Statement of Investment Principles – United Airlines Inc. UK Pension Plan – DB Section (December 2024)

Introduction

1 This document is the Statement of Investment Principles (the “SIP”) made by the Trustee of United Airlines Inc. 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). This refers to the Defined Benefit section of the Plan only.

2 The Trustee will review this SIP at least every three years and without delay after any significant change in investment policy. Before finalising this SIP, the Trustee took advice from a suitably qualified firm and consulted United Airlines Inc. (the “Company”). The ultimate power and responsibility for deciding investment policy, however, lies solely with the Trustee.

Investment objectives

3 The Trustee has secured the liabilities of the Plan through an insurance contract with Standard Life. The Plan is retaining assets to cover any remaining payments that may be required for GMP equalisation top-up payments that may be due, winding up lump sum payments and other expenses. The majority of the uninsured assets are held as a pool of liquid cash assets. A smaller proportion is held in pooled Liability Driven Investment (LDI) funds to hedge the outstanding liabilities associated with GMP equalisation.

Investment strategy

4 Following implementation of the buy-in insurance contract with Standard Life covering the liabilities, the investment strategy makes use of the following investments:

- Standard Life buy-in insurance contract
- Liquid cash or other money markets instruments
- Instruments that provide a broad match to changes in liability values.

5 The balance between the investments will be a reflection of the underlying cashflows over time, rather than being determined strategically. The allocation to liability hedging assets will be reviewed on receipt of any information representing a material change in liability exposure.

6 The expected return of the liquid cash assets is a cash return. The expected return of the hedging assets is broadly aligned with changes in value of the liabilities driven by movements in long-term interest rates/expected inflation.

7 The Trustee's policy is that there will be sufficient investments in liquid or readily realisable assets to meet cashflow requirements in foreseeable circumstances, where possible.

8 The Trustee, together with the Plan's administrators, will hold sufficient cash to meet payment obligations.

Investment managers

9 In accordance with the Financial Services and Markets Act 2000, the selection of specific investments will be delegated to investment managers. The investment managers will provide the skill and expertise necessary to manage the investments of the Plan competently.

10 The Trustee is not involved in the investment manager’s day-to-day method of operation and do not directly seek to influence attainment of its performance targets. The Trustee will maintain processes to ensure that performance and risk are assessed on a regular basis against measurable objectives for the investment manager, consistent with the achievement of the Plan's long term objectives.

11 One investment manager (Insight Investment (“Insight”)) is currently employed for the investment of the Plan’s uninsured assets. Insight manages a Sterling Liquidity Fund on a passive basis with a benchmark of the Sterling Overnight Index Average (“SONIA”). Insight also manages a group of passive fully funded Gilt pooled funds designed to broadly match liability exposure to changes in long-term interest rates and expected inflation.

12 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.

13 To the extent possible, the Trustee reviews the costs incurred in managing the Plan’s assets annually, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustee will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

14 Should the Trustee’s monitoring process reveal that a manager’s portfolio is not aligned with the Trustee’s policies, the Trustee will engage with the manager further to encourage alignment. This monitoring process includes specific consideration of the sustainable investment/ESG characteristics of the portfolio and managers’ engagement activities (where relevant). If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the manager will be terminated and replaced.

Additional Voluntary Contributions (“AVCs”)

15 The Scheme provides a facility for members to pay AVCs into the Scheme to enhance their benefits at retirement. The value of the AVC investments is currently used to provide additional pension benefits at retirement via the Scheme.

16 The nature of defined contribution investment is that the individual members bear the investment risks. The Trustees’ objective for AVC investment is to provide investment options which enable members to address the various risks inherent in AVC investment. The principal risks faced by the members are:

- Inflation risk—the risk that the contributions fail to provide an adequate amount of benefit in “real terms”. This could be because the investments fail to achieve an adequate rate of return in excess of price inflation over the term of investment.

- Pension conversion risk—the risk that a change in the cost of buying a pension at or near retirement will not be matched by a corresponding change in the value of the Member's accumulated AVC account.

17 In order to address the principal investment risks faced by Members, the Trustees currently offer the following investment options for funds held with UBS:

- UBS Life UK Equity Tracker Fund

- UBS Life World Ex-UK Equity Tracker Fund

Since 1 August 1999, new AVC Members have only had access to the UBS arrangement above.

Some members also hold AVCs with Utmost (formerly Equitable Life's With-Profits fund), who provide a range of investment choices (including a 'lifestyling' option) directly to members. Since 31 December 2002, no new contributions have been allowed to this fund.

Other matters

18 The Plan is a Registered Pension Plan for the purposes of the Finance Act 2004.

19 In view of the limited kinds of investment held by the Plan and the short period until the Trust is expected to be wound up, the Trustee considers that it is reasonable that there should be no formal policy in relation to the balance between different investments, the expected return on investments, financially material considerations and non-financial matters, stewardship and voting.

20 With regards to non-financial matters, these are not considered applicable to the assets.

21 There are no outstanding assets with voting rights attached.

Risks

22 The Trustee recognises a number of risks involved in the investment of the Plan's assets, and, where applicable, monitors these risks.

Solvency risk and mismatch risk:

- are measured through a qualitative and quantitative assessment of the expected development of the Plan's funding level.

- are managed through the development of a portfolio consistent with delivering the Plan's investment objective.

Investment Manager risk:

- is measured by the expected deviation of the return relative to the benchmark set.

- is managed by considering when to employ active versus passive management given prospective net of fees returns, consideration of the appropriate amount of the Plan’s assets to allocate to any active portfolios and by monitoring the actual deviation of returns relative to the benchmark and factors supporting the investment managers’ investment process.

Liquidity risk:

- is measured by the level of cash flow required by the Plan over a specified period.

- is managed by the Plan's administrator assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy and through holding assets of appropriate liquidity.

Custodial risk:

- is addressed through investment in pooled vehicles, with the pooled fund managers being responsible for selection of suitable custodians.

Interest rate and inflation risk:

- are measured by comparing the likely movement in the Plan’s liabilities and assets due to movements in inflation and interest rates.

Insurer risk:

- is measured by by assessing the credit-worthiness of the provider of the Plan’s buy-in policy and the ability of the insurer to meet the likely benefit outgo of the Plan is managed by monitoring the Plan’s buy-in provider

- The Trustee believes that it has four layers of protection in the event of default by Standard Life; the covenant of Standard Life, the Financial Services Compensation Scheme, the covenant of the sponsor, and the Pension Protection Fund

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 country diversification within the policy.

Sponsor risk:

- is measured by receiving regular financial updates from the Company and periodic independent covenant assessments.