorporate the consideration of medium to long term financial performance longer term factors, such as ESG factors, into their decision making process where appropriate. The extent to which this is so will be considered during the selection, retention and realisation of manager appointments, undertaken by the Delegated Investment Manager. Voting and engagement activity should be used by investment managers to discuss and improve the medium to long term performance of an issuer of debt or equity."*

It is the Trustee's view that the policy has been followed during the Scheme year. The MWS Statement with regards to Climate change management reporting, including stewardship policy, is available at: https://investment-solutions.mercer.com/content/dam/mercer-subdomains/delegated-solutions/CorporatePolicies/Mercer%20Workplace%20Savings%20-%20TCFD%20Statement%20-%20April%202020.pdf

Over the prior 12 months, the Trustee has not actively challenged the delegated investment manager nor the investment manager of the externally managed fund on their voting activity. The Trustee does not use the direct services of a proxy voter.

The majority of voting activity will arise in public equity funds, though voting opportunities may arise in other asset classes such as certain bonds, property, private equity and multi-asset funds. For the purposes of this statement, the Trustee has reported voting information with respect to all funds that hold equity and reported on the significant votes with respect to the main investment options used by the Scheme.

The Scheme invests in the daily dealt and daily priced pooled funds detailed below. The funds highlighted in bold hold equities:

**EEPS Implementation Statement (continued)**

| Investment option | Investment Strategy | Fund Name |
|---|---|---|
| Default | Growth Phase | **Mercer Growth Fund** |
| Default | Mercer SmartPath Drawdown | **Target Drawdown 2023 Fund**<br>**Target Drawdown 2024 Fund**<br>**Target Drawdown 2025 Fund**<br>**Target Drawdown 2026 Fund**<br>**Target Drawdown 2027 Fund**<br>**Target Drawdown 2028 Fund**<br>**Target Drawdown 2029 Fund**<br>**Target Drawdown 2030 Fund**<br>**Drawdown Retirement Fund** |
| Lifestyle | Growth Phase | **Mercer Growth Fund** |
| Lifestyle | Mercer SmartPath Annuity | **Target Annuity 2023 Fund**<br>**Target Annuity 2024 Fund**<br>**Target Annuity 2025 Fund**<br>**Target Annuity 2026 Fund**<br>**Target Annuity 2027 Fund**<br>**Target Annuity 2028 Fund**<br>**Target Annuity 2029 Fund**<br>**Target Annuity 2030 Fund**<br>Annuity Retirement Fund |
| Lifestyle | Mercer SmartPath Cash | **Target Cash 2023 Fund**<br>**Target Cash 2024 Fund**<br>**Target Cash 2025 Fund**<br>**Target Cash 2026 Fund**<br>**Target Cash 2027 Fund**<br>**Target Cash 2028 Fund**<br>**Target Cash 2029 Fund**<br>**Target Cash 2030 Fund**<br>Cash Retirement Fund |

**EEPS Implementation Statement (continued)**

| Investment option | Investment Strategy | Fund Name |
|---|---|---|
| Self-Select Funds | | **Defensive Fund**<br>**Diversified Retirement Fund**<br>**Growth Fund**<br>**High Growth Fund**<br>**Moderate Growth Fund**<br>Cash and Money Market Fund<br>**Diversified Growth Fund**<br>**Emerging Markets Equity Fund**<br>**Ethical Fund**<br>**European ex-UK Equity Fund**<br>Fixed Interest Gilt Fund<br>**Global Equity (60/40) Fund**<br>Index-Linked Gilt Fund<br>**Japanese Equity Fund**<br>**Overseas Equity Fund**<br>**Pacific Rim ex-Japan Equity Fund**<br>Pre-Retirement Fund<br>Property Fund<br>**Shariah Fund**<br>UK Corporate Bond Fund<br>**UK Equity Fund**<br>**US Equity Fund**<br>**Global Listed Infrastructure** |

**Overview of MGIE approach to voting and engagement**

MGIE's policy on consulting with clients before voting

The legal right to vote belongs to the relevant fund, as the owner of the securities. The voting activity is delegated to the external underlying investment managers as appointed by MGIE, as the investment manager for the investment vehicles in which clients are invested. MGIE expects underlying investment managers to comply with its Engagement Policy and will seek to ensure that obligations under this Engagement Policy are discharged by the underlying investment managers. The Engagement Policy is available here: https://investment-solutions.mercer.com/global/all/en/investment-solutions-home/corporate-policies.html

MGIE's process for deciding how to vote

MGIE has developed adequate and effective strategies for determining when and how any voting rights in funds are to be exercised, to the exclusive benefit of the fund and its investors. MGIE has put in place a policy covering each fund to ensure the exercise of voting rights are in accordance with the investment objective and policy of the fund. Mercer will provide a report on an annual basis which provides an overview of underlying investment manager engagement processes, significant votes, use of proxy advisers and engagement examples.

**EEPS Implementation Statement (continued)**

MGIE's proxy voting services

An overview on the use of any proxy voting services by underlying investment managers will be provided by Mercer on an annual basis going forward.

MGIE's policy with respect to conflicts of interest

MGIE applies an effective written conflicts of interest policy and has put in place procedures and measures for the prevention or management of conflicts of interest including where such conflicts may arise due to how it engages with the companies it invests in. A conflicts of interest policy is published here: https://investment-solutions.mercer.com/global/all/en/investment-solutions-home/corporate-policies.html

MGIE operates on a manager of managers basis, appointing underlying investment managers to its funds under management, and does not hold only securities directly on behalf of clients. The underlying investment managers manage the voting processes, therefore there is no conflict of interest involving MGIE as the investment manager.

MGIE's additional comments with respect to voting activities or processes

MGIE accepts that underlying investment managers may have detailed knowledge of both the governance and the operations of the investee companies and has therefore enabled underlying investment managers to vote based on their own proxy-voting execution policy.

*Source: MWS*

**EEPS Implementation Statement (continued)**

| Fund | Mercer Defensive | Mercer Moderate Growth | Mercer Growth | Mercer High Growth | Overseas Equity Fund | UK Equity | Global Equity (60:40) | US Equity |
|---|---|---|---|---|---|---|---|---|
| Total DC Scheme Allocation at 31 December 2022 | 0.2% | 0.1% | 69.9% | 0.3% | 3.7% | 3.6% | 1.5% | 0.4% |
| Number of meetings eligible to vote at over year to 31 December 2022 | 3,922 | 10,751 | 10,751 | 10,751 | 1,983 | 715 | 2,610 | 583 |
| Number of resolutions eligible to vote on over year to 31 December 2022 | 36,698 | 113,170 | 113,170 | 113,170 | 25,148 | 10,301 | 34,570 | 7,176 |
| Of the resolutions voted on, percentage voted with management | 78.9% | 82.6% | 82.6% | 82.6% | 93.0% | 95.7% | 93.6% | 95.9% |
| Of the resolutions voted on, percentage voted against management | 18.9% | 16.5% | 16.5% | 16.5% | 6.9% | 3.8% | 5.9% | 4.1% |
| Of the resolutions voted on, percentage abstained | 2.2% | 0.9% | 0.9% | 0.9% | 0.1% | 0.5% | 0.5% | 0.0% |

*Source: MWS, BlackRock.*

**EEPS Implementation Statement (continued)**

| Fund | Japanese Equity | Emerging Markets Equity | Ethical Fund | European (ex-UK) Equity | Asia Pacific (ex-Japan) Equity | Shariah Fund | Global Listed Infrastructure | Diversified Growth | Diversified Retirement |
|---|---|---|---|---|---|---|---|---|---|
| Total DC Scheme Allocation at 31 December 2022 | 0.2% | 0.3% | 0.7% | 0.1% | 0.5% | 0.3% | 0.0% | 0.8% | 0.0% |
| Number of meetings eligible to vote at over year to 31 December 2022 | 488 | 2,947 | 4,942 | 483 | 471 | 107 | 38 | 10,557 | 6,010 |
| Number of resolutions eligible to vote on over year to 31 December 2022 | 5,995 | 25,922 | 53,097 | 8,796 | 3,310 | 1,623 | 809 | 110,658 | 65,640 |
| Of the resolutions voted on, percentage voted with management | 97.2% | 79.3% | 80.4% | 86.7% | 88.6% | 81.8% | 79.3% | 82.5% | 81.3% |
| Of the resolutions voted on, percentage voted against management | 2.8% | 18.1% | 18.6% | 12.0% | 11.4% | 17.6% | 13.6% | 16.5% | 17.3% |
| Of the resolutions voted on, percentage abstained | 0.0% | 2.6% | 1.0% | 1.4% | 0.0% | 0.6% | 7.1% | 1.0% | 1.4% |

*Source: MWS and BlackRock as at 31 December 2022.*

**EEPS Implementation Statement (continued)**

## Sample of significant votes undertaken in the MGIE funds for the 12 months to 31 December 2022

**Examples of Significant Votes**

To ensure voting behaviour is consistent with the Schemes' investment objectives and stewardship priorities, the Trustee has classified 'significant votes' as those which consider any one of the following factors with relevant (but not exhaustive) examples:

- Environmental – climate change, low carbon transition & physical damage resilience
- Governance – Inclusive, diverse decision making etc.

The Trustee has reviewed voting records from the managers in each of their priorities listed above

The information in this section has been provided directly by the investment managers. The managers have provided detailed information on their voting. The Trustee has considered this information and disclosed the votes that they deem to be most significant. A 'significant vote' is defined as one that is linked to the Plan's stewardship priorities/themes. These priorities are set out above. The Trustee has weighted this analysis towards the funds used in the default strategy, where the majority of members' assets are invested and companies that have the largest holdings within those funds (i.e. significant holdings).

## EEPS Implementation Statement (continued)

**Mercer Growth Fund and Mercer Diversified Retirement Fund**

| Company: | Microsoft Corporation | Prologis | NextEra Energy Inc. | Alphabet Inc. | Standard Bank Group Ltd. |
|---|---|---|---|---|---|
| **Date:** | 13/12/2022 | 04/05/2022 | 19/05/2022 | 01/06/2022 | 31/05/2022 |
| **Approx. size of holding at date of vote** | 0.567% | 0.431% | 0.372% | 0.096% | 0.028% |
| **Resolutions:** | Shareholder Proposal Regarding Managing Climate Risk in Employee Retirement Options | Management Proposal Regarding the Election of Executive Committee Members | Shareholder Proposal Regarding Disclosure of a Board Diversity and Skills Matrix | Shareholder Proposal Regarding Report on Board Diversity | Shareholder Proposal Regarding Disclosure of GHG Emissions |
| **Manager Vote:** | Against | Against | For | For | For |
| **Rationale:** | A vote against this resolution is warranted. The company offers an option to employees that want to invest more responsibly, and the Department of Labor is finalizing rules on how ESG factors should be considered by fiduciaries. | Votes against were related to joint CEO/chair, diversity, and independence. A vote against is applied as the manager expects companies to separate the roles of Chair and CEO due to risk management and oversight. Also, the company has an all-male Executive Committee. Finally, the manager expects a board to be regularly refreshed in order to maintain an appropriate mix of independence, relevant skills, experience, tenure, and background. | A vote in favour is applied because the manager believes that a well governed and diverse board is more likely to perform over the long term. | A vote in favour is applied because the manager believes that a well governed and diverse board is more likely to perform over the long term. | Support for all climate-related shareholder proposals at Standard Bank Group's 2022 AGM is considered warranted in light of the benefits of progressive disclosure on the company's financed emissions and climate strategy, noting that the company considering to put the proposals to vote is a positive development. |
| **Outcome:** | Not passed | Passed | Not passed | Not passed | Not passed |
| **Priority Area** | Climate Change | Board Diversity | Board Diversity | Board Diversity | Climate Change |

*Source: MWS and BlackRock as at 31 December 2022.*

# Compliance Matters

The purpose of this Statement is to provide information, which is required to be disclosed in accordance with Schedule 3 of The Occupational Pension Schemes (Disclosure of Information) Regulations 1996 or voluntarily by the Trustee. The information deals with matters of administrative routine.

### Transfer Values

Transfer values are calculated and verified as required under the provisions of the Pensions Act 1993.

### Taxation

The Scheme is a registered Pension Scheme under Chapter 2 of Part 4 of the Finance act 2004 and is therefore exempt from income tax and capital gains tax.

### MoneyHelper

The Money and Pensions Service (MaPS) was created in 2019 as a single body to bring together the services previously delivered by The Pensions Advisory Service (TPAS), the Money Advice Service and Pension Wise providing information to the public on matters relating to workplace and personal pensions. With effect from 30 June 2021 MaPS has been re-branded as MoneyHelper but still offers all the same services.

Website: https://www.moneyhelper.org.uk

Telephone: 0800 011 3797

Email: pensions.enquiries@moneyhelper.org.uk

### Pensions Ombudsman

The Pensions Ombudsman will assist members and beneficiaries of the Scheme in connection with difficulties which they have failed to resolve with the Trustee or Administrator of the Scheme and may investigate and determine any complaint or dispute of fact or law in relation to an occupational pension scheme and can be contacted at 1st Floor, 10 South Colonnade, Canary Wharf, London, E14 4PU.

Telephone: 0800 917 4487

Email: enquiries@pensions-ombudsman.org.uk

### Pensions Regulator

The Pensions Regulator is able to intervene in the running of schemes where trustees, employers or professional advisers have failed in their duties.

The Pensions Regulator may be contacted at Napier House, Trafalgar Place, Brighton, BN1 4DW.

Telephone: 0870 606 3636

Website: www.thepensionsregulator.gov.uk

### Pension Tracing

A pension tracing service is carried out by the Department for Work and Pensions. The Pension Tracing Service can be contacted at The Pension Service 9, Mail Handling Site A, Wolverhampton, WV98 1LU.

Telephone: 0800 731 0193

### Regulation under the applicable Data Protection Legislation

The data provided by members on their application forms is processed using computers. The use of such data is registered under the applicable Data Protection Legislation for the purposes of pensions administration by the Trustee and of personnel/employee administration by the company.

## Compliance Matters (continued)

### Draft single code of Practice

The Pensions Regulator (TPR) has for some years planned to consolidate its regulatory material and a key project has been the creation of a new Single Code of Practice. This new Code would bring together initially 10 of the 15 existing Codes of Practice, plus various pieces of existing guidance. It would also introduce new material required because of the 2018 Occupational Pension Schemes (Governance) Regulations. To that effect TPR released a consultation document on 17 March 2021 containing the full draft text of the new Single Code. The consultation closed in May 2021, but with significant industry feedback on its contents.

TPR undertook to carry out a full review of the responses received and issued an ‘interim response’ to the consultation in August 2021. This recognised that some changes to its proposals were required and that it is also looking at suggestions about its draft text to avoid confusion. It added that “*A longer period of review and analysis will allow us to develop our policy positions further*”.

At the end of 2022 there were indications that progress in the review had moved to the point where TPR would soon be able to obtain the Minister’s agreement to lay the draft final Code before Parliament for approval. This may happen soon but had not happened at the time of writing; it is expected during 2023. Any Code would only come into force once the period of parliamentary approval has passed (40 days since laying but increased for any period when Parliament is in recess).

The Trustee continues to work with their advisers to ensure that current governance practices are appropriate and assess if further steps will be needed to meet TPR’s new expectations. However, this can only be known confidently once the text of the new code is published. In the intervening period a qualified reference is made to the draft Code’s provisions.

## DC Governance Statement

## Chair's Annual Governance Statement for the Period 1 January 2022 to 31 December 2022

### Annual statement regarding governance

Under legislation set out in Regulation 23 of The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (the 'Administration Regulations'), as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015, the Corporate Trustee (the 'Trustee') of the EE Pension Scheme (the 'Scheme') is required to prepare a statement (the 'Statement') on governance for inclusion in the Trustee's annual report.

As Chair of Trustee, it is my pleasure to report to you on how the Trustee has embedded these standards over the period 1 January 2022 to 31 December 2022 (the 'Scheme year').

I am required by pensions regulations to provide you with this annual statement which explains what steps have been taken, during the year, by the Trustee Board, to meet certain DC governance standards. Pensions regulations set out the areas where information must be included in this Statement, and this is set out below and covered in detail in the rest of this Statement.

Details of the default arrangements;

- Review of the default arrangements;
- Other lifecycle funds available;
- Processing financial transactions;
- Net return on investments;
- Charges and transaction costs;
- Impact of charges and transaction costs;
- Value for members assessment; and
- Trustee knowledge and understanding.

This Statement does not contain advice in respect of actions that members should take and is not intended to be used for that purpose. If members need advice, a list of local independent financial advisers can be obtained on-line via the Financial Conduct Authority website https://www.fca.org.uk/consumers/finding-adviser

This Statement, along with a copy of the Scheme's latest Statement of Investment Principles (the 'SIP'), is readily available on the website https://pensioninformation.aon.com/ee.

### The default arrangement

In accordance with the Administration Regulations, the Trustee has appended the latest copy of the Statement of Investment Principles (the 'SIP') prepared for the Scheme in compliance with Section 35 of the Pensions Act 1995 (the '1995 Act') and Regulation 2 / Regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 (the 'Investment Regulations').

The current default arrangement for Defined Contribution (DC) members in all sections of the Scheme is a "Target Retirement Fund" which switches investments to an asset allocation designed to be appropriate for a typical member who intends to access their benefits via income drawdown at retirement. This is known as a Target Drawdown Strategy.

Members who intend to withdraw their retirement benefits in other ways have the option of switching to alternative lifestyle strategies prior to retirement or even choosing their own investment strategy from the range of fund choices available.

### The default arrangement (continued)

Members are supported by clear communications regarding the aims of the default and the alternative investment options available.

The default funds are reviewed annually by Mercer Workplace Savings ("MWS") who manage the funds. The Trustee undertook a triennial review of the default investment strategy in September 2022. Based on the demographic profile of the membership and industry trends, the Trustee decided to maintain the default strategy as Target Drawdown Strategy. There were also some changes made to the pre-retirement phase of the strategy. In order to increase risk/return efficiency, the cash exposure was reduced to 10% allocation at retirement, so that the at-retirement position changes from 75% Mercer Diversified Retirement Fund (DRF)/25% cash to 90% Mercer DRF/10% cash. Further to this, cash will be introduced 2 years from retirement instead of 3 years.

The Trustee has implemented three different Target Retirement Fund strategies, each aimed to be appropriate for a member taking their benefits at retirement as one of three ways:

- Drawdown (Target Drawdown Strategy)
- 75% Annuity purchase, 25% Cash (Target Annuity Strategy)
- 100% Cash (Target Cash Strategy)

Each of these strategies is split into two phases: the Growth phase and the Pre-Retirement Phase. Please see the SIP for further details in relation to the Scheme's default investment option; this covers the aims and objectives in relation to the default investment arrangement as well as policies in relation to matters such as risk and diversification.

The Trustee will keep the investment arrangements under regular review and will amend them as appropriate based on analysis of the likely requirements of the typical Scheme member.

### Requirements for processing financial transactions

As required by the Administration Regulations, the Trustee must ensure that core financial transactions are processed promptly and accurately.

The Trustee Benefit Committee meets quarterly to monitor the Scheme's administration and management. Included in this are reviewing the Administrator reports to ensure the prompt and accurate processing of financial transactions, including core transactions such as the payment and investment of contributions, the transfer of member assets into and out of the Scheme and the payment of benefits on retirement.

The Scheme's Risk Register outlines the main risks to Scheme members, and these are monitored and reviewed on a regular basis.

The Trustee has delegated the administration of Scheme member records to an investment platform, Scottish Widows, and has agreed minimum timescales with Scottish Widows for all services, including core financial functions. The administration reports produced by Scottish Widows are reviewed at each quarterly Trustee meeting by the Trustee Directors.

The Schedule of Contributions/Payment Schedule sets out timescales for the Company to remit monthly contributions to the Scheme. However, agreed practice provides for payment of contributions on much shorter timescales, usually within 10 working days.

## DC Governance Statement (continued)

### Requirements for processing financial transactions (continued)

The Trustee has delegated the day-to-day investment management of the DC assets to a range of professional investment managers that are accessed through the Scottish Widows investment platform, with whom the Trustee holds a long-term insurance policy.

The requirements of regulation 24 of the Regulations have been met and core financial transactions have been processed promptly and accurately by:

- Appointing a professional third-party administrator, currently Scottish Widows
- Having in place Service Level Agreements (SLAs) with the administrator which cover all core administration processes, including payments of benefits in respect of members and the transfers of assets into and out of the Scheme.
- Monitoring SLAs on a quarterly basis as part of the review of management information provided by the administrator (see Appendix 2). The administrator also attends Trustee and operational meetings where appropriate.
- Maintaining a Scheme Payment schedule and ensuring robust procedures for the payment and investment of Scheme contributions. No significant issues were reported in relation to Core Financial Transactions during the Scheme year to 31 December 2022.
- Obtaining an AAF internal controls audit report from the administrator each year.
- Maintaining close working links between the in-house Human Resource and Payroll teams, along with the administrator.
- Monitoring the quality of Scheme membership data held by the administrator on an ongoing basis.
- Maintaining and monitoring a Risk Register which includes risks in relation to core financial transactions
- Appointing a professional firm, Ernst and Young, to undertake an annual audit.

### Net return on investments

The Occupational Pension Schemes (Administration, Investment, Charges and Governance) (Amendment) Regulations 2021 ('the 2021 Regulations') introduce new requirements for trustees of 'relevant' occupational pension schemes.

From 1 October 2021, trustees of all relevant pension schemes, regardless of asset size, are required to calculate and state the return on investments from their default and self-select funds, net of transaction costs and charges.

The tables below set out annualised net performance for the 1 and 5 year periods for the lifestyle arrangements (for age 25, 45, and 55) and for the self-select fund range.

***Lifestyles***

| Lifestyle strategies – Target Drawdown Strategy / Target Annuity Strategy / Target Cash Strategy* | Annualised returns to December 2022 (%) | |
|---|---|---|
| **Age of member** | **1 year** | **5 years** |
| 25, 45, 55 | -8.8 | 3.7 |

*Source: Scottish Widows and Mercer.*

**As the growth phase is equal between lifestyles, the expected returns are assumed to be the equal as well. Performance has been calculated based on a fixed weighted average of underlying fund performance in the lifestyle, with the weightings as at the ages shown.*

***<u>Self-Select Funds</u>***

| Self-select funds | Annualised returns to December 2022 (%) | |
|---|---|---|
| | 1 year | 5 years |
| High Growth | -9.1% | 4.1% |
| Growth | -8.8% | 3.7% |
| Moderate Growth | -9.3% | 3.1% |
| Defensive | -10.7% | 0.6% |
| Cash and Money Market | 1.3% | 0.5% |
| Global Equity (60:40) Fund | -2.0% | 4.6% |
| UK Equity Fund | -0.7% | 2.9% |
| Overseas Equity Fund | -9.8% | 8.7% |
| European (ex-UK) Equity Fund | -7.7% | 5.0% |
| US Equity Fund | -11.5% | 11.1% |
| Japanese Equity Fund | -6.3% | 2.4% |
| Asia Pacific (ex-Japan) Equity Fund | -1.9% | 3.5% |
| Emerging Markets Equity Fund | -10.7% | 0.5% |
| Diversified Growth Fund | -8.2% | 3.4% |
| Diversified Retirement Fund | -8.7% | 2.4% |
| Pre-Retirement Fund | -29.2% | -3.9% |
| Property Fund | -8.5% | 2.6% |
| Ethical Fund | -13.3% | 2.8% |
| Shariah Fund | -15.6% | 11.4% |
| Index-Linked Gilt Fund | -38.1% | -5.1% |
| Fixed Interest Gilt Fund | -40.4% | -6.6% |
| UK Corporate Bond Fund | -17.9% | -1.5% |
| Global Listed Infrastructure Fund* | 6.3% | N/A |

*Source: Scottish Widows and Mercer.*

*Performance shown net of all charges and transaction costs. Performance of standalone self-select options is independent of age, therefore performance is shown in a different format to the lifestyle performance on the previous page.*

**Inception date: 31 December 2020.*

### Charges and transactions costs

As required by the Administration Regulations, the Trustee is required to report on the charges and transactions costs for the investments used in the default arrangement and their assessment of the extent to which the charges and costs represent good value for members.

The total charges payable (quoted in the following tables as TER – Total Expense Ratio) under the default and alternative lifestyle strategies will vary depending on the stage that each member has reached in the default arrangement's growth and de-risking process. The table overleaf shows the TER of the funds as they currently stand. The TER includes the fees charged by the underlying manager, the platform charge from Scottish Widows and the fee for Mercer Intermediary Services. The TER consist primarily of management fees and additional variable expenses that the investment manager incurs in operating the fund, such as fees to auditors, custodians and accountants and other operational expenses. It does not include costs incurred when the fund is traded. These costs are called Transaction Costs and cover those costs that the fund manager incurs as a result of the trading necessary to manage the investments within the Scheme. This can incorporate a range of costs including broker fees, transaction taxes, custody fees and implicit costs of executing transactions.

The following table provides information on the member-borne charges for all investment options available in the Scheme. All of the funds used in the default strategy have TERs that fall below the charge cap of 0.75% p.a[1].

During the year, the following changes have been implemented:

- A triennial default investment strategy review was conducted between June and September 2022 with the at-retirement position changing from 75% Mercer Diversified Return Fund (DRF)/25% Cash Fund to 90% Mercer DRF/10% Cash Fund, and with the Cash Fund being introduced 2 years from retirement instead of 3 years from retirement.
- During the Scheme year (Q2 2022), the Trustee implemented a reduction in the investment management fees paid by members of 0.04% p.a. for the following funds: Growth Fund (default), Target Drawdown 2023-2030 (default), Target Annuity 2023-2030, Target Cash 2023-2030, Defensive Fund, Moderate Growth Fund and High Growth Fund.

**"Do it for me"**

**Default – Target Drawdown**

| Investment Phase | Fund | TER (% pa) | Transaction Cost (% pa) |
|---|---|---|---|
| **Growth:** | Mercer Growth Fund | 0.38 | 0.177 |
| **De-risking:** | Target Drawdown Series | 0.44 – 0.50 | 0.082 – 0.177 |

*TER data and transaction costs as at 31 December 2022.*

[1] The default arrangement within pension schemes used to meet automatic enrolment duties ('qualifying schemes') are subject to a cap on the charges which may be borne by scheme members of 0.75% p.a.

**"Help me do it"**

**Target Annuity**

| Investment Phase | Fund | TER (% pa) | Transaction Cost (% pa) |
|---|---|---|---|
| **Growth:** | Mercer Growth Fund | 0.38 | 0.177 |
| **De-risking:** | Target Annuity Series | 0.31 – 0.43 | 0.004 – 0.177 |

*TER data and transaction costs as at 31 December 2022.*

**Target Cash**

| Investment Phase | Fund | TER (% pa) | Transaction Cost (% pa) |
|---|---|---|---|
| **Growth:** | Mercer Growth Fund | 0.38 | 0.177 |
| **De-risking:** | Target Cash Series | 0.34 – 0.42 | 0.015 – 0.177 |

*TER data and transaction costs as at 31 December 2021.*

**"Leave me to it"**

The following table provides information on the charges for the self-select investment options as they currently stand, including those funds used in the default, as well as the Target Retirement strategies:

| Fund | TER (% pa) | Transaction Cost (% pa) |
|---|---|---|
| Growth | 0.38 | 0.177 |
| High Growth | 0.42 | 0.136 |
| Moderate Growth | 0.42 | 0.126 |
| Defensive | 0.43 | 0.139 |
| Cash and Money Market | 0.33 | 0.015 |
| Global Equity (60:40) Fund | 0.26 | 0.024 |
| UK Equity Fund | 0.27 | 0.066 |
| Overseas Equity Fund | 0.27 | 0.000 |
| US Equity Fund | 0.26 | 0.021 |
| European (ex-UK) Equity Fund | 0.29 | 0.008 |
| Japanese Equity Fund | 0.29 | -0.024 |
| Pacific Rim (ex-Japan) Equity Fund | 0.26 | 0.000 |
| Emerging Markets Equity Fund | 0.43 | -0.001 |
| Diversified Growth Fund | 0.52 | 0.241 |
| Diversified Retirement Fund | 0.48 | 0.104 |
| Pre-Retirement Fund | 0.31 | 0.000 |
| Property Fund | 0.97 | 0.000 |
| Ethical Fund | 0.87 | 0.257 |
| Shariah Fund | 0.54 | -0.007 |
| Index-Linked Gilts Fund | 0.27 | 0.025 |
| Fixed-Interest Gilts Fund | 0.27 | -0.014 |
| UK Corporate Bond Fund | 0.28 | 0.036 |
| Global Listed Infrastructure Fund | 1.15 | 0.294 |

*TER data and transaction costs as at 31 December 2022.*

In relation to transaction costs, we note that when buying and selling investments, transaction costs can be incurred. Transaction costs are not explicitly deducted from a fund but are captured in its investment performance (in other words, the higher the transaction costs the lower the returns produced by a fund). The Financial Conduct Authority has provided guidance (in Policy Statement 17/20) to investment managers regarding calculations and disclosures of transaction costs. Due to the way in which transaction costs are required to be calculated, they can be negative or positive in nature; a negative figure is effectively a gain (on average) from trading activity, whilst a positive figure is effectively a cost from trading activity.

## DC Governance Statement (continued)

The AVC arrangements with Scottish Widows are now the sole AVC policy and mirror the range of funds offered in the DC Section.

**Reporting Costs and Charges**

In accordance with regulation 23(1)(ca) of the Administration Regulations, as inserted by the 2018 Regulations, the Trustee has prepared an illustration detailing the impact of the costs and charges typically paid by a member of the Scheme on their retirement savings pot. The statutory guidance provided has been considered when providing these examples.

The below illustration has taken into account the following elements:

- Savings pot size;
- Contributions;
- Real terms investment return gross of costs and charges;
- Adjustment for the effect of costs and charges; and
- Time.

To make this representative of the membership, for active members the Trustee has based the illustration on a starting pot size of £12,000, salary of £21,000, contribution level of 10.7% and an age of 34. For deferred members, a starting pot of £14,000, age of 39 and no additional contributions are assumed. We have also assumed an annual inflation of 2.5% per annum.

Active Members

| Projected Pot sizes in Today's Money | | | | | | |
|---|---|---|---|---|---|---|
| | Most popular fund: Default – Drawdown Lifestyle Strategy | | Most expensive fund: Global Listed Infrastructure | | Least expensive fund: Pacific Rim (ex-Japan) Equity Fund | |
| Year End | Pot Size with no Charges | Pot Size with Charges | Pot Size with no Charges | Pot Size with Charges | Pot Size with no Charges | Pot Size with Charges |
| 1 | £ 14,608 | £ 14,535 | £ 14,594 | £ 14,397 | £ 14,762 | £ 14,724 |
| 2 | £ 17,289 | £ 17,128 | £ 17,259 | £ 16,825 | £ 17,634 | £ 17,550 |
| 3 | £ 20,046 | £ 19,780 | £ 19,996 | £ 19,285 | £ 20,622 | £ 20,482 |
| 4 | £ 22,881 | £ 22,494 | £ 22,807 | £ 21,778 | £ 23,728 | £ 23,523 |
| 9 | £ 38,297 | £ 37,029 | £ 38,049 | £ 34,746 | £ 41,229 | £ 40,519 |
| 14 | £ 56,010 | £ 53,314 | £ 55,473 | £ 48,593 | £ 62,520 | £ 60,935 |
| 19 | £ 76,363 | £ 71,562 | £ 75,392 | £ 63,379 | £ 88,425 | £ 85,459 |
| 24 | £ 99,821 | £ 91,828 | £ 98,162 | £ 79,168 | £ 119,942 | £ 114,918 |
| 29 | £ 125,642 | £ 113,148 | £ 124,193 | £ 96,028 | £ 158,288 | £ 150,304 |
| 30 | £ 130,692 | £ 117,266 | £ 129,831 | £ 99,535 | £ 166,901 | £ 158,194 |
| 31 | £ 132,933 | £ 119,507 | £ 135,621 | £ 103,089 | £ 175,859 | £ 166,378 |

### Reporting Costs and Charges (continued)

Notes:

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation
2. The starting pot size is assumed to be £12,000 and future contributions of 10.7%.
3. The starting salary is assumed to be £21,000 with an assumed increase of 2.5% per year.
4. Values are estimates and are not guaranteed.
5. The projected growth rate for each fund are as follows:
   A. Drawdown Lifestyle Strategy (Default Fund): between 2.82% and 2.01% p.a. gross expected real return above inflation
   B. Pacific Rim ex-Japan Fund (Least Expensive Growth Fund): 4.00% p.a. gross expected real return above inflation
   C. Mercer Global Listed Infrastructure (Most Expensive Fund): 2.50% p.a. gross expected real return above inflation
6. The Transaction Costs relate to the average transaction costs incurred in the Scheme years ending 31/12/19, 31/12/20, 31/12/21 and 31/12/22. Where these were negative these have been reflected as zero as negative costs are not assumed to persist over longer time frames.

<u>Deferred Members</u>

| Projected Pot sizes in Today's Money | | | | | | |
|---|---|---|---|---|---|---|
| | Most popular fund: Default - Drawdown Lifestyle Strategy | | Most expensive fund: Global Listed Infrastructure | | Least expensive fund: Pacific Rim (ex-Japan) Equity Fund | |
| Year End | Pot Size with no Charges | Pot Size with Charges | Pot Size with no Charges | Pot Size with Charges | Pot Size with no Charges | Pot Size with Charges |
| 1 | £ 14,394 | £ 14,322 | £ 14,380 | £ 14,185 | £ 14,560 | £ 14,523 |
| 2 | £ 14,800 | £ 14,652 | £ 14,770 | £ 14,372 | £ 15,142 | £ 15,065 |
| 3 | £ 15,217 | £ 14,989 | £ 15,170 | £ 14,562 | £ 15,748 | £ 15,628 |
| 4 | £ 15,645 | £ 15,334 | £ 15,582 | £ 14,755 | £ 16,378 | £ 16,212 |
| 9 | £ 17,976 | £ 17,181 | £ 17,813 | £ 15,756 | £ 19,926 | £ 19,474 |
| 14 | £ 20,655 | £ 19,251 | £ 20,363 | £ 16,824 | £ 24,243 | £ 23,392 |
| 19 | £ 23,750 | £ 21,528 | £ 23,279 | £ 17,965 | £ 29,496 | £ 28,099 |
| 24 | £ 27,054 | £ 23,779 | £ 26,611 | £ 19,184 | £ 35,886 | £ 33,753 |
| 25 | £ 27,654 | £ 24,171 | £ 27,333 | £ 19,438 | £ 37,322 | £ 35,014 |
| 26 | £ 28,210 | £ 24,520 | £ 28,075 | £ 19,694 | £ 38,815 | £ 36,322 |

Notes:

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation
2. The starting pot size is assumed to be £14,000 and no further contributions are assumed.
3. Values are estimates and are not guaranteed.
4. The projected growth rate for each fund are as follows:
   A. Drawdown Lifestyle Strategy (Default Fund): between 2.82% and 2.01% p.a. gross expected real return above inflation
   B. Mercer Global Listed Infrastructure (Most Expensive Fund): 2.50% p.a. gross expected real return above inflation
   C. Asia Pacific (ex-Japan) Fund (Least Expensive Fund): 4.00% p.a. gross expected real return below inflation
5. The Transaction Costs relate to the average transaction costs incurred in the Scheme years ending 31/12/19, 31/12/20, 31/12/21 and 31/12/22. Where these were negative these have been reflected as zero as negative costs are not assumed to persist over longer time frames.

### Reporting Costs and Charges (continued)

<u>Young Members</u>

Due to the diverse Scheme demographics, a further illustration is set out below to reflect the position for younger members of the Scheme.

For young active members, this is based on a member age of 20, using a starting pot size of £990 and assumes an overall contribution level of 9.8%. An assumed starting salary of £17,000 has been used, with a 2.50% salary increase per year.

| | Projected Pot sizes in Today's Money | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Most popular fund: Default – Drawdown Lifestyle Strategy | | Most expensive fund: Global Listed Infrastructure | | Least expensive fund: Pacific Rim (ex-Japan) Equity Fund | |
| Age | Year End | Pot Size with no Charges | Pot Size with Charges | Pot Size with no Charges | Pot Size with Charges | Pot Size with no Charges | Pot Size with Charges |
| 21 | 1 | £ 2,707 | £ 2,694 | £ 2,705 | £ 2,669 | £ 2,728 | £ 2,721 |
| 22 | 2 | £ 4,473 | £ 4,436 | £ 4,467 | £ 4,370 | £ 4,535 | £ 4,516 |
| 23 | 3 | £ 6,288 | £ 6,219 | £ 6,277 | £ 6,093 | £ 6,415 | £ 6,379 |
| 24 | 4 | £ 8,154 | £ 8,043 | £ 8,136 | £ 7,839 | £ 8,370 | £ 8,311 |
| 25 | 5 | £ 10,073 | £ 9,909 | £ 10,045 | £ 9,608 | £ 10,403 | £ 10,315 |
| 30 | 10 | £ 20,510 | £ 19,903 | £ 20,396 | £ 18,811 | £ 21,854 | £ 21,517 |
| 35 | 15 | £ 32,502 | £ 31,100 | £ 32,229 | £ 28,638 | £ 35,787 | £ 34,973 |
| 40 | 20 | £ 46,280 | £ 43,647 | £ 45,756 | £ 39,132 | £ 52,739 | £ 51,136 |
| 45 | 25 | £ 62,112 | £ 57,706 | £ 61,220 | £ 50,337 | £ 73,363 | £ 70,552 |
| 50 | 30 | £ 80,302 | £ 73,458 | £ 78,898 | £ 62,303 | £ 98,455 | £ 93,874 |
| 55 | 35 | £ 101,125 | £ 90,555 | £ 99,108 | £ 75,080 | £ 128,983 | £ 121,889 |
| 60 | 40 | £ 122,608 | £ 107,631 | £ 122,210 | £ 88,723 | £ 166,126 | £ 155,542 |
| 65 | 45 | £ 130,947 | £ 115,971 | £ 148,621 | £ 103,293 | £ 211,316 | £ 195,966 |

Notes:

1. Projected pension pot values are shown in today’s terms, and do not need to be reduced further for the effect of future inflation
2. The starting pot size is assumed to be £990 and future contributions of 9.8% have been assumed.
3. The starting salary is assumed to be £17,000 with an assumed increase of 2.5% per year.
4. Values are estimates and are not guaranteed.
5. The projected growth rate for each fund are as follows:
   A. Drawdown Lifestyle Strategy (Default Fund): between 2.82% and 2.01% p.a. gross expected real return above inflation
   B. Pacific Rim ex-Japan Fund (Least Expensive Fund): 4.00% p.a. gross expected real return above inflation
   C. Mercer Global Listed Infrastructure (Most Expensive Fund): 2.50% p.a. gross expected real return above inflation
6. The Transaction Costs relate to the average transaction costs incurred in the Scheme years ending 31/12/19, 31/12/20, 31/12/21 and 31/12/22. Where these were negative these have been reflected as zero as negative costs are not assumed to persist over longer time frames.

**Value for Members**

In accordance with regulation 25(1)(b), the Trustee is required to undertake a review of the charges and transaction costs incurred by members in order to ascertain whether or not they represent good value for members, relative to peers and alternative arrangements that are available. The summary below represents the results of the latest assessment.

The Trustee has previously conducted a Value for Members Assessment in order to assess value for money, incorporating consideration of:

- Investment charges for the default and self-select options – compliance with the charge cap limits
- Transaction costs
- Net performance
- Other Scheme features
- Scheme governance
- Investment design and range
- Investment manager and platform provider ratings
- Administration

The Trustee has assessed the extent to which the charges set out above represent good value for members and has concluded, following receipt of a report from its independent DC adviser, that the Scheme offers **reasonable to good** value for members relative to peers and alternative arrangements that are available.

The reasons underpinning this conclusion include:

- Charges for the Scheme's default investment arrangement are competitive and below the charge cap of 0.75% per annum[2];
- Charges on funds have been assessed by Mercer as generally comparing favourably with those of peer funds;
- The funds used by the Scheme are highly rated by Mercer as having good prospects of achieving their risk and return objectives (by assessing risk and return objectives, members are able to identify which managers have achieved capital growth over a designated period of time);
- The performance of the Scheme's funds is monitored frequently, and over the last three years we are generally comfortable with the performance of their funds relative to their benchmarks. However, we note that 2022 was a challenging year and heavily dictated returns over the periods assessed. Where this has not been the case the Trustee applies a watching brief.

In their regular duties, the Trustee endeavours to maintain a good quality Scheme, with members having access to appropriate investment arrangements; the administration being delivered in line with agreed targets and regular communications to aid member understanding of their benefits.

[2] The default arrangement within pension schemes used to meet automatic enrolment duties ('qualifying schemes') are subject to a cap on the charges which may be borne by scheme members of 0.75% p.a.

# DC Governance Statement (continued)

### Value for Money (continued)

**Trustee knowledge and understanding**

Sections 247 and 248 of the Pensions Act 2004, requires individual trustee to have appropriate knowledge and understanding of the law relating to pensions and trusts and the investment of the assets. The degree of knowledge and understanding required is that appropriate for the purposes of enabling the Trustee to exercise the function in question.

The Trustee has undertaken the following:

- The Trustee has worked through the trustee knowledge and understanding requirements set by The Pensions Regulator ("TPR") and keep up to date with ongoing developments.
- The Trustee maintains a programme of Trustee training which includes training delivered as part of Trustee's meetings as well as structured training events and webinars where required for specific events.
- The Trustee maintains a training log to record training which shows that the Trustee attended specific training events such as ESG training.
- The Trustee Directors are an experienced board and review their train programme at least annually, taking into account the balance and variety of expertise amongst the Trustee.
- The Trustee regularly receives email bulletins and updates from their advisers on the latest developments affecting defined benefit and defined contribution pension schemes.
- The Trustee has paid due consideration to TPR's DC Code of Practice No.13 and undertook an assessment of the Scheme in relation to the Code in June 2017 following publication of the revised DC Code of Practice by TPR.

The Trustee will also review and assess, on an ongoing basis, whether the systems, processes and controls across key governance functions are consistent with those set out in TPR's DC Code of Practice No.13.

### Potential future changes

The sponsor of the EE Pension Scheme informed the Trustee of their proposal to close the DC section to future build-up of benefits and use a different pension arrangement for future pension contributions. The sponsor entered a 60-day consultation period with their workforce on 25 April 2023. At the time of writing this report the outcome of the consultation is not known. It is not a Trustee decision to decide which pension scheme the sponsor uses to comply with its workplace pension requirements (i.e. future pension contributions). The Trustee is responsible for governing existing assets (i.e. past pension contributions). The Trustee is engaged with the sponsor and will take advice and appropriate action to support the members as and when the outcome of the consultation is known.

**Chair's declaration**

This statement has been prepared in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 as amended by the Occupational Pension Schemes (Charges and Governance) 2015 (together 'the Regulations') and I confirm that the above statement has been produced by the Trustee to the best of my knowledge.

I confirm that the above Statement has been produced by the Trustee to the best of its knowledge.

Signature: ___________________________________

Name: ___________________________________

Position: **Chair of Trustee Directors of the EE Pension Scheme**

Date: ___________________________________

## Statement of Trustee's Responsibilities

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102) are the responsibility of the Trustee. Pension scheme regulations require, and the Trustee is responsible for ensuring that those financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year, and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the Scheme will not be wound up.

The Trustee is also responsible for making available certain other information about the Scheme in the form of an annual report. The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

### Defined benefit schemes

The Trustee is responsible under pensions legislation for preparing, maintaining and from time to time reviewing and if necessary revising a schedule of contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for adopting risk-based processes to monitor whether contributions are made to the Scheme by the employer in accordance with the schedule of contributions. Where breaches of the schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

### Money purchase schemes

The Trustee is responsible under pensions legislation for securing that a payment schedule is prepared, maintained and from time to time revised showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for adopting risk-based processes to monitor whether contributions are made to the Scheme by the employer in accordance with the payment schedule. Where breaches of the schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

## Report on Actuarial Liabilities

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to based on pensionable service to the valuation date, assessed using the assumptions agreed between the Trustee and the Employer and set out in the Statement of Funding Principles, which is available to Scheme members on request.

The most recent full actuarial valuation of the Scheme was carried out as at 31 December 2021. This showed that on that date:

| | |
|---|---|
| The value of the Technical Provisions was: | £1,297.9 million |
| The value of the assets at that date was: | £1,080.4 million |

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Appendix to the Statement of Funding Principles):

### Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method with a 3 year central period to calculate the cost of future benefit accrual.

### Significant actuarial assumptions

***Discount interest rate***: Gilt market pricing by Aon plus 2.0% p.a. until 31 December 2030. Declining to a gilt market pricing plus 0.5% p.a. at 31 December 2040.

***Retail Price inflation***: Gilt market pricing by Aon.

***Consumer Price inflation***: RPI inflation Aon's best-estimate of the future long-term different between RPI and CPI, which at 31 December 2021 was 0.9% p.a. up to 2030 and 0.1% p.a. thereafter.

***Pension increases***: LPI curves based on RPI inflation assumption adjusted with allowance for caps and floors and with the aim of approximately reflecting the cost of hedging these increases using LPI-linked swaps.

***Post-retirement mortality assumption* – base table:** standard 'SAPS S3 All' table with CMI 2021 improvements.

***Post-retirement mortality assumption* – future improvements:** CMI 2021 core projections with long-term improvement rate of 1.5% p.a.

## Contact for Further Information

Enquiries about individual member's defined benefit section benefits should be addressed to:

Capita
2nd Floor
145 Morrison Street
Edinburgh EH3 8FJ

Email: ee.helpline@capita.co.uk

General enquiries for defined contribution section members should be addressed to:

EE Pension Trustee Limited
One Braham
Braham Street
London
E1 8EE

Email: pensions@bt.com

Enquiries about individual member's benefits in defined contribution section should be addressed to:

Telephone: 0800 3899160

Email: eeserviceteam@scottishwidows.co.uk

**Signed on behalf of the EE Pension Scheme by:**

.......................................................................................... **Date:** ..................................................

**Director**
**EE Pension Trustee Limited**

# Actuary's Certification of the Schedule of Contributions

**Name of Scheme:** **EE Pension Scheme**

**Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 December 2021 to be met by the end of the period specified in the recovery plan dated 28 March 2023.

**Adherence to statement of funding principles**

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 28 March 2023.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were to be wound-up.

| | |
|---|---|
| **Signature:** | *S Head* |
| **Scheme Actuary:** | Simon Head |
| **Date of signing:** | 28 March 2023 |
| **Name of Employer:** | Aon Solutions UK Limited |
| **Address:** | Verulam Point<br>Station Way<br>St Albans<br>AL1 5HE |
| **Qualification:** | Fellow of the Institute and Faculty of Actuaries |

# Actuarial Certificate given for the purposes of Regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

**Name of Scheme:** **EE Pension Scheme**

**Calculation of technical provisions**

I certify that, in my opinion, the calculation of the scheme's technical provisions as at 31 December 2021 is made in accordance with regulations under section 222 of the Pensions Act 2004.

The calculation uses a method and assumptions determined by the trustees of the Scheme and set out in the Statement of Funding Principles dated 28 March 2023.

| | |
|---|---|
| **Signature:** | *S Head* |
| **Scheme Actuary:** | Simon Head |
| **Date of signing:** | 28 March 2023 |
| **Name of Employer:** | Aon Solutions UK Limited |
| **Address:** | Verulam Point<br>Station Way<br>St Albans<br>AL1 5HE |
| **Qualification:** | Fellow of the Institute and Faculty of Actuaries |

# Independent Auditor’s Report to the Trustee of the EE Pension Scheme

### Opinion

We have audited the financial statements of the EE Pension Scheme for the year ended 31 December 2022 which comprise the Fund Account, The Statement of Net Assets (available for benefits) and the related notes 1 to 27, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 ‘The Financial Reporting Standard applicable in the UK and Republic of Ireland’ (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Scheme during the year ended 31 December 2022, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Trustee’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Scheme’s ability to continue as a going concern for a period of 12 months from when the Scheme’s annual accounts are authorised for issue.

Our responsibilities and the responsibilities of the Trustee with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Scheme’s ability to continue as a going concern.

### Other information

The other information comprises the information included in the Trustee’s Annual Report and Financial Statements, other than the financial statements, our auditor’s report thereon and our auditor’s statement about contributions. The Trustee is responsible for the other information contained within the annual report.

## Independent Auditor’s Report to the Trustee of the EE Pension Scheme (continued)

**Other information (continued)**

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this give rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

**Responsibilities of the Trustee**

As explained more fully in the Trustee’s responsibilities statement set out on page 56, the Trustee is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements the Trustee is responsible for assessing the Scheme’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to wind up the Scheme or to cease operations, or has no realistic alternative but to do so.

**Auditor’s responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

**Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with the Trustee.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Scheme and determined that the most significant related to pensions legislation and the financial reporting framework. These are the Pensions Act 1995 and 2004 (and regulations made thereunder), FRS 102 ‘The Financial Reporting Standard applicable in the UK and Republic of Ireland’ and the Statement of Recommended Practice (Financial Reports of Pension Schemes). We considered the extent to which a material misstatement of the financial statements might arise as a result of non-compliance.

**Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud (continued)**

- We understood how the Scheme is complying with these legal and regulatory frameworks by making enquiries of the Trustee. We corroborated our enquiries through our review of the Trustee's meeting minutes.
- We assessed the susceptibility of the Scheme's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements and documenting the controls that the Scheme has established to address risks identified, or that otherwise seek to prevent, deter or detect fraud. Where this risk was considered to be higher, we performed audit procedures including obtaining the Trustee's assessment of the risk of material misstatement, review of legal correspondence and complaints logs. In our assessment, we also considered the risk of management override of controls. Our audit procedures included verifying cash balances and investment balances to independent confirmations, testing manual journals on a sample basis and also those journals where there is an increased risk of override, and an assessment of segregation of duties. The procedures were designed to provide reasonable assurance that the financial statements were free from fraud and error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of the Trustee for their awareness of any non-compliance of laws or regulations, inspecting correspondence with the Pensions Regulator and review of Trustee's minutes.
- The Scheme is required to comply with UK pensions regulations. As such, we have considered the experience and expertise of the engagement team to ensure that the team had an appropriate understanding of the relevant pensions regulations to assess the control environment and consider compliance of the Scheme with these regulations as part of our audit procedures.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

**Use of our report**

This report is made solely to the Scheme's Trustee, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

**Ernst & Young LLP**
Statutory Auditor
Bristol

Date: 2023

# Independent Auditor's Statement about Contributions to the Trustee of the EE Pension Scheme

We have examined the summary of contributions to the EE Pension Scheme for the scheme year ended 31 December 2022 which is set out in the Trustee's Report on page 9.

In our opinion contributions for the scheme year ended 31 December 2022 as reported in the summary of contributions and payable under the schedule of contributions have in all material respects been paid at least in accordance with the schedule of contributions certified by the scheme actuary on 23 March 2020.

### Scope of work on Statement about Contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions on page 9 have in all material respects been paid at least in accordance with the schedules of contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the scheme and the timing of those payments under the schedules of contributions.

### Respective responsibilities of Trustee and the auditor

As explained more fully in the Statement of Trustee's Responsibilities, the Scheme's Trustee is responsible for preparing, and from time to time reviewing, and if necessary, revising a schedule of contributions and for monitoring whether contributions are made to the scheme by the employer in accordance with the schedule of contributions.

It is our responsibility to provide a Statement about Contributions paid under the schedule of contributions and to report our opinion to you.

### Use of our statement

This statement is made solely to the Scheme's Trustee as a body, in accordance with regulation 4 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to it in an auditor's statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee as a body, for our work, for this statement, or the opinions we have formed.

**Ernst & Young LLP**
Statutory Auditor
Bristol

Date: 2023

# Fund Account

# For the year ended 31 December 2022

| | Note | Defined benefit section 2022 £'000 | Defined contribution section 2022 £'000 | Total 2022 £'000 | Total 2021 £'000 |
|---|---|---|---|---|---|
| **Contributions and benefits** | | | | | |
| Employer contributions | | 20,000 | 19,815 | 39,815 | 59,586 |
| Employee contributions | | - | 2,098 | 2,098 | 1,992 |
| **Total contributions** | 5 | **20,000** | **21,913** | **41,913** | 61,578 |
| Transfers in | 6 | - | 781 | 781 | 828 |
| Other income | 7 | - | 929 | 929 | 950 |
| | | **20,000** | **23,623** | **43,623** | 63,356 |
| Benefits paid or payable | 8 | (9,154) | (5,307) | (14,461) | (13,725) |
| Payments to and on account of leavers | 9 | (5,667) | (35,999) | (41,666) | (57,029) |
| Administrative expenses | 10 | (28) | (28) | (56) | (52) |
| Other payments | 11 | - | (2) | (2) | (1) |
| | | **(14,849)** | **(41,336)** | **(56,185)** | (70,807) |
| **Net additions/(withdrawals) from dealings with Members** | | **5,151** | **(17,713)** | **(12,562)** | (7,451) |
| **Returns on investments** | | | | | |
| Investment income | 12 | 11,592 | 3 | 11,595 | 12,745 |
| Change in market value of investments | 13 | (369,652) | (66,869) | (436,521) | 148,531 |
| Investment management expenses | 15 | (3,734) | - | (3,734) | (3,831) |
| **Net returns on investments** | | **(361,794)** | **(66,866)** | **(428,660)** | 157,445 |
| **Net (decrease)/increase in the fund during the year** | | **(356,643)** | **(84,579)** | **(441,222)** | 149,994 |
| **Net assets of the Scheme at start of year** | | **1,090,824** | **783,657** | **1,874,481** | 1,724,487 |
| **Net assets of the Scheme at end of year** | | **734,181** | **699,078** | **1,433,259** | 1,874,481 |

The accompanying notes on pages 67 to 94 are an integral part of these financial statements.

# Statement of Net Assets (available for benefits)

# As at 31 December 2022

| | Note | Defined benefit section 2022 £'000 | Defined contribution section 2022 £'000 | Total 2022 £'000 | Total 2021 £'000 |
|---|---|---|---|---|---|
| **Investment assets:** | | | | | |
| Pooled investment vehicles | 17 | 547,585 | 696,893 | 1,244,478 | 1,534,502 |
| Bonds | 13 | 295,996 | - | 295,996 | 501,048 |
| AVC investments | 18 | 9,147 | - | 9,147 | 10,439 |
| Cash and other | 13 | 17,628 | 477 | 18,105 | 8,518 |
| Derivatives | 19 | 59,423 | - | 59,423 | 73,303 |
| | | **929,779** | **697,370** | **1,627,149** | 2,127,810 |
| **Investment liabilities:** | | | | | |
| Derivatives | 19 | (117,052) | - | (117,052) | (36,831) |
| Amounts due under repurchase agreements | 20 | (79,333) | - | (79,333) | (224,604) |
| | | **(196,385)** | **-** | **(196,385)** | (261,435) |
| **Total net investments** | | **733,394** | **697,370** | **1,430,764** | 1,866,375 |
| **Current assets** | 23 | **1,085** | **2,787** | **3,872** | 9,315 |
| **Current liabilities** | 24 | **(298)** | **(1,079)** | **(1,377)** | (1,209) |
| **Net assets of the Scheme at end of year** | | **734,181** | **699,078** | **1,433,259** | 1,874,481 |

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which takes into account such obligations for the defined benefit section, is dealt with in the Report on Actuarial Liabilities on page 57 of the Annual Report and these financial statements should be read in conjunction with this report.

The notes on pages 67 to 94 form an integral part of these financial statements.

These financial statements were approved by the Trustee on

Signed on behalf of the Trustee: …...............................................

# Notes to the Financial Statements

## 1. Identification of the financial statements

The EE Pension Scheme, registration number 10249705 is a trust scheme established under English Law, administered under a Definitive Trust Deed and Rules. The address for enquiries to the Scheme is included in the Trustee Report.

## 2. Basis of preparation

The individual financial statements of EE Pension Scheme have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council ("FRS 102") and the guidance set out in the Statement of Recommended Practice "Financial Reports of Pension Schemes" (revised June 2018) ("the SORP").

The financial statements have been prepared on a going concern basis.

## 3. Accounting policies

The principal accounting policies of the Scheme are as follows:

**Contributions**

Employee contributions, including AVCs, are accounted for by the Trustee when they are deducted from pay by the Employer, except for the first contribution due where the employee has been auto-enrolled by the Employer in which case it is accounted for when received by the Scheme.

Employer normal contributions that are expressed as a rate of salary are accounted for on the same basis as the employees' contributions, in accordance with the Schedule of Contributions in force during the year.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the Schedule of Contributions or on receipt if earlier with the agreement of the employer and Trustee.

**Payments to members**

Benefits are accounted for in the period in which the member notifies the Trustee of their decision on the type or amount of benefit to be taken, or if there is no member choice, on the date of retiring or leaving or notification of death.

Pensions in payment are accounted for in the period to which they relate.

Where the Trustee agrees or is required to settle tax liabilities on behalf of a member (such as where lifetime or annual allowances are exceeded) with a consequent reduction in that member's benefits receivable from the Scheme, any taxation due is accounted for on the same basis as the event giving rise to the tax liability and shown separately within benefits.

**Transfers to and from other schemes**

Individual transfers in or out of the Scheme are accounted for when member liability is accepted or discharged, which is normally when the transfer amount is paid or received.

**3. Accounting policies (continued)**

**Expenses**

Administrative expenses are borne by the Employer, other than those shown in note 10. Investment manager expenses are accounted for on an accruals basis.

**Investment income**

Income from cash and short-term deposits is accounted for on an accruals basis.

Income from pooled investment vehicles which distribute income is accounted for when declared by the fund manager.

Investment income, which is not distributed, arising from the underlying investment of pooled investment vehicles is reinvested within the pooled investment vehicles reflected in the unit price. It is reported within the change in market value.

Income from fixed interest and index linked securities is accounted for on an accruals basis and reflects interest bought and sold on investment purchases and sales.

Net receipts or payments on swap contracts are either reported in investment income (where the economic purpose relates to income) or change in market value (where the economic purposes relates to assets or liabilities).

**Investments**

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Investments are included at fair value as described below:

Unitised pooled investment vehicles have been valued at the latest available bid price or single price provided by the pooled investment manager. Shares in other pooled arrangements have been valued at the latest available net asset value (NAV), determined in accordance with fair value principles, provided by the pooled investment manager.

The fair value of the interest rate swaps, and inflation, swaps is calculated using pricing models populated with market observable inputs. Swaps contracts are valued on a single-price basis due to the absence of a bid and offer spread. Realised gains and losses on closed contracts and unrealised gains and losses on open contracts are included in change in market value. Net receipts or payments on swap contracts are either reported in investment income (where the economic purpose relates to income) or change in market value (where the economic purpose relates to assets or liabilities).

With profit insurance policies are reported at the policy value provided by the insurance company based on the cumulative reversionary bonuses declared and the current terminal bonus.

Repurchase agreements are accounted for as follows:

Repurchase agreements (repo) - the Scheme continues to recognise and value the securities that are delivered out as collateral and includes them in the financial statements. The cash received is recognised as an asset and the obligation to pay it back is recognised as a payable amount.

Fixed interest and index linked securities are stated at their clean prices. Accrued interest is excluded from the market value of fixed income securities and is included in investment income receivable.

**3. Accounting policies (continued)**

**Presentation currency**

The Scheme's presentational and functional currency is pounds sterling. Monetary items denominated in foreign currency are translated into sterling using the closing exchange rates at the Scheme year end. Foreign currency transactions are recorded in sterling at the spot exchange rate at the date of the transaction.

# Notes to the Financial Statements (continued)

## 4. Comparative disclosures for the Fund Account and Statement of Net Assets

### Fund Account

| | Note | Defined benefit section 2021 £'000 | Defined contribution section 2021 £'000 | Total 2021 £'000 |
|---|---|---|---|---|
| **Contributions and benefits** | | | | |
| Employer contributions | | 40,000 | 19,586 | 59,586 |
| Employee contributions | | - | 1,992 | 1,992 |
| **Total contributions** | 5 | 40,000 | 21,578 | 61,578 |
| Transfers in | 6 | - | 828 | 828 |
| Other income | 7 | - | 950 | 950 |
| | | 40,000 | 23,356 | 63,356 |
| Benefits paid or payable | 8 | (8,683) | (5,042) | (13,725) |
| Payment to and on account of leavers | 9 | (5,926) | (51,103) | (57,029) |
| Administrative expenses | 10 | (26) | (26) | (52) |
| Other payments | 11 | - | (1) | (1) |
| | | (14,635) | (56,172) | (70,807) |
| **Net additions / (withdrawals) from dealings with Members** | | 25,365 | (32,816) | (7,451) |
| **Returns on investments** | | | | |
| Investment income | 12 | 12,745 | - | 12,745 |
| Change in market value of investments | 13 | 66,873 | 81,658 | 148,531 |
| Investment management expenses | 15 | (3,831) | - | (3,831) |
| **Net returns on investments** | | 75,787 | 81,658 | 157,445 |
| **Net increase in the fund during the year** | | 101,152 | 48,842 | 149,994 |
| **Net assets of the Scheme at start of year** | | 989,672 | 734,815 | 1,724,487 |
| **Net assets of the Scheme at end of year** | | 1,090,824 | 783,657 | 1,874,481 |

## 4. Comparative disclosures for the Fund Account and Statement of Net Assets (continued)

### Statement of Net Assets (available for benefits)

| | Note | Defined benefit section 2021 £'000 | Defined contribution section 2021 £'000 | Total 2021 £'000 |
|---|---|---|---|---|
| **Investment assets:** | | | | |
| Pooled investment vehicles | 17 | 752,878 | 781,624 | 1,534,502 |
| Bonds | 13 | 501,048 | - | 501,048 |
| AVC investments | 18 | 10,439 | - | 10,439 |
| Cash and other | 13 | 8,229 | 289 | 8,518 |
| Derivatives | 19 | 73,303 | - | 73,303 |
| | | 1,345,897 | 781,913 | 2,127,810 |
| **Investment liabilities:** | | | | |
| Derivatives | 19 | (36,831) | - | (36,831) |
| Amounts due under repurchase agreements | 20 | (224,604) | - | (224,604) |
| | | (261,435) | - | (261,435) |
| **Total net investments** | | 1,084,462 | 781,913 | 1,866,375 |
| **Current assets** | 23 | 6,684 | 2,631 | 9,315 |
| **Current liabilities** | 24 | (322) | (887) | (1,209) |
| **Net assets of the Scheme at end of year** | | 1,090,824 | 783,657 | 1,874,481 |

## 5. Contributions

| | 2022 Defined benefit section £'000 | 2022 Defined contribution section £'000 | 2022 Total £'000 |
|---|---|---|---|
| Employer contributions | | | |
| Normal | - | 19,815 | 19,815 |
| Deficit funding | 20,000 | - | 20,000 |
| | **20,000** | **19,815** | **39,815** |
| **Employee contributions** | | | |
| Normal | - | 1,422 | 1,422 |
| Additional voluntary contributions | - | 676 | 676 |
| | **-** | **2,098** | **2,098** |
| | **20,000** | **21,913** | **41,913** |

| | 2021 £'000 | 2021 £'000 | 2021 £'000 |
|---|---|---|---|
| Employer contributions | | | |
| Normal | - | 19,586 | 19,586 |
| Deficit funding | 40,000 | - | 40,000 |
| | 40,000 | 19,586 | 59,586 |
| **Employee contributions** | | | |
| Normal | - | 1,387 | 1,387 |
| Additional voluntary contributions | - | 605 | 605 |
| | - | 1,992 | 1,992 |
| | 40,000 | 21,578 | 61,578 |

Deficit contributions are being paid in accordance with the Schedule of Contributions to cover the shortfall of the Scheme as determined by the actuarial valuation of the Scheme as at 31 December 2018.

Employee normal contributions represent contributions from members not participating in the salary sacrifice arrangement.

Employer normal contributions include notional contributions in respect of Salary Sacrifice members.

## 6. Transfers in

| | 2022 Defined benefit section £'000 | 2022 Defined contribution section £'000 | 2022 Total £'000 |
|---|---|---|---|
| Individual transfers in from other schemes | **-** | **781** | **781** |

| | 2021 £'000 | 2021 £'000 | 2021 £'000 |
|---|---|---|---|
| Individual transfers in from other schemes | - | 828 | 828 |

## 7. Other income

| | 2022 Defined benefit section £'000 | 2022 Defined contribution section £'000 | 2022 Total £'000 |
|---|---|---|---|
| Other income | - | 53 | 53 |
| Claims on life assurance policies | - | 876 | 876 |
| | **-** | **929** | **929** |

| | 2021 £'000 | 2021 £'000 | 2021 £'000 |
|---|---|---|---|
| Other income | - | 137 | 137 |
| Claims on life assurance policies | - | 813 | 813 |
| | - | 950 | 950 |

## 8. Benefits paid or payable

| | 2022 Defined benefit section £'000 | 2022 Defined contribution section £'000 | 2022 Total £'000 |
|---|---|---|---|
| Pensions | 6,743 | - | 6,743 |
| Commutations and lump sum retirement benefits | 2,377 | 2,816 | 5,193 |
| Lump sum death benefits | 34 | 2,490 | 2,524 |
| Taxation where lifetime or annual allowance exceeded | - | 1 | 1 |
| | **9,154** | **5,307** | **14,461** |

| | 2021 £'000 | 2021 £'000 | 2021 £'000 |
|---|---|---|---|
| Pensions | 6,214 | - | 6,214 |
| Commutations and lump sum retirement benefits | 2,271 | 2,989 | 5,260 |
| Lump sum death benefits | 198 | 2,053 | 2,251 |
| Taxation where lifetime or annual allowance exceeded | - | - | - |
| | 8,683 | 5,042 | 13,725 |

## Notes to the Financial Statements (continued)

### 9. Payments to and on account of leavers

| | 2022 Defined benefit section £'000 | 2022 Defined contribution section £'000 | 2022 Total £'000 |
|---|---|---|---|
| Refunds to members leaving service | - | 3 | 3 |
| Pension sharing on divorce | 946 | - | 946 |
| Individual transfers to other schemes | 4,721 | 34,529 | 39,250 |
| Charges deducted by way of cancellation of member units | - | 1,234 | 1,234 |
| Employer trustee reserve refund | - | 59 | 59 |
| Purchase of annuities | - | 174 | 174 |
| | **5,667** | **35,999** | **41,666** |

| | 2021 £'000 | 2021 £'000 | 2021 £'000 |
|---|---|---|---|
| Refunds to members leaving service | - | 2 | 2 |
| Pension sharing on divorce | - | - | - |
| Individual transfers to other schemes | 5,897 | 49,591 | 55,488 |
| Charges deducted by way of cancellation of member units | - | 1,331 | 1,331 |
| Employer trustee reserve refund | - | 55 | 55 |
| Purchase of annuities | 29 | 124 | 153 |
| | 5,926 | 51,103 | 57,029 |

### 10. Administrative expenses

| | 2022 Defined benefit section £'000 | 2022 Defined contribution section £'000 | 2022 Total £'000 |
|---|---|---|---|
| Trustee Directors fees | **28** | **28** | **56** |

| | 2021 £'000 | 2021 £'000 | 2021 £'000 |
|---|---|---|---|
| Trustee Directors fees | 26 | 26 | 52 |

The participating employers are required to meet PPF levies, life assurance premiums and other scheme expenses as they fall due. The audit fees are paid by the principal employer rather than the Scheme.

## 11. Other payments

| | 2022 Defined benefit section £'000 | 2022 Defined contribution section £'000 | 2022 Total £'000 |
|---|---|---|---|
| Other payments | **-** | **2** | **2** |

| | 2021 £'000 | 2021 £'000 | 2021 £'000 |
|---|---|---|---|
| Other payments | - | 1 | 1 |

## 12. Investment income

| | 2022 Defined benefit section £'000 | 2022 Defined contribution section £'000 | 2022 Total £'000 |
|---|---|---|---|
| Interest on cash deposits | 1 | 3 | 4 |
| Income from pooled investment vehicles | 7,235 | - | 7,235 |
| Interest on liquidity funds | 1,653 | - | 1,653 |
| Profit/(Loss) on foreign exchange | (105) | - | (105) |
| Income from derivatives | 987 | - | 987 |
| Repurchase agreements | (1,967) | - | (1,967) |
| Fixed income | 3,788 | - | 3,788 |
| | **11,592** | **3** | **11,595** |

| | 2021 £'000 | 2021 £'000 | 2021 £'000 |
|---|---|---|---|
| Interest on cash deposits | - | - | - |
| Income from pooled investment vehicles | 9,780 | - | 9,780 |
| Interest on liquidity funds | 2 | - | 2 |
| Profit/(Loss) on foreign exchange | (14) | - | (14) |
| Income from derivatives | 126 | - | 126 |
| Repurchase agreements | (256) | - | (256) |
| Fixed income | 3,107 | - | 3,107 |
| | 12,745 | - | 12,745 |

## 13. Reconciliation of investments held at the beginning and end of the year

| | Value at 1 January 2022 £'000 | Purchases at cost and derivative payments £'000 | Sales proceeds and derivative receipts £'000 | Change in market value £'000 | Value at 31 December 2022 £'000 |
|---|---|---|---|---|---|
| **Defined Benefit Section** | | | | | |
| Pooled investment vehicles | 752,878 | 525,530 | (695,485) | (35,338) | 547,585 |
| Derivatives | 36,472 | 7,269 | (3,053) | (98,317) | (57,629) |
| Bonds | 501,048 | 55,627 | (25,660) | (235,019) | 295,996 |
| AVC investments | 10,439 | - | (314) | (978) | 9,147 |
| | 1,300,837 | **588,426** | **(724,512)** | **(369,652)** | 795,099 |
| Repurchase agreements | (224,604) | | | | (79,333) |
| Cash deposits | 7,169 | | | | 16,455 |
| Other – amount due to broker | 1,060 | | | | 1,173 |
| | 1,084,462 | | | | **733,394** |
| **Defined Contribution Section** | | | | | |
| Pooled investment vehicles | 781,624 | **66,359** | **(84,221)** | **(66,869)** | 696,893 |
| | 781,624 | | | | 696,893 |
| Cash deposits | 289 | | | | 477 |
| | 781,913 | | | | **697,370** |

The companies managing the pooled investment vehicles of the Defined Benefit Section are registered in the United Kingdom.

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| **Pooled Investment Vehicles Managed Funds** | | |
| UBS Global Asset Management Property Fund | 36,692 | 39,914 |
| PIMCO Corporate Bonds | 44,880 | 100,467 |
| Insight LDI Portfolio | 219,561 | 89,504 |
| Hayfin Direct Lending II Fund | 10,924 | 14,806 |
| Hayfin Direct Lending III Fund | 29,448 | 27,306 |
| Basalt Infrastructure Partners Fund III | 23,294 | 10,635 |
| ISQ Capital Global Infrastructure Fund III | 4,605 | 2,202 |
| Chorus Capital Credit Fund IV | 40,454 | 39,584 |
| KKR Diversified Core Infrastructure Fund | 39,044 | - |
| | **448,902** | 324,418 |
| **Unitised Funds** | | |
| Standard Life Investment Property Fund | 15,274 | 70,335 |
| Aviva REaLM Multi Sector Unit Trust | 52,621 | 57,668 |
| M&G UK Residential Property Fund | 30,788 | 29,824 |
| LGIM Factor Equities Index Fund | - | 270,633 |
| | **547,585** | 752,878 |

**13. Reconciliation of investments held at the beginning and end of the year (continued)**

**Transaction costs**

Transaction costs are included in the cost of purchases and sale proceeds. Direct transaction costs include costs charged to the Scheme such as fees, commissions and stamp duty. There were no direct transaction costs during the year.

In addition to the direct transaction costs, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles and charges made within those vehicles. The amount of indirect costs is not separately provided to the Scheme.

**Defined Contribution Section**

For the Defined Contribution Section, investments purchased by the Scheme are allocated to provide benefits to the individuals on whose behalf corresponding contributions are paid. All Defined Contribution section investments are allocated to members.

The companies operating the pooled investment vehicles of the Defined Contribution Section are all registered in the United Kingdom.

**14. Concentration of investments**

The following investments account for more than 5% of the Scheme's defined benefit assets as at 31 December 2022:

| | 2022 % | 2021 % |
|---|---|---|
| PIMCO Corporate Bonds | **6.1** | 9.3 |
| Standard Life Investments Property Fund | **2.1** | 6.5 |
| Aviva REaLM Multi Sector Unit Trust | **7.2** | 5.3 |
| UBS Global Asset Management Property Fund | **5.0** | 3.7 |
| Chorus Capital Credit Fund iV | **5.5** | 3.6 |
| KKR Diversified Core Infrastructure Fund | **5.3** | - |
| Insight High Grade Abs Fund Class S | **0.5** | 6.2 |
| Insight Liquidity Fund | **29.5** | 0.3 |
| LGIM Factor Equities Index Fund | **-** | 25.0 |

**15. Investment management expenses**

| | 2022 Defined benefit section £'000 | 2022 Defined contribution section £'000 | 2022 Total £'000 |
|---|---|---|---|
| Management charges | **3,734** | **-** | **3,734** |
| | **2021 £'000** | **2021 £'000** | **2021 £'000** |
| Management charges | 3,831 | - | 3,831 |

Management charges relate to investment managers who are remunerated through direct deduction from the investments.

## 16. Taxation

The Scheme is a registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax.

## 17. Pooled investment vehicles

The Scheme's investments in pooled investment vehicles at the year end comprised:

| | 2022<br>£'000 | 2021<br>£'000 |
|---|---|---|
| **Defined Benefit Section** | | |
| Equities | - | 270,633 |
| Illiquid credit | 80,827 | 81,697 |
| Cash | 215,870 | 3,791 |
| Hedge funds | 101,192 | 243,848 |
| Property | 82,754 | 140,073 |
| Infrastructure | 66,943 | 12,836 |
| | **547,585** | 752,878 |

| | 2022<br>£'000 | 2021<br>£'000 |
|---|---|---|
| **Defined Contribution Section** | | |
| Equities | 193,698 | 210,784 |
| Bonds | 2,811 | 4,692 |
| Cash | 2,550 | 2,025 |
| Diversified growth | 495,828 | 561,941 |
| Infrastructure | 196 | 8 |
| Property | 1,810 | 2,174 |
| | **696,893** | 781,624 |

## 18. AVC investments

The Trustee holds assets invested separately from the Defined Benefit Section investments in the form of individual insurance policies securing additional benefits on a money purchase basis for those members who have paid additional voluntary contributions or waived bonus in return for an employer contribution, or who have transferred benefits from other pension schemes into the Scheme and the benefits are to be provided by the Trustee on a money purchase basis. Members participating in this arrangement each receive an annual statement made up to 31 December confirming the amounts held to their account and the movements in the year. The aggregate amounts of AVC investments are as follows:

| | 2022<br>£'000 | 2021<br>£'000 |
|---|---|---|
| Scottish Widows | 9,147 | 10,439 |

## 19. Derivatives

### Objectives and policies

Under the terms of their Investment Management Agreements, the Trustee has authorised the use of derivatives by its investment managers in the course of implementing the investment strategy.

The main objectives for the use of derivatives and the policies followed during the year are summarised as follows:

**Swaps –** The Trustee's aim is to match as far as possible the assets held within the LDI portfolio to a portion of the Scheme's long-term liabilities, in particular in relation to their sensitivities to interest rate and inflation movements. The Trustee entered into interest rate and inflation swaps that extend the duration of the assets to better match the long-term liabilities of the Scheme.

| | 2022 Assets £'000 | 2022 Liabilities £'000 | 2021 Assets £'000 | 2021 Liabilities £'000 |
|---|---|---|---|---|
| OTC Swaps | 59,423 | (117,052) | 73,303 | (36,831) |

A summary of the Scheme's outstanding derivative contracts at the year end aggregated by key characteristics is set out below:

### (i) Swaps

#### Inflation Rate Swaps

| Period of Contract | Nature of Swap | Notional Principal £'000 | 2022 Asset £'000 | 2022 Liability £'000 |
|---|---|---|---|---|
| 11-20 Yrs | Pay Fixed (3.24% to 3.38%) for UKRPI | 7,896 | 1,429 | - |
| 21-30 Yrs | Pay Fixed (3.17% to 3.63%) for UKRPI | 16,443 | 1,925 | - |
| 31-40 Yrs | Pay Fixed (3.17% to 3.70%) for UKRPI | 13,501 | 1,260 | (7) |
| 41-50 Yrs | Pay Fixed (2.87% to 3.59%) for UKRPI | 19,656 | 3,763 | (114) |
| 51-60 Yrs | Pay Fixed (2.76% to 3.60%) for UKRPI | 14,116 | 1,170 | (426) |
| | | | **9,547** | **(547)** |
| 21-30 Yrs | Pay UKRPI for Fixed (3.17% to 3.63%) | 3,600 | - | (403) |
| 41-50 Yrs | Pay UKRPI for Fixed (2.87% to 3.59%) | 9,952 | - | (2,714) |
| | | | **-** | **(3,117)** |
| **Total Inflation Rate Swaps** | | | **9,547** | **(3,664)** |

## 19. Derivatives (continued)

### Objectives and policies (continued)

### (i) Swaps (continued)

#### Interest Rate Swaps

| Period of Contract | Nature of Swap | Notional Principal £'000 | 2022 Asset £'000 | 2022 Liability £'000 |
|---|---|---|---|---|
| 11-20 Yrs | Pay Fixed (Zero Coupon) for Floating (3mth LIBOR) | 1,234 | - | (235) |
| 21-30 Yrs | Pay Fixed (Zero Coupon) for Floating (3mth LIBOR) | 9,557 | - | (2,174) |
| 31-40 Yrs | Pay Fixed (Zero Coupon) for Floating (3mth LIBOR) | 18,111 | 3,268 | (1,231) |
| 41-50 Yrs | Pay Fixed (Zero Coupon) for Floating (3mth LIBOR) | 76,292 | 36,530 | (2,418) |
| | | | **39,798** | **(6,058)** |

| Period of Contract | Nature of Swap | Notional Principal £'000 | 2022 Asset £'000 | 2022 Liability £'000 |
|---|---|---|---|---|
| 0-10 Yrs | Pay Floating (3mth LIBOR) for Fixed (Zero Coupon) | 6,679 | 56 | (267) |
| 11-20 Yrs | Pay Floating (3mth LIBOR) for Fixed (Zero Coupon) | 40,730 | 1,138 | (4,462) |
| 21-30 Yrs | Pay Floating (3mth LIBOR) for Fixed (Zero Coupon) | 72,461 | 2,924 | (25,435) |
| 31-40 Yrs | Pay Floating (3mth LIBOR) for Fixed (Zero Coupon) | 50,320 | 2,605 | (10,548) |
| 41-50 Yrs | Pay Floating (3mth LIBOR) for Fixed (Zero Coupon) | 107,687 | 3,355 | (40,068) |
| 51-60 Yrs | Pay Floating (3mth LIBOR) for Fixed (Zero Coupon) | 45,005 | - | (26,550) |
| | | | **10,078** | **(107,330)** |
| **Total Interest Rate Swaps** | | | **49,876** | **(113,388)** |

| | 2022 Asset £'000 | 2022 Liability £'000 |
|---|---|---|
| **In summary:** | | |
| Total Interest Rate Swaps | 49,876 | (113,388) |
| Total Inflation Rate Swaps | 9,547 | (3,664) |
| **Net Derivative Asset/(Liability)** | **59,423** | **(117,052)** |

**20. Repurchase agreements**

At the year end, within other investments assets and liabilities, amounts payable under repurchase agreements amounted to £79,333,000 (2021: £224,604,000) and amount receivable under repurchase agreements amounted to £nil (2021: £Nil).

**21. Fair value determination**

The fair value of financial instruments has been disclosed using the following fair value hierarchy:

| | |
|---|---|
| Level 1 | The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the assessment dates. |
| Level 2 | Inputs other than quoted prices included within Level 1 that are observable (ie developed) for the asset or liability, either directly or indirectly. |
| Level 3 | Inputs are unobservable (ie for which market data is unavailable) for the asset or liability. |

The Scheme's investment assets and liabilities have been fair valued using the above hierarchy levels as follows:

| **As at 31 December 2022** | **Level 1 £'000** | **Level 2 £'000** | **Level 3 £'000** | **Total £'000** |
|---|---|---|---|---|
| **Defined Benefit Section** | | | | |
| Pooled investment vehicles | 215,870 | 135,375 | 196,340 | 547,585 |
| Bonds | 295,996 | - | - | 295,996 |
| AVC investments | - | 9,147 | - | 9,147 |
| Cash deposits | 16,455 | - | - | 16,455 |
| Derivatives | - | - | (57,629) | (57,629) |
| Repurchase agreements | - | - | (79,333) | (79,333) |
| Other | 1,173 | - | - | 1,173 |
| | **529,494** | **144,522** | **59,378** | **733,394** |
| **Defined Contribution Section** | | | | |
| Pooled investment vehicles | - | 696,893 | - | 696,893 |
| Cash deposits | 477 | - | - | 477 |
| | **477** | **696,893** | **-** | **697,370** |

## 21. Fair value determination (continued)

| As at 31 December 2021 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| **Defined Benefit Section** | | | | |
| Pooled investment vehicles | 3,791 | 487,290 | 261,797 | 752,878 |
| Bonds | 501,048 | - | - | 501,048 |
| AVC investments | - | 10,439 | - | 10,439 |
| Cash deposits | 7,169 | - | - | 7,169 |
| Derivatives | - | - | 36,472 | 36,472 |
| Repurchase agreements | - | - | (224,604) | (224,604) |
| Other | 1,060 | - | - | 1,060 |
| | 513,068 | 497,729 | 73,665 | 1,084,462 |
| **Defined Contribution Section** | | | | |
| Pooled investment vehicles | - | 781,624 | - | 781,624 |
| Cash deposits | 289 | - | - | 289 |
| | 289 | 781,624 | - | 781,913 |

## 22. Investment risk disclosures

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 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 comprises currency risk, interest rate risk and other price risk.

- Currency risk: this is the risk that the fair value of 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 of future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- Other price risk: this is the risk that the fair value of 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 determines their investment strategy after taking advice from a professional investment adviser. The Scheme has exposure to these risks because of the investments it makes in following the investment strategy set out below. The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustee by regular reviews of the investment portfolio.

## 22. Investment risk disclosures (continued)

The following table summarises the extent to which the various classes of investments are affected by the aforementioned financial risks. This does not include the legacy insurance policies nor AVC investments as these are not considered significant in relation to the overall investments of the Scheme.

| | | Market risk | | | 2022 | 2021 |
|---|---|---|---|---|---|---|
| **Global Equity** | **Credit risk** | **Currency** | **Interest rate** | **Other Price** | **£'000** | **£'000** |
| LGIM Factor Equities Index Fund | ○ | ● | ○ | ● | - | 270,633 |
| **Absolute Return** | | | | | | |
| PIMCO Diversified Income | ● | ◐ | ○ | ● | 44,880 | 100,467 |
| Insight Bonds Plus 400 | ● | ◐ | ◐ | ● | - | 18,917 |
| Insight High Grade ABS | ● | ◐ | ◐ | ● | 3,691 | 66,796 |
| **Illiquid Alternatives** | | | | | | |
| UBS Triton Property | ● | ○ | ○ | ● | 36,692 | 39,914 |
| Standard Life Property | ● | ○ | ○ | ● | 15,274 | 70,335 |
| Aviva REaLM Multi Sector Unit Trust | ● | ○ | ○ | ● | 52,621 | 57,668 |
| Hayfin Direct Lending Fund II | ● | ○ | ○ | ● | 10,924 | 14,806 |
| Hayfin Direct Lending Fund III | ● | ○ | ○ | ● | 29,448 | 27,306 |
| M&G UK Residential Property | ● | ○ | ○ | ● | 30,788 | 29,824 |
| Chorus Capital Credit Fund IV | ● | ● | ○ | ● | 40,454 | 39,585 |
| Basalt Infrastructure Partners Fund III | ● | ● | ○ | ● | 23,294 | 10,635 |
| ISQ Global Infrastructure Fund III | ● | ● | ○ | ● | 4,605 | 2,202 |
| KKR Diversified Core Infrastructure Fund | ● | ● | ○ | ● | 39,044 | - |
| **LDI and Cash** | | | | | | |
| Insight Liquidity Funds | ● | ○ | ○ | ● | 224,281 | 3,825 |
| Northern Trust Liquidity Funds | ● | ○ | ○ | ● | 8,044 | 7,134 |
| Bonds | ● | ○ | ● | ● | 295,996 | 501,048 |
| Derivatives | ● | ○ | ● | ● | (57,629) | 36,472 |
| Repurchase agreements | ● | ○ | ● | ● | (79,333) | (224,604) |
| **Total DB section investments** | | | | | **723,074** | 1,072,963 |

In the above table, the risk noted affects the asset class [●] significantly, [◐] partially or [○] hardly / not at all.

## 22. Investment risk disclosures (continued)

### Defined Benefit Section

#### Investment Strategy

Further information on the Trustee's approach to risk management, credit and market risk is set out below.

The primary objective of the Scheme's Defined Benefit investment strategy is to ensure long-term returns which meet the long-term future obligations of the Scheme.

The overall return objective has been determined by the Trustee after an assessment of the liabilities and associated risks of the Scheme and consultation with the Employer and is as follows:

"To implement an investment strategy which targets an expected return over fixed interest gilts of at least 2.0% per annum (net of fees) until 31 December 2032, declining to 0.5% ahead of fixed interest gilts at 31 December 2042, declining to 0.3% ahead of fixed interest gilts after 31 December 2052".

The Trustee has eleven investment managers employed to manage the Scheme's assets for its defined benefits in line with the Scheme benchmark. The managers appointed to manage the Scheme's predominately 'return seeking' assets are Insight Investment Management ("Insight"), UBS Asset Management ("UBS"), Pacific Investment Management Company ("PIMCO"), Aviva Investors Jersey Unit Trusts Management Limited ("Aviva"), Deutsche International Corporate Services (Ireland) Limited ("Hayfin"), Standard Life Investments ("Standard Life"), M&G Investments ("M&G"), Chorus Capital Management Limited ("Chorus"), Basalt Infrastructure Partners LLP ("Basalt"), I Squared Capital ("ISQ") and Kohlberg Kravis Roberts & Co. Partners LLP ("KKR").

The manager appointed to manage the Scheme's predominately 'risk reducing' assets is Insight Investment Management ("Insight"). Over the year to 31 December 2022, the Scheme increased the target hedge ratio in a series of tranches to 65% on both interest rate risk and inflation risk.

The Scheme does not hold EE Limited shares nor makes loans to EE Ltd or any of its subsidiaries; any holding that the Scheme has (if any) in the parent company is indirect, that is, as a result of investing in pooled funds which may include shares of British Telecommunications plc.

The defined benefit investment managers are remunerated on an 'ad valorem' (percentage of fund) basis with the exception of Insight who are remunerated on a base fee plus performance related fee basis.

The Trustee continued transitioning to the revised investment strategy in 2022, which is as follows:

- 25% Global Equities
- 35% Illiquid alternatives
- 30% Fixed-Interest and Index-Linked Bonds
- 10% Absolute Return Bonds and Hedge Fund Assets

The Trustee may review and adopt a higher or lower overall return objective from time to time, after consultation with the sponsoring employer. Factors the Trustee will take into account in its consideration of the overall return objective include the Scheme's funding level, the Trustee's tolerance to risk and the Trustee's assessment of the employers covenant to the Scheme.

Please note this investment allocation remains under review following the gilt related market events in Q4 2022.

## 22. Investment risk disclosures (continued)

### Defined Benefit Section (continued)

### Credit risk

A summary of the exposures to credit risk is given in the following table. The notes below explain how risk is managed and mitigated.

| | 31 December 2022 £'000 | 31 December 2021 £'000 |
|---|---|---|
| Funds which invest in bonds/derivatives (direct and indirect risk) | 671,108 | 692,081 |
| Other funds (direct risk only) | 51,966 | 380,882 |
| **Total** | **723,074** | 1,072,963 |

The Scheme is subject to credit risk because the Scheme directly invests in bonds, repurchase agreements and OTC derivatives. The Scheme also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the units it holds in the pooled investment vehicles. The Scheme is also indirectly exposed to credit risks arising on the debt instruments held by the pooled investment vehicles.

Credit risk arising on derivatives depends on whether the derivative is exchange traded or over the counter (OTC). OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Scheme is subject to risk of failure of the counterparty. The credit risk for OTC derivatives is reduced by collateral arrangements. At the year end the Scheme held collateral of approximately £X m in respect of OTC derivatives.

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the investment manager, the regulatory environments in which the investment managers operate and diversification of investments amongst a number of pooled arrangements. The Trustee relies on advice from their investment consultant pertaining to the operational strength of all existing and new pooled investment managers and on an on-going basis monitors any changes to the regulatory and operating environment of the pooled manager.

Indirect credit risk is mitigated by employing skilled investment managers the Trustee believe to be qualified to manage exposures to different types of counterparty, whether bond holdings or derivative instruments. The Trustee manages the associated credit risk by ensuring that it appoints investment managers who diversify their portfolio to minimise the impact of default by any one issuer.

The Scheme is also subject to credit risk because the Scheme holds cash balances. These cash balances are small and balances held are typically only sufficient to cover the working capital requirements of the Scheme over an agreed time period. Credit risk arising on cash is mitigated in this instance by holding cash within financial institutions which are at least investment grade credit rated.

### Currency risk

The Scheme is subject to indirect currency risk because some of the Scheme's investments are held in overseas markets via pooled investment vehicles. The Trustee does not set limits to overseas currency exposure.

The Scheme's investments made through segregated vehicles are not subject to currency risk.

**22. Investment risk disclosures (continued)**

**Defined Benefit Section (continued)**

**Interest rate risk**

The Scheme is subject to indirect interest rate risk because some of the Scheme's investments are held in leveraged bonds and indirect interest rate swaps held through pooled investment vehicles.

The Scheme is subject to interest rate risk because some of the scheme's investments are held in bonds, interest rate swaps, repurchase agreements, and cash. The Scheme's physical allocation to these assets, in total is 55%.

Under this strategy, if interest rates fall then the value of the LDI portfolio will typically rise to help match some of the increase in the actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise the LDI portfolio will typically fall in value, as will actuarial liabilities, because of an increase in the discount rate. As at 31 December 2022, the LDI portfolio represented 53.1% of the total investment portfolio (2021: 29.5%).

The exposure to interest rate risk arising from the underlying investments in the Insight Segregated LDI portfolio held by the Scheme was £159.0m (2021: £312.9m).

**Other price risk**

Other price risk arises principally in relation to the Scheme's return seeking portfolio which includes equities held in pooled vehicles, hedge funds, absolute return strategies and property investments.

The Scheme manages this exposure to overall price movements by diversifying its return seeking assets by geography, asset class, issuer and manager. The Trustee has set a benchmark of 70% of assets in return seeking investments. As at 31 December 2022, these assets held a value of £330.5m (2021: £748.7m).

All investments are subject to idiosyncratic price risks that arise from factors peculiar to the asset class or individual investment in addition to credit risk, currency risk and interest rate risk.

**Legal nature of the pooled arrangements**

| | **31 December 2022 £'000** | **31 December 2021 £'000** |
|---|---|---|
| Open ended investment company | 295,229 | 200,878 |
| Unit linked insurance contracts | 51,966 | 380,882 |
| Unregulated collective investment scheme | 52,621 | 57,668 |
| Limited partnerships | 147,769 | 94,533 |
| Qualifying investor alternative investment fund | - | 18,917 |
| **Total** | **547,585** | 752,878 |

## 22. Investment risk disclosures (continued)

**Defined Contribution Section**

**The Default Option – "Do it for me"**

The Trustee makes available a range of strategies that automatically de-risk member's investments as they approach retirement, these are known as the "Do it for me" range. The Trustee has delegated the investment strategy to their investment advisers, Mercer.

The Trustee has implemented three different strategies, each aimed to be appropriate for a member taking their benefits at retirement as one of three ways:

- 75% Drawdown, 25% Cash (Target Drawdown strategy)
- 75% Annuity purchase, 25% cash (Target Annuity strategy)
- 100% Cash (Target Cash strategy)

The strategies above are implemented via a range of Target Retirement Funds that automatically de-risk members' assets as they approach retirement.

For members who do not wish to take an active role in investment decisions the Trustee has selected the Target Drawdown strategy above as the default option.

**Investment Strategy**

The Trustee believes that assets in the default investment option are invested in the best interests of members and beneficiaries, taking into account the profile of members.

The Target Drawdown Path is implemented using a range of pooled funds managed by the Trustee's chosen investment managers. The Trustee delegates the selection, retention and realisation of investments within these pooled funds to the chosen investment managers. The investment managers also have discretion to incorporate social, environmental and ethical considerations in exercising their delegated responsibilities. Any investment in derivative instruments (either directly or within the underlying pooled funds) contributes to risk reduction or efficient portfolio management.

The Target Drawdown Path adopts an age based de-risking approach to manage risk throughout a member's lifetime in the Scheme. As a member's pot grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustee believes that it is appropriate to utilise an automatic de-risking approach to reduce investment risk as the member approaches retirement. The reduction of investment risk in the run up to retirement is expected to reduce the chance of market shocks producing unfavourable outcomes for members at retirement.

If the member is more than eight years away from their expected retirement date contributions will be invested in the Growth Fund. The Growth Fund invests in a diversified range of assets (equities, fixed income securities and non-traditional assets) with the objective of providing growth whilst mitigating inflation erosion and downside risk.

- Eight years before their target retirement date (or Normal Retirement Date if no target has been specified) members will have their holdings transferred into a Target Retirement Fund based on expected date of retirement. The Target Retirement Fund aims to gradually move assets to investments more suitable for targeting cash (25%) and income drawdown (75%) as members approach retirement.

**22. Investment risk disclosures (continued)**

**Defined Contribution Section (continued)**

**Investment Strategy (continued)**

- Within the Target Drawdown Path, units across the underlying pooled funds are bought and sold according to the lifestyle matrix set out in the Investment Policy Implementation Document "IPID" that accompanies the Statement of Investment Principles "SIP". Specific details on the pooled funds held within the target Drawdown Path are also set out in the IPID.

Taking into account the demographics of the Scheme's membership and the Trustee's views of how the membership will behave at retirement, the Trustee believes that the current default strategy is appropriate and will continue to review this over time, at least triennially, or after significant changes to the Scheme's demographic, if sooner.

**Main Assets**

The Scheme's investment platform is provided under contract with Scottish Widows Limited and Mercer Workplace Savings, both of whom are regulated by the Financial Conduct Authority (the "FCA").

The safe custody of the Scheme's assets is delegated to professional custodians, as appointed by the governing bodies of the respective pooled funds.

**Buying and Selling Investments**

The investment manager has responsibility for buying and selling the underlying assets. All of the pooled funds used are daily dealt. The investment managers have discretion in the timing of realisation of investments and in considerations relating to liquidity of those investments within parameters stipulated in the relevant appointment documentation. The day to day activities which the investment manager carries out for us are governed by the arrangements between them and Scottish Widows Limited, which are reviewed from time to time to ensure that the operating instructions, guidelines and restrictions remain appropriate.

**Risks**

In designing the default option, the Trustee has explicitly considered the trade-off between risk and expected returns. Risk is not considered in isolation, but in conjunction with expected investment returns and retirement outcomes for members. In particular, when reviewing the investment strategy of the default investment option, the Trustee considers risk quantitatively in terms of the variability of investment returns and potential retirement outcomes for members. From the qualitative perspective, the Trustee also considers risk in terms of the (mis)alignment of investments with the retirement benefits targeted by the default investment option.

**Credit risk**

The Defined Contribution Section (DC section) is subject to direct credit risk in relation to Scottish Widows Limited through its holding in unit linked funds provided by Scottish Widows Limited.

The Scheme's holdings in pooled investment vehicles are not rated by credit rating agencies. The Trustee manages and monitors the credit risk arising from its pooled investment arrangements by considering the nature of the arrangement, the legal structure and regulatory environment. In the event of default by Scottish Widows Limited the Scheme is protected by the Financial Services Compensation Scheme and may be able to make a claim of 100% of its policy value, although noting that compensation is not guaranteed.

The DC Section is also subject to indirect credit risk arising from the underlying investments held in the white labelled funds, as noted in the table below.

**22. Investment risk disclosures (continued)**

**Defined Contribution Section (continued)**

**Market risk**

Further, the Scheme's DC section is subject to indirect foreign exchange risk, interest rate and other price risk arising from the underlying financial instruments held in the funds made available to members follows:

| Fund | Credit risk | Foreign exchange risk | Interest rate risk | Other price risk |
|---|---|---|---|---|
| High Growth | √ | √ | √ | √ |
| Growth | √ | √ | √ | √ |
| Moderate Growth | √ | √ | √ | √ |
| Defensive | √ | √ | √ | √ |
| Cash and Money Market | √ | - | √ | - |
| Annuity Retirement | √ | - | √ | - |
| *Target Annuity 2021-2030 Retirement* | √ | √ | √ | √ |
| Diversified Retirement | √ | √ | √ | √ |
| *Target Drawdown 2021-2030 Retirement* | √ | √ | √ | √ |
| Global Equity (60:40) | - | √ | - | √ |
| UK Equity | - | - | - | √ |
| Overseas Equity | - | √ | - | √ |
| European (ex-UK) Equity | - | √ | - | √ |
| US Equity | - | √ | - | √ |
| Japanese Equity | - | √ | - | √ |
| Asia Pacific (ex Japan) Equity | - | √ | - | √ |
| Emerging Markets Equity | - | √ | - | √ |
| Diversified Growth | √ | √ | √ | √ |
| Fixed Interest Gilt | √ | - | √ | - |
| Index Linked Gilt | √ | - | √ | - |
| UK Corporate Bond | √ | - | √ | - |
| Property | - | √ | √ | √ |
| Ethical | - | √ | √ | √ |
| Shariah | - | √ | - | √ |
| Drawdown Retirement | √ | √ | √ | √ |
| Cash Retirement | √ | - | √ | - |
| *Target Cash 2010 – 2030 Retirement* | √ | √ | √ | √ |

The analysis of these risks set out above is at Scheme level. Member level risk exposures will be dependent on the funds invested in by members.

The Trustee has selected the above funds and has considered the indirect risks in the context of the investment strategy described in the Trustee's Report.

**Compliance with this statement**

The Trustee, Scottish Widows Limited and Mercer each have duties to perform to ensure compliance with this Statement. These are:

Scottish Widows Limited will provide full information in respect of transactions in units in the underlying funds and valuations of the units held by the Scheme from time to time as required by the Trustee.

Mercer will provide the advice needed to allow the investment consultant to review and update this Statement at least every three years (or more frequently if required).

## Notes to the Financial Statements (continued)

### 23. Current assets

| | 2022 Defined benefit section £'000 | 2022 Defined contribution section £'000 | 2022 Total £'000 |
|---|---|---|---|
| Contributions due from employer in respect of: | | | |
| Normal | - | 1,605 | 1,605 |
| Employee | - | 176 | 176 |
| Deficit contributions | - | - | - |
| Other debtors and prepayments | 513 | - | 513 |
| Cash balances | 572 | 1,006 | 1,578 |
| | **1,085** | **2,787** | **3,872** |
| Allocated to members | | 2,673 | |
| Not allocated to members – cash balances | | 114 | |
| | | **2,787** | |

| | 2021 £'000 | 2021 £'000 | 2021 £'000 |
|---|---|---|---|
| Contributions due from employer in respect of: | | | |
| Normal | - | 1,527 | 1,527 |
| Employee | - | 175 | 175 |
| Deficit contributions | 3,333 | - | 3,333 |
| Other debtors and prepayments | 464 | - | 464 |
| Cash balances | 2,887 | 929 | 3,816 |
| | 6,684 | 2,631 | 9,315 |
| Allocated to members | | 2,492 | |
| Not allocated to members – cash balances | | 139 | |
| | | 2,631 | |

## 24. Current liabilities

| | 2022 Defined benefit section £'000 | 2022 Defined contribution section £'000 | 2022 Total £'000 |
|---|---|---|---|
| Unpaid benefits | 54 | 1,078 | 1,132 |
| Other creditors | 244 | 1 | 245 |
| | **298** | **1,079** | **1,377** |
| Allocated to members | | 1,079 | |
| Not allocated to members - other creditors | | - | |
| | | **1,079** | |

| | 2021 £'000 | 2021 £'000 | 2021 £'000 |
|---|---|---|---|
| Unpaid benefits | 21 | 886 | 907 |
| Other creditors | 301 | 1 | 302 |
| | 322 | 887 | 1,209 |
| Allocated to members | | 887 | |
| Not allocated to members - other creditors | | - | |
| | | 887 | |

## 25. Commitment to invest

The Scheme, in the prior year, made a commitment to a new fund with existing manager Deutsche International Corporate Services (Ireland) Limited ("Hayfin"). Hayfin were first appointed as Investment Managers 18 January 2017, with the Scheme investing in the Direct Lending Fund (DLF) II. The total commitment to the DLF II was £30 million and to date £28.1 million has been paid. The Scheme committed £30 million on 25 April 2019 to the Direct Lending Fund (DLF) III and to date £28.2 million has been paid.

The Scheme made a commitment to a new fund with Chorus Capital who were appointed during the prior year. The total commitment to the Capital Credit Fund IV was £40 million and to date £39.9 million has been paid.

The Scheme made a commitment to Basalt Infrastructures who were appointed during the prior year. A commitment of $40 million has been made and to date £18.7 million has been invested.

The Scheme made a commitment to I Squared Capital who were appointed during the prior year of $49 million and to date £4.4 million has been invested.

The Scheme made a commitment to a new fund with KKR who were appointed during the prior year. The total commitment to the fund was $49 million and to date £38.6 million has been invested.

## 26. Related party transactions

**Defined Benefit Section**

Related parties of the EE Pension Scheme are as follows:

- Participating employers
- EE Pension Trustee Limited

A list of participating employers is provided on page 4 of this Report. All transactions between the Scheme and the participating employers are disclosed in the accounts.

All of the Scheme's administration expenses, other than for money purchase investment funds, and those disclosed in note 10 were borne by the Employers directly.

The Trustee is shown on page 2 of this Report.

The Trustee is not aware of any other additional related party transactions that require disclosure in the accounts.

All Trustee Directors, except for JMRC Pensions Limited who is the independent Trustee, and Roger Waymouth, who took a transfer value in 2017, as listed on page 2 of this report are members of the Scheme, either the DB Scheme or the DC Scheme.

The Principal Employer, EE Limited, provides secretarial services to the Trustee and bears these costs and certain other costs of the Scheme itself but the costs borne are not reflected in these financial statements.

During the year the defined benefit section paid Trustee fees of £28,000 (2021: £26,000). At the year end £nil (2021: £Nil) was unpaid.

**Defined Contribution Section**

The Scheme has received contributions in respect of one Trustee Director who is a contributing member of the Scheme. Their contributions have been paid in accordance with the Schedule of Contributions.

The Principal Employer, EE Limited, provides secretarial services to the Trustee and bears these costs and certain other costs of the Scheme itself but the costs borne are not reflected in these financial statements.

All of the above transactions were made in accordance with the Scheme Rules.

During the year the defined contribution section paid Trustee fees of £28,000 (2021: £26,000).

## 27. Subsequent event

As noted in the Trustee's report, the Trustee was formally advised by the scheme's administrator, Capita Pension Solutions Limited ('CPLS'), on 17 May 2023 that Capita plc ('Capita') identified a cyber incident which resulted in unauthorised access to its IT systems, which Capita confirmed to the Trustee included member data that had been exfiltrated by an external 3rd party.

27. Subsequent event (continued)

As the cyber-attack took place in March 2023, the incident has not resulted in any financial impact on the Scheme nor on members' benefits as at 31 December 2022. As such there is no impact on the financial results of the Scheme for the year ended 31 December 2022. However, the Trustee is aware that there is a possibility that some of the exfiltrated data could be used at a future date to create fraudulent transactions resulting in loss to members and claims on the Scheme, although there are identity and verification controls in place at Capita. Whilst there is no evidence to date, it is hoped that this possibility is remote. The Trustee continues to work closely with its legal and other advisers, and with Capita, to mitigate any further risk resulting from the cyber incident and to ensure that the Scheme members affected are protected as far as possible. As the investigations are ongoing, it is not considered that a reliable estimate can be made of any future impact of the incident.

# Appendix

# Statement of Investment Principles

## *Defined Benefit Section (other than Money Purchase benefits)*

### 1. INVESTMENT OBJECTIVE

The Trustee aims to invest the assets of the Defined Benefit section (i.e. other than money purchase benefits of the Defined Benefit section) of the Scheme prudently to ensure that the benefits promised to members are provided. In setting investment strategy for the Defined Benefit section of the Scheme, the Trustee first considered the lowest risk asset allocation that it could adopt in relation to the Defined Benefit section's liabilities. The asset allocation strategy it has selected is designed to achieve a higher return (and hence necessitates the taking of a higher level of risk) than the lowest risk strategy while maintaining a prudent approach to meeting the Defined Benefit section's liabilities.

The Trustee recognises that targeting outperformance of the Defined Benefit section's liabilities requires the adoption of an asset mix that will perform differently from the liabilities. This implies that the funding level will be subject to volatility. The Trustee will measure and monitor this volatility using Value at Risk (VaR)[1]. The Trustee will aim to keep the VaR within an acceptable range determined by the Trustee after consultation with the Employer.

The absolute level of VaR depends on a number of factors, such as asset allocation but also prevailing market conditions and the assumptions used to calculate it. In addition, the Trustee's risk tolerance will vary over time with certain factors such as sponsor covenant, funding level and liability profile.

The overall return objective has been determined by the Trustee after an assessment of the Defined Benefit section's liabilities and associated risks of the Defined Benefit section of the Scheme and consultation with the Employer and is, based on the Actuarial Valuation date of 31 December 2018, as follows:

**"To implement an investment strategy which targets an expected return over fixed interest gilts of at least 2.0% per annum (net of fees) until 31 December 2030, declining to 0.5% ahead of fixed interest gilts at 31 December 2040"**

The Trustee monitors the funding position and associated risks on a number of actuarial bases including the ongoing funding basis (technical provisions) and a "self-sufficiency" type actuarial basis using gilt yield curves to discount future expected Defined Benefit section liability cashflows.

The Trustee may review and adopt a higher or lower overall return objective from time to time, after consultation with the Employer. Factors that the Trustee will take into account in its consideration of the overall return objective include the Defined Benefit section's funding level, the Trustee's tolerance to risk and the Trustee's assessment of the Employer's covenant to the Scheme.

*[1] Value at Risk estimates the possible downside risk facing the funding level and is specified as a monetary amount. Based upon a set of economic assumptions there is a 5% chance in any one year that the funding level could fall by at least this amount.*

## 2. STRATEGY

In order to meet the investment objective for the Defined Benefit section of the Scheme as stated above, the Trustee invests in a range of different asset classes, some predominantly return seeking assets such as equities and some predominantly risk reducing or diversifying asset classes such as index-linked gilts, corporate bonds and real estate.

The overall allocation to different asset classes may vary over time, depending on a number of factors, including market conditions and decisions taken by the fund managers and Trustee in the light of views about the relative outlook for different asset classes.

The current asset allocation strategy, as detailed within Appendix A, was determined with regard to the actuarial characteristics of the Defined Benefit section of the Scheme, in particular the strength of the funding position, the assumptions used to assess the funding position, the Defined Benefit section liability profile and the Employer's covenant.

The Trustee's policy is to make the assumption that riskier assets such as equities will outperform lower risk assets such as gilts over the long term. However, the Trustee recognises the potential volatility in the returns on riskier assets, particularly relative to the Defined Benefit section's liabilities. When choosing the Defined Benefit section's asset allocation 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.
- The need for appropriate diversification.

In addition, the Trustee also consulted with the Employer when setting this strategy.

The Trustee's policy is for the investments of the Scheme to be sufficiently liquid to enable disinvestment of assets to meet liabilities of the Scheme as they arise.

## 3. 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 the Defined Benefit section's liabilities ("funding risk"). The Trustee has identified a number of risks which have the potential to cause deterioration in the Defined Benefit section of the Scheme's funding level and therefore contribute to funding risk. These 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 advisers considered this mismatching risk when setting the investment strategy.
- The risk of a shortfall of liquid assets relative to the Defined Benefit section's immediate liabilities ("cash flow risk"). The Trustee and its advisers will manage the Defined Benefit section of the Scheme's cash flows taking into account the timing of future payments in order to minimise the probability that this occurs.
- The failure by the fund managers to achieve the rate of investment return assumed by the Trustee ("manager risk"). This risk is considered by the Trustee and its advisers

both upon the initial appointment of the fund managers and on an ongoing basis thereafter.

- The failure to spread investment risk ("risk of lack of diversification"). The Trustee and its advisers considered this risk when setting the Defined Benefit section of the Scheme's investment strategy.
- The possibility of failure of the Defined Benefit section of the Scheme's sponsoring Employer ("covenant risk"). The Trustee and its advisers considered this risk when setting the Defined Benefit section's investment strategy and consulted with the sponsoring employer as to the suitability of the proposed strategy.
- The risk of fraud, poor advice or 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.

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 each formal investment strategy review (normally triennially). Some risks may also be modelled explicitly during the course of such reviews.

Having set an investment objective which relates directly to the Scheme's liabilities and implemented it using a range of fund managers, the Trustee's policy is to monitor, where possible, these risks quarterly. The Trustee receives quarterly reports showing:

- Actual funding level versus the Scheme specific funding objective.
- Performance versus the Scheme investment objective.
- Performance of individual fund managers versus its respective targets.
- Any significant issues with the fund managers that may impact its ability to meet the performance targets set by the Trustee.

To manage risk the Trustee conducts a risk assessment (which feeds into the Scheme's risk register) and, where appropriate, discusses the quarterly reports with fund managers.

## 4. IMPLEMENTATION

Aon Solutions UK Limited ("Aon") has been selected as investment adviser to the Trustee in respect of the Defined Benefit section of the Scheme, which includes the Funding and Investment Sub Committee (F&ISC) of the Trustee. It operates under an agreement to provide a service which ensures the Full Board of the Trustee and the F&ISC are fully briefed to take decisions themselves and to monitor those they delegate. Aon is paid on a fixed fee basis for specific items of work it undertakes for the Defined Benefit section of the Scheme although time cost basis and performance related fees may be negotiated by the Trustee for certain projects. This structure has been chosen to ensure that cost-effective, independent advice is received.

In setting the Scheme's investment strategy, the Trustee's primary concern is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. The Trustee recognises that "financial material considerations" over the time needed to fund future benefits by the investments of the Scheme include environmental, social and governance factors including climate change and believes that bad performance in these areas can negatively impact the value of investments held if not understood and evaluated properly. The Trustee acknowledges that consideration of these factors may also offer investment opportunities. The Trustee considers this risk by taking advice from its investment adviser when selecting managers and when monitoring their performance.

The Trustee has delegated all day-to-day decisions about the Defined Benefit section investments that fall within each mandate, including the realisation of investments, to a range of carefully selected and monitored fund managers through written contracts. When choosing investments, the Trustee and the fund managers (to the extent delegated) are required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018. The managers' duties also include taking into account environmental, social and governance considerations in the selection, retention and realisation of investments as appropriate.

**Arrangements with asset managers**

The Trustee regularly monitors the Scheme's investments to consider the extent to which the investment strategy and decisions of the asset managers are aligned with the Trustee's policies. This includes monitoring the extent to which asset managers:

- Make decisions based on assessments about medium- to long-term 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 its investment adviser. Some of the detailed monitoring is often delegated to the F&ISC. This typically includes 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's objectives. The Trustee would not typically seek to terminate an investment manager on the ground of short-term performance alone.

The Trustee also receives annual stewardship reports on the monitoring and engagement activities carried out by its asset managers, which supports the Trustee in annually assessing asset managers and determining the extent to which the Scheme's stewardship policy has been followed throughout the year.

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

Before appointment of a new asset 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.

The Trustee believes that having appropriate governing documentation, setting clear expectations to the asset managers by other means, such as sharing the policies set out in this SIP, and regular monitoring of asset managers' performance and investment strategy, is in most cases sufficient to incentivise the asset managers to have an investment strategy, and make decisions, that align with the Trustee's policies and are based on assessments of medium- and long-term performance.

# Appendix

## Statement of Investment Principles (continued)

The Trustee does not seek to incentivise asset managers to take into account non-financial performance as it is not the Trustee's policy to take into account non-financial factors (see below).

Where asset 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 asset manager where this is deemed necessary.

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

**Stewardship – Voting and Engagement**
As part of its delegated responsibilities, the Trustee expects the Scheme's investment managers to:

- Where appropriate, engage with relevant parties, such as investee companies; and
- Exercise the Trustee's voting rights in relation to the Scheme's assets, with an aim to protect and enhance the long term value of Scheme assets.

The Trustee regularly reviews the continuing suitability of the appointed managers and takes advice from its 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.

The Trustee also receives annual stewardship reports on the monitoring and engagement activities carried out by its asset managers, which supports the Trustees in determining the extent to which the Scheme's stewardship policy has been followed throughout the year.

From time to time, the Trustee will consider the methods by which, and the circumstances under which, it would monitor and engage with relevant persons, including an issuer of debt or equity, an investment manager, other stakeholders or another holder of debt or equity. The Trustee may engage on relevant 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. In practice, based on the current strategy and fund structures, the Trustee delegates this to the asset managers.

**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 environmental, social and governance considerations, or other factors such as present and future quality of life matters and ethical considerations (defined as "non-financial factors"[1]).

The Trustee has taken steps to satisfy itself that the managers have the appropriate knowledge and experience for managing the Defined Benefit section of the Scheme's investments and that they are carrying out their work competently. The Trustee regularly reviews the continuing suitability of the appointed managers and takes advice from the investment adviser with regard to any changes. Each of the appointed managers has been set a specific benchmark and performance objective by the Trustee which is monitored in detail by the Trustee on a quarterly basis.

Details of the appointed managers can be found in a separate document produced by the Trustee entitled "Summary of Investment Arrangements for the Defined Benefit section of the Scheme", which is available to members upon request.

**Costs and Transparency**

The Trustee is aware of the importance of monitoring its asset manager's 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 the asset manager that can increase the overall cost incurred by their investments.

The Trustee collects annual cost transparency reports covering all of its investments and ask that the investment manager provides this data in line with the appropriate Cost Transparency Initiative ("CTI") template for each pooled fund. This allows the Trustee to understand exactly what the Scheme is paying the asset manager. The Trustee works with its investment adviser and asset manager to understand these costs in more detail where required.

The Trustee acknowledges that portfolio turnover costs, that is transaction costs associated with the buying and selling of assets within the investment manager's mandates, are a necessary cost in order to generate investment returns and that the level of these costs varies across asset classes and pooled funds. A high level of transaction costs is acceptable so long as it is consistent with the asset class characteristics, manager's style and historic trends. The Trustee regularly monitors and discusses with its investment adviser portfolio turnover costs and turnover ranges (the minimum and maximum frequency within which the assets of the Scheme are expected to be bought or sold). Where the Trustee monitoring identifies a lack of consistency, the mandate may be reviewed.

The Trustee is supported in its cost transparency monitoring activity by its investment adviser.

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

## Defined Contribution Section and Money Purchase benefits within the Defined Benefit Section

Ongoing contributions into the Defined Contribution ("DC") Section, AVCs, historic bonus sacrifices, and some transfer values brought into the DC Section of the Scheme are invested in a range of pooled investment vehicles selected by the Trustee.

The members choose within the constraints of, and subject to, the Trust Deed and Rules and the restrictions from time to time imposed by the Trustee, how their assets are invested.

The Trustee's policy is to offer a range of pooled investment vehicles providing different investment risk and reward profiles to meet a range of different objectives of the different members of the Scheme with regard to:

- the differing ages,
- members' attitudes to risk,
- the differing expectations as to time of retirement, and
- the options available to members as to the way in which their benefits from their money purchase investments are to be taken.

### 1. INVESTMENT OBJECTIVE

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. The Trustee's objective is therefore to make available a range of investment options for this purpose.

For members who do not wish to take an active role in investment decisions, the Trustee offers a **default option** ("Do it for me") which includes lifestyling arrangements to de-risk investments to an asset allocation designed to be appropriate for a typical member who intends to access their benefits via income drawdown at retirement. More details regarding the default options are available in Appendix B (DC Members) and Appendix C (AVCs) of this Statement.

### 2. INVESTMENT POLICIES

For the DC Section (including AVCs) of the Scheme the Trustee has contracted with Scottish Widows Limited ("Scottish Widows") to deliver investment management services through their investment platform. The DC Section's investment platform is provided under contract with Scottish Widows and Mercer Workplace Savings (MWS), both of whom are regulated by the Financial Conduct Authority. Mercer has been selected as the Delegated Investment Manager.

The Trustee makes available a range of funds and lifestyle strategy options for the DC Section of the Scheme which they believe provide appropriate strategic choices for members' different saving objectives, risk profiles and time horizons. Members themselves determine the fund(s) in which they choose to invest. Further detail on the fund range offered to members is included in the Investment Policy Implementation Document "IPID".

The investment choices for the DC Section includes developed market equities, emerging market equities, real estate, money market investments, gilts, index-linked gilts, corporate bonds, diversified growth funds and pre-retirement funds. Both active and passive management options are offered to members, depending on asset class.

Members who do not indicate a preference are invested in the default option which is a lifestyle strategy designed for members intending to take their benefits at retirement via income drawdown for DC members, or cash at retirement for AVC members. Members' assets are de-risked as they approach retirement via the use of target date funds. More information on the default strategy is included in Appendix B (DC Members) and Appendix C (AVCs).

In addition, alternative lifestyle strategies are available to members that reflect the alternative ways in which members might take their benefits at retirement (Income Drawdown, Annuity or Cash). Assets will be switched into investments which seek to more closely match how the member wishes to access their pension savings as they approach retirement.

Four risk profiled funds have also been made available to members, which are multi-asset funds targeting different risk and return objectives in order to provide members with a choice from lower risk to higher risk funds. The Delegated Investment Manager is responsible for making decisions on asset allocation, selection, appointment, removal and monitoring of underlying external investment managers in these risk profiled funds. This decision making responsibility also applies to all standalone MWS funds.

Members determine the balance between the different kinds of investments they hold. This balance will determine the expected return on member's assets and should be related to the member's own risk appetite and tolerances.

The Trustee undertakes to review the DC Section's delegated fund choices offered to members and the delegated investment manager arrangements on a regular basis. In considering appropriate investments for the Scheme, the Trustee has obtained and considered the written advice of a suitability qualified investment advisor. 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).

All funds are daily-dealt pooled investment arrangements, with assets mainly invested in regulated markets, and therefore should be realisable at short notice, based on member demand.

Non-financial matters, such as member and beneficiary ethical views and views in relation to social and environmental impact and their present and future quality of life are not explicitly taken into account in the selection, retention and realisation of investments. However, the Trustee does make available an Ethical Fund and a Shariah Fund which consider the views of members and their non-financial concerns.

## 3. RISK MANAGEMENT AND MEASUREMENT

The Trustee has considered investment risk for the DC Section of the Scheme from a number of perspectives. The below list is not exhaustive but covers the main risks that the Trustee considers and how they are managed and measured.

## Appendix

## Statement of Investment Principles (continued)

| Type of Risk | Risk | Description | How is the risk monitored and managed? |
|---|---|---|---|
| Market risks | Inflation risk | The risk that the investment return over members' working lives will not keep pace with inflation and does not, therefore secure an adequate pension. | The Trustee makes available a range of funds, across various asset classes, with the majority expected to keep pace with inflation.<br><br>Members are able to set their own investment allocations, in line with their risk tolerances.<br><br>Within active funds management of many of these market risks is delegated to the investment manager. |
| | Currency risk | The risk that fluctuations in foreign exchange rates will cause the value of overseas investments to fluctuate. | |
| | Credit risk | The risk that the issuer of a financial asset, such as a bond, fails to make the contractual payments due. | |
| | Equity, property and other price risk | The risk that investment market movements lead to a substantial reduction in the anticipated level of the benefit. | |
| Environmental, Social and Corporate Governance risk | | The risk that environmental, social or corporate governance concerns, including climate change, have a financially material impact on the return of the Scheme's assets. | The management of ESG related risks is delegated to investment managers.<br><br>See Section 4, below, for the Trustee's responsible investment and corporate governance statement.<br><br>The Trustee reviews the Mercer Stewardship Monitoring Report on an annual basis. |
| Investment Manager risk | | The risk that the investment manager underperforms its objectives, fails to carry out operational tasks, does not ensure safe-keeping of assets or breaches agreed guidelines. | The Trustee regularly reviews performance of investment funds.<br><br>The management of this risk is outsourced to the delegated investment manager. |
| Liquidity risk | | The risk that the Scheme's assets cannot be realised at short notice in line with member demand. | The Scheme is invested in daily dealt and daily priced pooled funds. |

| | | |
|---|---|---|
| Pension Conversion risk | The risks that the member is invested in a strategy that does not reflect the way in which they intend to take their benefits at retirement. | The Trustee makes available three lifestyle strategies for DC members.<br><br>Lifestyle strategies automatically switch member assets into investments whose value is expected to be less volatile relative to how the member wishes to access their pension savings as they approach retirement age. |

The above items listed in Sections 2 and 3 of this Statement take into account what the Trustee considers 'financially material considerations', which includes (but is not limited to) environmental, social and governance considerations (including but not limited to climate change). The Trustee believes the appropriate time horizon for which to assess these considerations within should be viewed at a member level (depending on their need to fund future benefits by investments of the Scheme). This will be dependent on the member's age and when they expect to retire.

## 4. RESPONSIBLE INVESTMENT AND CORPORATE GOVERNANCE (VOTING AND ENGAGEMENT)

The Trustee believes that environmental, social, and corporate governance ("ESG") factors 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 require explicit consideration.

The Trustee has delegated day to day management of the assets to Mercer who in turn delegates responsibility for the investment of the assets to a range of underlying investment managers. These investment managers are expected to evaluate ESG factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code. The managers' stewardship activities include engaging with relevant persons (including issuers of debt or equity, investment managers, other stakeholders or other holders of debt or equity relevant matters) on relevant matters such as performance, strategy, risk, ESG factors, corporate governance, capital structure and management of potential conflicts of interest.

The Trustee considers how ESG, climate change and stewardship is integrated within Mercer's investment processes and those of the underlying managers in the monitoring process. The Trustee believes that Mercer has the necessary expertise and framework in place to effectively manage and monitor investments in line with these areas, and this is implemented through their four pillar framework: integration, stewardship, thematic investment and screening. Where Mercer is the manager the funds for the Scheme incorporate these four pillars as far as is practical. Mercer is expected to provide reporting on a regular basis, at least annually, on ESG integration progress, stewardship monitoring results, and climate-related metrics such as carbon foot printing for equities and/or climate scenario analysis for diversified portfolios.

## 5. OTHER INVESTMENTS

Historically members were able to invest in a With Profits Fund managed by Equitable Life Assurance Society ("Equitable Life"). In January 2020, the Scheme's Equitable Life With Profits Fund holdings for DC members were transitioned to Utmost Life and Pensions Limited ("Utmost") into their Secure Cash Fund. The legacy DC assets were subsequently moved out of the Secure Cash Fund and transitioned into the Scheme's DC arrangement.

The legacy DB AVC members who remained at Utmost had their funds initially transferred to the Money Market Fund, before being subsequently transferred into a new AVC arrangement, which mirrors the Scheme's DC arrangement with Scottish Widows.

The Trustee also held an AVC policy with Fidelity. Following a review by the Trustee, members' AVC assets invested under this policy were subsequently transferred to the Scheme's AVC arrangements with Scottish Widows.

The AVC arrangements with Scottish Widows are now the sole AVC policy.

## 6. INVESTMENT RESTRICTIONS

The Trustee recognises that it is not possible to specify investment restrictions where assets are managed via pooled funds. For the DC section, it is noted that this is particularly true given that it is Scottish Widows Limited, the Scheme's investment platform provider that has the direct relationship with the third parties offering the funds (and not the Trustee).

## 7. IMPLEMENTATION AND ENGAGEMENT POLICY

The below table sets out the Trustee's approach to implementation and engagement. The list below is not exhaustive, but covers the main areas considered by the Trustee.

| Policy statement | Trustee's Approach |
|---|---|
| **How the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with the trustee's policies** | The Delegated Investment Manager appoints underlying investment managers and the Trustee appoints investment managers of externally managed funds based on their capabilities and, therefore the perceived likelihood of achieving the expected return and risk characteristics required. Mercer's manager research rating reflects Mercer's forward-looking assessment of a manager's ability to meet or exceed their objectives.<br><br>As the Trustee invests in pooled investment vehicles, they accept that they have limited ability to influence investment managers to align their decisions with the Trustee policies set out in this Statement. However, appropriate mandates have been selected to align with the Trustee's overall investment strategy. |

| | |
|---|---|
| | The underlying 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 Delegated Investment Manager is dissatisfied, then they will look to replace the manager. If the Trustee is dissatisfied (for example if an underlying investment manager's investment strategy or decisions are not consistent with the Trustee's policies) the Trustee may remove the fund from the fund range, thus incentivising the investment manager to remain aligned with the Trustee's objectives.<br><br>If the investment objective for a particular manager's fund changes, the Delegated Investment Manager will review the fund appointment to ensure it remains appropriate and consistent with the Trustee's wider investment objectives. |
| **How the arrangement incentivises the asset manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term** | The Trustee and the Delegated Investment Manager expect investment managers to incorporate the consideration of medium to long term financial performance, into their decision making process where appropriate. The extent to which this is so will be considered during the selection, retention and realisation of manager appointments, undertaken by the Delegated Investment Manager. Voting and engagement activity should be used by investment managers to discuss and improve the medium to long term performance of an issuer of debt or equity.<br><br>The Delegated Investment Manager engages with investment managers on this activity and if dissatisfied will look to replace the manager. If the Trustee is dissatisfied (for example if an underlying investment manager is not making decisions based on medium to long term financial assessments, or is not using engagement activity to improve performance) the Trustee may remove the fund from the fund range, thus incentivising the investment manager to remain aligned with the Trustee's objectives.<br><br>The Trustee does not seek to incentivise investment managers to incorporate non-financial performance into decision making as the Trustee's policy is that non-financial matters should not explicitly be taken into account in the selection, retention and realisation of investments (see above). |
| **How the method (and time horizon) of the evaluation of the asset manager's performance and the** | The Trustee's focus is on longer-term performance but shorter-term performance is monitored to ensure any concerns can be identified in a timely manner. The |

| | |
|---|---|
| **remuneration for asset management services are in line with the trustee's policies** | Trustee reviews both absolute and relative performance against a portfolio or underlying investment manager's benchmarks on a quarterly basis, including assessments of both shorter and longer time horizons and against the Trustee's policies and objectives.<br><br>The remuneration for investment managers used by the Scheme is based on assets under management; the levels of these fees are reviewed annually as part of the annual value for money assessment to ensure they continue to represent value for members. If performance is not satisfactory, or is not in accordance with the Trustee's policies, the Trustee will ask the Delegated Investment Manager to provide additional rationale, and if not satisfied with this, may request further action be taken, including a review of fees.<br><br>The Trustee receives investment manager performance reports on a quarterly basis, which present performance information over three months, one year, three years, five years, and since inception. The Trustee's review the absolute performance, relative performance against a suitable index used as the benchmark, and against the underlying manager's stated target performance (over the relevant time period) on a net of fees basis. Whilst the Trustee's focus is on long-term performance in accordance with the Trustee's policies, they also take shorter-term performance into account.<br><br>The underlying managers are appointed by the Delegated Investment Manager, who review if the manager is meeting its stated performance objective and if any changes have been made. |
| **How the trustee monitors portfolio turnover costs incurred by the asset manager.** | Portfolio turnover costs for each of the funds are reviewed on an annual basis as part of the annual value for members' assessment. The ability to assess the appropriateness of these costs is limited by the availability of data. The Trustee will monitor industry developments in how to assess these costs and incorporate this in future value for members' assessments. Importantly, performance is reviewed net of portfolio turnover costs. |
| **How the trustee defines and monitor targeted portfolio turnover or turnover range.** | The Trustee does not currently define or monitor target portfolio turnover or turnover ranges for funds since this information is not currently routinely provided by underlying fund managers.<br><br>The Trustee may review its approach to monitoring portfolio turnover in due course if the information is provided by underlying fund managers. |

| | |
|---|---|
| **How the trustee defines and monitors the duration of the arrangement with the asset manager.** | The Trustee is a long term investor, all funds are open-ended and therefore there is no set duration for manager appointments. The Delegated Investment Manager is responsible for the selection, appointment, monitoring and removal of the underlying investment managers. The Trustee is responsible for the selection, appointment and removal of the externally managed funds.<br><br>The Trustee may also choose to remove a fund from the fund range, if no longer considered appropriate, and the fund range reviewed on at least a triennial basis. The funds in use are also looked at on an annual basis through the Mercer SmartPath review. |

***Defined Benefit and Defined Contribution / AVC Section***

## 1. GOVERNANCE

The Trustee is responsible for the investment of the Scheme's assets. The Full Board of the Trustee takes some decisions itself and delegates others to the Funding and Investment Sub Committee (the "F&ISC"). When deciding which decisions to take itself and which to delegate, the Full Board of the Trustee has taken into account whether the F&ISC has the appropriate training and access to expert advice in order to take an informed decision.

The Trustee has a clearly defined governance structure which includes an agreed Terms of Reference for the F&ISC and also documents governing the services provided by the investment adviser, custodians and fund managers. The delegatory duties and powers of the F&ISC are as provided for within the F&ISC Terms of Reference as amended from time to time.

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager under a written contract and those where a product is purchased directly, e.g. the purchase of an insurance policy or units in a pooled vehicle. The latter are known as **direct investments.**

The Trustee's policy is to review its direct investments and to obtain written advice about them at regular intervals. These include vehicles available for members' AVCs and other monies invested on a money purchase basis. When deciding whether or not to make any new direct investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the fund managers.

The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this statement. The regulations require all investments to be considered by the Trustee (or, to the extent delegated, by the fund managers) against the following criteria:

- The best interests of the members and beneficiaries
- Security
- Quality
- Liquidity
- Profitability
- Nature and duration of liabilities
- Tradability on regulated markets
- Diversification
- Use of derivatives

The Trustee's investment adviser has the knowledge and experience required under the Pensions Act 1995.

The Trustee will monitor the Defined Contribution Section of the Scheme against the Pension Regulators "DC Code of Practice" to ensure that the scheme adheres to the best governance practices. Through the services of Mercers' Workplace Savings, the investment related quality features such as clear investment objectives, a suitable default strategy, on-going review of investment options and performance and the transparency of costs are already in place.

The Trustee expects the fund managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this statement so far as is reasonably practicable.

Fund managers are remunerated on an ad valorem basis, a performance related basis or a mixture of the two. The level of remuneration paid to fund managers is reviewed regularly by the Trustee against market rates and the Trustee's policies to ensure the fund managers' interests are aligned with those of the Scheme. In addition, fund managers pay commissions to third parties on many trades they undertake in the management of the assets and also incur other ad hoc costs.

The Trustee's agreement with each fund manager is, in the case of pooled fund investments, a tri-partite agreement between the Trustee, the manager, the Delegated Investment Manager and the custodian. In the case of segregated investments the Trustee will have separate agreements with the fund manager and a custodian. The custodians are responsible for the safekeeping of the underlying assets and perform the administrative duties attached, such as the collection of interest and dividends and dealing with corporate actions.

The Trustee will review this SIP at least every three years and as soon as practicable following a significant change in investment strategy. The Trustee will take investment advice and consult with the Employer over any changes to the SIP.

## *Appendix A – Strategy for the Defined Benefit section of the Scheme*

The overall return objective for the Defined Benefit section of the Scheme has been determined by the Trustee after an assessment of the Defined Benefit section liabilities and associated risks of the Defined Benefit section of the Scheme and consultation with the Employer and is, as at August 2020, as follows:

**"To implement an investment strategy which targets an expected return over fixed interest gilts of at least 2.0% per annum (net of fees) until 31 December 2030, declining to 0.5% ahead of fixed interest gilts at 31 December 2040"**

The one year Value at Risk (VaR95) (as at 31 March 2020) for the Defined Benefit section strategy is estimated to be approximately £201.0m[1]. The Trustee will monitor the VaR95 and aim to ensure that it remains below 25% of the Scheme's liabilities as calculated on the Scheme's technical provisions basis (equating to about £302.7m as at 31 March 2020).

The Defined Benefit section of the Scheme's investment portfolio is notionally split into four sub-sections from return seeking riskier assets such as equities to risk reducing lower expected return assets such as index-linked gilts. Certain assets such as property and corporate bonds have characteristics that are a mixture between pure return seeking and risk reducing assets.

The Defined Benefit section strategy is split approximately as follows together with illustrative ranges within which the Trustee expects to maintain the allocations to each broad asset class over the long term:

| Asset Class | Central Strategic Weighting % | Illustrative Ranges % |
|---|---|---|
| **Equities** | 25.0 | 20.0 - 30.0 |
| **Absolute Return** | 10.0 | 5.0 - 15.0 |
| **Illiquid Alternatives** | 35.0 | 30.0 - 40.0 |
| **Fixed-Interest Bonds(1) / Swaps**<br>**Index-Linked Bonds(1) / Swaps** | 30.0 | 25.0 - 35.0 |
| **Cash** | 0.0 | 0.0 – 10.0 |

Note: (1) Fixed and index-linked bond investments may include gilts, investment grade and higher yield corporate bonds and debt, cash and money-market investments, and other cash-like collateral for supporting, as required, agreed derivative contracts.

The Trustee may also invest in other (predominantly return seeking) alternative assets, for example private equity, hedge funds and absolute return funds, infrastructure and commodities from time to time. If the Trustee does revise its asset allocation for the Defined Benefit section strategy to include investment in such other assets, it will share its revised asset allocation strategy with the Employer.

The Trustee may also invest in other (predominantly risk reducing) assets, for example insurance products and/or assets expected to give some protection against increases in the liabilities due to improvements in longevity, or changes in interest rates or inflation.

The Trustee will monitor the actual asset allocation for the Defined Benefit section versus the central strategic weights set out in the table above. The Trustee recognises that from time to time the actual asset allocation may deviate from the central strategic weight due to market movements or due to medium term views on the relative attractiveness of different asset classes.

If it is considered that the mix has deviated too far from the central strategic weighting for too long a period, the Trustee will consider whether to rebalance back towards the central strategic weightings, taking into account current market conditions, medium term market views, and any changes to the Trustee's risk tolerance, and any changes to the funding position or liability profile of the Defined Benefit section of the Scheme.

[1]*The one-year VaR95 means there is a one in twenty (5%) chance that the deficit will worsen by more than £201.0m in one year's time.*

## *Appendix B – EE Pension Scheme ('the Scheme')*

### *Statement of Investment Principles - Default Option (DC Members)*

For members who do not wish to take an active role in investment decisions, the Trustee offers a **default option** which is a lifestyling arrangement, de-risking investments to an asset allocation designed to be appropriate for a typical member who intends to access their benefits via income drawdown at retirement. Referred to as the Target Drawdown Path.

This Appendix of the SIP should be read in conjunction with "Defined Contribution Section and Money Purchase benefits within the Defined Benefit Section".

### 1. AIMS AND OBJECTIVES

The aims of the default option are detailed below:

- To generate returns in excess of inflation during the "growth" phase of the strategy whilst managing downside risk.
- To provide a strategy that reduces investment risk for members as they approach retirement.
- To offer to members a mix of assets at retirement that is broadly appropriate for an individual planning to take their benefits via income drawdown.

### 2. INVESTMENT POLICIES

The Target Drawdown Path is implemented using a range of pooled funds managed by the Trustee's chosen investment managers. The Trustee delegates the selection, retention and realisation of investments within these pooled funds to the chosen investment managers.

Assets in the default arrangement are invested in a manner which aims to ensure the security, quality, liquidity and profitability of a member's portfolio as a whole. All funds are daily-dealt pooled investment arrangements, with assets mainly invested in regulated markets, and therefore the Trustee expects these to be realisable at short notice, based on member demand.

A range of asset classes are included within the default arrangement, including: developed market equities, emerging market equities, small capitalisation equities, low volatility equities, real estate, money market investments, gilts, index-linked gilts, corporate bonds, diversified growth funds and pre-retirement funds. Both active and passive management funds are utilised, depending on asset class.

The Target Drawdown Path adopts a lifestyle approach to manage risk throughout a member's lifetime in the Scheme. As a member's pot grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustee believes that it is appropriate to reduce investment risk as the member approaches retirement, this is expected to reduce the chance of market shocks producing unfavourable outcomes for members at retirement. The Trustee has delegated the investment strategy to Mercer, the asset allocation is consistent with the expected amount of risk that is appropriate given the age of the member and when they expect to retire.

- If the member is more than eight years from their expected retirement date contributions will be invested in a fund which holds a diversified range of assets (equities, bonds and non-traditional assets) with the objective of providing growth whilst mitigating inflation erosion and downside risk.

- Eight years before their target retirement date (or Normal Retirement Date if no target has been specified) members will have their holdings transferred into a target date fund based on expected date of retirement. The target date fund aims to gradually move assets to investments more suitable for targeting cash and variable income (drawdown) as members approach retirement.
- Within the Target Drawdown Path, units across the underlying pooled funds are bought and sold according to the lifestyle matrix set out in the IPID. Specific details on the pooled funds within the Target Drawdown Path are also set out in the IPID.

The Trustee's policy for its arrangements with delegated investment managers is the same as those set out in Sections (6) Investment Restrictions and (7) Implementation and Engagement Policy in the Defined Contribution Section above.

Non-financial matters, such as member and beneficiary ethical views and views in relation to social and environmental impact and their present and future quality of life are not explicitly taken into account in the selection, retention and realisation of investments within the default investment option.

## 3. RISK

In designing the default option, the Trustee has explicitly considered the trade-off between risk and expected returns. Risk is not considered in isolation, but in conjunction with expected investment returns and retirement outcomes for members. In particular, when reviewing the investment strategy of the default investment option, the Trustee considers risk quantitatively in terms of the variability of investment returns and potential retirement outcomes for members. From a qualitative perspective, the Trustee also considers risk in terms of the (mis)alignment of investments with the retirement benefits targeted by the default investment option.

The Trustee has considered risks from a number of perspectives. The list below is not exhaustive but covers the main risks that the Trustee considers and how they are managed.

| Type of Risk | Risk | Description | How is the risk monitored and managed? |
|---|---|---|---|
| Market risks | Inflation risk | The risk that the investment return over members' working lives will not keep pace with inflation and does not, therefore secure an adequate pension. | The Trustee monitors the performance of the growth phase against inflation.<br><br>The strategy for the default option is set with the intention of diversifying these risks to reach a level of risk deemed appropriate. The strategy is outsourced to the delegated investment manager.<br><br>Within active funds management of many of these market risks is |
| | Currency risk | The risk that fluctuations in foreign exchange rates will cause the value of overseas investments to fluctuate. | |

| | | |
|---|---|---|
| Credit risk | The risk that the issuer of a financial asset, such as a bond, fails to make the contractual payments due. | delegated to the investment manager. |
| Equity, property and other price risk | The risk that investment market movements lead to a substantial reduction in the anticipated level of the benefit. | |
| Environmental, Social and Corporate Governance risk | The risk that environmental, social or corporate governance concerns, including climate change, have a financially material impact on the return of the Scheme's assets. | The management of ESG related risks is delegated to investment managers.<br><br>See Section 4 in the DC Section of this SIP for the Trustee's responsible investment and corporate governance statement.<br><br>The Trustee reviews the Mercer Stewardship Monitoring Report on an annual basis. |
| Investment Manager risk | The risk that the investment manager underperforms its objectives, fails to carry out operational tasks, does not ensure safe-keeping of assets or breaches agreed guidelines. | The Trustee regularly reviews performance of investment funds.<br><br>The management of this risk is outsourced to the delegated investment manager. |
| Liquidity risk | The risk that the Scheme's assets cannot be realised at short notice in line with member demand. | The Scheme is invested in daily dealt and daily priced pooled funds. |
| Pension Conversion risk | The risks that the member is invested in a strategy that does not reflect the way in which they intend to take their benefits at retirement. | As part of the triennial default strategy review, the Trustee ensures the default destination remains appropriate.<br><br>Members who wish to take their pots via other methods are able to choose alternative lifestyle strategies, which may be more suitable for targeting these outcomes, reducing the risk of mismatches between investment strategy and target destination. |

The above items in Sections 2 and 3 of this Appendix, take into account what the Trustee considers 'financially material considerations', which includes (but is not limited to) environmental, social and governance considerations (including but not limited to climate change). The Trustee believes the appropriate time horizon for which to assess these considerations within should be viewed at a member level (depending on their need to fund future benefits by investments of the Scheme). This will be dependent on the member's age and when they expect to retire. It is partly for this reason that the default investment option is a lifestyle strategy.

## 4. MEMBERS INTERESTS

The Trustee's policy for the default arrangement in relation to the exercise of rights attaching to investments and the undertaking of engagement activities in respect of investments is the same as those set out in Section (4) "Responsible Investment and Corporate Governance (Voting and Engagement)" in the Defined Contribution Section above.

Taking into account the demographics of the Scheme's membership and the Trustee's view of how the membership will behave at retirement, the Trustee believes that the current default strategy (including the policies referred to in this SIP) is appropriate to ensure that assets are invested in the best interests of members and beneficiaries invested in the default option. The Trustee will continue to review this over time, at least triennially, or after significant changes to the Scheme's investment policy or demographic profile, if sooner.

## *Appendix C – EE Pension Scheme ('the Scheme')*

## *Statement of Investment Principles - Default Option (AVC Members)*

For members who do not wish to take an active role in investment decisions, the Trustee offers a **default option** which is a lifestyling arrangement, de-risking investments to an asset allocation designed to be appropriate for a typical member who intends to access their benefits via cash at retirement. Referred to as the Target Cash Lifestyle.

This Appendix of the SIP should be read in conjunction with "Defined Contribution Section and Money Purchase benefits within the Defined Benefit Section".

### 1. AIMS AND OBJECTIVES

The aims of the default option are detailed below:

- To generate returns in excess of inflation during the "growth" phase of the strategy whilst managing downside risk.
- To provide a strategy that reduces investment risk for members as they approach retirement.
- To offer to members a mix of assets at retirement that is broadly appropriate for an individual planning to take their benefits as cash.

### 2. INVESTMENT POLICIES

The Target Cash Lifestyle is implemented using a range of pooled funds managed by the Trustee's chosen investment managers. The Trustee delegates the selection, retention and realisation of investments within these pooled funds to the chosen investment managers.

Assets in the default arrangement are invested in a manner which aims to ensure the security, quality, liquidity and profitability of a member's portfolio as a whole. All funds are daily-dealt pooled investment arrangements, with assets mainly invested in regulated markets, and therefore the Trustee expects these to be realisable at short notice, based on member demand.

A range of asset classes are included within the default arrangement, including: developed market equities, emerging market equities, small capitalisation equities, low volatility equities, real estate, money market investments, gilts, index-linked gilts, corporate bonds, diversified growth funds and pre-retirement funds. Both active and passive management funds are utilised, depending on asset class.

The Target Cash Lifestyle adopts a lifestyle approach to manage risk throughout a member's lifetime in the Scheme. As a member's pot grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustee believes that it is appropriate to reduce investment risk as the member approaches retirement, this is expected to reduce the chance of market shocks producing unfavourable outcomes for members at retirement. The Trustee has delegated the investment strategy to Mercer, the asset allocation is consistent with the expected amount of risk that is appropriate given the age of the member and when they expect to retire.

- If the member is more than eight years from their expected retirement date contributions will be invested in a fund which holds a diversified range of assets (equities, bonds and non-traditional assets) with the objective of providing growth whilst mitigating inflation erosion and downside risk.

- Eight years before their target retirement date (or Normal Retirement Date if no target has been specified) members will have their holdings transferred into a target date fund based on expected date of retirement. The target date fund aims to gradually move assets to investments more suitable for targeting cash as members approach retirement.
- Within the Target Cash Lifestyle, units across the underlying pooled funds are bought and sold according to the lifestyle matrix set out in the IPID. Specific details on the pooled funds within the Target Drawdown Path are also set out in the IPID.

The Trustee's policy for its arrangements with delegated investment managers is the same as those set out in Sections (6) Investment Restrictions and (7) Implementation and Engagement Policy in the Defined Contribution Section above.

Non-financial matters, such as member and beneficiary ethical views and views in relation to social and environmental impact and their present and future quality of life are not explicitly taken into account in the selection, retention and realisation of investments within the default investment option.

## 3. RISK

In designing the default option, the Trustee has explicitly considered the trade-off between risk and expected returns. Risk is not considered in isolation, but in conjunction with expected investment returns and retirement outcomes for members. In particular, when reviewing the investment strategy of the default investment option, the Trustee considers risk quantitatively in terms of the variability of investment returns and potential retirement outcomes for members. From a qualitative perspective, the Trustee also considers risk in terms of the (mis)alignment of investments with the retirement benefits targeted by the default investment option.

The Trustee has considered risks from a number of perspectives. The list below is not exhaustive but covers the main risks that the Trustee considers and how they are managed.

| Type of Risk | Risk | Description | How is the risk monitored and managed? |
|---|---|---|---|
| Market risks | Inflation risk | The risk that the investment return over members' working lives will not keep pace with inflation and does not, therefore secure an adequate pension. | The Trustee monitors the performance of the growth phase against inflation.<br><br>The strategy for the default option is set with the intention of diversifying these risks to reach a level of risk deemed appropriate. The strategy is outsourced to the delegated investment manager.<br><br>Within active funds management of many of these market risks is |
| | Currency risk | The risk that fluctuations in foreign exchange rates will cause the value of overseas investments to fluctuate. | |

| | | |
|---|---|---|
| Credit risk | The risk that the issuer of a financial asset, such as a bond, fails to make the contractual payments due. | delegated to the investment manager. |
| Equity, property and other price risk | The risk that investment market movements lead to a substantial reduction in the anticipated level of the benefit. | |
| Environmental, Social and Corporate Governance risk | The risk that environmental, social or corporate governance concerns, including climate change, have a financially material impact on the return of the Scheme's assets. | The management of ESG related risks is delegated to investment managers.<br>See Section 4 in the DC Section of this SIP for the Trustee's responsible investment and corporate governance statement.<br>The Trustee reviews the Mercer Stewardship Monitoring Report on an annual basis. |
| Investment Manager risk | The risk that the investment manager underperforms its objectives, fails to carry out operational tasks, does not ensure safe-keeping of assets or breaches agreed guidelines. | The Trustee regularly reviews performance of investment funds.<br>The management of this risk is outsourced to the delegated investment manager. |
| Liquidity risk | The risk that the Scheme's assets cannot be realised at short notice in line with member demand. | The Scheme is invested in daily dealt and daily priced pooled funds. |

| | | |
|---|---|---|
| Pension Conversion risk | The risks that the member is invested in a strategy that does not reflect the way in which they intend to take their benefits at retirement. | The default option is a lifestyle strategy which automatically switch member assets into investments broadly appropriate for an individual planning to take their benefits as cash. This is appropriate for the membership due to members also having DB pensions.<br><br>Members who wish to take their pots via other methods are able to choose alternative lifestyle strategies, which may be more suitable for targeting these outcomes, reducing the risk of mismatches between investment strategy and target destination. |

The above items in Sections 2 and 3 of this Appendix, take into account what the Trustee considers 'financially material considerations', which includes (but is not limited to) environmental, social and governance considerations (including but not limited to climate change). The Trustee believes the appropriate time horizon for which to assess these considerations within should be viewed at a member level (depending on their need to fund future benefits by investments of the Scheme). This will be dependent on the member's age and when they expect to retire. It is partly for this reason that the default investment option is a lifestyle strategy.

## 4. MEMBERS INTERESTS

The Trustee's policy for the default arrangement in relation to the exercise of rights attaching to investments and the undertaking of engagement activities in respect of investments is the same as those set out in Section (4) "Responsible Investment and Corporate Governance (Voting and Engagement)" in the Defined Contribution Section above.

Taking into account the demographics of the Scheme's membership and the Trustee's view of how the membership will behave at retirement, the Trustee believes that the current default strategy (including the policies referred to in this SIP) is appropriate to ensure that assets are invested in the best interests of members and beneficiaries invested in the default option. The Trustee will continue to review this over time, at least triennially, or after significant changes to the Scheme's investment policy or demographic profile, if sooner.