

## Introduction

This Statement of Investment Principles (“SIP”) sets out the policy of the Trustees of the Clarkson PLC Pension Scheme (“the Trustees”) on various matters governing decisions about the investments of the Clarkson PLC Pension Scheme (“the Scheme”), a Scheme with Defined Benefit (“DB”) and Defined Contribution (“DC”) sections. This SIP replaces the previous SIP dated January 2024.

The 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 Scheme’s investment adviser, whom the Trustees believe to be suitably qualified and experienced to provide such advice. The advice takes into account the suitability of investments including the need for diversification, given the circumstances of the Scheme, and the principles contained in this SIP. The Trustees have consulted with the relevant employer, Clarkson PLC, in producing this SIP.

The Trustees will review this SIP from time to time and, with the help of their 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 DC Section, and at least once every three years.

- Appendix 1 sets out details of the Scheme’s investment governance structure, including the key responsibilities of the Trustees, 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 Trustees’ policy towards risk appetite, capacity, measurement and management.
- Appendix 3 sets out the Scheme’s investment manager arrangements.

## Investment objectives

The Trustees’ primary objective for the DB Section is to ensure that the Scheme should be able to meet benefit payments as they fall due.

A secondary objective is that the Scheme should be fully funded (ie the asset value should be at least that of its liabilities). The Trustees are aware that there are various measures of funding and have given due weight to those considered most relevant to the Scheme. The Trustees are monitoring the Scheme’s funding position relative to reaching full funding on a “gilts + 0.5% pa” basis. In 2018 the Scheme reached that funding target and as a result the Trustees and Company agreed to move to a lower risk long term asset mix.

The Trustees' investment objective is to maximise the return on the Scheme's assets whilst managing and maintaining investment risk at an appropriate level and taking into account the primary objective.

The Trustees' primary objectives for the DC Section are to provide members with access to:

- an appropriate range of investment options, reflecting the membership profile of the DC Section and the variety of ways that members can draw their benefits in retirement; and
- a default investment option that the Trustees believe to be reasonable for those members that do not wish to 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 to lower risk investments as members near retirement, with the asset allocation at retirement being designed to be appropriate for members taking income drawdown.

### Investment strategy

The Trustees, with the help of their advisers and in consultation with the employer, reviewed the investment strategy for the DB and DC Sections in 2024 and 2023 respectively, taking into account the objectives described in Section 2 above.

#### 1.1. DB Investment strategy

As a result of reaching 100% funding level on a "gilts + 0.5% pa" basis in 2018, the Trustees agreed to reduce the level of risk within the investment strategy and lock in gains made by the Scheme's investments.

The Trustees considered the investment strategy during a review in 2024, and agreed that the strategic allocation of the Scheme should be based on the allocation below. The table below reflects the long-term strategy asset mix.

Asset class	Long term strategic allocation
Multi-asset absolute return	15%
Asset-backed securities	15%
Short dated corporate bonds	30%
Liability Driven Investment (LDI) and money market cash	40%
Total	<u>100%</u>

There is no formal rebalancing policy for the Scheme's overall assets. However, where there are cashflows (eg cash outflow to meet benefit payments) the Trustees will look to trade to move the Scheme closer to the strategic allocation.

The LDI portfolio is designed to hedge the interest rate and inflation movements in the Scheme's liabilities. This is achieved mainly through holding physical bonds and derivatives. The money market cash fund provides collateral to support the derivative investments if required.

#### 1.2. DC Investment strategy

For the DC Section of the Scheme, the Trustees have made available a range of investment funds for members. 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 choose an investment option, their account will be invested into the default option, which is managed as a “lifestyle” strategy (ie it automatically combines investments in proportions that vary according to the time to retirement age).

The default option was designed to be in the best interests of the majority of the members based on the demographics of the Scheme’s membership following a review in late 2016 / early 2017 and subsequent reviews confirm this remains appropriate. The default option targets drawdown at retirement, since the Trustees believe that most members will wish to take their benefits in this form. Therefore, it is initially invested in assets that have a relatively high expected return aiming for growth, and then as the member approaches retirement it gradually switches into less risky assets, with the asset allocation at retirement being designed to be appropriate for members taking an income drawdown option.

The objective for the default option is to provide a long-term return in excess of inflation while displaying less volatility than a pure equity approach in the middle growth phase and reducing volatility for members approaching retirement age.

The Trustees will review the default strategy and investment options at least every three years and as soon as practicable after any significant change in legislation, investment policy, or the demographic profile of relevant members. The Trustees will also monitor the relevant members’ behaviour to check whether assumptions made about how members will access their benefits are borne out in practice.

### Considerations made in determining the investment arrangements

When deciding how to invest the Scheme’s assets, the Trustees consider a number of risks, including, but not limited to, those set out in Appendix 2. Some of these risks are more quantifiable than others, but the Trustees have tried to allow for the relative importance and magnitude of each risk.

The Trustees considered a wide range of asset classes for investment, and the expected returns and risks associated with those asset classes. In setting the strategy for the DB Section the Trustees also took into account:

- the best interests of members and beneficiaries;
- the circumstances of the Scheme, including the profile of the benefit cash flows, 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;
- the need for appropriate diversification between different asset classes to ensure that both the Scheme’s overall level of investment risk and balance of individual asset risks are appropriate;
- any other considerations which the Trustees consider financially material over the time horizon that the Trustees consider is needed for the funding of future benefits by the investments of the Scheme (see section 7); and
- the Trustees’ investment beliefs about how investment markets work, and which factors are most likely to impact investment outcomes.

In determining the investment arrangements for the DC Section the Trustees also took into account:

- the best interests of 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 strategy;
- the need for appropriate diversification within the default strategy made available to DC members, and ensure that both the overall level of investment risk and the balance of individual asset risks are appropriate
- the need for appropriate diversification between and, where appropriate, the other investment options offered to members;
- any other considerations which the Trustees consider financially material over the time horizon that the Trustees consider is needed for the funding of future benefits by the investments of the Scheme; and
- the Trustees' investment beliefs about how investment markets work, and which factors are most likely to impact investment outcomes.

**The Trustees' key investment beliefs**, which influenced the setting of the investment arrangements, are as follows:

- asset allocation is the primary driver of long-term returns;
- risk-taking is necessary to achieve return, but not all risks are rewarded;
- equity, credit and illiquidity are the primary rewarded risks;
- risks that do not have an expected reward should generally be avoided, hedged or diversified;
- investment markets are not always efficient and there may be opportunities for good active managers to add value;
- environmental, social and governance (ESG) factors are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors (see section 7);
- climate change is expected to be a financially material systemic issue that presents risks and opportunities for the Scheme over the short, medium and long term;
- long-term environmental, social and economic sustainability is one factor that trustees should consider when making investment strategy decisions;
- 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; and
- costs have a significant impact on long-term performance and therefore obtaining value for money from the investments is important.

## 2. Implementation of the investment arrangements

Before investing in any manner, the Trustees obtain and consider proper written advice from their 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 are set out in Appendix 3.

In respect of the DC Section, the Trustees have 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 Scheme and the underlying investment managers of the DC investment funds.

The Trustees have signed agreements with a platform provider in respect of the DC Section setting out in detail the terms on which the portfolios are to be managed.

The Trustees 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 Trustees have limited influence over managers' investment practices because all the Scheme's assets are held in pooled funds, but they encourage their managers to improve their practices where appropriate.

The Trustees' 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 Trustees' responsibility to ensure that the managers' investment approaches are consistent with their 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 Trustees expect 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. They assess this when selecting and monitoring managers.

The Trustees evaluate 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 Trustees would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustees' policy is to evaluate each of their 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 Trustees recognise that portfolio turnover and associated transaction costs are a necessary part of investment management. Since the impact of portfolio turnover costs is reflected in performance figures used in our assessment of the investment managers, the Trustees do not explicitly monitor portfolio turnover. The Trustees expect their investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates.

### 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.

For the DB Section, when appropriate, the Trustees, on the administrators' recommendation, decide on the amount of cash required for benefit payments and other outgoings and inform the investment managers of any liquidity requirements. The Trustees' 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. In general, the Trustees' policy is to use cash flows to rebalance the Scheme's assets towards the strategic asset allocation, and also receive income from some of the portfolios where appropriate.

For the DC Section, the Trustees' policy is to invest in funds that offer daily dealing to enable members to readily realise and change their investments.

Within the DC section, investments in the default option include "illiquid assets" – investments which may not be easily or quickly sold or exchanged for cash. The illiquid assets are a small allocation of 5% within the Diversified Growth Fund that invests in a diversified range of asset classes. These include allocations to the property market, private equity and private credit markets and are accessed via a daily dealt fund. Members aged between 46 and 65, assuming a target retirement age of 65, will hold these illiquid assets as part of a mix of different types of investments from around the world. Since the fund is actively managed, the allocation to illiquid assets is expected to vary over time and may reduce to zero or increase, by building up the current allocations or by introducing new allocations to other private market asset classes, depending on the views of the manager.

The Trustees have included this allocation within the default option because it believes the fund will help achieve the main objectives of the default, which include providing an opportunity for members to generate growth whilst reducing risk as the member approaches their chosen retirement age.

The Trustees believe long-term risk-adjusted net investment returns may be improved by investing in illiquid assets and as such, is monitoring the market for developments for potential further inclusion in the default. The Trustees recognise, however, that there are a number of risks with these types of assets such as the inability to easily realise holdings should the need arise, as well as concerns regarding member fairness given the expected timing of investment returns from these types of investments. It also takes time to determine the value of illiquid assets, so that members may buy or sell assets at a price that is not up-to-date and therefore would not fully reflect the true value of their investment at that time. As such, the Trustees will assess further illiquid investments on a fund-by-fund basis, including but not limited to, fund availability on the investment platform, the expected return, the fees paid to managers and the structures in place to minimise the member-borne risks of investing in less liquid investments.

### **Consideration of financially material and non-financial matters**

The Trustees have considered how ESG factors (including but not limited to climate change) should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Scheme and its members.

The Trustees consider that it is necessary in all circumstances to act in the best financial interests of the beneficiaries. Where this primary consideration is not prejudiced, the Trustees expect that their investment managers take account of financially material considerations (including climate change and other ESG considerations). The Trustees seek to appoint managers that have appropriate skills and processes to do this, and from time to time review how their managers are taking account of these issues in practice.

The Trustees encourage their managers to improve their ESG practices, although acknowledge that they have limited influence over managers' investment practices where assets are held in pooled funds and the parameter of some pooled funds may limit the scope for significant incorporation of ESG factors. The Trustees recognise that within the DC Section some members may wish to invest specifically in ethical compliant funds and offers members an appropriate fund to achieve this.

### 3. Stewardship

The Trustees recognise their responsibilities as owners of capital, and believe 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 the Scheme's members. The Trustees have delegated to their 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 and ESG considerations.

The Trustees do not monitor or engage directly with issuers or other holders of debt or equity. They expect their investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustees from time to time, taking into account the long-term financial interests of the beneficiaries.

The Trustees seek 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 Trustees reviews how these are implemented in practice.

**SIP signed for and on behalf of the Trustees of the Scheme:**

Tim Miller

Signed: \_\_\_\_\_

The Trustees have decided on the following division of responsibilities and decision-making for the Scheme. This division is based upon the Trustees' understanding of the various legal requirements placed upon them, and their view that this division allows for efficient operation of the Scheme overall, with access to an appropriate level of expert advice and service. The Trustees' investment powers are set out within the Scheme's governing documentation.

## 1. Trustees

In broad terms, the Trustees are responsible in respect of investment matters for:

- setting the investment strategy, in consultation with the employer;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- reviewing the investment policy as part of any review of the investment strategy;
- setting the policy for rebalancing between asset classes;
- setting a policy on the exercise of rights (including voting rights) and undertaking engagement activities in respect of the investments;
- putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- appointing (and, when necessary, 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 Act;
- communicating with members as appropriate on investment matters, such as the Trustees' assessment of its effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employer when reviewing the SIP.

## 2. Platform provider

The DC investment platform provider will be responsible for:

- providing access to a range of funds managed by various investment managers;
- ensuring that funds are priced correctly;
- providing the Trustees with regular information concerning the management and performance of the assets; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.



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;
- taking account of financially material considerations (including climate change and other ESG considerations) as appropriate when managing the portfolios of assets;
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments;
- providing the Trustees / investment platform provider with regular information concerning the management and performance of their respective portfolios, including information on voting and engagement undertaken; and
- 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 Trustees or not) are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

#### 4. Investment adviser

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

- for the DB Section, 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;
- for the DC Section, advising on a suitable fund range and default strategy for the Scheme, and how material changes to legislation or within the Scheme's benefits and membership may impact this;
- advising on the selection, and review, of the investment managers; and
- participating with the Trustees in reviews of this SIP.

#### 5. Fee structures

The Trustees recognise that 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 Trustees have agreed Terms of Business with the Scheme'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 Trustees 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 Trustees' view as to the most appropriate arrangements for the Scheme. However, the Trustees will consider revising any given structure if and when it is considered appropriate to do so.

## 6. Performance assessment

The Trustees are satisfied, taking into account the external expertise available, that there are sufficient resources to support their investment responsibilities. The Trustees believe that they have sufficient expertise and appropriate training to carry out their role effectively.

It is the Trustees' policy to assess the performance of the Scheme's investments, investment providers and professional advisers from time to time. The Trustees will also carry out periodically an assessment of their own effectiveness as a decision-making body and will decide how this may then be reported to members.

The Trustees consider that there are a number of different types of investment risk that are important for the Scheme. These include, but are not limited to:

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

For the DB Section, a key objective of the Trustees is that, over the long-term, the Scheme should have adequate assets to meet its liabilities as they fall due. The Trustees therefore invest 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 taken into account in setting the investment strategy and is monitored by the Trustees on a regular basis.

In the DC Section, 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 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 Trustees have made the default option a "lifestyle" strategy which automatically combines investments in pre-defined proportions that vary, and aim to decrease the level of expected investment risk, towards a member's retirement age.

#### **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 Scheme's assets. The Trustees believe that the Scheme's DB assets and DC default strategy are 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 key consideration when determining the Scheme'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 Trustees receive written advice from a suitably qualified individual and will typically undertake an investment manager selection exercise. The Trustees monitor the investment managers on a regular basis.

#### **4. Illiquidity/marketability risk**

For the DB Section, this is the risk that the Scheme is unable to realise assets to meet benefit cash flows as they fall due. The Trustees are aware of the Scheme's cash flow requirements and believe that this risk is managed by maintaining an appropriate degree of liquidity across the Scheme's investments.

For the DC Section, this is the risk that core financial transactions, such as investing members' contributions, are not processed promptly due to lack of liquidity in the investments. The Trustees manage this risk by only using pooled funds with daily dealing within the default strategy and diversifying the strategy across different types of investment.

ESG factors are sources of risk to the Scheme's investments, some of which could be financially material, over both the short and longer term. These potentially include risks relating to unsustainable business practices, and unsound corporate governance. The Trustees seek to appoint investment managers who will manage these risks appropriately on their behalf and from time to time reviews how these risks are being managed in practice.

#### 6. Risk from excessive charges

Within the DC Section, 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 Trustees are comfortable that the charges applicable to the Scheme are in line with market practice and assess regularly whether these represent good value for members.

#### 7. 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, the LDI manager makes use within its LDI fund range of derivative and gilt repos contracts and this fund is used to match efficiently 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.

#### 8. Collateral adequacy risk

The Scheme is invested in leveraged LDI arrangements to provide hedging protection against adverse changes in interest rates and inflation expectations. From time to time, depending on market movements, additional cash may need to be invested in the LDI portfolio in order to support a given level of leverage. Collateral adequacy risk is the risk that the cash required to maintain the hedging protection is not available for use within the LDI portfolio within the required timeframe. A possible consequence of this risk materialising is that the Scheme's liability hedging could be reduced, potentially leading to a worsening of the Scheme's funding level. In order 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.

#### 9. 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 Scheme is subject to credit risk because it invests in bonds via pooled funds. The Trustees manage their exposure to credit risk by only investing in pooled corporate bond funds that have a diversified exposure to different credit issuers, and only invest in bonds that are classified as "investment grade".

Equity represents (part) ownership of a company. Equity risk is the risk that the value of this holding falls in value. The Trustees believe that equity risk is a rewarded investment risk, over the long term. The Trustees consider exposure to equity risk in the context of the Scheme's overall investment strategy and believe that the level of exposure to this risk is appropriate.

### 11. 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 Trustees consider the overseas currency exposure in the context of the overall investment strategy and believe that the currency exposure that exists diversifies the strategy and is appropriate.

### 12. Interest rate and inflation risk

The DB Scheme's assets are subject to interest rate and inflation risk because some of the Scheme's assets are held in bonds via 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 net effect will be to reduce the volatility of the funding level, and so the Trustees believe that it is appropriate to have exposure to these risks in this manner.

### 11 Other non-investment risks

The Trustees recognise that there are other, non-investment, risks faced by the Scheme, and take these into consideration as far as practical in setting the Scheme's investment arrangements.

Examples for the DB Section include:

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

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Scheme's funding position falls below what is considered an appropriate level. By understanding and considering the key risks that contribute to funding risk, the Trustees believe that they have appropriately addressed and are positioned to manage this general risk.

Page 14 of 18 Details of the investment managers, their objectives and investment guidelines are set out below.

## **1. The Defined Benefit Section**

### **1.1. BNY Mellon – Multi-asset absolute return**

The Scheme invests in multi-asset absolute return through BNY Mellon's Real Return pooled fund. The objective of this fund is to achieve a rate of return in sterling terms that is equal to or above a minimum return from cash (SONIA 30 day compounded) + 4% per annum over five years before fees. The fund is priced daily. The fund is open-ended and listed.

### **1.2. Aegon – Asset-backed securities**

The Scheme invests in asset-backed securities through Aegon's European ABS Fund. The objective of the fund is "to provide long term capital growth". The Fund will achieve this objective by investing predominantly in investment grade asset-backed securities from European issuers. The debt securities held may be fixed or floating rate. The fund is priced daily. The fund is open-ended and listed.

### **1.3. Blackrock – Short dated corporate bonds**

The Scheme invests in corporate bonds through Blackrock's Sustainable Sterling Short Duration Credit pooled fund. This fund aims to provide a return on the investment over a 1-3 year period of 1.5% per annum (gross of fees) over the return of 3 Month Sterling Overnight Index Average Rate (SONIA) in a manner consistent with the principles of sustainable investment. The fund is priced daily. The fund is open-ended and listed.

### **1.4. Legal & General (LGIM) – Liability driven investment and money market cash**

The Scheme's invests in LGIM's Matching Core LDI fund range and Sterling Liquidity Fund. There are no official performance targets for the Matching Core LDI fund range. The aim of the LDI funds are to reduce DB pension scheme risk exposures to changes in interest rates and inflation.

The objective of the Sterling Liquidity Fund is to provide capital stability, liquidity and income through investment in a diversified portfolio of high credit quality short term fixed income and variable rate securities. In practice, this fund aims to provide a competitive return in relation to SONIA.

The funds are priced weekly. The funds are open-ended and listed.

### **Additional Voluntary Contributions**

The AVC arrangements are invested in line with the DC Section via the Fidelity investment platform. Fidelity also provides administration services to the AVCs.

## **2. The Defined Contribution Section**

The Trustees make available a range of passively and actively managed self-select funds and a lifestyle strategy, details of which are set out below. The default option is the "Drawdown Lifestyle" strategy. The relevant members are provided with clear information on the investment options and their characteristics that will allow the members to make an informed choice.

The fund options are provided to members via an investment platform arrangement with Fidelity. Fidelity also provides administration services to the DC Section. The funds are all priced daily.

**Appendix 3 (cont)**

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## 2.1. Self-select fund options

The Trustees make available the following passively and actively managed pooled funds.

White-labelled Fund name	Objective	Benchmark / Target	Underlying fund(s)
<b>Passive Funds</b>			
Passive Global Equity Fund	Invests in shares of companies around the world and aims to perform in line with the benchmark.	Solactive L&G Low Carbon Transition Global GBP Index	L&G Low Carbon Transition Global Equity Index Fund
Passive Inflation Linked Bond Fund	Invests in UK government bonds with a maturity period of less than 5 years and aims to produce a return in line with its benchmark.	FTSE UK Gilts Index-Linked Over 5 Years Index	BlackRock Over 5 Year Index-Linked Gilt Index
Passive UK Equity	Invests in shares of UK companies and aims to produce a return in line with its benchmark.	FTSE All Share Custom ESG Screened Index	BlackRock ACS DC UK Equity Index
Passive Diversified Growth Fund	The fund aims to achieve long-term capital growth by investing or reinsuring into underlying funds managed by our Fund Partners, which may invest in a range of asset classes in the UK and overseas including equities, bonds, cash/currencies, real estate, commodities, hedge funds, high yield debt and private equity.	ABI Mixed Investment 40-85% Shares	BlackRock Consensus
Passive Corporate Bond Fund	Invests in investment grade corporate bonds denominated in sterling with a maturity period of 15 years or longer and aims to produce a return in line with its benchmark.	iBoxx £ Non-Gilts Over 15 Years Index	BlackRock Over 15 Year Corporate Bond Index
Ethical Global Equity Fund	To closely track the FTSE4Good and provide real long-term growth whilst avoiding investing in companies that have a negative social or environmental impact.	FTSE4Good Developed Index	LGIM FTSE4Good Developed Equity Index Fund
Passive Islamic Global Equity Fund	To track the performance of global equity markets for securities which meet Islamic investment principles.	Dow Jones Islamic Titans Index	HSBC Islamic Global Equity Index Fund
<b>Active Funds</b>			

White-labelled Fund name	Objective	Benchmark / Target	Underlying fund(s)
Diversified Growth Fund	To provide a total return comprised of income and capital growth by investing in a range of asset classes including equities, bonds, commodities, property and alternatives.	50% ICE BoFA 3month Sterling Government Bill Index plus 4.5% pa  50% 1 month SONIA plus 4% pa	50% Schroders Diversified Growth Fund 50% BNY Mellon Real Return Fund
Low Volatility Bond Fund	This Life Fund invests or re-insures into underlying funds managed by our fund partners. To provide a total return comprised of income and capital growth by investing in a range of fixed income asset classes and strategies including government bonds, investment grade and high yield credit, asset backed securities, secured loans, currencies, interest rates, relative value investments and derivatives.	50% 1 month SONIA plus 2% pa  50% 1 Month SONIA plus 3%–5% pa	50% Newton Global Dynamic Bond Fund 50% M&G Total Return Credit Investment Fund
Property Fund	To provide exposure to the property market by investing either directly, via the shares of property companies or by investing in a number of property funds. By investing in a diversified manner, the underlying manager aims to provide a relatively lower risk access to property markets. This Fund is an actively managed fund. There is no guarantee the fund will achieve its aim and the value of your investment may fluctuate.	MSCI/AREF UK All Balanced Property Fund Index	Aegon Active Beta DC Property Fund
Cash Fund	To provide short-term liquidity by investing in money market instruments, bonds and cash	Morningstar UK Savings 2500+ Gross (Lagged 1month)	Fidelity Cash



## 2.2. The default strategy

## Appendix 3 (cont)

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For members that do not make an active choice regarding their investments, the Trustees have set the default option to be the “Drawdown Lifestyle” strategy. The default follows a pre-agreed investment strategy and provides an automated investment switching facility which will move members’ funds from higher risk/return investments into lower risk/return investments as retirement approaches.

	Growth Phase	Consolidation Phase
<b>Primary Objective</b>	To maximise returns over the long term at an acceptable level of risk.	To provide exposure to lower risk assets which minimise volatility whilst maintaining an absolute return focus as members approach retirement.
<b>Purpose</b>	To generate returns significantly above inflation.	To transition the assets from the growth phase into lower risk diversified growth and absolute return funds to reduce the probability of severe losses close to retirement.
<b>Funds</b>	Passive Global Equity Fund Diversified Growth Fund Low Volatility Bond Fund Fidelity Cash Fund	
<b>Lifestyling</b>	The default lifestyle arrangement has been designed to automatically and progressively de-risk members’ portfolios as the members approach retirement.	
<b>Switching Period</b>	20 Years	
<b>Growth Phase</b>	Passive Global Equity Fund	
<b>Consolidation Phase</b>	<b>Switch to:</b> Diversified Growth Fund Low Volatility Bond Fund Fidelity Cash Fund	

Years to selected retirement age	Passive Global Equity Fund	Diversified Growth Fund	Low Volatility Bond Fund	Fidelity Cash Fund	Total
20+	100	0	0	0	100%
19	95	5	0	0	100%
18	90	10	0	0	100%
17	85	15	0	0	100%
16	80	20	0	0	100%
15	75	25	0	0	100%
14	70	30	0	0	100%
13	65	35	0	0	100%
12	60	40	0	0	100%
11	55	45	0	0	100%
10	50	50	0	0	100%
9	45	50	5	0	100%
8	40	50	10	0	100%
7	35	50	15	0	100%
6	30	50	20	0	100%
5	25	50	25	0	100%
4	20	50	25	5	100%
3	15	50	25	10	100%
2	10	50	25	15	100%
1	5	50	25	20	100%
0	0	50	25	25	100%