Statement of Investment Principles

The Northern Trust (UK) Pension Plan – December 2024

Introduction

1 This document is the Statement of Investment Principles (the "SIP") made by the Trustee of the The Northern Trust (UK) Pension Plan (the "Plan") in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and regulations made under it).

2 The Trustee will review this SIP at least every 3 years and without delay after any significant change in investment policy. Before finalising this SIP, the Trustee took written advice from the Plan's Investment Consultant (Towers Watson Limited) and consulted the Principal Employer, Northern Trust Management Services Ltd ('the Employer'). The ultimate power and responsibility for deciding investment policy, however, lies solely with the Trustee.

The Plan operates for the exclusive purpose of providing retirement and death benefits to eligible participants and beneficiaries. The Plan provides both a Defined Benefit (DB) and Defined Contribution (DC) pension arrangement. These two arrangements are considered separately within this Statement.

Plan objectives – DC Section

3 The Trustee's duty is to act in the members' best interests. One of the Trustee's primary objectives therefore is to make available appropriate investment options to members of the defined contribution section of the Plan, with due consideration to industry best-practice guidelines (including specific guidance from the Pensions Regulator).

Investment strategy – DC Section

4 The Trustee wishes to provide members with a reasonable degree of freedom over the investment policy of their accounts. Consequently, the following range of pooled funds (including both actively managed and passively managed index-tracking funds) are currently utilised by members:

- Global and regional equity funds
- Diversified Growth Funds
- Property fund
- Bond funds
- Cash fund

5 The Trustee currently offers two approaches for members to invest their DC benefits:

i. Lifestyle (default) - which is the default strategy for members. Members' investments in this strategy are automatically switched between different funds as the member approaches retirement to reflect the changing nature of the risks described further in this statement. If members do not indicate which funds they wish their contributions to be invested in, the contributions will automatically be invested in line with the Default Lifestyle.

ii. Self-select - this strategy has been made available for those members who would like to manage the investment of their account.

While no single option will be sufficient to manage the various risks associated with defined contribution investment as described in the Risks & Regulations section below, the range is expected to be wide enough to enable individuals to manage the risks identified as they become relevant, according to each member's individual criteria.

6 The Trustee believes that the range of funds offers adequate diversification and is appropriate for the DC Section. Furthermore, in certain asset classes and funds (particularly those utilising active management) the Plan utilises multiple asset managers to ensure manager diversification.

7 The default arrangements do not include a specific allocation to illiquid assets, although there may be an allocation to illiquid assets within the LGIM Diversified Fund at the discretion of the investment manager. The Trustee's policy is to invest in assets that are sufficiently liquid to allow them to be realised readily and daily dealt.

The Trustee does not currently have any plans to invest in illiquid assets in the future, but will keep this policy under consideration should suitable investment opportunities become available in the future.

8 Members' accounts are held in funds that are sufficiently liquid to be realised to provide pension benefits on retirement, or earlier on transfer to another pension arrangement.

9 The Trustees have taken advice from the Investment Consultant to ensure that the investment options specified above are suitable for the Plan and will review the suitability of the funds offered from time to time.

Default Arrangements – DC Section

10 Under prevailing legislation a number of the Plan's self-select funds are also considered to be default arrangements due to previous mapping exercises. There are a number of investment options which the Trustee considers to be default arrangements and in order to consider the best interests of these groups of members, the Trustee's policy is to replicate the original choices made by members as closely as possible in order to continue to meet their needs.

Investment managers – DC Section

11 The Trustee offers investment funds to members through a platform offered by FIL Life Insurance Limited (Fidelity).

12 The managers are paid ad valorem fees based on the market value of the assets under management. All of the arrangements utilise pooled vehicles, and consequently the Trustee has no control over the fee structure. However, the managers' fee scales and structures are taken into consideration when reviewing and selecting managers.

Investment monitoring – DC Section

13 The Trustee monitors the Plan's investment performance and reviews the nature of the investments held periodically. The Trustee has set the managers the investment objectives of performing in line with the relevant indices or achieving competitive performance returns,

depending on whether they are passively or actively managed. The performance of each fund is measured against the appropriate benchmark or long term return target.

14 The Pensions Regulator expects trustees to regularly review Plan investment strategy and consider membership demographics when doing so. The Trustee reviews the DC investment strategy on a regular basis, either every three years or following a material change in the Plan's membership or the regulatory environment.

Risks & Regulations – DC Section

15 The Trustee recognises that, in a defined contribution arrangement, members assume the investment risks. This risk can be defined as the uncertainty in the ultimate amount of savings available on retirement, which will be either taken out as cash or through income drawdown or used to purchase an annuity that will provide retirement benefits. The Trustee further recognises that members are exposed to different types of risk at different stages of their working lifetimes. Investment risks inherent within the DC Section include:

- Market risk – funds made available to members may be sensitive to market movements. This can lead to losses (or gains) in the value if a member's pension pot. It is managed by investing in a range of diversified assets and in different countries/regions

- Inflation risk – the risk that investments do not provide a return at least in line with inflation, so that the purchasing power of the ultimate fund available to provide benefits is not maintained at retirement

- Pension conversion risk – the risk that the value of a member's account does not reflect the benefit (annuity, drawdown and cash) that a member wishes to take at retirement

- Decumulation mis-match risk – the risk that investment allocations in the years just prior to retirement do not match members' retirement objectives, exposing members to inefficient or uncertain outcomes

- Manager risk – the risk that the chosen investment manager underperforms its benchmark. The Trustee has a preference for selecting high quality managers that can manage funds defensively in negative markets

- Liquidity risk – funds made available to members may invest in assets that take longer to realise, in particular in stressed market conditions. There is a risk that members may experience a delay when moving or redeeming their investments. It is managed by investing in liquid assets in the default strategy

- Currency risk – funds made available to members may have the ability to invest in overseas assets which are denominated in currencies other than Sterling. Therefore, there is a risk that the relative movements in Sterling and other currencies lead to losses (or gains) in the value of a member's pension pot. The Trustee periodically reviews the appropriateness of the level of currency exposure in the default strategy

16 The Trustee will maintain a suitably diverse range of funds, which in turn are considered to be appropriately diverse within their specific objectives. To minimise the risk of any one particular investment having a substantial effect on the Plan's overall investment performance, the Trustee invests the Plan in pooled funds, ensuring members' investments can achieve sufficient diversification and that investments may be readily realisable.

Other matters

17 The Plan permits members of both the defined contribution and defined benefits sections to provide additional benefits for themselves through the defined contribution investment options by paying Additional Voluntary Contributions.

18 In addition, some members have Additional Voluntary Contributions ("AVCs") invested on a defined contribution basis with the following provider:

- Prudential – With-Profits fund;

This option is closed to new investors.

Plan objectives – DB Section

19 The Trustee's duty is to act in the members' best interests. The Trustee's primary objective therefore is the maintenance of solvency and control of the risk of insolvency at an appropriate level.

20 The Trustee is responsible for ensuring that the investment strategy (i.e. the mix of the Plan's investments between the various asset classes) does not put the payment of promised benefits at undue risk. Some protection of solvency can be achieved by investment in assets that match the term and nature of the liabilities. However, it is not possible to cover every risk that the Plan faces, and hence the protection of solvency also depends on the continued support of the Company, both in terms of its future contributions and its underwriting of the benefit promises.

21 The projected long-term cost of the Plan depends in part on the economic and demographic assumptions, together with the valuation method used to fund for the Plan's benefits.

22 One of the key economic assumptions is the long-term real rate of return expected to be earned on the Plan's assets. The investment strategy adopted by the Trustee affects the long-term return achieved, which affects the ultimate long-term benefit costs. An investment strategy with a relatively low expected real return might jeopardise the Company's continued support of the Plan, since this strategy would lead to relatively higher anticipated costs.

Scheme Specific Funding

23 The Pensions Act 2004 requires that, with effect from the completion of the formal actuarial valuation, the Trustee will maintain a Statement of Funding Principles, stating the methods and assumptions used in calculating the amount required to make provision for the Plan’s liabilities, and the manner and period in which any shortfall will be remedied. The Trustee will consult the Scheme Actuary and the Company when deciding upon the appropriate response to any shortfall.

24 The Trustee considers that the investment policy described in this Statement is sufficient to support the funding plan and objectives set at the last valuation of the Plan.

25 The Trustee will review this investment policy in the light of actuarial valuations and certificates and schedules of contributions produced in order to comply with the Pensions Act 2004.

Investment strategy – DB Section

26 The investment strategy is managed against a long-term benchmark which reflects the Plan's DB liabilities and also aims to provide some explicit hedging against the DC GMP underpin liabilities. The long-term benchmark allocates the Plan's assets across a Diversified Growth Fund (DGF) and short and longer-dated gilts, with the aim being to minimise the volatility of the Plan's funding level as well as reduce future reliance on the Company.

27 The choice of the central benchmark is designed to ensure that the investments are adequately diversified with relevant fund control ranges to rebalance the portfolio in the event of there being a material deviation from the central benchmark. As the Plan invests via pooled funds the Trustee is not in a position to ensure the assets are diversified within asset classes. However, this issue will feature in the selection criteria for new managers and monitoring process for ongoing managers.

28 The Trustee has taken advice from their investment adviser to ensure that the benchmark and the control ranges are suitable for the Plan given its liability profile.

29 The Trustee will monitor the appropriateness of this investment strategy on an annual basis, probably at the time of the annual funding update.

30 The Plan's defined benefit assets are primaily invested on an index-tracking (or "passive") basis, however the Investment Manager does have discretion to use active management for some asset classes where there is an advantage in doing so.

31 The Plan's defined benefit performance target is to achieve a return that matches that of the central benchmark. In addition, the Investment Manager has the objective of maintaining the Plan's defined benefit asset allocation within the permitted ranges.

32 In order to meet members' statutory Guaranteed Minimum Pension (GMP) entitlement, the Defined Benefit Section may temporarily be allocated members' Defined Contribution Property Fund holdings, which has been suspended since June 2019 due to increases in outflows from an underlying fund. As such, members are unable to invest, sell or switch any assets held in the Property Fund. In cases where the Plan is required to temporarily hold units in the Defined Contribution Property Fund, the fund will be disinvested back into the Defined Benefit Plan when it is possible to do so.

Risks & Regulations – DB Section

33 The Trustee appreciates that the investment of assets in financial markets results in an exposure to risk. Risk takes many forms and the Trustee recognises the following:

- Solvency risk and mismatching risk:
  - are measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies
  - are managed through the asset allocation strategy and through ongoing triennial actuarial valuations.
- Manager risk:

  - is measured by the expected deviation of the manager's risk and return relative to the investment policy
  - is managed through the ongoing monitoring of the manager

- Liquidity risk:
  - is measured by the level of cashflow required by the Plan over a specified period
  - is managed by the Trustee together with the Plan's administrators who monitor the level of cash held in order to limit the impact of the cash flow requirements on the investment policy

- Currency risk:
  - is measured by the level of exposure to non-Sterling denominated assets
  - is addressed within the Investment Manager Agreements and managed by the implementation of a currency hedging programme (carried out by some of the Plan's investment managers) which targets an appropriate level of foreign currency exposure across the Plan's portfolio

- Political risk:
  - is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention
  - is managed by regular reviews of the actual investments relative to policy and through the level of diversification within the existing policy

- Sponsor risk:
  - is measured by receiving regular financial updates from the Sponsor and periodic independent covenant assessments
  - is managed through an agreed contribution and funding schedule, where required

- These measures do not render the investment policy free of risk. Rather, the measures endeavour to balance the need for risk control and the need to allow the investment manager sufficient flexibility to manage the assets in such a way as to achieve the required performance target.

Investment managers – DB and DC Sections

34 The Plan uses different Investment Managers and mandates to implement its investment policies. The Trustee ensures that, in aggregate, the investment options are consistent with the policies set out in this Statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). The Trustee will also ensure that the investment objectives and guidelines of any particular pooled vehicle are consistent with its policies, where relevant to the mandate in question. These considerations also apply in the appointment process of new investment managers and arrangements.

To maintain alignment, Investment Managers are provided with the most recent version of this Statement of Investment Principles on a periodic basis to ensure managers are aware of the Trustee's expectations regarding how the Plan's assets are being managed.

Should the Trustee's monitoring process reveal that an Investment Manager's fund is not aligned with the Trustee's policies, the Trustee will engage with the Investment Manager to ascertain the reasons for this and whether closer alignment can be achieved. This monitoring process includes, but is not limited to, specific consideration of the sustainable investment/ESG characteristics of the fund and the Investment Manager's engagement activities. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the Trustee may consider alternative options available in order to consider terminating and replacing the Investment Manager. The Trustee will also consider the cost impact of making any changes to ensure proportionality.

35 For most of the Plan's investment funds, the Trustee expects the Investment Managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods. The Trustee may select certain investment funds where such engagement is not proportionate, due to the nature of the strategy and/or the investment time horizon underlying decision making.

36 The Trustee appoints its Investment Managers with an expectation of a long-term partnership, which encourages active ownership of the Plan's assets. When assessing an Investment Manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate an Investment Manager's appointment based purely on short term performance. However, an Investment Manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team. The Trustee also recognises that individual Investment Manager constituents of a blended fund may experience periods of underperformance, however the Trustee will have greater regard for the performance of the overall blended fund.

Investment Managers are paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement.

37 The Trustee, with the help of the Investment adviser, will be putting in place a process ahead of producing the Implementation Statement to review the costs associated with portfolio turnover incurred in managing the Plan's assets. In assessing the appropriateness of the portfolio turnover costs in the context of an Investment Manager's strategy, the Trustee will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate. The Trustee will periodically engage with Investment Managers on this subject and request relevant costs and charges reporting.

Sustainable investing and stewardship

38 The Trustee considers long-term sustainable investment to be an important and relevant financially material issue to consider throughout the investment process. The Trustee's focus is on financial outcomes and therefore the Trustee's policy at this time is not to take into account members' views on non-financial matters in the selection, retention and realisation of investments.

39 In particular, the Trustee recognises that an investment's financial success can be influenced by a wide range of factors including environmental, social and governance (ESG) issues, including climate change, and stewardship.

40 The Trustee considers the following areas to be a priority for stewardship activity:

- Climate change
- Diversity, equity and inclusion

The Trustee monitors investment manager stewardship activity in relation to these priority areas.

41 The Trustee therefore believes that financially material ESG considerations and stewardship are important aspects of responsible financial risk management in order to protect and enhance the value of investments and should improve long-term member financial outcomes.

42 The Trustee's policy is that day-to-day decisions relating to the investment of the Plan's assets is left to the discretion of the investment managers. This includes consideration of all financially materially factors, including ESG-related issues where relevant. The Trustee periodically explores these issues with its advisers to understand how the investment managers exercise these duties in practice and may request information from its investment managers as part of the ongoing monitoring of the ESG integration and stewardship activities of its investment managers.

43 When considering the appointment of new managers, and reviewing existing managers, the Trustee, together with its investment adviser, looks to take account of the approach taken by managers with respect to sustainable investing including engagement and voting policies where relevant.

44 The Trustee's policy is to delegate responsibility for stewardship activities attaching to investments (including voting rights and engagement activities) to the investment managers. The Trustee recognises the UK Stewardship Code as best practice and encourages its investment managers, via its investment adviser, to comply with the UK Stewardship Code or explain where they do not adhere to this policy.

45 The Trustee expects the investment managers to maintain appropriate monitoring systems to ensure compliance with any relevant investment manager agreements. The Trustee will monitor the performance and the composition of the Plan's assets. Furthermore, the Trustee will monitor factors (such as each manager's internal processes and staff movements) which may impact the performance of the Plan's assets in the future. In particular, this monitoring will normally include:

- quarterly independent performance measurement relative to indices and other similar funds;

- attendance of a consultant at Trustee meetings, on no less than an annual basis, to provide independent comment on the investment managers; and

- meetings with the investment managers as appropriate.

46 The investment management structure and the investment managers shall be reviewed periodically and at such time as considered appropriate.

47 The Trustee shall regularly review the nature of the funds in which the Plan is invested and consider all relevant factors in determining whether the associated risks and funds highlighted in this Statement remain appropriate.