

# Statement of Investment Principles for the Citi (UK) Pension Plan (the “Plan”)

29 July 2024

## 1. Introduction

This Statement of Investment Principles (“SIP”) sets out the policy of the Trustee of the Citi (UK) Pension Plan (the “Plan”) on various matters governing decisions about the investments of the Plan. This SIP replaces the previous SIP dated 16 June 2022.

This SIP contains the information required by legislation and also considers the Pension Regulator’s guidance on investments.

This SIP has been prepared after obtaining and considering written professional advice from LCP, the Plan’s investment adviser, whom the Trustee believe to be suitably qualified and experienced to provide such advice. The advice considers 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.

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, or in the demographic profile of the relevant members in respect of the Plan, 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’s policy towards risk appetite, capacity, measurement and management.

## 2. Investment objectives

The Trustee’s primary objectives for the Plan are to provide members with access to:

- an appropriate range of investment options, reflecting the membership profile of the Plan and the variety of ways that members can draw their benefits in retirement; and
- a main default investment option that the Trustee believes to be reasonable for those members that do not make their own investment decisions. The objective of the default option is to generate returns significantly above inflation whilst members are some distance from retirement, but then to switch automatically and gradually into lower risk investments to improve diversification and reduce volatility as members near retirement, maintaining the potential for a modest level of growth in excess of inflation.

## 3. Investment strategy

For the Plan, the Trustee offers members a range of investment funds with different levels of expected return, including equity and bond based funds as well as a cash fund. Each member is responsible for specifying one or more funds for the investment of their account, having regard to their attitude to the risks involved. If a member does not make an active investment choice, their assets will be invested into the Plan’s main default option, the Drawdown Lifestyle. The Plan is open to new members and contributions.

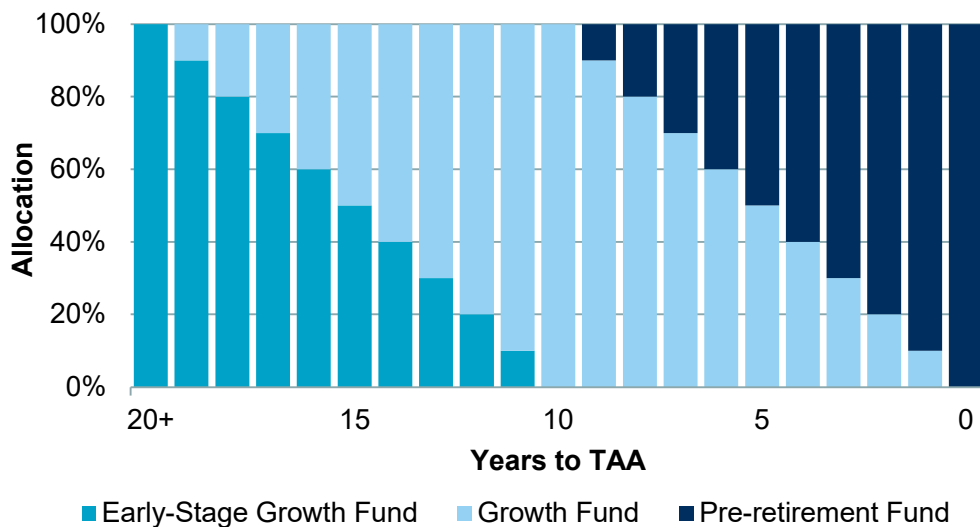
The Defined Contribution Committee (“DCC”) of the Trustee, with advice from its DC investment consultant, began its most recent triennial review of the investment strategy for the Plan in November 2021. This review continued during 2022 and was concluded in March 2023, considering the objectives described in Section 2 above. Implementation of the agreed changes took place in October 2023. The descriptions of the investment funds and strategies provided in the Plan as set out in the rest of this SIP and accompanying Investment Policy Implementation Document reflect the decisions and changes made as a result of this review.

### 3.1. The Plan’s Main Default arrangement

#### 3.1.1. The Drawdown Lifestyle

The default option targets income drawdown at retirement, so if a member has not chosen an investment option, their account will be invested into the default option, which is managed as a “lifestyle” strategy (i.e. it automatically combines investments in proportions that vary according to the time to retirement – known as Target Access Age or (“TAA”)).

In the initial growth phase, the default option is invested in the Early-Stage Growth Fund which has been designed to provide members early in their pension savings journey with long term growth significantly above inflation (making use of equity based funds). In the 20 years before a member’s intended TAA, the default option starts to switch gradually into the Growth Fund. This Fund has been designed to continue to provide members with long term growth above inflation albeit with lower expected returns and risk compared to the Early-Stage Growth Fund. From 10 years to TAA member’s assets are gradually switched to the Pre-Retirement Fund whose asset allocation is designed to be appropriate for members who wish to access their benefits via drawdown. The chart below shows how the default option’s asset allocation changes as a member approaches their TAA.



The Plan’s main default arrangement was designed to be in the best interests of the majority of members based on analysis of the demographics of the membership. It targets drawdown at retirement, since based on analysis of the membership the Trustee believes that most members will wish to take their benefits in this manner.

### 3.2. Other default arrangements

The Trustee has identified eight other arrangements which could be considered to be additional default arrangements and consequently these are being treated as default arrangements:

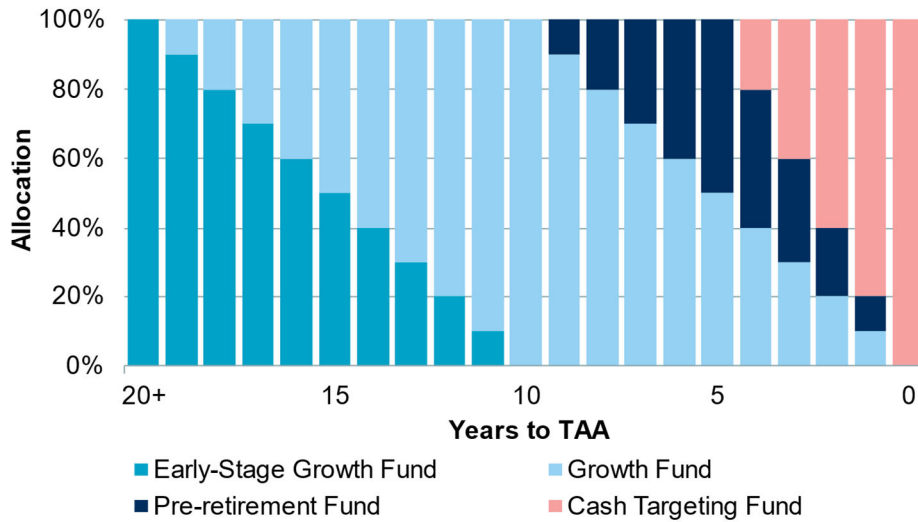
- the Cash Lifestyle;
- the Sterling Liquidity Fund – Active;
- Annuity Targeting Fund;
- Growth Fund;
- Pre-Retirement Fund;
- Diversified Growth Fund;
- Global Equity Fund – Passive; and
- Corporate Bond Fund – Active.

The Cash Lifestyle, Sterling Liquidity Fund – Active, Global Equity Fund – Passive and Corporate Bond Fund – Active are considered to be defaults for governance purposes and must also meet charge cap restrictions. The Growth Fund, Annuity Targeting Fund, Pre-Retirement Fund and Diversified Growth Fund are considered default arrangements for governance purposes only and therefore do not need to meet the charge cap restrictions.

#### 3.2.1. The Cash Lifestyle

The default was set to the Cash Lifestyle for deferred members who in 2016 were projected to have relatively small pots at retirement.

In the initial growth phase, this default option is invested in the Early-Stage Growth Fund which has been designed to provide members early in their pension savings journey with long term growth significantly above inflation (making use of equity based funds). In the 20 years before a member's intended TAA, the default option starts to switch gradually into the Growth Fund. This Fund has been designed to continue to provide members with long term growth above inflation, albeit with lower expected returns and risk compared to the Early-Stage Growth Fund. In the 10 years before a member's intended TAA, the default option starts to switch gradually into the Pre-Retirement Fund and then from 5 years before a member's intended TAA it will gradually switch into the Cash Targeting Fund until there is a 100% allocation to the Cash Targeting Fund at a member's intended TAA. This lifestyle is designed to be appropriate for members wishing to take 100% cash at retirement. The chart below shows how the Cash Lifestyle's asset allocation changes as a member approaches their TAA.



**3.2.2. Sterling Liquidity Fund - Active**

The Sterling Liquidity Fund – Active invests in the BlackRock Institutional Sterling Government Liquidity Fund with no lifestyling. The Fund became a default option as contributions that would have been invested in the Property Fund – Active were redirected to the Sterling Liquidity Fund – Active following suspension of the underlying funds of the Property Fund - Active during March 2020.

The Fund is designed to maintain capital by investing in one or more Sterling liquidity funds. These funds will predominantly invest in a range of short-term money market instruments and government securities.

**3.2.3. Annuity Targeting Fund**

The Fund is designed for members who wish to purchase an annuity at retirement by broadly aiming to track annuity prices.

**3.2.4. Growth Fund**

The Growth Fund is designed to provide members with long term growth by investing in one or more appropriate asset classes.

**3.2.5. Pre-Retirement Fund**

The Pre-retirement Fund is designed to contain an appropriate balance between risk and return for members approaching their target access age who are expecting to draw down income.

**3.2.6. Diversified Growth Fund**

The Diversified Growth Fund will invest with one or more investment managers. The Fund aims to deliver growth over the long term by investing across various asset classes (such as equities, bonds and property) and may adjust the amounts held within different asset classes over time to strategically manage risk and reduce volatility.

### **3.1.1 Global Equity Fund – Passive**

The Global Equity Fund – Passive invests in one or more equity funds. The Fund invests primarily in equities, both in the UK and overseas markets, and will only invest in passive index tracking funds.

### **3.1.2 Corporate Bond Fund – Active**

The Corporate Bond Fund – Active will invest in one or more corporate bond funds. The underlying fund(s) will invest predominantly in a diverse range of global investment grade corporate bonds. The funds may also invest in other bonds (e.g., government bonds) and/or money market instruments.

The Trustee believes that the aims and objectives of the default arrangements as explained above and their policies in respect of all investments (including the default arrangements) as outlined in the rest of this Statement, are intended to ensure that assets are invested in the best interests of the majority of members invested in each of the default arrangements, taking into account the demographics of those members and the reasons why members are invested in these arrangements.

## **4. Other lifestyle strategies**

An Annuity Lifestyle which is designed for members wishing to purchase an annuity at retirement, has also been made available to members.

## **5. Trustee's policy to reviewing the investment arrangements**

The Trustee will review the default options and the other investment options at least every three years and as soon as practicable after any significant change in investment policy, or the demographic profile of relevant members.

The Trustee will also review periodically the relevant members' use of their options at retirement or on taking benefits from the Plan to check whether assumptions made about how members access their benefits are borne out in practice.

The Trustee has ensured that each of the default options is below the cap on member-borne charges of 0.75% per annum. This does not apply to the defaults that have been categorised as defaults for governance purposes only. These are the Growth Fund, Annuity Targeting Fund, Pre-Retirement Fund and Diversified Growth Fund. The Trustee will ensure that the cap on all member-borne charges will continue to apply to members' funds which remain invested in the other default arrangements, which are the Drawdown Lifestyle, The Cash Lifestyle, Sterling Liquidity Fund, Global Equity Fund – Passive and the Corporate Bond Fund - Active. This will be the case even if the member leaves their employer or stops making contributions and becomes a non-contributing, or 'deferred' member.

## **6. Considerations made in determining the investment arrangements**

When deciding how to invest the Plan's assets, the Trustee considers several risks, including, but not limited to, those set out in Appendix 2. Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each risk.

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.

In determining the investment arrangements for the Plan the Trustee also took into account:

- the best interests of all members and beneficiaries;
- the profile of the membership and what this was likely to mean for the choices members might make upon reaching retirement;
- the risks, rewards and suitability of a number of possible asset classes and lifestyle 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 within the default strategy and between the other investment options offered to members;
- any other considerations which the Trustee considers financially material over the periods until members' retirement, or any other timeframe which the Trustee believes to be appropriate; and
- the Trustee's investment beliefs about how investment markets work and which factors are most likely to impact investment outcomes.

### 6.1 Illiquid assets policy

Illiquid assets are investments that may not be easily or quickly sold or exchanged for cash. The Trustee's policy is to have exposure to illiquid assets within the Plan's lifestyle strategies, including the main default arrangement and some of the Plan's other default arrangements.

The main default arrangement includes an allocation to a private markets fund and a diversified growth fund ("DGF"). The private markets fund and the DGF are both collective investment vehicles. The main default arrangement invests in these funds at different periods in a member's journey to their chosen TAA.

The private markets fund currently has exposure to the illiquid assets of private equity, infrastructure, direct physical property, and private debt. All members invested in the main default arrangement up to age 59, assuming a TAA of 60, have exposure to illiquid assets via the allocation to this private markets fund. The allocation to this private markets fund is 10% up to age 50, gradually reduced from then until there is no exposure at age 60. This fund is monthly dealt.

The DGF may also include an allocation to illiquid assets if the DGF manager chooses to do so. The DGF currently has exposure to the illiquid assets of direct physical property and private debt. Members invested in the main default arrangement and aged between 40 and 60, assuming a TAA of 60, have exposure to illiquid assets via the DGF allocation. This fund is daily dealt.

Of the additional default arrangements set out in Section 3.2 above, the Cash lifestyle, Growth Fund, Pre-Retirement Fund, and Diversified Growth Fund have an allocation to illiquid assets via the two funds described above. Specifically:

- **Cash Lifestyle:** all members invested in the Cash Lifestyle up to age 59, assuming a TAA of 60, have exposure to illiquid assets via the allocation to the private markets fund. The allocation to this private markets fund is 10% up to age 50, gradually reduced from then until there is no exposure at age 60. Members aged between 40 and 59, assuming a TAA of 60, also have exposure to illiquid assets via the DGF allocation.
- **Growth Fund:** the Fund has a 10% allocation to the private markets fund and a 20% allocation to the DGF.
- **Pre-Retirement Fund:** the Fund has a 40% allocation to the DGF.

- **Diversified Growth Fund:** the Fund is solely invested in the DGF.

The Trustee's policy in relation to these default arrangements is consistent with that for the Plan's main default arrangement.

The reason for the Trustee's policy to have exposure to illiquid assets within the Plan's lifestyle strategies, including the main default arrangement and some of the Plan's other default arrangements, is because its assessment is that, when compared to many other asset classes, illiquid assets offer members a greater level of diversification and hence better risk management in the overall asset allocation. The Trustee also believes that long-term net risk-adjusted investment returns of the Plan's lifestyle strategies may be improved by investing in illiquid assets.

The Trustee is satisfied that its current level of investment in illiquid assets is appropriate and not excessive and does not intend to increase it for now. With the support of its investment advisers, the Trustee intends to consider the nature and level of investment in illiquid assets when the Plan's investment strategy is next reviewed.

## 7. Implementation of the investment arrangements

Before investing in any manner, 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.

Details of the investment managers and their objectives are set out in the separate Investment Policy Implementation Document.

The Trustee has entered into a contract with a platform provider, who makes available the range of investment options to members. There is no direct relationship between the Plan and the underlying investment managers of the DC investment funds.

The Trustee and investment managers to whom discretion has been delegated exercise their powers to giving effect to the principles in this Statement of Investment Principles, so far as is reasonably practicable.

The Trustee has limited influence over managers' investment practices because all the Plan's assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

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 of the fund. However, in practice 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.

It is the Trustee's responsibility to ensure that the managers' investment approaches are consistent with its policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustee expects investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial (eg firm stability, remuneration, staff turnover) performance of debt/equity issuers, and to engage with issuers to improve their performance. It assesses this when selecting and monitoring managers.

The Trustee evaluates investment manager performance by considering performance over both shorter and longer-term periods as available. The Trustee selects investment managers with the expectation of a longer-term appointment. The nature of the DC funds is that the Trustee can move away from a given manager on short notice, but the Trustee would not expect to do so on short term performance grounds alone. Each 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. Portfolio turnover is monitored regularly via quarterly investment reviews and portfolio transaction costs are monitored on an annual basis by the Trustee as part of the annual Chair's Statement.

## **8. Realisation of investments**

The investment managers have discretion over the timing of realisation of investments of the fund they manage and in considerations relating to the liquidity of investments. For the Plan, the Trustee's preference is to invest in funds that offer daily dealing where possible to enable members to readily realise and change their investments. However, the Trustee recognises that achieving a well-diversified portfolio may mean holding some investments that are less liquid. In cases where the Plan uses in a less frequently traded fund, as specified in Section 6.1 above, this fund will be integrated into a broader portfolio of funds traded on a daily basis. This approach means that members may more readily realise and change their investments.

## **9. Financially material considerations and non-financial matters**

The Trustee has considered how financially material factors including environmental, social, governance ("ESG") and non-financial factors such as 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.

The Trustee reflects its approach to ESG and other financially material factors through its investment strategy and manager selection decisions.

As part of the most recent triennial investment strategy review for the Plan, as described in Section 3 above, the Trustee considered ESG as one of many financially material factors. An evaluation of the financial implications of climate change on members' investments resulted in the belief that climate change represents a financial risk to members' investments. As a result, the Trustee agreed to switch the passive equity funds within the Plan's lifestyle strategies (including the Plan's main default option) to passively managed funds that track indices with reduced exposure to climate-related risks and increased exposure to climate-related opportunities. Further details of the specific funds are set out in the separate Investment Policy Implementation Document.

In addition, the Trustee expects its investment managers to take account of financially material considerations (including climate change and other ESG considerations) where permissible within applicable guidelines and restrictions. The Trustee seeks to appoint managers that have appropriate skills and processes to do this, and from time-to-time reviews how its managers are taking account of these issues in practice.



The Trustee has delegated responsibility for the selection, retention and realisation of investments within all investment funds to the underlying investment managers (within certain guidelines and restrictions).

In pooled funds, the Trustee has limited influence over managers' investment practices, particularly in relation to those pooled funds which are designed to track an index (passive funds) where the choice of index dictates the assets held by the manager. The Trustee accepts that the role of the passive manager is to deliver returns in line with the index and this approach is in line with the basis on which their current strategy has been set. However, the Trustee will periodically review the indices employed for this purpose and encourages its managers to improve their practices where appropriate.

In relation to funds where the manager is permitted to make active decisions about the selection, retention and realisation of investments, the Trustee expects the managers to consider all financially material factors, including ESG-related issues where permissible within applicable guidelines and restrictions.

The Trustee will review how ESG-related issues are taken into account in the investment processes adopted by their investment managers within the main default option, and additional default arrangements, on a regular basis. The Trustee will challenge these approaches where appropriate and will report on ESG-related issues in relation to the default arrangements as part of its Implementation Statement that will be produced annually.

The Trustee does not take into account any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments. However, the Trustee recognises that some members may wish to invest specifically in ethical or Shariah compliant funds and offers members appropriate funds to achieve this.

## 10. Stewardship

The Trustee recognises its responsibilities as owners of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments. The Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, risks, capital structure, conflicts of interest and ESG considerations. The Trustee expects the managers to undertake voting and engagement in line with their stewardship policies, considering the long-term financial interests of investors.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. It expects the investment managers to exercise voting rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustee from time to time, taking in to account the long-term financial interests of the beneficiaries. The Trustee seeks to appoint 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 monitors managers' activities in relation to ESG factors, voting and engagement on a regular basis. The Trustee seeks to understand how they are implementing their

stewardship policies in practice to check that their stewardship is effective and aligned with its expectations.

The Trustee has selected some priority ESG themes to provide a focus for its monitoring of investment managers' voting and engagement activities. The priority ESG themes agreed by the Trustee are climate change, human rights, corporate transparency, and business ethics. These themes were selected because the Trustee felt they were important areas where voting and engagement could influence change and make a financial impact. The Trustee reviews the themes regularly and update them if appropriate. The Trustee communicates these stewardship priorities to its managers and also confirm its more general expectations in relation to ESG factors, voting and engagement.

If the Trustee's monitoring identifies areas of concern, it will engage with the relevant manager to encourage improvements.

**For on behalf of the Trustee of the Citi (UK) Pension Plan:**

**Signed:** REMOVED

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## *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 this division allows for efficient operation of the Plan overall, with access to an appropriate level of expert advice and service. The Trustee's investment powers are set out within the Plan's governing documentation.

### **1. Trustee**

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

- monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Act;
- formulating a policy on socially responsible investment issues;
- formulating a policy on voting rights;
- 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 has set up a DC Committee and delegated certain tasks to this Committee.

### **2. DC Committee**

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

- setting the investment strategy, in consultation with the employers;
- reviewing the investment policy as part of any review of the investment strategy;
- setting the policy for rebalancing between asset classes;
- selecting (and, when necessary, reviewing) investment managers;
- appointing (and, when necessary, dismissing) platform providers, custodians and investment advisers;
- monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Act;
- the reconciliation of the units within the DC arrangements and any other matters raised within the Committee as to the proper administration of those arrangements;
- the preparation and monitoring of the budgets for all aspects of the Plan's DC arrangements;
- communicating with members as appropriate on investment matters;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change); and in relation to the allocation to illiquid assets; and
- Compliance with any Code of Practice (or similar guidance) issues by the Pensions Regulator or any legislative provisions relating, in each case, to the governance of DC arrangements.

### 3. Investment platform provider

In broad terms, the investment platform provider will be responsible for:

- providing access to a range of funds managed by various investment managers; and
- providing the Trustee, through the platform, with regular information concerning the management and performance of the assets.

### 4. 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, as agreed with the Trustee;
- providing the Trustee with regular information concerning the management and performance of their respective portfolios;
- taking account of financially material considerations (including climate change and other ESG considerations) as appropriate when managing their respective portfolios where permissible within applicable guidelines and restrictions;
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

### 5. Custodians

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

### 6. Investment consultant

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

- for the Plan, advising on a suitable fund range and default strategy for the Plan, and how material changes to legislation or within the Plan's benefits and membership may impact this;
- advising on the selection, and review, of the investment managers incorporating its assessment of the nature and effectiveness of the managers' approaches to financially material considerations (including climate change and other ESG considerations); and
- participating with the Trustee in reviews of this SIP.

### 7. Fee structures

The Trustee recognises that the provision of investment management 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.

The investment managers and platform provider receive fees calculated by reference to the market value of assets under management. The fee rates are believed to be consistent with the managers' general terms for institutional clients and are considered by the Trustee to be reasonable when compared with those of other similar providers.

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.

#### **8. 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.

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 carry out periodically an assessment of its own effectiveness as a decision-making body and will decide how this may then be reported to members.

#### **9. Working with the sponsoring 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. Whilst the requirement to consult does not mean that the Trustee need to reach agreement with the employer, the Trustee believes that better outcomes will generally be achieved if it works with the employer collaboratively.

The Trustee considers that there are a number of different types of investment risk that are important for the Plan. These include, but are not limited to:

#### **1. Risk of inadequate returns**

In the Plan, as members' benefits are dependent on the investment returns achieved, it is important that investment options are available which can be expected to produce adequate real returns over the longer term. Accordingly, equity and equity-based funds, which are expected to provide positive returns above inflation over the long term, have been made available to members and feature in the growth phase of the default strategy. To reduce the chance of a sharp deterioration in members' benefits close to retirement, the Trustee has made the default option a "lifestyle" strategy.

#### **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 DC default strategy is adequately diversified between different asset classes and within each asset class, and the DC options provide a suitably diversified range for members to choose from. This was a key consideration when determining the Plan's investment arrangements.

#### **3. Investment manager risk**

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, the Trustee receives written advice from a suitably qualified individual and will typically undertake an investment manager selection exercise. The Trustee monitors the investment managers on a regular basis.

#### **4. Liquidity/marketability risk**

For the Plan, this is the risk that core financial transactions, such as investing and disinvesting members' contributions, are not processed promptly due to lack of liquidity in the investments. The Trustee manages this risk by predominantly using pooled funds with daily dealing within the default strategy and diversifying the strategy across different types of investment. In cases where the Plan uses less frequently traded funds it looks to integrate them into a broader portfolio of funds traded on a daily basis such that members may more readily realise and change their investments.

#### **5. Risk from excessive charges**

Within the Plan, if the investment management charges together with other charges levied on, for example, transfers or early retirement are excessive, then the value of a member's account will be reduced unnecessarily. The Trustee is comfortable that the charges applicable to the Plan are in line with market practice and assesses regularly whether these represent good value for members.

#### **6. 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.

The Plan is subject to currency risk because some of the Plan's investments are held in overseas markets.

For the Plan's lifestyle investment strategies, the Trustee believes that the currency exposure is managed in an appropriate manner given the objective of each of those strategies.

Within the Plan's self-select fund range some funds will be subject to currency risk where the underlying investments are held in overseas markets which the Trustee considers reasonable.

**8. Environmental, social and governance (ESG) risks**

Environmental, social and corporate governance (ESG) factors are sources of risk to the Plan's investments, some of which could be financially material, 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 investment options that address these risks and to appoint investment managers who will manage these risks appropriately on their behalf where permissible within applicable guidelines and restrictions.

**9. 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 arrangement.