

# **First Active Pension Scheme**

## **Statement of Investment Policy Principles**

### **Introduction**

This document is the Statement of Investment Policy Principles (the “Statement”) of the Ulster Bank Pension Trustees (R.I.) Limited (the “Trustee”) of the First Active Pension Scheme (“the Scheme”).

In preparing this Statement, the Trustee has consulted Ulster Bank Ireland DAC (the ‘Employer’). The Trustee will consult the Employer on any significant changes to the Scheme’s investment arrangements; however, the Trustee retains ultimate responsibility for investment decisions. The Trustee has appointed Mercer Ireland Limited as its investment consultant and has taken its advice in the development of the investment strategy for the Scheme as set out in this SIPP.

The Trustee will set the general investment policy, but will delegate the responsibility for the implementation of this policy to an Investment Review Committee (the “IRC”). The IRC in turn appoints investment managers. The investment managers shall provide the skill and expertise necessary to manage the investment of the assets of the Scheme competently.

When deciding policy and choosing investments, the Trustee, the IRC and the investment managers (to the extent delegated) are required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2006 and the principles contained in this statement. When choosing, and periodically, when reviewing investments, the Trustee and/or the IRC will take written advice.

The intention is not to outline detailed guidelines for the Scheme’s investment managers – this should be done within the specific legal agreements with those parties – but rather to state the general philosophy, risk appetite and policies of the Trustee that will shape the governance of the Scheme as a whole.

This Statement will be reviewed at least every three years and also following any change in investment policy which impacts on the content of the Statement.

### **Division of Responsibilities**

The Trustee has appointed the IRC to exercise responsibility for the investment of the Scheme’s assets in line with the Trustee’s overall return and risk objectives.

The decisions for which the Trustee retains direct responsibility are:

- approving the overall investment risk and return objectives of the Scheme (see below);
- approving the appointment and removal of investment consultants;

Other than those decisions reserved to the Trustee and those concerned with individual security selection, all other investment decisions are delegated to the IRC.

The Trustee intends to continue to give the Employer representation on the IRC and, subject to its fiduciary duties, will give appropriate consideration to the impact of the investment strategy on the Employer.

The IRC works within clearly defined terms of reference. The investment consultant, together with other advisers as required, assist the IRC in its work.

### **Investment Objectives**

In order to set the investment objectives for the Scheme's investment strategy, the Trustee has analysed the profile of the Scheme membership and the expected benefit payments payable to members as outlined in the Trust Deed and Rules.

The investment objectives of the Trustee are linked to the funding objectives. The target long term rate of return and the corresponding investment risk have been set by the Trustee in the context of the Employer's covenant. The objectives are set in consultation with the Employer, the Scheme Actuary and the Investment Consultant.

The investment strategy is reviewed on an ongoing basis and is aligned with the Journey to Buyout (agreed at the end of 2022). The following key objectives are noted:

- **Primary Objective:** To secure members' accrued benefits through the purchase of immediate and deferred annuities with an insurance company ("Buy-Out"), with a target date for Buy-Out of 2034.
- **Funding Target:** To be fully funded on an ongoing basis which uses a discount rate of Swaps plus 70bps p.a.
- **Investment Return:** To target a best estimate return of Swaps +460bps p.a. on the return seeking assets and Swaps +20bps on the Risk Reducing assets (equivalent to a best estimate total return of Swaps + 140bps)
- **Liability Hedging:** Hedge c95% of the interest rate and inflation risk on an ongoing basis, and ensure that sufficient collateral is available for this level of hedging within the liability-hedging portfolio.

The Trustee's policy is to seek to achieve the objectives through investing in a suitable mixture of assets taking account of the risk and return, and other relevant characteristics of those assets, as well as the need for diversification. The Trustee expects that targeted diversification should provide the level of returns required by the Scheme to meet its liabilities within its risk tolerances and at an acceptable level of cost to the Employer. The Trustee encourages the IRC and the investment consultant to actively research opportunities for investment in appropriate asset classes.

The Trustee's policy is that there should be sufficient investments in liquid or realisable assets to (a) ensure flexibility of the investment strategy and (b) meet cashflow requirements in the majority of foreseeable circumstances so that, where possible, the realisation of assets will not disrupt the Scheme's overall investment policy. The

investment strategy is set with consideration to the cash flow needed to meet the likely benefit outgo from time to time.

### Current Investment Policy

The Trustee, in consultation with the Bank, believes that the following strategic asset allocation mix prudently positions the portfolio so as to achieve the Trustee's investment objectives. The asset allocation may vary from the below due to market conditions, implementation issues or small tactical positions.

Asset Class	Benchmark (%)	Benchmark Index
Developed Market Equities (75% currency hedged)	5.5	FTSE Developed 75% Hedged (Net Lux) Index
Equity Futures (Notional Exposure)	13.5	MSCI World Developed Equity (Hedged)
Diversified Growth	8.0	Generate medium to long-term (3-5 years) returns that are significantly higher than cash and inflation
<b>Return-Seeking Assets</b>	<b>27.0</b>	<b>Composite</b>
Screened Global Corporate Bonds	14.5	BBG Capital Global Aggregate Corporate USD/EUR/GBP 1% Issuer Capped Hedged to Euro
Liability Driven Investment ("LDI")	72.0	95% of Ongoing liabilities
<b>Hedging Assets</b>	<b>86.5</b>	<b>Composite</b>
<b>Total Fund</b>	<b>113.5</b>	<b>Composite</b>

In determining the asset allocation, the Trustee recognises that the returns on growth assets, while expected to be greater over the long term than those on matching assets, are likely to be more volatile. The Trustee expect that diversification should provide the level of returns required by the Scheme to meet its liabilities within its risk tolerances and at an acceptable level of cost to the Employer.

The Trustee recognises that even though the Scheme's investments are subject to short-term volatility, it is critical that a long-term investment focus be maintained. It is acknowledged that the return achieved over any time period will differ from assumptions, depending on market returns. The Trustee intends to avoid ad-hoc revisions to their philosophy and policies in reaction to either speculation or short-term market fluctuations.

### Risk Measurement Methods

In determining the level of risk appropriate to the Scheme at any point in time, the Trustee recognises the importance of the nature and duration of the liabilities, and measures the risk of the chosen investment policy by reference to these liabilities.

In particular, the Trustee considers the following risks:

- The risk of achieving an insufficient level of investment return relative to the rate of return assumed by the Scheme Actuary.
- The required rate will depend on the funding policy adopted for the Scheme. Therefore, the Trustee acknowledges the critical need for interaction and co-

operation between the Trustee and the Employer when formulating investment policy.

- The risk of excessive volatility in the investment returns of the Scheme relative to the movement in liabilities over shorter-term periods (e.g. one year).
- The Trustee will consider this volatility in relation to the liabilities measured under the Funding Standard basis, the Scheme Actuary's ongoing basis and Journey to Buyout measure. The Trustee recognises that the pattern and volatility of the Scheme's investment returns can impact directly on the pattern and volatility of the Employer's contribution rates and various accounting items. Therefore, risk will also be considered in these terms where appropriate.

Managing the risks above in isolation may lead to conflicting investment policies. Therefore, in formulating an appropriate investment policy, the Trustee seeks to arrive at an acceptable balance between these risks in order to best meet their investment objectives. Furthermore, the Trustee will manage a range of other investment risks using the risk management processes outlined in the next section in order to create a prudent, diversified and efficient portfolio. Investment risks are measured both quantitatively and qualitatively.

The Trustee has discussed the results of the most recent risk assessment with their professional advisors and the Employer and considers that the investment strategy is consistent with the risk tolerance of the Scheme.

### **Risk Management**

The Trustee will ensure, either through direct guidance or through ascertaining the suitability of any commingled (unitised) vehicles that are used, that policies and guidelines are in place for the appointed investment managers and other providers such that:

- investments are, for the most part, limited to marketable securities traded on recognised/regulated markets;
- derivative instruments may be used by the Scheme's investment managers (either on a segregated or pooled fund basis) on the basis that they contribute to lower overall Scheme risk levels or are employed for efficient portfolio management
- the portfolio is properly diversified in such a way as to avoid excessive reliance on any particular asset, issuer or group of undertakings and so as to avoid accumulations of risk in the portfolio as a whole. Investments in assets issued by the same issuer or by issuers belonging to the same group must not expose the scheme to excessive risk concentration; and
- the security, quality and liquidity of the portfolio as a whole is ensured, with due regard paid to the level of non-Euro currency exposure.

The Trustee has also established the following risk management processes:

- The Trustee monitors the funding level risk by commissioning VaR calculations of investment risk versus Scheme assets on a regular basis and no less frequently than annually.
- The Trustee monitors the asset allocation of the Scheme's investments to ensure that it is consistent with the Scheme's Strategic Asset Allocation.
- The Trustee employs their investment consultant to report on the performance of the Scheme's investments and the underlying investment managers on a quarterly basis, using both quantitative and qualitative measures. The Trustee may replace an investment manager who fails to meet performance objectives and/or fails to comply with the written investment management agreements or where a change to the investment strategy is deemed appropriate.
- The Trustee monitors the level of interest rate and inflation exposure of the Scheme's assets and liabilities to ensure that the interest rate and inflation risk levels remain at the agreed level.
- Investment in shares of NatWest Group is only permitted within passive equity index tracking portfolios and within pooled funds.

### **Environmental Social & Governance (ESG) Considerations**

The Trustee believes that environmental, social, and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustee has given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice.

The Trustee considers Mercer's ESG ratings (where available) for each of their strategies. Rating reviews are undertaken on a regular basis and documented at least annually. The Trustee reviews and challenges each of the investment managers on their ESG policies and practices as part of the rolling programme of manager meetings.

### **Shareholders' Rights Regulations 2020**

With respect to the European Union (Shareholders' Rights) Regulations 2020, the Trustee has not developed a standalone engagement policy. The Scheme's physical equity assets are invested via units in a State Street Global Advisors ("SSgA") pooled fund that may from time to time invest in equities of companies which are listed on EU regulated markets. However, in each case the Scheme is one investor among others so has no direct voting rights or other means of engagement with any companies in which the pooled fund may have invested. The Scheme also invests in 'Synthetic Equity' instruments. While these instruments may provide exposure to the price

movements of the underlying equity, they do not confer ownership rights or voting rights in the Company.

The Trustee has engaged with SSgA and they have provided a copy of their Engagement Policy and confirmed that they are in compliance with the Regulations.

The investment horizon of the Scheme's equity investments is medium to long term in nature, and the Trustee expects the managers to use their engagement activity to drive improved performance over those periods. The Trustee also expects investment manager appointments to be long-term in nature, and assesses performance over longer-term periods. Short-term performance issues would not be expected to result in a manager termination, although other factors may necessitate a change over relatively short timeframes.

### **Sustainable Finance Disclosure Regulations**

The Trustee acknowledges that under Article 4 of the Disclosure Regulations there is a requirement to publish and maintain on a website whether principal adverse impacts of investment decisions on sustainability factors are considered. The Trustee is awaiting the clarity of the Level II regulations prior to making such a statement. This policy may be made publicly available in the future but is currently included within the SIPP of the Scheme as this is available to members each year through the Trustee Annual Report.

### **Additional Voluntary Contributions**

The Trustee's policy is to seek to provide a range of funds which together offer a suitable mixture of real and monetary assets. They recognise that the returns on real assets, while expected to be greater over the long term than those on monetary assets, are likely to be more volatile.

It is the Trustee's policy in relation to AVC options to:

- (a) Ensure that an appropriate range of fund choices is available to members;
- (b) Review the operation of AVC investments to ensure compliance with relevant jurisdictional legislation / regulation and best practice;
- (c) Monitor the investment performance of the funds;
- (d) Change the AVC fund choices as and when considered necessary.

**Effective Date of this Statement: April 2024**