

## Statement of Investment Principles

This Statement sets out the principles for investing the Defined Benefit (DB) assets of the Combined Nuclear Pension Plan (the Plan) as adopted by the Combined Nuclear Pension Plan Trustees Limited (the Trustee).

This Statement has been written in accordance with Section 35 of the Pensions Act 1995 (as amended by Section 244 of the Pension Act 2004) and is consistent with the Trustee's investment powers as set out in the Trust Deed (clauses 11 and 12).

In preparing this statement the Trustee has consulted with the Lead Company, the Nuclear Decommissioning Authority (NDA) and other sponsoring employers to the Plan (as applicable), and has taken and considered written advice from the Plan Actuary, Isio Group Limited, and from the Plan's Investment Advisers, Aon Investments Limited. Participating employers within the Plan have signed a 'Deed of Participation' allowing the NDA to act on their behalf in consultation with the Trustee.

The Trustee will review this Statement every three years or more frequently as considered appropriate by the Trustee, and specifically in response to legislative and regulatory changes or a change in the attitude to risk of the Trustee or the sponsor, if appropriate.

The Plan has a DB Structure and a Defined Contribution (DC) Structure. DB members have the option to make Additional Voluntary Contributions (AVCs) and some members may also pay contributions based on shift pay to a defined contribution arrangement, the Shift Pay Pension Plan (SPPP). This Statement is in relation to the Plan's DB Structure only. The Trustee has prepared a separate Statement in relation to the Plan's DC Structure, SPPP and AVC arrangements.

The power and obligation for deciding on the strategic investment policy rests with the Trustee. However, the Trustee has delegated specific powers to the ISC around the implementation of the investment strategy within certain parameters. The aim is to lead to a more efficient and effective implementation of any recommended changes to the Plan's investment arrangements.

The DB assets and liabilities are currently held in 8 sections.

Mark Condron for Capital Cranfield Pension Trustees Limited

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**Signed for and on Behalf of the Trustee of the Combined Nuclear Pension Plan**

**December 2024 - This Statement of Investment Principles supersedes the version dated December 2023.**

Previous amendments:

*December 2023, December 2022, April 2022, September 2020, May 2019, October 2018, December 2017, March 2017, June 2016, August 2015, July 2014, August 2011*

### **Defined Benefit (DB) Structure**

#### **Plan Objective**

The primary objective of the DB structure of the Plan is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis.

The Trustee's over-riding funding principles for the DB structure are:

- to build up assets to provide for new benefits for active members as they are earned;
- to recover any funding shortfall over an agreed time frame; and
- to ensure that there are always sufficient assets in the Plan (at their realisable value) to meet 100% of benefits as they fall due for payment to members.

The Trustee intends to ensure that the investment objectives are consistent with the Plan's Statement of Funding Principles. Within the context of achieving these over-riding funding principles, the Trustee also aims to:

- achieve a return required to enable contributions to be consistent with an acceptable level for the sponsor (NDA backed sections);
- achieve self-sufficiency by the time all members have reached retirement or such earlier date as may be appropriate (non-NDA backed section);
- control the exposure to investment risk associated with the investment strategy and its implementation, whilst meeting the above objectives; and
- invest the Plan's assets to meet net cashflows, and thus avoid the risk of forced disinvestment at unattractive prices.

### Investment Strategy

The Trustee has translated its objectives into a suitable strategic asset allocation for the DB structure of the Plan. As the Plan is sectionalised, the Trustee adopts a specific investment policy for each section.

The strategic allocation and associated benchmarks are consistent with the Trustee's views on the appropriate balance between seeking a long-term return on investments and accepting greater short term volatility and risk.

The tables overleaf set out the investment strategy for each section as at the effective date of this Statement.

In setting the investment strategy for each section, the Trustee takes account of the expected returns and risk associated with each asset class. The table below shows the expected nominal returns for the main asset groups as at 31 March 2022, the date of the latest fully completed triennial valuation.

Global Equity	6.8% p.a.
Global Equity (GBP Hedged)	6.2% p.a.
Private Equity	9.1% p.a.
UK Property	5.3% p.a.
Fixed Interest Gilts	2.0% p.a.
Index Linked Gilts	0.8% p.a.
Global Corporate Bonds	2.8% p.a.
Multi-Asset Credit	4.7% p.a.
Infrastructure Equity	7.7% p.a.

Source: Aon, Capital Market Assumptions as of 31 March 2022.

Returns shown above are the expected annual returns over the 10 year horizon. Expected nominal returns for bond assets are shown for long duration bonds (i.e. Fixed Interest Gilts 20 year, Index Linked Gilts 20 year, and Barclays Global Aggregate Corporate Index (GBP Hedged)– for global Corporate Bonds). There is no guarantee the above expected returns will be achieved, and the returns achieved in individual years over the 10-year horizon may vary significantly to those shown in the above table.

Each section participates in the Common Investment Platform (CIP) which is managed by State Street Bank and Trust Company. The CIP is split into five Funds: Growth, Illiquid Growth, Liquid Credit, Gilt and Shorter Gilt. Details of the investment manager allocations within each fund are provided in Appendix 1. The strategic allocation for each section is provided below.

## Sections

Strategy	LLWR	Magnox	Sellafield	GPS DRS	Nexia *	Nirex	Closed	GPS SLC
<b>CIP Growth Fund</b>	52.5%	52.5%	52.5%	35%	35%	20%	20%	20%
<b>CIP Illiquid Growth Fund</b>	17.5%	17.5%	17.5%	10%	10%	5%	5%	5%
<b>CIP Liquid Credit Fund</b>	5%	5%	5%	10%	10%	15%	15%	15%
<b>CIP Gilt Fund</b>	25%	25%	25%	31.5%	25%	12%	21%	12%
<b>CIP Shorter Gilt</b>	-	-	-	13.5%	20%	48%	39%	48%
<b>Total</b>	100%	100%	100%	100%	100%	100%	100%	100%

\* Non NDA Backed Section

### Non-NDA Backed Section not participating in the CIP

The GPS EnergySolutions section is the only section of the Plan that does not participate in the CIP. The liabilities for the section have been transferred to an insurance company, with the residual cash held returned to the employer ahead of the wind-up of the section. The section does retain a small cash balance in advance of run-off insurance being put in place.

### Integration of Dounreay Site Restoration Limited (“DSRL”) into Magnox

As of 1 April 2023, all employees of DSRL have been transferred to the Magnox Limited (“Magnox”) section of the Plan. This means that all assets and liabilities of the DSRL section of the Plan have been transferred in full to the Magnox Section.

### Risk management

In considering the appropriate investment strategy for each individual section, the Trustee will take due account of a number of investment risks to which each section is exposed. In addition, the Trustee has adopted an integrated risk management approach when setting each Section's investment strategy. In particular, when setting the investment strategy, the Trustee considers:

- the maturity and cashflow profile of the section;
- the significance of future service liability accrual in relation to current liability value;
- the strength of covenant provided by the relevant sponsoring employer;
- variation in interest rates and inflation;
- Environmental, Social and Governance (ESG) issues, including climate change; and
- capital market risk, including the benefits of diversification by market and within markets to mitigate market concentration.

The Trustee's Investment Beliefs are set out in Appendix 2.

The Trustee maintains a risk register setting out specific risks faced by the Plan and measures in place to monitor or mitigate these risks. Investment risks are categorised in terms of strategic, implementation, market and regulatory risks. Each risk identified is managed through a combination of ongoing monitoring and specific risk controls, with the aim of reducing either or both of the likelihood or impact of risks materialising and thus the impact on the Plan. The Trustee reviews the risk register at each Investment Sub-Committee meeting.

In selecting the appropriate strategy and its implementation, the Trustee has set a strategic asset allocation benchmark for each section of the Plan. The Trustee assesses risk relative to that benchmark by monitoring the section's asset allocation. The Trustee assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Trustee recognises that the timeframe for risk assessment will differ by section and sponsor covenant.

In addition, in accordance with the Statement of Recommended Practice<sup>1</sup> the Trustee has considered the following risks (which are predominantly market risks). Full details of these are provided in Appendix 3:

- interest rate risk;
- credit risk;
- currency risk; and
- other price risk.

### Implementing the Strategy

To achieve their objectives, the Trustee has agreed the following:-

**Kinds of investment to be held:** The Plan may invest in quoted and unquoted securities of UK and overseas markets including equities, fixed interest and index linked bonds, cash, property, infrastructure and commodities, either directly or through pooled funds. The Trustee considers all of these classes of investment to be suitable in the circumstances of the Plan.

**Balance between different kinds of investments:** The Plan's investment strategy is diversified across a range of assets.

**Investment Structure:** To implement the Plan's investment strategy, the Trustee recognises the additional complexity and governance requirements of operating a multi-section Plan and has developed an investment structure to reflect the following:

- 1 **Efficiency** - the Trustee seeks to reduce unnecessary duplication of tasks and costs (transaction costs, fees and governance) when managing the arrangements for each section;
- 2 **Access** - the combined asset size and relative immaturity of the overall Plan should allow investment in assets for which a smaller or more mature scheme would not have the scale or liquidity. The Trustee seeks to access attractive return opportunities and more effective risk management solutions that reflect the size and maturity of the overall Plan.
- 3 **Governance** - the Trustee has established the Common Investment Platform in order to facilitate more efficient and cost effective implementation, better access to strategies fitting of a fund of this size and better governance around monitoring of investments and investment decision making.

**Implementation Risk:** In addition to managing strategic risks, the Trustee manages implementation risk in a number of ways, including the following:

- The Trustee has adopted specific benchmarks for each mandate including, where appropriate, control ranges for each asset class;
- Within each asset class where the Trustee uses indexation, benchmarks are chosen to provide suitable diversification to avoid a concentration of investments;
- The Trustee removes a material proportion of the currency risk associated with investing in non-sterling markets;

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<sup>1</sup> Statement of Recommended Practice is published by the Financial Reporting Council for pension schemes who prepare financial statements under Financial Reporting Standard 102.

- The Trustee invests via passive management in markets where the scope for active management to outperform is relatively limited, such as primarily listed equities and uses specialist investment managers for other assets classes where liquidity and stock specific risk management is of greater relevance;
- Use of products that invest in derivatives are permitted as long as the intention is to contribute to risk control or to facilitate efficient portfolio management. The Trustee will seek to avoid excessive exposure to a single counterparty, although the Plan's strategy currently includes no direct exposure to derivatives, and therefore this is the responsibility of the investment managers;
- Investment may be made in securities that are not traded on regulated markets. Recognising the risks (in particular liquidity and counterparty exposure) the Trustee will ensure that the assets of the Plan are predominantly invested on regulated markets and that the level of assets not invested via regulated markets be kept to a prudent level.

**Investment Managers:** The Trustee has appointed a range of investment managers authorised to undertake investment business. All day to day investment decisions have been delegated to the investment managers.

**Rebalancing:** The Trustee monitors each section's asset allocation and directs cashflow to and from each section as appropriate in order to maintain as far as possible the Plan's investments to the strategic allocation for each section. The Trustee may also instruct transitions between assets in order to maintain the strategic and investment manager target allocations.

**Realisation of investments:** The majority of the assets of the Plan can be realised quickly if required. The Trustee considers and manages the allocation to less liquid assets where this may be relevant given the maturity and cashflow profile of any given section.

**Monitoring the Investments:** The Trustee monitors the Plan's investment managers, including performance relative to their respective mandates and benchmarks, and the performance of each section against its respective benchmark and target. In addition, the investment strategy will be reviewed at least every three years typically following actuarial valuations of the Plan, or more frequently as the Trustee deems appropriate. In monitoring fund performance and reviewing strategy, the Trustee will seek appropriate written advice as required.

## Responsible Investment

The Trustee recognises that the consideration of financially material factors, including ESG factors, is relevant at different stages of the investment process. Specifically, the differing maturity of sections within the Plan affects decisions on strategy and its implementation, both in terms of required return and term of investing.

Within the context of the requirements for each section, the Trustee considers strategies that provide a greater probability of delivering sustainable and predictable returns as likely to be most suitable, and this is reflected in the Trustee's approach to responsible investment.

The strategic asset allocation for each section has been determined using appropriate economic and financial assumptions for different asset classes. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors. The Trustee recognises that climate change could pose systemic risks which could in turn affect the returns achieved from their investment strategy.

The Trustee has not at this stage made explicit allowance for climate change in framing its strategic asset allocation, although this will be reviewed periodically. Instead, the Trustee does expect the active investment managers to take into account all financially material factors, including climate change, in the selection of assets within their portfolios and to be able to demonstrate their approach when challenged.

In appointing new active investment managers, the Trustee will explicitly consider the investment managers' ability to integrate the consideration of ESG factors within their investment process. The Trustee will also periodically review their investment managers and seek evidence that investment managers are meeting the Trustee's expectations.

In passive mandates, including derivative based mandates, the Trustee recognises that the choice of benchmark dictates the assets held by the investment manager and that the investment manager has minimal freedom to take account of factors that may be deemed to be financially material. The Trustee has considered a range of market benchmarks for the equity allocation and chosen one that explicitly takes into consideration ESG factors. The Trustee will review periodically the index benchmarks employed.

The Trustee has not imposed any constraints on the investment arrangements or investment managers employed relating to non-financial factors.

## Arrangements with Investment Managers

The Trustee regularly monitors the Plan's investments to consider the extent to which the investment strategy and decisions of the investment managers are aligned with the Trustee's policies, including those on non-financial matters. This includes monitoring the extent to which investment managers:

- make decisions based on assessments about medium-to long-term financial and non-financial performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium-to long-term.

The Trustee is supported in this monitoring by their investment adviser and receives quarterly reports and verbal updates from the investment adviser on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustee focuses on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Plan's objectives and assesses the investment managers over longer periods.

The Trustee receives annual stewardship reports on the monitoring and engagement activities carried out by their investment managers, which supports the Trustee in determining the extent to which the Plan's engagement policy has been followed throughout the year. Furthermore, the Trustee shares the policies, as set out in this Statement, with the Plan's investment managers, and requests that the investment managers review and confirm whether their approach is in alignment with those of the Trustee. Where investment managers are considered to make decisions that are not in line with the Trustee's policies, expectations, or the other considerations set out above, the Trustee will typically first engage with the investment manager but may ultimately replace the investment manager where this is deemed necessary.

Before appointment of a new investment manager, the Trustee reviews the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee's policies. Where possible, the Trustee will seek to amend that documentation so that there is more alignment. Where it is not possible to make changes to the governing documentation, for example if the Plan invests in a collective vehicle, then the Trustee will express their expectations to the investment managers by other means (such as through a side letter, in writing, or verbally at Trustee meetings).

The Trustee believes that having appropriate governing documentation, setting clear expectations to the investment managers by other means (where necessary), and regular monitoring of investment managers' performance and investment strategy, is in most cases sufficient to incentivise the investment managers to make decisions that align with the Trustee's policies and that are based on assessments of medium-and long-term financial and non-financial performance.

There is typically no set duration for arrangements with investment managers, although the continued appointment all for investment managers will be reviewed periodically. For certain closed ended vehicles, the duration may be defined by the nature of the underlying investments.

### **Stewardship and Engagement**

The Trustee believes good management of companies should lead to more sustainable and predictable returns. When appointing new investment managers, the Trustee will consider the investment managers' approach to voting and engagement. The Trustee has a preference for fund managers who are signatories to the Financial Reporting Council's Stewardship Code in the UK and the United Nations supported Principles for Responsible Investment. Details of the implementation of the investment strategy and investment managers are set out in Appendix 1 of this Statement.

The Trustee recognises the importance of their role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Plan invests, as this ultimately creates long-term financial value for the Plan and its beneficiaries.

The Trustee delegates all stewardship activities, including voting and engagement, to its appointed investment managers. The Trustee accepts responsibility for how the investment managers steward assets on its behalf, including the casting of votes in line with each manager's individual voting policies.

The Trustee expects the Plan's investment managers to use their influence as major institutional investors to carry out the rights and duties as a shareholder, including exercising voting rights along with – where relevant and appropriate – engaging with underlying investee companies on ESG considerations and other relevant matters (such as the companies' performance, strategy, risks, capital structure, and management of conflicts of interest).

If the Trustee's monitoring reveals that an investment manager's voting or engagement policies, or its stewardship actions are not aligned with the Trustee's expectations, the Trustee will engage with the manager, via different medium such as emails and meetings, to seek a more sustainable position, but it may look to replace the manager should a resolution not be found. The Trustee reviews its managers' voting and

engagement policies and activities on an annual basis. The Trustee reviews these factors to check they are aligned with expectations and can reasonably be considered to be in the Trustee's, and therefore the members', best interests. The Trustee expects that their investment managers will provide details of their stewardship activities on at least an annual basis, and will monitor this with input from their investment consultant.

The Trustee will engage with their investment managers where necessary for more information. Prospective managers are required to provide this information in advance of their appointment. The Trustee expects the Plan's appointed investment managers to consider adherence of invested companies and assets with the United Nations Global Compact and additionally, the Trustee has identified a key area of concern around climate related risks and will scrutinise their investment managers accordingly. It is the expectation of the Trustee that the Plan's investment managers will prioritise and actively monitor for this risk within the investment, providing transparency on engagement and voting actions with respect to mitigating these risks as appropriate.

From time to time, the Trustee will consider the methods by which, and the circumstances under which, it would monitor and engage with an issuer of debt or equity, an investment manager or another holder of debt or equity, and other stakeholders. The Trustee may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.

## **Monitoring Costs & Performance**

### **Cost Transparency**

The Trustee is aware of the importance of monitoring their investment managers' total costs and the impact these costs can have on the overall value of the Plan's assets. The Trustee recognises that in addition to annual management charges, there are a number of other costs incurred by their investment managers that can increase the overall cost incurred by their investments.

The Trustee collects annual cost transparency reports covering all of their investments and ask that all the investment managers provide this data in line with the appropriate Cost Transparency Initiative (CTI) template for each asset class. This allows the Trustee to understand exactly what they are paying their investment managers.

The Trustee will only appoint investment managers who offer full cost transparency via the CTI templates to manage assets of the Plan. All existing managers are required to offer full cost transparency.

### **Portfolio Turnover**

Targeted portfolio turnover is defined as the expected frequency with which each underlying investment managers' fund holdings change over a year. The Plan's investment adviser monitors this on behalf of the Trustee as part of the investment manager monitoring they provide to the Trustee and flags to the Trustee where there are concerns.

The Trustee accepts that transaction costs will be incurred to drive investment returns and that the level of these costs varies across asset classes and by investment manager style within an asset class. In both cases, a high level of transaction costs is acceptable as long as it is consistent with the asset class characteristics and investment manager's style and historic trends and performance. Where the Trustee's monitoring identifies a lack of consistency the mandate will be reviewed.

### **Evaluation of Performance and Remuneration**

The Trustee evaluates the performance of their investment managers relative to their respective objectives on a regular basis via their investment monitoring reports and updates from the investment managers. The Trustee also reviews the remuneration of the Plan's investment managers on at least a triennial basis to ensure that these costs are reasonable in the context of the kind and balance of investments held.

In addition to regular reviews, the Trustee reviews the remuneration of their investment managers prior to appointment of a new mandate. The Trustee reviews the options available to remunerate their investment managers and decides on the most appropriate approach.

## Appendix 1: Implementation of the DB Strategy

### Plan Allocation and Investment Managers

#### Common Investment Platform (CIP)

The tables below sets out the Trustee's target asset allocation for each asset class and appointed investment managers, including their respective benchmarks, for each CIP Fund.

Asset class and Investment Manager	CIP Growth Fund		
	Benchmark	Objective	Asset Class Target Allocation
<b>Equities</b>			<b>50.0%</b>
Legal & General	Solactive L&G ESG Global Markets Index (50:50 GBP Hedged:Unhedged)	To track the benchmark	
<b>Property</b>			<b>15.0%</b>
Columbia Threadneedle	MSCI/AREF All Balanced Property Fund Index	Outperform	
CBRE	N/A	Total return between 9% and 11% p.a. over rolling 3-year periods (net of fees)	
<b>Multi Asset Credit</b>			<b>20%</b>
Barings Multi-credit	SONIA	SONIA +4.5% p.a.(net of fees) *	
<b>Illiquid Credit</b>			<b>15%</b>
HPS Investment Partners (Core Senior Lenidng I & II)	N/A	+ 6.0% net IRR.	
HPS Investment Partners (Private Loans opportunities Fund)	N/A	7% - 8% net IRR	
CVC	N/A	+ 7.0% net IRR.	
			<b>100%</b>

Asset class and Investment Manager	CIP Illiquid Growth Fund		
	Benchmark	Objective	Asset Class Target Allocation
<b>Private Equity and Infrastructure</b>			<b>100%</b>
Partners Group (Direct Equity)	N/A	+ Net TVPI 1.8x (***)	
Blackstone (Private Equity)	N/A	13-15% p.a. net IRR	
Copenhagen (Infrastructure)	N/A	+10% net IRR	

Asset class and Investment Manager	CIP Liquid Credit Fund		
	Benchmark	Objective	Asset Class Target Allocation
<b>Corporate Bonds</b>			<b>100%</b>
Robeco	Bloomberg Global Aggregate Corporate Index (GBP Hedged)	+0.8% p.a. over credit cycle (net of fees) (*, **)	

Asset class and Investment Manager	CIP Gilt Fund		
	Benchmark	Objective	Benchmark
<b>Index-Linked Gilts</b>			<b>100%</b>
Legal & General	Equal weighted allocation to five long-dated ILGs	To track the benchmark	

Asset class and Investment Manager	CIP Shorter Gilt Fund		
	Benchmark	Objective	Benchmark
<b>Index-Linked Gilts</b>			<b>100%</b>
Legal & General	Equal weighted allocation to five shorter-dated ILGs	To track the benchmark	

*Source; Investment managers, Aon. (\*) Aon have estimated net of fees objectives for managers where they state a gross of fees target. (\*\*) Credit Cycle refers to period of monetary and economic expansion and contraction – this can be considered a period of 3-5 years in normal circumstances. (\*\*\*) TPVI is Total Value to Paid In, and represents that total value of income and capital distributed to investor as a multiple of the total capital paid in,*

State Street Bank and Trust Company manages the allocation between the CIP Funds for each section, and the asset allocation between all funds managed by Legal & General, Barings and Robeco within the CIP Funds using section cashflows.

The Trustee, with its advisers, monitors the allocation for all other assets, including meeting drawdowns in respect of commitments to closed ended funds (e.g. Partners, CVC, Blackstone, Copenhagen and HPS), and, where considered appropriate, will reallocate assets in order to maintain the target asset allocation.

Legal & General invests in a range of its passive (index tracking) funds, the objective of which is to seek to match, rather than exceed, the performance of the chosen benchmark index. Within each index tracking fund Legal & General invests in individual stocks in such a way as to replicate, as closely as possible, the composition of the benchmark index. In adopting this approach, Legal & General ensures suitably diversified portfolios. All other mandate appointments employ active management.

## Appendix 2: CNPP Statement of Investment Beliefs

### Purpose and use

The beliefs adopted by the Trustee are intended to guide the investment of the Plan assets. The Trustee expects that all investment decisions should be demonstrably in accordance with these beliefs and that the Investment Consultant's advice will normally reference these beliefs.

The Trustee has a set of universal beliefs, reviewed periodically, and which are applicable across the whole of the Plan. These are then applied, as relevant, to the specific circumstances of the Defined Benefit ("DB") section of the Plan. These beliefs are the beliefs of the Trustee as an entity and are expected to be enduring, rather than the specific beliefs of the Trustee directors at any particular point in time.

The Trustee recognises that there are other key factors, outside of the Trustee's investment decisions, that affect members' retirement outcomes. Examples of this in the DB section include the covenant strength and deficit repair contributions. This document focuses specifically on the Trustee's investment beliefs, which underpin their investment decisions.

### Objectives

The Trustee's objective is to act within its fiduciary duty to members and aim to improve the security of members' retirement savings. This can be through improving the funding position of defined benefit sections and managing the defined contribution sections with the quality expected of an authorised master trust. The Plan's liabilities are long term, so where circumstances allow, the Trustee believes it is appropriate to utilise investment strategies structured to be long-term in nature and aims to achieve strong investment returns over the long term.

The Plan is relatively immature. The eventual future investment strategy for the Plan, once fully mature, will be relatively low risk. However, at the present time all sections have an employer which has a strong and enduring covenant, so the investment strategy should aim to deliver the returns necessary to achieve the funding objective for each Section.

As the Plan's funding position improves, the Trustee will aim to reduce risk, and therefore target returns, as necessary to achieve the funding objective.

The Trustee consults with the employers as part of the setting of the investment strategy.

### Governance

To ensure effective and efficient implementation, most investment decisions are delegated to the Investment Sub-Committee; with only key strategic decisions reserved to the Board.

The sections are fully segregated. Each section of the Plan should gain from participation in the Plan (as compared with the position of a stand-alone scheme), through access to a wider range of investments and through savings in investment management fees. Therefore, the governance arrangements need to have sufficient pooling to deliver the benefits of scale, while also allowing strategic flexibility at the section level.

### Investment Risk

Investment risk will need to be taken to reach the Trustee's objectives. Where risk is taken, the Trustee needs a clear understanding of these risks and will only take risks in the expectation of reward. To the extent it is desirable and cost effective, the Trustee will look to mitigate other investment risks that may arise.

The capacity for investment risk, is dependent on the covenant of the employer, and on the employer's willingness to accept investment risk. The time horizon for investment risk depends on the maturity of the liabilities, and on the longevity and strength of the employer covenant. These circumstances vary between sections, so the appropriate level of investment risk will be different between sections.

**Beliefs about investment markets***Market risk should be rewarded in the long term (i.e. risk premia exist)*

In the long term, a risk premium (additional return compared to risk free investment) is expected in return for taking equity, credit or other market risk. The risk premia will vary between different markets and asset classes, and may vary over time within the same asset class. It is difficult to assess such variation in advance. Investment specific risks exist within asset classes (the risk that whilst an asset class delivers a good return overall, a specific investment within that class may fail). This idiosyncratic risk needs to be managed by diversification and/or active management as appropriate.

*Currency risk should improve returns*

The Plan invests in assets that are denominated in currencies other than sterling, exposing the Plan to Currency Risk, the risk that the fair value or future cashflows of an asset will fluctuate because of changes in foreign exchange rates.

The Trustee is satisfied that the benefits from allowing the Plan to invest in assets denominated in foreign currencies is expected to compensate for the associated currency risk. The Trustee takes a long-term view of currency risk when considering hedging a proportion of this, as well as the cost in doing so.

*Illiquidity should be rewarded*

There should be a premium for illiquidity. As a long-term investor, the Plan aims to take advantage of this risk premium where appropriate and can be reasonably implemented.

*Diversification improves stability of returns*

Diversification across drivers of investment return is expected to improve return in the long run, and to reduce the volatility of returns. However, the Trustee is realistic about the potential for sources of investment return to become correlated under market stress. Furthermore, there is a recognition that diversification needs to be meaningful, given that multiple small allocations to alternative sources of return will increase the governance burden on the Board whose time and resource may be more effectively used elsewhere.

*Strategic asset allocation*

The Trustee believes that the most important investment decision and having the biggest impact on investment outcome is the strategic asset allocation.

*Tactical active asset allocation*

The Trustee does not believe there is sufficient evidence that value can be added through tactical asset allocation i.e. adjustments to the asset allocation based on short term views on market direction. However, this belief does not preclude the use of funds with tactical asset allocation if the Trustee deems the overall fund to be suitable.

*Funding risk*

The Trustee accepts that taking risk is required in order to achieve the target level of investment return. To allow the Trustee to assess the risk to Plan funding and the relative merits of differing strategy options it has adopted the use of Funding Value at Risk ("VaR") as a consistent measure of funding/investment risk.

**Responsible Investment**

The Trustee believes that investments that take account of environmental, social and governance considerations are likely to be more sustainable over time. The Trustee will therefore seek investment managers with a long-term horizon who take account of climate change risks, and other environmental, social and governance considerations.

The Trustee believes that it is important to act as a responsible steward of members' investments by engaging with the companies and assets in which the Plan invests. As part of this, the Trustee recognises the importance of obtaining information from asset managers on their voting and engagement practices and would not engage managers whose practices are substantially at variance with the Trustee's beliefs.

As a standard approach the Trustee will, where possible, select investment choices that are aligned with their responsible investment beliefs. However, the Trustee recognises that where member choice is available (e.g. through additional voluntary contributions and defined contribution provisions), members may select options that do not align with the Trustee's responsible investment beliefs. The Trustee seeks to communicate its responsible investment beliefs and practices to members and is open to receiving members' views in these areas.

The Trustee believes that non-financial factors may, at times, cause funds to perform differently to those that have broader-based investment approaches (e.g. performance differences between funds with ethically motivated exclusions against those that do not). However, the Trustee recognises that members may be motivated to invest for non-financial reasons and will make some choice available to accommodate this.

**Fee transparency**

The Trustee is principally concerned with the net returns after fees, and is prepared to incur fees and other costs where it believes the results will be beneficial (subject to regulatory constraints).

The Trustee believes in full transparency of costs (including fund expenses and turnover costs) and will not invest with asset managers who do not offer such transparency.

## Appendix 3: Investment Risks

### Investment risks

The Trustee recognises the risks detailed in the Statement of Recommended Practice under FRS102.

### Interest rate risk

The Plan is subject to indirect interest rate risk due to the assets invested in bonds, secured loans and gilts, held through pooled investment vehicles.

The majority of the Plan's interest rate risk hedging is delivered through investment in Index-linked Gilt Funds managed by Legal & General. These funds are expected to hedge interest rate and inflation risks in relation to a portion of the Plan's liabilities and provide diversification within the overall portfolio.

### Credit risk

The Plan is subject to direct credit risk through investment in pooled investment vehicles, and indirect credit risk in relation to the pooled investment vehicles' holdings in bonds, secured loans, gilts and cash balances.

The Trustee manages indirect credit risk by constructing a diverse portfolio of investments across various markets and with various investment managers. Where investment managers use derivatives arrangements, these are generally collateralised to reduce risk.

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled investment manager, the regulatory environments in which the pooled investment managers operate, and diversification of investments amongst a number of pooled arrangements. The pooled investment vehicles themselves are not credit rated. The Trustee carries out due diligence checks prior to the appointment of new investment managers and, on an ongoing basis, monitors any changes to the operating environment of the pooled investment manager.

Pooled fund investment arrangements used by the Plan can include unit-linked insurance contracts, authorised unit trusts, unauthorised exempt unit trusts, OEICs (open ended investment company) and SICAVs (société d'investissement à capital variable, which is a publicly traded open-end investment fund).

Cash is held within financial institutions which are at least investment grade credit rated.

### Currency risk

The Plan has direct exposure to currency risk, as some of the pooled funds in which it invests are denominated in currencies other than Sterling. Currency risk is the risk that the fair value or future cash flows of the pooled fund will fluctuate because of changes in foreign exchange rates. The Trustee is satisfied that the expected benefits from allowing the Plan to invest in funds denominated in foreign currencies compensate for the associated currency risk.

The Plan is exposed to indirect currency risk due to a proportion of its investments in equities and other financial instruments being denominated in overseas currencies. The Plan mitigates this risk where possible, by investing in domestic equities, and in sterling hedged overseas pooled funds.

### Other price risk

Other price risk arises principally from the Plan's return seeking portfolio, which includes indirectly held equities (both listed and unlisted), infrastructure, corporate debt, secured loans and property. A number of the Plan's investment managers may use derivatives as a way of obtaining efficient exposure to investment markets.

The Trustee manages other price risk by constructing a diverse portfolio of investments across various markets and with various investment managers. Liquidity risk is one area of other price risk and refers to the risk that should an investor be forced to sell an asset, the realisable value upon sale may differ from the reported value of the asset due to the relative illiquidity of the asset or the market in which it is being sold. The

Trustee manages liquidity risk by investing in a diversified range of assets, with varying liquidity profiles, as well as implementing a formal cashflow policy to mitigate against being a forced seller of assets where the pricing obtained is adversely impacted by reduced liquidity.

The Trustee has also identified a number of other key risks that could impact on the funding level. These are:

- cashflow risk – the Trustee manages this risk by taking into account the timing of future payments in order to minimise the probability that there is a shortfall in liquid assets relative to the Plan's liabilities;
- covenant risk – the Trustee manages this risk by considering the strength of the sponsor when setting investment strategy, and by consulting with the employer as to the suitability of the proposed strategy; and
- operational risk – the Trustee manages this risk by ensuring that all advisors and third party service providers are suitably qualified and experienced, and that suitable liability and compensation clauses are included in all contracts for professional services received.