

Statement of Investment Principles for the Millbrook Pension Plan

1. Introduction

This Statement of Investment Principles (“SIP”) sets out the policy of Millbrook Pension Management Limited (the “Trustee”) on various matters governing decisions about the investments of the Millbrook Pension Plan (the “Plan”), a defined benefit pension plan. This SIP replaces the previous SIP dated June 2023.

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 (“the Act”), the Occupational Pension Schemes (Investment) Regulations 2005 and the Pension Regulator’s guidance for defined benefit pension schemes (March 2017).

This SIP has been prepared after obtaining and considering written professional advice from LCP, the Plan’s investment adviser, whom the Trustee believes to be suitably qualified and experienced to provide such advice. The advice takes into account the suitability of investments including the need for diversification given the circumstances of the Plan and the principles contained in this SIP. The Trustee has consulted with the relevant employer in producing this SIP and the employer has signed the SIP to confirm that it has been consulted in accordance with the statutory requirements and that it agrees this SIP.

The Trustee will review this SIP from time to time and, with the help of its advisers, will amend it as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy and at least once every three years.

- **Appendix 1** sets out details of the Plan’s investment governance structure, including the key responsibilities of the Trustee, investment advisers and investment managers. It also contains a description of the basis of remuneration of the investment adviser and the investment managers.
- **Appendix 2** sets out the Trustee policy towards risk appetite, capacity, measurement and management.

2. Position of General Motors Investment Management Corporation

General Motors Investment Management Corporation (“GMAM”) has been appointed to provide the following discretionary investment management services to the Trustee:

- authority to manage the Plan’s assets;
- authority to appoint third party investment managers and to negotiate investment management agreements and negotiate fees on behalf of the Plan;
- authority to monitor and supervise the investment managers once appointed;

- authority to remove investment managers who are no longer required; and
- authority to deal with the rebalancing of the Plan's investments.

3. Investment objectives

The primary objective is to ensure that the Plan should be able to meet benefit payments as they fall due. In addition to this primary objective, the Trustee has a series of additional objectives. These are as follows:

- that the expected return on the Plan's assets is maximised whilst managing and maintaining investment risk at an appropriate level. What the Trustee determines to be an appropriate level of risk is set out in Appendix 2.
- that the Plan should be fully funded on a self-sufficiency basis (ie the asset value should be at least that of its liabilities on this basis). The Trustee is aware that there are various measures of funding, and has given due weight to those considered most relevant to the Plan.
- that the Trustee aims to achieve full funding on a buyout basis within a reasonable timeframe.

4. Investment strategy

The Trustee, with the help of its advisers and in consultation with the employer, reviewed the investment strategy for the Plan in October 2023, taking into account the objectives described in Section 3 above.

The result of the review was that the Trustee agreed that the investment strategy of the Plan should be based on the Target Allocation below.

Asset class	Target Allocation	Range	Benchmark index ²
Equities	10%	+/-5%	MSCI ACWI IMI Index
“Growth Assets”	10%	+/-5%	
UK corporate bonds	45%	See note below ¹	iBoxx £ Non-Gilts Over 10 Years Index
Liability-driven investment	45%	See note below ¹	Liability-specific benchmark
Cash	0%	+/-5%	Overnight sterling SONIA, net of fees
“Matching Assets”	90%	+/-5%	
Total	100.0%		

¹Within the matching portfolio, there is a target 50:50 split but the allocation will not be rebalanced as a result of market movements, and variation within the matching portfolio around this central target is acceptable. This is because these investments are primarily held to provide hedging for the Plan and so asset values should be allowed to fluctuate as far as possible in line with the self-sufficiency liabilities.

²At the date of this SIP, the benchmarks listed above are appropriate indices, having regard to the terms of this SIP and the Trustee’s investment strategy generally. In the event that a benchmark index in respect of a particular asset class ceases to be appropriate for that asset class and/or another benchmark becomes more appropriate for that asset class, GMAM will identify an appropriate replacement benchmark index which is consistent with the terms of the SIP and the Trustee’s investment strategy in place at that time, and inform the custodian and the Trustee of any such replacement as it arises.

Any variations outside of the above bandwidth ranges around the target asset allocation will be rebalanced back to within the range around the target allocation as GMAM, in its capacity as investment manager in relation to the Plan, determines to be appropriate. The Trustee will keep the appropriateness of the bandwidth ranges under review.

The Trustee also set a range for the Target Liability Hedging Ratio of 95-105% for both interest rate and inflation risks based on the current mix of assets. For this purpose, the relevant liability measure is the Plan’s self-sufficiency basis (updated for changes in market conditions). For the avoidance of doubt, the calculation of the Plan’s liability hedging ratio should include all Matching Assets, not just the Plan’s liability-driven investment allocation.

The Trustee retains the power to implement changes to the assets should there be a significant change in the Plan’s funding level during any particular month, subject to the operational realities of the investment arrangements.

5. Considerations in setting the investment arrangements

When deciding how to invest the Plan’s assets, the Trustee considers a number of risks, including, but not limited to, those set out in Appendix 2. Some of these risks are more

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The Trustee considered a wide range of asset classes for investment, taking account of the expected returns and key individual risks associated with those asset classes as well as how these risks can be mitigated where appropriate. The key financial assumption made by the Trustee in determining the investment arrangements is that equity-type investments will, over the long term, outperform gilts by 3.3% pa. The other key assumptions for expected returns above gilts are as follows:

- average long-term return on UK corporate bonds: + 1.1%

These assumptions were adopted on the advice of Lane Clark & Peacock LLP (the Plan's investment adviser).

In setting the strategy the Trustee took into account:

- the Plan's investment objectives, including the target return required to meet the Trustee investment objectives;
- the Plan's cash flow requirements in order to meet benefit payments in the near to medium term;
- the best interests of members and beneficiaries;
- the circumstances of the Plan, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the strength of the employer covenant;
- the risks, rewards and suitability of a number of possible asset classes and investment strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken;
- the need for appropriate diversification between different asset classes to ensure that both the Plan's overall level of investment risk and the balance of individual asset risks are appropriate;
- any other considerations which the Trustee considers financially material over the time horizon that the Trustee considers is needed for the funding of future benefits by the investments of the Plan; and
- the Trustee's investment beliefs about how investment markets work and which factors are most likely to impact investment outcomes.

Some of the Trustee's key investment beliefs which influenced the setting of the investment strategy are set out below:

- asset allocation is the primary driver of long-term returns;
- risk-taking is necessary to achieve return, but not all risks are rewarded;
- equity, credit and illiquidity are the primary rewarded risks;

- risks that are typically not rewarded, such as interest rate, inflation and currency, should be minimised, hedged or diversified to an extent appropriate to the funding level in the Plan;
- investment markets are not always efficient and there may be opportunities for good active managers to add value;
- environmental, social and governance (ESG) factors are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors;
- responsible investment in well governed companies and engaging as long-term owners can reduce risk over time and may positively impact Plan's returns;
- investment managers who can consistently spot and profitably exploit market opportunities are difficult to find and therefore passive management, where available, may offer better value;
- long-term environmental, social and economic sustainability is one factor that the Trustee and GMAM should consider when making investment decisions; and
- costs have a significant impact on long-term performance and therefore obtaining value for money from the investments is important.

6. Implementation of the investment arrangements

Before setting its investment strategy the Trustee obtains and considers proper written advice from its investment adviser on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments. The Trustee, GMAM and the investment managers to whom discretion has been delegated, exercise their powers to give effect to the principles in this Statement of Investment Principles, so far as is reasonably practicable.

Agreements have been signed by or on behalf of the Trustee with the investment managers setting out in detail the terms on which the portfolios are managed. The investment managers' primary role is the day-to-day investment management of the Plan's investments. GMAM has been delegated the power to sign such agreements on the Trustee's behalf through the discretionary IMA in place.

Alignment between an investment manager's management of the Plan's assets and the Trustee's beliefs, policies and objectives set out in this SIP are an important part of the appointment process of a new manager and of the ongoing oversight of the activity undertaken by managers on behalf of the Plan.

The Trustee is responsible for the investment of the Plan's assets. The Trustee takes some investment decisions itself and delegates others. The table below shows the Trustee's agreed division of responsibilities for some of these investment decisions.

Trustee	GMAM	Investment Adviser (LCP)
Set the investment strategy, including the split between different asset classes.	Implement the investment strategy: execute transactions, negotiate, and execute	Advise on investment strategy (including any de-risking switching mechanism).
Set the rebalancing policy including the de-risking mechanism.	counterparty and account opening and closing documentation and execute the de-risking mechanism.	Advise on reviews of the Statement of Investment Principles.
Make ongoing decisions relevant to the implementation and operation of the Plan's investment strategy.	Select, appoint and, when necessary, replace collective investment scheme mandates with third party investment managers.	Advise on other issues and changes in market conditions as required.
Monitor LCP in its role as Investment Adviser.	Deal, on behalf of the Trustee, with the rebalancing of the Plan's investments.	
Monitor GMAM in its role as discretionary investment manager of the Plan's assets and how it manages the Plan's investment managers.	Select, appoint and, when necessary, replace or dismiss the Plan's investment managers.	
Monitor the Plan's overall investment performance against the liabilities.	Actively monitor and engage with the Plan's managers to ensure their ongoing adherence to mandate expectations and alignment with Trustee objectives.	
	Evaluate performance of investment managers, and report to Trustee on managers' performance against objectives.	
	Evaluate appropriateness of benchmark indices and inform the custodian and the Trustee of any changes to the benchmarks as they arise.	

The Trustee and GMAM have limited influence over the investment managers' investment practices where the Plan's assets are held in pooled funds but, in these circumstances, they encourage them to improve their practices where appropriate. Where the Plan's assets are held in segregated investment arrangements the agreements in place

Page 7 of 19 incentivise investment managers to align their investment strategy and decisions for those mandates with the Trustee's investment policies.

The Trustee's view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high-quality service that meets the stated objectives, guidelines and restrictions. In practice for pooled fund investments, the investment managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover. However, the Trustee and GMAM can avoid appointing any managers who are seriously out of line with the Trustee's stated policies and, as stated above, there is greater scope to influence the managers where the Plan uses segregated portfolios.

It is GMAM's responsibility to ensure that the investment managers' investment approaches are consistent with the Trustee's policies before any new appointment, and to monitor and consider terminating any existing arrangements that appear to be investing contrary to those policies.

The Trustee expects its investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and, where appropriate, to engage with issuers to improve their performance. GMAM assesses this when selecting and evaluating managers (on behalf of the Trustee).

GMAM evaluates the performance of the investment managers by considering performance over both shorter and longer-term periods as available. The Trustee monitors this through reporting produced by GMAM.

Except for closed-ended funds (where the duration of the investment is determined by the fund's terms) the duration of an investment manager's appointment will depend on strategic considerations and the outlook for future performance. Generally, the Trustee and GMAM would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustee's policy is for investment managers to be evaluated by reference to the manager's individual performance as well as the role it plays in helping the Plan meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each Investment manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustee recognises that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustee expects its investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Plan's investment mandates and GMAM to incorporate these into its evaluation of the performance of the investment managers.

GMAM has responsibility for forecasting the Plan's cash requirements, monitoring contributions and taking steps to realise sufficient of the investments of the Plan to generate the cash required to pay pensions as they fall due.

The investment managers have discretion over the timing of realisation of investments of the Plan within the portfolios that they manage, and in considerations relating to the liquidity of investments.

The Trustee's preference is for investments that are readily realisable but recognise that achieving a well-diversified portfolio may mean holding some investments that are less liquid (eg property). In general, the Trustee's policy is to use cash flows to rebalance the Plan's assets towards the strategic asset allocation, and also receive income from some of the portfolios where appropriate.

8. Financially material considerations and non-financial matters

The Trustee has considered how environmental, social, governance ("ESG") and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Plan and its members, since it recognises that these factors can be relevant to investment performance.

The Trustee expects GMAM and its investment managers to take account of financially material considerations (including climate change and other ESG considerations). The Trustee seeks to appoint managers that have appropriate skills and processes to do this, and from time to time reviews how they are taking account of these issues in practice.

The Trustee and GMAM cannot usually directly influence investment managers' policies on ESG and ethical factors where assets are held in these pooled sub-funds; this is due to the nature of these investments, but it encourages its investment managers to improve their practices where appropriate. The Trustee considers it is necessary to act in the best financial interests of Plan members and therefore it expects GMAM and the investment managers to take account of these issues where they may be financially material, taking into account the nature and time horizon of the investments.

The Trustee does not take into account any non-financial factors (ie factors not motivated by considerations of financial risk and return) when making investment decisions.

9. Voting and engagement

The Trustee has examined how rights, including voting rights, attached to investments should be exercised. The Trustee recognises its responsibilities as owners of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, protect and enhance the long-term value of investments.

The Trustee has delegated to GMAM and its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons (for example, investment managers and other stakeholders) about relevant matters such as performance, strategy, capital structure,

Page 9 of 19 management of actual or potential conflicts of interest, risks and ESG considerations. Management of these matters has been delegated to GMAM, and the investment managers have been delegated responsibility for actually exercising the rights and carrying out engagements in respect of the assets of the Plan.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity, but it does engage with current and prospective investment managers, including on ESG and stewardship matters. It expects the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustee from time to time, considering the long-term financial interests of the beneficiaries. The Trustee cannot usually directly influence investment managers' policies on the exercise of ownership rights where assets are held in pooled sub-funds; this is due to the nature of these investments, but it encourages its investment managers to improve their practices where appropriate.

The Trustee seeks to appoint investment managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and from time to time the Trustee reviews how these are implemented in practice.

The Trustee (with the help of GMAM) monitors managers' activities in relation to ESG factors, voting and engagement on a regular basis. The Trustee seeks to understand how managers are implementing their stewardship policies in practice to check that their stewardship is effective and aligned with our expectations.

The Trustee has selected priority ESG themes to provide a focus for monitoring investment managers' voting and engagement activities. The Trustee reviews the themes regularly and will update if appropriate. The Trustee communicates its stewardship priorities to managers and also confirms its more general expectations in relation to ESG factors, voting and engagement.

If its monitoring identifies areas of concern, the Trustee may (with the help of GMAM) engage with the relevant manager to encourage improvements.

10. Additional Voluntary Contributions ("AVCs")

The Trustee has put two AVC arrangements in place for members, with Fidelity and Prudential. There is a range of investment funds offered through the Fidelity arrangement, with different risk and expected return characteristics. There is a with-profits fund offered through the Prudential arrangement.

In choosing the investment vehicles offered, the Trustee, after obtaining investment advice, has decided to offer a limited range of appropriate investment options, which include capital preservation and growth investment options.

The members' AVC assets are invested in accordance with the wishes of the member in question.

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Page 10 of 19 The expected returns and risks of the AVC investment options are as specified by the AVC provider in question for the investment vehicle in question.

AVC assets are realised, either in accordance with members' wishes or in connection with the members' retirement or, if earlier, death.

The extent to which social and environmental considerations are taken to account in the selection or retention or realisation of AVC investment options is a function of the way in which the AVC provider invests the assets of the investment vehicle in question.

It is the Trustee's policy to exercise the rights attaching to the AVC investment options in the interests of the members invested in the investment vehicle in question.

Signed for and on behalf of **Millbrook Pension Management Limited** in its capacity as trustee of the **Millbrook Pension Plan**

Investment governance, responsibilities, decision-making and fees

The Trustee has decided on the following division of responsibilities and decision-making for the Plan. This division is based upon the Trustee's understanding of the various legal requirements placed upon it, and its view that the division of responsibility allows for efficient operation and governance of the Plan overall. The Trustee's investment powers are set out within the Plan's governing documentation.

Trustee

In broad terms, the Trustee is responsible in respect of investment matters for:

- setting the investment strategy, in consultation with the employer;
- developing a mutual understanding of investment and risk issues with the employer;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- reviewing the investment policy as part of any review of the investment strategy;
- setting the policy for rebalancing between asset classes;
- setting a policy on the exercise of rights (including voting rights) and undertaking engagement activities in respect of the investments;
- appointing (monitoring, reviewing and dismissing) GMAM, investment advisers, actuary and other service providers;
- monitoring the investment performance of the Plan's assets, together with monitoring the exercise of the investment powers that they have delegated to GMAM and the investment managers and monitoring compliance with Section 36 of the Act;
- formulating a policy on taking account of non-financial factors when making investment decisions and a policy on voting rights;
- communicating with members as appropriate on investment matters;
- putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employer(s) when reviewing the SIP.

The Trustee delegates consideration of certain investment matters to an investment sub-committee ("ISC"), and the Trustee and ISC understand the different areas where each party makes decisions, provides oversight or recommendations. The terms of reference for the ISC detail clearly its responsibilities.

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General Motors Investment Management Corporation (“GMAM”)

The Trustee has delegated certain investment decisions and the implementation of these decisions to GMAM. As with all governance models, the Trustee remains responsible for the stewardship of the Plan, including setting the overall investment objectives and monitoring GMAM. However, certain responsibilities are delegated to GMAM. In broad terms, GMAM will be responsible for:

- managing the Plan’s assets, within the guidelines and restrictions as agreed with the Trustee and set out in its relevant governing documentation;
- taking account of financially material considerations (including climate change and other ESG considerations) as appropriate when managing the portfolios of assets;
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of the investments;
- selecting, appointing (and, when necessary, dismissing) investment managers;
- providing the Trustee with regular information concerning the management and performance of its respective portfolios;
- monitoring any funding level triggers; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

When appointing GMAM to this role, the Trustee considered the following:

- GMAM’s experience and track record in managing similar mandates;
- GMAM’s consideration of exercise of voting rights (where applicable) and engagement activities when selecting and monitoring investment managers;
- the potential conflicts of interest and how to manage them;
- the need for suitable oversight to effectively monitor the performance of GMAM and the underlying investment managers mandates;
- the cost implications for the Plan; and
- the ease with which the mandate could be terminated.

Investment managers

In broad terms, the investment managers will be responsible for:

- managing the portfolios of assets according to their stated objectives, and within the guidelines and restrictions set out in their respective investment manager agreements and/or other relevant governing documentation;
- taking account of financially material considerations as appropriate when managing the portfolios of assets;

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- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments;
- providing the Trustee / GMAM with regular information concerning the management and performance of their respective portfolios; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The custodians of the portfolios (whether there is a direct relationship between the custodian and the Trustee or not) are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

Investment adviser

In broad terms, the actuary and investment consultant will be responsible, in respect of investment matters, as requested by the Trustee, for:

- advising on how material changes within the Plan's benefits, membership and funding position, and in the conditions pertaining to the Plan's current and potential investments, may affect the manner in which the assets should be invested and the asset allocation policy; and
- participating with the Trustee in reviews of this SIP.

Fee structures

The Trustee recognises that the provision of investment management, dealing and advisory services to the Plan results in a range of charges to be met, directly or indirectly, by deduction from the Plan's assets.

The Trustee has agreed Terms of Business with the Plan's investment advisers, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis.

GMAM is reimbursed at cost. External fund managers are remunerated by reference to the market value of assets under management. The fee rates are considered by the Trustee to be reasonable.

The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustee's view as to the most appropriate arrangements for the Plan. However, the Trustee will consider revising any given structure if and when it is considered appropriate to do so.

Performance assessment

The Trustee is satisfied, taking into account the external expertise available, that there are sufficient resources to support its investment responsibilities. The Trustee believes that it has sufficient expertise and appropriate training to carry out its role effectively.

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It is the Trustee's policy to assess the performance of the Plan's investments, investment providers and professional advisers from time to time. The Trustee will also periodically assess the effectiveness of its decision-making and investment governance processes and will decide how this may then be reported to members.

Working with the Plan's employer

When reviewing matters regarding the Plan's investment arrangements, such as the SIP, the Trustee seeks to give due consideration to the employer's perspective. While the requirement to consult does not mean that the Trustee needs to reach agreement with the employer, the Trustee believes that better outcomes will generally be achieved if the Trustee and employer work together collaboratively.

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1. Risk appetite and risk capacity

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When assessing the risk appetite and risk capacity, the Trustee considered a range of qualitative and quantitative factors, including:

- the strength of the employer's covenant and how this may change in the near/medium future;
- the agreed journey plan and employer contributions;
- the Plan's long-term and shorter-term funding targets;
- the Plan's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged;
- the Plan's cash flow and target return requirements; and
- the level of expected return and expected level of risk (as measured by Value at Risk ("VaR")), now and as the strategy evolves.

2. Approach to managing and monitoring investment risks

The Trustee considers that there are a number of different types of investment risk that are important to manage and monitor. These include, but are not limited to:

2.1. Risk of inadequate returns

A key objective of the Trustee is that, over the long-term, the Plan should generate its target return so that it has adequate assets to meet its liabilities as they fall due. The Trustee therefore invests the assets of the Plan to produce a sufficient long-term return in excess of the liabilities. There is also a risk that the performance of the Plan's assets and liabilities diverge in certain financial and economic conditions in the short term. This risk has been taken into account in setting the investment strategy and is monitored by the Trustee on a regular basis.

2.2. Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Plan's assets. The Trustee believes that the Plan's assets are adequately

diversified between different asset classes and within each asset class. This was a key consideration when determining the Plan's investment arrangements and is monitored by the Trustee on a regular basis.

2.3. Illiquidity/marketability risk

This is the risk that the Plan is unable to realise assets to meet benefit cash flows as they fall due, or that the Plan will become a forced seller of assets in order to meet benefit payments. The Trustee is aware of the Plan's cash flow requirements and believes that this risk is managed by maintaining an appropriate degree of liquidity across the Plan's investments and by investing in income generating assets, where appropriate.

2.4. Climate-related risks

Climate change is a source of risk, which could be financially material over both the short and longer term. This risk relates to the transition to a low carbon economy, and the physical risks associated with climate change (eg extreme weather). We seek to appoint investment managers who will manage this risk appropriately, and we monitor how this risk is being managed in practice.

2.5. Other environmental, social and governance (ESG) risks

Environmental, social and corporate governance (ESG) factors are sources of risk to the Plan's investments, which could be financially significant, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Trustee seeks to appoint investment managers who will manage these risks appropriately on their behalf and from time to time reviews how these risks are being managed in practice.

2.6. Collateral adequacy risk

The Plan is invested in leveraged Liability Driven Investment ("LDI") arrangements to provide protection ("hedging") against adverse changes in interest rates and inflation expectations. The LDI manager may from time to time call for additional cash to be paid to the LDI portfolio in order to support a given level of leverage. Collateral adequacy risk is the risk that the Trustee when requested to do so will not be able to post additional cash to the LDI fund within the required timeframe. A potential consequence of this risk is that the Plan's interest rate and inflation hedging could be reduced and that the Plan's funding level could suffer subsequently as a result.

To mitigate this risk, the Trustee has a leverage management plan in place, which is reviewed and updated periodically. The implementation and oversight of this plan is delegated by the Trustee to Insight (the manager of the LDI portfolio) and GMAM. The leverage management plan sets out clearly the assets directly available to support the Plan's LDI arrangements and the

approach that is expected to be taken with regards to selling down any other assets to support the LDI arrangements. As part of this leverage management plan, the managers periodically monitor the impact of movement in interest rates and inflation expectations and how that compares to the change that can be supported by the assets invested in the LDI arrangements and those directly supporting those arrangements.

The Trustee has also given consideration to what further measures could be taken should the assets referred to in the leverage management plan prove insufficient to support the LDI arrangements, for example, raising additional money from other Plan assets and/or sourcing money from the employer in the short term.

2.7. 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.

The Plan is subject to credit risk because it invests in bonds via pooled funds. The Trustee manages its exposure to credit risk by only investing in pooled funds that have a diversified exposure to different credit issuers, and primarily investing in bonds that are classified as “investment grade”.

2.8. Equity risk

Equity represents (part) ownership of a company. Equity risk is the risk that the value of this holding falls in value.

The Trustee believes that equity risk is a rewarded investment risk, over the long term.

The Trustee considers exposure to equity risk in the context of the Plan’s overall investment strategy and believes that the level of exposure to this risk is appropriate.

2.9. Currency risk

Whilst the majority of the currency exposure of the Plan’s assets is to Sterling, the Plan is subject to currency risk because some of the Plan’s investments are held in overseas markets (in particular the equity portfolio). In the context of the Plan’s overall assets the currency risk that exists is relatively small and continues to fall over time as the Plan de-risks out of equities.

The Trustee considers the overseas currency exposure in the context of the overall investment strategy, and believes that the currency exposure that exists diversifies the strategy and is appropriate.

2.10. Interest rate and inflation risk

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The Plan's assets are subject to interest rate and inflation risk because some of the Plan's assets are held in bonds and swaps, as segregated investments and via pooled funds. However, the interest rate and inflation exposure of the Plan's assets hedges part of the corresponding risks associated with the Plan's liabilities.

The Trustee considers interest rate, inflation and risks to be generally unrewarded investment risks.

As a result, the Trustee aims to hedge around 100% of the Plan's exposure to interest rate risk and inflation risk (on a self-sufficiency basis), by investing in a mixture of bonds as well as leveraged LDI arrangements managed by Insight. The Trustee also has a plan in place to increase this level of hedging over time as the Plan's funding level improves.

The net effect of the Trustee's approach to interest and inflation risk will be to reduce the volatility of the funding level, and so the Trustee believes that it is appropriate to manage exposures to these risks in this manner and to review them on a regular basis.

2.11. Counterparty risk

This is the risk that one party to a contract (such as a derivative instrument) causes a financial loss to the other party by failing to discharge a contractual obligation. This risk applies in particular for those contracts that are traded directly between parties, rather than traded on a central exchange.

In particular, the Plan is invested in leveraged LDI funds managed by Insight which make use of derivative and gilt repo contracts. Counterparty risk is managed within the LDI portfolio through careful initial selection and ongoing monitoring of trading counterparties, counterparty diversification and a robust process of daily collateralisation of each contract, to ensure that counterparty risk is limited, as far as possible, to one day's market movements.

2.12. Other non-investment risks

The Trustee recognises that there are other, non-investment, risks faced by the Plan, and takes these into consideration as far as practical in setting the Plan's investment arrangements as part of its assessment of the other aspects of the Plan's Integrated Risk Management framework.

Examples include:

- longevity risk (the risk that members live, on average, longer than expected);
- and

- sponsor covenant risk (the risk that, for whatever reason, the sponsoring employer is unable to support the Plan as anticipated).

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Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Plan's funding position falls below what is considered an appropriate level. The Trustee regularly reviews progress towards the Plan's funding target, both in the longer-term as well as against short-term milestones, comparing the actual versus the expected funding level.

By understanding, considering and monitoring the key risks that contribute to funding risk, the Trustee believes that it has appropriately addressed and is positioned to manage this general risk.