

Statement of Investment Principles

For the Société Générale UK Defined Benefit Pension Scheme

Effective from: January 2024



Introduction

This Statement of Investment Principles (“SIP”) has been produced by the Trustee of the Société Générale UK Defined Benefit Pension Scheme.

It sets out the Trustee’s policies on various matters governing investment decisions for the Société Générale UK Defined Benefit Pension Scheme (“the Scheme”), which is a Defined Benefit (“DB”) Scheme.

This SIP replaces the previous SIP dated August 2021. This SIP should be read in conjunction with the Investment Policy Implementation Document (“IPID”).

This SIP has been prepared after obtaining and considering written advice from LCP, the Trustee’s investment adviser, whom the Trustee believes to be suitably qualified and experienced to provide such advice. The advice considered the suitability of investments including the need for diversification given the circumstances of the Scheme and the principles contained in this SIP.

The Trustee has consulted with the principal employer (Société Générale SA) in producing this SIP.

The Trustee will review this SIP from time to time and will amend it as appropriate. Reviews will take place without delay after any significant change in investment policy at least once every three years.

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

1. Investment objectives

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

- that the return on the Scheme’s assets is maximised while 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 Scheme should be fully funded on a Technical Provisions basis¹ and aim to be fully funded on the self-sufficiency target by the end of 2027 (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 Scheme.

2. Investment strategy

The Trustee, with the help of its advisers and in consultation with the principal employers, has reviewed the investment strategy for the Scheme. The aim of the Scheme’s strategy is to achieve the investment objectives set out in Section 1 without taking on excessive levels of risk. The Scheme makes use of two key types of investments in its investment strategy in order to achieve its objective: a diverse range of growth assets and liability matching assets. Full details of these investments are set out in the Scheme’s IPID.

3. Considerations in setting the investment arrangements

When deciding how to invest the Scheme’s assets, it is the Trustee’s policy to consider a range of asset classes, taking account of the expected returns and risks associated with those asset classes, as well as the Trustee’s beliefs about investment markets and which factors are most likely to impact investment outcomes.

The Trustee takes an integrated approach when assessing risk and reviewing the investment strategy. In particular, the Trustee takes account of the employer covenant, contributions, funding targets, liability profile (including interest rate and

¹The Technical Provisions are the amount of assets required to meet the scheme’s liabilities as they fall due.
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inflation sensitivities and the extent to which they are hedged) and the level of expected return and risk now and as the strategy evolves.

The primary ways that the Trustee manages investment risk is via diversification, ensuring that the Trustee receives professional written advice prior to making any material investment decision, and the Trustee's ongoing monitoring and oversight of the investments.

In setting the strategy for the Scheme the Trustee took into account:

- the Scheme's investment objectives, including the target return required to meet the Trustee's investment objectives;
- the Scheme's cash flow requirements in order to meet benefit payments in the near to medium term;
- the best interests of all members and beneficiaries;
- the circumstances of the Scheme, 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 is considered sufficient given the risk being taken;
- the need for appropriate diversification between different asset classes to ensure that both the Scheme's overall level of investment risk and the balance of individual asset risks are appropriate; and
- the Trustee's investment beliefs about how investment markets work and which factors are most likely to impact investment outcomes.

We also consider other factors that we believe to be financially material over time horizons relevant to the funding of the DB benefits, including environmental, social and governance ("ESG") factors and the risks and opportunities relating to climate change.

The Trustee's key investment beliefs, which influence the setting of the investment arrangements, are as follows:

- Strategic asset allocation is the primary driver of long-term returns.
- Risk-taking is necessary to achieve return, but not all risks are rewarded.
- Equity and credit are the primary rewarded risks that the Scheme wishes to take.

- Whilst illiquid investments may provide a return premium, the reward for illiquidity is often insufficient to justify the extra risk. Generally, the Trustee values the flexibility offered by liquid investments.
- Risks that are typically unrewarded, such as interest rates, inflation, currency and longevity, should be avoided, hedged, sized appropriately or diversified where it's practical to do so.
- The Scheme's level of investment risk should be appropriate given the medium and longer-term objectives of the Scheme. The Trustee would ordinarily look to reduce risk as the funding position improves and as the Scheme matures.
- Markets are not always efficient and there may be opportunities for good active managers to add value. Some assets are by necessity managed actively – such as property, private equity and absolute return.
- Investment managers who can consistently spot and profitably exploit market opportunities, net of fees, for certain asset classes such as equities are difficult to find, and therefore passive management, where available, is often better value.
- Responsible investment by investing in businesses that consider environmental, social and governance factors, and engaging as long-term owners, should on average reduce risk over time and could positively impact the Scheme's returns.
- ESG factors should be considered when making investment decisions, and managers may be able to improve risk-adjusted returns by doing this.
- Climate change is a financially material systemic issue that presents risks and opportunities for the Scheme over the short, medium and long term. The Trustee wishes to minimise risks relating to climate change where appropriate.
- Aligning our assets with net zero greenhouse gas emissions by 2050 where practicable is expected to help reduce the risks to the Scheme from climate change.
- To be effective, a net zero program needs to be consistent with climate science, with both short-term and long-term targets and a focus on real world impacts.
- Voting and engagement are important and can create long term value which is in the best interest of Scheme members and therefore we encourage managers to improve their voting and engagement practices.

- Collaborative investor action can help address systemic risks, for example we believe net zero alignment, if implemented well, could be an effective approach to addressing climate risk.
- Fees and costs may have a significant impact on long-term performance and therefore should be monitored and minimised where possible.
- A strong covenant and strong funding position will enable the Scheme to consider, and more actively adopt where appropriate, the principal employer's investment preferences.
- The use of leverage may be beneficial for efficient capital allocation. However, the Trustee is cautious around leverage due to liquidity concerns. Leverage is therefore monitored regularly.

4. 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.

The Trustee has signed agreements with the investment managers, setting out in detail the terms on which the portfolios are to be managed. The investment managers' primary role is the day-to-day investment management of the Scheme's investments. The managers are authorised under the Financial Services and Markets Act 2000 (as amended) to carry out such activities.

Details of the investment managers appointed by the Trustee are set out in the separate IPID.

The Trustee and 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 practical.

The Trustee has limited influence over managers' investment practices where the Scheme'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 their 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 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 performance of debt/equity issuers, and to engage with issuers to improve their performance. The Trustee 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. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. Generally, the Trustee would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustee's policy is to evaluate each of its investment managers by reference to the manager's individual performance as well as the role it plays in helping the Scheme meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. 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 Scheme's investment mandates.

5. Realisation of investments

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

When appropriate, the Trustee, on the administrators' recommendation, decides on the amount of cash required for benefit payments and other outgoings and informs the investment managers of any liquidity requirements. 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 or private equity).

6. Financially material considerations and non-financial matters

The Trustee considers how ESG considerations (including but not limited to climate change) should be addressed in the selection, retention, and realisation of investments, given the time horizon of the Scheme and its members.

The Trustee influences the Scheme's approach to ESG and other financially material factors through its investment strategy and manager selection decisions. The Trustee expects all of its investment managers to take account of financially material factors (including climate change and other ESG factors) within the parameters of the mandates they are set. The Trustee seeks to appoint managers that have the skills and processes to do this, and reviews how the managers are taking account of these issues in practice.

The Trustee encourages its managers to improve their ESG practices, although acknowledges that it has limited influence over managers' investment practices where assets are held in pooled funds and that the parameters of some pooled funds may limit the scope for significant incorporation of ESG factors.

The Trustee's ambition is to align its assets with net zero greenhouse gas emissions by 2050 through selecting managers, and investing in funds, with credible net zero targets.

Within each asset class, the Trustee considered investment options that give increased weight to ESG factors. The Trustee has chosen to invest part of the DB Section matching allocation in a sustainable corporate bond portfolio.

The Trustee does not consider matters that are purely non-financial in nature (eg 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 line between financial and non-financial factors is not always clear and some non-financial factors that may not immediately present as financially material may have the potential to become so in the future. The Trustee reviews this as part of its overall consideration of ESG considerations.

7. Voting and engagement

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 and is in the best interests of its members.

The Trustee seeks to appoint investment managers that have strong stewardship policies and processes, reflecting the principles of the UK Stewardship Code 2020 issued by the Financial Reporting Council.

Before deciding which manager to appoint, the Trustee carries out a detailed review of the manager's voting/stewardship activities and outcomes to determine how well they align with the Scheme's stewardship themes and priorities (see Appendix 3). The Trustee also expresses its preferences regarding ESG and stewardship approaches with prospective managers, to check alignment.

The Trustee has delegated to the investment managers the exercise of rights attaching to investments, including voting rights, and engagement with relevant persons such as issuers of debt and equity, stakeholders and other investors about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG factors. The Trustee expects the managers to undertake voting and engagement in line with its stewardship policies, considering the long-term financial interests of investors.

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 the Trustee's expectations.

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

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

Appendix 1:

Investment governance, responsibilities, decision-making and fees

The Trustee has decided on the following division of responsibilities and decision making for the Scheme. This division is based upon the Trustee's understanding of the various legal requirements placed upon us and their view that the division of responsibility allows for efficient operation and governance of the Scheme overall. The Trustee has delegated some authority to the Investment-Sub Committee ("the ISC"). The Trustee and the ISC understand the different areas where each party makes decisions, provides oversight or recommendations. The Terms of Reference for the ISC define its responsibilities.

1. Trustee

The Trustee is responsible in respect of investment matters for:

- setting the investment strategy, in consultation with the principal employer
- developing a mutual understanding of investment and risk issues with the employer
- reviewing the investment policy as part of any review of the investment strategy
- setting the policy for rebalancing between asset classes
- appointing, monitoring, reviewing and dismissing investment managers, investment advisers, actuary and other service providers
- monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Pensions Act 1995 (as amended)
- communicating with members as appropriate on investment matters, such as the Trustee's assessment of its effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged
- putting effective governance arrangements in place and documenting these arrangements in a suitable form

- reviewing the content of this SIP and the associated IPID from time to time and modifying it if deemed appropriate; and
- consulting with the employer when reviewing the SIP.

2. Investment managers

The investment managers' responsibilities include:

- 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 (including climate change, net zero alignment and other ESG considerations) as appropriate in managing the assets
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments
- providing the ISC and Trustee, when appropriate with regular information concerning the management and performance of their respective portfolios, including information on voting and engagement undertaken and progress on net zero alignment over time
- 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.

3. Investment advisor

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

- advising on how material changes within the Scheme's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;
- 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);
- supporting the Trustee in achieving the Scheme's net zero ambition, including through manager selection, monitoring and engagement.
- participating with the Trustee in reviews of this SIP.

4. Fee structures

The provision of investment management and advisory services to the Scheme results in a range of charges to be met, directly or indirectly, by deduction from the Scheme's assets. The Trustee has agreed terms with the Scheme's investment adviser, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis.

The investment managers receive fees calculated by reference to the market value of assets under management and in some cases a performance related fee.

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 Scheme, and the Trustee keeps the fee structures under review.

5. 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 Scheme'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.

6. Working with the sponsoring employer

When reviewing matters regarding the Scheme's investment arrangements, such as the SIP, the Trustee seeks to give due consideration to the principal 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.

Appendix 2: Policy towards risk

1. Risk capacity and appetite

Risk appetite is a measure of how much risk the Trustee is willing to bear within the Scheme in order to meet its investment objectives. Taking more risk is expected to mean that those objectives can be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action. Risk capacity is a measure of the extent to which the Trustee can tolerate deviation from its long term objectives before attainment of those objectives is seriously impaired. The Trustee's aim is to strike the right balance between risk appetite and risk capacity.

When assessing risk and reviewing the investment strategy, the Trustee considers a range of qualitative and quantitative factors including:

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

Following implementation of the Scheme's current investment strategy, the Scheme's 3 year 95% Value at Risk on a Self Sufficiency basis is expected to be around £62m (based on market conditions as at 31 July 2023). This means that there is a 1 in 20 chance that the Scheme's funding position will worsen by £62m or more over a one year period. When deciding on the current investment strategy, the Trustee believed this level of risk to be appropriate given the Trustee's and employer's risk appetite and capacity, given the Scheme's objectives.

2. Approach to managing and monitoring risks

There are different types of investment risk that are important to manage, and the Trustee monitors these on a regular basis. These include, but are not limited to:

Risk of inadequate returns

A key objective of the Trustee is that, over the long-term, the Scheme 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 Scheme to produce a sufficient long-term return in excess of the liabilities. There is also a risk that the performance of the Scheme's assets and liabilities diverges in certain financial and economic conditions in the short term. This risk has been considered in setting the investment strategy and is monitored by the Trustee on a regular basis.

Risk from lack of diversification

This is the risk that failure of a particular investment, or the more general poor performance of a given investment type, could materially adversely affect the Scheme's assets. The Trustee believes that the Scheme's assets are adequately diversified between different asset classes and within each asset class. This was a key consideration when determining the Scheme's investment arrangements and is monitored by the Trustee on a regular basis.

Equity risk

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 Scheme's overall investment strategy and believes that the level of exposure to this risk is appropriate.

Credit risk

The Scheme invests mostly in pooled funds and is therefore directly exposed to credit risk in relation to the solvency of the investment manager and custodian of those funds.

Direct credit risk arising from pooled funds is mitigated by the underlying assets of the pooled funds being ring-fenced from the investment managers, the regulatory environment in which the pooled fund managers operate.

The managers of these pooled funds manage credit risk by having a diversified exposure to bond issuers, conducting thorough research on the probability of default of those issuers, and having a controlled and carefully considered exposure to bonds rated below investment grade. Where the Trustee has control over the exposure to certain industry sector, it will monitor and consider the exposure. In the instance that the Trustee does not have control, primarily within pooled funds, the Trustee relies on its investment managers to monitor the exposure. The magnitude of credit risk within each fund will vary over time, as the manager changes the underlying investments in line with its views on markets, asset classes and specific bonds.

The Scheme also invests in a Qualified Investor Fund (“QIF”) which results in credit risk due to the LDI and equity futures portfolios utilising derivatives (such as interest rate and inflation swaps, gilt repurchase agreements and equity futures) and hence gives rise to counterparty risk. There are limits in place to control credit and counterparty risk within each of these portfolios, as set out in the Investment Manager Agreement with the Scheme’s QIF manager.

Currency risk

Whilst the majority of the currency exposure of the Scheme’s assets is to Sterling, the Scheme is subject to currency risk because some of the Scheme’s investments are held in overseas markets. The Trustee considers the overseas currency exposure in the context of the overall investment strategy, and believes that the currency exposure is not excessive and provides some diversification benefit to a long term investor.

The exposure to foreign currencies within the funds will vary over time as the manager changes the underlying investments, but it is not expected to be a material driver of returns over the longer term. Decisions about the exposure to foreign currencies within the funds held are at the discretion of the appointed fund managers, subject to the terms of appointment agreed with the Trustee.

Interest rate and inflation risk

The Scheme’s assets are subject to interest rate and inflation risk because some of the Scheme’s assets are held in bonds / interest rate swaps, via pooled and bespoke pooled funds. However, the interest rate and inflation exposure of the Scheme’s assets hedges part of the corresponding risks associated with the Scheme’s liabilities. The Trustee considers interest rate and inflation risks to be generally unrewarded investment risks. 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. The Trustee’s goal is to hedge these risks fully in line with the self-sufficiency target at the end 2027.

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 to ensure they remain appropriate for their selected mandates.

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). The Trustee seeks to appoint investment managers who will manage this risk appropriately and will monitor how this risk is being managed in practice. The Trustee encourages its managers (where practical) to set credible net zero targets for the funds in which they invest and to align their investments with net zero greenhouse gas emissions by 2050 to help drive real world emissions reduction and reduce systemic risks relating to climate change. The Trustee monitors and engages with its managers on their progress towards net zero alignment.

Other environmental, social and governance (ESG) risks

ESG factors are sources of risk, which could be financially material over both the short and longer term. These include risks relating to unsustainable or socially harmful business practices, and unsound corporate governance. The Trustee seeks to appoint investment managers who will manage these risks appropriately and monitor how these risks are being managed in practice on an on going basis.

Illiquidity/marketability risk

This is the risk that the Scheme is unable to realise assets to meet benefit cash flows as they fall due, or that the Scheme will become a forced seller of assets in order to meet benefit payments or to conduct de-risking or rebalancing, in either normal or abnormal market conditions. The Trustee is aware of the Scheme’s cash flow requirements and believes that this risk is managed by maintaining an appropriate degree of liquidity across the Scheme’s investments. Further details of the Scheme’s cash flow policy are set out in the Scheme’s cashflow protocol and the rebalancing policy described in the IPID.

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, BlackRock makes use within its QIF of derivative and gilt repos contracts and this fund is used to match efficiently a portion of the Scheme's liabilities. Counterparty risk is managed within the fund 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.

Collateral adequacy risk

The Scheme 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 Scheme's interest rate and inflation hedging could be reduced, and that the Scheme's funding level could suffer subsequently as a result. To manage this risk, the Trustee ensures that the Scheme has a sufficient allocation to cash and other highly liquid assets which can be readily realised, so that cash can be posted to the LDI manager at short notice. The Trustee also monitors the level of leverage within the LDI portfolio to ensure that there is an appropriate level of collateral within the portfolio. The Trustee also monitors the regulatory requirements imposed by local regulators in respect of fund leverage and collateral. The Trustee considers the impact of these requirements on the Scheme.

Valuation risk

Some of the Scheme's assets (such as listed equities) can be valued regularly based upon observable market prices. For other assets (such as private credit), prices may only be estimated relatively infrequently using one or more of a range of approximate methods – eg mathematical models or recent sales prices achieved for equivalents.

At times of market stress, there is a risk for all assets that the valuations provided by investment managers do not reflect the actual sale proceeds which could be

achieved if the assets were liquidated at short notice. This risk is particularly relevant for assets such as property.

The Trustee considers exposure to valuation risk in the context of the Scheme's overall investment strategy and believes that the level of exposure to this risk is appropriate.

Other non-investment risks

The Trustee recognises that there are other non-investment risks faced by the Scheme. The Trustee takes these into consideration as far as practical in setting the investment arrangements.

Examples include:

- longevity risk (risk that members live, on average, longer than expected); and
- sponsor covenant risk (risk that, for whatever reason, the sponsoring employer is unable to support the Scheme as anticipated).

Both investment and non-investment risks can lead to the funding position materially worsening. The Trustee regularly reviews progress against the funding target.

Appendix 3:

Monitoring and engaging with managers on voting and engagement

This section sets out the Trustee's effective system of governance ("ESOG") in relation to stewardship. This includes monitoring the voting and engagement activities that the Trustee's investment managers undertake on its behalf, engaging with them regarding its expectations in relation to stewardship, and encouraging improvements in their stewardship practices. The Trustee will review this ESOG periodically, and at least triennially.

On a regular basis, typically once a year, the Trustee will also undertake an own risk assessment ("ORA") which assesses how well our ESOG is working and whether any changes should be made.

Stewardship priorities

The Trustee has selected some priority themes to provide a focus for its monitoring of investment managers' voting and engagement activities. The Trustee will review them regularly and update them if appropriate. The Trustee's current priorities are climate change and business ethics.

The Trustee's selected these priorities because Climate Change has been a Scheme focus over the years and ranks as one of the most important global risks. Business Ethics are also an important priority as investing in unethical companies can result in poor performance and reputational damage. These priorities are market-wide areas of risk that are financially material for the investments and can be addressed by good stewardship. Therefore, they believe it is in its members' best interests that its managers adopt strong practices in these areas.

Business ethics encompasses but is not limited to issues such as:

- Culture, setting and enforcing behavioural standards
 - Respecting the law and applicable regulations
 - Prevent and condemn bribery, corruption and fraudulent behaviour
 - Paying fair and appropriate levels of tax, not actively pursuing tax avoidance measures
 - Clear accountability and responsibility for decision making and oversight
 - Clear, fair and complete reporting

- Financial integrity and capital allocation
- Avoiding conflicts of interest (e.g. executive remuneration)
- Corporate social responsibility
 - Actively work against discriminatory or other exploitative behaviour, including collusion and anti-competitive activity
 - Treating employees fairly (e.g. health and safety, human rights, avoiding modern slavery)
 - Considering and working to improve biodiversity, ensuring the resilience of the Earth's stock of natural capital and securing its future.
 - Human Rights issues as defined by the United Nations' (UN) global frameworks
 - Diversity, Equality and Inclusion
 - Corporate Transparency related to the availability and accuracy of information in respect of the way a company is managed and overseen.

The Trustee will write to its investment managers regularly to notify them of its stewardship priorities, set out viewpoints and issues of interest ahead of the voting season, and remind them of the Trustee's expectations of them in relation to responsible investment – ie ESG considerations, climate change, voting and engagement.

Manager selection

The Trustee aims to appoint investment managers that have strong responsible investment skills and processes and has a preference for managers and funds with net zero targets and credible plans to meet them. The Trustee therefore favours investment managers who are signatories to the Principles for Responsible Investment, the UK Stewardship Code as well as the Net Zero Asset Managers Initiative.

When selecting new managers, the Trustee considers its investment consultant's assessment of potential managers' capabilities in this area. If the Trustee meets prospective managers, the Trustee usually asks questions about responsible investment, focusing on its stewardship priorities.

Manager monitoring

The Trustee receives information regularly to enable it to monitor its managers' responsible investment practices and check how effective they're being.

This information includes metrics such as its investment consultant's responsible investment grades for each manager, whether they are signatories to responsible investment initiatives, and (where available) carbon emissions data for their mandates. It also includes a selection of voting, engagement examples relating to its stewardship priorities. The examples are chosen to reflect the Trustee's stewardship priorities and material mandates over the course of the Scheme year.

Annual responsible investment review

Every two years, the ISC undertakes a more comprehensive review of its managers' responsible investment practices. This includes the Trustee's investment consultant's qualitative responsible investment assessments for each manager, a summary of the managers' voting and engagement policies including in relation to its stewardship priorities, and summary statistics for their voting and engagement over the previous year where available.

Ongoing cycle of manager engagement

Given that responsible investment is rapidly evolving, the Trustee expects most managers will have areas where they could improve. The Trustee therefore aims to have an ongoing dialogue with its managers to clarify its expectations and encourage improvements. Managers are routinely invited to ISC meetings.

The Trustee reviews the information outlined above to identify any concerns, for example where the managers' actions are not aligned with the Trustee's views. Where there are concerns, the Trustee typically seeks further information through its investment consultants. If a concern is confirmed, the Trustee will consider what further action is appropriate having taken the following steps:

1. The Trustee defines clearly what the issue is, the objectives for the engagement and the target dates for achieving those objectives.

2. The Trustee contacts the manager to raise the concern and set out its expectations in relation to the issue
3. The Trustee aims to agree an improvement plan with the manager with target date for achieving engagement objectives
4. The Trustee reviews periodic progress reports as the plan is implemented. This may include inviting the manager to one of its regular meetings to discuss the issue
5. As appropriate the Trustee may seek to escalate the concern with a more senior individual at the manager
6. If the Trustee's concerns are not addressed, it might reduce the allocation to that mandate or replace the manager.

The ISC reviews progress on the engagements on a regular basis and agrees any next steps.

Implementation statement

Following the end of each Scheme year, the Trustee prepares a statement which explains how it has implemented its Statement of Investment Principles during the year. The Trustee publishes it online for its members to read.

In the statement, the Trustee describes how its managers have voted on its behalf during the year, including the most significant votes cast. The ISC selects these votes from a set of significant votes compiled by its investment consultant from those provided by their managers. In doing so, the Trustee has regard to

- whether it relates to one of its stewardship priorities;
- the potential financial impact of the vote;
- any potential impact of the vote on its investor rights or influence;
- the size of its holding; and
- whether the vote was high-profile or controversial.